In this multi-player simulation, students play the role of the management team at one of three publicly traded wine producers: Bel Vino, Starshine, or International Beverage. Starshine and Bel Vino consider a merger-of-equals transaction while International Beverage considers acquiring either Starshine or Bel Vino. Students review confidential information to determine value and set reservation prices before negotiating deal terms and accepting or rejecting final offers. The simulation is ideal for students who have had previous exposure to the fundamentals of finance.

Analyzing changes in operating assumptions helps students understand valuation.

**OPERATING ASSUMPTIONS**

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Domestic Revenues ($M)</td>
<td>2.0</td>
</tr>
<tr>
<td>Increase in International Revenues ($M)</td>
<td>18.0</td>
</tr>
<tr>
<td>Reduction in Cost of Goods Sold ($M/year)</td>
<td>0.0</td>
</tr>
<tr>
<td>Reduction in Marketing Costs ($M/year)</td>
<td>0.0</td>
</tr>
<tr>
<td>Reduction in Other SG&amp;A ($M/year)</td>
<td>1.0</td>
</tr>
<tr>
<td>Reduction in Debt Collection Period (in Days Sales)</td>
<td>0.0</td>
</tr>
<tr>
<td>Reduction in Inventory (in Days COGS)</td>
<td>30.0</td>
</tr>
<tr>
<td>Increase in Accounts Payable (in Days COGS)</td>
<td>15.0</td>
</tr>
<tr>
<td>Two Year Increase in Cash Spent on PP&amp;E ($M)</td>
<td>0.0</td>
</tr>
</tbody>
</table>

**STOCK PRICE**

- Bel Vino: $36.00
- Starshine: $42.90
- Intl. Bev.: $62.50

**PRICE PER SHARE CALCULATIONS**

- Bel Vino: $43

Each role is also shown confidential information about financial forecasts and opportunities for improvement. Using all the available information, students consider the opportunities for value creation and select possible merger and acquisition targets.

**IDENTIFYING OPPORTUNITIES FOR VALUE CREATION**

Before the simulation begins, students are assigned roles. All roles can view publicly available information about each company such as financial statements and analyst projections.
Determined Value and Setting Reservation Prices

Students have access to multiple valuation models as they analyze the value of their own company and the company they have targeted for a possible deal. Changes in operating assumptions are immediately reflected in the valuation models. Using these tools, students set confidential reservation prices for each target.

The valuation models include:
- WACC-based DCF (Discounted Cash Flow) Analysis
- APV (Adjusted Present Value)
- Key Ratios of Comparable Companies
- Comparable Transactions

Making and Evaluating Bids

Students begin the bidding and negotiation process either face to face or using the built-in “chat” capability.

Several calculators are available to help determine the best terms for making and evaluating bids.
- Share Exchange Calculator: calculates the ratio of shares exchanged in a merger
- Accretion/Dilution Calculator: calculates the effect of a deal on earnings per share (EPS)
- Leverage Decision Calculator: calculates financing requirements for acquisition

Once students have negotiated the essential terms of a deal, they enter formal bids into the simulation.

Understanding Stock Market Reaction

Stock prices rise and fall in reaction to the formal bidding process and simulate the stock market response to potential mergers and acquisitions. Fluctuations in share price directly affect the value of a proposed deal and students must consider how bidding activity affects stock prices.

The simulation ends when an offer is accepted. It is also possible for the simulation to end with no deal being reached.
A comprehensive Facilitator’s Guide covers key learning objectives, including:

- Comparing valuation methods, including WACC-based DCF (Discounted Cash Flow) analysis, APV (Adjusted Present Value) and multiples
- Identifying potential for value creation in mergers and acquisitions
- Analyzing and forecasting possible synergies
- Selecting target companies
- Understanding the negotiation process, outcomes, and the “zone of possible agreement” (ZOPA)

**VIEWING SIMULATION RESULTS**

Results are available immediately for class review and debrief. Summary results are provided for the entire class and detailed results are available for individual teams. Reservation prices, stock prices, and other metrics are presented in easy-to-read graphs suitable for classroom presentation.

**PREVIEW AND FREE TRIAL ACCESS**

Visit hbsp.harvard.edu

A Preview of the simulation is available on our web site at hbsp.harvard.edu.

A Free Trial allows full access to the entire simulation and is available to Premium Educators on our web site.

Premium Educator access is a free service for faculty at degree-granting institutions and allows access to Educator Copies, Teaching Notes, Free Trials, course planning tools, and special student pricing.

**ALSO AVAILABLE**

Finance Simulation: Blackstone/Celanese
By Nabil N. El-Hage and Timothy A. Luehrman

This simulation recreates the landmark acquisition of Celanese AG by the Blackstone Group in 2003. Students take on the role of either company and conduct due diligence, establish deal terms, respond to bids and counterbids, and consider the interests of other stakeholders. #3712