**CORPORATE ACQUISITIONS**

**I had not intended to do the corporate acquisitions task. But it turns out that it is REALLY necessary. Below is a step by step description of what I think needs to be done.**

1. This document lists the things to be done to set the game up for a corporate acquisitions task
2. Companies are bought for cash and/or shares. In the case of cash it is drawn from the buying company (legacy or new)
3. In the case of shares they are **consolidated shares**. The value of the share is based on the proportionate share value for the whole company (see below for how to calculate)
4. There are two types of acquisition: buying a technology company (2 opportunities) and buying customers (9 opportunities)
5. A draft screen is shown in the attached PowerPoint
6. In the case of the two tech companies each acquisition is shown separately on a different page. Tech acquisitions happen in period 4 of NewCo.
7. In the case of the purchases of customers the companies come up one at a time on a different page. Purchases of customers occur in periods 5,6, and 7 of the LegacyCo. The periods are specified in the Excel sheet

**Step 1: Database**

* You will need database locations for the following
  + **Authorized shares**: number of shares the corporation is legally allowed to issue
  + **Issued shares**: number of shares actually issued
  + **Treasury shares:** number of shares not issued held in the treasury  
      
    NB. Issued shares plus treasury shares equals authorized shares. If a treasury share is issued (here used to buy a company) the number of issued shares rises by the number used for the offer and the number of treasury shares falls by the same number
  + **You will need a location to hold the CONSOLIDATED share price**
  + You will need other database locations to capture interim calculations

**Step 2: Create task screen (see ppt slides)**

The screen examples are just that. But the boxes specified must be present somewhere.

**Step 3: Calculate the consolidated share price.**

* The CONSOLIDATED share price value is calculated as follows
  + Take the EBITDA of each of the TWO COMPANIES (LegacyCo and NewCo).. in the accounts this is line AB031/Net Margin before Interest, depn & Tax
  + Find the relative sizes by adding and expressing each as a percentage of the total
  + Take the share prices of the two companies found on the dashboard at the START OF THE PERIOD. Apply the proportions from the EBITDA calculation then add to get a weighted consolidated share price.
  + Example legacy has EBITDA of 100m and NewCo of 50 million then legacy is 100 as percent of 150 or 66% with NewCo as 33%
  + If the legacy share price is 10 and NewCo is 25 then the consolidated share price is 10\*.66 or $6.66 and 25\*.33 = $8.33 making a total of 6.66 + 8.33 or $15.
  + EBITDA is line ab031/net margin before interest, depn & tax in both companies.   
    **I WOULD SUGGEST THAT YOU GO INTO THE ACCOUNTS AND CHANGE THE DESCRIPTION FROM net margin before interest, depn & tax in both companies TO EBITDA**

**Step 4: Calculate the offer**

* Cash offer is typed in by the players
* # of shares offered is typed in. Once typed in the # is taken from the treasury shares location. The issued shares and treasury shares adjust
* The number of treasury shares on the interface is found from the database. As shares are offered the offer is subtracted from the number of treasury shares shown on the offer screen in real time so the player always knows how many shares are left
* The value of the treasury shares is found by multiplying the number of shares offered by the consolidated share price.
* The offer calculation is the amount of cash plus the calculated value of the treasury shares.
* ONCE THE OFFER IS SUBMITTED IT CANNOT BE CHANGED. ONE DAY WE MAY ALLOW AN AUCTION PROCESS. TODAY IT IS A CLOSED ONE-TIME BID

**Step 5: Timing – the clock on the screen**

* ***Just like the visionary competition we will eventually need to use a time or fixed time to control the bid ending. In the short run we will do this in class so the timer is not needed unless it is very easy to do***

**Step 6: Impact on the Accounts**

* The cash offer is taken out of the CASH ON HAND in the balance sheet of the acquiring company (legacy for customers and NewCo for technology). THIS IS LINE BA011/Current Assets-Cash on hand
* The value of the total offer (cash plus shares) is added to the FIXED ASSET PURCHASES in the balance sheet of the acquiring company. THIS IS LINE BA041/Fixed Assets-Purchases of fixed assets(+goodwill)
* The **DOLLAR VALUE** of the treasury portion of the offer is added to the treasury shares line in the balance sheet of the acquiring company THIS IS LINE BB112/Equity**-Tresury** share transaction. PLEASE CORRECT SPELLING (Treasury). PLEASE ENSURE THAT THIS AMOUNT IS ADDED INTO THE TOTAL EQUITY CALCULATION SO THAT THE ACCOUNTS BALANCE

**Step 7: Impact on the Game**

* The number of **customers** associated with the acquired corporation are added to the buyer’s number of customers in the specified niche (see EXCEL) at the end of the period AND added to the total number of customers in that niche AND INCREASE THE MARKET IN ALL THE SUBSEQUENT PERIODS. So if a player buys 10 customers in period 5 the number of customers in that niche is 10 customers higher IN ALL SUBSEQUENT PERIODS.). (When a player buys customers he/she has to defend them in the next period. This is why they are added to the total market.)
* The **COST OF INTEGRATION** is added to the contingencies line in the accounts. THIS IS LINE AB016/Expenses(Contingent costs)
* The number of development employees is added to the current employees line in the workforce at the start of the following period. THIS FORECS THE PLAYER TO THINK ABOUT DOWNSIZING.
* The adjustments to competence in a TECH PURCHASE are applied to the PRODUCT DEVELOPMENT FUNCTION COMPETENCE ONLY
* The adjustment to legitimacy index is applied to the overall index in the technology case for NewCo
* The **extra development costs** are dropped into the contingencies line of the accounts. THIS IS LINE AB016/Expenses(Contingent costs)