Gaming Company Acquisition Analysis

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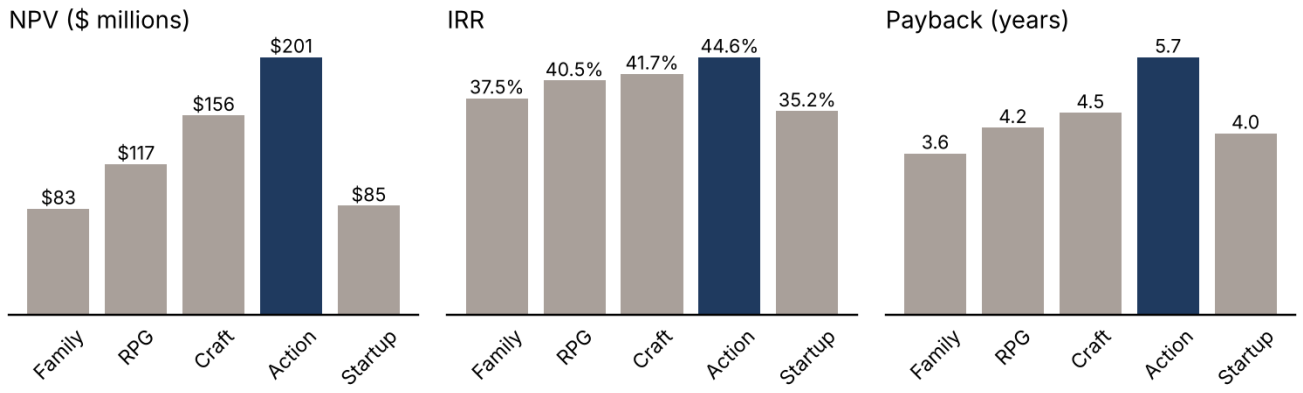
The question

Should a software firm acquire one of four gaming companies or start its own?

Approach

I built projected cash flows for all five options and compared them using discounted cash flow, net present value (NPV), internal rate of return (IRR), and payback period. Each discount rate included a risk premium.



Option	Initial investment	NPV	IRR	Payback
Family	$55.5M	$82.6M	37.5%	3.6 yrs
RPG	$71.8M	$117.5M	40.5%	4.2 yrs
Craft	$93.2M	$155.6M	41.7%	4.5 yrs
Action	$111.2M	$201.0M	44.6%	5.7 yrs
Startup	$21.2M	$84.9M	35.2%	4.0 yrs

Recommendation

Acquire Action Games. It had the highest NPV and IRR, so it was expected to add the most value.

Trade-offs

Action Games also required the largest initial investment and took longest to pay back. Craft Games was the second choice, with strong returns and about $18 million less upfront capital.

Class case study. Figures are projections based on the case data.