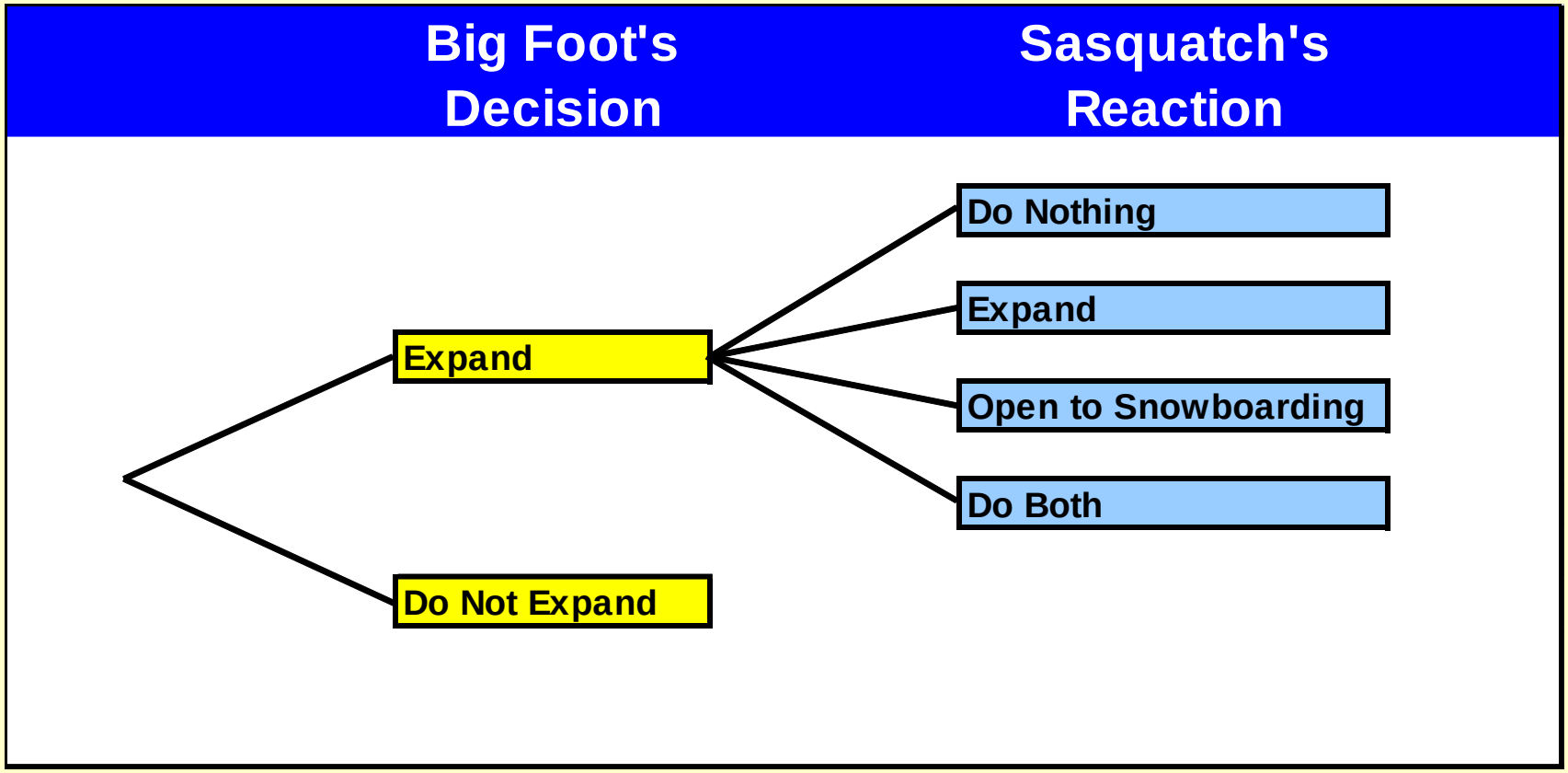
Big Foot Resort

Big Foot's Decision

- Whether to expand or not
  - The best course of action may depend on how a rival ski resort (Sasquatch Peak) reacts
- Sasquatch may expand, change focus, do both, or do neither.

The Game Tree



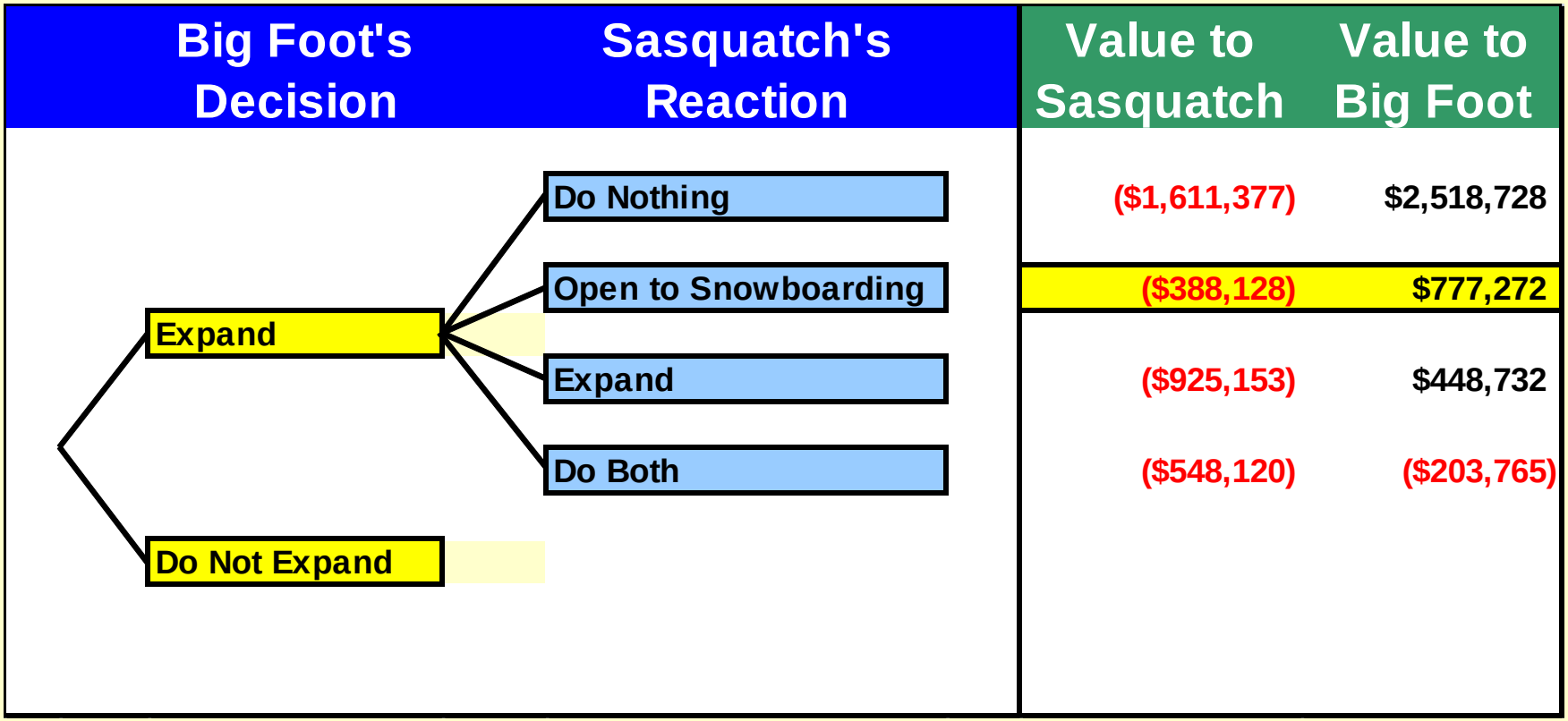
Building the Model

Sasquatch Incremental Financials				
Sasquatch Reaction	**Do Nothing**	**Boarding**	**Expand**	**Both**
Incremental Revenue	($918,981)	$751,200	$4,217,337	$4,231,760
Direct Costs	($609,100)	$525,840	$2,795,251	$2,687,168
S&A	$0	$300,000	$700,000	$750,000
Depreciation	$0	$0	$650,000	$650,000
Net Taxable Income	($309,880)	($74,640)	$72,086	$144,592
Tax	($108,458)	($26,124)	$25,230	$50,607
Net Income	($201,422)	($48,516)	$46,856	$93,985
Cash Flow	($201,422)	($48,516)	$696,856	$743,985
PV @ 8x	($1,611,377)	($388,128)	$5,574,847	$5,951,880
Cost	$0	$0	$6,500,000	$6,500,000
NPV	($1,611,377)	($388,128)	($925,153)	($548,120)

Building the Model (cont.)

Big Foot Incremental Financials Conditional on Sasquatch Reaction				
Sasquatch Reaction	**Do Nothing**	**Boarding**	**Expand**	**Both**
Incremental Revenue	$5,588,928	$4,505,572	$4,595,341	$3,603,506
Direct Costs	$3,912,250	$3,063,789	$3,216,739	$2,450,384
S&A	$500,000	$600,000	$600,000	$500,000
Depreciation	$500,000	$500,000	$500,000	$500,000
Net Taxable Income	$676,678	$341,783	$278,602	$153,122
Tax	$236,837	$119,624	$97,511	$53,593
Net Income	$439,841	$222,159	$181,091	$99,529
Cash Flow	$939,841	$722,159	$681,091	$599,529
PV @ 8x	$7,518,728	$5,777,272	$5,448,732	$4,796,235
Cost	$5,000,000	$5,000,000	$5,000,000	$5,000,000
NPV	$2,518,728	$777,272	$448,732	($203,765)

Evaluating the Game Tree (no uncertainty)



Introducing Uncertainty

- Estimates of uncertainty based on Exhibits 3 and 4, and on the text of the case.
  - Skiers per day
  - Incremental revenue per skier
  - Skiable days
  - Incremental direct cost percentage
  - Incremental S&A percentage
  - Cash flow multiplier (Sasquatch)
  - Cost of expansion (Big Foot)
- See Excel file

Simulation Results

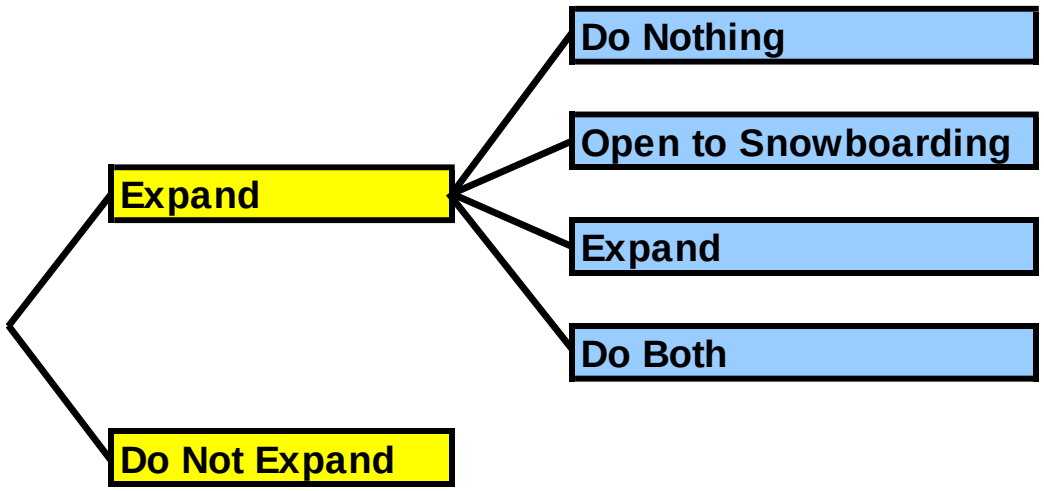
Unconditional Simulation Results

Trials = 10000

Venture.SIM

	Output	Average	Median	Standard Deviation	Skewness	Percentiles				
						Minimum	25%	50%	75%	Maximum
1	SP: Do nothing	($1,834,690)	($1,770,001)	$1,864,161	-0.533	($13,274,898)	($2,928,993)	($1,770,001)	($626,470)	$5,258,317
2	SP: Open to boarding	($454,929)	($442,303)	$1,234,478	0.230	($5,524,330)	($1,290,534)	($442,303)	$313,661	$4,754,334
3	SP: Expand	($248,429)	($561,346)	$3,174,038	0.472	($10,044,243)	($2,542,474)	($561,346)	$1,811,721	$13,098,868
4	SP: Do both	$14,944	($403,555)	$4,623,659	0.684	($16,299,580)	($3,219,125)	($403,555)	$2,549,154	$26,995,604
5	BF: If SP does nothing	$2,534,769	$2,426,027	$1,446,400	0.122	($1,930,345)	$1,461,050	$2,426,027	$3,573,581	$7,912,857
6	BF: If SP opens to boarding	$792,378	$716,887	$1,848,243	0.487	($4,820,373)	($582,627)	$716,887	$1,954,054	$9,282,452
7	BF: If SP expands	$442,449	$378,908	$1,480,588	0.404	($4,063,064)	($603,423)	$378,908	$1,364,493	$7,650,074
8	BF: If SP does both	($175,314)	($333,752)	$2,238,155	0.319	($8,428,741)	($1,789,604)	($333,752)	$1,275,344	$11,501,300

Evaluating the Game Tree (with uncertainty)



Big Foot's Decision	Sasquatch's Reaction	Value to Sasquatch	Value to Big Foot
Expand	Do Nothing	$1,834,690	$2,534,769
	Open to Snowboarding	($454,929)	$792,378
	Expand	($248,429)	$442,449
	Do Both	$14,944	($175,314)
Do Not Expand			

Discussion

- Why does incorporating the uncertainty change the conclusion?
- How would you address the concern that Sasquatch might have different estimates of value
- Are the differences in risk of the different scenarios adequately considered? What might you do differently?
- If you were Sasquatch and Big Foot had not yet committed to expand, what might you want to do?