



Purchase Price Allocation

Overview

The chief financial officer of a publicly traded specialty chemical company was referred to MPI by the company's audit firm, a top 10 CPA firm with a global presence. The company had acquired a small niche distributor of chemical supplies.

The Problem

Since this was the company's first acquisition since the release of FASB Statement No. 141R (now ASC Topic 805), management was unfamiliar with the purchase price allocation process relative to the new standards. Their CPA firm strongly recommended that they use an independent third party to perform the purchase price allocation.

Solution

MPI was retained as a trusted advisor to provide acquisition accounting valuation services in connection with ASC Topic 805 - Business Combinations. The intangible assets to be valued included the corporate trade name, chemical product registration, non-compete agreements, customer relationships and implied fair value of residual goodwill.

The assignment encompassed the following steps conducted by MPI:

- Developed an understanding of the transaction, including transaction rationale, consideration and key assets acquired.
- Conducted due diligence with management, including review and analysis of historical and projected financial statements, transaction documents, etc.

MPI provided invaluable guidance with respect to identifying the intangible assets to be valued, determining the associated valuation methodologies, and valuing the earn out.

Purchase Price Allocation: *A Case Study*

- Determined appropriate company-level (IRR & WACC) and asset specific discount rates.
- Developed comprehensive asset valuation model incorporating methodologies such as relief from royalty, excess earnings, and guideline transaction approach.
- Prepared scenario-based cash flow and option models to value contingent consideration associated with the transaction.
- Documented the analysis in a self-contained valuation report.
- Provided follow-up consultation with management and its CPA firm.

MPI: Trusted Advisor

- The valuation analysis and report were fully compliant with Uniform Standards of Professional Appraisal Practice and were prepared in a manner consistent with all available acquisition accounting guidance promulgated by the FASB and other constituents.
- MPI provided invaluable guidance with respect to identifying the intangible assets to be valued, determining the associated valuation methodologies, and valuing the earn out.
- The purchase price allocation was prepared and delivered within the timeframe established at the outset of the engagement.
- The auditors relied on MPI's self-contained valuation report and the expertise of our appraisers, resulting in a smooth audit review process.
- The independence and expertise exhibited by MPI represented industry best practices, generating additional comfort for the CPA firm with management's financial reporting for the business combination.

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