

WEBINAR

● LIVE

DIENSTAG, 12.03.

11:00 UHR

PURCHASE PRICE ALLOCATION

- VOM MODELL ZUR PRAXIS

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Agenda

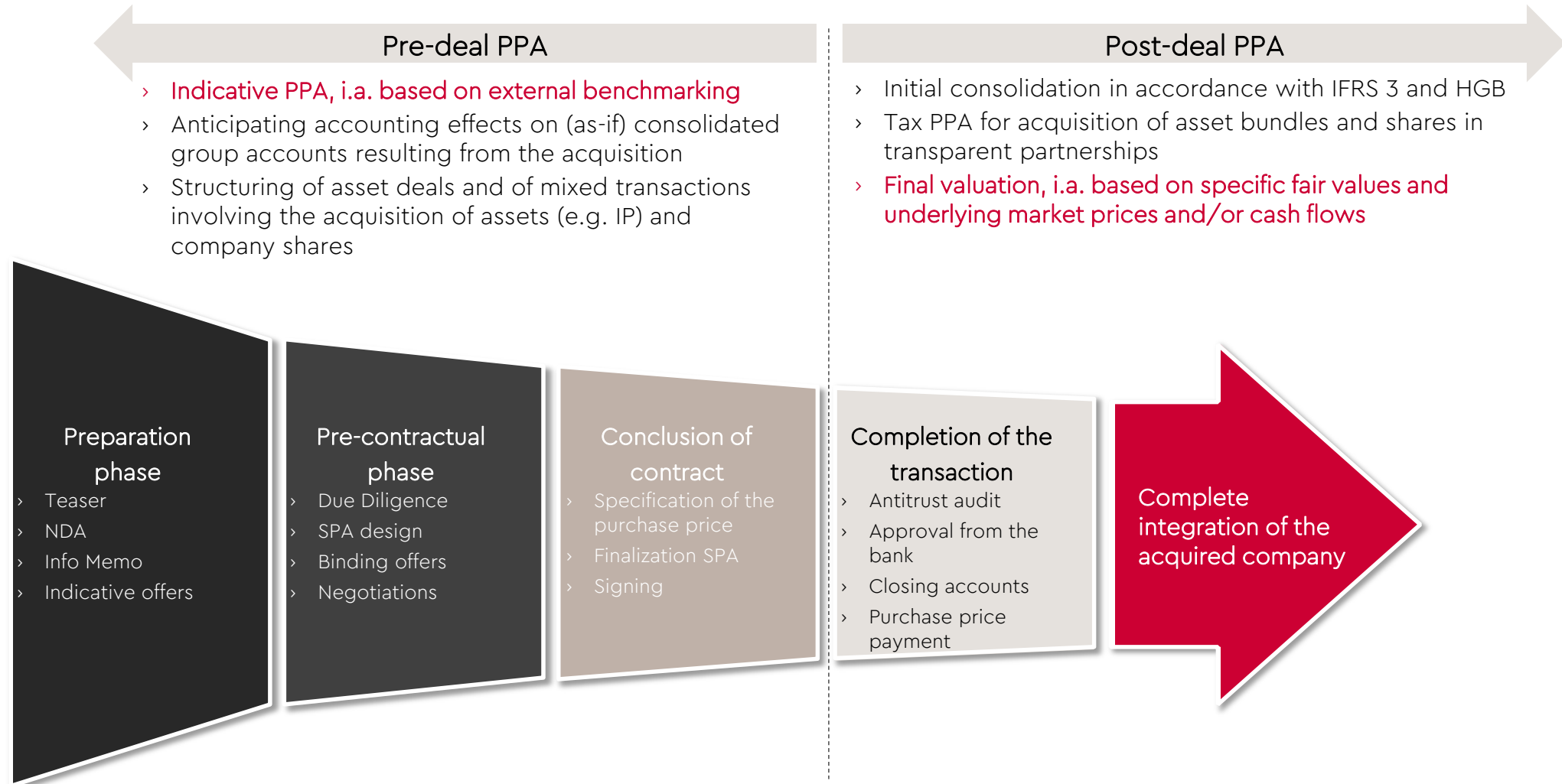
- 01 Reasons for a PPA
(Pre-deal & Post-deal)
- 02 Basic principles of a PPA
- 03 Importance for individual
stakeholders
- 04 Key factors for a successful
PPA process



01

Reasons for a PPA (Pre-deal & Post-deal)

Pre-deal & Post-deal PPA



The background of the slide features a low-angle, upward-looking photograph of a modern building with multiple levels of balconies. The balconies have light-colored railings and dark glass balustrades. A large, vibrant red geometric shape, composed of several overlapping triangles and polygons, is positioned on the left side of the image, partially obscuring the building. The overall aesthetic is clean and architectural.

02

Basic principles of a PPA

Overview of PPA basics and regulatory basis

General

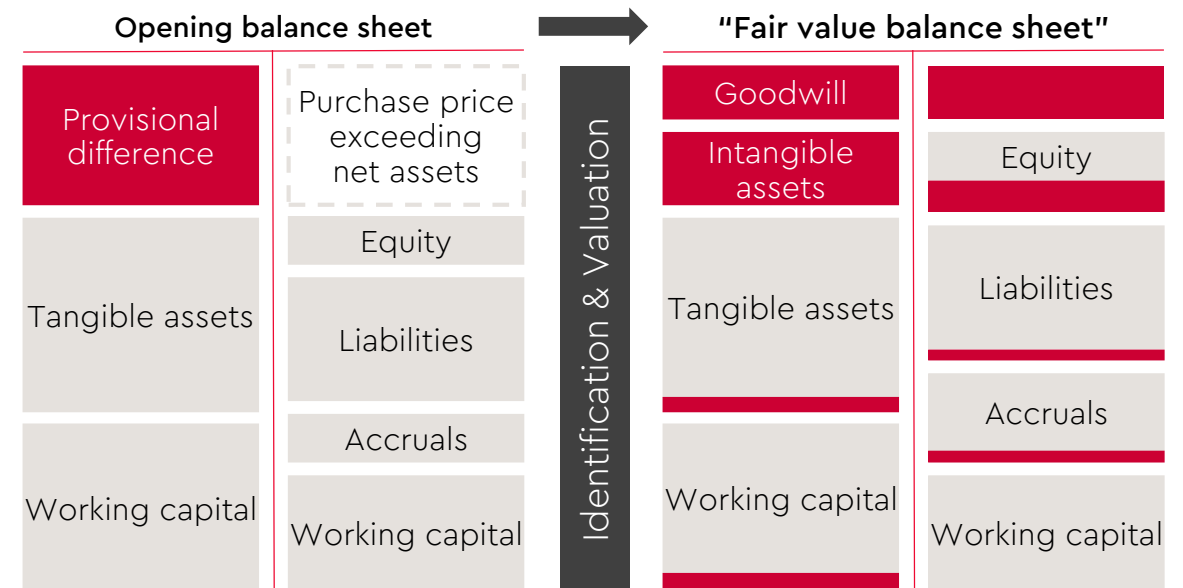
Purchase price allocations ("PPAs") are valuations carried out in the course of accounting that become necessary as a result of business combinations.

Purchase price allocation means...

- › ...the disclosure of all hidden reserves and liabilities of an acquired company.
- › ...significant impact on future impairment risks.
- › ...the IFRS / HGB balance sheet of the acquired company becomes a straight fair value balance sheet.
- › ...that previously unrecognized intangible assets are recognized.
- › ...significant impact on the post-PPA balance sheet and income statement.

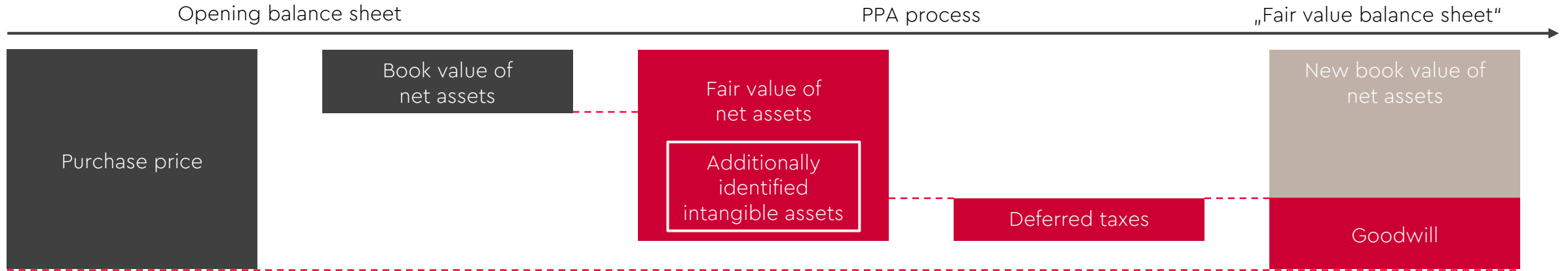
Basis

IFRS 3, IFRS 13, IAS 36, IDW RS HFA 47 and IDW S 5



From Purchase Price to Goodwill

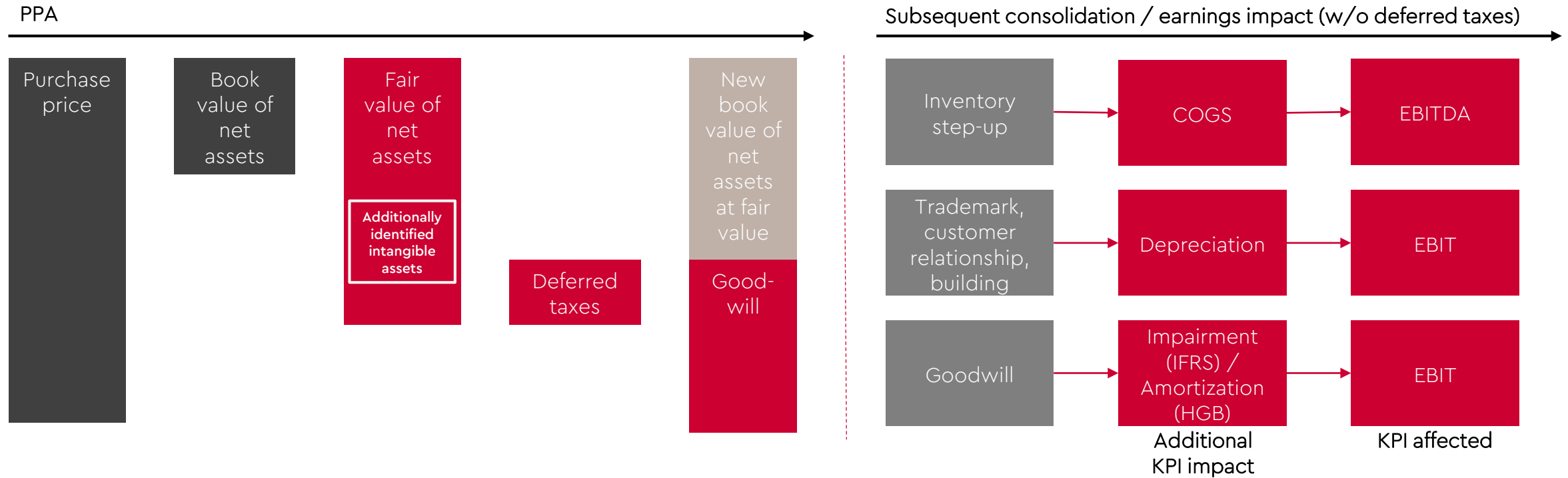
Process



Scope of work



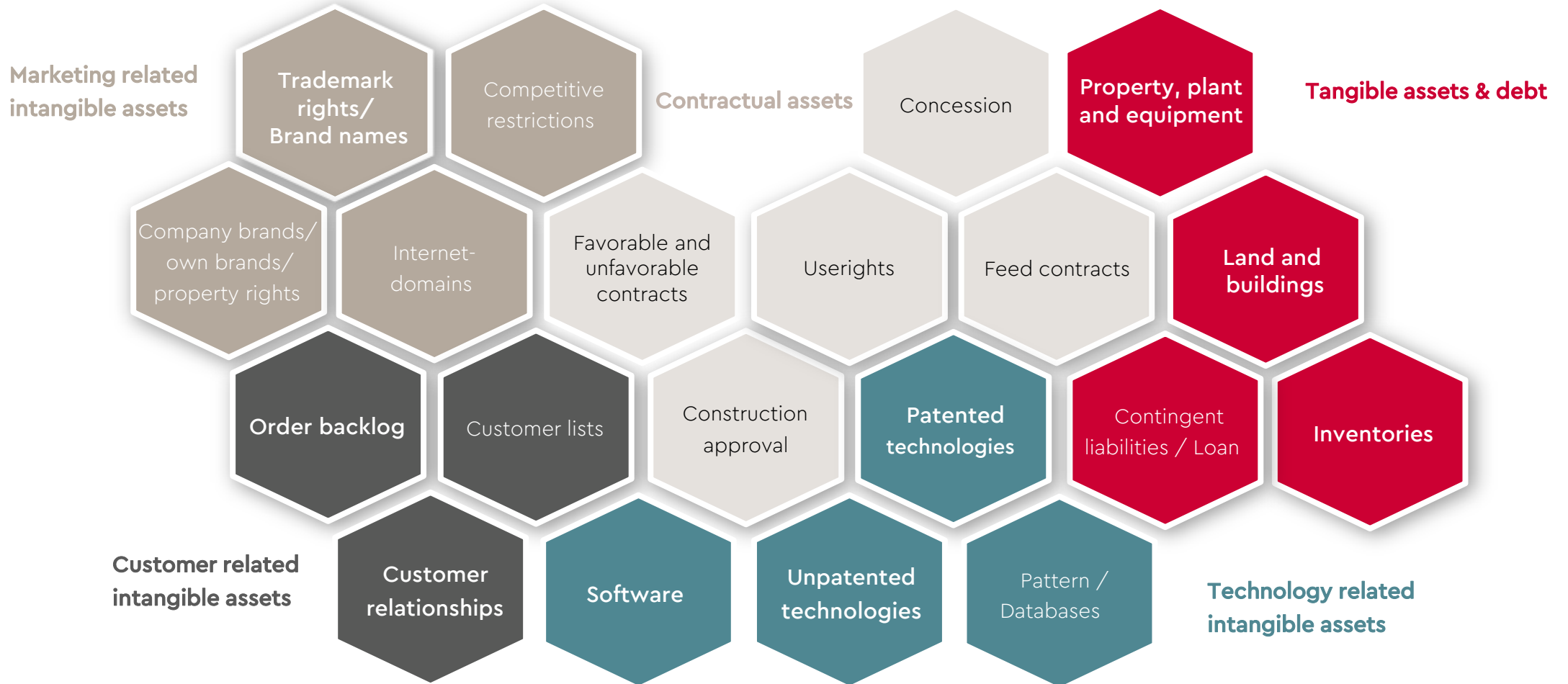
Earnings impact on KPIs subsequent to PPA



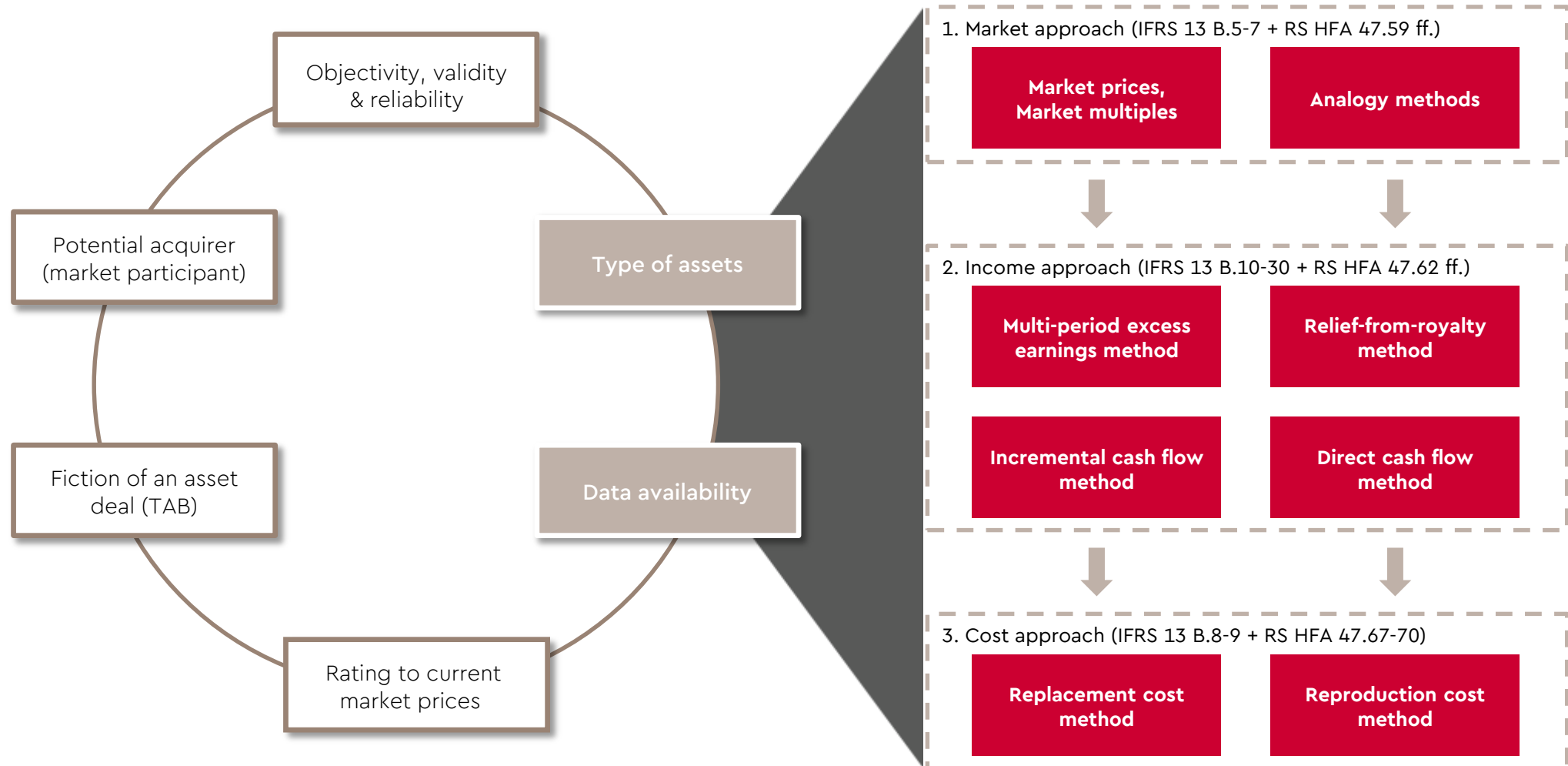
Earnings impact on KPIs (EBIT / EBITDA) in principle dependent on:

- › type of asset bearing fair value step-up
- › type of depreciation / amortization (regular vs. impairment only-approach)
- › useful life (short-term at inventories vs. mid- / long-term at customer relationship / trademark)

Selection of common assets to be valued

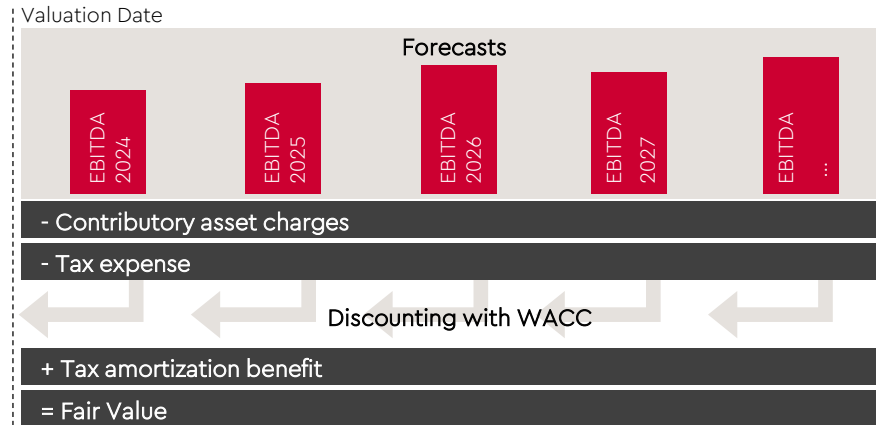


Requirements for the evaluation

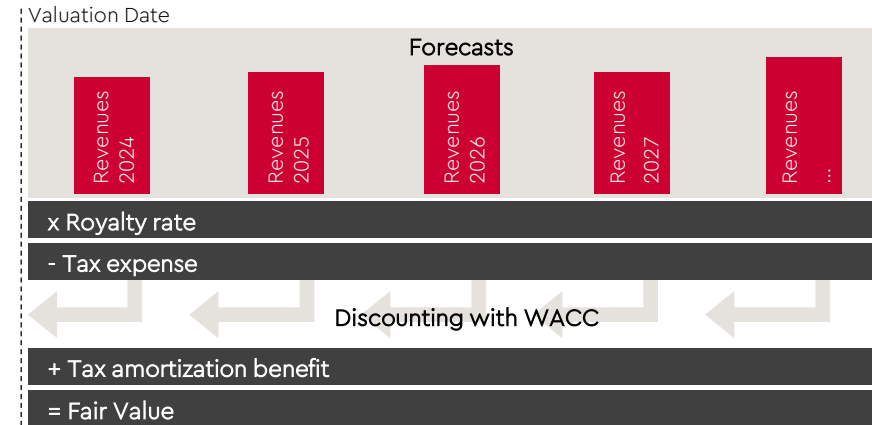


Selected valuation approaches at a glance

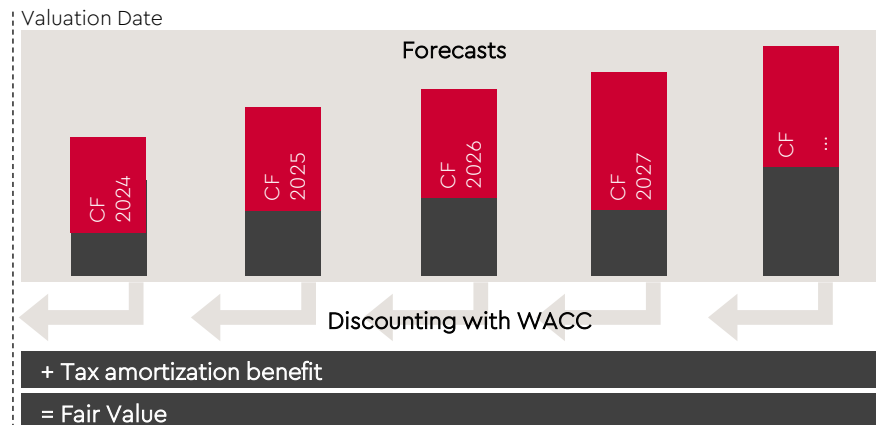
Multi-period excess earnings method (MEEM)



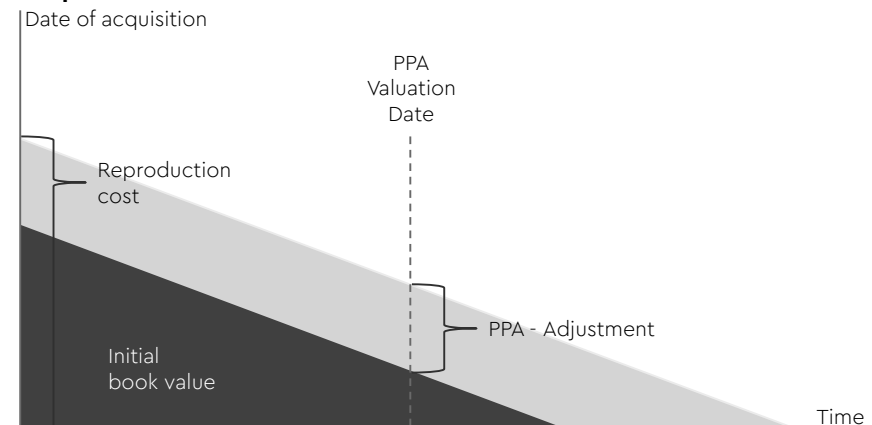
Relief-from-royalty method



Direct cash flow method

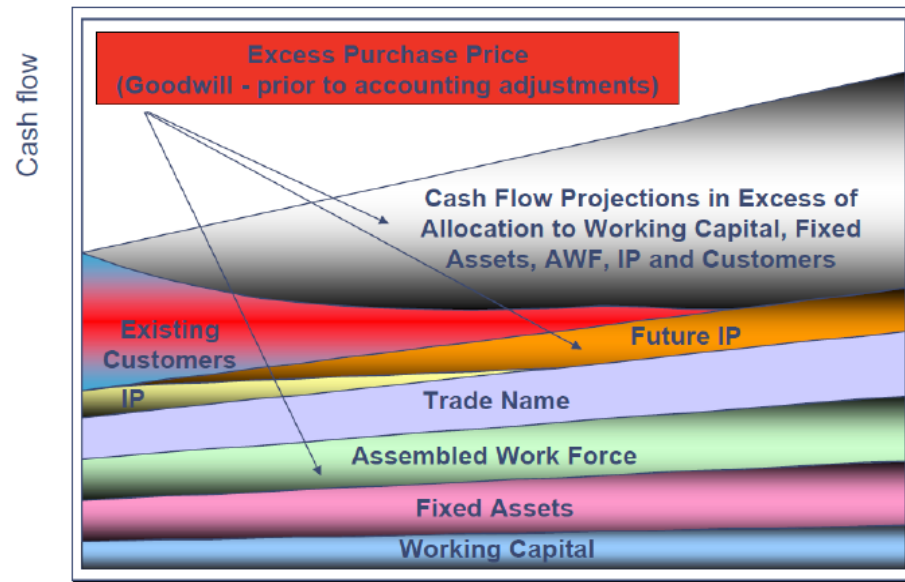


Reproduction cost method



Content of Goodwill and sources of information

Example illustration of CF allocation to asset categories

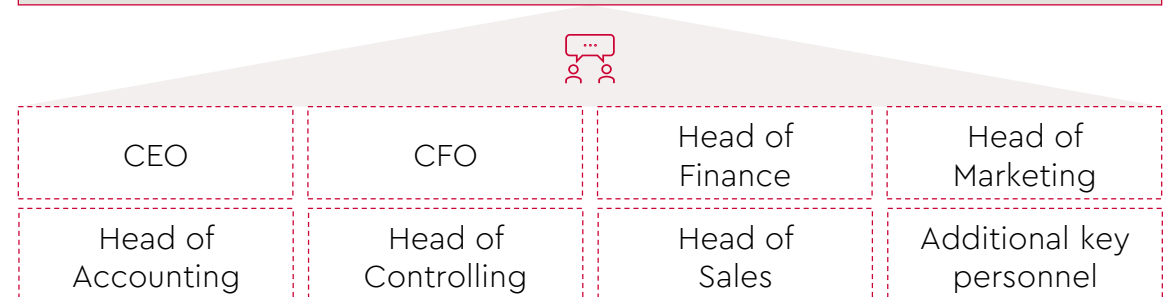


(Quelle: IASB Education Session; Oktober 2007)

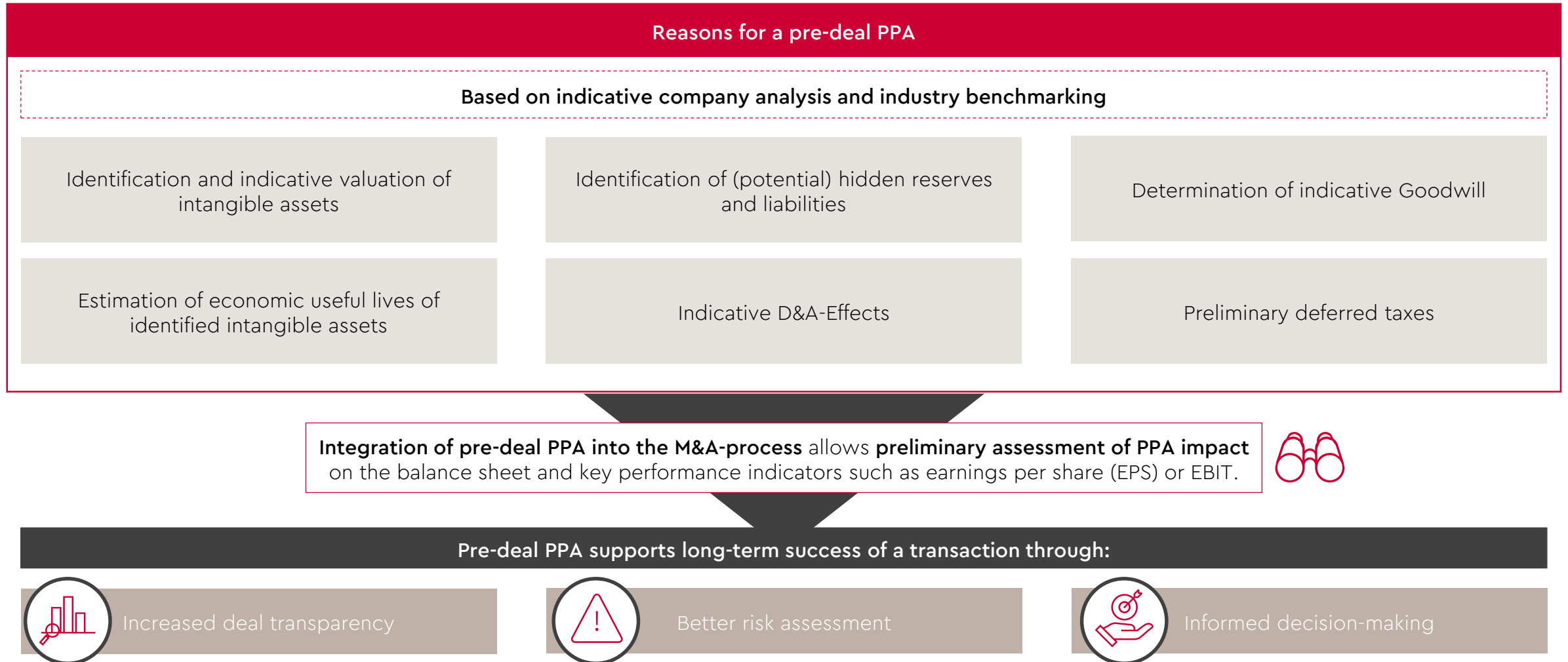
Typical information requirements and key contacts during PPA process

Typical information requirements

- > Information Memorandum
- > Company presentation
- > Due Diligence Reports (i.a. Commercial, Financial, Tax)
- > Business Plan (integrated P&L, BS, CF; > 3-5 years, incl. e.g. country, product & customer level split, adjusted for buyer specific synergies)
- > Annual financial statements and asset register
- > Lists of inventories and advance payments received
- > Best customers (respective revenues and EBITDA margins)
- > Order backlog (volume and EBITDA margin at closing)
- > Sales contribution of trademarks and brand appeal
- > License agreements regarding the licensing of technologies or brands

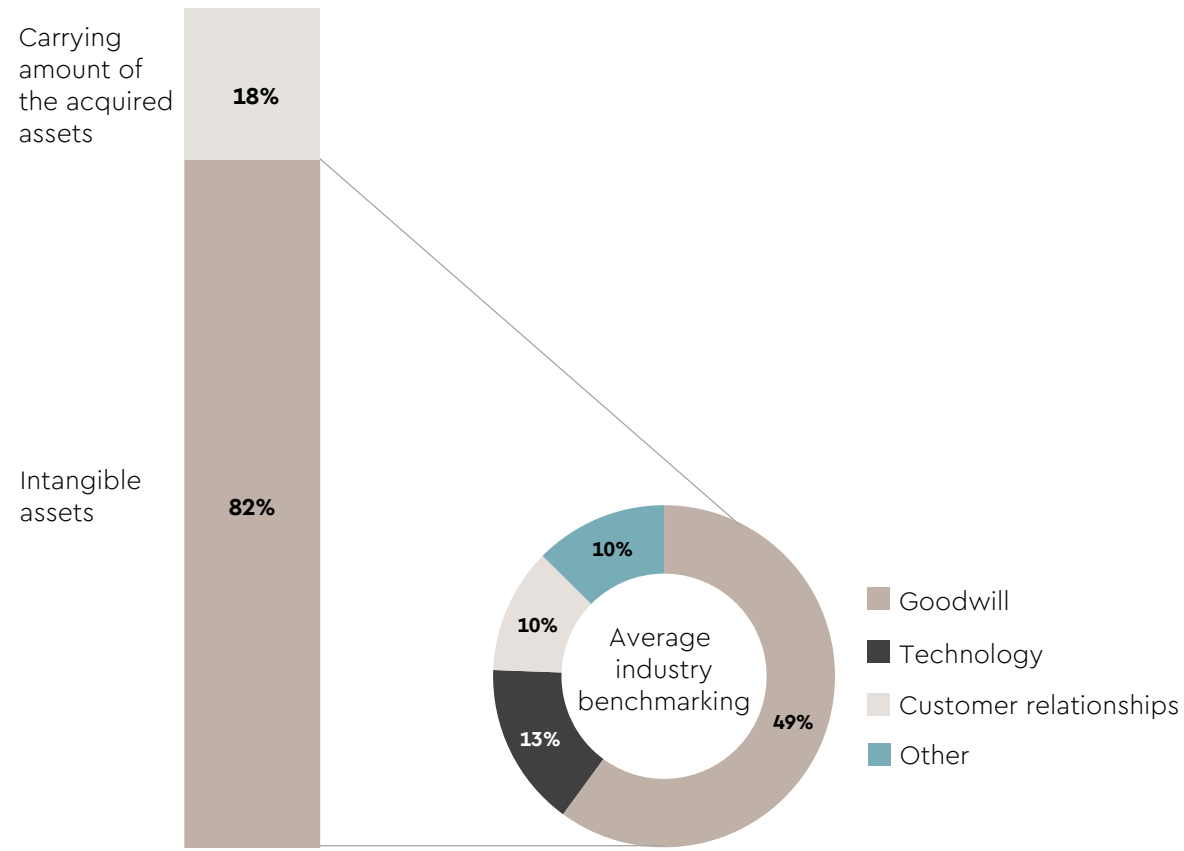


Pre-deal PPA: Reasons and concept



Pre-deal PPA: industry benchmarking exemplary for the software industry

Benchmarking – average allocation in % of consideration transferred



Source: WTS Advisory analysis

Methodology and results

- › The adjacent illustration shows a **benchmarking** of the software industry in Europe **using PPA specific databases to determine the average share of Goodwill** in the industry.
- › The **average share of Goodwill** in the software sector is **around 50%**.
- › The analysis included **208 transactions** in Europe.
- › **Customer relationships** and **technologies** are typically the significant intangible assets in the software industry. "Others" could i.a. include trademarks, order backlog or deferred revenue.
- › The **carrying amount of the acquired assets** in the opening balance sheet amounted to an **average of 18%** of the purchase price.

Pre-deal PPA: Interpretation of Goodwill / Badwill



Possible contents of Goodwill, e.g.

Expected synergies,
strategic premia

Business growth
(e.g. new markets, new
technologies, new
customers)

Going concern
(beyond useful lives)

Valuation errors in
purchase price

Assets, which do not
meet recognition criteria
(e.g. workforce;
HGB: often customer
relationships)



Possible contents of Badwill, e.g.

Planned exit/
forced sale

Valuation errors with
regard to intangible
assets

Bargain purchase

Expectation of future
losses lowers the
purchase price (e.g.
negative purchase price)

Liabilities, which do not
meet recognition criteria

Individual PPA results and the amount and share of Goodwill in the purchase price must be interpreted on the basis of the specific transaction situation. 



03

Importance for individual stakeholders

The PPA has important implications for various stakeholders

Acquirer

- › Resulting Goodwill as a reflection of the transaction in terms of purchase price, acquired assets, transaction process (e.g. bidding process), expectation and remuneration of synergies.
- › PPA as a reflection of the transaction relevant for future impairment tests (e.g. Goodwill, intangible assets).
- › Acquisition financing: definition of earnings effects often as items eligible for adjustment for covenant purposes.
- › Subsequent effects on reporting (potential adjustment).
- › No impact on target company valuation in future transactions.



Investors and shareholders (combined entity)

- › Transparency for investors and shareholders through accurate reflection of the value of the acquired business and its assets.
- › Helps investors and shareholders to evaluate the potential for value creation and assess the long-term profitability of the combined entity.

Target

- › Standardization of accounting (e.g. IFRS conversion) and reporting as required by the acquirer.
- › PPA effects (e.g. assets, effects on earnings) are often allocated to the acquired legal entities and business units (so-called push down) with effects on planning and earnings targets.

Lenders

- › Provides clear understanding of the value of (intangible) assets available as collateral post-acquisition.
- › Increase transparency, reducing the risk associated with lending and facilitating more informed credit decisions.

PPA



04

Key factors for a successful PPA process

Key factors required for a successful PPA process



Plan the PPA as a dedicated project!

- › Scope of advise ("make or buy")
- › Type of external support: advisor vs. independent expert
- › Integration into overall PMI schedule
- › Resolve conflicting objectives and capacity bottle necks – at target and acquirer
- › I.a. for capital market-oriented acquirers:
 - › Integration of PPA results into reporting obligations and schedules
 - › Potential start of IFRS conversion and PPA before closing, if necessary



Ensure information availability!

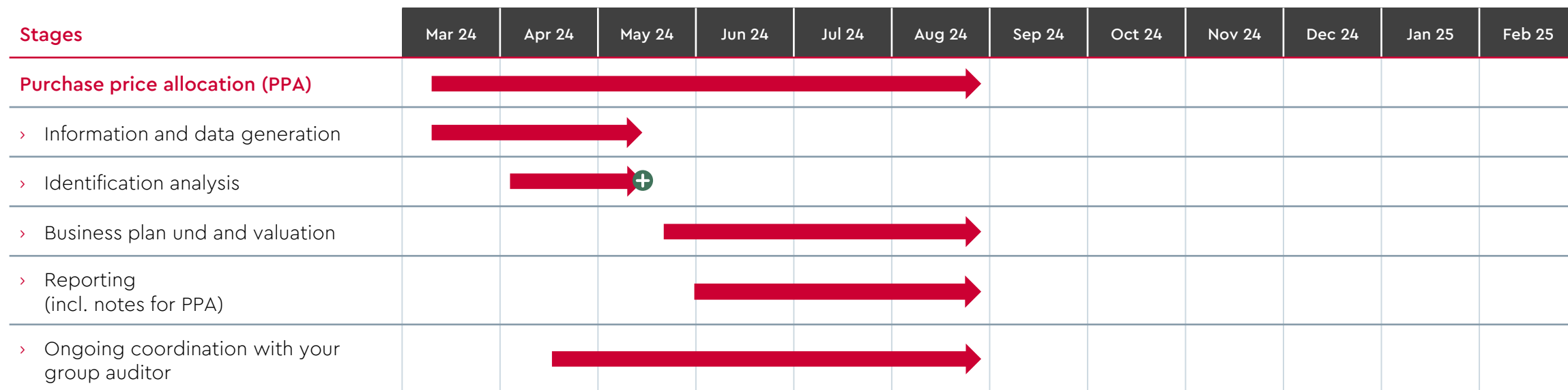
- › Requires a close alignment with the client and deep understanding of the business model
- › Information requirements, e.g.:
 - › Opening balance sheet on acquisition date in relevant group reporting standard
 - › Multi-year business plan (c.f. page 12)
- › Templates can help clients to provide necessary information



Define key contact persons!

- › Availability of personnel in key areas of the acquirer and target company (e.g. PMI tasks, day-to-day business)
- › **Ongoing involvement of the group auditor from an early stage!**

Exemplary indicative project plan (Assumption: Closing mid of Q2/2024, unrestricted information access)



+ Milestone: Coordination of identification with group auditor

The Gantt chart above is only an exemplary plan and may be different in actual projects.

Your contact @WTS Advisory



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