

PURCHASE PRICE ALLOCATION CHEAT SHEET

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PP Structure



Terms

Goodwill

Goodwill is an intangible asset that represents the excess of the purchase price of a company or business over the fair value of its identifiable net assets.

Identifiable Intangible Assets:

These are intangible assets that can be separately identified and valued. Examples include trademarks, patents, customer relationships, and technology.

WARA

Represents the weighted rate of return earned by the portfolio of acquired assets including intangible assets such as brand, customer relationships, and goodwill

Excess prices

The difference between purchase price and net book value of acquired company

Assembled workforce

Intangible asset associated with the skilled and experienced employees that the acquiring company gains as part of the business combination.

FMV

Fair value represents the estimated market value of an asset or liability. In PPA, the fair value of acquired assets and assumed liabilities is determined to allocate the purchase price.

Deferred tax

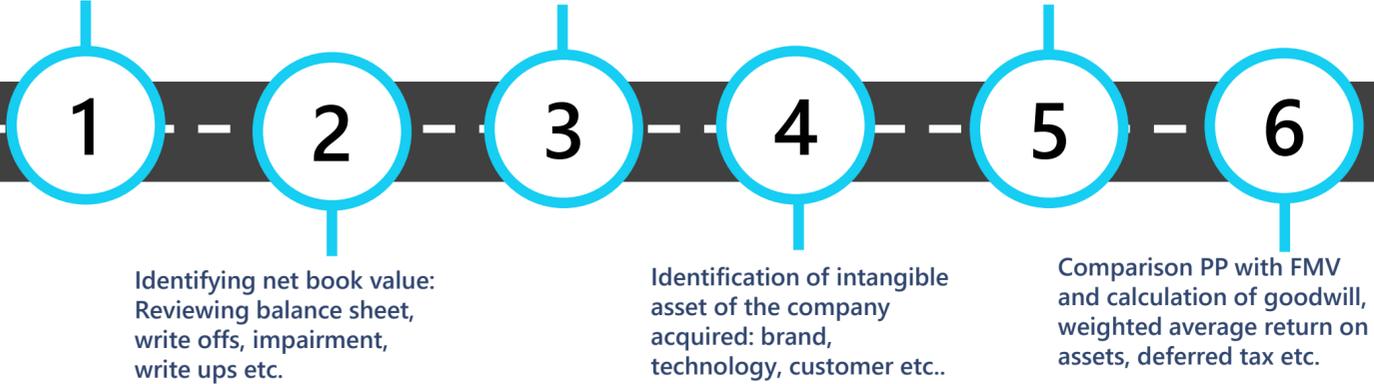
Deferred tax liabilities are created when the tax basis of the acquired assets or liabilities is lower than their fair value for financial reporting purposes. This results in lower future tax deductions or higher taxable income, leading to higher tax payments in the future. Deferred tax assets, on the other hand, arise when the tax basis exceeds the fair value, creating future tax benefits.

PPA Process

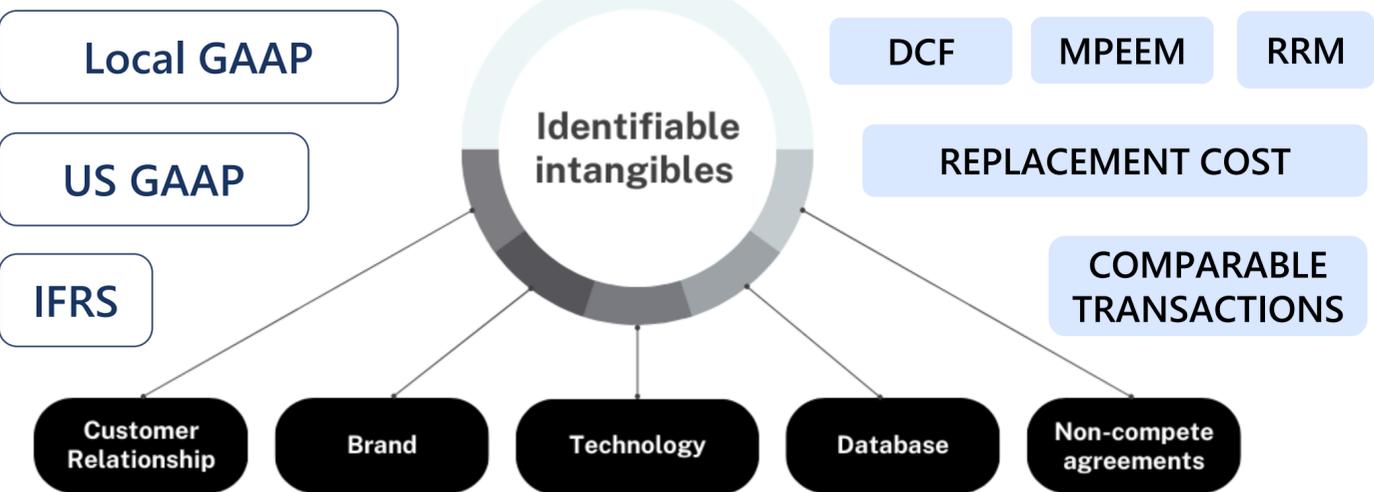
1. Identifying purchase price, i.e. price paid by acquirer to acquire the company. The purchase price can include amounts paid in cash and in equity

2. Fair market value adjustments: calculation of fair value of acquired company's tangible assets

3. Fair market value estimation for intangibles, by application most relevant valuation methods such as DCF, MPEEM, Reilief from royalty etc.



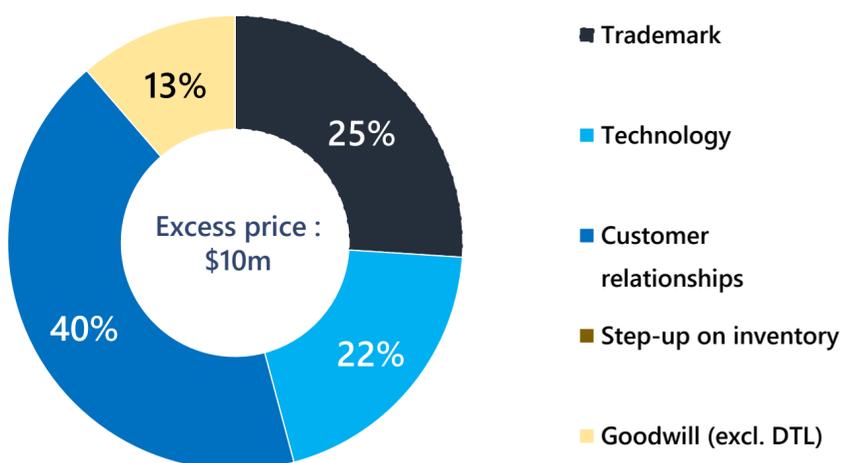
Accounting framework



Balance sheet FMV adjustment example

TargetCo Balance Sheet			
(all values in \$MM)			
	Book Value	FMV	
Assets			
Cash	25	25	
Other Current Assets	155	178	
Total Current Assets	180	203	
Tangible Assets	650	777	
Identifiable Intangible Assets	100	550	
Goodwill	-	170	
Non-Current Assets	750	1,497	
Total Assets	930	1,700	
Liabilities and Equity			
Total Debt		200	200
Other Liabilities		155	175
Total Liabilities	355	375	
Total Equity	575	1,325	
Total Liabilities and Equity	930	1,700	

Example of excess price distribution



WACC vs. WARA



Popular databasis

Royalty Stat

Royalty Range

Thomson Reuters

Comparable.ai