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2023 ASA SPRING FAIR VALUE CONFERENCE

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AICPA Draft Accounting and Valuation Guide

Business Combinations

Adam Smith, PwC

Mark Edwards, Grant Thornton

Agenda

- Current status and next steps
- Comments by chapter
- Resolution process
- Q&A

Current Status and Next Steps

Valuation Chapters

- Chapter 9, *Valuation Considerations in a Business Combination*
- Chapter 10, *Internal Rate of Return Analysis*
- Chapter 11, *Selecting Valuation Approaches and Techniques for Acquired Intangible Assets*
- Chapter 12, *Valuation Approaches and Techniques*
- Chapter 13, *Measuring Fair Value of Identifiable Assets Acquired and Liabilities Assumed*

Valuation Appendices

- Appendix A—*Detailed Example of an Internal Rate of Return Analysis*
- Appendix B—*Valuation Method Selection Process Example*
- Appendix C—*Routine Royalties – Sample Investment Return Analysis*
- Appendix D—*Abbreviated Example of Valuing Finished Goods Inventory*
- Appendix E—*Detailed Example of Valuing Finished Goods and Work-In-Process Inventory*
- Glossary



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Comments by Chapter

Chapter 9, *Valuation Considerations in a Business Combination*

- Some edits and adjustments were made to soften certain language

Chapter 10, *Internal Rate of Return Analysis*

- Numerous comments on diagrams at beginning of chapter. These have been modified and additional clarity around certain definitions have been added
- Addressed comments indicating focus on EPVT might be discussed as opposed to consideration of a DRAT. The TF has noted that a DRAT is an acceptable method and also added 2 additional schedules as an example

Chapter 10, *Internal Rate of Return Analysis (Cont.)*

- Softened language around the treatment of elements of total consideration excluded from consideration. Increased emphasis on consistency between PFI and total consideration
- Clarified treatment of entity specific synergies and PFI/IRR
- Clarified terminology around WACC and CSRP
- Clarified and provided example to illustrate consideration significant changes in performance expectations that may have occurred between the date when the acquirer and the acquiree came to final terms and the acquisition date

Chapter 10, *Internal Rate of Return Analysis (Cont.)*

- Added clarity surrounding equity investments of the acquiree
- Other clarifications suggested by respondents

Chapter 11, *Selecting Valuation Approaches and Techniques for Acquired Intangible Assets*

- Softened language regarding simulated royalties to allow for adjustments to market based royalties to arrive at the same measurement basis
- Updated various sections for clarity as suggested by comments
- Made clarifications to pivotal and routine asset definitions
- Added clarity in selection of royalty rates – generally
- Removed reference to 25% rule of thumb and focused more on market factors

Chapter 11, *Selecting Valuation Approaches and Techniques for Acquired Intangible Assets (Cont.)*

- Clarification on the use of distributor method
- Further clarifications on product line vs. brand
- Expanded discussion on unit of account

- Chapter 12, *Valuation Approaches and Techniques*
 - *Chapter 12 is in process*
 - Made clarifications on cost approach – namely clarifying application of TAB was not appropriate
 - In the MPEEM section – in the discussion of making customer contract liability-related adjustments to PFI, revised language to better align with the TAF VFR # 2 to leave it open to the use of the 3 methods discussed therein

Chapter 13, *Measuring Fair Value of Identifiable Assets Acquired and Liabilities Assumed*

- *Chapter 13 is still pending*

- Task force has not yet gone through comments on this chapter as a group

- *Appendix A—Detailed Example of an Internal Rate of Return Analysis*
 - Two additional schedules were added with regard to a conditional cash flow assessment
- *Appendix B—Valuation Method Selection Process Example*
 - Minor edits to better align the appendix with the preceding chapters
- *Appendix C—Routine Royalties – Sample Investment Return Analysis*
 - Minor edits to the text and to the schedules
- *Appendix D—Abbreviated Example of Valuing Finished Goods Inventory*
 - Pending
- *Appendix E—Detailed Example of Valuing Finished Goods and Work-In-Process Inventory*
 - No comments
- *Glossary*
 - Added new terms



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Questions???