



2014 Goodwill and Intangible Asset Fair Value Study of Software and Services Transactions

The Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission (SEC) have consistently emphasized the importance of accurate business combination accounting. We studied the accounting purchase price allocation results with the focus on goodwill and identifiable intangible assets for Software and Services companies.

While no two acquisitions are the same, purchase price allocations exhibit common themes along industry lines. In the software and services industry a typical set of identifiable intangible assets includes developed technology, customer relationships, and trade names. Detailed fair value analysis may be required for in-process research and development (“IPR&D”), non-compete agreements, backlog, and deferred revenue (a liability).

The relative amounts of goodwill and identifiable intangibles are also consistent within an industry. It is common to find a significant portion of the purchase price attributed to goodwill. The relative allocation to technology and customer relationships will depend on the business strategy and the stage of development of the acquired entity.

In most cases, a large allocation to goodwill should not alarm. Financial reporting rules are restrictive in terms of what intangible assets an entity may recognize, apart from goodwill. As a result, goodwill often subsumes the value of workforce and of opportunities to develop new technologies or enter new markets. Going concern value, business infrastructure and certain assets acquired for defensive purposes also fall under goodwill. More goodwill means less amortization expense and therefore higher reported operating profit margins.

Software and Services Intangibles

Developed Technology
IPR&D
Customer Relationships
Trade Names
Non-Compete Agreements
Backlog
Deferred Revenue

Software and Services ASC 805 Valuation Update

We utilized CapitalIQ to obtain the following transactions: i) closed between May 2013 and June 2014, ii) with enterprise values greater than \$100 million, iii) completed by US based, publicly traded acquirers, and iv) where targets were classified under Software and Services as their primary industry. It should be noted that we excluded transactions where detailed purchase price allocation data was not available, mostly due to timing of SEC filings or materiality. Our analysis below is based on the information available in the SEC filings.

A number of observations can be made from the data below.

- Goodwill was the dominant portion of excess consideration, with median goodwill reaching 68% of the enterprise value.
- Median allocation to technology of 11% was lower but comparable to customer relationships of 15%.
- Only two transactions had IPR&D among the ones listed below. These amounts for SoftLayer Technologies and DigitalSmiths Corp. were immaterial. We note that after FAS 141R (now ASC 805) went into effect, minimal IPR&D was recognized in software and service acquisitions.
- Median useful life of the technology, customer relationship and trade names intangibles were 6 years, 8 years and 5 years, respectively.

For more information please contact Max Fonarev at (415) 898-1098 or max@sorbusadvisors.com.

Target	Buyer	Date	Total Purchase Consideration [1]	Percent of Excess Consideration [2] Allocated to				
				Goodwill	Technology	Customers	Trade name	
ExactTarget	Salesforce	06/04/2013	\$ 2,640	72%	12%	14%	1%	
SoftLayer	IBM	06/04/2013	1,977	68%	15%	13%	4%	
Digital Insight	NCR	12/02/2013	1,650	69%	7%	19%	1%	
The Climate	Monsanto	10/02/2013	932	84%	15%	0.4%	-	
Prolexic	Akamai	12/02/2013	403	77%	7%	15%	0.2%	
MoPub	Twitter	09/09/2013	350	85%	6%	9%	0.5%	
Market Leader	Trulia	05/08/2013	336	67%	9%	12%	11%	
ServiceMesh	Computer Sciences	10/30/2013	310	64%	33%	-	-	
Service Repair Solutions	Claims Services Group	10/03/2013	289	62%	11%	19%	8%	
Liazon	Towers Watson & Co.	11/22/2013	215	84%	16%	-	-	
Jaspersoft	TIBCO Software	04/28/2014	185	68%	12%	18%	2%	
MapMyFitness	Under Armour	11/14/2013	150	86%	8%	3%	4%	
Voxeo	Aspect Software	07/10/2013	145	64%	13%	19%	3%	
DigitalSmiths	TiVo	01/29/2014	135	62%	10%	26%	1%	
Hart Systems	Zebra Technology	12/19/2013	94	62%	5%	33%	0.3%	
				Max	86%	33%	33%	11%
				Median	68%	11%	15%	1%
				Min	62%	5%	0.4%	0.2%

[1] Total Purchase Consideration in USD millions.

[2] Excess Consideration is a sum of all identified intangibles and goodwill.