



Valuation of Goodwill and Intangibles in Social Gaming Transactions

The Social Gaming has been one of the most active sectors for M&A transactions in the global technology industry. With the promise of significant growth and almost immediate profitability, social game developers provide for attractive acquisition targets in *buy vs. build* strategy.

While M&A activity is robust, little public information is available about the values of individual intangibles acquired. Most deals are relatively small or completed by private players, thus limiting the amount of accessible information. This update presents both public and our proprietary ASC 805 valuation data.

Social Gaming Intangibles

Developed Technology

IPR&D

Customer Relationships

Trade Names

While no two acquisitions are the same, common themes in the valuation of intangibles and goodwill can be found along industry lines. In the social gaming industry the typical set of identifiable intangible assets include developed technology, game titles, customer relationships, and trade names. Fair value analysis may be required for non-compete agreements, in-process research and development, and contingent considerations.

Social gaming intangibles represent unique economic benefits to business enterprises and their acquirers. Technology often captures the value of the underlying platform. Customer relationships or game titles may associate with the value of the acquired revenue streams. Goodwill was often attributed to buyer synergies, high top-line growth, and assembled workforce. While individual titles may be relatively short-lived, trade names and copyright intangibles may be leveraged in the future games.

Social Gaming ASC 805 Valuation Update

A number of observations can be made from reviewing SEC filings and our proprietary data:

- Goodwill values showed a broad range of 21 – 94 percent of enterprise value. The lack of consistency is notable. However, if we collapsed the data from individual acquirers, most goodwill valuations would come at the top of the range.
- Developed technology was a significant component, falling in 35 – 68 percent range for a number of transactions.
- A significant 17 – 20 percent of purchase price was allocated to IPR&D in two Shanda Games transactions. The company appears to be an outlier since minimal IPR&D were found in our earlier Application Software PPA Update.
- Trade name values ranged from 1 – 11 percent of enterprise value in four transactions.
- Median useful lives of the technology and customer relationship intangibles were 4.5 years and 3.1 years, respectively. Trade name lives were estimated to be from 4 years to indefinite.
- Contingent considerations and payments in stock were common, pointing to additional valuation challenges in social gaming purchase accounting.

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Target	Buyer	Date	Enterprise Value **)	Percent of Enterprise Value Allocated to					
				Goodwill	Technology	IPR&D	Customers	Tradename	
Slide, Inc.	Google, Inc.	05/24/2010	179	86%	6%	na	6%	4%	
Newtoy, Inc.	Zynga Inc.	12/08/2010	53	75%	35%	na	na	11%	
Other	Zynga Inc.	12/31/2010	48	42%	53%	na	na	na	
4 Targets *)	Zynga Inc.	1Q 2011	11	94%	2%	na	na	na	
Playfish, Inc.	Electronic Arts	11/01/2009	308	89%	4%	na	11%	1%	
XtFt Games S/S Ltd	Quepasa Corp.	03/04/2011	4	92%	na	na	5%	na	
Goldcool	Shanda Games **)	01/01/2010	120	21%	35%	20%	5%	8%	
Eyedentity	Shanda Games **)	09/01/2010	521	24%	68%	17%	na	na	
3 Targets	Proprietary Data	na	15	83%	10%	na	8%	na	
				Max	94%	68%	20%	11%	11%
				Median	83%	22%	19%	6%	6%
				Min	21%	2%	17%	5%	1%

*) Not disclosed, but likely include Flock, Area/Code, Floodgate Entertainments, and JamLegend.

**) Enterprise value in USD millions. Shanda Games in RMB millions (Chinese Yuan.)