

# **PURCHASE PRICE ALLOCATION BENCHMARKING: INFORMATION TECHNOLOGY 2018**

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# ABOUT SORBUS ADVISORS LLC

Sorbus Advisors LLC is a full-service valuation advisory firm focused on corporate financial reporting, tax reporting, and transaction planning.

Our mission is to help clients navigate ever-growing complexities of the global regulatory and transaction environment. With state-of-the-art valuation tools we help prepare financial statements, increase transparency, improve compliance, quantify economic impact of strategic transactions, and enhance corporate governance.

*Volume does not equal quality.* When choosing our boutique firm, our clients look for and find:

- ✓ always-on direct access to a senior valuation specialist,
- ✓ deep technical knowledge and stellar execution,
- ✓ lightning-fast turn-around,
- ✓ confidence in navigating most rigorous audit review.



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## WE VALUE

Intangible Assets  
Business Interests  
Financial Instruments  
Individual Equity Securities (409A)  
Debt  
Derivatives  
Portfolios

## PURPOSE

Financial Reporting  
Tax  
Transaction Planning

## INDUSTRIES

Information Technology  
Life Sciences  
Consumer Products  
Business Products And Services  
Financial Institutions

# PURCHASE PRICE ALLOCATION BENCHMARKING

We are pleased to present the results of our purchase price allocations benchmarking study for *Information Technology* acquisitions completed in 2018.

While no two acquisitions are the same, common themes in the valuation of intangibles and goodwill can be found along industry lines. Information Technology companies commonly rely on such identifiable intangible assets as developed technology, in-process research and development, customer relationships, and tradenames. However, even within IT, companies pursue wildly different and unique business models. Our analysis aims to identify patterns within narrowly defined industry segments.

## WHY BENCHMARKING

The Financial Accounting Standards Board (FASB), the Public Company Accounting Oversight Board (PCAOB) and the Securities and Exchange Commission (SEC) have all consistently emphasized the importance of accurate business combination accounting.

The task of developing consistency among complex and highly subjective PPA valuations is enormous. While valuation guidelines may appear to be well established, calculations are still highly subjective. An independent reasonableness test becomes imperative.

In valuations, the market approach is a shortcut, a check on the more fundamentally sound, but highly subjective, income approach. PPA benchmarking is similar in that it helps check big-picture PPA valuations against similar analyses.

## USE CASE

PPA Benchmarking will help management, auditors and other observers to quickly assess the reasonableness of an individual PPA. It will help management and M&A advisors predict and model M&A impact on amortization expense. Finally, valuation professional can use these benchmarks to scrutinize their own work.

# PURCHASE PRICE ALLOCATION BENCHMARKING

## SCREENING CRITERIA

This study was based on the transactions that satisfied the following initial search criteria:

Transactions closed in 2018

Information technology industry

Acquirer was an SEC registrant; target was US-based

Transaction value is greater than \$10 million.

The initial sample consisted of over 300 transactions. We reviewed public filings for each company in the initial sample to find detailed disclosures regarding purchase consideration, purchase price, contingent consideration, identifiable intangible asset fair values, goodwill, inventory and property, plant and equipment. Sufficient disclosures were provided for **134 transactions**. These transactions formed the basis of the 2018 Purchase Price Allocation Benchmarking.

We classified the Information Technology transactions into the following industry categories:

- ✓ Software,
- ✓ IT Consulting and Outsourcing,
- ✓ Hardware,
- ✓ Hardware Services, and
- ✓ Semiconductors and Equipment.

# PURCHASE PRICE ALLOCATION BENCHMARKING

## TRANSACTION VALUE DEFINED

There are numerous ways to define acquisition value. We focused on Purchase Consideration, Purchase Price, and Excess Consideration to capture as many reported PPAs as possible. Those definitions are:

**PURCHASE CONSIDERATION** = TOTAL ASSETS = ALL TANGIBLE ASSETS + IDENTIFIED INTANGIBLE ASSETS + GOODWILL,

**PURCHASE PRICE** = PURCHASE CONSIDERATION - OPERATING LIABILITIES = CASH CONSIDERATION + EQUITY CONSIDERATION + ASSUMED INTEREST-BEARING DEBT + CONTINGENT CONSIDERATION,

**EXCESS CONSIDERATION** = GOODWILL + IDENTIFIABLE INTANGIBLE ASSETS.

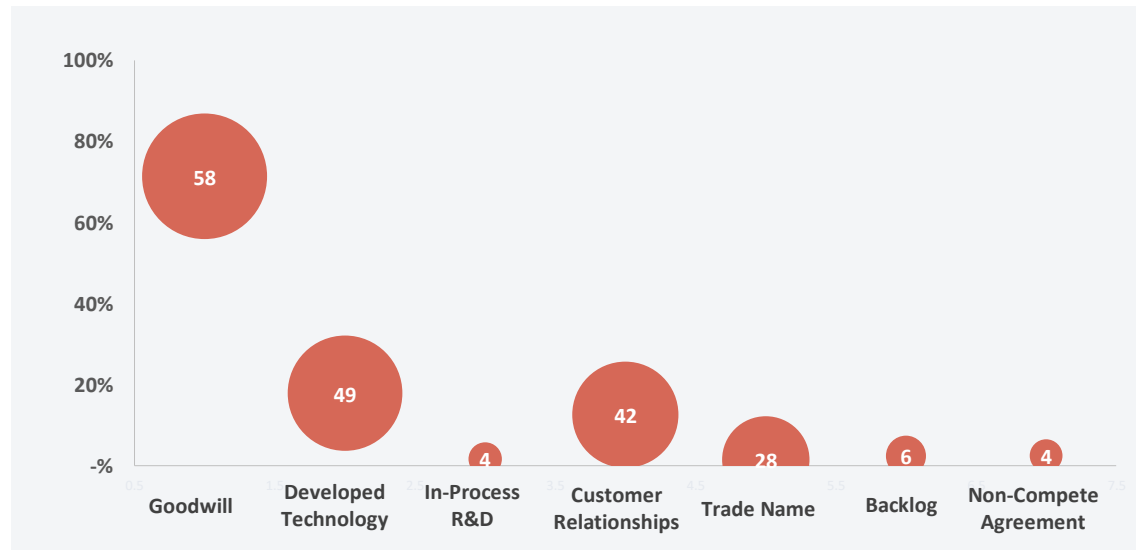
## IDENTIFIABLE INTANGIBLE ASSETS

We classified identified intangible assets in the following categories:

- ✓ Developed Technology (including patents, intellectual property, database, and content)
- ✓ In-Process R&D
- ✓ Customer Relationships (including customer list, subscribers, partner or merchant relationships)
- ✓ Trade Name (including domain names)
- ✓ Backlog
- ✓ Non-Compete Agreement
- ✓ Contracts and Others (not shown).

# SOFTWARE

	Measure as Percentage of Median			Useful Lives			Available Observations			Total In This Industry
	Purchase Consideration	Purchase Price	Excess Consideration	Median	Observations Finite Life	Indefinite	Purchase Consideration	Purchase Price	Excess Consideration	
Inventory	na	na	na		na		0	0	0	69
Property, Plant and Equipment	0%	0%	0%		na		14	14	14	69
<b>Goodwill</b>	<b>65%</b>	<b>71%</b>	<b>68%</b>		Indefinite		<b>40</b>	<b>58</b>	<b>59</b>	<b>59</b>
Developed Technology	15%	18%	18%	5.5	43	na	34	49	50	50
In-Process R&D	2%	2%	2%		Indefinite		4	4	4	4
Customer Relationships	12%	13%	12%	7.8	36	na	35	42	43	43
Trade Name	1%	2%	2%	5.0	23	na	25	28	28	28
Backlog	2%	2%	2%	2.0	6	na	5	6	6	6
Non-Compete Agreement	0%	3%	2%	2.5	4	na	2	4	4	4
<b>Contingent Consideration</b>	<b>4%</b>	<b>8%</b>	<b>7%</b>		na		<b>4</b>	<b>5</b>	<b>6</b>	<b>6</b>



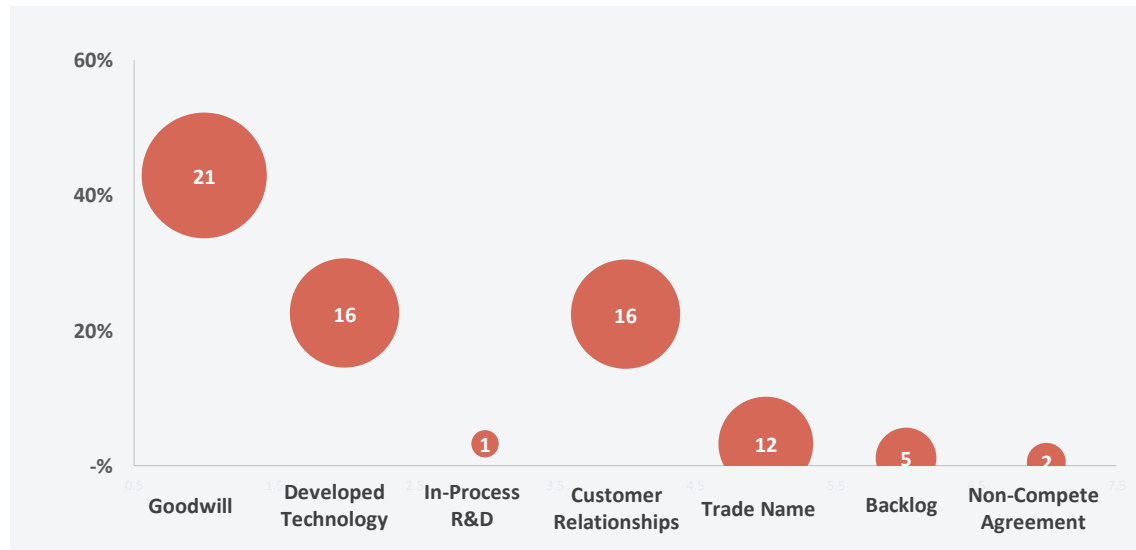
# IT CONSULTING, OUTSOURCING, OTHER

	Measure as Percentage of Median			Useful Lives			Available Observations			Total In This Industry
	Purchase Consideration	Purchase Price	Excess Consideration	Median	Observations Finite Life	Indefinite	Purchase Consideration	Purchase Price	Excess Consideration	
Inventory	2%	2%	2%		na		3	3	3	21
Property, Plant and Equipment	3%	4%	4%		na		7	7	7	21
<b>Goodwill</b>	<b>41%</b>	<b>52%</b>	<b>55%</b>		<b>Indefinite</b>		<b>15</b>	<b>18</b>	<b>18</b>	<b>18</b>
Developed Technology	9%	12%	16%	7.0	7	na	6	7	7	7
In-Process R&D	na	na	na		<b>Indefinite</b>		0	0	0	0
Customer Relationships	31%	35%	34%	10.0	11	na	10	12	13	13
Trade Name	2%	1%	3%	5.0	7	na	7	6	7	7
Backlog	na	na	na	na	na	na	0	0	0	0
Non-Compete Agreement	10%	11%	10%	2.5	2	na	2	2	2	2
<b>Contingent Consideration</b>	<b>8%</b>	<b>9%</b>	<b>9%</b>		<b>na</b>		<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>



# HARDWARE

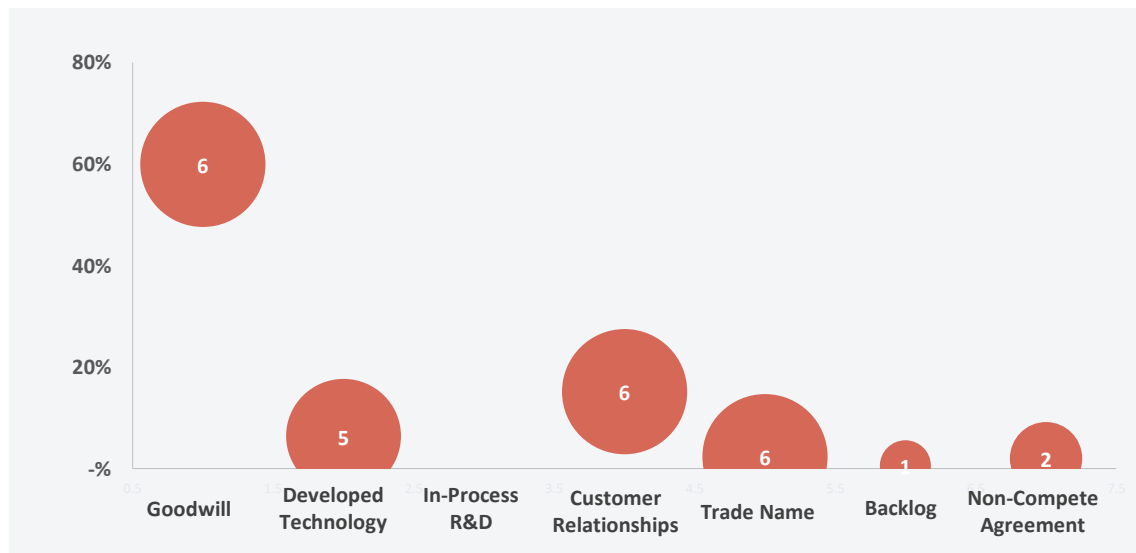
	Measure as Percentage of Median			Useful Lives			Available Observations			Total In This Industry
	Purchase Consideration	Purchase Price	Excess Consideration	Median	Observations Finite Life	Indefinite	Purchase Consideration	Purchase Price	Excess Consideration	
Inventory	9%	11%	13%		na		11	12	11	28
Property, Plant and Equipment	2%	2%	2%		na		11	12	10	28
<b>Goodwill</b>	<b>42%</b>	<b>43%</b>	<b>46%</b>		Indefinite		<b>17</b>	<b>21</b>	<b>18</b>	<b>18</b>
Developed Technology	19%	23%	26%	7.4	14	na	12	16	16	16
In-Process R&D	3%	3%	4%		Indefinite		1	1	1	1
Customer Relationships	20%	22%	23%	8.5	12	na	13	16	16	16
Trade Name	3%	3%	4%	7.0	9	na	11	12	12	12
Backlog	1%	1%	1%	0.5	5	na	5	5	5	5
Non-Compete Agreement	0%	1%	1%	5.0	1	na	1	2	2	2
<b>Contingent Consideration</b>	<b>24%</b>	<b>22%</b>	<b>22%</b>		na		<b>5</b>	<b>6</b>	<b>4</b>	<b>4</b>





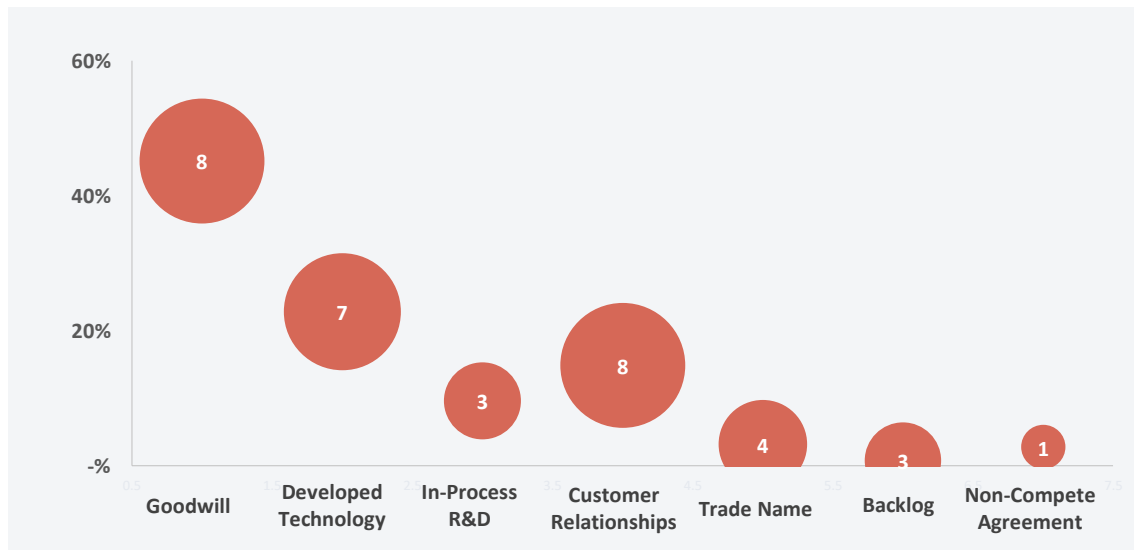
# HARDWARE SERVICES

	Measure as Percentage of Median			Useful Lives			Available Observations			Total In This Industry
	Purchase Consideration	Purchase Price	Excess Consideration	Median	Observations Finite Life	Indefinite	Purchase Consideration	Purchase Price	Excess Consideration	
Inventory	14%	23%	26%		na		2	2	3	7
Property, Plant and Equipment	3%	6%	6%		na		4	4	5	7
<b>Goodwill</b>	<b>55%</b>	<b>60%</b>	<b>55%</b>		Indefinite		<b>6</b>	<b>6</b>	<b>7</b>	<b>7</b>
Developed Technology	6%	6%	7%	5.0	4	na	5	5	5	5
In-Process R&D	na	na	na		Indefinite		0	0	0	0
Customer Relationships	14%	15%	27%	8.0	5	na	5	6	6	6
Trade Name	2%	2%	2%	10.0	5	na	5	6	6	6
Backlog	0%	1%	0%	0.5	1	na	1	1	1	1
Non-Compete Agreement	2%	2%	2%	3.0	2	na	2	2	2	2
<b>Contingent Consideration</b>	<b>30%</b>	<b>na</b>	<b>36%</b>		na		<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>



# SEMICONDUCTORS AND EQUIPMENT

	Measure as Percentage of Median			Useful Lives			Available Observations			Total In This Industry
	Purchase Consideration	Purchase Price	Excess Consideration	Median	Observations Finite Life	Indefinite	Purchase Consideration	Purchase Price	Excess Consideration	
Inventory	5%	5%	6%		na		5	5	5	9
Property, Plant and Equipment	3%	4%	3%		na		7	8	7	9
<b>Goodwill</b>	<b>39%</b>	<b>45%</b>	<b>39%</b>		Indefinite		7	8	8	<b>8</b>
Developed Technology	18%	23%	23%	8.9	6	na	6	7	7	7
In-Process R&D	7%	10%	8%		Indefinite		3	3	3	3
Customer Relationships	7%	15%	18%	10.3	8	na	7	8	8	8
Trade Name	3%	3%	5%	7.5	2	na	4	4	4	4
Backlog	1%	1%	1%	1.0	3	na	3	3	3	3
Non-Compete Agreement	3%	3%	3%	4.0	1	na	1	1	1	1
<b>Contingent Consideration</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>		na		2	2	2	<b>2</b>





## **BUSINESS INTERESTS | INTANGIBLE ASSETS | FINANCIAL INSTRUMENTS | PORTFOLIOS**

Sorbus Advisors LLC is a full-service fair value specialist firm supporting financial reporting, tax and transaction planning.

Valuations include intangible assets and earn-outs under ASC 805, business M&A, derivatives, illiquid securities (e.g. 409A), and debt.

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