

Purchase Price Allocation Case Study

ECONOMICS PARTNERS

Overview

A public biotech company (“PublicCo”), acquired all of the outstanding stock of a private pharmaceutical company (“PrivateCo”) in which PrivateCo would own a majority of the shares of outstanding of PublicCo (a.k.a. reverse merger transaction). Economics Partners was engaged to allocate the purchase price to the acquired assets to comply with fair value financial reporting requirements.

Challenges

Technical Challenges

- Determining the acquirer for accounting purposes
- Valuing the purchase price in a reverse merger transaction
- Identifying the acquired intangible assets
- Assigning a fair value to the intangible assets, including the biotech platform, which value is contingent upon the success of licensing the products to third-party drug manufacturers

Process Challenges

- Delivering the analysis within two weeks during the Christmas and New Year’s holiday season, to allow the CEO of the combined company to announce the transaction at an industry conference
- Coordinating with external auditors

Our Solution

Technical Solution

- We relied on the ASC 805 guidance to determine that PrivateCo is the accounting acquirer
- We determined the purchase price based on the stock price of the public company prior to the acquisition announcement; however, due to the low trading volume, we performed additional analysis to determine the fair value of the private company to corroborate the concluded purchased price
- We identified several intangible assets based on extensive interviews with management
- We estimated the fair value of the identifiable Biotech Platform based on the expected milestone payments from licensing agreements and the probability that each drug will successfully pass each regulatory trial

Process Solutions

- We maintained a daily communication with management to ensure a transparent process
- We worked over the holiday break, cutting short our vacation, to meet company deadlines
- We involved audit early in the process to ensure buy-in on the methodology and to ensure their process was complete to allow the company to meet its deadlines

Result

- We delivered the valuation report to management and to the financial statement auditors within the two weeks
- We walked the auditors through the analysis and received minor feedback given their involvement throughout the process
- Ultimately, the company made the public announcement as anticipated and filed their financial statements on time with the SEC