

# Financial Accounting Standards and Fair Value

What M&A Professionals Need to  
Know About Fair Value Accounting

A Presentation to the 7<sup>th</sup> Semi-Annual Mergers and  
Acquisition Advisor Conference

By

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# Agenda

- FASB's Fair Value Objectives
- Moving Beyond Book Value
- Impact on M&A Professionals
- Impact of FAS 141 and FAS 142 on Deal Pricing
- Valuing Assets under FAS 141

Dr. Stanley Jay Feldman, Chairman  
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# FASB'S Fair Value Objectives

- What is Fair Value?
- Basic Principle:

***Maximizing*** the use of observable ***Market Inputs***.

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# Moving Beyond Book Value

- Book Value Accounting:
  - *Past, not Present*
  - *Does not Adequately Reflect Structural Changes within Firms and Industries*
- Fair Value Accounting: *Enabled by Congruence between Technology, Disclosure, and Financial Standard Setting*

# What Do these Developments Mean to M&A Professionals

- Improved Transparency Drives Down Costs of M&A Information Gathering
- FASB and SOX Are Pushing Private Firms towards Greater Transparency
  - *Private Firms Become More Efficiently Priced*
  - *Reduced Value Gap Between Buyers and Sellers.*
- Reduced Information Asymmetry = Increased Pressure on M&A Fees

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# FAS 141/142 and Deal Pricing

- Purchased Goodwill is a Strategic Asset
- Impairment Testing is a Report Card
  - *Occurrence of impairment is like getting an “F” in strategic management 101.*
- Benefits of Valuing Assets to Be Acquired **BEFORE** the Transaction
  - *Sanity Check on the Deal’s Price*
  - *Saves Time and Money on FAS 141 Analysis*
  - *No Surprises*

# Valuing Assets Under FAS 141

- Tangible Assets – *Generally Not an Issue*
- Intangible Assets – *More complex*
  - Customer Lists
  - Brand Names/Trade Marks
  - Patents: in use and not in use
  - In-process R&D
  - In-place workforce
  - Non-competes

# Brand Name Value

- Brand Value is Driven By:
  - Expected differential between after-tax profit margin of target post combination and the after-tax profit margin for competitors.
  - Expected revenue post combination
  - Cost of capital



# Goodwill

- Brand Name Goodwill
  - *It Emerges When Price Paid for the Brand Exceeds its Value*
- If in the Aggregate, the Firm Over Paid for the Assets, then Goodwill Emerges.
- Goodwill is Related to the Value of the Synergy the Buyer Expects to Create In Excess of the Value of the Assets Acquired .
  - What is the Economic Basis for Goodwill ?
  - *If Management can not Articulate its Basis, then a Serious Strategic Error has Been Made.*