



# M&A/Divestitures: Transaction Trends and Processes

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# Presenters



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# Agenda

- 1**  
Latest trends in business combinations and valuations
- 2**  
Learning from experience
- 3**  
The process of divesting
- 4**  
Question & answer





A man with a shaved head and glasses, wearing a dark blue button-down shirt, is seated at a light-colored table. He is looking out a large window to his right. On the table in front of him is a white coffee cup and a laptop. The background is bright and out of focus, suggesting an office or meeting room environment.

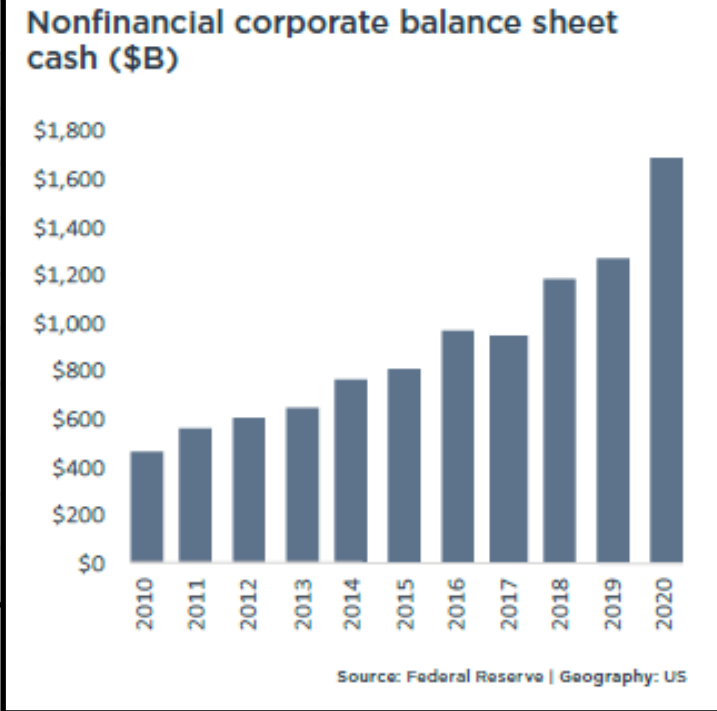
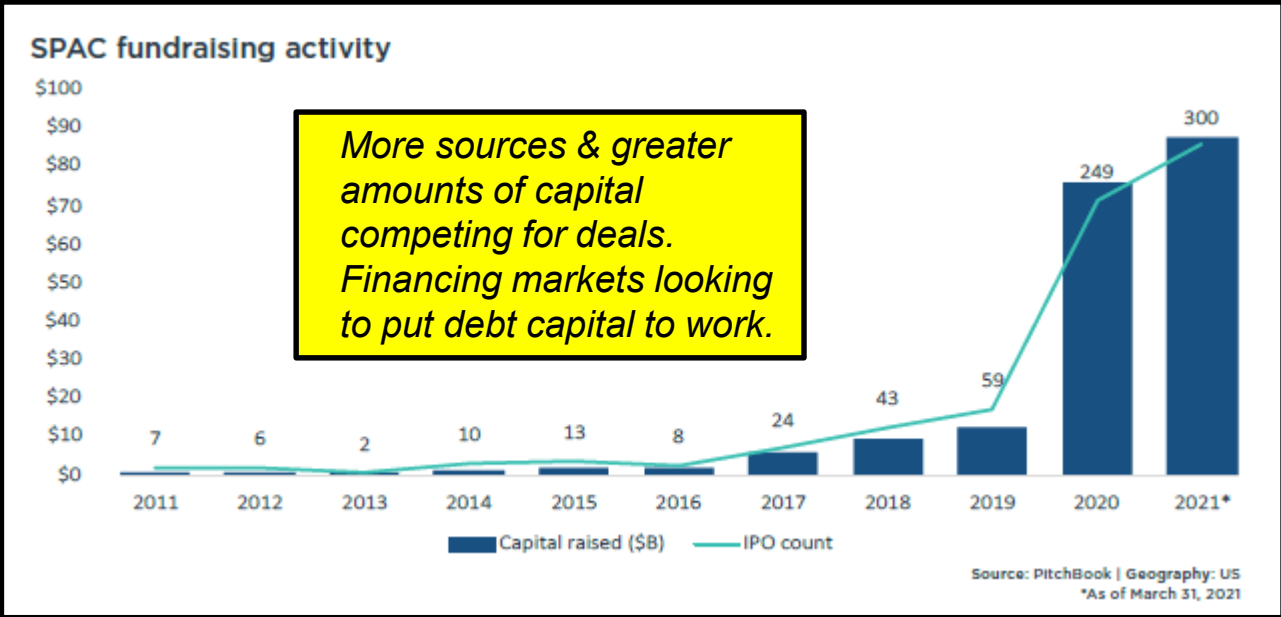
Latest trends

# Markets Flush With Cash

| Strategy        | Q3 2020 | 1-year | 3-year | 5-year | 10-year | 15-year | 20-year |
|-----------------|---------|--------|--------|--------|---------|---------|---------|
| Private capital | 9.19%   | 10.40% | 11.10% | 11.23% | 13.01%  | 10.72%  | 9.89%   |
| Private equity  | 13.03%  | 17.97% | 15.09% | 14.82% | 15.47%  | 12.88%  | 11.93%  |
| Venture capital | 13.61%  | 23.22% | 18.51% | 12.37% | 13.95%  | 10.45%  | 6.14%   |
| Real estate     | 1.70%   | 1.40%  | 5.75%  | 8.38%  | 12.55%  | 7.07%   | 7.28%   |
| Real assets     | 1.91%   | -8.01% | -0.57% | 2.80%  |         |         |         |
| Private debt    | 4.13%   | -0.47% | 5.62%  | 6.31%  |         |         |         |

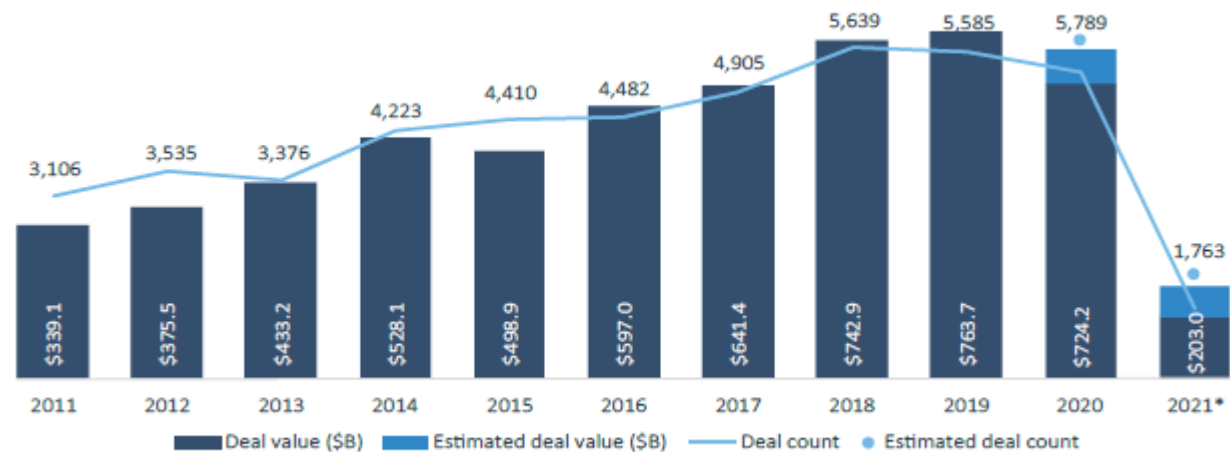
*Best-performing asset class over past 20 years at virtually every measurement period (source: Pitchbook)*

|                        |
|------------------------|
| Funds of funds         |
| Secondaries            |
| S&P 500                |
| Russell 3000           |
| Russell 2000 Growth    |
| Morningstar US Real Es |
| Morningstar US Real As |
| Bloomberg Barclays US  |



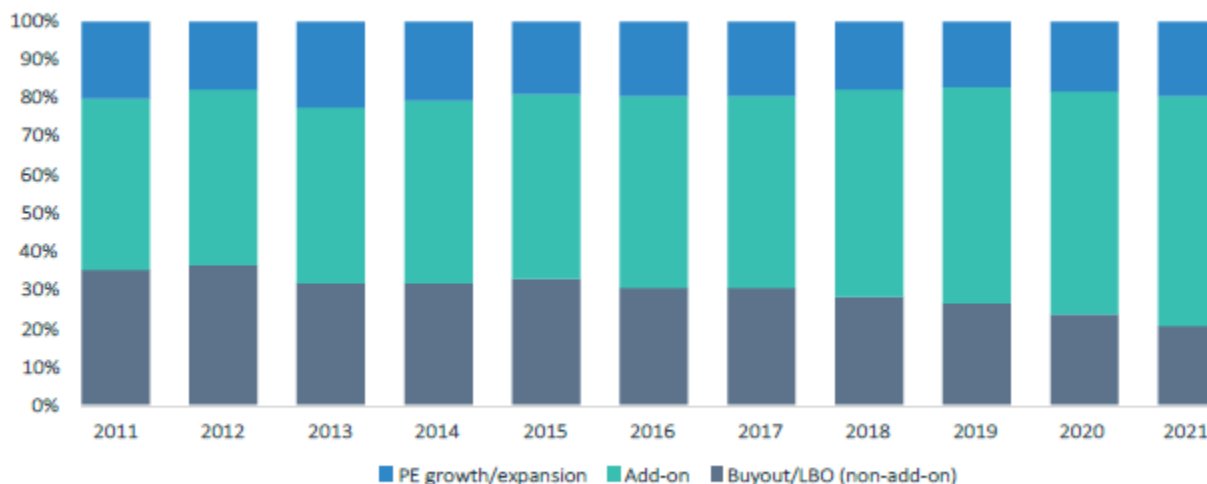
# Deal Markets On Pace for a Record Year as Economy Recovers

PE deal activity



Source: PitchBook | Geography: US  
\*As of March 31, 2021

PE deals (#) by type



Source: PitchBook | Geography: US  
\*As of March 31, 2021

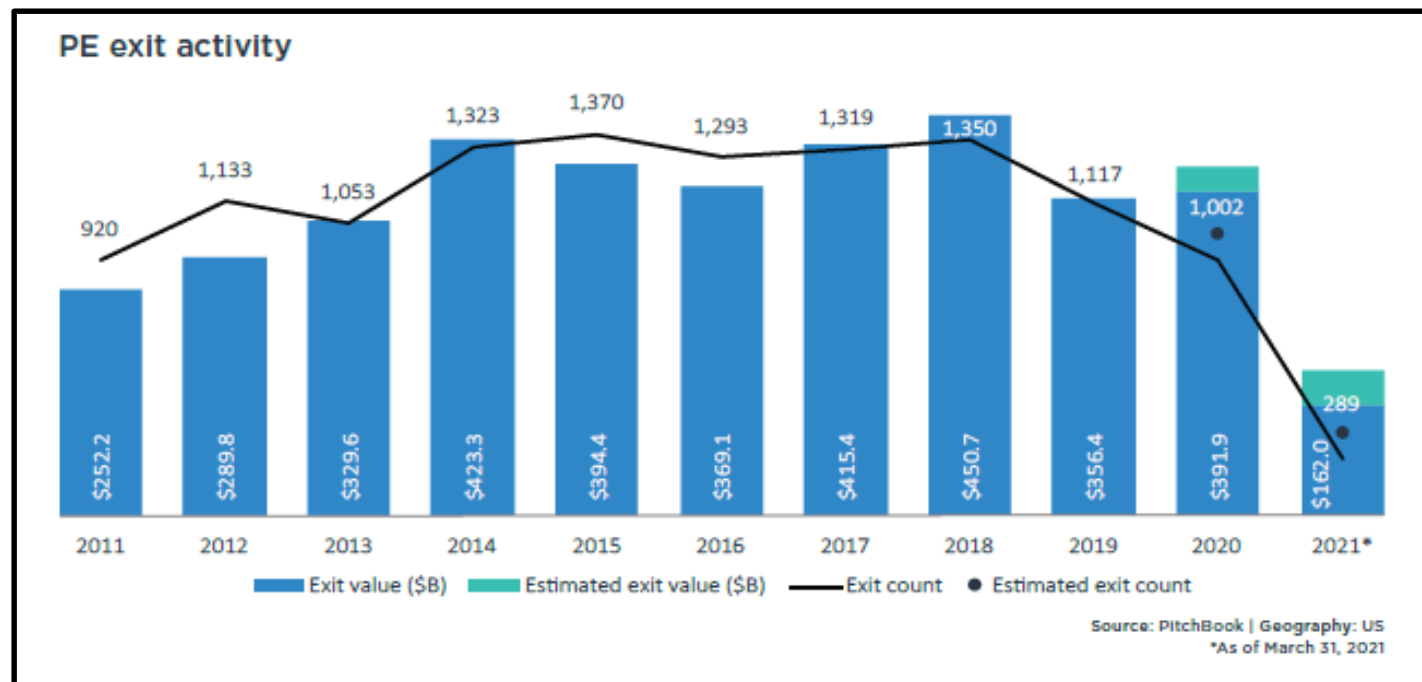
Median PE buyout step-up multiples by rolling four quarters



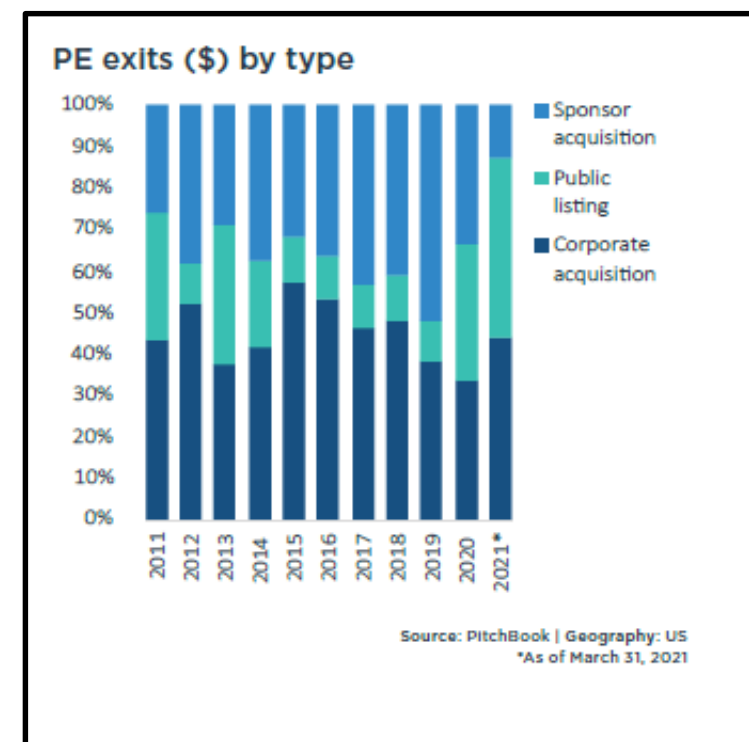
Source: PitchBook | Geography: US  
\*As of March 31, 2021

- Improving earnings
- Record levels of dry powder
- Record-low interest rates (for now)

# We Should Expect to Also See an Acceleration of Exits



- Q1 exits on pace to exceed past two years.
- Corporate acquisitions and IPOs have been the primary exit vehicles in Q1.



# Polling Question #1

How frequently do you transact?

- A. Once a year
- B. Multiple times a year
- C. Once every few years
- D. Rarely to never





# Disruptions on the Horizon?

- Inflation – transitory vs. sustained
- Labor and supply chain shortages
- Higher tax rates and other unfavorable tax policy changes
- Higher interest rates
- New virus variants
- Regulatory intervention (see SEC's recent focus on SPACs)
- Market correction
- Asset bubbles
- Others

# Complex Transactions

- Hybrid deals
- Cashless deals
- Contingent consideration



# Regulatory Update (Public)

- PCAOB amended its standards to strengthen the requirements for evaluating the work of specialists
- PCAOB adopted new standard that expands requirements for audit accounting estimates, including fair value measurements
- SEC issued Amendments to Financial Disclosures About Acquired and Disposed Businesses (Final Rule)







Learning from experience



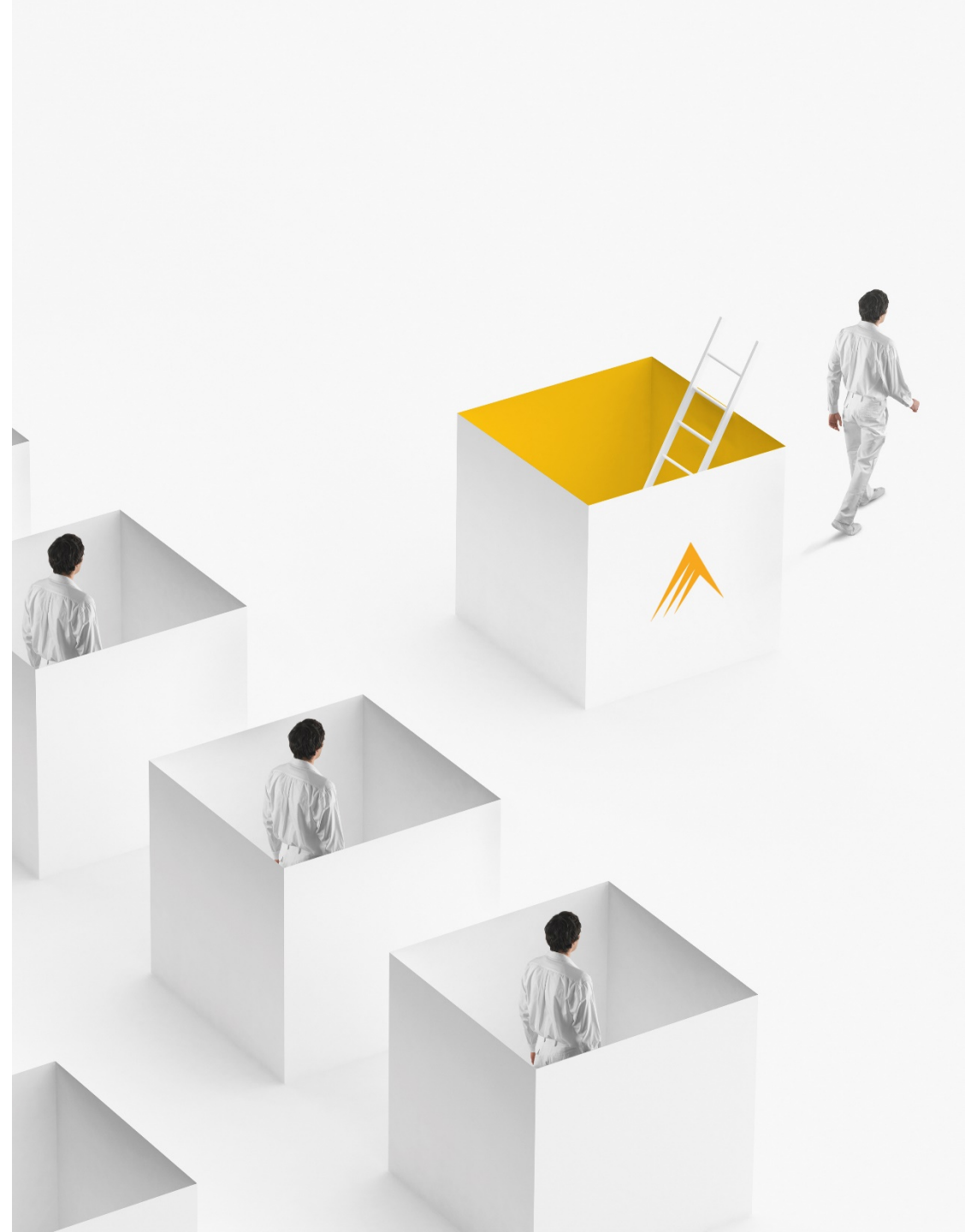


## Acquisition Accounting

- Was there a change of control?
- Is the transaction an asset acquisition or business combination?
- Was the PCC alternative for the recognition of identifiable intangible assets acquired in a business combination elected?
- Is the seller also an employee of the acquired company?
- Is the acquired company the reporting entity? If so, is push-down accounting being elected?
- Is the transaction a reverse acquisition?

# Fair Value Trend

- Rollover equity
- Contingent consideration
- Seller's Notes
- Tangible and intangible assets



## Polling Question #2

What are you experiencing this year that has been different from prior years when transacting?

- A. Increased deal volume
- B. Elevated transaction prices
- C. Accelerating deals
- D. Other





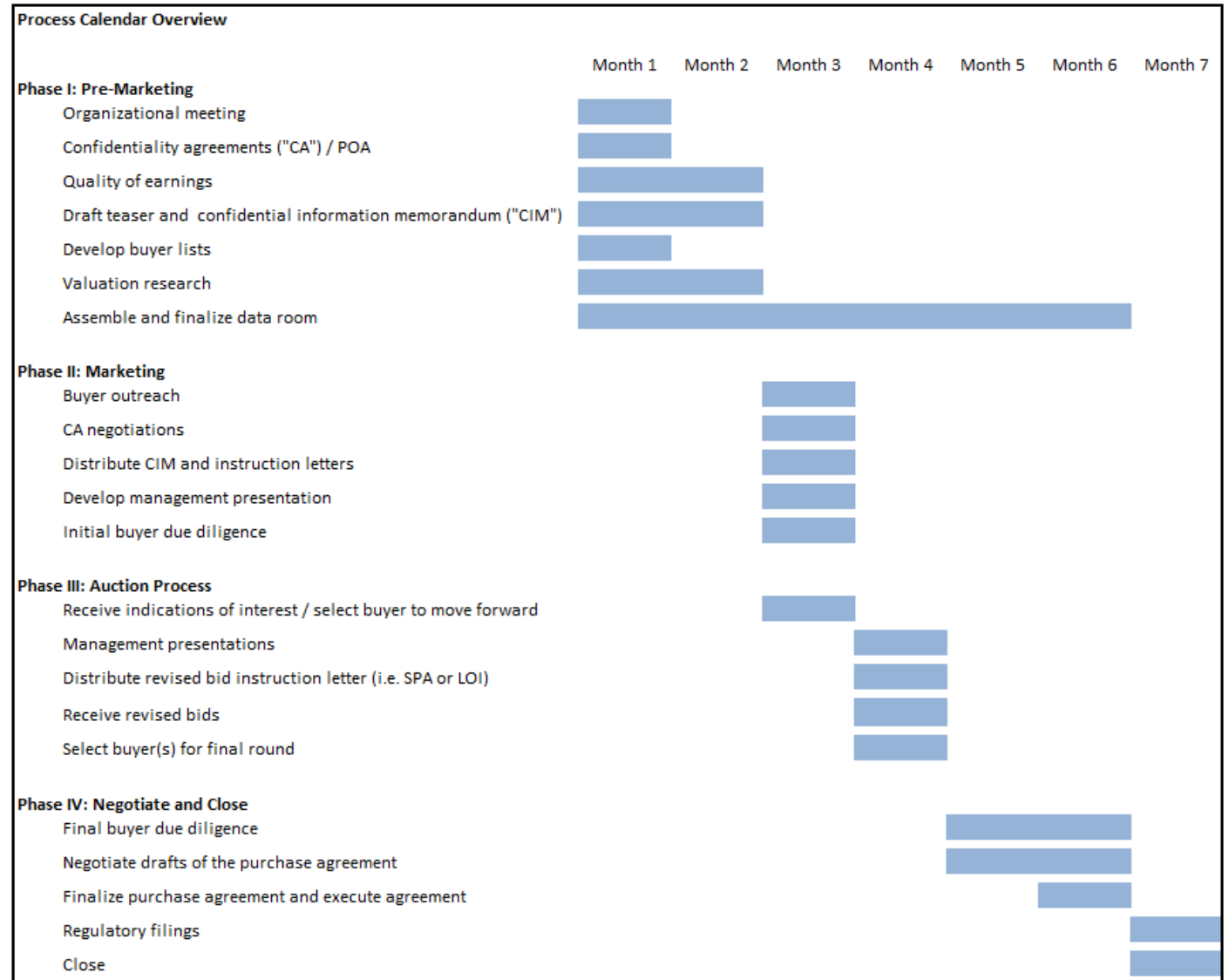
# Divesting





# The Process

- Divestiture timeline
- Best practices for going to market
- Carving out a division or portion of a business unit



## Polling Question #3

What time frame are you on when contemplating a transaction?

- A. Within the next six months
- B. Within the next 7-18 months
- C. Next couple of years
- D. Not sure





## Accounting Considerations

**When planning for a divestiture, don't forget about potential accounting and financial reporting implications, which might include:**

- Assets held for sale
- Discontinued operations
- Other considerations

# Held-for-Sale Criteria

**A long-lived asset, disposal group, or a business or nonprofit activity shall be classified as held for sale in the period in which all of the following are met:**

- Management, having the authority to approve the action, commits to a plan to sell
- Available for immediate sale in its present condition
- An active program to locate a buyer and other actions required to complete the plan have been initiated
- The sale is probable and is expected to be completed within one year
- Actively marketed for sale at a price that is reasonable in relation to its current fair value
- Unlikely that significant changes to the plan will be made or that the plan will be withdrawn.





# Accounting While Held for Sale

**Certain matters to consider when accounting for assets held for sale include, but are not limited to:**

- A long-lived asset or disposal group classified as held for sale shall be **measured at the lower of its carrying amount or fair value less cost to sell.**
- If the asset or disposal group is newly acquired, the carrying amount of the asset (disposal group) shall be established based on its fair value less cost to sell at the acquisition date.
- When determining carrying value, an entity should first assess whether any of the assets in the disposal group are impaired.
- **A long-lived asset shall not be depreciated (amortized) while it is classified as held for sale.**
- Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be accrued.

# Discontinued Operations Criteria

- A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity.
- A disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents a **strategic shift** that has (or will have) a **major effect** on an entity's operations and financial results when any of the following occurs:
  - Meets the criteria to be classified as held for sale
  - Is disposed of by sale
  - Is disposed of other than by sale (e.g., by abandonment or in a distribution to owners in a spinoff)



# What is meant by "strategic shift" and "major effect"?

## ASC 205-20 does not define "strategic shift" or "major effect"

- However, ASC 205-20 does describe examples of disposals that would qualify as a strategic shift that has (or will have) a major effect on an entity's operations and financial results, including, but not limited to, disposals of:
  - A major geographical area,
  - A major line of business,
  - A major equity method investment, or
  - Other major parts of an entity.
- No quantitative bright lines (although ASC 205-20-55 does include implementation examples).
- Consider both qualitative and quantitative factors.



# Other considerations

- Carefully consider financial statement **presentation and disclosure requirements**:
  - Specific requirements exist once held for sale criteria have been met.
  - In addition, presentation and disclosure requirements vary for (a) disposals reported as discontinued operations vs. (b) disposals that do not meet discontinued operations reporting criteria.
- Sellers should also be aware of potential needs for **carve-out financial statement audits**.
  - Carve-out financial statements could be requested or required in various situations, including: (a) in conjunction with due diligence activities, (b) as a contingency of transaction completion or deal financing, or (c) due to SEC reporting requirements.
  - Consider SEC Regulation S-X significance thresholds (which changed effective January 1, 2021).
  - Carve-out financial statements often involve significant complexity and management judgment.





## Polling Question #4

What part of your transaction process is most challenging for you?

- A. Maximizing the benefit / Executing on investment thesis
- B. Finding a buyer
- C. Closing the deal
- D. Accounting and financial reporting
- E. Other





Questions?







## How we can help

Start your strategic transactions and accounting events with a clear direction.

When your business is going through an event, there are a lot of moving parts and pieces – and when you're working with new companies, there are a lot of unknowns. Our team's experience across industries can help you check all the boxes and create a clear path forward as you navigate through the transaction / divestiture process.

Learn more about our [transaction services](#) and our approach to [divestitures](#).



# Thank You

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