Question That Came in the Other Day…

- "Let's say you had a scenario in which Company A acquires 70% of Company B.

  Company B has 30 shares outstanding at $40 per share, with $1500 in Assets and $1300 in Liabilities.

  Can you walk through **purchase price allocation** in this scenario?"

Follow-Up Question:

- “Also, what if Company A already owned, say, a 30% stake in Company B initially.

How would the purchase price allocation change when Company A increased its stake from 30% to 70%?”

How PPA Works

1) **Scenario #1: Acquire < 50% Stake** – There is no PPA; no financial statement consolidation; no Goodwill

2) **Scenario #2: Acquire > 50%, < 100% Stake** – Use PPA, consolidate statements, create Goodwill, and create a Noncontrolling Interest (NCI)

3) **Scenario #3: Acquire 100% of Other Company** – Use PPA, consolidate statements, create Goodwill, no NCI

How PPA Works

- **Here:** Covered Scenario #1 and #3 in separate lessons videos, so we're going to focus on Scenario #2

- **Truth:** Not really *that* complicated, but can be a little confusing, especially when the stake goes from 30% to 70%...

Summary of PPA Rules

1) **Scenario #1: Acquire < 50% Stake** – There is no PPA; no financial statement consolidation; no Goodwill

2) **Scenario #2: Acquire > 50%, < 100% Stake** – Use PPA, consolidate statements, create Goodwill, and create a Noncontrolling Interest

3) **Scenario #3: Acquire 100% of Other Company** – Use PPA, consolidate statements, create Goodwill, no NCI

Summary of Cases

1) **0% to 70%:** Pretend as if it is a 100% acquisition, but create a NCI for the other 30%.

2) **30% to 70%:** The same, but remove the existing Equity Investment.

3) **30% to 100%:** No NCI, but remove the Eq. Investment.

4) **0% to 100%:** No NCI and no existing Eq. Investment to remove; just a normal M&A deal.