

## CASE STUDY: VALUATION NEEDS IN THE LIFE SCIENCES INDUSTRY ARE ANYTHING BUT GENERIC

In today's fast-paced marketplace and ever-changing regulatory environment, operating in the life sciences industry can bring a variety of challenges. One area of particular concern, especially for those organizations having to fulfill fiduciary and financial reporting requirements, is engaging an experienced valuation provider to handle the complex post-acquisition valuation requirements. Given the diversity within the industry—from pharmaceutical, biotechnology and medical device companies—a one-size generic valuation approach can be wrought with issues and missteps. Rather, a custom strategy focused on the precise needs of the business is what's needed. In the following case study, RSM provided a client with customized valuation services.

### Background

Our client, a private-equity-backed pharmaceutical company, completed its first major transaction when it acquired a specialty, generic pharmaceutical manufacturer to serve as a platform for a growing portfolio of generic products. Like many of RSM's middle market clients, company management sought an experienced team with a deep understanding of post-acquisition financial reporting requirements for this complex transaction which included contingent consideration, various commercially approved products, in-process research and development (IPR&D), product inventory, laboratory, manufacturing facilities, equipment and real estate. The client was pleased with RSM's existing tax services, and the valuation team was their first-choice provider in a natural extension of the value-added tax and consulting relationship. RSM got to work on the client's particular valuations needs.

### Approach

Our tailored approach was based on an understanding of the client's strengths and limitations. The client's management team appreciated the senior-level professionals on the project, who helped them navigate the complexities of the accounting standards given the specifics of their transaction. Early in the process, RSM collaborated with the client's auditor to

ensure expectations were aligned. Our deep understanding of both sides of the process as a valuation provider and audit reviewer enabled the engagement team to anticipate potential issues and prepare the client accordingly. A few of these key issues included guidance on the identifiable intangible assets, methodologies to separate developed technology from IPR&D as well as post-closing accounting suggestions on remaining useful lives for amortization purposes.

It was critical to have a deep understanding of the appropriate valuation methodologies to separately value all of the required intangible assets, accurately and cost-effectively. Equally important was having the right mix of business valuation, real estate and fixed asset appraisers to provide their insight into a comprehensive, full-service valuation analysis. The coordinated effort between RSM's various service offerings and our collaborative approach was instrumental in effectively completing the project.

Another key issue in this transaction, and many others that we see, is the contingent consideration which was utilized to bridge the gap between buyers and sellers with industry and performance-based milestone triggers for additional payments. Working closely with the client, RSM modeled the various scenarios based on clinical milestones and revenue targets to

determine the fair value of the contingent payments. The client valued RSM's integrated valuation and accounting insight on the impact of success probabilities on potential impairment risks related to the IPR&D and the post-closing financial reporting requirements related to the contingent consideration.

One final key issue prevalent in life sciences valuations is post-closing impairment testing for IPR&D, especially when initial expectations and circumstances change. In this case, the client had acquired an alternative compound with a higher probability of success, which put into question the economic viability of the acquired IPR&D. Our client valued the in-depth conversations on how various scenarios of alternative future uses of the acquired IPR&D would not only affect the values on the balance sheet but income and taxes as well.

## Outcome

In the end, all appropriate valuations were delivered in a fair and accurate way and RSM was able to support the client through the year-end audit process of the acquisition as well as follow-on impairment testing. Due to the strong collaboration with the client, deep knowledge of their business and industry, and integrated approach to valuation and accounting, the client received anything-but-generic service.

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**+1 800 274 3978**

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