

New Accounting Standards – What are the key M&A Implications?

Buyers and sellers of businesses and their professional advisors need to be aware of certain new accounting standards related to revenue recognition that go into effect in 2019 for privately-held companies. These new accounting standards potentially impact key financial metrics that drive enterprise value, such as revenue and earnings before interest, taxes, depreciation and amortization (or “EBITDA”), and working capital. These metrics are among the key factors in establishing the purchase price of a company or business. All of this translates to an increase in the complexity of financial due diligence, and how the interested parties will need to adjust their approach for identifying the unique risks and opportunities of a contemplated transaction.

Under the new rules, companies will be required to apply a five-step accounting model shown below to determine when to recognize revenue and at what amount. The model specifies that revenue is recognized when, or as, an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending upon the nature of the arrangement, revenue under the new standards is recognized either: (i) over time, in a manner that best reflects the entities performance, or (ii) at a point in time when control of the goods and services is transferred to the customer.



The new revenue standard may have a material effect on how certain companies report revenue, although some companies may not be significantly impacted. The degree to which any of the changes affect an entity can only be determined after performing a comprehensive analysis of customer contracts. Buyers and sellers of companies, and their advisors should bear in mind that no industry is immune to the new revenue standards. That said, the new standards are expected to impact some industries more than others.

Software & High Tech: The elimination of software industry-specific guidelines, essentially eliminating VSOE, TPE and ESP methods of determining transaction price;

Retail & Distribution: Customer loyalty programs and other incentives that retailers and distributors use have the potential to introduce variable considerations;

Manufacturing: Some contract manufacturers that currently recognize revenue when products are delivered may need to recognize revenue “over time”;

VARS and Solution Providers: The need to account for multiple performance obligations increases as the permutations of hardware, software and services bundles proliferate; and

Media/Publishing/Advertising: Intellectual property licensing arrangements will require specific examination for multiple elements.

The new regulations are complex and with the implementation of any new standard, we expect additional regulatory and audit scrutiny. If you would like more information about the new standard or about the firm’s mergers and acquisitions services, contact Mike Thielman at mike.thielman@hcv.com or 714-361-7666.

Mike Thielman

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Mike brings over 25 years of public accounting experience to his client engagements. In his role as leader of the firm’s Mergers & Acquisition financial team, Mike assists clients with accounting due diligence, quality of earnings reviews, post-closing price adjustments related to earn-outs and working capital. HCVT provides tax, audit, mergers and acquisitions, and business management services. The firm has over 600 members, including over 100 partners and principals. HCVT serves its clients from 12 offices across California, Texas, Utah, and Arizona.



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Sabra Finds Buyer for Troubled Senior Care Portfolio

\$385M Sale for 36 Sites; BK Filing for Operator

Sabra Health Care REIT Inc. (Nasdaq: SBRA) is ridding itself of a portfolio of nursing and senior housing properties run by an under-fire operator in Dallas.

The Irvine-based real estate investment trust, which owns and invests in real estate serving the healthcare industry, announced this month that it entered into an agreement to sell 36 skilled nursing facilities and two senior housing communities operated by **Senior Care Centers LLC** for \$385 million.

The deal is slated to close early next year; a buyer wasn’t immediately disclosed.

Sabra previously announced its intention to distance itself from the troubled operator, which filed for Chapter 11 bankruptcy on Dec. 4 to address “burdensome debt levels and expensive leases,” according to a press release announcing the bankruptcy filing.

Last month Sabra terminated the leases on the 36-property portfolio after Senior Care Centers stopped paying rent; the rent nonpayment was reportedly a negotiating tactic Senior Care Centers used to give it more of a say in the pending facilities sale.

Senior Care operates and manages nearly 100 skilled nursing and assisted-independent living communities in Texas and Louisiana. It filed for bankruptcy protection in the Northern District of Texas. It’s now operating Sabra’s communities on a month-to-month basis. Sabra Chief Executive **Rick Matros** said the company doesn’t expect Senior Care Centers’ bankruptcy filing to have a substantive impact on the disposition of the assets.

“We determined it was in our best interest to forego a potential earn-out opportunity that may or may not be realized at some future date and instead receive more cash up front,” Matros said in a statement.

Sabra shares ticked up about 2.5% after the sale announcement. Its market value is about \$3.4 billion as of press time.

Tumor Treatment

Irvine-based **Aivita Biomedical Inc.**, an upstart biotech company specializing in stem cell technology, announced it started a second-phase clinical trial in patients with newly diagnosed glioblastoma, a malignant tumor affecting the brain or spine. It’s the most aggressive and common form of a malignant brain tumor, and the median survival of those diagnosed with it is only nine months, according to the company.

Aivita’s therapy is designed to target the patient’s tumor-initiating cells.

The company said it dosed the first two patients in the approximately 55-patient study.

The trial’s first patient was enrolled by the **University of California-Irvine’s** Comprehensive Brain Tumor Program and will be treated under the direction of UCI Health neuro-oncologist and Principal Investigator **Daniela Bota**, the company said.

Aivita was founded early last year and this past June raised \$15 million in funding.

It also has an ongoing multi-center second-phase trial of its therapy in patients with ovarian cancer, as well as an application to commercialize the treatment for skin cancer in Japan.

The privately held company operates a cash-generating skincare product line based on its regenerative technology.

■ **Spectrum Pharmaceuticals Inc.** (Nasdaq: SPPI) recently announced second third-phase study results of late-stage cancer drug Rolontis confirming its efficacy and safety in reducing severe low

white blood cell count in breast cancer patients treated with chemotherapy. It plans to file for Food and Drug Administration approval this year.

The two third-phase studies enrolled 643 patients combined.

The Henderson, Nev.-based biotechnology company has commercial and in-development drugs. It operates an administrative and research and development facility in Irvine.

UCI Grant

The **University of California-Irvine** received \$1.25 million from the **National Science Foundation** to support the Center for Advanced Design and Manufacturing of Integrated Microfluids.

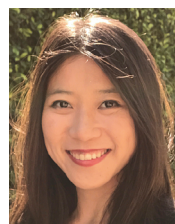
The center, launched five years ago, has locations at UCI and the **University of Illinois at Chicago**. It develops miniature devices, or chips, that can perform biochemical analytical functions quickly and cheaply—such as detecting dangerous toxins in the blood or screening hundreds of potential drugs in order to get the best fit for a patient.

“It is gratifying to know that the National Science Foundation is recognizing and rewarding the many accomplishments of CADMIM in its first five years, in research, technology transfer and most importantly, in building a community of students, faculty and industrial members that bridges advanced research with real-world applications,” said **Abe Lee**, CADMIM director and William J. Link professor and chairman of biomedical engineering at the UCI Samueli School of Engineering.

The center has worked with several industry leaders, including **Beckman Coulter Inc.**, **Corteva Agriscience**, **Monsanto Co.**, **Qiagen N.V.** (NYSE: QGEN), **Thermo Fisher Scientific Inc.**, **Canon U.S. Life Sciences Inc.** and **GlaxoSmithKline PLC** (NYSE: GSK).



Matros: deal gives health-care REIT ‘more cash up front’



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