

CASE STUDY

Fortune Brands



Brief

Following its acquisition of Allied Domecq jointly with Pernod Ricard, Fortune Brands engaged Intangible Business Ltd to value the assets and liabilities acquired for US GAAP and SEC (Securities and Exchange Commission) filing requirements. These assets and liabilities included not only brands such as Courvoisier, Teachers, Fundador, Larios, DYC, Terry Centenario, Sauza, Canadian Club and Maker's Mark, but also vineyards, land, buildings, inventories, plant and machinery, deferred tax, goodwill and other intangibles, and pension liabilities. These assets are located around the world in North America, Mexico, France, Portugal, UK, Germany and Spain.

In addition, Fortune Brands asked Intangible Business to apply the rules of FIN46R, Consolidation of Variable Interest Entities, to every legal entity in the Allied Domecq group. FIN46R is a complex accounting standard introduced in 2003 by the FASB to cover the treatment of "off balance sheet" entities.

Approach

Intangible Business identified the acquired assets and liabilities for which fair values had to be determined. We prepared fair valuations for all material assets. For the valuation of land, buildings, plant and machinery, we appointed and coordinated the activities of appropriate specialist valuers.

For the application of FIN46R, we engaged a US accounting firm with relevant experience to advise on the application of the rules. We undertook the prescribed tests on over 400 legal entities to determine the correct accounting treatment of Fortune assets in each of them during the six month transition between signature of the original deal and the full acquisition of the various entities and assets.

The entire project was undertaken within a protective firewall, under the instructions of the Competition Authority of the European Union, to ensure that confidential information related to either Fortune or Pernod Ricard (the joint acquiring entities) was not disclosed to the other party.

The most significant assets valued were brands which required a rigorous benchmarked based valuation methodology to determine the fair values. Intangible Business also determined the estimated useful lives of every brand for depreciation purposes.



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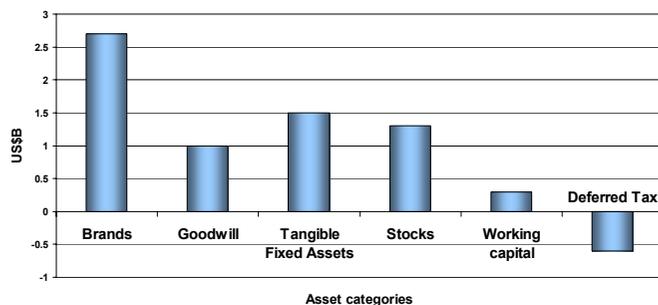
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Brands or other intangible assets that were deemed to have indefinite lives as well as goodwill need to be tested annually for impairment in accordance with SFAS 142, Intangible Assets & Goodwill and SFAS 144, Impairment and Disposal of Long Lived Assets. Technical papers were produced outlining our methodology for impairment testing and models were constructed based on appropriate cash flow forecasts, terminal growth rates and discount rates for reporting units.

Intangible Business undertook the valuation and project management of the entire fair valuation exercise for assets acquired totalling over \$5bn (see chart below), and produced technical papers for every aspect of the process as well as producing all the analyses, write-ups and justification of values. We worked closely with the joint auditors of Fortune, KPMG and PWC, providing technical papers and supporting documentation to support the asset valuations.

Fair Value of Assets and Liabilities



Results

The analysis and fair value assessment of Fortune's acquired assets and liabilities successfully met with the requirements for Fortune's 8-K, 10-Q and 10K filings for the SEC. Our valuations were readily accepted by both firms of auditors.

Our analysis supporting the FIN46R treatment was also supported by the auditors and accepted by the SEC.

We are providing models and the methodology for the future annual impairment testing of the values of brands and goodwill.

In addition, Intangible Business identified commercial opportunities and risks and helped Fortune Brands to manage them in specific markets.

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Reference

“We issued an RFP to Intangible Business Ltd. as well as two other internationally recognized valuation firms, including a Big 4 firm.

The IBL team quickly understood our goals and the challenging technical and practical issues we faced in completing extensive worldwide valuation work for a multi-billion dollar acquisition in a compressed time frame. IBL was able to develop a proposal that reflected in-depth knowledge of valuation requirements for the various assets being acquired.

Despite being a smaller firm, IBL grasped complex technical accounting concepts and associated treatment required by the structure of the transaction and worked effectively with our external auditors to ensure agreement during the entire process.

Their experience was evident both in content and presentation of the deliverables, engagement challenges were addressed quickly, and they did not lose site of the bottom line.

We are pleased with the outcome of this engagement.”

Nadine Heidrich
Vice President and Corporate Controller

