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Public Comps for Private Deals: Reading ASC 805 Disclosures

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Why public filings are an imperfect comp source

Anyone pricing a lower-middle-market company wants to know what similar businesses sold for. For private-to-private deals there is usually no public record of the price at all. The one large, free, primary source of acquisition data is the filings of public companies that buy private businesses: annual and quarterly reports, current reports on Form 8-K and the agreements filed as exhibits.

Those filings are useful and limited in a specific way. They report what the accounting and securities rules require, which is purchase consideration, the allocation of that consideration to assets and goodwill, and some information about the acquired business's revenue and earnings. They do not, as a rule, report the target's EBITDA, and the smaller the acquisition relative to the buyer, the less they report. This article explains where the numbers sit, why small deals are the least disclosed, how to find them, and how to record a comp without inventing what the filing does not say.

This is a description of disclosure rules for research purposes, not accounting, legal or valuation advice.

What ASC 805 requires public acquirers to disclose

US GAAP for business combinations is ASC 805. Its disclosure section, ASC 805-10-50-2, requires the acquirer to disclose the following "for each business combination that occurs during the reporting period." The wording below is from the full paragraph as the FASB reproduced it in Accounting Standards Update 2010-29 (December 2010); later updates may have changed individual terms, so check the current Codification before quoting it (FASB ASU 2010-29):

- (a) "The name and a description of the acquiree"
- (b) "The acquisition date"
- (c) "The percentage of voting equity interests acquired"
- (d) "The primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree"
- (e) for transactions recognized separately from the business combination, a description of each, how it was accounted for, the amounts and line items, and, for the settlement of a preexisting relationship, the method used to determine the settlement amount
- (f) within (e), "the amount of acquisition-related costs, the amount recognized as an expense, and the line item or items in the income statement in which those expenses are recognized," plus any issuance costs not expensed
- (g) for a business combination achieved in stages, the acquisition-date fair value of the equity interest held before, any remeasurement gain or loss and its line item, and the valuation technique and inputs used
- (h) for public business entities, the performance information described below

These items trace back to paragraph 68 of FASB Statement No. 141 (revised 2007), the standard the Codification absorbed (FAS 141(R)). Total consideration, contingent consideration and the allocation to assets, liabilities and goodwill are required by other ASC 805 subtopics, not by 805-10-50-2. In practice, acquisition

footnotes in 10-K and 10-Q filings show total consideration, its components (cash, stock, contingent consideration) and a table assigning it to identifiable assets, liabilities and goodwill. Read the footnote itself for those amounts.

Item (h) adds performance information: "The amounts of revenue and earnings of the acquiree since the acquisition date included in the consolidated income statement for the reporting period," supplemental pro forma revenue and earnings of the combined entity "as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period," the comparable prior-period figures when comparative statements are presented, and "the nature and amount of any material, nonrecurring pro forma adjustments." If any of this is impracticable, "the acquirer shall disclose that fact and explain why the disclosure is impracticable" (FASB ASU 2010-29; current text summarized in Deloitte DART 7.9).

Notice what item (h) gives you and what it does not. "Revenue of the acquiree since the acquisition date" is a stub period, often a few months, inside the acquirer's fiscal year. Pro forma combined revenue is the buyer plus the target, not the target alone. Neither is a trailing-twelve-month revenue figure for the target, and neither is EBITDA.

Materiality and aggregation: why small deals disappear

The disclosure regime has an aggregation rule that matters more than any other for lower-middle-market comps. FAS 141(R) set it out: "For individually immaterial business combinations occurring during the reporting period that are material collectively, the acquirer shall disclose the information required by paragraphs 68(e)–68(r) in the aggregate," which left the name, date, percentage and reasons for each deal out of the aggregate (FAS 141(R), paragraph 69). Deloitte states the current Codification position: "Disclosure of the information provided in ASC 805-10-50-2(a)–(d) is not required for individually immaterial business combinations that are collectively material" (Deloitte DART 7.2). For the pro forma information, Deloitte's commentary says that when immaterial combinations are material collectively, "pro forma information should be disclosed in the aggregate for those business combinations" (Deloitte DART 7.9).

In practice, a serial acquirer that bought a dozen small companies in a year can present them as one line: "During the year we completed several acquisitions for aggregate consideration of …", with one combined purchase price allocation. The target names may not appear at all. A tuck-in that would be a perfect comp for your thesis may be visible only as a fraction of an aggregate.

Two consequences for research:

1. **Disclosure is inversely related to how comparable the deal is to a small private target.** The deals described individually tend to be large relative to the buyer.
2. **Aggregates can still bound a question.** An aggregate consideration and aggregate acquired revenue for a year of tuck-ins describe a basket, not a deal. Record them as a basket and never split them evenly across the unnamed targets.

Reg S-X Rule 3-05: when separate target financials appear

Securities rules add a second, independent layer. Under Regulation S-X Rule 3-05, a registrant may have to file the acquired business's own financial statements, depending on significance. Significance is measured using the conditions in the definition of "significant subsidiary" in Rule 1-02(w) (17 CFR 210.3-05):

- **Investment test.** For acquisitions, broadly, the registrant's investment in the target compared with the aggregate worldwide market value of the registrant's common equity (or, if there is none, its total assets) (17 CFR 210.1-02).
- **Asset test.** The registrant's share of the target's total assets compared with the registrant's consolidated total assets (17 CFR 210.1-02).
- **Income test.** A combined test with an income component and a revenue component (17 CFR 210.1-02); for Rule 3-05, the lower of the revenue and income components is used (17 CFR 210.3-05).

In the significant-subsidiary definition itself each test uses a 10 percent threshold (17 CFR 210.1-02). Rule 3-05 then sets the periods of target financial statements required (17 CFR 210.3-05):

Highest significance condition	Target financial statements required under Rule 3-05(b)(2)
None exceeds 20 percent	Not required
Any exceeds 20 percent, none exceeds 40 percent	At least the most recent fiscal year and the most recent interim period
Any exceeds 40 percent	At least the two most recent fiscal years and any interim periods

The rule also has an aggregate test: if the aggregate impact of acquired businesses for which statements were not required exceeds 50 percent for any condition, additional disclosure applies (17 CFR 210.3-05).

The practical reading: a target with a full set of its own audited financial statements on EDGAR was large relative to its buyer. A $20 million-revenue business bought by a large-cap acquirer will almost never clear the 20 percent line, so its own financials will not be filed.

Illustrative example (fictional): why a tuck-in stays dark

A fictional listed acquirer, Northgate Services Inc., has common equity with an aggregate worldwide market value of $600 million and consolidated total assets of $800 million. It buys Riverbend Mechanical, a private company, for $45.5 million, and Riverbend has $20 million of total assets.

- Investment condition: $45.5m / $600m ≈ **7.6%**
- Asset condition: $20m / $800m = **2.5%**

Both are well below 20 percent, so Rule 3-05 requires no Riverbend financial statements (assuming the income condition is also below 20 percent). If Riverbend is also immaterial for ASC 805 purposes, it may appear only inside an aggregate. A researcher would find, at most, a press release and a line in the next 10-Q.

Finding acquisition disclosures with EDGAR full-text search

The SEC's EDGAR Full-Text Search lets you "search the full text of all EDGAR filings submitted electronically since 2001", and "the full text of a filing includes all data in the filing itself as well as all attachments (such as exhibits)" (SEC EDGAR FTS FAQ). It supports exact phrases in quotation marks, required terms by default, OR and NOT operators, filtering by form type and date ranges (SEC EDGAR FTS FAQ). For the data model behind EDGAR filings, see the SEC EDGAR data-source note.

Example query patterns (illustrative; adjust to your sector):

Goal	Example query	Filter
Acquisition footnotes in a sector	`"purchase price allocation" "HVAC"`	10-K, 10-Q
Named target purchases	`"acquired all of the outstanding" "mechanical"`	10-K, 10-Q, 8-K
Aggregate tuck-in disclosures	`"individually immaterial" acquisitions "aggregate"`	10-K
Purchase agreements	`"membership interest purchase agreement"`	8-K (exhibits)
Earn-out terms	`"contingent consideration" "acquisition" "landscaping"`	10-K, 10-Q

Three working habits make the search productive:

1. **Start from the buyers, not the targets.** List the public consolidators in the sector, then search their 10-K and 10-Q filings by company name plus "acquisition".
2. **Read the 8-K and the next periodic report together.** The 8-K or press release may give a headline price; the 10-Q gives the allocation and any contingent consideration.
3. **Save the filing URL and page or section reference for every number.** A comp without a locator cannot be re-checked.

Illustrative search sequence (fictional sector)

A fictional analyst building comps for a commercial landscaping thesis might work in this order:

1. **List the buyers.** Search `"landscaping" "acquisition"` limited to 10-K filings over the last three years, and note every filer that describes acquiring landscaping or grounds-maintenance businesses.
2. **Pull each buyer's acquisition footnotes.** For each filer, search its 10-K and 10-Q filings for `"business combination"` or `"purchase price allocation"` and save the footnote text with its URL.
3. **Sort the results into three bins.** Named deals with individual disclosure; aggregate baskets of individually immaterial deals; and deals mentioned only in a press release or 8-K exhibit.
4. **Fill comp rows only from named deals,** then add baskets as separate rows labelled "aggregate".
5. **Record what was not found.** If a buyer announced a deal in a press release but no footnote ever describes it, record "not disclosed" rather than dropping the row; the absence is itself evidence of immateriality to that buyer.

The output is usually a short table of named deals and a longer list of baskets. That ratio is normal for small-company acquisitions and should be stated alongside the comp set.

Building the comp row

A comp row should record what the filing says and nothing more. Fields we recommend:

Field	What to record	Typical location
Acquirer	Legal name, ticker, CIK	Filing header
Target	Name as disclosed, or "aggregate"	Acquisition footnote, 8-K
Acquisition date	As disclosed	Footnote (item b)
Interest acquired	Percentage	Footnote (item c)
Consideration	Total, and split: cash / stock / contingent (fair value)	Footnote
Goodwill; identifiable intangibles	Amounts	Allocation table
Acquiree revenue since acquisition	Amount and stub-period length	Footnote (item h)
Target standalone revenue	Only if stated (often in press release or 8-K)	8-K exhibit 99
Target EBITDA	Only if stated	Rarely disclosed
Implied ratio	Compute only when both inputs are in the filings	Analyst
Source URLs and locators	Filing URL, section, page	
Confidence	Stated / derived / not disclosed	Analyst

Illustrative example (fictional): one comp row

Field	Value (fictional)
Acquirer	Northgate Services Inc. (fictional)
Target	Riverbend Mechanical LLC (fictional)
Date	Acquisition closed in fiscal Q3
Interest acquired	100%
Consideration	$42.0m cash + $3.5m contingent consideration (acquisition-date fair value) = $45.5m
Goodwill / intangibles	Disclosed in allocation table
Revenue since acquisition	$9.6m over a five-month stub
Standalone revenue	"Approximately $30 million of annual revenue" (press release)
EBITDA	Not disclosed
Implied consideration / stated annual revenue	$45.5m / $30m ≈ 1.52x (derived, fictional)
Implied EV / EBITDA	**Blank: not disclosed**

Field	Value (fictional)
Confidence	Consideration: stated. Revenue: issuer-stated approximation in a press release. Ratio: derived.

Two disciplines are visible in the example. First, the $9.6 million stub revenue is not annualized into a trailing figure; seasonality and integration effects make that extrapolation unreliable. Second, the EBITDA multiple cell is left blank. Backing into EBITDA from an assumed margin would turn a fact into a guess and the guess into a comp.

Pitfalls that distort comps

- **Contingent consideration.** Footnotes commonly show earn-outs at an estimated acquisition-date fair value rather than the maximum payable. A headline "up to" figure in a press release and the footnote amount will differ. Record both and note which one feeds your ratio; the mechanics are covered under earn-out.
- **Asset acquisitions versus business combinations.** Some purchases are accounted for as asset acquisitions rather than business combinations; they are not comps for buying an operating company.
- **Different definitions of price.** Cash paid, total consideration, enterprise value with assumed debt and the press-release headline can all differ. State which you used.
- **Net of cash acquired.** Cash-flow statements often show acquisitions net of cash acquired, a different number from consideration.
- **Fiscal calendars and stub periods.** "Revenue since acquisition" depends on the closing date and the acquirer's year-end.
- **Currency and cross-border deals.** Convert at a documented rate and date, or exclude.
- **Calling a ratio what it is not.** Consideration divided by stated revenue is a price-to-revenue figure. Do not label it an EBITDA multiple unless EBITDA is disclosed.
- **Aggregates.** A basket of tuck-ins produces a basket ratio. Do not attribute it to any single target.

Using comps responsibly

Filing-based comps are evidence about specific transactions, not a market price for your target. They should enter a valuation discussion with their provenance attached, which is the same rule our evidence standards apply to any claim about a company: every number keeps its source, date and locator, and every gap stays visibly open.

A short checklist before a comp set is shown to an investment committee:

Check	Pass condition
Every number has a filing URL and locator	Yes for all cells
Price definition is consistent across rows	One definition, stated in the header
Derived ratios use only disclosed inputs	No assumed margins or annualized stubs

Check	Pass condition
Aggregate disclosures labelled as baskets	Yes
Contingent consideration treatment stated	Fair value vs maximum noted
Missing values shown as "not disclosed"	No blanks filled by estimate
Selection method recorded	Search queries and date range saved
Sample size stated	Count of rows, with exclusions listed

A comp table that is honest about its blanks is more useful than a complete-looking one. When most of the rows in a sector are aggregates, that fact itself says something: the public market's consolidators are buying companies too small to be described individually.

Docket's Scout and Audit agents apply the same rule to target research: values quote a retained source verbatim, and anything unquotable is struck rather than estimated.

Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

1. https://storage.fasb.org/ASU2010-29.pdf
2. https://storage.fasb.org/fas141r.pdf
3. https://dart.deloitte.com/USDART/home/codification/broad-transactions/asc805-10/roadmap-business-combinations/chapter-7-disclosure/7-9-supplemental-information-for-public
4. https://dart.deloitte.com/USDART/home/codification/broad-transactions/asc805-10/roadmap-business-combinations/chapter-7-disclosure/7-2-general-information-be-disclosed
5. https://www.law.cornell.edu/cfr/text/17/210.3-05
6. https://www.law.cornell.edu/cfr/text/17/210.1-02
7. https://www.sec.gov/edgar/search/efts-faq.html

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