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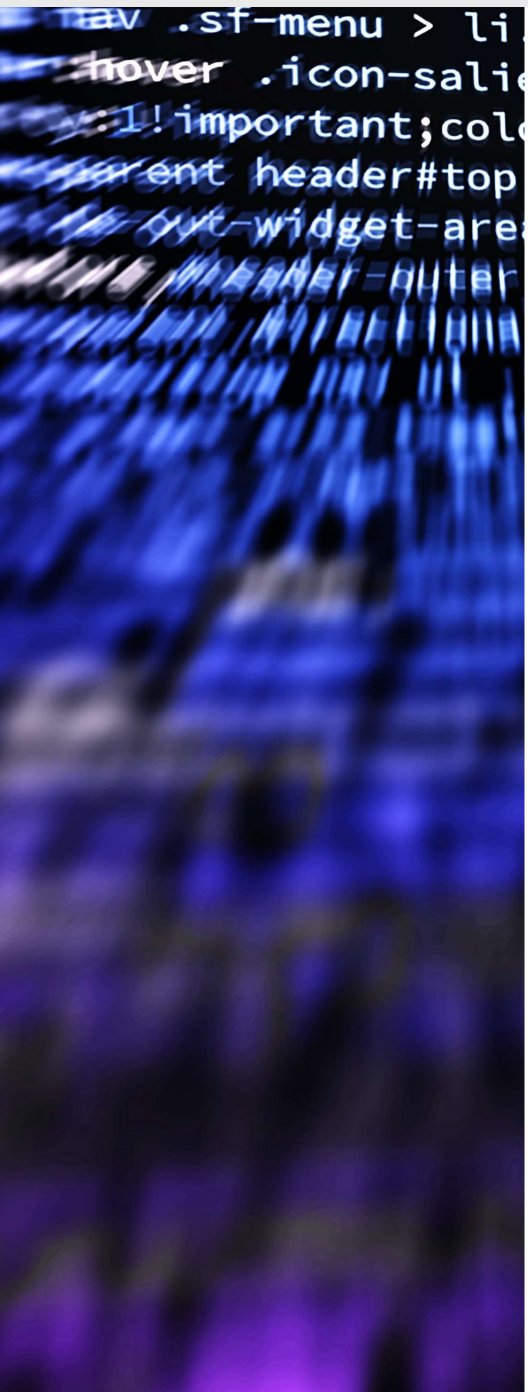
Intangible Asset Valuation

Intangible assets are assets that, while lacking physical form, have value and can, in many cases, add value to other assets, services and businesses. Some intangible assets can be integral to the value of an enterprise and can have a high market appeal and value, and *separable* from the business that originated, developed, or owns the asset. Other intangible assets add great value but are not separable from the business that owns them.



The valuation of intangible assets is performed for buy/sell/lease consideration, collateral lending/financing, financial reporting, tax reporting, and dispute. As indicated above, there are two general categories of intangible assets:

1. Identifiable (separable) Intangibles Assets

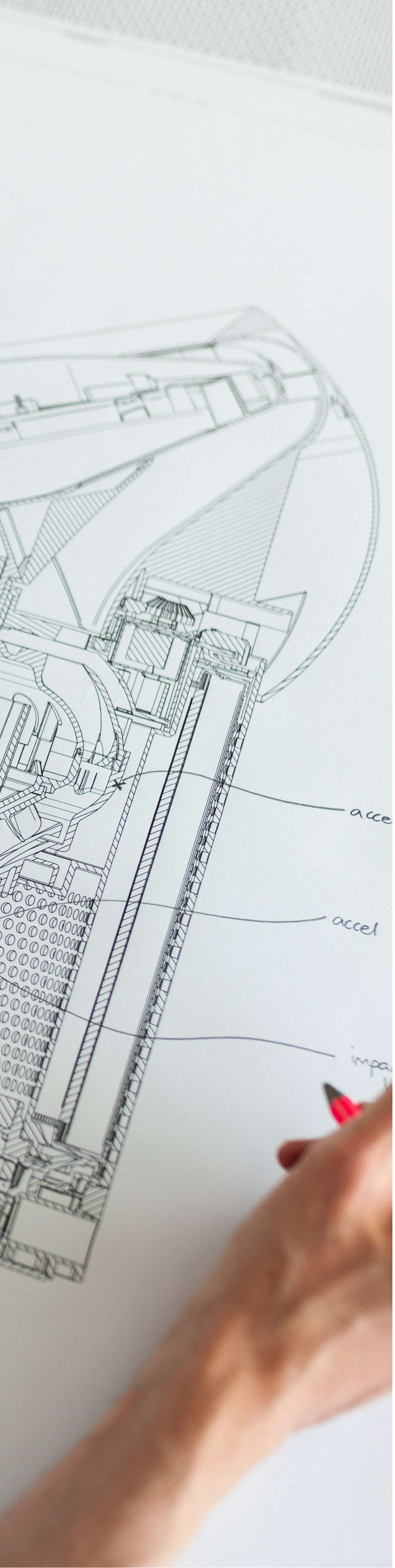
Identifiable intangible assets can be sold and licensed separately from the business enterprise that owns them. Examples of identifiable intangible assets are customer relationships, trademarks and tradenames, software, copyrights, formulas, patents, goodwill, URLs and domain names. The name of an actress, singer or chef, an operating system (software) for a cell phone, a brand name for shoes or purses, a pharmaceutical formula, a patent for a medical device, businesses are built on these assets.

Example 1 - Trademarks and Tradenames: What does the company or person's name represent to you: quality, value, expected result, sophistication, exclusivity, taste, health? You can choose to purchase a substitute for the named product, but you select the specific product because you enjoy and/or trust it. What additional value does that tradename bring to the product? How much more can the seller charge for this product than for competing products just by having the name you look for stamped on the box. Companies purchase and license trade names to brand or rebrand their products, businesses and services rather than spending the time and money to build up their own trade name. Trademarks and tradenames are bought, sold, and licensed.

Example 2 - Patents: Patents have value because they protect, or are intended to protect, the product's originator from copy and sale by others. When patents for successful products expire, generic and other substitutes arrive on the market to take market share. Patents are bought and sold.

2. Non-Separable or Value-Added Intangible Assets

A business' skilled or trained workforce, management team, and know-how may be desired by an investor or competing business, but these intangible assets are not easily separable from the business enterprise itself. The value of these assets can be additive to the overall value of the business, even providing a competitive advantage to comparable businesses, but one would have to purchase the business enterprise itself to gain value from these intangible assets.



The valuation of businesses and assets relies on the application of three generally accepted approaches to value: market approach, cost approach, and income approach. Applying these approaches to the valuation of identifiable intangible assets:

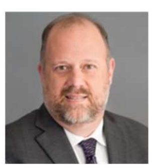
Market Approach: The market approach relies on the comparability of the subject asset to similar assets that have sold. This exercise works well for a large percentage of physical assets (machinery, equipment, vehicles, real estate), but it is not easily applied to intangible assets. Transaction data for sales of intangible asset sales for providing a similar function and serving a similar market is challenging.

Cost Approach: The cost incurred developing the asset does not typically represent the value someone would pay to purchase or relate to the rate one would license the asset. However, a *replacement cost approach* is sometimes pursued to provide an indication of value. In this approach, a valuation professional builds a theoretical cost to create (new) a replacement for the subject asset today, and then adjust for obsolescence.

The value of intangible assets is most often derived with the application of one or more of the income approach models listed:

1. **Relief from Royalty Method:** Value is calculated based on a hypothetical royalty rate that the owner would pay but avoids by owning the asset. The royalty rate used is based upon market data for similar classes of assets: software, tradenames, etc.
2. **With and Without Method:** Value is calculated by the comparing a discounted cash flow analysis for the subject business with the asset versus without the value without the asset.
3. **Multi-Period Excess Earnings Method (MPEEM):** A discounted cashflow analysis where cash flows associated with a specific intangible asset are isolated, then discounts back to present value. MPEEM is often utilized when a single asset such as software or customer relationships is the primary value driver for a company.
4. **Real Option Pricing:** This model is often used to value assets that have potential but are not currently generating cash.

The valuation of intangible assets requires not just quantitative skills, but also qualitative analysis and judgement from an experienced independent professional. For more information, please contact one of the professionals below:



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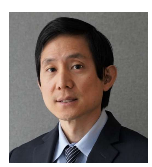

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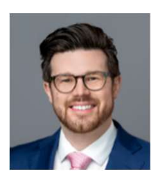

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