

Brand Valuation

Valuing brands that aren't exchanged

Provisors

Brand Licensing and Intellectual Property Affinity Group

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The Challenge

IP Valuation

Profit Apportionment for Brand Valuation

Brand Valuation Challenges

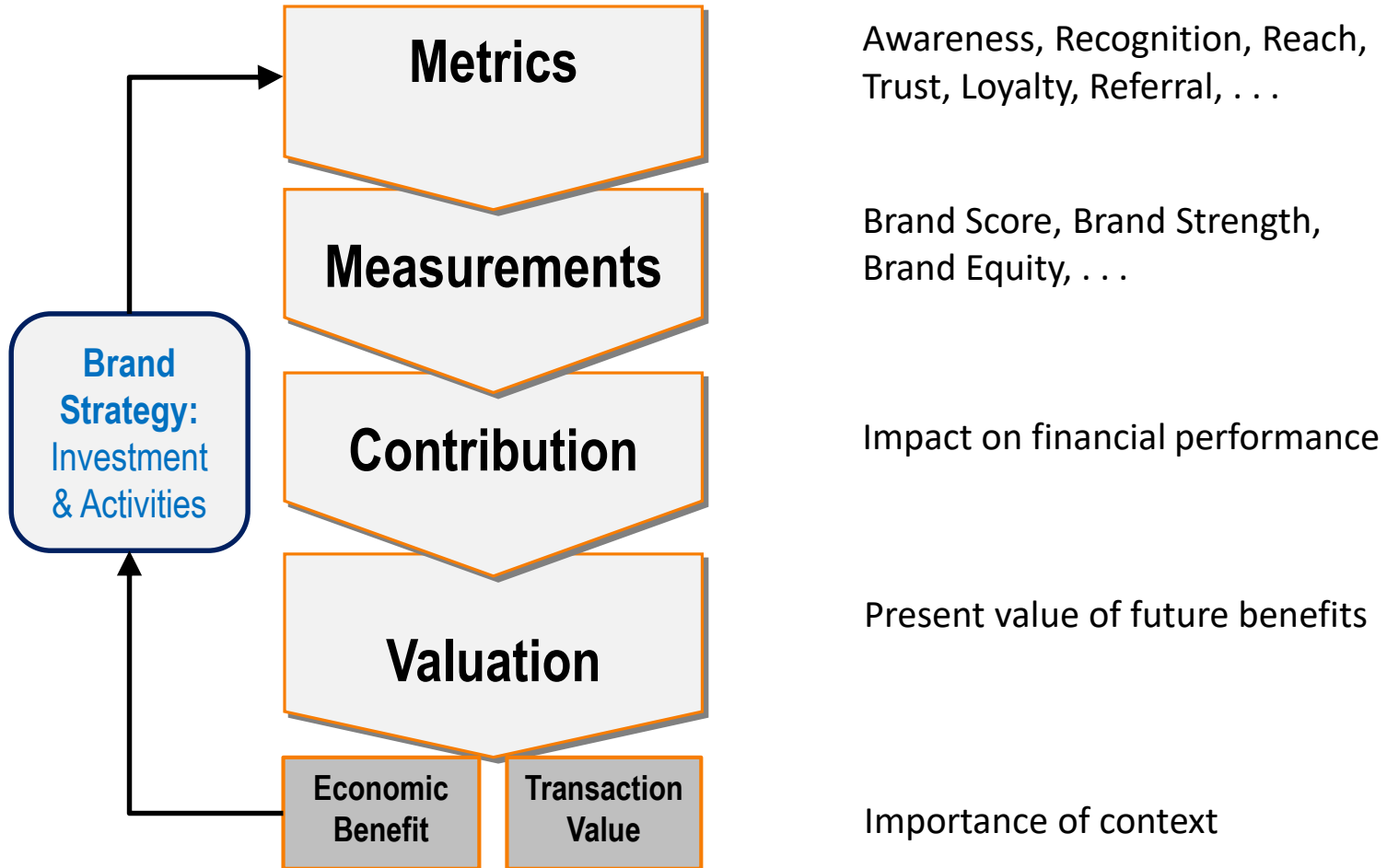
Defining “Brand”

Each Brand is Unique – guideline transactions involving comparable brand assets may be hard to find

Not all brands will be bought and sold – how to analyze their value if there won't be a transaction

How does a brand contribute to its owners financial performance?
What portion of profits is due to the brand?

Brand Analysis



No shortage of techniques & terms

Purpose of Brand Valuation

- Record value of acquired brand assets on balance sheet
- Understand and measure how brands are contributing to sales and profitability
- Evaluate, analyze and quantify if investments in branding activities will yield a reasonable return
- Is our brand doing more than our competition's brands and why?
- What benefits will the Company receive from positioning the brand as socially responsible?

Brand Valuation is the process of measuring the specific financial contribution made by the Brand Assets

Challenge: Applying Valuation Approaches

Assignment: 501c organization wants to understand how its Brand Assets help the business, and if Brand Assets can be leveraged to improve financial performance

Approach	Standard Methodologies	Applicability
Cost	Cost to replace or replicate <ul style="list-style-type: none">• Past investments• Cost of achieving awareness (RfPPC)	Context is not financial reporting Fails to answer the client's questions
Market	Study of transactions <ul style="list-style-type: none">• Guideline companies• Guideline transactions• Industry benchmarks	Few not-for-profits are bought or sold / no useful guideline transaction data Does not address the question: what is the benefit to current business
Income	Present Value (PV) of future benefits <ul style="list-style-type: none">• Relief from Royalty (RfR)• Discounted cash flows (DCF)	RfR: measures benefit outside the current business DCF: what profits are due to Brand Assets?

Only 1 Methodology Fits

The Challenge

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IP Valuation Basics

Brand Valuation is essentially IP Valuation – similar considerations

Business Valuation

$$Valuation = \sum_{t=1}^n \frac{CF_t}{(1 + DF)^t}$$

Calculation is based on 100% of cash flows

Discount factor is based on cost of capital

IP Valuation

$$Valuation = \sum_{t=1}^n \frac{X\% \text{ of } CF_t}{(1 + RR)^t}$$

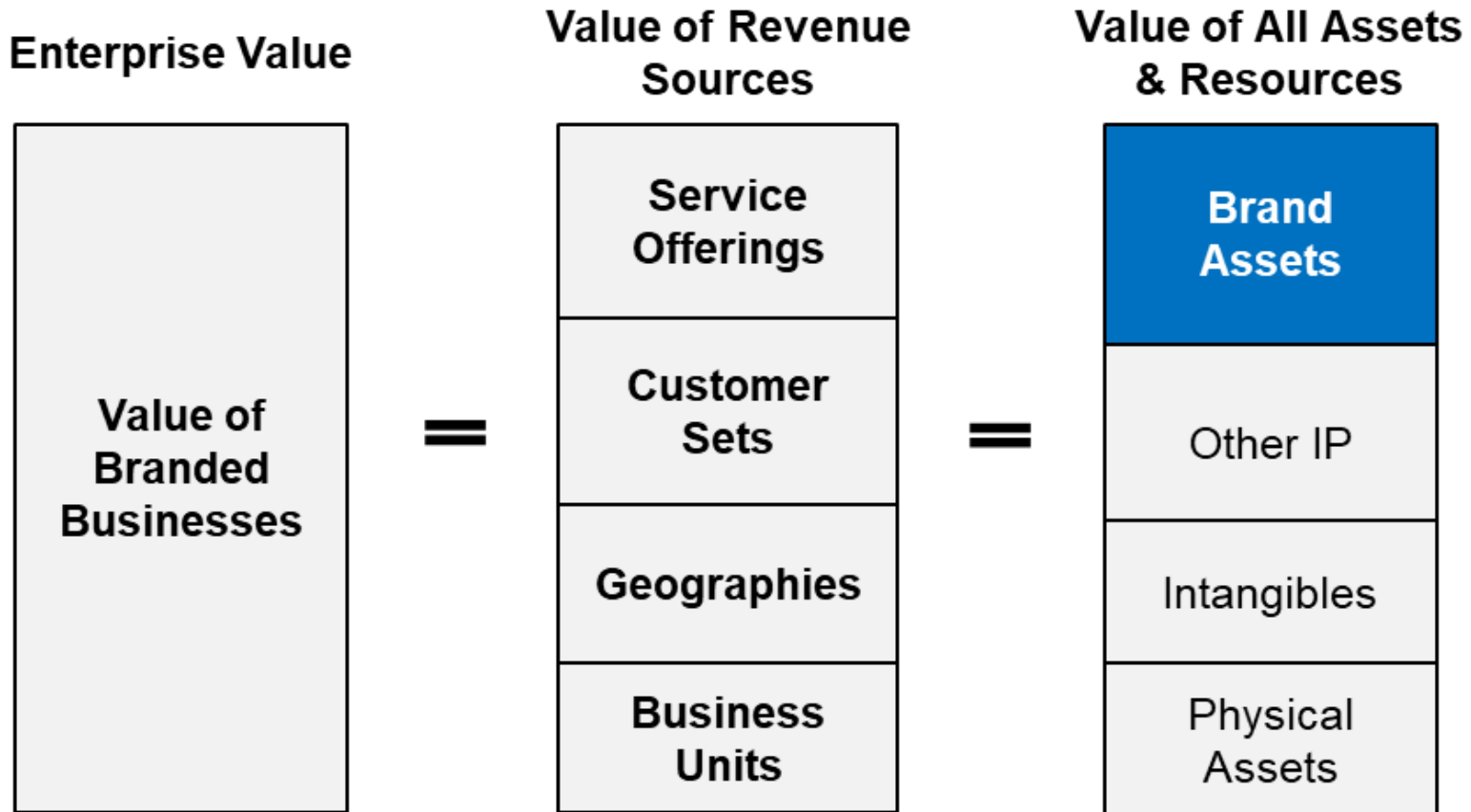
Calculation is based on X% of product cash flows

Discount factor is based on the required return for Brand Assets

- 1. IP depends on other things to generate earnings***
- 2. Must define the IP to analyze it***
- 3. Must quantify how IP connects to financial performance***
- 4. One more step compared to business valuation – apportion cash flows***

Apportionment Framework

Brands depend on other assets and resources in order to generate economic benefits



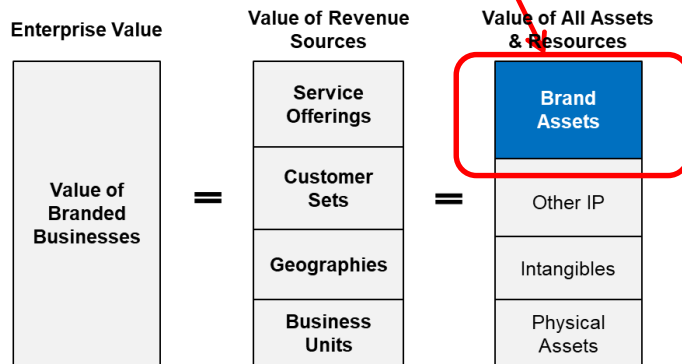
Apportionment: Identify the portion of future economic benefits derived from use of each asset or resource

Challenge: Apportion Earnings to the Brand

How is our Brand contributing to our performance?

Apportionment Framework

What is the value of this box?



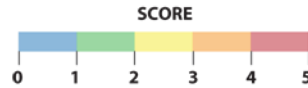
Tools to Apportion Economic Benefits

- Website Analytics
- Social Media Analysis
- Brand Score
- Brand Equity Models
- Company Language Analysis
- Compare profitability / Excess profits (“CPM”)
- Surveys / Interviews / Focus Groups
- Apportionment Matrix

Use as many tools as feasible

Apportionment Tool: Brand Score

Scores Brands in Four Dimensions



TOTAL BRAND SCORE 3.2

BRAND DIMENSIONS

Brand Equity 2.5	Brand Performance 4.0	Market Presence 2.5	Brand Opportunity 2.5
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BRAND FACTORS

History 1	Sales / Growth 4	Awareness 3	Marketplace 4
Consistent Use 2	Premium Pricing 3	Differentiation 1	Transferability / Extendibility 4
Loyalty 4	Profitability 5	Market Share 4	Umbrella 4
Relevance 3	Licensing 4	Business Fit 2	Clear Path / Freedom to Use 3

One of the tools to convert observations to numbers

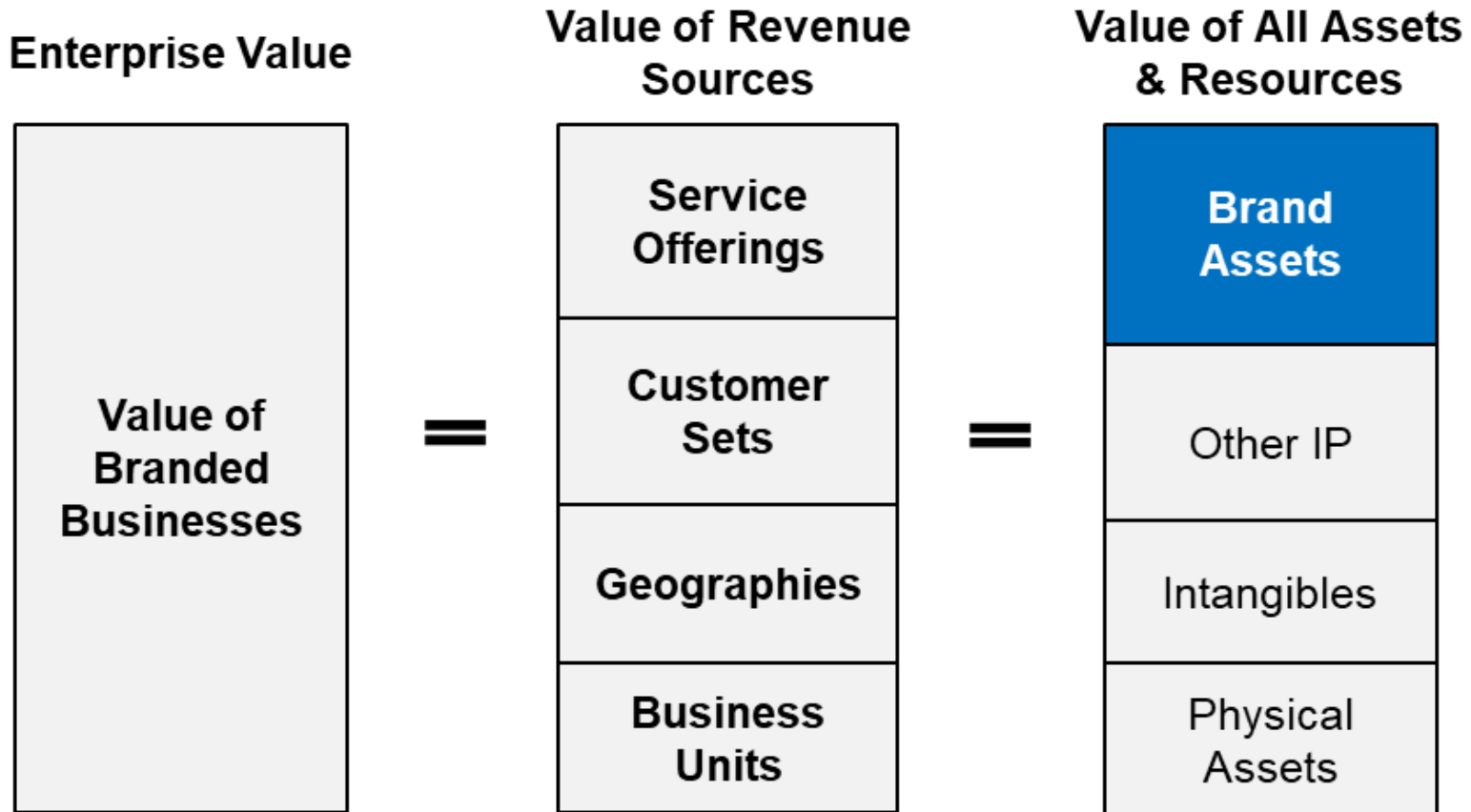
The Challenge

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Profit Apportionment for Brand Valuation

Apportionment Framework

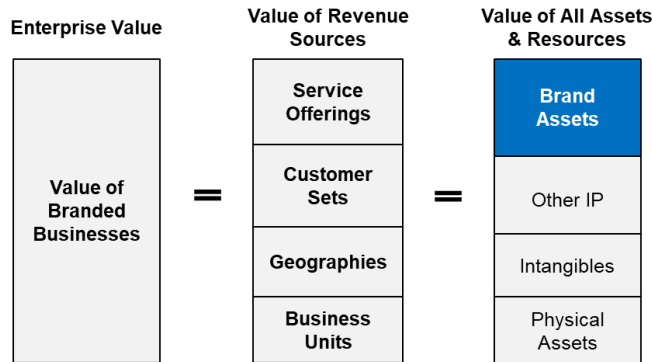
Brands depend on other assets and resources in order to generate economic benefits



Apportionment: Identify the portion of future economic benefits derived from use of each asset or resource

Brand Valuation Apportionment Model

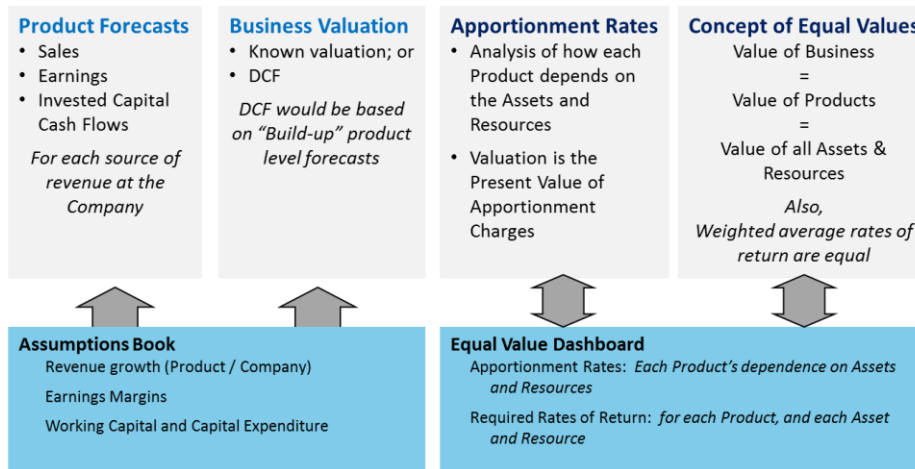
Applies the Apportionment Framework



6 Step Process

1. Determine Enterprise Value
2. Forecast each source of revenue (Products & Services)
3. Identify Key Assets & Resources (Apportionment Matrix)
4. Develop Apportionment Rates
5. Value the Apportioned Forecast Cash Flows
6. Apply concept of Equal Values

Framework of the Model



Sample Results

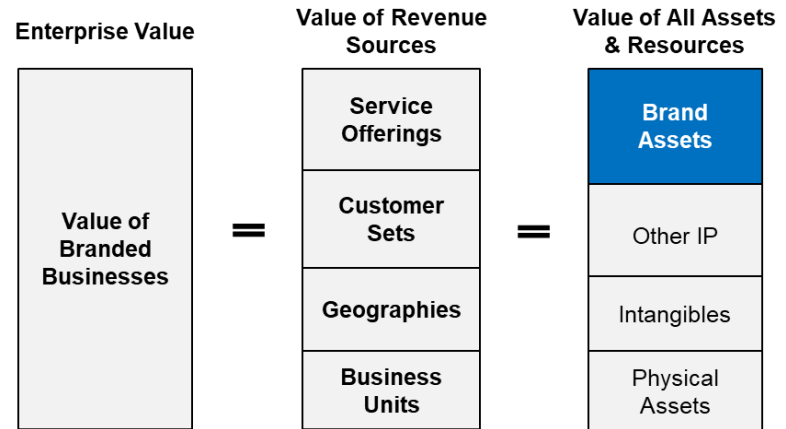
Assignment: Value Brand Assets at 501c organization

Value of Business		Value of Assets & Resources				Value of Revenue Sources					
		Asset / Resource	Rate of Return	Valuation	Value Contribution			Rate of Return	Valuation	Value Contribution	
		Working Capital	5%	153	19%	Product A	20%	46.7	6%		
		PP&E	8%	209	26%	Product B	14%	602.8	74%		
		Brand Assets	12%	168	21%	Service C	19%	169.0	21%		
		Proprietary Technologies	14%	134	16%						
		Marketing Content	17%	66	8%						
		Trade Secrets	20%	8	1%						
		Relations with Customers	21%	100	12%						
		Relations with Suppliers	20%	49	6%						
		Workforce	23%	28	3%						
		Unidentified / Synergies	29%	-97	-12%						
WACC	15%	Weighted Return			10%	Weighted Return				15%	
Business Value	819	Total Value		819		Total Value		819			
		Apportionment Rates				IP Expense Allocation					
		Asset / Resource	Product A	Product B	Service C	Asset / Resource	IP Expense				
		Working Capital	3%	3%	3%	Brand Assets	35%				
		PP&E	10%	10%	10%	Proprietary Technologies	30%				
		Brand Assets	25%	12%	30%	Marketing Content	10%				
		Proprietary Technologies	25%	10%	30%	Trade Secrets	25%				
		Marketing Content	10%	25%	2%						
		Trade Secrets	5%	5%	2%						
		Relations with Customers	10%	15%	20%						
		Relations with Suppliers	5%	10%	2%						
		Workforce	7%	10%	1%						
			100%	100%	100%		100%				

Pros & Cons

Advantages

- Management Insight: yields a detailed analysis of the Company's operations
- Identifies out-performing and under-performing product lines
- Often identifies under utilized assets and resources
- Valuations based on current use of the IP (*rather than a transaction where the use may be somewhat different*)



Limitations

- Multiple DCF calculations introduce many opportunities for mechanical error
- Analyst must develop and support rationale for the Apportionment Rates – requires judgment
- More difficult to employ without access to company's Management

Thank You

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IP Valuation & Strategies

Valuation of IP, proprietary assets and businesses for tax and transfer pricing, financial reporting and strategic planning

Strategic IP Advice for boards, executives and investors on IP monetization, optimal pricing, and marketing and branding strategies

Due Diligence supporting asset transfer, licensing and brand extension transactions for buyers, sellers, licensors and licensees