

# Brand Valuation

# The Challenge

Brand and IP 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 its value before it is sold?

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

# Brand Definitions

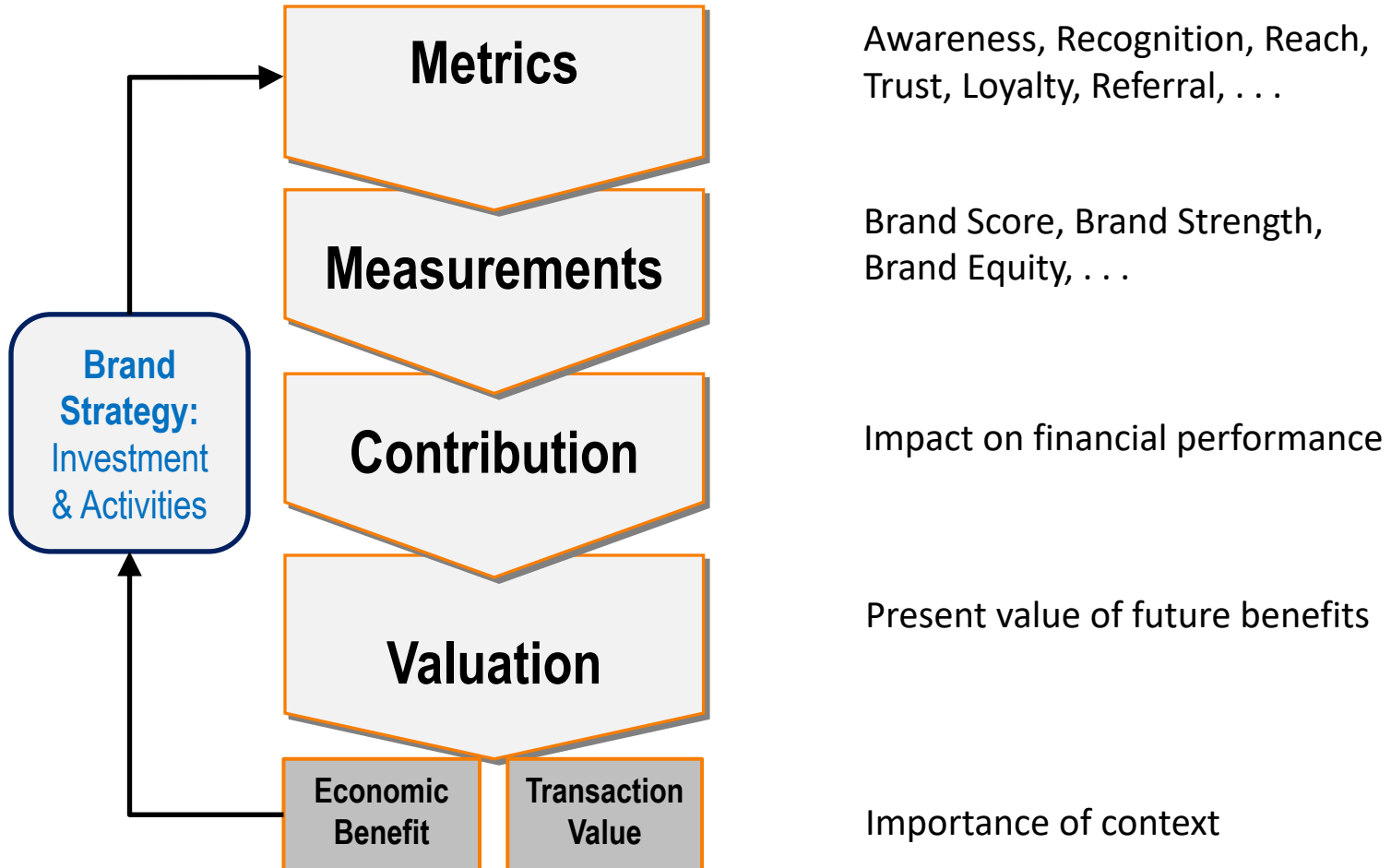
Arguably the most valuable but least understood intangible asset are brands. Brand: marketing-related intangible asset including but not limited to names, terms, signs, symbols, logos and designs, or a combination of these intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/values. - *ISO 10668*

A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. The legal term for brand is trademark. A brand may identify one item, a family of items, or all items of that seller. If used for the firm as a whole, the preferred term is trade name. - *American Marketing Association*

Brand Value is the ultimate measure of marketing's contribution in financial terms- *MASB, 2015*

***1<sup>st</sup> Step: Define what will be analyzed & valued***

# 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:** growing tech company 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
<b>Cost</b>	Cost to replace or replicate <ul style="list-style-type: none"><li>• Past investments</li><li>• Cost of achieving awareness (RfPPC)</li></ul>	Context is not financial reporting Fails to answer the client's questions
<b>Market</b>	Study of transactions <ul style="list-style-type: none"><li>• Guideline companies</li><li>• Guideline transactions</li><li>• Industry benchmarks</li></ul>	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
<b>Income</b>	Present Value (PV) of future benefits <ul style="list-style-type: none"><li>• Relief from Royalty (RfR)</li><li>• Discounted cash flows (DCF)</li></ul>	RfR: measures benefit outside the current business DCF: what profits are due to Brand Assets?

***Only 1 Methodology Fits***

The Challenge

# Brand & IP Valuation



# 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

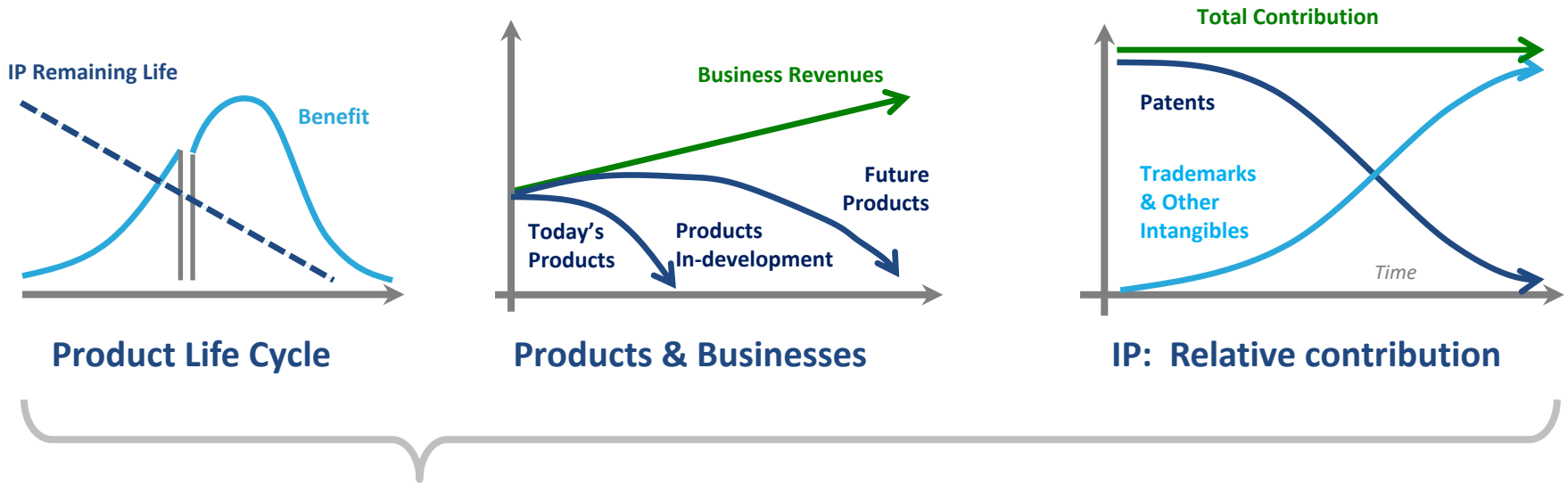
- 1. IP depends on other things to generate earnings***
- 2. Must define the IP to analyze it***
- 3. Must quantify how IP connects to financial performance***
- 4. One more step compared to business valuation – apportion cash flows***

# How IP Contributes to Value

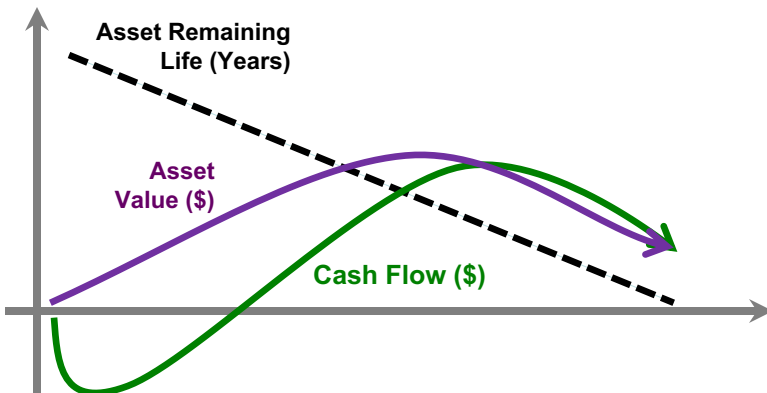
<b><i>Monopoly</i></b>	Barrier to entry, exclude others from using	<ul style="list-style-type: none"><li>• Pricing power</li><li>• Greater sales volume</li><li>• Greater profit margins</li></ul>
<b><i>Litigation</i></b>	Seek damages if others use	<ul style="list-style-type: none"><li>• Litigation award (PV of award less costs)</li><li>• Threat of litigation (force “Monopoly” or “Permission”)</li></ul>
<b><i>Permission</i></b>	Ability to be compensated when others use	<ul style="list-style-type: none"><li>• Value of license (PV of royalties+fees – costs)</li><li>• Value if sold</li></ul>
<b><i>Promotion</i></b>	Signals innovation, uniqueness, source of origin to consumers	<ul style="list-style-type: none"><li>• Additional sales</li><li>• Reduced marketing</li><li>• Incremental margin</li></ul>

***Value is Derived From the Economic Benefits Created***

# Forecasting Future Benefits



## IP: Remaining Life, Cash Flow & Value

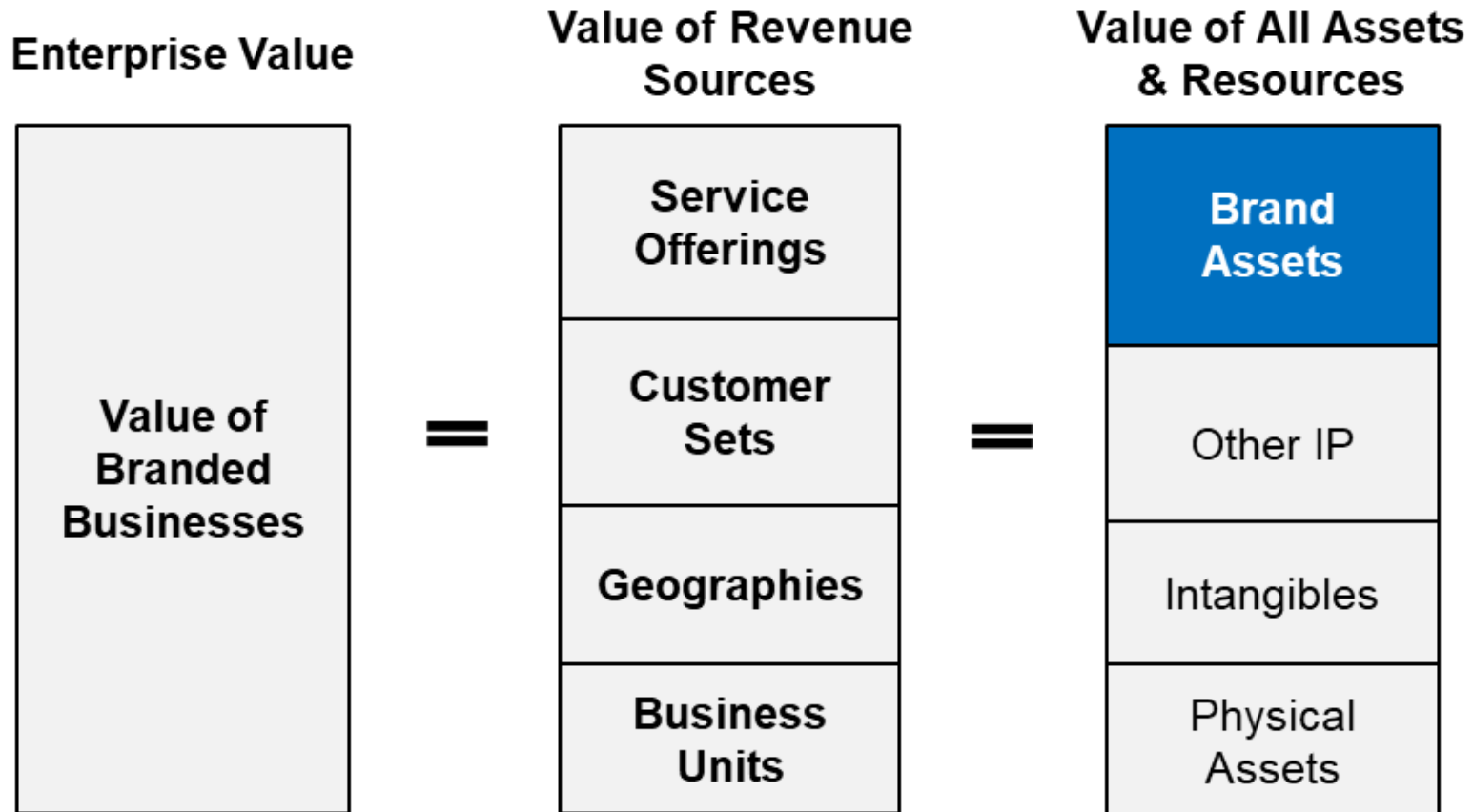


## Guiding Concepts

- IP and the products that use IP have life spans
- Companies can expect perpetual growth, IP cannot
- Benefits from the IP will grow, peak and then decline as other IP and other products take their place

# Apportionment Framework

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



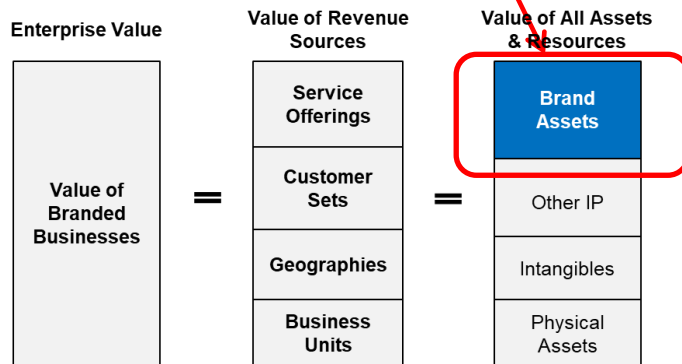
**Apportionment:** Identify the portion of future economic benefits derived from use of each asset or resource

# Challenge: Apportion Earnings to the Brand

*How is our Brand contributing to our performance?*

## Apportionment Framework

*What is the value of this box?*



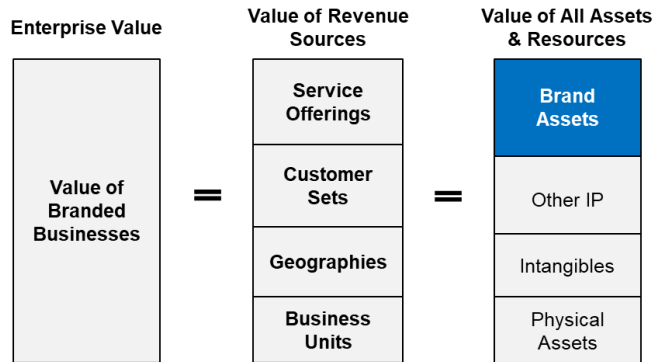
## Tools to Apportion Economic Benefits

- 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*

# Brand Valuation Apportionment Model

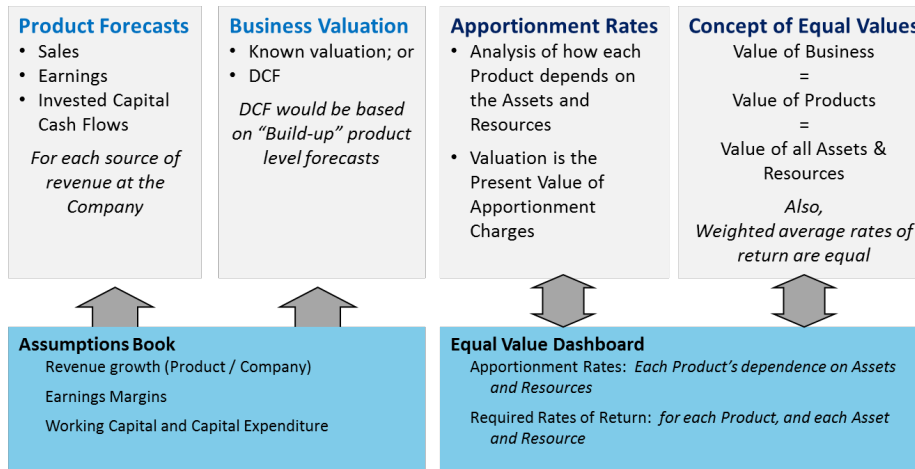
## Applies the Apportionment Framework



## 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



# Apportionment Valuation: Sample Results

## Assignment: Value Brand, IP and Intangibles at Tech Company

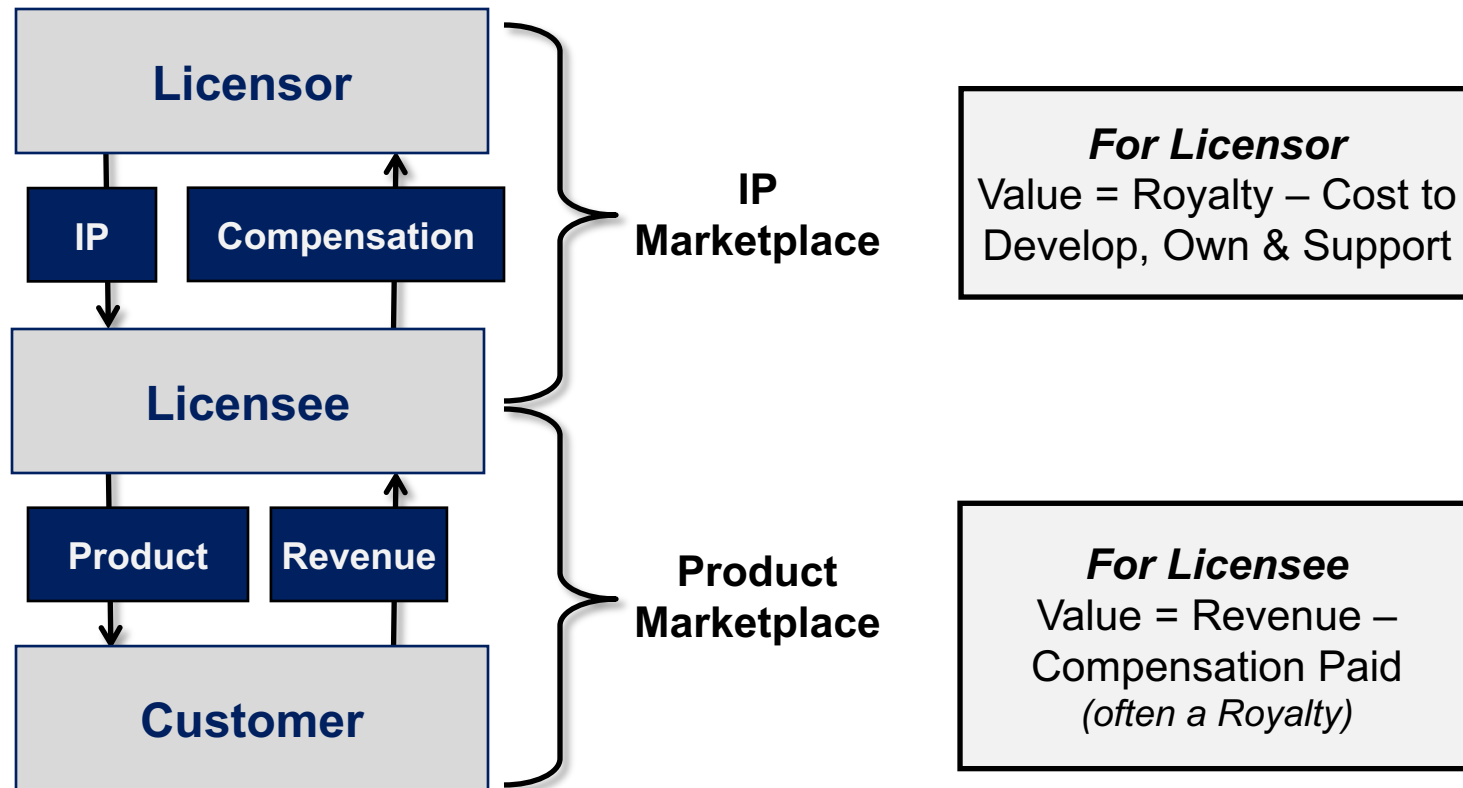
Value of Business		Value of Assets & Resources				Value of Revenue Sources			
		Asset / Resource	Rate of Return	Valuation	Value Contribution		Rate of Return	Valuation	Value Contribution
		Working Capital	5%	153	19%	Product A	20%	46.7	6%
		PP&E	8%	209	26%	Product B	14%	602.8	74%
		Brand Assets	12%	168	21%	Service C	19%	169.0	21%
		Patents	14%	134	16%				
		Proprietary Software	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%
<b>Business Value</b>	<b>819</b>	<b>Total Value</b>		<b>819</b>		<b>Total Value</b>		<b>819</b>	

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%
Patents	25%	10%	30%	Trade Secrets	25%
Proprietary Software	10%	25%	2%		
Trade Secrets	5%	5%	2%		
Relations with Customers	10%	15%	20%		
Relations with Suppliers	5%	10%	2%		
Workforce	7%	10%	1%		
	<b>100%</b>	<b>100%</b>	<b>100%</b>		<b>100%</b>

# Valuation Using a Licensing Framework

## *The Relief from Royalty Methodology*



*Transaction requires benefit for multiple parties*



# Challenge: Royalty Base and Comparable Rates

## Level of Benefit Drives the Royalty

Best for Licensor

Financial Risk to Licensee

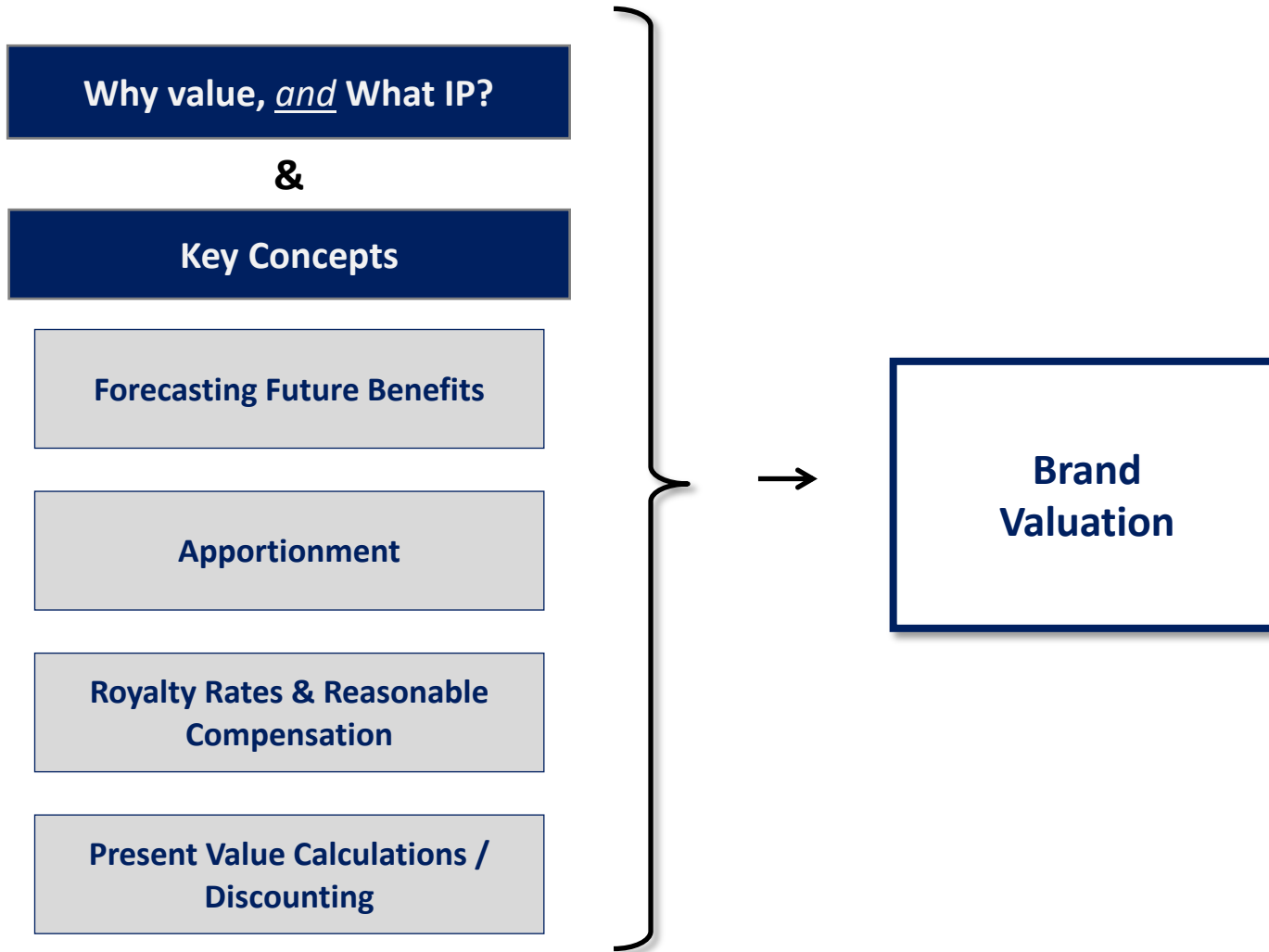
**\$ / Unit made**  
**\$ / Unit Sold**  
**Gross Sales (\$ invoiced)**  
**Gross Sales (Collections)**  
**Net Sales**  
**Gross Profits**  
**EBIT**  
**Net Profits**

Best for Licensee

Income Statement		
<b>Revenues</b>		
Gross Sales	1,000	100%
Discounts	5	1%
<b>Net Revenue</b>	995	100%
<b>Operating Expenses</b>		
Cost of Sales	450	45%
<b>Gross Profit</b>	545	55%
Sales & Marketing	100	10%
General & Admin	75	8%
Research & Development	50	5%
Depreciation	35	4%
Other	15	2%
<b>Total OpEx</b>	275	28%
<b>Operating Income</b>	270	27%
<b>Other Income / (Expense)</b>		
Interest, net	(55)	-6%
Non-recurring	(45)	-5%
Sale fo Assets	85	9%
<b>Total Other Income</b>	(15)	-2%
<b>Pre-tax Income</b>	285	29%
Tax Expense	(100)	-10%
<b>Net Profit</b>	185	19%

*Not all royalties are the same*

# Bringing it all Together



## Expert Testimony & Infringement Investigations

**Trial Tested Experts** whose opinions are accepted in Federal & State courts, US Tax Court, Arbitration and Mediation proceedings

**Published** thought leaders in IP Analysis

**Damages Calculations** and opinions for cases involving: patent infringement, Lanham Act, Copyright Act, trade secret infringement, defamation, tax, business partnership and start-up financing disputes

## 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

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