

Brand Valuation

The Brand Establishment

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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 value before a transaction? Or, if the brand owner is not selling?

How does a brand contribute to it’s 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*

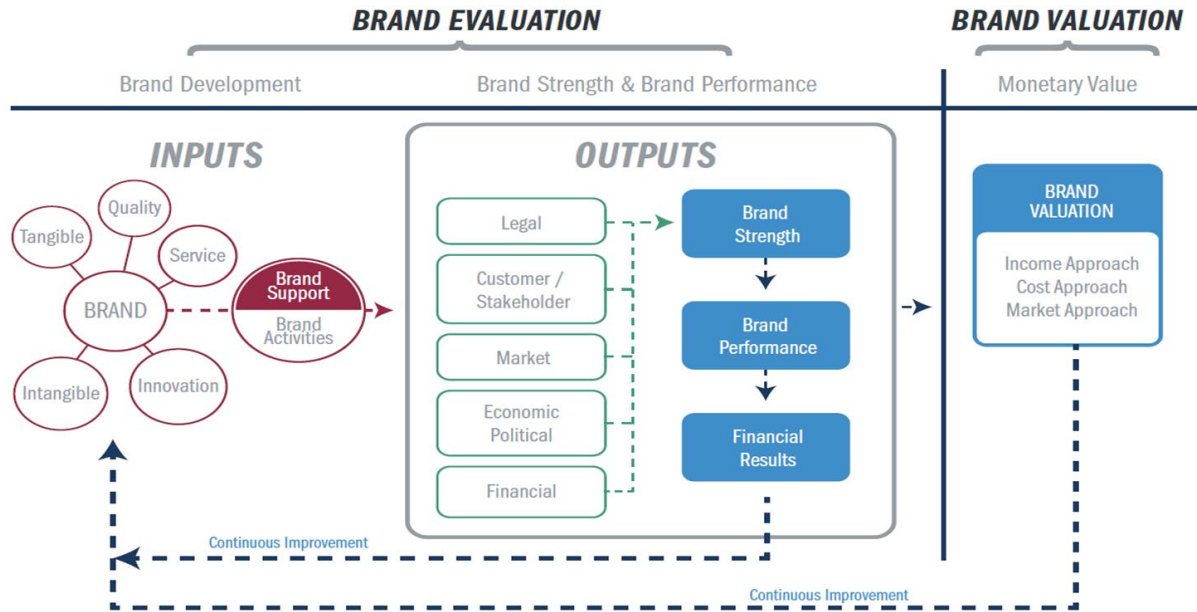
A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. The legal term for brand is trademark. A brand may identify one item, a family of items, or all items of that seller. If used for the firm as a whole, the preferred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

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

1st Step: Define what will be analyzed & valued

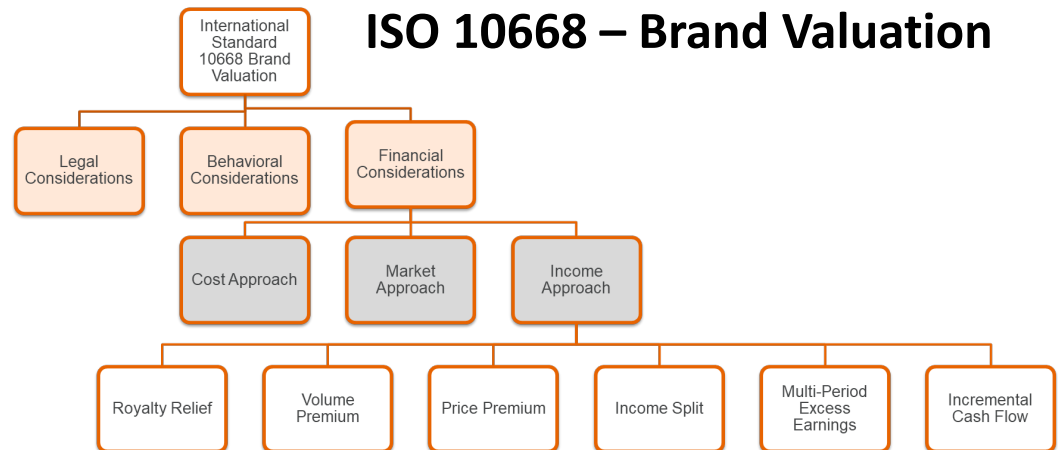
Brand Analysis Standards

ISO 20671 – Brand Evaluation

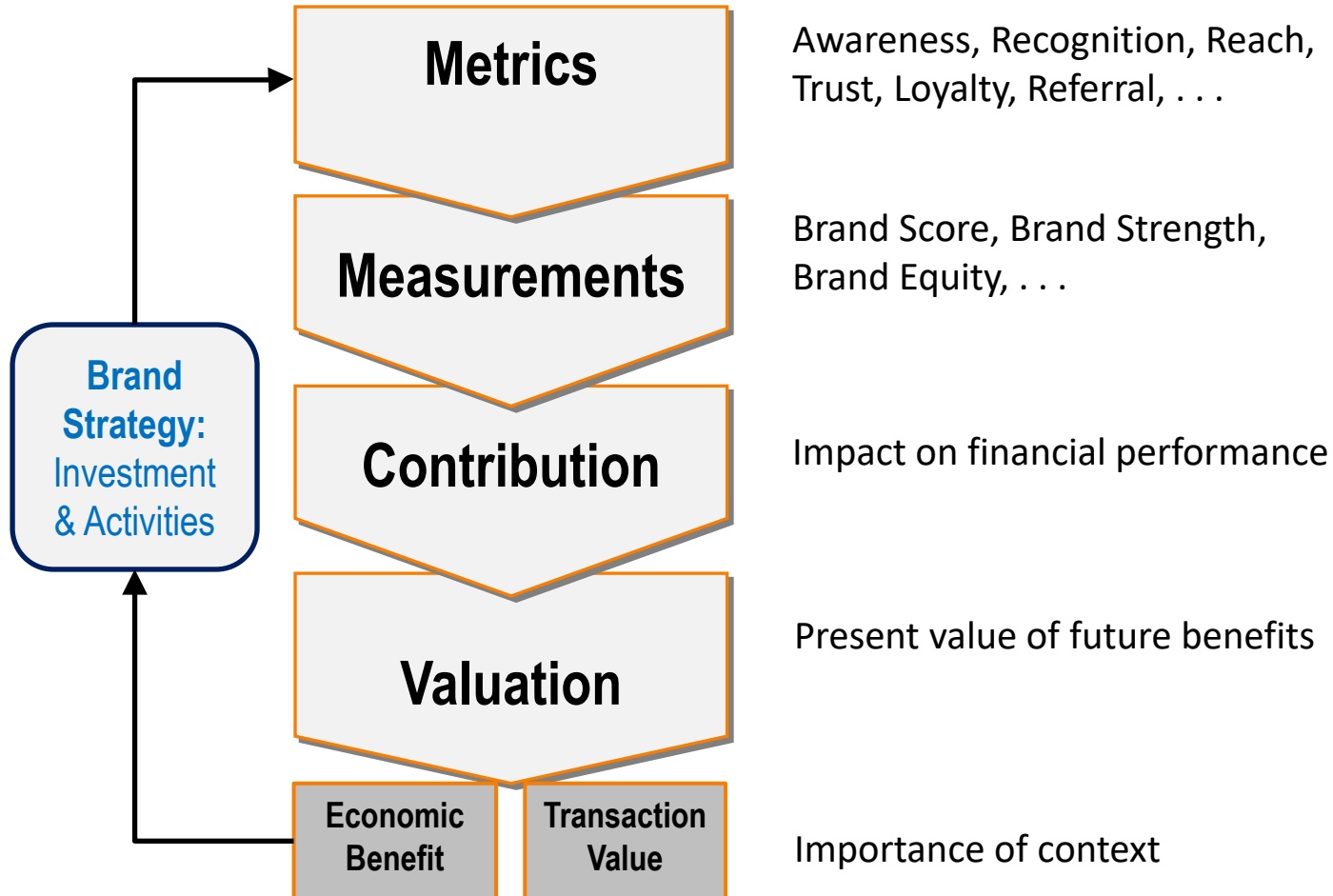


Two recent publications to “standardize” brand analysis. US contribution led by MASB.

ISO 10668 – Brand Valuation



Brand Analysis



ISO 20671
Evaluation

ISO 10668
Valuation

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: Company executive asks: how much is our brand worth to us?

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

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***

Brand Valuation Methodologies

Two Common Methodologies

Relief from Royalty (RfR)

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

Present value of royalty compensation brand owner would pay if brand owner paid a licensor to use the brand assets

A Hypothetical License transaction

Discounted Cash Flows (DCF)

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

IP cash flows are < product cash flows (apportionment)

Must quantify the portion of product cash flows yielded by the brand assets

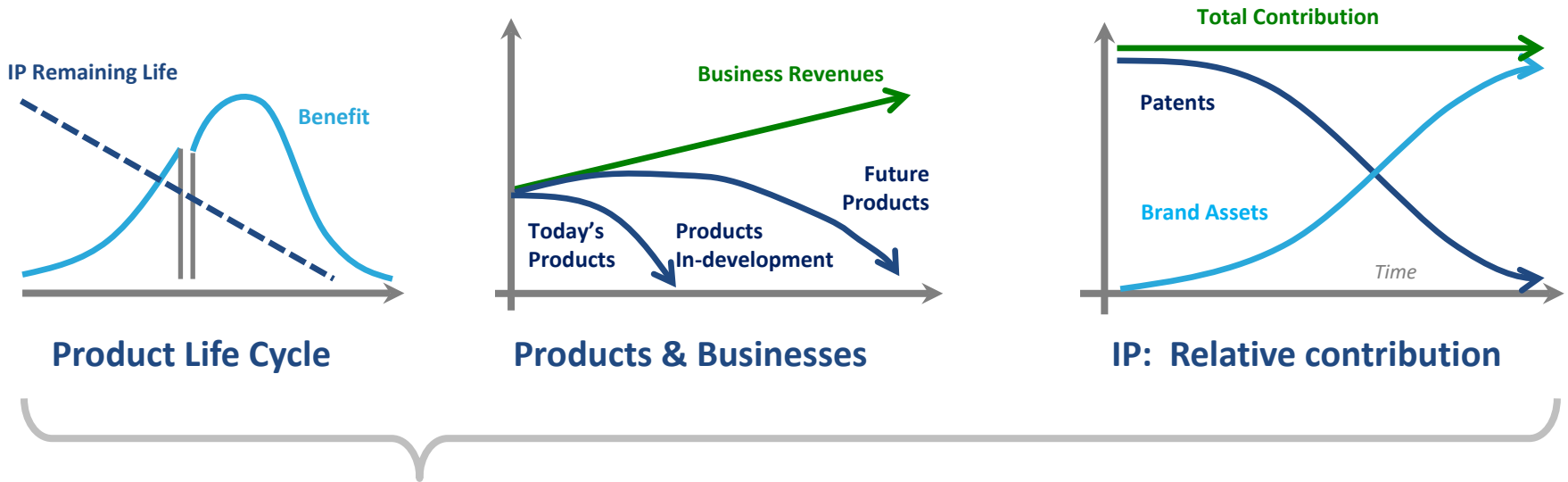
- 1. Market and Cost Approaches useful in limited applications**
- 2. DCF and RfR both require a forecast and discount rate**
- 3. Royalty is a proxy for IP-specific cash flows**

How IP Contributes to Value

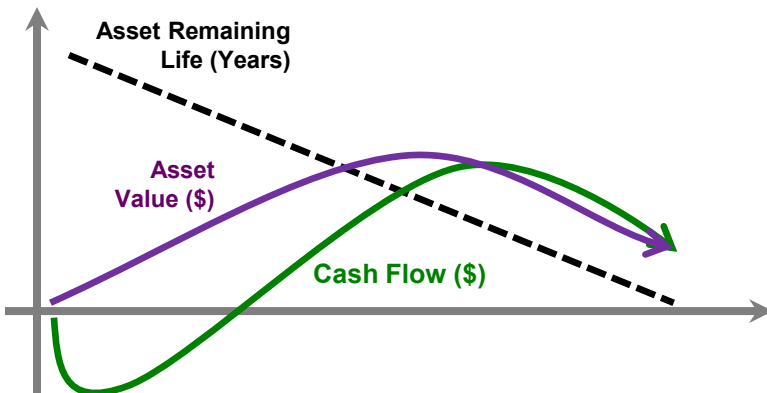
<i>Monopoly</i>	Barrier to entry, exclude others from using	<ul style="list-style-type: none">• Pricing power• Greater sales volume• Greater profit margins
<i>Litigation</i>	Seek damages if others use	<ul style="list-style-type: none">• Litigation award (PV of award less costs)• Threat of litigation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

Value is Derived From the Economic Benefits Created

Forecasting Future Benefits



IP: Remaining Life, Cash Flow & Value

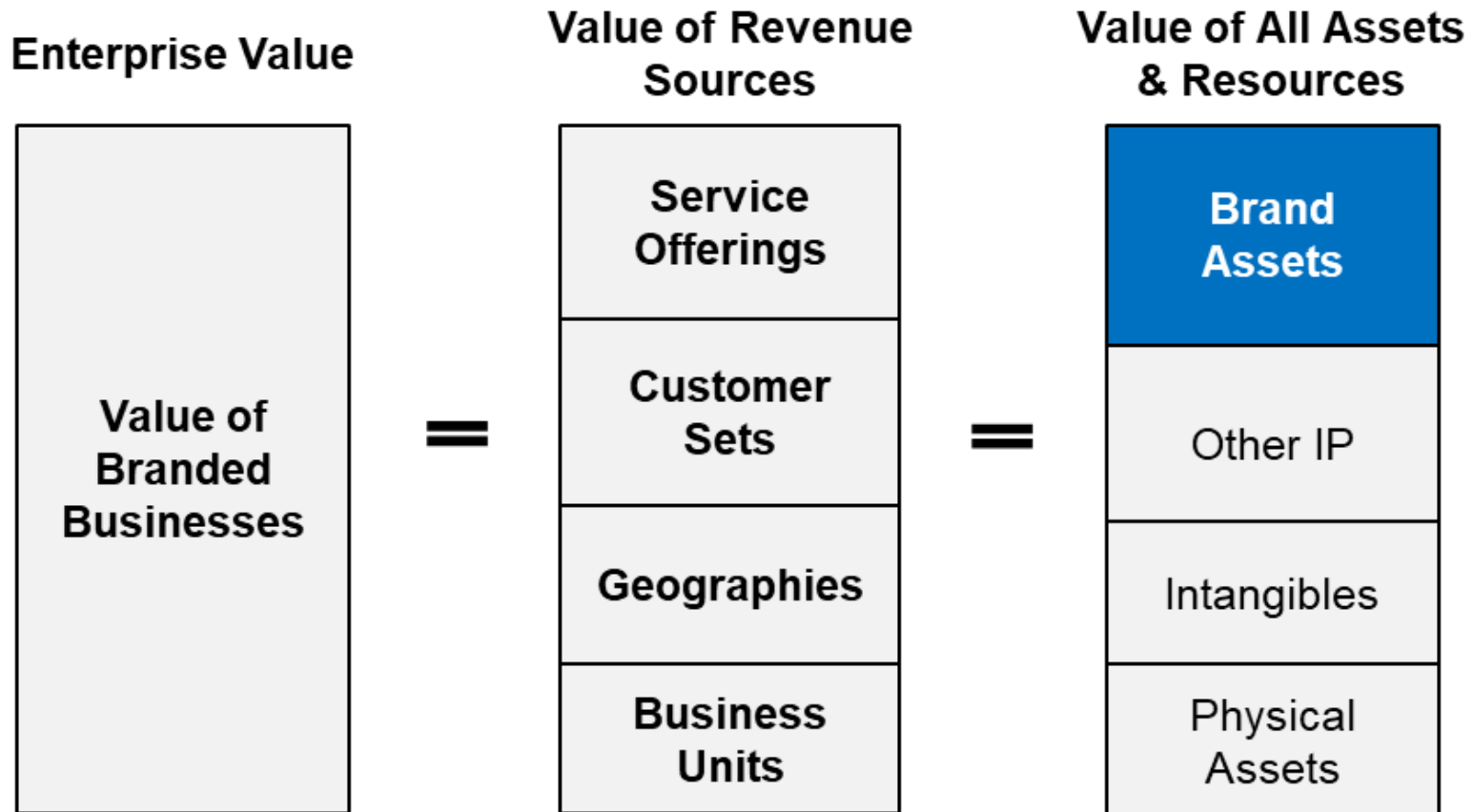


Guiding Concepts

- 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



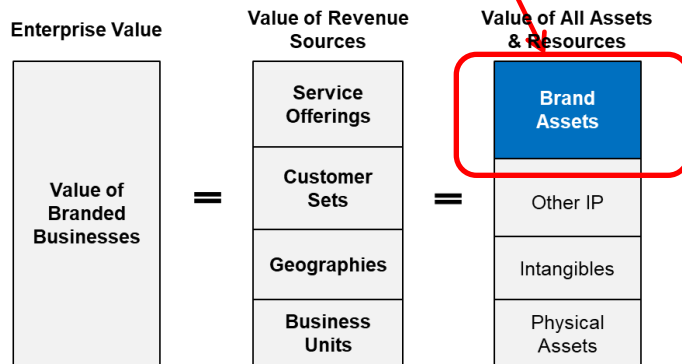
Apportionment: Identify the portion of future economic benefits derived from use of each asset or resource

Challenge: Apportion Earnings to the Brand

How is our Brand contributing to our performance?

Apportionment Framework

What is the value of this box?



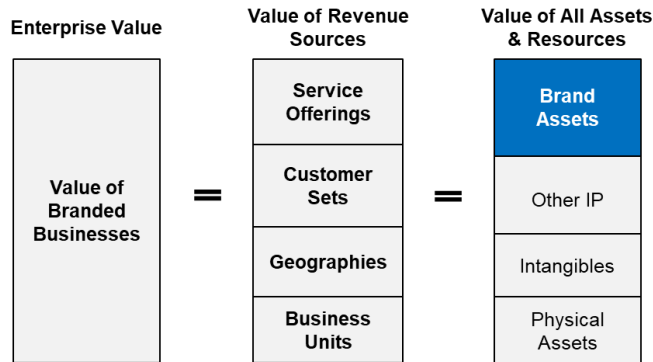
Tools to Apportion Economic Benefits

- 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

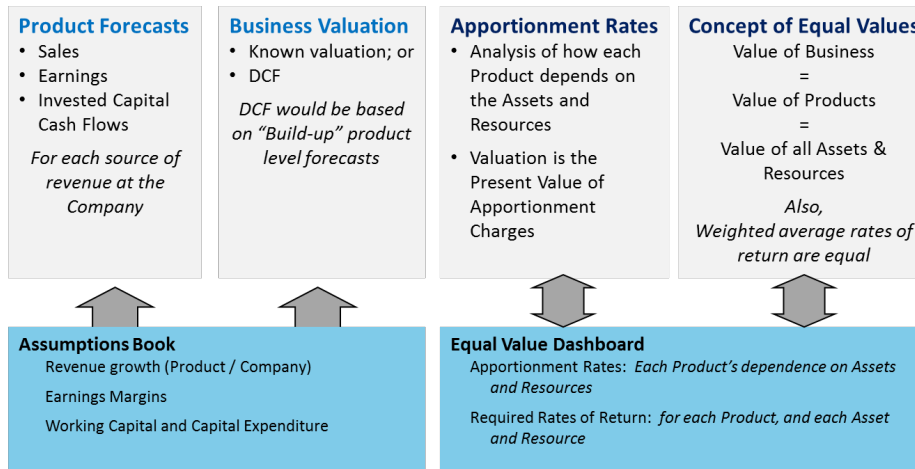
Applies the Apportionment Framework



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

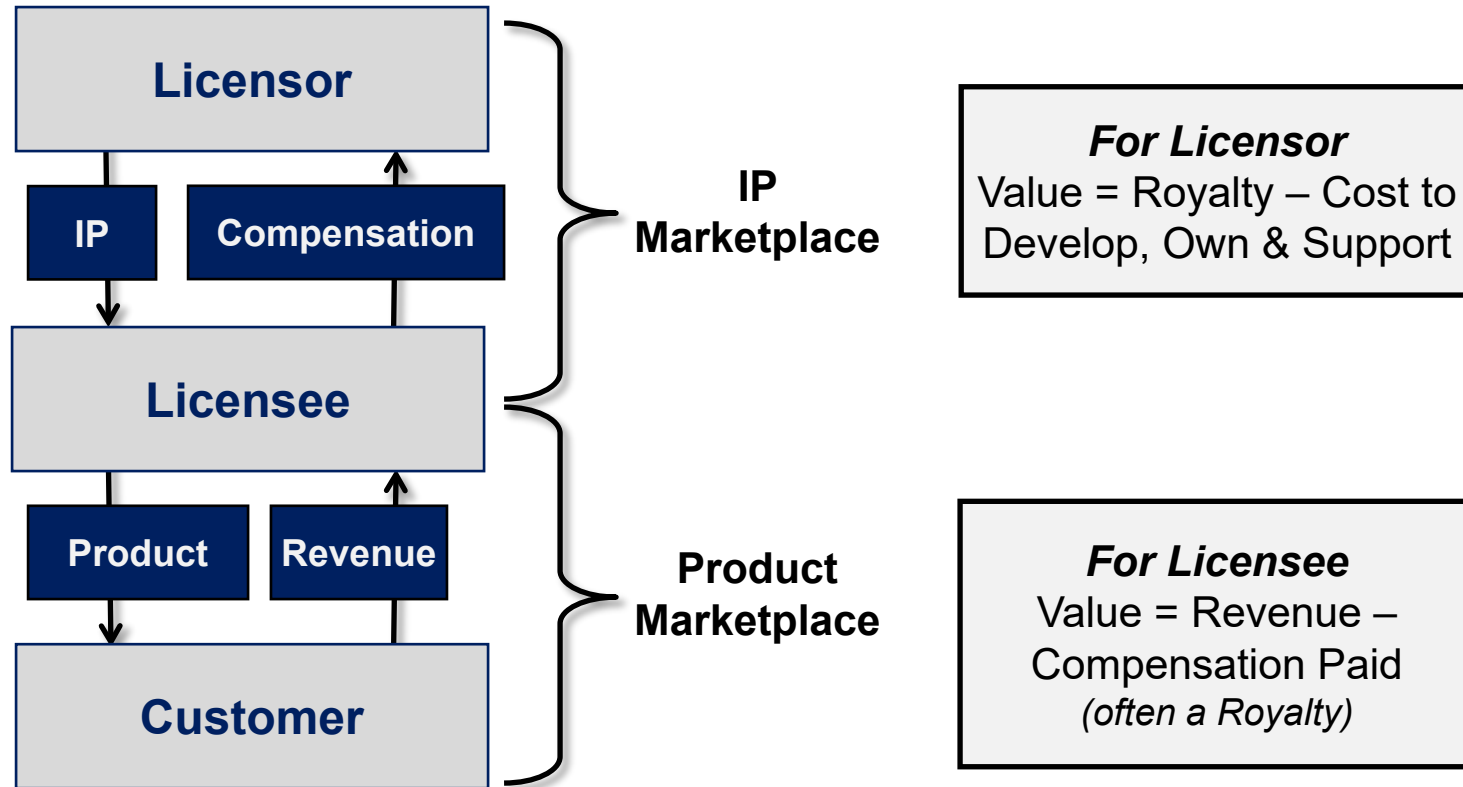
Assignment: Value Brand, IP and Intangibles at Tech Company

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%
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%
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%		
	100%	100%	100%		100%

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

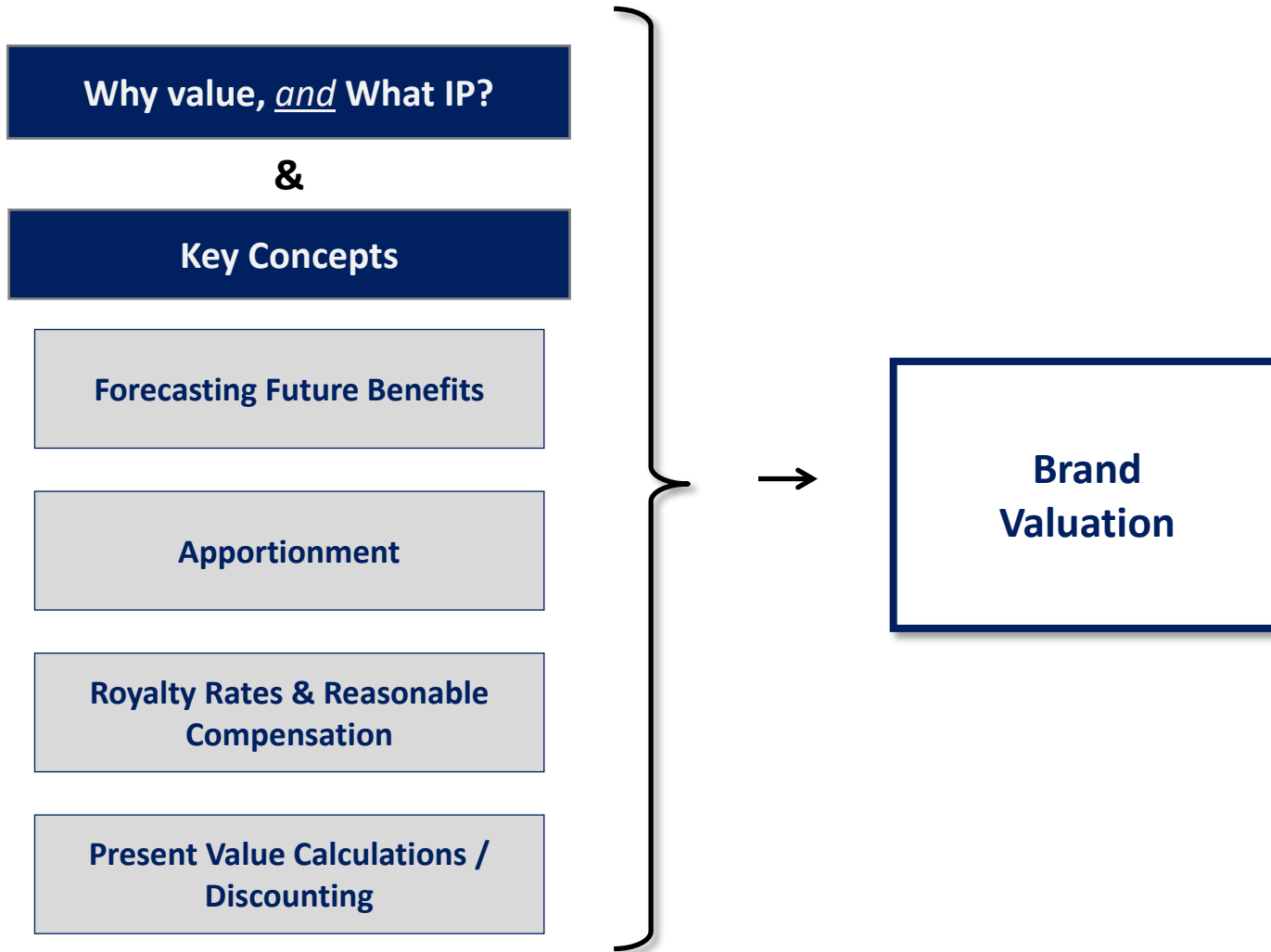
\$ / Unit made
\$ / Unit Sold
Gross Sales (\$ invoiced)
Gross Sales (Collections)
Net Sales
Gross Profits
EBIT
Net Profits

Best for Licensee

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

Not all royalties are the same

Bringing it all Together



Thank You

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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