An Introduction to Valuing Intangible Assets

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What are intangible assets?

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Intangible assets are assets without physical substance that provide rights or economic benefits to their owners.

- Intangible assets can be created, bought and sold. Further, they can be definite (like a brand name, which will remain with a company for as long as it wishes to hold it) or indefinite (like a customer contract which is likely to have a fixed term).
- There are many examples of intangible assets, including goodwill, brands, patents, trademarks, software, customer relationships, and internet domain names.

What categories can intangible assets belong to?

Market participants and professionals typically categorise intangible assets (save for goodwill) into one (or more) of these five (5) categories:

- Marketing-related intangible assets are used primarily in the marketing or promotion of products or services. Examples of marketing-related intangible assets include trademarks, trade names, unique trade designs and internet domain names;
- Customer-related intangible assets include customer lists, backlog, customer contracts, and contractual and non-contractual customer relationships;
- Artistic-related intangible assets arise from the right to benefits from artistic works such as plays, books, films and music, and from non-contractual copyright protection;

What categories can intangible assets belong to?

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Market participants and professionals typically categorise intangible assets (save for goodwill) into one (or more) of these five (5) categories (continued):

- Contract-related intangible assets represent the value of rights that arise from contractual agreements. Examples include licensing and royalty agreements, service or supply contracts, lease agreements, permits, broadcast rights, servicing contracts, employment contracts and non-competition agreements and natural resource rights, and;
- Technology-based intangible assets arise from contractual and non-contractual rights to use patented technology, un-patented technology, databases, formulae, designs, software, processes or recipes.

In addition to these five (5) categories, goodwill is a further form of intangible asset which I discuss further in a moment.

What is goodwill?

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Generally, goodwill is any future economic benefit arising from an interest in a business or from the use of a group of assets which has not separately been recognised as another asset.

- The value of goodwill is typically measured as the residual amount remaining after the values of all identifiable tangible, intangible and monetary assets, adjusted for actual or potential liabilities, have been deducted from the value of a business.
- In practical terms, this is often represented as the excess of the price paid in a real or hypothetical acquisition of a company (or a business) over the value of the company's (or business') other identified assets and liabilities.

Why may you need to value an intangible asset?

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There are a number of reasons that may mean a valuation of intangible assets is required, including but not limited to:

- For financial reporting, particularly as part of business combinations, impairment analysis and business acquisitions.
- For tax reporting and compliance particularly when such assets are transacted between related parties.
- For litigation, including shareholder disputes, estate litigation and family law matters.
- For lending requirements when such assets are used as collateral.

Methods for valuing intangible assets

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The primary intangible asset valuation methods applied are:

- The excess earnings method;
- The relief from royalty method, and;
- Market approaches.

The Excess Earnings Method

The Excess Earnings Method is classified as an income valuation approach by the International Valuation Standards, meaning that the method involves converting future cash flows to a current single value.

- This method applies a value to intangible assets after excluding the proportion of cash flows attributable to other assets which are required to generate those cash flows.
- For example, if an intangible asset is one component of a broader business, this method would require that the cash flows only directly derived by virtue of the business holding the subject intangible asset be identified and used as the basis for conducting a valuation calculation.
- The Excess Earnings Method can be applied with reference to several periods of forecasted cash flows or a single period of forecasted cash flows, with the latter more common owing to the significant difficulties that can arise in accurately forecasting business and intangible asset related cash flows into the future.

The Relief From Royalty Method

The Relief From Royalty Method a particularly common method, whereby the value of an intangible asset is determined with reference to the value of the hypothetical royalty payments that would be saved by owning the subject asset instead of licensing the subject asset.

- The Relief From Royalty Method is widely used and has often been accepted by courts and regulatory bodies.
- When applying this method, hypothetical royalty payments are calculated and projected, with this hypothetical income stream used as the basis for forming a valuation opinion.

Market Approaches

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Market Approaches to valuing intangible assets are often reliable, however they can be difficult to apply noting the limited existence of market transaction information for many intangibles.

- Under the Market Approach, the value of an intangible asset is determined by reference to market activity (for example, transactions involving identical or similar assets).
- Typically, the Market Approach is applied by using the Guideline Transations Method.

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We approach each matter in an energetic and non-nonsense manner, and pride ourselves on creating innovative and efficient solutions to difficult problems.

Our expertise includes:

Business Sales

- Exit planning advice
- Pre-sale reviews
- Business brokerage services
- Post-sale integration management
- Business sales advice

Valuations

- Expert business valuation reports
- Company valuations
- Minority shareholding valuations
- Shadow expert reports and critiques
- Business appraisals
- Expert witness services

Due Diligence

- Preparation of due diligence reports
- Independent due diligence reviews

Acquisitions

- Sourcing off-market acquisition opportunities
- Negotiating business purchases
- Purchase price advice

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WHY US?

We offer six reasons why advisors and business owners should engage Groves & Partners to assist with their business transaction and valuation needs.

1. Clear & Frequent Communication
We communicate frequently with our clients and referrers, always responding promptly and providing regular feedback throughout our conduct of matters.

2. Specialists
We only provide business transaction and valuation advice – we're not tax accountants or lawyers.

3. Timely
Our specialisation and efficiency mean that we can produce work in faster timelines. Whatever your deadline is, we can help.

4. Complimentary
We compliment the skills, advice and relationships of our client's professional advisors and partner with our client's established advisors to provide excellent outcomes.

5. Cost Effective
We never charge for initial consultations, simple advice, short phone calls or emails, and ensure our bills are always commercial and cost-effective.

6. Experts
Our team comprises Chartered Accountants, Certified Minority Interest Valuers, Registered Business Valuers and Licenced Business Brokers.