
WICI Europe - 2nd International Policy Conference on Intangibles

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**Approaches and methodologies
for intangibles valuation: the
contribution of valuation standards**

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SIDREA – Corporate Valuation Committee

- SIDREA is the academic association of Italian accounting scholars:
 - Is a member association
 - Involves about 500 members
 - Promotes teaching and research activities in several areas connected with accounting: financial, managerial, auditing, public administration, corporate valuation, etc.

- The SIDREA Corporate Valuation Committee
 - Is composed by SIDREA members interested in business valuation studies
 - Cooperates with Italian valuation standards setter (OIV)
 - Provides technical assistance and guidances to professional valuers for standards enforcement, having established agreements with associations like the Italian CPAs (CNDCEC), CFOs (ANDAF), FAs (AIAF).

- Specific researches have been conducted about
 - Distressed companies valuation
 - Tax effects and implications of firm valuations
 - Intangibles valuation for credit rating
 - Specific industries valuation
 - Comparative study of valuation standards in Europe and US

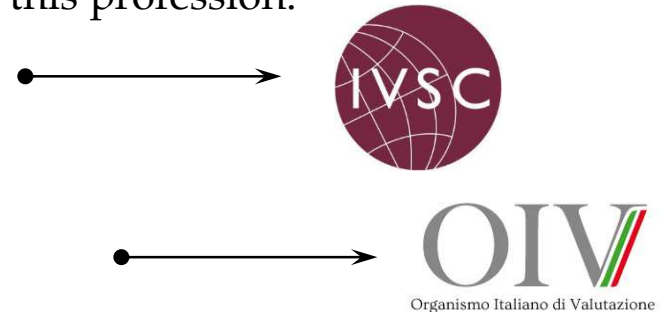
- Next topics
 - Business valuation and damage calculation
 - Business value in case of withdrawals from SMEs

Aims of this presentation

- Reporting the state of the art of intangibles valuation accordingly with valuation standards.
- Providing some hints and potential links with intangibles valuation for reporting issues.

The starting point

- The business valuation (BV) profession is presently not a regulated industry (with the exception of some countries where local jurisdiction imposes regulation), hence a globally recognised BV kitemark might, in the long run, help to build confidence and public trust in this profession.



IVS 210 Intangible assets

- Issued December 2016, to be applied from July 1, 2017
- Previously: IVS 210 (2011) + IVSC Technical Information Paper 3
- Contents
 - Overview (purposes and classification)
 - Valuation approaches and methods
 - Special considerations for intangible assets

IVS 210 Intangibles valuation purposes

- Financial reporting (eg accounting for business combinations, asset acquisitions and sales, impairment analysis).
- Tax reporting (eg transfer pricing analyses, estate and gift tax planning).
- Litigation cases (eg shareholder disputes, damage calculations and marital dissolutions).
- Statutory or legal events (eg compulsory purchases, eminent domain proceedings).
- General consulting and transactional support engagements.

IVS 210 - Intangibles classification

MARKETING-RELATED INTANGIBLE ASSETS

- Trademarks, trade names
- Unique trade designs
- Newspaper mastheads
- Internet domain names

CUSTOMER-RELATED INTANGIBLE ASSETS

- Customer lists
- Customer contracts and related customer relationships
- Order or production backlog
- Noncontractual customer relationships

ARTISTIC RELATED INTANGIBLE ASSETS

- Plays, operas , ballets
- Books, magazines, newspapers, other literary works
- Musical works such as compositions song lyrics, advertising jingles
- Pictures, photographs
- Video and audiovisual material including motion pictures, music videos, television programs

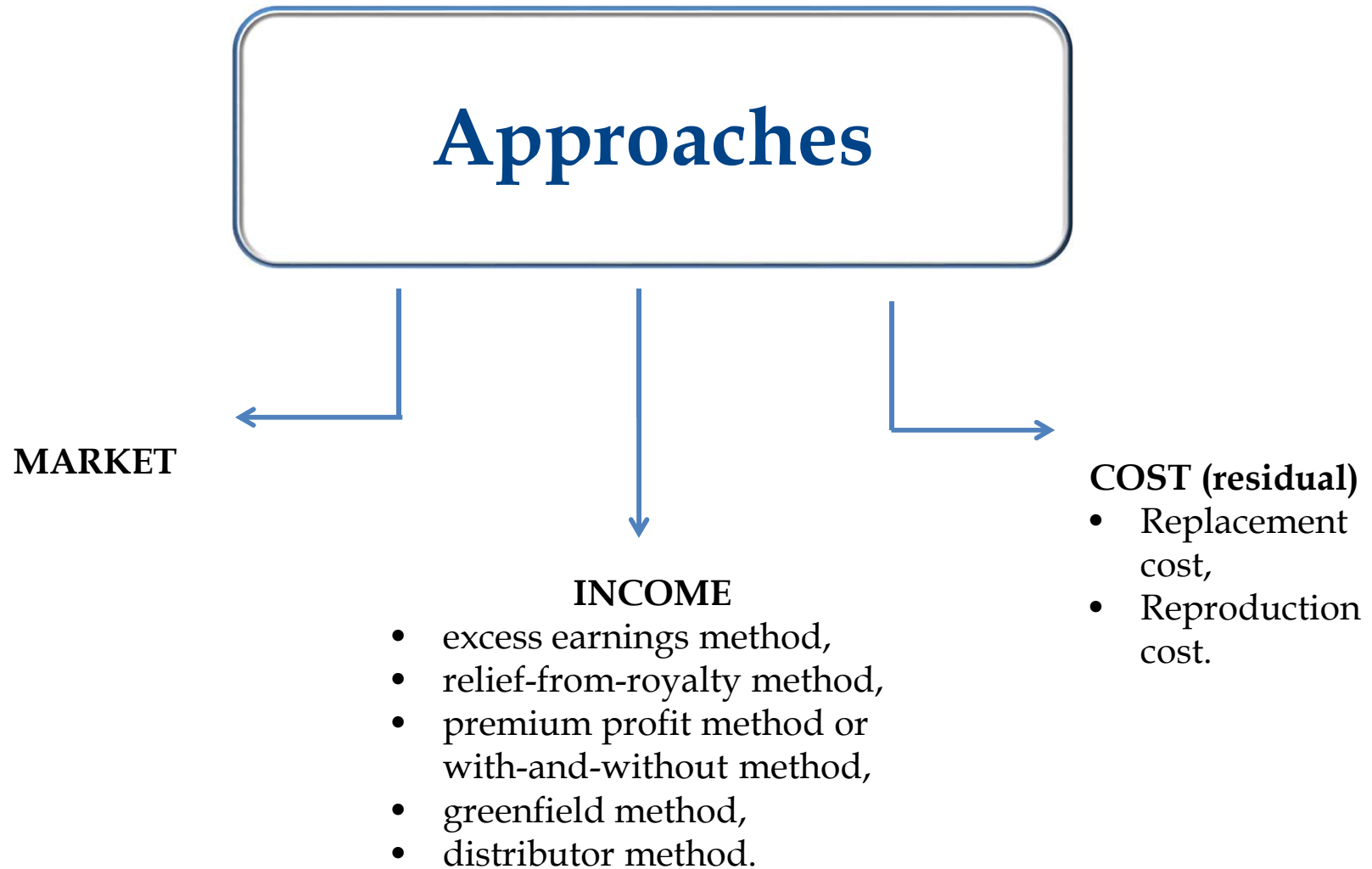
TECHNOLOGY-BASED INTANGIBLE ASSETS

- Patented technology
- Computer software
- Unpatented technology
- Databases, including title plants
- Trade secrets, such as secret formulas, processes, recipes

CUSTOMER-RELATED INTANGIBLE ASSETS

- Licences and royalty agreements
- Operating and broadcast rights
- Lease agreements
- Service or supply contracts
- Employment contracts
- Non competition agreements

IVS 210 - Valuation approaches and methods



IVS 210 - Valuation approaches examples

- **Market:** broadcast spectrum, internet domain names, and taxi medallions.
- **Income:** technology, customer-related intangibles (eg backlog, contracts, relationships), tradenames - trademarks -brands, operating licenses (eg franchise agreements, gaming licenses, broadcast spectrum), non-competition agreements
- **Cost:** acquired third-party software, internally-developed and internally-used software, or assembled workforce.

Intangibles valuation and uncertainty

- *Market uncertainty*: eg comparable royalties
 - Same industry (eg 900 contracts)
 - Economic measure to which the rate is applied (800 contracts)
 - Geographic area covered by the license (500 contracts)
 - Whether the license is exclusive or not (250 contracts)
 - The term of the license (100 contracts)
 - The product/service similarity (40 contracts)
 - Any other risk / return attributes of the license (15 contracts)
- *Input uncertainty*:
 - Cash flow projections (coherence with managerial accounting information)
 - Economic life (legal protection and competitive set)
 - Tax effects (tax amortization benefit effect?)
- *Model uncertainty*: see example

Model Uncertainty: sensitivity

Model 1 = terminal value with indefinite life						
Model 2 = terminal value with definite life						
Discount rate	10,00%					
	<u>t+1</u>	<u>t+2</u>	<u>t+3</u>	<u>TV</u>	<u>Value</u>	
<u>Cash flows</u>	1.000.000,00	1.400.000,00	1.250.000,00	1.300.000,00	4.950.000,00	
<u>DCF</u>						
<u>(model 1)</u>	909.090,91	1.157.024,79	939.143,50	13.000.000,00	16.005.259,20	
<u>DCF</u>						
<u>(model 2)</u>	909.090,91	1.157.024,79	939.143,50	11.067.632,84	14.072.892,04	
			<u>TV years</u>	<u>TV</u>	<u>Value</u>	
			5	4.928.022,80	7.933.282,00	<u>Model 2 sensitivity analysis</u>
			7	6.328.944,46	9.334.203,67	
			10	7.987.937,24	10.993.196,44	
			12	8.857.799,37	11.863.058,57	
			15	9.887.903,36	12.893.162,56	
			20	11.067.632,84	14.072.892,04	
			25	11.800.152,02	14.805.411,23	
			30	12.254.988,81	15.260.248,01	
			40	12.712.765,93	15.718.025,14	
			45	12.821.650,24	15.826.909,45	
			50	12.889.258,83	15.894.518,04	

Intangibles valuation and risk

Discount rates of return for intangible assets

- Intangibles often have higher risk than tangible assets.
- Highly specialised intangibles may have higher risk than assets with other potential use.
- Single intangible assets may have more risk than groups of assets (or businesses).
- Intangibles used in risky, non-routine functions may have higher risk than intangible assets used in more low-risk or routine activities.
- Intangibles with longer lives are often considered to have higher risk.
- Intangibles with more readily estimable cash flow streams, such as backlog, may have lower risk than similar intangible assets with less estimable cash flows such as customer relationships.

Intangibles valuation and reporting

Hints and potential links

- The WICI Intangibles Reporting Framework aims to support reporting of intangibles from the perspective of value creation. It focuses on reporting of non-financial elements and not on the valuation of these resources.
- Even though intangibles do not necessarily have to be expressed in monetary terms to be managed or appreciated, valuation reports have been often internally developed and are sometimes externally communicated.
- Valuers are expected to follow generally accepted valuation standards, issued on an international and national level.
- Valuation reports are full of details concerning valuation approach and method selection and application.
- A special section is dedicated to market, input, and model uncertainty analysis. In this section qualitative and narrative information is combined with business valuation process.