

Background of Intangibles

I am an economist, accountant, analyst and valuator. My perspective on the Valuation of Intangibles is historic, having over 50 years of international experience. My 1956 summer job from Oxford was visiting US and European steel plants for comparison with those in Britain. The main difference was that the British still had 1930s technology, the Americans, 1940s and the Europeans, 1950s.

Background of Intangibles

Since then I have concentrated on valuing technologies, the “latest & greatest” intangibles without which none of the others have value and which are the major source of above market growth.

No business can operate without some Financial, Physical & Intangible Assets. None of them are easy to value and all have been affected by the recent economic collapse.

Background of Intangibles

Recently, financial assets (which are mainly liabilities of other enterprises) have been at the peak of the wall of worry which stock markets climb. Now concerns surrounding commercial real estate are rising to the top. However, lurking in the shadows are problems with intangibles.

Types of Intangibles

- Marketing oriented – trademarks, Internet domain names, non-compete agreements, etc.
- Customer related – customer lists, contract and relationships, order backlogs, etc.
- Contract based – licenses, royalties, service/supply contracts, leases, franchises, etc.

Types of Intangibles

- Technology based – technology, software, databases, trade secrets, etc.
- Artistic related – literary works, musical works, pictures, videos, etc.
- Government granted – transferrable licenses and permits

Types of Intangibles

The last two slides were an accurate (accounting) view from the outside. They omitted three major, internally generated, categories:

- Employee based – Human Capital
- Organization related – Structural Capital
- Reputation oriented – Goodwill

None meet the accounting definition.

Presentation of Intangibles

- Traditional Financial Statements are alive and well; they are effective and efficient at doing what they are supposed to do.
- This is to record the Financial Performance Profits and Cash Flows of an entity.
- They do not do so well for a firm's Financial Position.
- Only on acquisition are all assets, financial, physical & intangible of a target recorded at Fair Value.

Presentation of Intangibles

- Otherwise the Balance Sheet only reflects the past and to some extent, the present, but not the future.
- Restating everything to Fair Value should be done through Management's Discussion & Analyses.
- Recent recession affected all assets, Intangibles more than Financial and much more than Physical.

Valuation of Intangibles

Valuing an Intangible Assets is difficult

- First, it has to be defined
- Then its use, revenues & cash flows or cost savings is determined
- Finally, a value ascribed
- May not be easily saleable
- Fair Value vs Value-in-Use
- Transfer value often small

Valuation of Intangibles

Appropriate techniques

- Developing marketplaces (Market Approach)
- Relief-from-Royalties (Market Approach)
- Expenses to replace plus time to market (Cost Approach)
- Multiple period excess earnings (Income Approach)
- Capitalization of premium profits (Income Approach)