INTANGIBLE VALUATION PROCESS

The following is intended to explain the primary aspects of valuing identifiable intangible assets. These assets are distinguished from general intangibles, such as goodwill, which have no definable useful life.

The valuation of an identifiable intangible asset (IA) is usually the most tenuous, complex, and creative exercise of any valuation or appraisal. While some models are available for analyzing various data, there is no generic model for appraising every IA; nor do the viable models work in each circumstance.

In instances where one or two principal intangible assets comprise the essence of the company, their appraisal is almost synonymous with that of the business enterprise. The valuation of nearly any IA must isolate that portion of the overall business cash flow which is reasonably attributable to that asset. Similar to the business valuation, the process for intangibles may involve the cost, market, and income approaches. For some IA, all three approaches are utilized. However, usually only one technique applies (or at most two).

With regard to the isolation of IA value, these factors most influence the engagement scope and resulting fee:

1. ASC 805 and 305 formerly FASB 141 and 142 compliance
   - Due diligence for SEC and outside auditors
   - Numbers of reporting units within buying company
   - Impairment testing required
   - Overall business unit value

2. Industry of client.

3. Fiduciary disclosure/use of information.

4. Distinct number of assets to appraise.

5. How many approaches to value apply to each IA - cost, market, and income.

6. Extent and quality of historical financial performance and supporting documentation; new technology often lacks historical basis.

7. Ease or difficulty of separating IA cash flows from overall business.

8. General and specific market data for revenue projections, and number of market applications.

9. Detailed analysis of costs to replace; cost efficiencies as a result of the IA usage; on-going expenses to maintain and keep current the intangible(s).

10. Availability of reasonable royalty rates and market transaction data.

11. Extent of statistical and economic analysis required to define useful life for each IA.

12. Level of written documentation to be furnished, e.g. letter versus detailed report.

13. Necessity to provide for expert testimony, or other third party scrutiny.

BASIC WORKSTEPS (Common to most IA)

The basic worksteps are similar to those detailed in the Business Valuation Process. Some of the primary distinctions which involve more analysis are provided as follows. Depending on the asset appraised, some of these steps may not be required.

1. Management discussions often involve more personnel: manufacturing, engineering, distribution, and information systems persons familiar with the intangible usage, application, and cost savings.

2. The IA value is inextricably linked to the remaining useful life; the following methods may apply:

    a. statistical - based on matching or fitting company data (or industry information) for retirements, such as customers, with known survivor curves. These curves may be Iowa, Weibull or other probability distributions.

    b. economic - involves return on capital and gross margins, as well as historical perspective for comparable applications.

    c. product life cycle - current phase of cycle; sustainability via upgrades or minor modifications; how affected by technological advances, etc.

    d. opinion surveys - industry specific.

    e. qualitative analysis - opinions of outside experts and appraiser.

3. The cash flow projection period is premised on the estimated useful life. The value of an IA is the present value of the after-tax income plus the present value of the tax benefits of amortization.