



BRAND VALUATION

Soumil Singhvi
(Partner, S S Singhvi & Associates)



“ Your **Brand** is what people say about you when you are not in the room”

-Jeff Bezos, CEO Amazon

What Is Brand Valuation?

A brand is an expression of identity. Brands serve as powerful markers to help consumers express values, display status and generate social personality. Consumers use their interaction with the brand to identify with others and gain admission to a community.

When seen from a business lens, branding is a strategic approach and not merely a select set of activities. It is key to creating and maintaining competitive advantage. A brand's strategy must address key components of value creation such as reputation value, relationship value, experiential value and above all symbolic or cultural value.

Consumers don't merely buy brands, they 'buy into brands'

Top 5 Brands in terms of Value



Apple - \$241.2 B

1

2

Google - \$207.5 B



Microsoft - \$162.9 B

3

4

Amazon - \$135.4 B

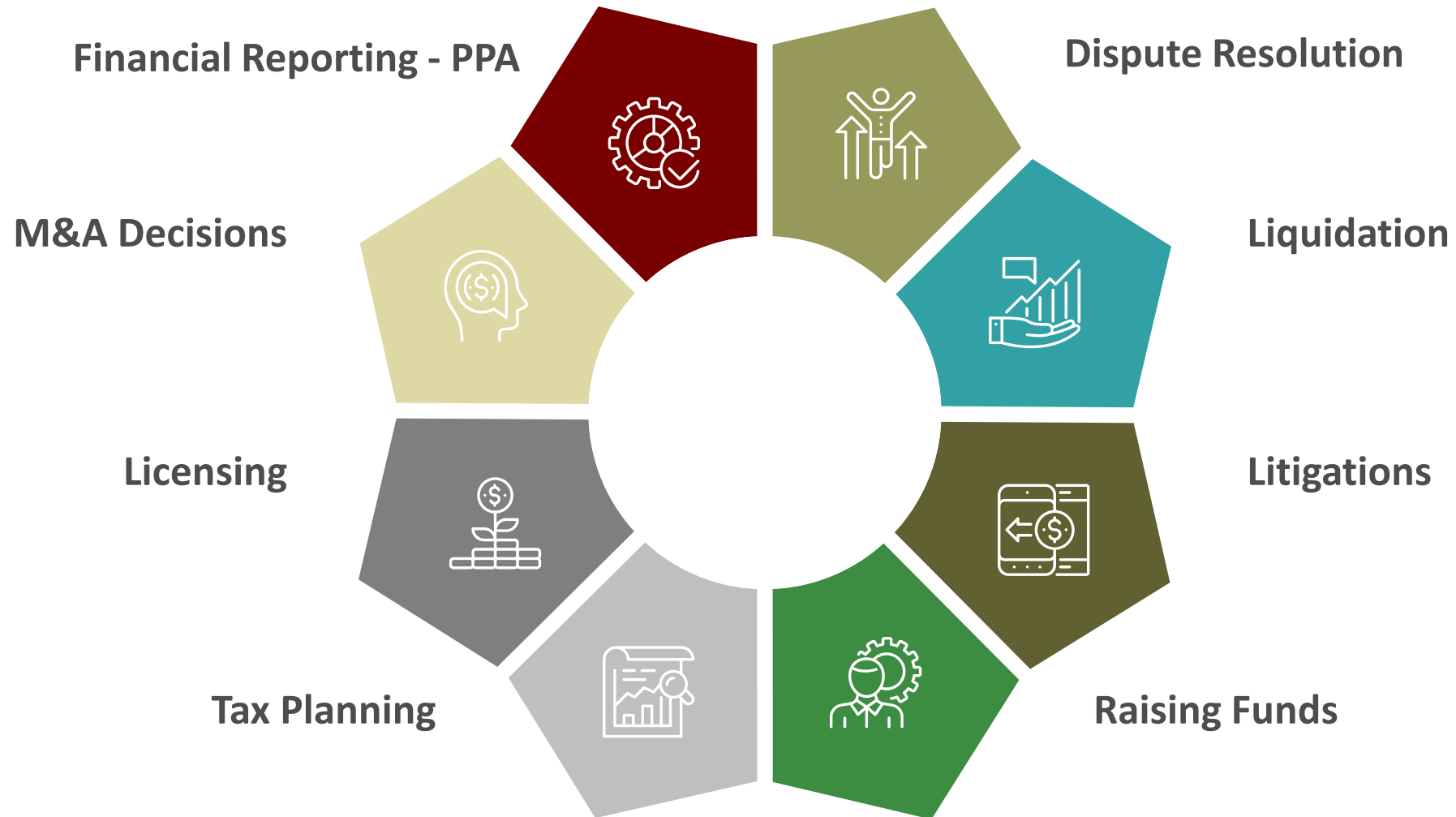


Facebook - \$70.3 B

5

(Source: Forbes list of most valuable brands of 2020)

Reasons / Need for Brand Valuation



TECHNICAL METHODS



Approaches for Brand Valuation

Three Approaches

Most Widely Used Method

Market Approach

- Provides an indication of the fair value by comparing the asset to similar assets that were bought and sold in recent market transactions.
- Intangible assets are typically transferred only as part of selling a business or in a licensing agreement.
- Observable market data is therefore limited & non-reliable
- Hence, market approach is less frequently used.

Cost Approach

- Estimate fair value by quantifying the amount that is required to create or replace the brand.
- Ignores future economic benefits
- This approach is generally not considered because there is no direct correlation between cost incurred in creating the brand and market value of the brand.
- Is less widely accepted than market and income approaches.

Income Approach

- Estimate the price an asset could be sold for in an arm's length transaction on the basis of the asset's expected future income stream.
- Involves estimating the present value of future economic benefits.
- In practice, income approach-based methods are the most commonly applied as it involves fair value measurement by direct reference to the asset's expected future economic benefits.

Market Approach

Market Approach

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graph TD; A[Market Approach] --> B[Sales comparison method]; A --> C[Market Multiples method]
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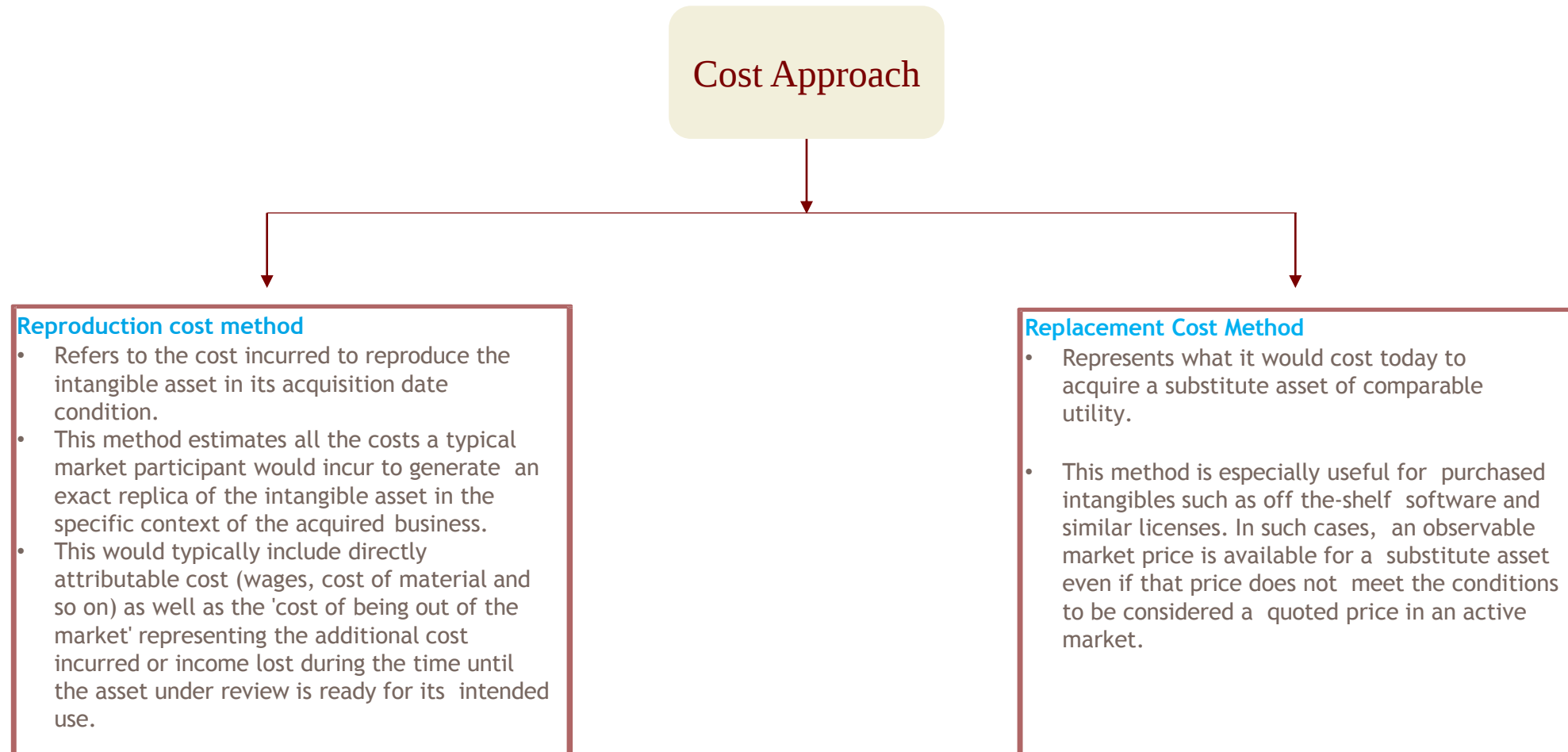
Sales comparison method

- The fair value of the asset in question is assessed in a benchmarking-type exercise by estimating its fair value relative to the observed transaction prices of similar intangible assets.
- Differences between the asset under review and assets for which transaction price data is available need to be quantified and incorporated into the fair value estimate.
- Adjustments for income taxes are usually not necessary as the transaction prices should reflect all the factors taken into account by market participants in setting those prices

Market Multiples method

- This method is used where market prices are available to correlate closely to financial ratios relating to the intangible asset. Common market multiples are:
 - Price to cash flow
 - Price to earnings
 - Price to revenue
- In some cases market prices might correlate with non-financial ratios as well or instead. A non-financial ratio is often industry-specific and should normally be used only if widely applied in pricing assets in that industry.

Cost Approach



Income Approach

1) Relief from Royalty Method (Most Commonly used method)

Overview

- This method values the intangible asset by reference to the amount of royalty the acquirer would have had to pay in an arm's length licensing arrangement to secure access to the same rights.
- The key input into this method is the 'royalty rate', which is then applied to the 'royalty base' to estimate the amount of theoretical royalty payments. This royalty stream, which the owner does not have to pay since the intangible asset is already owned, is discounted.
- This method (sometimes also referred to as the 'royalty savings method') is frequently used for intangible assets that are legally protected and which could (in theory at least) be licensed to or from a third party.

Estimating the royalty rate

- Royalty rates are usually estimated on the basis of information available for recent market transactions.
- In the absence of an actual licensing agreement for the subject asset, samples of 'benchmark royalty rates' for similar intangible assets or comparable licensing arrangements may be found in royalty databases available on the internet, valuation periodicals or similar sources.
- In the absence of any information on the royalty rates, a commonly used rule of thumb is used which is “25%-33% rule of thumb”. According to this royalty rates are estimated at an average of 25% and 33% of the sustainable profit margins over the projected period.

Income Approach

Calculation methodology

- The estimated income stream or 'royalty base' that is attributable to the intangible asset is identified and usually derived from the prospective financial information (PFI) of the acquired entity. The estimated income stream is represented by a projection of net sales over the economic life of the intangible asset less appropriate expenses.
- The future royalty payments the acquirer hypothetically saves due to ownership of the asset are calculated for each year of the intangible asset's economic life and then discounted to acquisition date present values using an asset-specific discount rate.
- A TAB element is added to the post-tax present value of the royalty savings, if appropriate.

Income Approach

2) Comparative Income Differential Method

Overview

- This method generally estimates the income differential an asset will generate relative to its absence. In other words, the difference between the value of the business with and without the intangible asset is used to estimate its acquisition date fair value.

Estimating the income differential

- The income differential generated (or protected) by the asset may represent:
 - additional sources or higher volumes of income
 - cost savings, e.g. as a result of lower expenditures for marketing, human resources or similar functions of the entity
 - A combination of both
- To estimate the differential income generated by more complex intangible assets, PFI may be required for the business as a whole with and without the economic benefits of the intangible asset.

Income Approach

Calculation methodology

- The income stream attributable to the intangible asset is estimated. A common approach is to estimate net income for the business as a whole with and without the intangible asset, which gives an estimate of the income differential attributable to the asset. In less complex situations, it may also be appropriate to estimate a discrete stream of income that the asset will generate during its economic life.
- The present value of future differential income is determined. Asset-specific discount rates should generally be used. Where the CIDM compares the value of the business as a whole with and without the intangible asset, an entity-WACC is usually considered appropriate to discount income streams by the entity as a whole.
- TABs are added to the post-tax present value of the income differential expected to be generated by the intangible asset, if appropriate.

Income Approach

3) Multi Period Excess Earning Method

Overview

- The method takes a 'residual approach' to estimating the income that an intangible is expected to generate. It generally starts with the total expected income streams for a business or group of assets as whole and deducts charges for all the other assets used to generate income with the intangible asset under review during its economic life.
- Residual income streams are then discounted using asset-specific rates.
- TAB (Tax Amortisation Benefits) is also considered



**THANK
YOU!**

Phone:
+91 97275 67272

Email:
soumilsinghvi@gmail.com

Website:
www.singhviadvisors.com