



Promoting Intellectual  
Property Rights in the  
ASEAN Region

# Conducting a Basic IP Valuation for SMEs: valuating your brand

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Funded by the European Union



This Project is funded by the European Union and implemented by the European Union Intellectual Property Office (EUIPO)

## Overview

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1. Various IP valuation methodologies (with a focus on trade marks)
2. Choosing the most convincing one for your SME
3. Applying the “historic cost” methodology to calculate brand value
4. Additional tips for sellers and acquirers

*This year, no slide about the importance of IP valuation ☹️  
but believe me, it is important*

## One more question

What would happen today if we have kept Triode as our trade mark?

# 1. Valuation of intangibles

## Requirements

- 1) Adapted to the purpose – licensing, sale, investment
- 2) Based on available data
- 3) Convincing (there is no “right” valuation)

How can an SME value a trade mark for acquisition purposes?

## 2. Recallin' last year methodologies

### Historic costs

- Consists in valuing the IPR according to the costs incurred for its creation and protection
- It is commonly used for formal accounting and taxes purposes

PROS	CONS
<ul style="list-style-type: none"><li>- Data is widely available within the company</li><li>- Calculations are simple</li><li>- Objective method</li></ul>	<ul style="list-style-type: none"><li>- According to this valuation method, Apple's trademark worth is some thousands \$</li></ul>

## 2. Recallin' last year methodologies

### Comparables or transactional method (example in Huawei vs ZTE)

- The price of an IPR is the market price of a comparable asset (transaction)
- Requires 1) screening of comparable assets 2) adjustments

#### PROS

- Market value virtually equals real value (not always)
- Useful in markets where there is public info available (eg franchises)
- Prima facie objective

#### CONS

- IPR markets are not transparent
- Is not always possible to find comparables
- Adjustments and assumptions can be really complex
- Some IPRs are unique (eg blockbuster drugs)

## 2. Recallin' last year methodologies

### Discounted Cash-Flow (practical example in last year's ECO-fi case)

- Calculating the current value of the expected cash flow at a discount rate
- Treats IPRs as any other investment

PROS	CONS
<ul style="list-style-type: none"><li>- Allows to compare IPRs with other IPRs but also with other investments</li><li>- If there is data available it is pretty accurate</li></ul>	<ul style="list-style-type: none"><li>- Adjustments and assumptions can be really complex</li><li>- Does not allow to calculate strategic value (eg Tesla's or Google's strategies)</li></ul>

## 2. Which one to use for valuating our brand

**1. Fit for purpose:** all three are relevant

**2. Available data:**

- We are not licencing – hence no cash flows
- Finding a comparable for a SME (and get the actual data) is enormously difficult
- We do have data on costs incurred in marketing actions

**3. Convincing:**

- If we opt for comparables or DCF the value will be based on assumptions and estimations (difficult to sustain in the negotiations).
- Historic cost will be convincing for the acquirer (low price)



### 3. Using historic cost methodology

- For SMEs there is less dissonancy between costs and trade mark value than in Apple or Mc Donalds cases
- The result of historic cost will be the **lowest brand value** – ie the floor value
- Still there is margin for a few adjustments

### 3. Using historic cost methodology

Let's consider this (oversimplified) example:

- Year 1:
  - €10.000 in social media campaigns
  - €5.000 in radio advertisement
- Year 2:
  - €3.000 in crowdfunding campaign
  - €5.000 in social media

Hence the value of the trade mark should be at least =  $10k+5k+3k+5k = €23.000$

### 3. Using historic cost methodology

The sale floor is €23.000, any offer **lower than that should result in the rejection of the offer.**

However, if we are the seller, we would be interested in **increasing such amounts**, here we can also include:

- Costs associated to brand development from our internal marketing department (requires % dedication, more difficult if more than 1 brand)
- Cost incurred to register the trade mark(s) - the acquirer will not need to incur in these expenses

If information is available, **we can adjust costs to their impact**

### 3. Using historic cost methodology – adjusted to impact

Concept	Amount	Target	Result	Adjustment
Social media (Y1)	€10000	50000 impressions	58540	+17%
Radio (Y1)	€5000	10000 listeners	11540	+15%
Social media (Y2)	€5000	1500 reactions	1434	-4,4%
Crowdfunding SM (Y2)	€3000	€14000	€23500	+41%

More consistent → links to result for € expended

Requires appropriate definition and follow up of marketing actions results'

### 3. Using historic cost methodology – adjusted to impact

Hence:

$$\text{Brand value} = (10000 * 1,17) + (5000 * 1,15) + (5000 * (0,956)) + (3000 * 1,41) \\ = \text{€}26460$$

+ €20000 (mkting personnel costs imputed to brand development)

+ €2000 (expenses incurred to register the trade mark)

$$= \text{€}48460$$

\* You might be interested in including a premium on the basis of increasing sales, customers loyalty etc

## 4. Using historic cost methodology – acquirers perspective

### If you are the acquirer:

- Challenge the sustained value of the costs along time
- Argue in which cases marketing investment is ephemeral
- Propose a discount rate per year to the acquisition date

*Example: a €100k investment in social media five years ago is likely worth close to €0 if no sustained investment in social media has been done within the subsequent four years*

## 5. Using historic cost methodology

In conclusion:

1. The methodology **fits the purpose**: acquisition
2. It is **based in data which most SMEs have access to**
3. The valuation is neither perfect nor "right", but **is reasoned, coherent and based on real data - convincing**

## 6. How to use it

- This is a **minimum price** that you might want to **keep secret**
- The resulting value is just what you need to **get all your expenses in the brand covered**, but says nothing about:
  - Its actual ability to generate returns
  - Brand's grow potential
- **Selling at this price** can be fine:
  - In the event of a **company acquisition**
  - If you are in **financial distress** and need to invest in other assets
  - If the brand is **not strategic** and/or is going to **lose its value**



## Just one second...

The acquirer will offer you €0 if your trade mark is weak – ie there are prior conflicting trade marks

**NEVER, NEVER** start a business  
with a weak trade mark

## Bonus track: can we use historic cost with patents?

- Patents tend to be costly – but because the intangible asset is even more valuable
- If it is a product patent – an apportionment of incomes attributable to the invention is a more accurate valuation criteria (easy for drugs, not that much for a PC)
- Maybe for cosmetic (reputational) patents
- In portfolio transfers (floor price of the whole portfolio)

## Main takeaways

- No “right” valuation
- “Historic cost” methodology – accessible for an SME, uses readily-available data for brand valuation

## Some further reading...

- International Chamber of Commerce – Handbook on Valuation of Intellectual Property Assets (2019):  
<https://iccwbo.org/publication/icc-handbook-valuation-intellectual-property-assets/>
- European Commission – Final Report from the Expert Group on Intellectual Property Valuation (2014):  
<https://op.europa.eu/es/publication-detail/-/publication/797124c6-08cb-4ffb-a867-13dd8a129282>
- WIPO – Module on IP Valuation:  
[https://www.wipo.int/export/sites/www/sme/en/documents/pdf/ip\\_panorama\\_11\\_learning\\_points.pdf](https://www.wipo.int/export/sites/www/sme/en/documents/pdf/ip_panorama_11_learning_points.pdf)
- Zafrilla (2021): IP Valuation: What, When and How Methodologies in IP Valuation Explained:  
[https://internationalipcooperation.eu/sites/default/files/arise-docs/2021/ARISEplusIPR\\_oct2021\\_Vicente-Zafrilla\\_IP-Valuation-What%2C-When-and-How-Methodologies-in-IP-Valuation-Explained.pdf](https://internationalipcooperation.eu/sites/default/files/arise-docs/2021/ARISEplusIPR_oct2021_Vicente-Zafrilla_IP-Valuation-What%2C-When-and-How-Methodologies-in-IP-Valuation-Explained.pdf)
- Zafrilla (2021): Case Study: IP Portfolio Valuation:  
[https://internationalipcooperation.eu/sites/default/files/arise-docs/2021/ARISEplusIPR\\_oct2021\\_Vicente-Zafrilla\\_Case-Study-IP-Portfolio-Valuation-for-a-Worldwide-Licence-in-Unwired-Planet-vs-Huawei.pdf](https://internationalipcooperation.eu/sites/default/files/arise-docs/2021/ARISEplusIPR_oct2021_Vicente-Zafrilla_Case-Study-IP-Portfolio-Valuation-for-a-Worldwide-Licence-in-Unwired-Planet-vs-Huawei.pdf)

<b>Presentation</b>		
<b>Status</b>	DRAFT / APPROVED	
<b>Approved by owner</b>	-	
<b>Authors</b>	-	
	-	
<b>Contributors</b>	-	
	-	

#### Revision history

Version	Date	Author	Description
0.1	DD/MM/YYYY		
0.1	DD/MM/YYYY		
0.1	DD/MM/YYYY		



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**THANK YOU**

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