Guide to Intangible Asset Valuation by Robert F. Reilly and Robert P. Schweihs

Roger J. Grabowski

When I first opened the book, the scope of the book as shown in the table of contents immediately brought back memories of the numerous intangible asset valuations that I have had the opportunity to prepare over my nearly 40 years in the valuation profession.

I found the *Guide to Intangible Asset Valuation* to be a very thorough overview of the nature of and the valuation of intangible assets from various perspectives: that of the valuator, the licensing executive, and the commercial litigation community.

Encompassed in the book's over 700 pages are summaries of basic principles as well as comprehensive examples of the valuation process that will be a useful introduction to the novice first delving into the valuation of intellectual property and intangible assets and a useful reference source for to the more experienced professional.

The book begins with an excellent discussion of the characteristics of intangible assets and contrasts intangible assets typically subject to separate valuation with economic phenomena that typically do not so qualify (e.g., high market share, market potential, etc.). While these descriptive economic effects generally do not qualify as intangible assets, they may indicate that one or more identifiable intangible assets do have value.

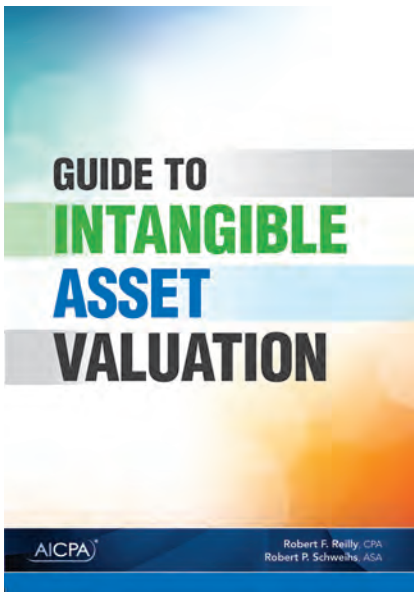
The authors then introduce the relationship between tangible assets and intangible assets which is later discussed further in the examples of valuing specific intangible assets. I have often found that valuators maintain a rigid dividing line between tangible asset valuation and business and intangible asset valuation.

I found it refreshing that the authors do not shy away from providing discussion and examples of intangible assets that are often considered tied to the specific use of a tangible asset (leasehold interest, use rights, etc.). All valuators need to understand how assets, real and intangible, provide often intertwined contributions to an overall business.

In Chapter 2 the authors discuss intellectual property (e.g., patents, etc.), and in Chapter 5 they examine other intangible assets. Exhibit 5-1 provides a useful illustrative listing of intangible assets.

In Chapter 5 the authors also provides an initial overview of the division of legal rights with which one may be confronted in the valuation of full and partial interests in any asset valuation. The authors then follow up with more comprehensive discussions of the division of legal rights for intellectual property in Chapter 6.

The scope of this book's content becomes even more evident as one turns to Chapter 7 which introduces economic damage principles. The authors provide a useful comparison of an analysis performed for damages and for other uses. They properly point out that intangible asset damages are not necessarily equal to value.



In Chapters 9 and 12 the authors provide guidance on data gathering in the context of a damages analysis and an excellent discussion of the methodologies applied to measure damages. Practitioners who have not had to deal with damages before will find the examples in Chapter 12 most useful.

Later, the authors introduce the reader to valuations in the context of intercompany transfer

pricing in Chapter 25 and valuations of intellectual property and in the context of valuations for financial reporting in Chapters 21, 22, and 23.

The authors provide valuable guidance throughout on the process of conducting an analysis of damages or a valuation.

I found the discussion of highest and best use as applied to intangible asset valuation introduced in Chapters 5 and 10 and expanded on in Chapter 13 to be valuable additions to the discussions of standards of value and premises of value. As practitioners understand, value is not an absolute and only takes on meaning within a specific framework. Highest and best use is an important part of defining the proper framework. The authors again discuss the concept of highest and best use in measuring fair values for financial reporting in Chapter 21.

Chapter 14 addresses the cost approach. I found the authors discussion very complete. For example, many analysts applying the cost approach simply consider direct costs in their analyses. The authors correctly include the critical elements of value—developer profit and entrepreneurial incentive—in their discussion and examples in Chapters 15, 28 (data processing intangible assets) and 29 (human capital intangible assets). Those discussions are valuable additions to the valuation literature.

In Chapter 16 on the market approach the authors again correct a very important common misconception. Many analysts apply the relief from royalty method as the indicator of value without considering that it often only represent a partial interest in an intangible asset and often understates the value to the party that is the outright owner of intellectual property or another intangible asset. This issue is often ignored. The authors point out (on page 275 and 276) the problem with this method: "The relief from royalty method is particularly applicable when the subject bundle of rights is for a limited term, is a use (not a fee simple) right, or involves a fractional ownership interest. . . . the typical license agreement involves less than a fee simple interest bundle of legal rights."

The authors provide a useful discussion on the differences between intangible asset valuation and business valuation in Chapter 18.

There are a few things with which readers should be aware. This book was completed in September 2013 and makes references to two books that are no longer published—in Chapters 8, 16, and 26 to the *Ibbotson Cost of Capital* and in Chapters 18 and 26 to the *Ibbotson SBBI Valuation Yearbook*. In September 2013 Morningstar announced it would no longer publish either book. The authors do provide citations to other data sources.

The *2014 Valuation Handbook—Guide to Cost of Capital* (Duff & Phelps, 2014) provides users with the data previously published in the *Ibbotson SBBI Valuation Yearbook*.

The authors introduce the concept of capital charge for contributory assets in Chapters 18 and 23 and in the examples in Chapters 18, 19, 27, 30. The book presents no example of calculating contributing asset charges but simply references the reader in Chapter 23 to the Appraisal Foundation publication, *The Identification of Contributory Assets and Calculation of Economic Rents*. Perhaps the authors will provide such an example in the second edition. The authors also do not speak about reconciling the discount rates on intangible assets with the overall discount rate for the business or the discount rates for contributory assets.

Finally, this first edition has no subject index in the print version but the index is available on the AICPA website. The index is invaluable as topics are interwoven into various chapters.

I very much admire the authors for the approach they took in authoring this book. They did not try to provide a narrowly focused treatise. This helps the reader understand the similarities and differences in methodologies that can be employed in estimating values. They provide very valuable examples for understanding application of the methodologies introduced in the discussions. Those examples alone make the book a worthwhile addition to practitioners' libraries.

This book will become a valuable teaching resource for introducing new staff to the underlying valuation concepts of intellectual property and intangible asset valuations and a reference resource for all practitioners.

Hats off to a superb book.

Roger J. Grabowski, FASA, is a managing director at Duff & Phelps LLC. He was formerly managing director of the Standard & Poor's Corporate Value Consulting practice, a partner of PricewaterhouseCoopers LLP and one of its predecessor firms, Price Waterhouse (where he founded its U.S. Valuation Services practice and managed the real estate appraisal practice). Roger is co-author of Cost of Capital: Applications and Examples, *5th ed. (John Wiley & Sons, 2014) and co-author of* The Lawyer's Guide to Cost of Capital *(ABA, 2014 forthcoming). He has been the author of the annual Duff & Phelps* Risk Premium Report *and is co-author of the* 2014 Valuation Handbook—Guide to Cost of Capital *(which incorporates the standalone* Risk Premium Report*).*

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We are pleased to announce the publication of . . .

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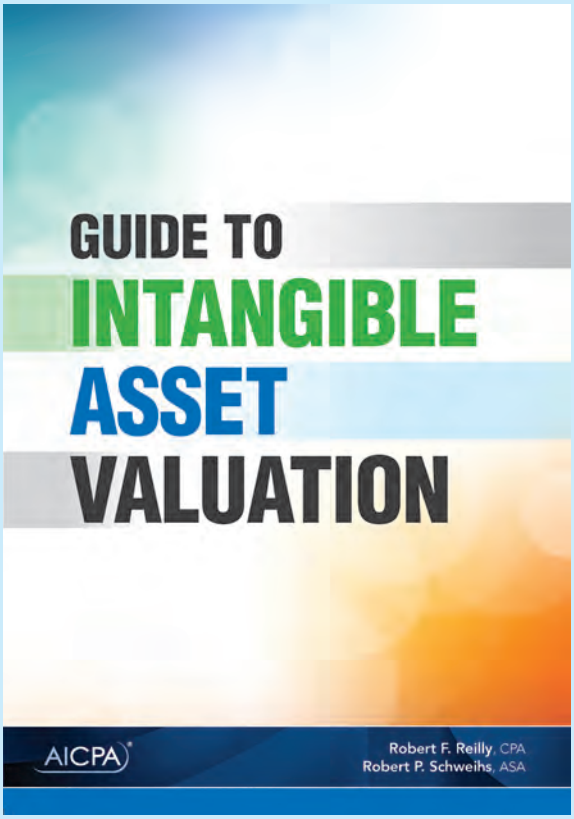

This 700-page book, published in 2013 by the American Institute of Certified Public Accountants, explores the disciplines of intangible asset valuation, economic damages, and transfer price analysis. *Guide to Intangible Asset Valuation* examines the economic attributes and the economic influences that create, monetize, and transfer the value of intangible assets.

Robert Reilly and Bob Schweihs, Willamette Management Associates managing directors, discuss such topics as:

- Identifying intangible assets and intellectual property
- Structuring the intangible asset valuation, damages, or transfer price assignment
- Generally accepted valuation approaches, methods, and procedures
- Economic damages due diligence procedures and measurement methods
- Allowable intercompany transfer price analysis methods
- Intangible asset fair value accounting valuation issues
- Valuation of specific types of intangible assets (e.g., intellectual property, contract-related intangible assets, and goodwill)

Illustrative examples are provided throughout the book, and detailed examples are presented for each generally accepted (cost, market, and income) valuation approach.

Who Would Benefit from This Book

- Litigation counsel involved in tort or breach of contract matters
- Intellectual property counsel
- International tax practitioners
- Property tax practitioners
- Auditors and accountants
- Valuation analysts
- Licensing executives
- Multinational corporation executives
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