

Alert

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Intellectual Property Provides Source of Value for Companies

In the current economy, even with the significant downturn in financial markets, intellectual property (IP) remains an important, and sometimes the most significant, asset of many businesses. IP provides its owner specific exclusive legal rights which it can exploit for economic gain. Increasingly, as funding from more conventional sources dries up, companies are looking to IP as a source of financing.

IP can take many forms – trademarks, brands, copyrights, patented or unpatented technology, and trade secrets. VRC values IP for a wide variety of purposes including financing, tax and financial reporting. The following case studies detail engagements where we valued IP.

CASE STUDIES

VRC valued six trademarks owned by Holley Performance Parts, Inc. in support of a debt facility provided to the Company by Wells Fargo Foothill. We provided three premises of value - fair market value, orderly liquidation value and forced liquidation value. Holley is the world's #1 manufacturer of performance fuel systems including carburetors, fuel injection, fuel pumps and intake manifolds, cylinder heads and engine dress-up products for street performance, race and marine applications. The trademarks we valued were as follows:

- Holley Performance Parts
- NOS
- Weiland
- Earl's
- Flowtech
- Hookerheaders

For Oxford Industries, Inc., VRC valued one of its primary trademarks, **Tommy Bahama®**. The trademark served as collateral support for \$150 million of debt financing. The senior secured notes were placed through a group that included Banc of America Securities, Sun Trust Robinson Humphrey, Credit Suisse Securities, BB&T Capital Markets, Morgan Keenan & Company, Barclays Capital and PNC Capital Markets. Tommy Bahama® is a lifestyle brand of men's and women's sportswear and related products that define casually elegant island living.

Other recent examples of IP valuations conducted by VRC include the following:

- Software and trademarks of a payment processing company in Mexico
- Trademark of a U.S.-based interim and turnaround management services firm
- Proprietary business process design and software of an auction and bidding solution company
- The trademark of a large U.S. gas station and convenience store chain
- Proprietary software of a large Brazilian bank authorization and credit and debit card processing company

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METHODOLOGY

The valuation of IP is completed with different standards of value depending on the purpose of the valuation. For instance, the valuation of IP for financial reporting purposes is determined at its estimated fair value (as defined in SFAS 157). The valuation of IP for tax and financing purposes is typically determined at its fair market value. In certain situations, lenders may also ask valuers to determine the orderly liquidation value and/or forced liquidation value of the IP, to get a better idea of the value of the IP under potential downside scenarios.

While each of the cost, market and income approaches are considered, IP is most often valued using an income approach. Cost data is typically subjective and not necessarily reflective of the assets future value. Market transactions involving similar types of IP are often infrequent and difficult to measure.

In valuing IP, the valuer needs to consider a variety of qualitative and quantitative characteristics of the asset. Although both types of characteristics are considered, the economic factors (a subsection of the quantitative analysis) can drive the IP valuation. That is, the value of the IP is a reflection of current and/or future economic benefits that can be derived through its ownership/exploitation. The key quantitative factors can include:

- historical and projected growth rates
- profitability of the related product
- expected IP share
- market share

Key qualitative factors to consider include:

- legal rights
- ability to limit competition
- ability to protect market share
- viability of the IP in the industry
- universal appeal of the IP
- potential ability to license the IP

In addition, when valuing trademark/brand IP assets, the valuer should consider such qualitative factors as:

- history/heritage and longevity of the brand
- perceived product quality
- brand recognition in the marketplace
- potential to extend the brand into other adjoining areas
- ability to protect the integrity of the brand
- brand's breadth of distribution
- level of pricing premiums received by the brand
- advertising and maintenance of the trademarks

The valuation of IP requires a careful analysis of qualitative and quantitative factors by a skilled valuation professional. For more information contact your VRC representative. **VR**

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