



## **Valuation of Trademarks**

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### **ABSTRACT**

The valuation process of trademarks shall conform to the “Standards of Property Valuation,” but there is great scope for subjectivity to impact the judgement of the assessor due to the “missing” rules of trademark value. But there’s also inconsistency in pricing as many firms fail to use full range of valuation techniques available. The purpose of this paper is to foster the professionalism and efficacy of trademark value assessment through providing fundamentals of cost approach and income approach along with specific guidelines and parameters by which both methods should be applied.

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### **INTRODUCTION**

*The business landscape has undergone major changes with respect to economics and the environment, causing a greater importance in evaluating the worth of corporate intangibles, including trademarks. This has generated the growing imperative for both rationality and objectivity in assessments, which is germane to financings, trades, investments, M&As, and legal disputes. There is a widely recognized lack of appropriate recognition and valuation skills for intangible asset-intensive companies.*

*IFRS has certain standards for the valuation of trademark at fair value with some exceptions, viz., marketable securities excepted; professional organizations can adopt procedures laid down to determine brand value. Nonetheless, Article 29 of the “Guidelines on Evaluation”, encompassing trademarks and guidelines for determining values of intangible assets is rather ambiguous in terms of setting out explicit criterias. That subjectivity is built into the way an appraiser interprets this language.*

*Addressing Challenges in Valuation of Enterprise with trademarks necessitates well-defined and broad criteria for valuation incorporating different valuation methodologies and reducing subjectivity. In this context, we refer particularly to approaches in the revenue minus value of patents framework for company brands. This Study Aims At Outlining Criteria For Trademark Evaluation That Could Be More Objective And Standardized To Create A Set Of Practical Principles.*

### **MAIN TEXT**

*The value of corporate trademarks depends on several internal features of the trademark as well as the relevant external factors. These include what the mark conveys with regards to right ownership, its registration status, the description of good or services connected to this mark, market share, and most The value of Trademarks is determined by these factors.*

*Certain accounting norms such as “Special Education Accounting Standards” and “Rights to account for municipal”, industrial property trademarks, copyrights and software shall be subject to an explicit useful life exclusive. These standards define how to measure the value of intellectual property, the capitalised costs of developing them and any purchase price paid to acquire them.*

*The demand for brand valuation has grown more and more tangible over the years. In different countries’ “Rules on Appraisal,” there is a way to value trademarks through assessing goodwill. But for judging based on revenue loss — you can compare cases, or take a cost-based approach if what’s fair seems subjective. Also it would be mentioned “Trademark Valuation under Inheritance and Gift Tax Law”, where trademarks are considered an intangible asset and how their worth is assessed based on future profits or revenues which could raise ambiguities if there is uncertainty about future returns*

*In order to counter this, independent evaluation companies can be hired in addition to evaluations, particularly where the outlook for future earnings is uncertain. This demonstrates the necessity to modify the “Rules on Appraisal” with regards to estimating the estimation of great will in this circumstance.*

*Globally, organizations such as the International Valuation Standards Committee, along with The Appraisal Foundation in the US, have set out professional benchmarks for trademark valuation in order to bring greater consistency to this process. After having done all of these things, and others, there is still no overall agreement about good tests for trademarks.*

*Additionally, rising corporate attention to trademarks (driven by tax, accounting, and company valuation considerations) highlights the need for validated analysis outcomes. As a result, there is a global agreement towards improving evaluation methods and standards.*

*More importantly, because they are part of the creative economy, trademarks and brand names play an essential role in furthering the nation's progress. Interests in trademarks as an aspect of intangibles have been expressed by organisations such as the OECD which is actively seeking ways to enhance relevant practices.*

*Third, technological innovations, as well as changes to commercial conditions affect the value of the branding. With the emergence of computers and software, trademark searching has become more effective, but also more complicated. Consequently, there is increasing demand in developing the right evaluation protocols, methods, and criteria — particularly making use of advanced technologies.*

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## DISCUSSION

*In this research work, we have worked on estimating Brand Values using Functional Furniture Product NEO Chair as an Example. The purpose is to evaluate “marketability” and “feasibility” of trademarks for instance of “NEO chair”.*

*Product of intellectual property of “B” having been registered on May 6, 2014 at Seoul under the name of “NEO chair”. The prototype has been completed by November, 2014 — as well as all necessary tooling to build the factory. This analysis is about the trademark “NEO” armchair, which we suppose that all domestic and international trademarks belong to the same establishment. It assesses, according to criteria established in order to estimate the fair value of this brand mark at the end of December 1, 2014.*

### Valuation Practice by the Cost Method

In this case study, the company has expended resources for developing the “NEO chair” trademark (labour & materials cost). In addition, they try to track down data with respect to historical investments made in trademark development costs and have opted for a cost-driven approach that includes a certain percentage as an estimate of a trademark's worth.

To use the cost method for estimating the value of the trademark, the initial step involves calculating the acquisition cost, which encompasses the following components:

Marketing fees for people who made money, marketing the brand/trademark.

Expenses related to project promotion.

Cost of paying administrative personnel and trademark officers .

The expenses concerning the crude materials utilized as a part of the advancement procedure.

Trademark development expenses including the fee.

The cost of trademark development for the “NEO chair” product included between March 2014 and October 2014 such as man-hour charges, investigation of the trademark registration, ads, consultation fee and other associated charges came up to 5

Neo chair, an ergonomic office swivel chair, requires approximately 50 million KRW for total capital investment. (Based on an approximation to the real cost of registering the trademark in October 2014, contributions paid in February 2014, offices rent, furniture charges and other expenses)

For patents, and other similar intellectual property like business opportunity compensation, typical multiples of money are usually between 1–10 x their money source. But current valuations seem to typically land in the 3x range of the original capital invested. On top of that, with an estimate for the payment based on 2 X capital investment we can conclude that compensation is calculated to come in around 100m KRW.

By applying the cost method to value the trademark with all those related costs included, resulting value is presented as 205,081,000 won in Table 1 below.

**Table 1.** Trademark development, investment and compensation costs  
(Units : thousand won)

Division	Detailed expenses	Amount spent	Remark
Trademark development costs	Labor costs	15,000	development manpower 2 : 2014.03~2014.10
	Trademark Search costs	7,500	
	TV, radio, newspapers, magazines, advertising costs	30,000	
	Consulting fees	2,450	
	Registration costs	131	Application (2014.02), Registration (2014.10)
	Subtotal	55,081	
	Investment	Ante	50,000
Business opportunity compensation	Trademark compensation	100,000	54,950 × 2
Total		205,081	

#### Valuation Practice by the Income Method

The prerequisites for evaluating the trademark using the income approach include the following conditions:

Late 2014 sees the completion of Tesla's manufacturing facility, with production set to start and sales to begin in 2015.

Market potential calculations include market size, market share, and how well the product will sell in the market. We make an estimate of the increase in sales which is assumed to grow by 10% per annum in each of the initial three years as compared to the previous year (reference: Bank of Korea's "Financial Statement Analysis" Report 2014.

That projection is used to generate an estimated income statement of the projected revenue.

In the case of the first start-up of development costs amounting to KRW 70000000 which is borrowed capital.

The non-operational costs (financial cost) is calculated based on an assumed average interest rate, which is 10% of the amount borrowed.

Both the headquarters and the factory room are rented-out buildings. Machinery and equipment are straight line amortised with a useful life of 10 years and no residual value.

There are no further capital expenditures anticipated beyond 2016.

It is presumed here that there won't be any exceptional changes in net current assets including inventory, accounts receivable, or payables.

The economic life of the mark is taken to be 5 years and there is no estimate of remaining value.

(In this scenario of evaluation, we assume the company will be manufacturing and retailing the trademarked product from 2015 onwards.) For the revenue projection the increase rate of 10% is assumed annually considering the plan provided by the company for the first year (2015).

Sales amounts and revenue estimates are based on three models created by the corporation, according to the market circumstances and features. These models consider different product prices (Product A: (210,000 won Product B and Product C, 180,000 won).

Assuming no change in the original cost structure, we calculate sales costs to be about 45% of total revenues.

Selling and admin cost is made up of wages/salaries, ongoing overheads such as marketing cost, marketing salaries, development staff cost, etc. A corporate tax rate of 25% is used in calculating figures.

**Table 2. Estimated sales volume  
(Units: number)**

Division	2015	2016	2017	2018	2019
Product A	2,400	2,640	2,904	3,194	3,514
Product B	2,400	2,640	2,904	3,194	3,514
Product C	3,000	3,300	3,630	3,993	4,392
Total	7,800	8,580	9,438	10,381	11,420

**Table 3. Estimated sales amount  
(Units: thousand won)**

Division	2015	2016	2017	2018	2019
Product A	504,000	554,400	609,840	670,740	737,940
Product B	432,000	475,200	522,720	574,920	632,520
Product C	540,000	594,000	653,400	718,740	790,560
Total	1,476,000	1,623,600	1,785,960	1,964,400	2,161,020

**Table 4. Expected earnings estimates  
(Units : thousand won)**

Division	2015	2016	2017	2018	2019	
Total sales	1,476,000	1,623,600	1,785,960	1,964,400	2,161,020	
Cost of sales	664,200	730,620	803,682	883,980	972,459	
Gross profit	811,800	892,980	982,278	1,080,420	1,188,561	
Selling costs	Depreciation	3,750	8,970	20,710	20,710	20,710
	Labor costs	360,000	360,000	360,000	360,000	360,000
	Advertising costs	73,800	192,600	250,380	325,494	423,142
	Subtotal	437,550	561,570	631,090	706,204	803,852
Capital costs	7,000	7,000	7,000	7,000	7,000	
Net Income	367,250	324,410	344,188	367,216	377,709	
Income tax	91,813	81,103	86,047	91,804	94,427	
Net profit after tax	275,438	243,308	258,141	275,412	283,282	

**Table 5. Estimates of cash flows**  
(Units : thousand won)

Division	2015	2016	2017	2018	2019
Net profit after tax	275,438	243,308	258,141	275,412	283,282
Depreciation (+)	3,750	8,970	20,710	20,710	20,710
Total cash inflow	279,188	252,278	278,851	296,122	303,992
Cash outflow (Capital investment)	52,200	117,400	-	-	-
Net cash flow	226,988	134,878	278,851	296,122	303,992

The cash flow forecast is calculated based on those assumptions (and the expected revenues). First, we apply a flat discount rate of 25% as a benchmark while the analysis involves discount rate varying from 35%, 35%, 25%, 25%, 20%, and 15%.

To calculate the discount rate, data from the furniture industry in 2013 is used, considering the average debt-to-equity ratio (60%), the cost of debt capital (0.08: For example, we can take from these values the fixed income return (0.12 : Corporate Bond Distribution Yield), Risk Free rate on Assets (0.06 : Treasury Bond Yield), Equity Market Portfolio Return (0.28 : Composite After incorporating the volatility over three years, the resulting average cost of capital discount rate is about 25% .

During evaluation of trademark of mark, correction is done by using standardization ratio 1.075 including tech/feasibility, marketability rating. Which means a 27% appreciation valuation.

The valuation results for the "NEO chair" trademark using the revenue reduction method are as follows:

This leaves us with a mark value of KRW 248,166,000 after applying an un-indexed discount rate.

Using an implicit discount factor and considering the contributions leads to a brand value in KRW ₩268,019,000.

Without amendment in discount rate movements, the trade mark value comes around ₩250,560,000 together with general contributions.

Accordingly, if we consider the changes in discount rates and corrections, the brand value and contribution come out to be KRW270,605,000 [Exhibit 1].

**Table 6. Trademark value reflects the discount rate and the contribution**

Division	2015	2016	2017	2018	2019	Total
Net cash flow	226,988	134,878	278,851	296,122	303,992	1,240,831
Fixed discount rate	0.25	0.25	0.25	0.25	0.25	
Fluctuations discount	0.35	0.35	0.25	0.20	0.15	
General contributions	0.25	0.25	0.25	0.25	0.25	
Adjustment contributions	0.27	0.27	0.27	0.27	0.27	
Fixed discount rate General contributions	45,398	26,976	55,770	59,224	60,798	248,166
Fixed discount rate Adjustment contributions	49,029	29,134	60,232	63,962	65,662	268,019
Fluctuations discount General contributions	42,035	24,977	55,770	61,692	66,085	250,560
Fluctuations discount Adjustment contributions	45,398	26,976	60,232	66,627	71,372	270,605

**Table 7.** Trademark valuation

Valuation Methods	Trademark value
Cost approach	205,081,000 won
Income approach	248,166,000 won (Fixed discount rate, the general contribution applies) 270,605,000 won (Change the discount rate, the adjusting contribution applies)

We take a discounted cash flow model to calculate the lost revenues over 5 years in respect of the estimated earnings. Evaluation results lie in a range, from the best value of ₩270,605,000 (considering all adjustments and technical contribution for discount rate changes) to the worst one of ₩248,16

The results of the evaluation for the trademark are as shown in Table 7.

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## CONSLUSION

Assessment of trademarks, which I touched on above when talking about assessment during diligence, is ideally done with a view toward fair market value by use of prior transaction(s) to satisfy and persuade all interested parties. Discount rates and adjustments applied could result in appraisal values from 1 million KRW to 270 million KRW in terms of revenue method, and between 1 million KRW up to 205 million KRW on the costing basis

The decision of how to play this is going to be sort of context dependent — there can be a more conservative approach which will probably tend to reflect the mark-holder's position to a great extent and then there will probably tend to be sort of an optimistic approach if we think about the In most cases, intellectual property and copyright issues are considered to take less precedent over revenue losses. But, since there's no historical track record for Company B and it's relatively early in the space with not many players yet (especially at this valuation), a relatively cautious stance could be justified. Thus, the terminal value of "NEO chair" was appraised at 250 million won, using a constant discount rate with reference to the generic contribution generated from revenue loss.

Therefore, the suggested approach to valuation allows for brand valuation and fits with the transitioning economy. With market trends continually advancing, this research grants an active reaction to corporate moves, promoting a methodical and unified strategy for appraisals and examination of new market opportunities.

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