

ValuationConsulting

**INDEPENDENCE
INNOVATION AND
TRANSPARENCY**

STRONG VALUES





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WHO ARE VALUATION CONSULTING

- Many years experience within Government, Investment Banks and the accountancy profession
- Members of the Society of Share and Business Valuers, authors, lecturers
- RICS Chartered Valuation Surveyors and Registered Business and IP Valuers
- Law Society Registered Expert Witness accreditation/membership of the Expert Witness Institute
- Four Directors have experience in presenting testimony with many compliments in Judgements
- Dedicated valuers – we only value shares, businesses, intangibles and IPR worldwide for a variety of non-contentious and contentious purposes



INTANGIBLES – THE CURRENT BIG ISSUES

- Accounting Standards
- Fairness Opinions
- Valuation and registration of accredited experts
- Pension Deficits



VALUATION IS IN EYE OF BEHOLDER

Four Calculations or Steps – 'can Kelvin count'

1. Intrinsic value of Vendor/Licensor
2. Intrinsic value of Purchaser/Licensee

PLUS

1. Intrinsic value of Vendor/Licensor
2. Intrinsic value of Purchaser/Licensee

The capital values calculated are an essential step to consider the valuation and or licensing Proposition

San-Ei Gen the leading food ingredient manufacturer and my Cardiff Marriott negotiations



STARTING AT THE TOP AND TRYING TO BUILD DOWN

THE LAWS OF PHYSICS AND VALUATION SUGGEST
THAT THIS IS NOT POSSIBLE

Quantitative analysis is important but the
foundation of valuation is qualitative and
principled, not prescriptive

Human Resources meets Finance – the forgotten
element



INTELLECTUAL PROPERTY

Those assets whose essential characteristics are derived from the legal system, in this case the UK

Registered Rights

- Patents – UK, EP(UK) (PA 1977, EPC 2000) (Intellectual Property Act 2014)
- Trade Marks – UK, CTM (TMA 1994)
- Registered Designs – UK, CDR (RDA 1949) (Intellectual Property Act 2014)

Unregistered Rights

- Confidential Information (equitable and contract)
- Passing-off (common law)
- Design Right (CDPA 1988) (Intellectual Property Act 2014)
- Copyright (CDPA 1988 and Copyright Computer Software Amendment Act 1985)
- Miscellaneous: Performance Rights, Image Rights, Moral Rights, Database Rights, Malicious Falsehood (common law), Plant Variety Rights

What well-known asset is missing?



INTANGIBLE ASSETS – JUST A FEW EXAMPLES

Rights

- Contracts

Relationships

- Workforce
- Customers

Group Intangibles

- Goodwill

Characteristics of Economic Advantage

- The spectrum of creative thought
- Formulae, Recipes – **Dairy Crest**
- Experience
- Negative Knowledge – **Marubeni's Food Division**
- R&D and Information, Trade Secrets



80% OF CORPORATE WORTH IS INVISIBLE

The US FASB has created a list of what it considers to be a firms intangibles:

Category	Examples
Market-related	Trademarks, trade names, service marks, trade dress, newspaper mastheads, internet domain names.
Customer-related	Customer lists, customer contracts, customer relationships, customer agreements
Artistic related	Ballets, books, plays, articles, other literary works, musical words, opera, pictures, photographs, video and audio-visual material.
Contract-based	Licensing agreements, advertising or service contracts, lease agreements, construction permits, operating and broadcast rights, employment contracts.
Technology-based	Patented technology, computer software, unpatented technology, databases, trade secrets, secret formulae

Recognition under IFRS and FRS is only allowed when there is a merger or purchase of one company by another. You CANNOT under most Standards value own-grown IP for accounting statements



OCCASIONS WHEN FINANCIAL VALUATION IS IMPORTANT

SOME RECENT VC EXAMPLES MOSTLY FOOD & DRINK SECTOR

- Mergers & Acquisitions - **Tilda**
- Portfolio review and risk assessment – **Royal Canin, Coca Cola**
- Arrange a loan – securitisation - pension deficits - **Britvic**
- Tax purposes - **Tilda, PepsiCo, Mars**
- Licensing – **West Cornwall Pasty Co** once voted one of UK's strongest brands (despite a problematic history)
- Balance Sheet – **Innocent Drinks, Highgate Brewery**
- Joint Ventures and Technology Transfer – **Indiana University, Imperial University**
- Distress – **Axminster, HMV, Denby**
- Litigation – Loss of profits, quantum of damage etc – **Coca Cola**

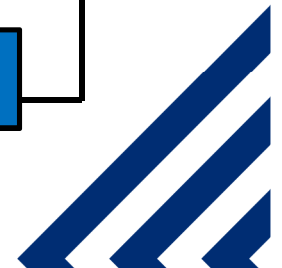
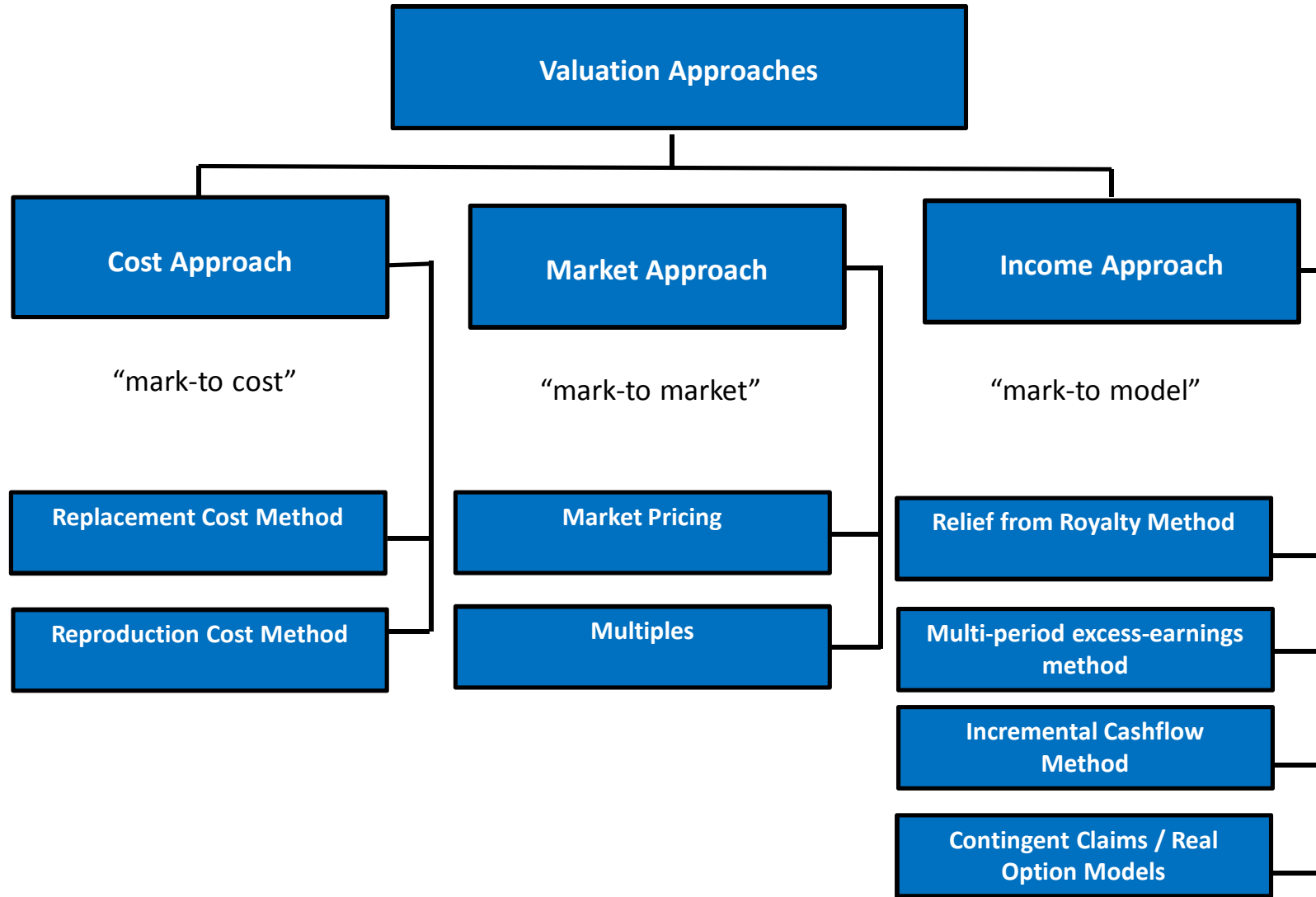


WHY ARE WE VALUING - CONCEPTS?

- Tax Open Market Value
- Fair Value
- Fair Market Value
- Commercial Value
- Investment Value
- Owner Value
- Damages enquiry and account of profit



**APPLY MOST APPROPRIATE METHOD CONSIDERING ECONOMIC BENEFITS
AND VALUATION INPUTS AVAILABLE – HOW MUCH, HOW LONG, WHAT RISK**



TOOLS

HOW MUCH – IDENTIFYING CASHFLOWS?

- Gross profit or incremental profit differential methods – premium prices/premium profits
- Excess profits method, multi-period excess earnings method
- Relief from Royalty method

VC client case studies

- **Coca Cola** and sub branding
- **Woolmark** logo and quality assurance, quality marks
- **Jamaica Blue Mountain Coffee** and domains of origin
- **Cornish Pasties** and Brexit



USEFUL LIFE

HOW LONG FOR – TIME PERIODS?

- Physical Life
- Functional Life
- Technological Life
- Economic Life
- Legal Life

VC client case studies

- **Innocent Drinks**
- **Boots and Nurofen**
- **Nestlé**



DCF, NPV AND ADVANCED MODELLING

Monte Carlo

- Effectively a DCF multiplier
- Numerous DCF calculations accounting for various scenarios and probability eg a launch date, revenue targets, market share, costs, internationality and other risks
- With just 4 scenario changes of 4 stated assumptions this means 256 models!
- That is 4 values for each of income, different market share, costs, international penetration

i.e. $4 \times 4 \times 4 \times 4 = 256$

Real Options

- Probability trees = snakes and ladders, develops the Monte Carlo analysis weighting by a % say to obvious hurdles to market for example in Pharma, the Phases, Regulatory Success and Sales
- Develops terminations (snakes) if a route identifies problems to suggest failure
- Uses basic discount rates and applies on top a differential risk factor to cashflow eg 100% cumulative probability Year 1, 50% Years 2 and 3, 30% Year 4 etc



LICENSING ECONOMICS & ROYALTY RATES

Why License

- Market penetration , increase profits, access another's resources, synergy with another, circumvent infringement situations, sell related products

Royalty Income

- Up-front payment, credits, earn out link, running royalty, minimum or maximum royalties, frequency of payment, licensor conditions, licensee conditions, other considerations, currency of payment, duration and cancellation



LICENSING AND CALCULATING THE ROYALTY RATE

Many factors effect a valuer's licensing and royalty rate advice

- Deal structure (cash, profit etc)
- Exclusivity
- Relative risks
- Investment rates of return
- Commercial relationship between parties (fair value is not fair market value)

Special Factors

- Relative dominance of the brand, patent etc
- Geographical area covered
- Rate of Return acceptable to all parties
- Probable level of continuing sales
- Commercial obligation of licensor(ee)
- Do not always accept 'market rates' 'industry norms' as gospel



FEES AND TIMINGS

We operate in a competitive environment and our basis of charging is competitive. We first develop a better understanding of your needs. For every job we enter into brief discussions and review papers on a no-cost basis and only then agree an acceptable basis for charging and fee

An engagement letter is drafted for your approval that states what we will do, when we will do it, and what we will charge. No one gets surprises

Most fees fall within the £5k-£15k range



THE LICENSEE/PURCHASER & LICENSOR/VENDOR

Four Calculations or Steps – 'can Kelvin count'

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The capital values calculated are an essential step to calculate royalty rate or valuation - discuss



SOME SECTOR CLIENTS



VC has worked for many Businesses in Food, Beer, Wine, Spirits and Beverage. Our balanced worldwide client base is impressive, from Fortune 1000 and Eurotop 100 companies and Governments (UK, US, SA), leading financial institutions, accounting and legal firms, Banks and SME's.

