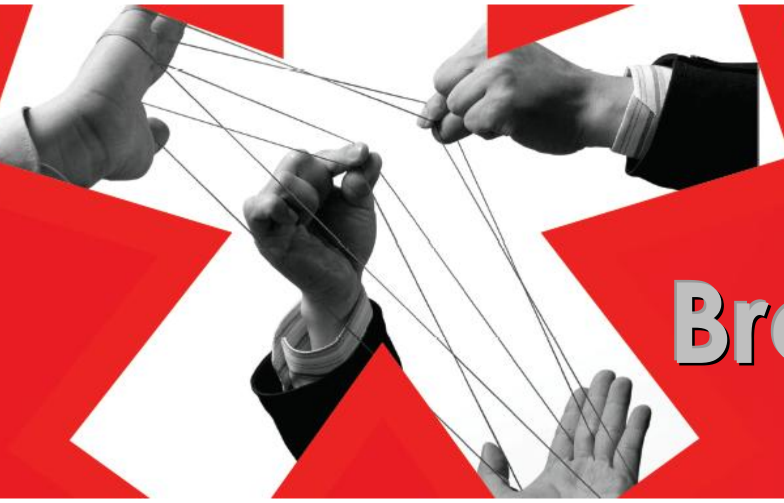

BMI APPRAISALS

Brand Valuation

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BMI Appraisals Limited

Many times, people often get confused between a brand and a trademark; however, a brand is a unique combination of rational and emotional values, as well as qualities associated with an organization. Together of these values, they leave an impression in the audience's mind, and which acts as a credible guarantee of quality. Unlike a brand, the term trademark is the contractual and protective base on which the brand is built; it has a legal definition and therefore can legally protect a brand when trademark is being infringed. Over time, a brand can become a valuable asset through accumulated customer experiences based on investment made in quality, clarity, and consistency of communication.

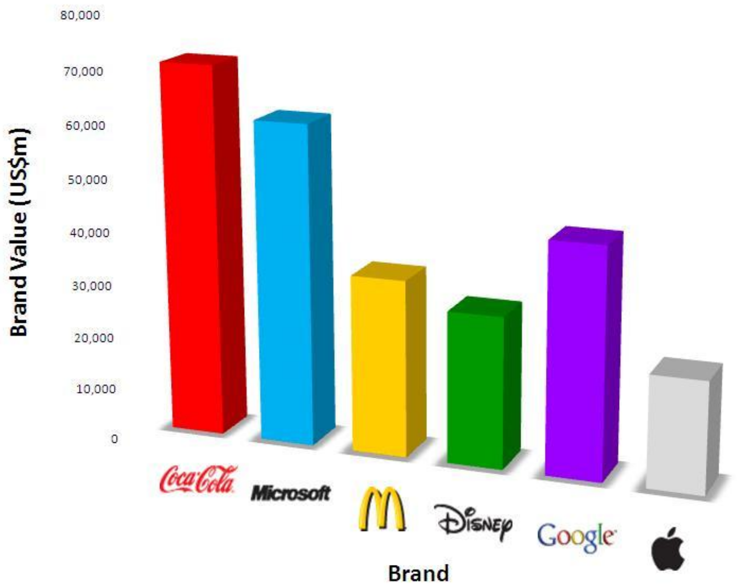
How does a strong brand create value?

At the most basic level, most consumers purchase goods only to satisfy their functional needs. In today's globalization environment, most products and services cannot survive on functionality alone since other products will eventually become more competitive over time and lead to commoditization. Further, with online shopping becomes more popular, customers now have an array of suppliers to select and purchase their goods at the lowest price possible without geographic restriction. Facing such fierce global competition, having a strong brand would certainly separate oneself from competitors and can be an effective barrier to competition in the long run.

How much is a brand worth?

Each year a study is conducted by BusinessWeek®, where it determines the value of a brand. For example, the brand value of Coca Cola in 2010 represented 10% overall company's value. A snapshot of this report on key global brands in year 2010 is illustrated below:

Figure 1: Brand Value



Source: InterBrand

Commercial application of brand valuation

Merger and Acquisition Planning

Brand valuation techniques now play a significant role in merger and acquisition activity. Potential acquirers of branded goods companies and bankers, increasingly use brand valuations to provide comfort that the price being paid for a company can be substantiated by reference to the value of specific intangible assets as well as the tangible assets being acquired.

Collateralized Borrowing

As brands have increasingly been recognized as assets, the opportunity to use them to back specific borrowing lines has increased, especially in the US where companies as significant as Disney have borrowed major sums against their brand.

Litigation

In the case of infringement proceedings, the courts would undertake a valuation of the brand that is in concern in order to arrive at the amount of an appropriate claim or to establish a reasonable royalty rate to award in lieu of damages.

Licensing Agreement

Brand valuation provides a basis in determining a brand licensing rate for optimal exploitation of the brand asset through licensing the brand to third parties. The approach determines the fair split of the economic benefit from the brand between licensee and licensor for the use of the brand.

Tokyo Disneyland®

Case Study on Collateralized Borrowing

Tokyo Disneyland is owned and operated by Oriental Land Company Limited, a Japanese Organization that pays royalties to Disney. In a transaction arranged by Citicorp Investment bank and the Long-Term Credit Bank of Japan, Disney ensured that its future earnings from the Tokyo park would not be affected by fluctuations in the dollar-yen exchange rate. Disney monetized a substantial portion of the park’s expected future royalties. Bonds were issued to securitize against the park’s performance over a period of twenty years. The total net proceeds of the issue of the bonds were approximately US$725m in what was widely described at the time (1988) as the “deal of the decade”.

Technical application of brand valuation

The Hong Kong Accounting Standard 38 (HKAS38) requires organizations to record intangible assets (i.e. brand name, customer relationship) onto their financial statements during a business combination event. Further, internally generated brands are not recognized as intangible assets unless they are being acquired.

Methodologies on brand valuation

Cost Approach

The Cost Approach determines the value of a brand by deciphering the overall cost in re-creating a brand, including market testing, promotion, and product improvement. This approach applies either the historical cost or the replacement cost in finding the value of a brand. The historical cost determines the value of the brand as the sum of accumulated costs expended on the brand to date; while the replacement cost estimates the cost that would be incurred to replace the asset if it is destroyed. However, cost approach is seldom used as a standalone valuation method.

Market Approach

The market approach focuses mainly on comparable brands in recent merger/acquisition transactions in determining the value of the brand. This approach may easily be comprehended; however, for this approach to work, one may need to find comparable transactions within the market, and many times these transactions cannot be easily found given the uniqueness of individual brands. Perhaps by chance comparable transactions could be found, but only limited public financial information has been disclosed, and this approach will fail. As such market approach is not a widely adopted method.

Income Approach

The Income Approach adopts an assumption that the brand value is determined by calculating the present value of the net economic benefit over the life of the asset. There are three commonly used methods under income approach on brand valuation, incremental income method, multi-periods excess earnings method, and relief-from-royalty method. Among these three methods, a more commonly used method recognized by technical authorities worldwide is the relief-from-royalty method.

"If this business were split up, I would give you the land and bricks and mortar, and I would take the brands and trademarks, and I would fare better than you."

John Stuart, Chairman of Quaker (ca. 1900)

The relief-from-royalty method is based on the underlying assumption that a firm would have to pay royalties to brand owners to use their intangible assets such as brands. Application of this method involves estimating the fair value of a brand by quantifying the present value of the stream of royalty payments that the owner of the intangible asset is exempted from or paying. This method involves estimating various key variables and they are listed below:

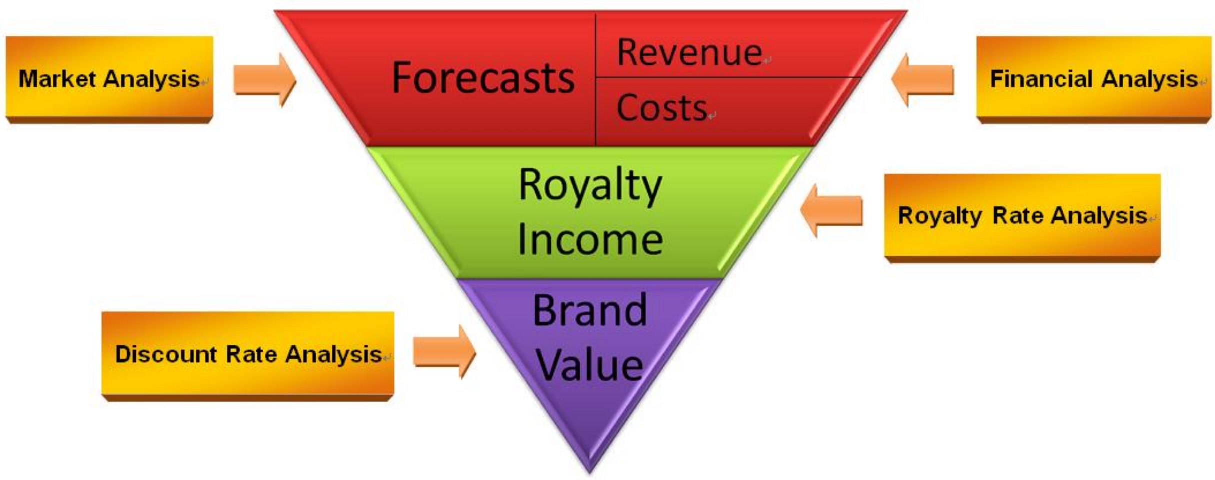
Projected Future Revenue - this represents the series of future cash flows at different times. Expectations about possible variations in the amount or timing of those cash flows must be considered. This projection also takes into account the overall market growth rate and the relative market value of the company to the overall market size.

Economic Life of the Brand - the effective useful life of a brand may not be necessarily the same as the statutory life of its trademark. It might be derived from product life cycles and market analysis, as well as from technological change or changes in taste and behavior.

Royalty Rate and Discount Rate - an appropriate royalty rate is applied in determining the royalty earnings attributable to brand in future years and this royalty rate is determined based upon an industry wide research. In addition, the stream of the future royalty earnings is then discounted back to a net present value, which will be aggregated with the tax amortization benefit to be the brand value. This discount rate has taken into account the expected risks associated with realizing the royalties and the time value of money.

Tax Amortization Benefit - a tax amortization benefit is the present value of the cash flows generated from an asset as a result of being able to amortize the full fair value of that asset for tax purposes. Hence, the tax amortization benefit enhances the value of the brand to the company.

Figure 2: Simplified Royalty Relief Valuation



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