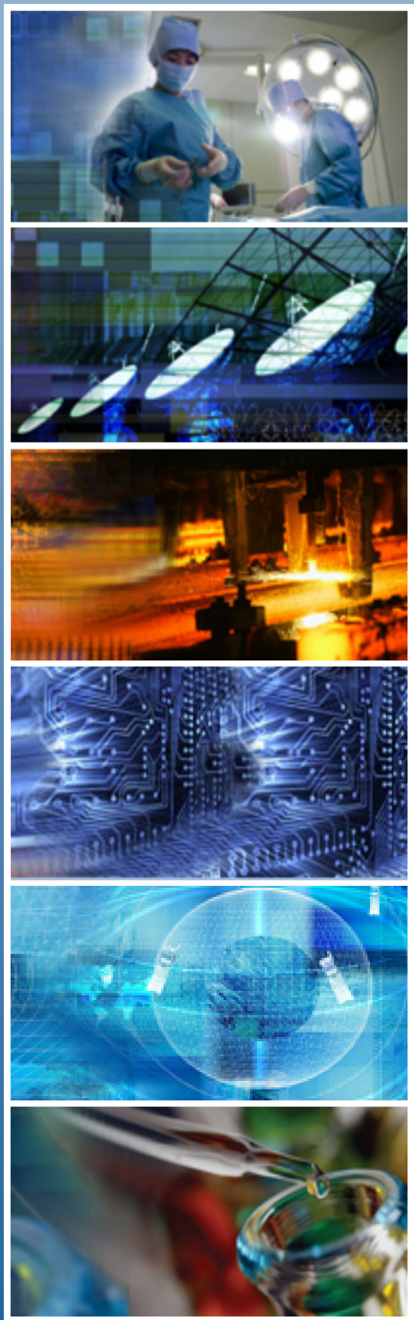


Globalview Advisors

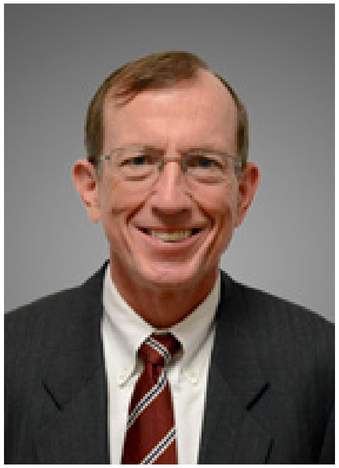
Financial Valuation and Advisory Services

Intangible Asset Valuation under IFRS

Japan Association for Property Assessment Policy

January 31, 2015

Presenter's Contact Information



Raymond Rath, ASA, CFA
Managing Director
Globalview Advisors LLC
19900 MacArthur Boulevard, Suite 810
Irvine, CA 92612
949-475-2808
rrath@globalviewadvisors.com

Presenter’s Summary Biography

Professional Affiliations

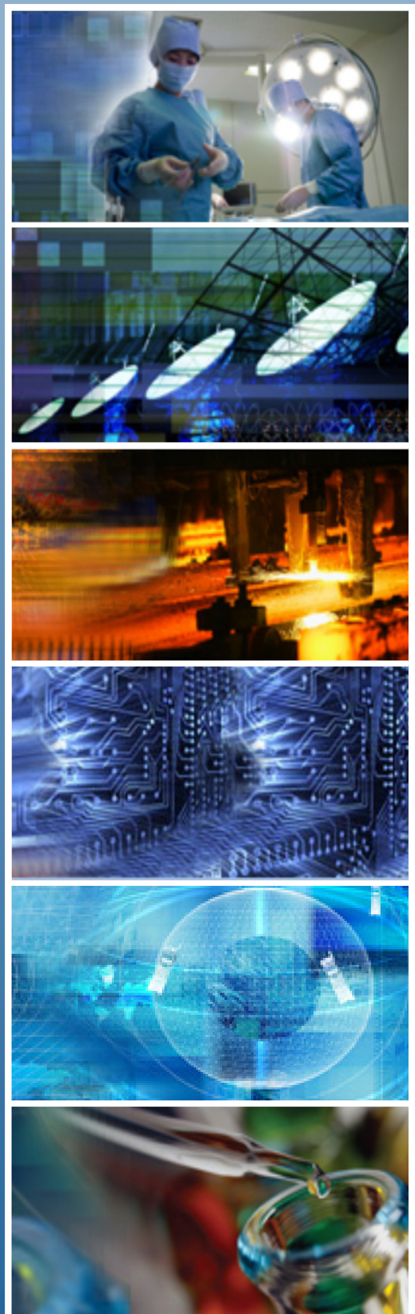
- Member, AICPA Task Force for Accounting and Valuation Guide, *Determining Fair Value of Portfolio Company Investments of Venture Capital and Private Equity Firms and other Investment Companies.*
- Treasurer, Business Valuation Committee of ASA.
- Member, *Valuation Quality Task Force*, a task force to improve the quality of valuations prepared for financial reporting purposes.
- Member of Editorial Board, *Business Valuation Review*, a peer reviewed publication of the American Society of Appraisers, 2013 to present.

Course Development and Instruction

- Developer and Instructor, ASA course *Business Valuation Concepts for Fixed Asset Appraisers* (ME 211).
- ASA Lead Developer / Instructor, *Valuation of Intangible Assets* (BV 301) and *Special Topics in the Valuation of Intangible Assets* (BV 302).
- Organize and moderate annual one-day fair value conferences (2006 - 2015). SEC, PCAOB, FASB, IASB and leading appraisers.
- ASA Instructor, BV 201, *Introduction to Business Valuation*, BV 202, *The Income Approach,* BV 203, *Business Valuation Case Study,* and BV 204, *Special Topics in Business Valuation*.
- Author, *Private Company Valuation* chapter in the CFA Institute textbook *Equity Asset Valuation*. Chapter is required for global CFA level 2 candidates.

Intangible Assets Under IFRS

- IFRS 13, *Fair Value Measurements*.
  - Accounting and high level principals for estimating fair values for a wide range of assets and liabilities.
- IFRS 3, *Business Combinations*.
  - Guidance on identification of assets and liabilities when a business combination has been completed.
- IAS 38, *Intangible Assets.*
  - Guidance on the accounting for intangible assets that are created in the normal affairs of a business. Focus is on capitalization of development expenditures on intangibles such as software. (Research expenditures are not capitalizable.)
  - Brands, customers and similar assets are not recognized under IAS 38 but may be under IFRS 3.



Resources

International Financial Reporting Standards

Fair value measurement for assets

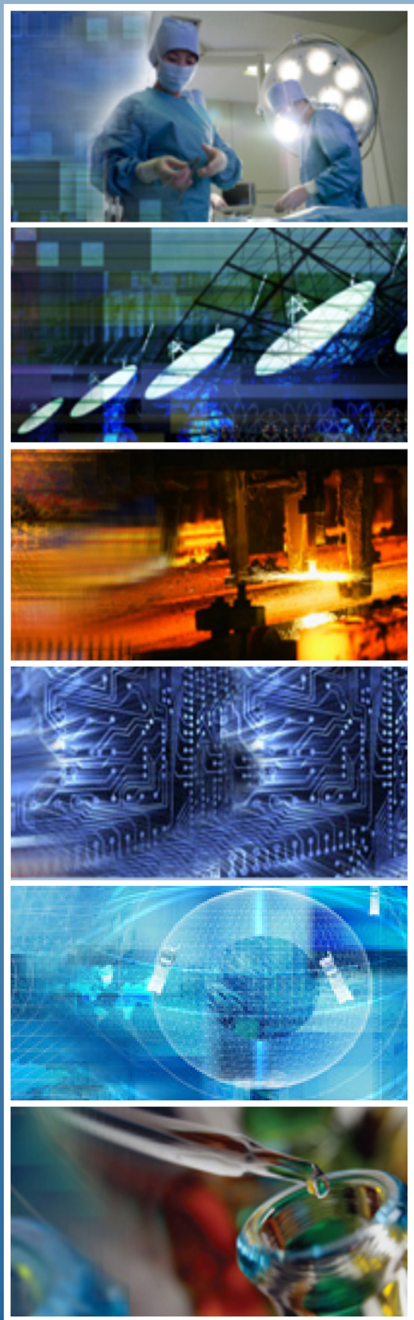
Joint World Bank and IFRS Foundation 'train the trainers' workshop hosted by the ECCB
30 April to 4 May 2012

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

IFRS™

Technical Valuation Resources

- The Appraisal Foundation, Best Practices for Valuations in Financial Reporting: Intangible Asset Working Group, "*The Identification of Contributory Assets and the Calculation of Economic Rents*", issued May 31, 2010
- AICPA Practice Aid entitled *"Assets Acquired to Be Used in Research and Development Activities*", issued 2013.
- The Appraisal Foundation, "*The Valuation of Customer-Related Assets*", exposure draft issued December 5, 2013
- The Appraisal Foundation, "*The Measurement and Application of Market Participant Acquisition Premiums*", discussion draft issued April 16, 2013.



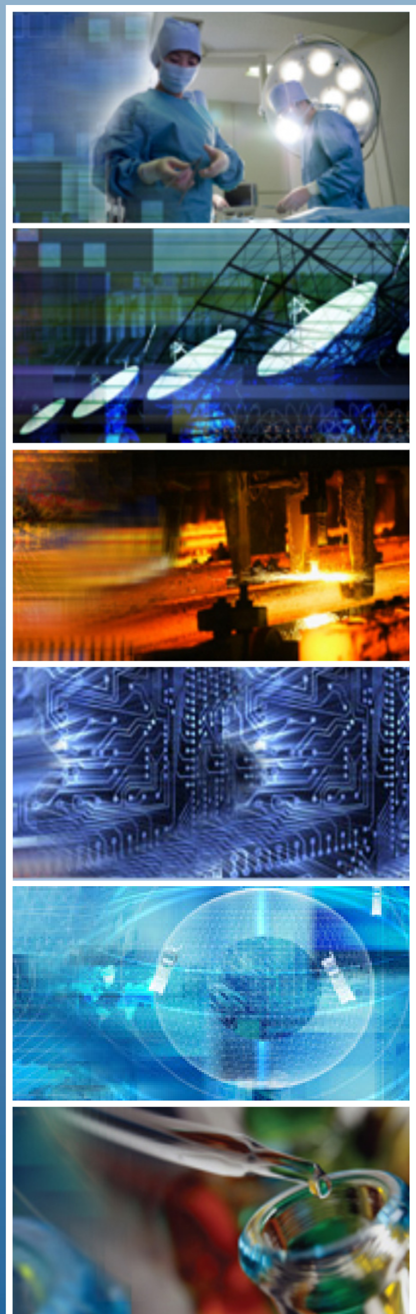
Concepts

Introduction—Intangible Asset vs. Business Valuation

Analytical Variable	Business Valuation	Intangible Asset Valuation
Income subject to analysis	All operating income of business enterprise	Portion of operating income
Life of income projections	Typically into perpetuity	Usually limited remaining useful life (“RUL”)
Discount/Cap rates	Usually lower	Usually higher
Effect of obsolescence	Assume business adapts (going concern)	Assume effect on RUL
Highest and best use	Usually obvious	Requires analysis
Transactional data	Often available	Difficult to find
Control	Control or minority value	Control value
Level of value	Various—total invested capital, equity, minority interest in equity	Total value of asset
Legal rights subject to analysis	Fee simple interest	Numerous possibilities

Identification of Intangible Assets—Key Groupings

- Accounting Standards Codification 805 lists five principal classes of intangibles
  1. Marketing-related
  2. Customer or supplier-related
  3. Technology-related
  4. Artistic-related
  5. Contract-related



Summary Information on Cost and Market Approaches

Overview of Cost Approach—IFRS and US GAAP Definition

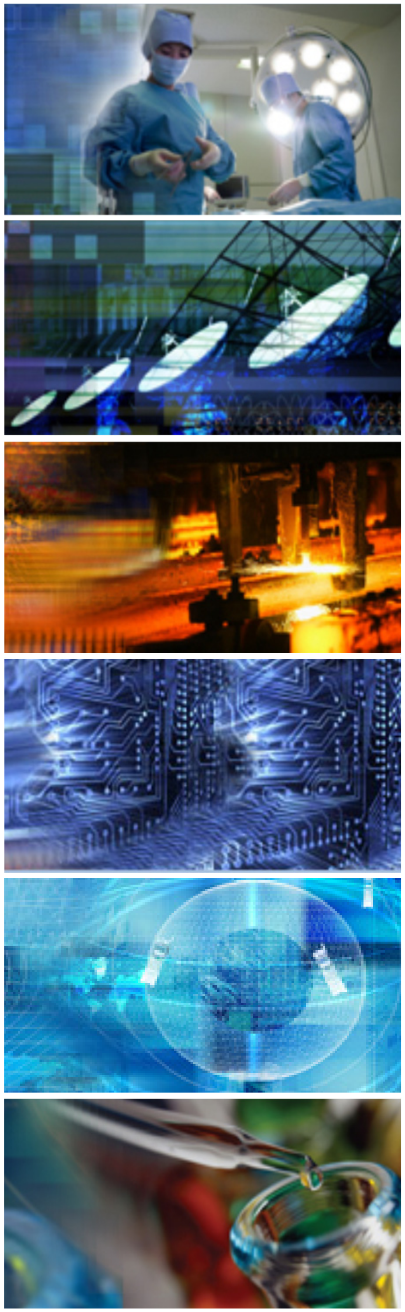
- *Definition of Cost Approach per IFRS 13 (and ASC 820), Fair Value Measurement:*
- "The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost). From the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or **construct a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence, and economic (external) obsolescence and is broader than depreciation for financial reporting purposes** (an allocation of historical cost) **or tax purposes** (based on specified service lives)." (ASC 820-10-35-34)
  - The approach assumes that the **fair value would not exceed what it would cost a market participant to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence."**

Overview of Cost Approach—Comments on Criteria for Selection of Assets to Appraise

- The Cost Approach may be best suited for assets which are not a direct source of economic earnings for the business enterprise.
- Attributes of assets valued using the Cost Approach may also include:
  - Not an enabling asset which "drives" the business;
  - More easily replaced; and
  - Often less significant value relative to other intangible assets.
- The Cost Approach is often best suited for the appraisal of the following intangible assets:
  - Assembled workforce
  - Internally developed and used software
  - Engineering drawings
  - Packaging designs

Overview of Market Approach—IFRS and US GAAP Definition

- Definition of Market Approach: "This approach uses observable prices and other relevant information that is generated by market transactions involving identical or comparable assets or liabilities. The fair value measure is based on the value that those transactions indicate."
- Market Approach infrequently applied for intangible assets.
- Publicly available market data are often not available for intangible assets.
  - Intangible assets are very unique.
  - When intangibles are sold, they are typically sold with other components of a business enterprise.
  - If sold individually, transactions are not often subject to public disclosure.



Overview of the Income Approach

Overview of Income Approach—IFRS and US GAAP Definition

- *Definition of Income Approach per ASC 820 and IFRS 13, Fair Value Measurement:*
- B10 The income approach converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.
- B11 Those valuation techniques include, for example, the following:

  (a) present value techniques (see paragraphs B12–B30);

  (b) option pricing models, such as the Black-Scholes-Merton formula or a binomial model (ie a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and

  (c) the multi-period excess earnings method, which is used to measure the fair value of some intangible assets.

Overview of Income Approach—Alternative Methods

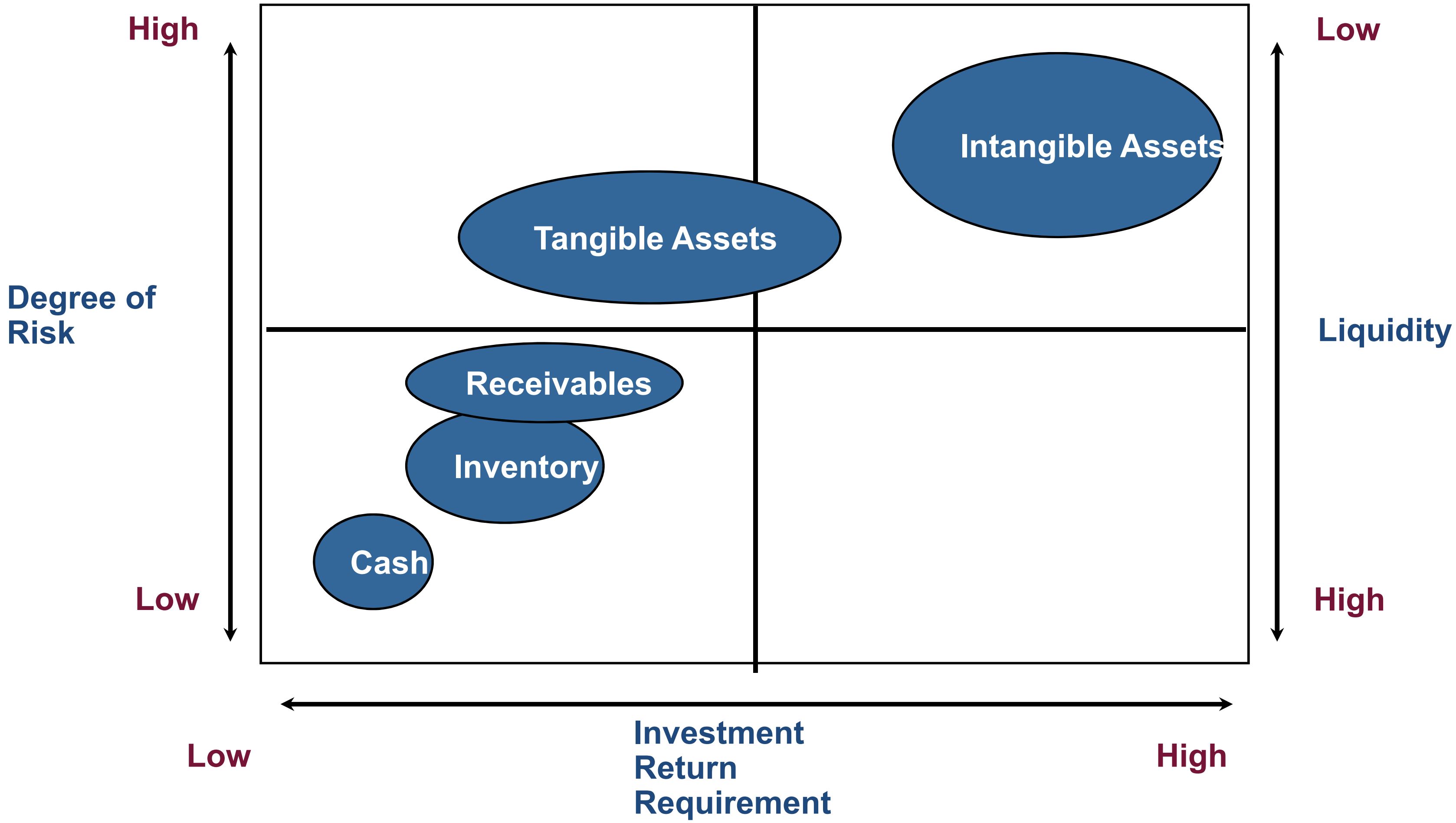
- The derivation of income estimates is the key difference in the valuation of intangibles using the different methods.
  - **Multi-period Excess Earnings Method (MPEEM)**
    - Value is based on **excess income** (residual income of the business after deducting returns from all other assets).
  - **Relief-from-Royalty Method (RFR)**
    - Value is based on **avoided third party license payment** for right to use an asset (assumes asset is not owned).
  - **Income Increment / Cost Decrement Methods**
    - Value based on differential cash flows with and without an asset.
  - **Build-Out (Greenfield) Method**
    - Assumes the only asset in place is the appraised asset. All other assets will be acquired and “ramped-up” in the Build-Out Method DCF Model

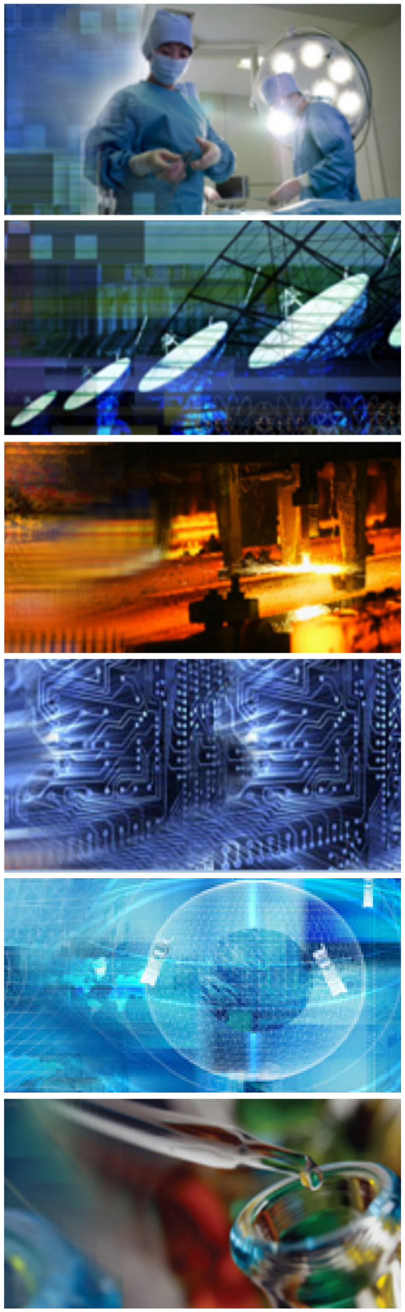
Overview of Income Approach—Types of Assets Frequently Valued Using Different Methods

- **Multi-period Excess Earnings Method** (Residual income):
  - Customer related intangibles
  - Key technology (critical to revenue generation)
  - “Enabling” trade names (very high profile consumer names)
- **Relief-from-Royalty Method** (Avoided third party payment):
  - Less important trade names
  - Some less important technologies (internal use)
- **Income Increment / Cost Decrement Methods:**
  - Covenant Not-to-Compete Contract
- **Build-Out (Greenfield) Method:**
  - FCC Licenses
  - Other permits, rights to operate

Discount Rate Estimates—Risk and Rate of Return

- Assets within a business enterprise have different risk and return characteristics
- Rate of return of a particular asset is commensurate with its risk
- Assets typically have different liquidity and return characteristics





End