

American Society of Appraisers
BV 302, *Special Topics in the Valuation*
of Intangible Assets
Course Overview

Course Overview - Content

- Information on the ASA
- Information on the ASA Business Valuation Credential
- Information on the ASA Intangible Asset Valuation Credential
- BV 301 - Course Overview
- BV 302 – Course Overview
- Fair Value Quality Initiative and the CEIV Credential
- Partial Listing of Relevant Materials

ASA Overview

Background on the ASA

- The American Society of Appraisers is a multi-discipline, non-profit, international organization of professional appraisers representing all appraisal disciplines:
 - Appraisal Review and Management,
 - Business Valuation
 - Business Valuation
 - Intangible Asset specialty designation
 - Gems and Jewelry,
 - Machinery and Technical Specialties,
 - Personal Property and
 - Real Property.
- The mission of the ASA is to foster the public trust of its members and the appraisal profession through compliance with the highest levels of ethical and professional standards.

Background on the ASA - Activities

1. Fosters professional excellence in its membership through education, accreditation, publication and other services with an emphasis on ensuring ethical practices and procedures on the part of its members;
2. Establishes and maintains principles of appraisal practice and a code of ethics for the guidance of our Members;
3. Provides valuation education;
4. Awards professional designations to qualified Members;
5. Strives for universal recognition that Members are objective, unbiased appraisers and consultants of value;
6. Promotes the exchange of ideas and experiences among Members;
7. Seeks to attain recognition of the appraisal profession by both public and private entities;
8. Cultivates a community of interests amongst users of, and members of, the appraisal profession;
9. Promotes research and development in all fields of the appraisal profession; and
10. Helps the public and professionals find ASA accredited appraisers.

ASA Business and Intangible Asset Valuation Designation Overview

ASA Business Valuation Designation – Requirements Overview

- Hold four-year college degree
- Pass the ASA ethics exam
- Complete and pass 15-hour USPAP course
- Complete and pass periodic USPAP update course
- Technical competency – complete required education or pass a challenge exam
 - Education requirement – complete and pass BV201, BV202, BV203 and BV204
 - Challenge exam covering materials in all above courses
- Experience requirement - submit an experience appraisal log or submit a letter from a supervisor attesting to such documenting:
 - Two (2) years for Accredited Member (AM) or
 - Five (5) years for Accredited Senior Appraiser (ASA) of fulltime experience
- Submit one (1) narrative appraisal report along with the completed candidate checklist for ASA review and approval

ASA Intangible Asset Specialty Designation – Overview

- The ASA offers a specialty designation that provides evidence of competency in the valuation of intangible assets.
- Key requirements to obtain this designation include:
 - Already hold Accredited Senior Appraiser status in Business Valuation.
 - Complete BV 301 and BV 302 and pass course exams.
 - Submission and approval of an intangible asset valuation report that meets ASA requirements.
 - Submission and approval of an intangible asset experience log reflecting completion of ten (10) intangible asset valuation projects.

Course Materials and Instructor Comments are Non-Authoritative

- The valuation methods and assumptions presented in this course are NOT authoritative. They are NOT:
 - The only valuation methods that are used by competent appraisers
 - The only way the individual methods should or could be done
 - Cookbook methods that may be applied to any appraisal
- Appraisals should be performed with significant understanding of the terms of the transaction, key market participant information and all other relevant information. A particular valuation method or assumption that is relevant and appropriate at one point in time may not be appropriate at another time or for another transaction.

Introduction – Prerequisites

- **Required Prerequisites**

- This course is open to all who choose to enroll

- **Suggested Prerequisites**

- Degree in finance and/or accounting
- At least two years of business valuation experience
- Six months' or more experience performing or reviewing intangible asset appraisals
- General familiarity with fair value guidance

Introduction – Pre-Course Preparation

- For detailed insights on intangible asset valuation, students should read:
 - 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*”, final document issued June 2016.
 - The Appraisal Foundation, “*The Measurement and Application of Market Participant Acquisition Premiums*”, final document issued September 6, 2017.
 - The Appraisal Foundation, *First Exposure Draft – Valuation of Contingent Consideration*, February 28, 2017

Introduction – Pre-Course Preparation (*cont'd*)

- For insights on relevant rules impacting fair value, students should review:
 - *IFRS 13, Fair Value Measurement*
 - *ASC 820, Fair Value Measurements and Disclosures*
 - International Financial Reporting Standard (“IFRS”) 3, *Business Combinations*
 - Accounting Standard Codification (“ASC”) 805, *Business Combinations*

BV 301

Course Overview

BV 301 - Course Overview

- **Section 1: Overview**
 - Importance of Intangible Assets
 - History, Background, Reasons to Value
 - Definitions
- **Section 2: Important Issues in Financial Reporting**
 - Prior IPR&D Valuation Concerns
 - Key Financial Reporting Issues
 - Rules for Identification of Intangibles Apart from Goodwill
 - Audit Requirements

BV 301 - Course Overview (cont'd)

- **Section 3: Overview of the Three Valuation Approaches**
 - Intangible Asset Valuation Theory
 - Selection of Valuation Approaches and Method within Each Approach
 - Principles Associated with Each Valuation Method
 - Tax Treatment of Intangibles
- **Section 4: The Cost Approach**
 - Theory, Application, Key Issues
 - Examples to Highlight Theory and Application
- **Section 5: The Market Approach**
 - Theory, Application, Key Issues

BV 301 - Course Overview (cont'd)

- **Section 6: Overview of the Income Approach**
 - Overview of Various Methods
 - Selection of Appropriate Method
 - Market Participant vs. Entity Specific Assumptions
 - Rates of Return
 - Types of Projections
 - Customer Related Intangibles and Technology Intangibles Issues
 - Economic Life vs. Amortization Life

BV 301 - Course Overview (*cont'd*)

- **Section 7: Income Approach – Relief from Royalty Method**
 - Overview, Key Issues
 - Discussion of Royalty Rate Estimation
 - Examples to Highlight Theory and Application
 - Profit Split Method
 - Overview of Assumptions
 - Examples to Highlight Theory and Application

BV 301 - Course Overview (cont'd)

- **Section 8: Income Approach – Multi-Period Excess Earnings Method**
 - Overview and Theory
 - Identification of Primary Income Generating Assets
 - Revenue Estimates – Life Cycle and Attrition Estimates
 - Expense Adjustments
 - Contributory Asset Charges
 - Discount Rate

BV 301 – Course Modules and Time Estimates

<u>SECTION</u>	<u>HOURS</u>
• Section 1: Introduction	2.0
• Section 2: Important Issues in Financial Reporting	2.0
• Section 3: Overview of the Valuation Approaches	3.0
• Section 4: The Cost Approach	3.0
• Section 5: The Market Approach	0.5
• Section 6: Introduction to the Income Approach	4.0
• Section 7: Relief from Royalty Method	3.5
• Section 8: Multi-Period Excess Earnings Method	<u>6.0</u>
Total	24.0
• Exam Review	

BV 302

Course Overview

BV 302, *Special Topics in the Valuation of Intangible Assets* - Overview

- A second course in intangible asset valuation is also offered - *Special Topics in the Valuation of Intangible Assets* (“*Special Topics*”)
- *Special Topics* includes three full days of instruction followed by a three-hour exam on the fourth day
- This course provides in-depth instruction on complex valuation issues where:
 - Existing technical guidance is limited
 - Observed valuation practice among skilled valuation professionals is less consistent

BV 302, Special Topics in the Valuation of Intangible Assets - Course Modules and Time Estimates

<u>SECTION</u>	<u>HOURS</u>
• Introduction	1
• Section One – Valuation of Contingencies	6
• Section Two – Advanced Technology Valuation Topics	3
• Section Three - Valuation of Two Enabling Assets	3
• Section Four – Attrition Measurement and Estimation	4
• Section Five – Differential Value Methods	2
• Section Six – Non-Competition Agreements	2
• Section Seven – Deferred Revenue Valuation	2
• Exam Review	1

Special Topics Course Overview – Section One – Valuation of Contingencies

- Overview of Accounting Guidance
- Overview of contingent assets, liabilities and contingent considerations
- Recognize different types of cash flow estimates
- Understand probability, cash flow and discount rate relationships in the context of contingencies
- Overview of valuation of contingent consideration
- Overview of challenges in the valuation of liabilities
 - Cash flow estimation – possible inclusion of profit to the willing buyer
 - Discount rate estimates for liabilities
- Overview of Monte Carlo Simulation and Lattice Models

Special Topics Course Overview – Section Two - Advanced Technology Valuation Topics

1. Overview of technology
2. Overview of a product
3. Valuation of product vs. service
4. Overview certain accounting rules impacting technology under US GAAP
5. Understand stages of technology and product life cycles
6. Recognize key factors for technology revenue estimation
7. Recognize issues and relationships of products vs. technologies
8. Recognize issues with single products that rely on multiple technologies
9. Understand issues in “bundled offerings” of technology (product) and non-technology (services and support) valuations
10. Understand the relation between existing and core technology status
11. Recognize the increasing importance of probability models for technology valuations

Special Topics Course Overview – Section Three – Valuation of Two Enabling Assets

- Review concept of enabling asset
- Understand valuation challenges for two enabling assets contributing to the same revenue and cash flow
- Overview of strengths and weaknesses of various alternatives to segregate cash flows and valuing the two enabling assets
 - Separation Method
 - Hierarchy Method
 - Cross Charge Method
 - Others
- Detailed discussion of Separation Method for valuation of technology and customer related intangibles

***Special Topics* Course Overview – Section Four – Attrition Measurement and Estimation**

- Constant and Variable Attrition Methods
- Customer Count vs. Revenue Based Attrition
- Revenue Capped Attrition
- Measurement Challenges for Attrition
- Overview of Weibull and Iowa Curves

Special Topics Course Overview – Section Five – Differential Value Methods

- Overview of Greenfield Method and With/Without Method including:
 - Strengths, weaknesses
 - When to use
 - Assets valued using either of the methods

Special Topics Course Overview – Section Six – **Valuation of Non-Competition Agreements**

- Recognize the current valuation theory with respect to non-competition agreements
- Understand the application of the With/Without Method (“WWM”)
- Understand key assumptions in the WWM
 - Impact of competition
 - Time period
 - Degree of loss
 - Probability of competition

Special Topics Course Overview – Section Seven – **Valuation of Deferred Revenue**

- Revenue Recognition Overview
- Deferred Revenue Overview
- Valuation of Deferred Revenue for a Business Combination
- Bottom-up Valuation Approach
- Top-Down Valuation Approach
- Advanced Topics
- Deferred Revenue and Customer Relationships

Fair Value Quality Initiative and CEIV Credential and Course Overview

Fair Value Quality Initiative – Overview

- The US Securities and Exchange Commission in its role as a capital markets regulator has raised questions regarding the quality of valuations prepared for financial reporting
- Several not-for-profit valuation professional organizations (VPOs), non-membership organizations and others have worked to develop a framework to advance the quality of financial reporting valuations
- As a part of the framework, a credential “Certified in Entity and Intangible Valuations” (“CEIV”) has been trademarked. Key elements associated with the credential include:
 - Issued by approved VPOs
 - Issued to individuals who perform fair value measurements for financial reporting purposes
 - Requirements to obtain the CEIV credential discussed in subsequent slides

Fair Value Quality Initiative – Qualifications

- As a part of the FVQI, a credential (Certified in Entity and Intangible Valuations) has been developed for issuance by approved VPOs for individuals who perform fair value measurements for financial reporting by SEC registrants.
- The credential will be available only to individuals that are members of qualified VPOs.
- Requirements to obtain the credential include:
 - Experience - Minimum 3,000 hours of fair value measurements
 - Education – Undertake education offered by the VPOs on fair value measurement Body of Knowledge
 - Accounting and regulatory environment
 - Technical guidance
 - Auditing requirements
 - Mandatory Performance Framework requirements
- Credential holders will have ongoing requirements for the credential

Fair Value Quality Initiative – Overview

- Key elements of a VPO infrastructure that would govern individuals conducting fair value measurements should include:
 - Professional Qualification
 - Accreditation and Reaccreditation
 - Performance Requirements (i.e., compliance with the Mandatory Performance Framework)
 - Quality Review and Discipline Process
 - Ethics and Enforcement Process

Fair Value Quality Initiative – Quality Control

- Quality control procedures will be put into place as a framework used by the VPOs to assess the work-product of credentialed individuals.
- Quality control procedures will include:
 - CPE requirements
 - Complaints protocol pertaining to CEIV credential holders
 - Review of fair value for financial reporting work performed

Mandatory Performance Framework – Overview

- USPAP Standard 9 provides high level valuation guidance. Given this, two documents related to the Fair Value Quality Initiative provide more specificity on valuation efforts that are required. These include:
 - *Mandatory Performance Framework for the Certified in Entity and Intangible Valuations (“CEIV”) Credential*
 - *Application of the Mandatory Performance Framework for the Certified in Entity and Intangible Valuations (“CEIV”) Credential*

Mandatory Performance Framework - Elements

- Elements of the MPF document include:
 1. Preamble
 2. Valuation Engagement Guidance
 3. Mandatory Performance Framework Glossary
 4. Authoritative and Technical Guidance
- A separate document addresses the Application of the MPF. Key elements include:
 1. Executive Summary
 2. General Valuation Guidance
 3. Business Valuation Guidance
 4. Valuation of Intangible Assets, Certain Liabilities and Inventory Guidance

Application of Mandatory Performance Framework

- Sections included in the MPF for General Valuation Guidance include:
 1. Fair Value Measurement
 2. Selection of Approaches and Methods
 3. Prospective Financial Information
- Sections included in the MPF for Business Valuation Subject Matter Guidance include:
 1. Discount Rate Derivation
 2. Growth Rates
 3. Terminal Value Multiple Methods/Models
 4. Selection of, and Adjustments to, Valuation Multiples
 5. Selection of Guideline Public Companies or Comparable Company Transactions
 6. Discounts and Premiums

Application of Mandatory Performance Framework

- Valuation of Intangible Assets, Certain Liabilities and Inventory Guidance
 1. Identified Assets and Liabilities
 2. Operating Rights
 3. Life for Projection Period
 4. Customer-related intangible assets
 5. Royalty Rates
 6. Contributory Asset Charges
 7. Tax Amortization Benefit (TAB)
 8. Reconciliation of Intangible Asset Values
 9. Discounts/IRR/WARA
 10. Contract Liabilities
 11. Inventory

BV 401 - Course Overview

- **Section 1: Introduction**
 - Introduction
 - Real Estate Licensing and Self-Regulatory Organizations
 - Financial Statement Impact of Fair Value Estimates
 - PCAOB Inspection Findings
 - Organizations
 - Definitions / Glossary

BV 401 - Course Overview (*cont'd*)

- **Section 2: Standards**
 - Introduction
 - Financial Reporting Standards
 - Auditing Standards
 - Valuation Standards
 - Mandatory Performance Framework (Valuation)

BV 401 - Course Overview (*cont'd*)

- **Section 3: Technical Valuation Guidance**
 - Fair Value Fundamentals
 - Business Enterprise Valuation
 - Securities Interests Valuation
 - Intangible Asset Valuation
 - Financial Instruments Valuation
 - Liability Valuation

Mapping of International Financial Reporting Standards and US Generally Accepted Accounting Principles

- **Fair Value Measurement**

- ASC 820 (formerly FAS 157) and IFRS 13
- Two standards are fully converged – joint presentation by FASB and IASB Valuation Specialists at ASA Fair Value conference in May 2011

- **Business Combinations**

- ASC 805 (formerly FAS 141R) and IFRS 3
- Two standards are highly converged

- **Intangible Assets**

- ASC 360, *Property, Plant and Equipment*
- IAS 38, *Intangible Assets*

Mapping of International Financial Reporting Standards and US Generally Accepted Accounting Principles (*cont'd*)

- **Goodwill Impairment**

- ASC 350-20, *Intangibles - Goodwill and Other* (formerly FAS 142)
- IAS 36, *Impairment of Assets* (one standard for finite and indefinite lived intangibles)

- **Impairment of Finite Lived Assets**

- ASC 360, *Property, Plant and Equipment* (formerly FAS 144, *Accounting for the Impairment and Disposal of Long-Lived Assets*)
- IAS 36, *Impairment of Assets*

- **Reorganizations**

- ASC 852-10-45-19, *Reorganizations* (formerly SOP 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*)

Mapping of International Financial Reporting Standards and US Generally Accepted Accounting Principles (*cont'd*)

- **Contingencies**

- ASC 450, *Contingencies* (formerly, FAS 5, *Accounting for Contingencies*)
- ASC 718, *Compensation – Stock Compensation* (formerly FAS 123R, *Share-Based Payments*)
- IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*

- **Income Taxes**

- ASC 740, *Income Taxes* (formerly FAS 109, *Accounting for Income Taxes*)
- IAS 12, *Income Taxes*

- **Financial Instruments**

- ASC 825, *Financial Instruments*
- IAS 7, *Financial Instruments*

Mapping of International Financial Reporting Standards and US Generally Accepted Accounting Principles (*cont'd*)

- **Share Based Payments**
 - ASC 718, *Compensation – Stock Compensation*
 - IFRS 2, *Share-based Payments*

Summary of Abbreviated Terms

- MPEEM – Multi-Period Excess Earnings Method
- IPR&D – In-Process Research and Development
- PIGA – Primary Income Generating Asset
- RFR Method – Relief from Royalty Method
- WACC – Weighted Average Cost of Capital
- WARA – Weighted Average Return on Assets
- IRR – Internal Rate of Return

References – Practice Aids, Toolkits, Other

1. AICPA Practice Aid Series – IPR&D Task Force. *Assets Acquired to be Used in Research and Development*. 2013 Final Release.
2. AICPA. *The Fair Value Measurement Valuation Toolkit for Financial Accounting Standards Board Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets – A Toolkit for Valuation Analysts*. 2002
3. International Valuation Standards, Section 210, *Valuation of Intangible Assets*
4. 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
5. The Appraisal Foundation, “*The Valuation of Customer-Related Assets*”, final document issued June 2016

End of Introduction