



NEERJA GUPTA AGARWAL

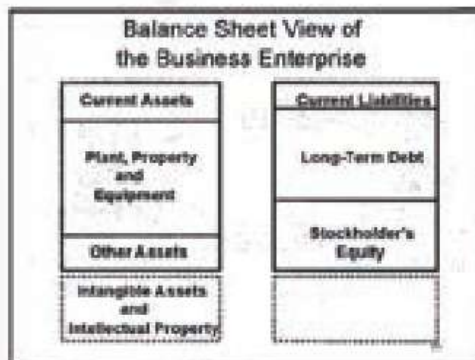
IBBI Registered Valuer
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Valuation of Intangible Assets: A Reality

In the new economy, there can be seen a definite shift from tangible to intangible assets. A business enterprise assets are comprised of financial assets, tangible assets and intangible assets. We need to assess our intellectual Property (IP) and leverage competitive advantage. IP of an enterprise is their capital

What are intangible assets? Intangible assets include Brands, Patents, Copyright, Trademarks, Technology & Innovations, Data, Computer software, skilled workforce, customer relationships and other elements of going concern all add on to make intangible assets. They are also referred to as underlying assets. Corporate increase their intellectual Capital by hiring better employees, conducting training programs & developing new Patents. Business needs to raise finances to grow. Intangible assets needs to be unlocked to access for financing, thereby needs a value attributed to it.



Enterprises need to commercialize their intellectual property, thereby need of valuation.

Recognizing the un- recognized assets in global markets. Empowering entrepreneurs to get the capital they need to maximize their potential by getting finance against their IP.

IP is a non physical asset that a company owns. IP has a value because only the owner has the right to use it. We as Valuers need to quantify the IP Value as it has an economic value, an economic benefit. We need a model to measure or let's say Value both our physical and IP properties.

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Can an enterprise use its intellectual property as a collateral to raise capital??

Start ups and technology companies grow due to their innovative capital. In the case of mergers & acquisitions, we do need to include the value of IP to determine the entire value of the enterprise. Identifiable intangible assets have finite remaining economic lives. Valuation professional needs to identify, value & estimate the remaining economic life of these intangible assets.

When we are giving a value to intangible assets, we must first understand how the specific asset is helping the business to grow. Intellectual property on its own as independent entity has not much value. It becomes valuable when it is incorporated into the business and is complimentary to financial and other tangible assets for it to be used to gain growth in business. The increase in the earnings of the business due to use of this asset determines the value it has.

While valuing an intangible asset we need Premise of Value: Context of time, place, potential owners & potential users

We have various tools and models of valuation which can be used for assessment of intellectual Property value.

One of the ways to value intangible assets can be Cost approach. What would be the cost to reproduce the asset with equivalent utility. It can be done by estimating the number of man hours and the level of skilled required to develop the technology. It also needs to include the cost of trials.

Market approach is generally not used as intangible assets are very specific to an industry and not normally exchanged in a free and open market in arm lengths transactions with sufficient number of transactions.

Income approach is used for measuring the value of intangible assets. We use the discounted cash flow (DCF) method. This is done by quantifying the economic advantage: calculating the future income benefits expected to the business by using the specific asset. We also need to quantify the economic remaining life of same.

Another way can be to measure the business enterprise value without using the benefits of IP technology and then we measure the increase of value with the use of technology. We can compare the cash flows from both the options.

IP or one may say Intellectual Capital is the value of the company. It is considered an asset which is used to grow the business further and there by increase the profits. IP holds a very high value in today's knowledge based economy. At times IP can be more valuable than a company's physical assets.

