



Controversy in the valuation of intangibles

Speakers:

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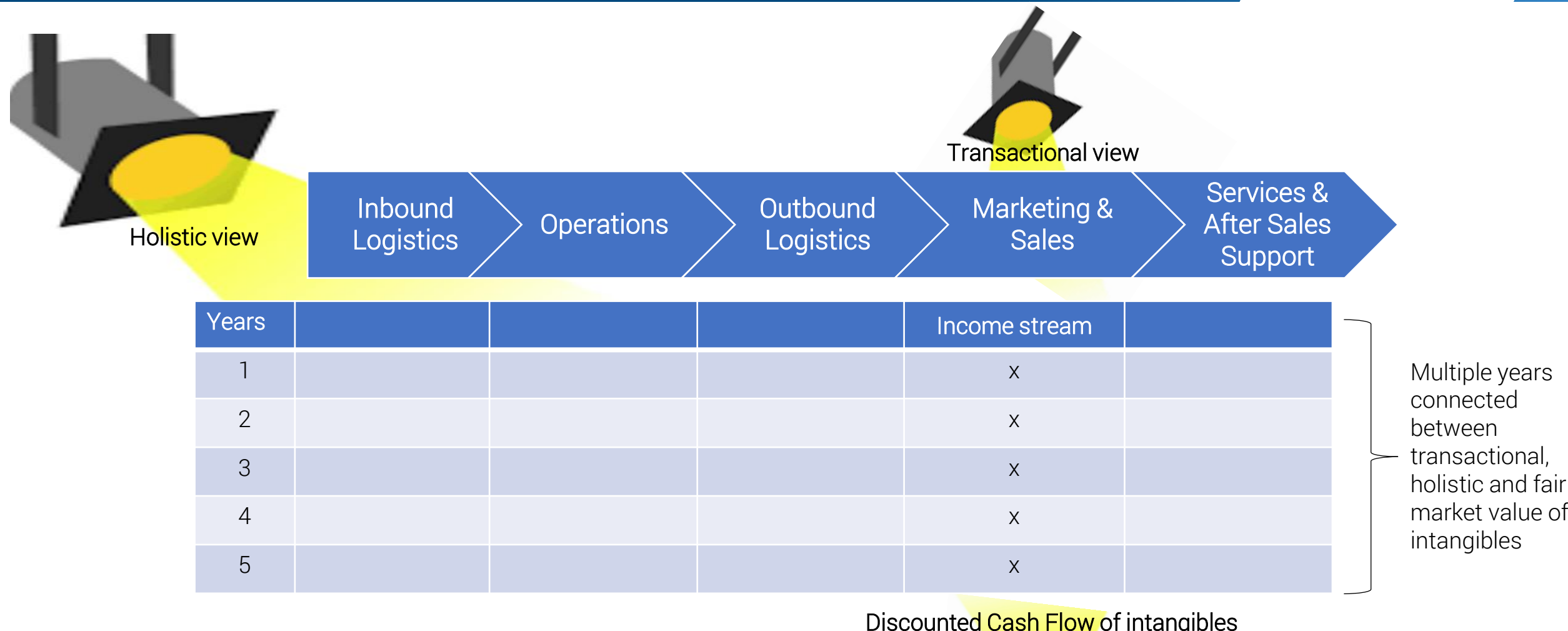
Four functional variables

IP[®]Matrix

| | Label | Identification | Owner | Valuation |
|---------------|-------|----------------|-------|-----------|
| IP Management | Label | Identification | Owner | Valuation |
| Accounting | Label | Identification | Owner | Valuation |
| Tax/Transfer | Label | Identification | Owner | Valuation |
| Pricing | | | | |
| IP Law | Label | Identification | Owner | Valuation |
| Antitrust | Label | Identification | Owner | |
| Bankruptcy | | | Owner | |

(Source: www.e-Bright.com)

Linking transactional TP to holistic VCA, Discounted Cash Flow and Multipliers



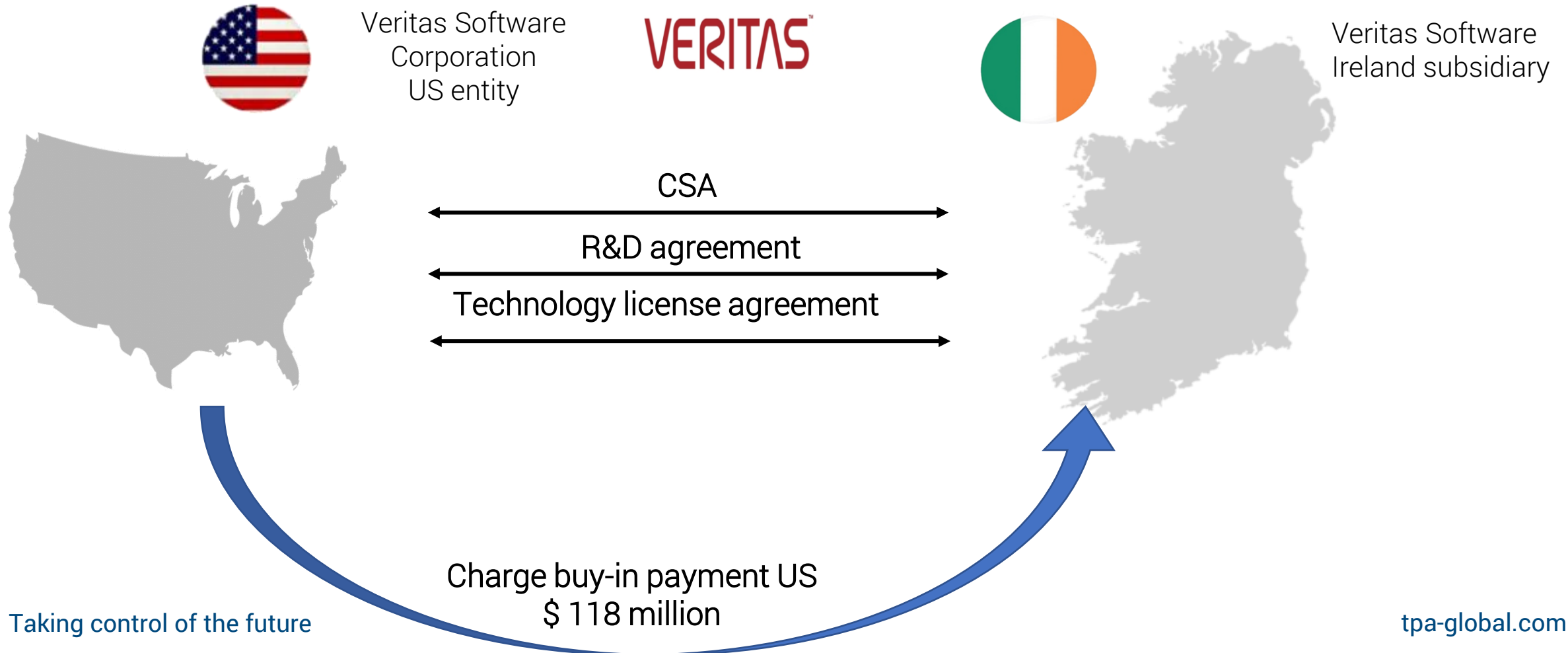
Valuation and value chain analysis

Million EUR

| Subject | Cost Approach | Income Approach | Market Approach | Outcome |
|---|-----------------|-----------------|-----------------|------------------------------|
| | Historical cost | DCF | Multiples | |
| Operating Enterprise Value | 3.19 | 8.21 | 28.26 | 18.23 |
| Weights | 0% | 50% | 50% | 100% |
| Tangible asset backing | 0.94 | 0.94 | 0.94 | 0.94 |
| Implied Goodwill | 2.25 | 7.27 | 27.32 | 17.29 (A) |
| Total fair market value of the three software packages | | | | 3.47 (B) |
| | | | | (B)/(A) 20% |

Question: Why would you put the valuation of 3 software packages (source code) in the context of performing an enterprise valuation as well?

Court cases on intangibles - Veritas Visualization



Lessons learned: court cases on intangibles - Veritas

- The Internal Revenue Service (IRS) disputed the methodology and calculation implemented by Veritas Software using the income valuation method analysis → resulting in a **US \$ 2.5 billion** present value for US corporate taxation purposes.
- The reasoning of the IRS boiled down to the following components:
 - The intangible assets, derived from R&D in the US, were unique in providing perpetual useful life characteristics;
 - Synergetic effect with other assets was basic in ascertaining value of the shared assets;
 - The buy-in transaction was considered to be akin to a sale of assets;
 - Approach of the IRS was package-related and applied a multiplier in order to reach a profitability profile.

Result

- The Court ruled in favor of Veritas, finding that the position of IRS was arbitrary capricious and unreasonable, and that the CUT method was the best method to determine the arm's length value of the buy-in payment.

Question: Is the verdict in Veritas still relevant for today's valuation of on-shoring intangibles?

Contact



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