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A Bird's-Eye View of Major Intangible Asset Benchmarks

By Christof Binder, Ph.D., MBA, Trademark Comparables AG (Switzerland)

Within the last quarter century, intangible assets have emerged as the leading asset class. In the era of intangible, intellectual, and digital capital, a better understanding of the value and economics of intangible assets is vital for all major investment decisions.

For this purpose, we provide a satellite view of the economics of the major classes of intangible assets and the differences between them. To do this, we have analyzed the values of over 30,000 different intangible assets in corporate M&A transactions to understand their basic value-relevant characteristics (Exhibit 1). The values are from the MARKABLES database of intangible assets valuations worldwide (markables.net).

Customer relationships is the most frequent intangible asset in corporate acquisitions. Over three-quarters (77%) of all transactions include a customer portfolio that is separately valued. The profit margin from the customer portfolio (its excess earnings margin) is 10.7% of revenues on average. This margin is earned over a remaining useful life of 10.9 years. All in all, the customer portfolio accounts for 18% of enterprise value on average (in the cases where it occurs) and is the most important class of intangible assets in M&A. First and foremost, buyers are looking for existing customer relationships. Businesses with important customer relationships include telecom, television and media, business services, M&A transactions, wealth management, and financial institutions, to name a few. Businesses lacking valuable customer relationships include—among others—construction, brick and mortar retail,

Exhibit 1. Bird's-Eye View of Major Intangible Asset Benchmarks

Averages from more than 30,000 individual intangible assets.

Asset Class	Frequency (% of acquisitions)	Asset Value* (US$ millions)	Asset Value* (% of enterprise value)	Asset-Specific Royalty Rate or Profit Margin* (% of revenues)	Useful Life* (years)
Customer relationships	77%	$153	17.90%	10.70%	10.9
Trade names, brands	60%	125	12.50%	3.00%	30.0
Product technology	24%	218	15.70%	9.90%	10.2
Software	26%	48.5	14.80%	16.20%	6.0

* Figures are given for cases where the asset occurs, not on 100% of cases.

Source: markables.net.

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hospitality and travel, entertainment, and hospitals. The most valuable customer portfolio on file was valued at US$30 billion in the acquisition of pharmacy benefit manager Express Scripts by Cigna in 2018. The mean value of the 10 largest customer portfolios on file is US$18.1 billion.

The second most frequent intangible is trade names or brands. All businesses—in some way or another—have these assets. Not all acquirors will keep it or pay for a trade name or brand but will replace it instead, resulting in a value of zero. Trade name/brand occurs in 60% of all corporate transactions. Trade names have the lowest profit margin of all intangible assets (a royalty rate), with 3% on revenues on average. In contrast, their remaining life is very long, 30 years on average. Both parameters (margin and life) result in an average trade name value of 12.5% of enterprise value, or US$125 million. The value range of brand names is the widest of all intangible assets. At the top end, brand names of global businesses can achieve very high values. The most valuable brand asset on file was valued at US$93.6 billion (!) in the acquisition of tobacco firm Reynolds American (Newport, Pall Mall, Camel, Natural American Spirits, Grizzly, and Kodiak) by British American Tobacco in 2017. The average value of the 10 largest brand portfolios on file is still US$29.8 billion. At the low end, brands of national or local businesses, or brands with a short remaining life, are much smaller though.

Let us now move to developed product technology (excluding software and in-process research and development, or IPR&D). This is a rather rare intangible asset that occurs in 24% of all corporate transactions. Valuable product technology is prevalent in R&D sectors such as life sciences and MedTech, electronics, IT hardware, automotive, and machinery. Product technology generates an average profit margin (royalty rate) of 10% on revenues and has a useful life of approximately 10 years, resulting in a share of 15.7% for technology in enterprise value. The technology value can be very high; the most valuable technology portfolio on file was valued at US$44.3 billion in

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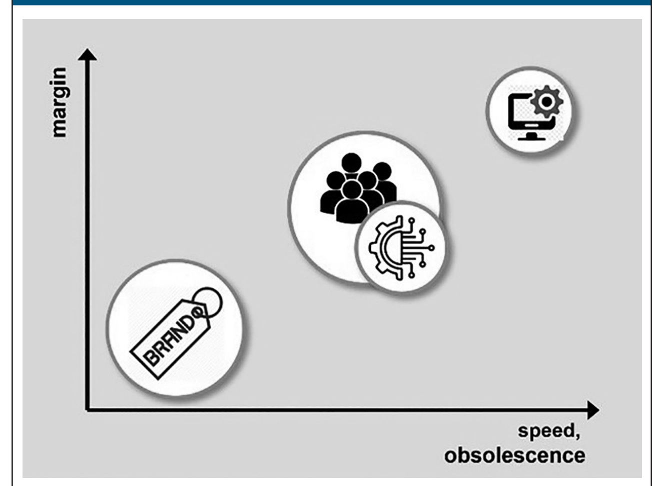
the acquisition of Allergan (eye care pharmaceuticals; skin, face, and breast aesthetics) by Actavis in 2018. The 10 largest product technology intangibles have an average value of US$23.9 billion.

Finally, in this analysis comes software (developed software for external use). Software businesses are on average rather young and have low revenues on average. In the corporate M&A market, acquisitions of software companies are all the rage. Software selling businesses account for 26% of all acquisitions. Compared to the other asset classes, software is a high-speed high value asset. Due to high innovation and technology obsolescence rates, software must refinance itself in a short period of time. Therefore, software has the shortest life (six years) and the highest margin (16.2%!) of all. The software share in enterprise is similar to the other assets (average 14.8%), but its average value is lowest by far (US$48.5 million). The most valuable software on file was valued at US$5 billion in the acquisition of CA Technologies (mainframe and enterprise software) by Broadcom in 2018. The 10 largest software intangibles on file have an average value of US$2.6 billion.

Exhibit 2 illustrates the differences between the four major intangible assets related to speed, margin, and frequency (circle size). There is a strong correlation between speed and margin. The higher the intensity of innovation and the faster obsolescence, the higher is the earnings margin that the asset must generate. Software is the high-speed, high-margin asset. In contrast, brand is the low-speed, low-margin asset.

It is well known today that the success of a particular business depends on the value and management of its intangible assets. What we don't fully understand yet is which strategic approach to intangible assets is superior. That is, should the focus be on a particular intangible asset with

Exhibit 2. Four Major Intangible Asset Classes



one largely dominating intangible asset class, or should there be a balanced approach of intangible asset diversification with "a little bit of everything"? Both approaches exist in practice. Whichever approach prevails, one thing is certain: When the intangible assets are depleted (which will certainly happen), only goodwill remains. Therefore, it is up to the skills of the workforce to constantly replace, innovate, or re-create new intangible assets. In the end, the purpose of all intangible assets is client benefits and competitive advantage. ◆

Christof Binder, *Ph.D., MBA, is the managing partner of Trademark Comparables AG, a Swiss-based company that operates the MARKABLES database of trademark valuation comparables. He has been involved in the initiation of close to 500 brand license partnerships in Europe and worldwide, and he has overseen more than 1,500 such partnerships. Dr. Binder acted as financial expert in trademark valuation, as well as in trademark infringement and transfer pricing litigation issues to courts and arbitration panels in Europe. He is a regular author and speaker on trademark licensing, royalty rate, and valuation issues.*

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