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***ROYALTIES USED IN THE VALUATION
OF INTELLECTUAL PROPERTY
(TRADEMARKS)***

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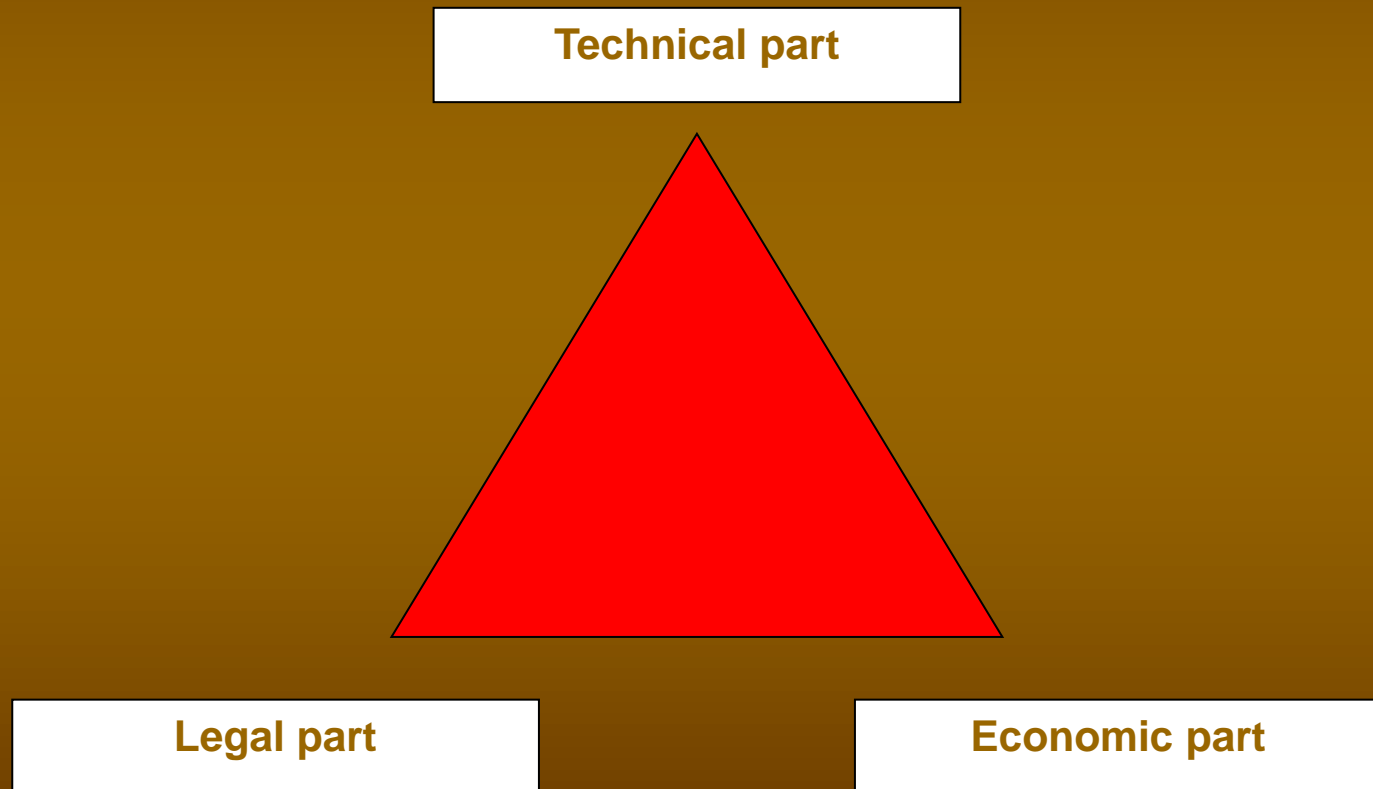
Structure of the paper

- Possibilities of Trade mark valuation
- Royalty savings method (royalty relief) as the most common method (parameters)
- Estimation of royalties
- Research conducted in Slovakia
- Conclusion

Trademarks valuation - approaches

- **cost approach**
- **market approach**
- **income approach**

Valuation of intellectual property



Valuation of trademarks

Income approach

- The most widely used;
- Looking to the future - uncertainty;
- The binding performance of the company - sales, profit;
- Consideration of time - the net present value
- Models similar to the models for valuation of companies

Royalty savings method for trademarks and its parameters

-revenues /profit/;

-royalty rate;

- capitalization rate;

- share impact of the mark in total sales

Increased royalty rate

- **reputation of the trade mark;**
- **use of the mark in connection with the name, company logo;**
- **duration of protection;**
- **length of use;**
- **scope of protection abroad;**
- **simplicity, good memorability of marks.**

Decreased royalty rate

- **sectors where designated rights are not so important;**
- **trade marks used only on national level;**
- **companies generated loss;**
- **new trademarks, marks rarely used, some product trademarks.**

Conducted research

Objectives:

- obtain information about the connection between trademark and sales, respectively value of assets;
- review the significance of each type of intangible assets in enterprises;
- estimate the amount of mark royalties.

We estimate that mark has the greater importance in service companies than in manufacturing companies.

Value of the mark	Sales	Assets
Service companies:	in %	in %
Average	6,96	7,41
Median	5,00	3,00
Manufacturing companies:	in %	in %
Average	5,09	3,47
Median	2,00	2,75

Value of trademark in connection to sales by company size

Range	Revenues	%	Production	Range	Average	Service	Range	Average
0 - 1 mil. €	45	40,18	7	0,0-15,0	4,87	37	0,5-30,0	7,46
1 - 10 mil. €	38	33,93	13	1,0-50,0	7,46	23	1,0-20,0	4,41
10 - 30 mil. €	19	16,96	9	0,0-10,0	3,50	9	3,0-30,0	12,56
More than 30 mil. €	10	8,93	6	0,5-2,0	1,33	4	0,5-15,0	4,38
Total	112	100,00						

Summary

- estimated brand value is significantly higher in services companies than in production companies.
- company size affects the perception of brand value.

*Hypothesis: amount of royalties of trade marks is in the range from
0,1 % to 3,0 % of the amount of sales*

Royalties as the % of sales	provided
Service companies:	in %
average	8,25
median	5,00
Production companies:	in %
average	4,06
median	3,00
Companies with registered trade mark	in %
average	7,59
median	5,00

Summary

- hypothesis was formulated based on the practice of using the SR;
- hypothesis was not confirmed;
- this is a fundamental fact which indicates that the valuation processed in Slovakia Slovak experts are based on wrong assumptions.

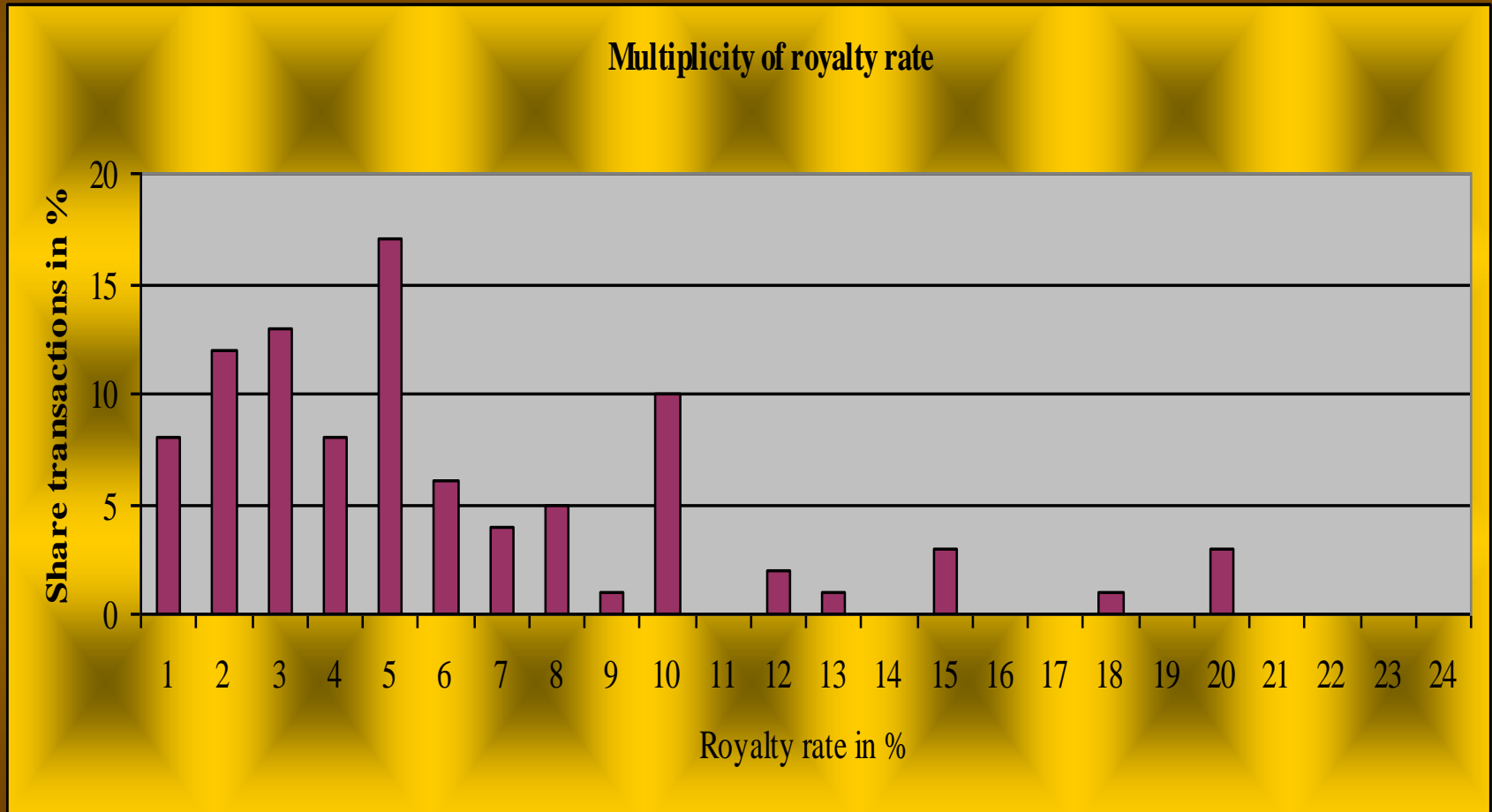
Assumption – companies want to get higher royalties for providing trade marks as if they were willing to rent their mark to third party by license agreement.

Royalty rate as a % from revenues	provided	accepted	average
Service companies	in %	in %	in %
average	8,25	6,13	7,19
median	5,00	3,00	4,00
Production companies	in %	in %	in %
average	4,06	3,23	3,65
median	3,00	2,00	2,50
Companies with registered trade mark	in %	in %	in %
average	7,59	5,99	6,79
median	5,00	3,00	4,00

Summary

- about 50 % of companies state the same values
- differences are significant
- we recommend to use royalty rate for licences received

Foreign studies – royaltystat.com



Royalty rate by sectors - Weiler

Sector	Min	Average	Median	Max
	in percentage			
Chemistry	0,1	4,7	4,3	25,0
Internet including software	0,3	11,8	8,8	50,0
Telecommunications	0,4	4,9	4,5	15,5
Consumer goods, retail, leisure	0,1	5,5	5,0	28,0
Media and Entertainment	2,0	9,1	5,0	50,0
Food production	0,3	3,2	2,8	10,0
Medical Equipment	0,1	6,1	5,0	77,0
Pharmaceuticals and Biotechnology	0,0	7,0	5,0	50,0
Energy and environment	1,0	5,0	5,0	20,0
Machines	0,5	5,2	4,5	25,0
Automotive	0,5	4,3	3,5	15,0
Electrical and Electronics	0,5	4,2	4,0	15,0
Semiconductors	0,0	4,3	3,0	30,0
Computers and office equipment	0,2	5,3	4,0	25,0
Software	0,0	11,5	6,8	70,0

Conclusion

- Amount of royalties is a complex issue, refers to several types of intangible assets;
- Used information have relevance to the current valuation, but also in litigation;
- Information not harmonized;
- Further research is needed



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