



A DEEPER LOOK

Valuing Intangibles How Much is that License in the Window?

If you've ever reviewed a business valuation for a client, you know that the final value usually includes several components — including tangible and intangible assets. The term “intangible assets” often triggers thoughts of intellectual property, such as patents or copyrights. But licenses and permits that allow a company to do business also fall into this category, and can carry significant value.

Permission To Perform

A license generally is defined as governmental or other authorization to perform certain acts —for example, sell regulated goods (such as pharmaceuticals or alcohol) or operate in regulated industries (such as food services or firearm sales). Licenses also are issued to barbers, taxi drivers, doctors, lawyers and other individuals to practice in regulated professions.

Similarly, permits represent approval from an authorized public official or body to perform certain acts. Construction, logging and environmental permits are some of the most common.

Licenses and permits may be subject to valuation when they, or the business that owns them, are for sale or the subject of litigation. A valuation might also be necessary for estate planning and tax purposes.

Relevant Factors

Valuators weigh several factors when determining the value of a license or permit. Among other things, value is affected by:

- The number of licenses or permits available,
- Average service life of the license or permit,
- Any restrictions on transferability,
- Costs of adhering to the requirements for maintaining the license or permit, and
- The general state of both the relevant industry and the economy as a whole.

Shifts in the industry or economic conditions after the license or permit was originally obtained can significantly alter its value.

Business licenses and permits can be appraised using the same approaches commonly used for other types of intangible assets. For example, under the market approach, a valuator studies comparable sales of licenses or permits. Using the income approach, a valuator applies a capitalization or discounting method to determine a present value for future income generated by the license or permit. The cost approach requires determination of the replacement or reproduction cost for the license or permit, less depreciation.

Looks Can Be Deceiving

A comprehensive business valuation generally should include careful consideration of any licenses and permits. These intangible assets can account for substantial value for professional service providers and other regulated businesses.

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