Valuing Intangibles

Accounting & Finance

Brands, patents and software, and why the balance sheet misses them.

Approaches to intangible value.

Methods

Relief from royalty — what you would pay to licence

Excess earnings over a fair return on other assets

Cost to recreate the asset

Comparable transactions where they exist

Why they are missing

Internally generated brands not capitalised

Research expensed as incurred

Customer relationships not recognised

Recognised only on acquisition, as goodwill

This is why market value exceeds book value so widely in software and consumer brands. The main assets are not on the sheet.