

What's Your Brand Worth? Valuation Considerations for Healthcare Enterprises (Part 1 of a 4 Part Series)

Trademarks and trade names are symbols that represent an intangible quality of the good or service provided under the trademark/trade name. These qualities might include quality, reliability, and/or dependability, and they may be classified generally as *reputational*. Value for a trademark/trade name arises from its ability to transfer this *reputational* quality to a product or service.

The legal definition of a *Trademark*, as set forth in The Merriam Webster Dictionary, is:

“a mark that is used by a manufacturer or merchant to identify the origin or ownership of goods and to distinguish them from others and the use of which is protected by law.”¹

Additionally, the legal definition of a *Trade Name*, as set forth in The Merriam Webster Dictionary, is:

“a name or mark that is used by a person (as an individual proprietor or a corporation) to identify that person's business or vocation and that may also be used as a trademark or service mark.”²

Trademarks and trade names are both components of the brand of a business entity. Trademarks and trade names hold economic value, in that they have the capacity to bring recognition and “*brand loyalty*” to the subject enterprise through the perception of quality assurance in the goods and/or services provided by the branded organization.³ Brands play an especially important role in healthcare, as the *quality* of the services provided by a healthcare entity can directly impact the quality of life of a patient or even the life or death of a patient.⁴ Branding for healthcare entities has continued to proliferate in recent years. The Mayo Clinic, Duke Lifepoint, and Cleveland Clinic trade names have expanded the use of their trademark(s) and trade name(s) through affiliations across the U.S. These affiliations allow local providers to:

- (1) Capitalize on the reputation of the brand;
- (2) Provide access to a network of intellectual resources; and,
- (3) Promote the brand for the licensing entity outside of their geographic area.⁵

The most valuable healthcare brand in the U.S. for 2017 was UnitedHealth, with an estimated brand value of 13.4 billion dollars.⁶

As is the case in the majority of valuation assignments, trademarks and trade names can be valued within the framework of the following general valuation methods:

- (1) Asset or Cost-based approach;
- (2) Market-based approach; and,
- (3) Income-based approach.

Asset/Cost based approach methods seek an indication of value by determining the cost of reproducing or replacing an asset. There are several methods that may be utilized under the cost approach, including:

- (1) *Cost of Reproduction Method* – This method estimates the value of the subject intangible asset based on the cost that would be incurred as of the appraisal date to construct a replica of the subject property; and,
- (2) *Cost of Replacement Method* – This method estimates the value of the subject intangible asset based on the cost incurred to obtain a replacement intangible asset, which provides the same level of utility.

Valuation analysts should note that asset/cost based valuation methods may not account for all of the economic advantages that arise from the ownership of a trademark or trade name. Therefore, the cost approach is not always applicable in the valuation of trademarks or trade names, as it tends to *undervalue* the economic benefit accruing to the owner of the trademark or trade name.

There are several market-based approaches that can be applied when valuing a trademark or trade name, including the following:

- (1) *Relief from Royalty Method* – This method is a hybrid income and market based approach that applies a market or income derived royalty rate to the future cash flows of a business entity or business segment and then discounts those projected cash flows to their present value equivalent at an appropriate risk adjusted required rate of return to arrive at an indication of value for a specified date; and,

- (2) *Profit-Split Method* – This method is another hybrid income and market based approach that applies a market or income derived profit split to the future cash flows of a business entity or business segment and discounts those cash flows to present value at a risk adjusted required rate of return to arrive at an indication of value.

The market-approach based methodologies require comparable licensing agreements from market transactions to derive an indication of the appropriate royalty rate or profit split that should be applied under the subject trademark or trade name. Comparable royalty rates and profit split data can be found in several databases including, but not limited to, the following:

- (1) *ktMINE*;⁷
- (2) *RoyaltyStat*;⁸ and,
- (3) *RoyaltySource*.⁹

Lastly, the following income-based methods may be utilized to determine an indication of value for a trademark or trade name:

- (1) *Incremental Earnings Method* – This income-based valuation method seeks to quantify the

difference between the: (i) the earnings of the business segment or business enterprise with the use of the trademark or trade name; and, (ii) the earnings of the business segment without the use of the trademark or trade name; and,

- (2) *Excess Earnings Method* – This income-based valuation method seeks an indication of value by subtracting the required return on the assets of the business enterprise from the total earnings of the business enterprise to arrive at an indication of the value of the earnings generated by the trademark or trade name.

Trademarks and/or trade names owned by healthcare entities have continued to grow in both significance and value. Valuation assignments involving trademarks and trade names may be evaluated using the framework above and will be further explored in the next three installments of this four-part series, which will specifically focus on the economic benefits accruing to the trademark or trade name grantor, grantee, and consumer (i.e., patients).

1 “Trademark” Merriam Webster, 2018, <https://www.merriam-webster.com/dictionary/trademark> (accessed 1/8/2018).

2 “Trade Name” Merriam Webster, 2018, <https://www.merriam-webster.com/dictionary/trade%20name> (accessed 1/8/2018).

3 “Intellectual Property: Valuation, Exploitation, and Infringement Damages” by Gordon V. Smith and Russell L. Parr, Hoboken, NJ: John Wiley & Sons, 2005), p. 43.

4 “Branding in Healthcare: 14 Reasons Why Strong Brands Win” ParkerWhite Brand Interactive, January 13, 2015, https://www.slideshare.net/parkerwhite/branding-in-healthcare-slideshare?from_action=save (accessed 1/8/2018)

5 “Evaluating the Brand Value of Healthcare Entities” W. James Lloyd and Annapoorani Bhat, National Association of Certified Valuators and Analysts (NACVA) and Consultants Training

Institute’s (CTI) Advanced Healthcare Valuation and Consulting Symposium, December 12-13, 2014, <https://www.slideshare.net/PYAPC/evaluating-the-brand-value-of-healthcare-entities> (accessed 1/9/2018).

6 “Brand value of the world’s most valuable healthcare brands as of 2017” Statista, 2018, <https://www.statista.com/statistics/541553/brand-value-of-the-world-s-most-valuable-healthcare-brands/> (accessed 1/8/2018)

7 “ktMINE: About Us” ktMINE, 2018, <https://www.ktmine.com/about/> (accessed 1/9/2018).

8 “About RoyaltyStat” RoyaltyStat, 2018, <https://www.royaltystat.com/> (accessed 1/9/2018).

9 “RoyaltySource: Our Services” RoyaltySource, 2018, <https://www.royaltysource.com/> (accessed 1/9/2018).



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