

# CASE STUDY

## Smallbone



### Brief

Smallbone plc acquired Christopher Peacock Cabinetry Corp., a US-based manufacturer of premium kitchen cabinets and paint, for £7m in September 2008. Intangible Business was asked to value the intangible assets acquired as part of the business combination, under IFRS 3.

### Approach

Intangible Business first identified the intangible assets to be valued which included four trademarks registered under the 'Christopher Peacock Cabinetry' mark, customer relationships with the retail trade, the forward order book, design rights, product trade names and residual goodwill.

Following a detailed investigation it was concluded that customer relationships, contracts, design rights and other product trade names were not separable from the Christopher Peacock brand and so were valued collectively.

Historical sales, business plans and projections were analysed in the context of broader market and competitive activity. From this basis the brand was valued on the relief-from-royalty approach with reference to a variety of benchmark royalty rates. The brand value was then checked against comparable market transactions and values, using sales and profit multiples. It was also referenced to the cost of creating the brand and the cost of recreating it. This rounded methodology produced an objective value for the brand.

The residual goodwill was tested, benchmarking its proportionality against similar acquisitions, and describing what it was comprised of, such as cost and sales synergies, as required under IFRS 3.

### Outcome

A report was drafted and submitted to management and its auditors outlining the details of the valuation, summarising the relevant accounting standards, such as IFRS 3 and IAS 38, and the valuation methodologies in preparation for audit sign off.