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BUSINESS VALUATION
AUSTRALIA
Vol. 3, No. 2, April 2016, 2 Qtr.

Beyond All Comparables: Lessons to Learn From the Kingfisher Airlines Brand Valuation[1]

Recently, India's Serious Fraud Investigation Office (SFIO) announced it would probe the valuation of the Kingfisher Airlines trademark and whether the trademark was fraudulently inflated to get more funds from banks. The officials of the now-defunct airline, bank representatives, and a corporate finance advisory firm who had valued the brand are being investigated.

Recap. Kingfisher Airlines (KAL) was an Indian airline that was grounded for severe financial issues in 2012. It had commenced operations in 2005 and grew rapidly to become India's second largest domestic flight operator. Famous entrepreneur Vijay Mallya and his United Breweries Group, a leading producer of spirits and beer and owner of the market-leading Kingfisher beer brand, founded and controlled Kingfisher. Ever since taking off, KAL was reporting losses.

By 2010, KAL had serious financial problems and arranged a restructuring of its debt with 18 lenders, including a conversion of 13.55 billion rupees (Rs) of debt into equity and a collateralization of various assets, the most important of which was the trademarks. The brand had been valued at a face value of Rs 41 billion in 2009 in a previous attempt to raise more capital, based on a valuation of the brand.

Today, the airline is grounded. The lenders, trying to get some of the money back, found that most of the pledges were worth much less than face value. In particular, the trademark pledge turned out to be worthless. Today, KAL is the single largest nonperforming asset (NPA) in India, with unpaid debts of Rs 91 billion. On 2 March 2016, the day when the lenders approached the Debt Recovery Tribunal, Vijay Mallya left India. On 8 March, the SFIO announced it would probe Kingfisher for suspected fund diversion. On 15 March 15, the SFIO announced it would probe the brand valuation the corporate finance advisory firm performed in 2010 and its circumstances. Earlier in 2014, the lenders had attempted to sell the Kingfisher Airlines brand and called for an expression of interest in acquiring trademarks linked to the grounded KAL, with no results. An e-auction is scheduled for 30 April 2016.

Objective. Everything has been said and scrutinized on the many mistakes that KAL management made that finally led to its suspension. We are not going to repeat all of that here. But there is recent interest in the circumstances and results of the valuation of the Kingfisher Airline trademarks, both from authorities and the public, and we try to propose some lessons that ought to be learned from the valuation. The information circulated to the public on KAL's brand valuation was not always unambiguous. We tried to cross-check multiple different sources and not to speculate. The corporate finance advisory firm's valuation report was not made public. Final clarity on the matter will be available only after the investigation of the SFIO and the courts. The advisory firm has taken the position that its brand valuation was

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Business Valuation Australia™ (ISSN 2373-9347) is published quarterly by Business Valuation Resources, LLC, 1000 SW Broadway, Suite 1200, Portland, OR 97205-3035 U.S.A.

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appropriate in the context of when it was done and the purpose for which it was done. This is what we try to reconstruct.

Chronology of events. Reportedly, KAL valued the Kingfisher Airline trademarks in 2009 when it started talks with banks and private equity firms to raise additional funds. One of the leading audit, tax, and corporate finance advisory firms globally provided the valuation.

This firm concluded a value of KAL's brands of Rs 41 billion. By the time of the valuation, KAL was already in serious trouble. Since its inception in 2005, it never was profitable. In 2007/2008, it had acquired loss-making Air Deccan at a high price. Then came the financial crisis, a sharp drop in air passenger growth rates, and the costly integration of Air Deccan, all resulting in huge losses in fiscal 2008/2009. By the end of fiscal 2008/2009, KAL was overindebted and needed fresh funds.

The valuation of KAL's brands was one measure to provide relief. It does not look as if the brands were recognized on KAL's balance sheet, thereby increasing equity. However, showing the value of unrecognized intangible assets helps investors and lenders to better understand the true value of a firm. Whatever was discussed between KAL and lenders, KAL managed to raise an additional US$ 500 million in loans from a consortium of lenders in 2009, and the brand value most likely helped to get these loans sanctioned. Evidence from IDBI bank illustrates that in 2009 KFA was lent funds on brand value of "Kingfisher," which means it was an unsecured loan.

At the date of the valuation in 2009, KAL did not own any of its trademarks. KAL's parent, United Breweries, owner of the Kingfisher trademark in various other classes, had filed the Kingfisher trademark for registration in class 39 (transportation) in India in 2004. It must be assumed—provided that no other agreements existed between the parties—that United Breweries was the legal and rightful owner of the Kingfisher trademarks.

KAL continued to lose money in fiscal 2009/2010. Some of its loans were nonperforming and in default. Again, KAL approached financial institutions and asked for additional funding. A restructuring of its debt and a conversion of Rs 20 billion into equity were arranged. This time, the lenders insisted on better securitization of previously granted loans, and they got the trademarks as collateral in August 2010. These trademarks were "brand new," as "Kingfisher Airlines" and "Kingfisher Express" had been filed for registration in India on behalf of KAL only in March 2010.

As it turns out, United Breweries owned and still owns "Kingfisher" in class 39 with priority from 2004, and KAL owns "Kingfisher Airlines" and "Kingfisher Express" in class 39 with priority from 2009. Therefore, the pledge on KAL's trademarks seems to have been fragile from the very beginning. It is unclear whether United Breweries is eventually entitled to prevent KAL from using its (pledged) trademarks in class 39 for higher priority.

There are contradictory statements in the press concerning later revaluations of KAL's brands. One such valuation finds a brand value of Rs 30 billion; by whom and when it was made is unclear. This could have been at the date of the pledging in 2010 or two years later, in 2012, when the lenders requested KAL submit a revaluation as was contractually agreed. A downward revision of the Kingfisher brand's value would have meant that KAL had to give more collateral. Subsequent valuations performed on behalf of the lenders in 2013 and 2015 (after grounding) concluded on Rs 2 billion and Rs 1 billion, respectively. Other statements report about a value of Rs 1.6 billion.

The Rs 41 billion valuation by the well-known corporate advisory firm in 2009 seems to be the only uncontested figure and also the most important one in chronology. It was the basis on which the banks sanctioned further funds, even if the brand was not (yet) pledged at that time and even if it is not possible to directly allocate such funds on the brand. We will therefore concentrate on this 2009 valuation. All valuations thereafter were largely irrelevant for the granting of fresh money.

Using comparable data in brand valuation. Valuing a brand is a delicate task because each brand is particular and unique by nature. A market for brands does not exist. A brand valuer necessarily has to deal with a lack of empirical and observational data. Brand valuers tend to describe their efforts as both science and art: science for some sophisticated proprietary methodologies and art for the freedom of opinion that is left to the valuer. In fact, it is neither of the two; it is rather a craft requiring a lot of learning, experience, and know-how.

Take the valuation of an enterprise, for example. An enterprise is as unique as a brand. But for valuing enterprises, the valuer uses many ratios, multiples, and comparables from previous transactions that help him or her assess the value of the subject enterprise. In the end, it is exactly this approach—looking at previous comparable valuations and adjusting these based on the case at hand—that makes a valuation reliable and valid or off target, whether in enterprise valuation or in brand valuation.

In contrast to enterprises, a market where brands are sold and bought does barely exist. Brands are rarely sold on a stand-alone basis. However, very often they are sold as parts of enterprises. To comply with accounting and reporting standards, brand valuations have to be carried out and audited many times in the accounting of public companies and reported in their financial statements. The most frequent occasion to value and report brands is in a business combination under IFRS 3. But there are also trademark-only transactions, impairment tests, and trademark-related transactions between related parties that are reported in financial statements. Many thousands of such cases are accessible in the public domain and open to scrutiny.

Different multiples help make the value of different brands comparable including:

- Brand value to enterprise value;
- Brand value to sales; and
- Brand profit margin to sales, or brand royalty rate.

Most enterprises in the global airline industry are public companies and have reported many brand value multiples of various airline brands, which are a perfect source for benchmarking, peer group, and comparative analyses.

The Kingfisher brand valuation. Purportedly, the corporate finance advisory firm that valued KAL used two methods to value the Kingfisher brand: the relief from royalty method and the economic use method. Equal weights were applied on methods to derive a final value. Royalty relief assumes that the business does not own the brand but instead would have to pay an appropriate fee (royalty) to license it; brand value is the net present value of the royalties hypothetically saved if the business owns the brand. Economic use is a method that isolates and values earnings specifically attributable to the brand. See Exhibit 1.

If true, it is hard to imagine how the economic use method was applied in this case. As the business had never reported a profit in its short history, simply no earnings could have been attributed to the brand. Therefore, any brand value resulting from the economic use method must necessarily be based on expectations for profitability in the future. This would be somehow like valuing a high-risk startup company. Such investments are typically negotiated with venture capital for equity but not with low-interest, secured bank loans.

Exhibit 1. Kingfisher Airlines Valuation

	(Rs million, 03/2009)
Revenues	52,390
EBITDA	-20,826
Market cap	8,881
Enterprise value (market cap plus debt minus cash, assuming fully performing loans)	63,818
Brand value	41,000
	multiples
EV / sales	1.22x
Brand / EV	64%
Brand / sales	0.78x
Implied net profit margin of brand (royalty rate in % of sales)	5.0%

Source: MARKABKES.

Based on effective revenues, the royalty relief method promises more reasonable results. A brand profit margin or royalty rate of 5.0% was likely applied to value the Kingfisher brand. We recalculated this (implied) royalty rate based on brand value and revenues in 2009, an indefinite life of the asset, Indian corporate tax rates, and on some assumptions regarding discount and growth rates including:

- A sales growth of +17% per year from 2010 to 2014;
- A sales growth of +5% per year thereafter into perpetuity; and
- A discount rate of 15% per year.

All assumptions must be considered optimistic. More conservative assumptions would have resulted in a higher royalty rate to arrive at the same brand value. Put differently, 68% of the brand value in this scenario lies in the period after 2015, so very far in the future and difficult to foresee.

Comparative analysis. We now compare brand value multiples for Kingfisher and other airline brands. Comparable data are taken from the MARKABLES database, which lists 53 different airline brands, of which 41 are classified in “scheduled services.” See Exhibit 2. The peer group includes Delta, United, Air Arabia, Tiger Airways, Swiss, Iberia, Virgin, Austrian, easyJet, Hawaiian, and JetStar, among others. Basically, airlines are very similar businesses with similar value driver structures. All of them use aircraft, kerosene, catering, pilots, crews, airport ground services, MRO services, etc. Some are premium; some are no-frill. Some are more international; some are more domestic. The profit margins are, however, similar everywhere. They all sell a commodity in a growing but competitive market with constant overcapacities. Therefore, airline businesses are highly comparable.

The enterprise value of KAL in 2009 is 2.4x higher than industry average. Reasons for this could be higher profit margins or higher sales growth. Higher profitability must be excluded for KAL, which reported huge losses. Higher sales growth in the Indian domestic market might be an explanation. However, the Indian market had just suffered a decline of passengers in 2008/2009, and other emerging markets also show high long-term growth rates for their aviation industries. The problem with KAL's high enterprise value in 2009 was its high level of indebtedness (Rs 56.6 billion), which—assuming fully performing loans—adds on top of market capitalization of the shares (Rs 8.9 billion). Other airlines in distress might eventually show similar levels of indebtedness but based on owned aircraft. KAL had leased its fleet and—in addition to high interest expenses—paid high aircraft leases. KAL's high indebtedness resulted from a black hole—from accumulated past losses. In 2009, after the acquisition of nonperforming Air Deccan and after a disastrous fiscal year, KAL must be considered overindebted. That fatal process had begun long before the valuation of the brand.

Based on an inflated enterprise value, the firm that conducted the valuation found a brand value for Kingfisher of 64% of enterprise value. This figure compares to a median of 7.9% for other airlines, however, based on much lower and more realistic enterprise values. In other words, the valuation firm expected 64% of all future profits generated by KAL to come from its brand.

In relation to revenues, the valuation firm found a 78% multiple of brand value, compared to an industry average of 4.4%. Similarly, the royalty rate of 5.0% likely applied for Kingfisher in a royalty relief method compares to an industry average of only 0.5%.

It is very apparent that KAL and the Kingfisher brand show abnormally high valuation multiples in all different aspects.

There are events other than takeovers and M&A accounting to look at. They all fully confirm the findings of abnormally high multiples above. See Exhibit 3.

It is speculative whether the corporate finance advisory firm eventually considered in its valuation the fact that the Kingfisher brand is worth much more in its core business—beer. A 5% royalty rate for a beer brand is not uncommon—for some international premium brands even higher. Eventually, United Breweries had such license agreements for its Kingfisher beer brand in place. Applying this in another industry with very different cost, margin, and asset structures would, however, be inappropriate in all different aspects.

Wherever we look, the Kingfisher brand valuation parameters exceed those of other valuations of airline brands by far. By all industry standards and by common sense, it is difficult to both justify and comprehend the valuation of the

Exhibit 2. Comparable Analysis of KAL Brand Value Multiples to Peers

Value multiples	Kingfisher	Peer group of 41 airlines (2003-2014)		
	2009	Median	25% quartile	75% quartile
EV / sales	1.22x	0.51x	0.29x	0.66x
brand / EV	64%	7.9%	4.1%	15.1%
brand / revenues	78%	4.3%	1.5%	5.9%
implied brand royalty rate	5.0%	0.5%	0.3%	0.7%

Source: MARKABLES.

Kingfisher Airline performed in 2009. Are there other indicators of particular strength and value of the Kingfisher Airline brand?

Brand strength indicators. Kingfisher Airlines commenced operations in 2005, five years prior to the valuation of the brand. Even more, a major part of the brand emerged only in 2008, with the acquisition and rebranding of Air Deccan into Kingfisher Red. Kingfisher was a very young brand, which had little time to deeply engrave itself into memories and minds of customers and to create loyalty and repeat purchases.

The Kingfisher mark emerged from a transfer of the famous Kingfisher beer brand, the market-leading beer brand in India, which dates back to 1958. The awareness of the Kingfisher beer brand certainly supported the fast penetration and growth of Kingfisher Airlines because it created the link to the successful company and entrepreneur behind it. This may be called an "endorsement." But brand strength requires much more than that. It is even questionable whether the Kingfisher brand transfer helped at all. Air transportation is a service that conveys attributes such as trustfulness, reliability,

Exhibit 3. Other Events to Look at

trademark license agreements between airlines …

Licensor / brand owner	Licensee	royalty rate	nature
easyGroup IP Licensing	easyJet	0.25%	unrelated
AirAsia Bhd	AirAsia X Bhd	1.0%	related, arm's length
AirAsia Bhd	Thai AirAsia	1.0%	related, arm's length
Virgin Enterprises Ltd	Virgin America	0.5%	unrelated
Virgin Enterprises Ltd	Virgin Australia	0.4%	related, arm's length
Virgin Enterprises Ltd	Virgin Express	0.5%	related, arm's length
Jet Enterprises Pvt Ltd	Jet Airways India	0.1%-0.2%	related, arm's length
Kingfisher Airlines		**5.0%**	**finance, pledge**

impairment tests of airline brands, ….

Parent	brand / subsidiary	royalty rate	nature
British Airways	Iberia	0.6%	impairment test, fair value
Lufthansa	British Midland	0.2%	impairment test, fair value
Lufthansa	Austrian Airlines	0.35%	impairment test, fair value
Lufthansa	Swiss	0.6%	impairment test, fair value
Kingfisher Airlines		**5.0%**	**finance, pledge**

or trademark only transactions …

Acquirer	brand / trademark	purchase price/ revenues	nature
Jet Airways India	Jet Airways©	0.05x	related, arm's length
TAM Linhas Aéreas	TAM©	0.015x	related, arm's length
Kingfisher Airlines		**0.78x**	**finance, pledge**

Source: MARKABLES.

mastering the technique, safety, and seriousness. Beer is just the opposite. It is freshness, fun, enjoyment, pleasure, and amusing. Even the image of the kingfisher bird is not necessarily helpful, although birds can fly. The kingfisher stands for nature, purity, fresh water, smallness, and manoeuvrability. These are barely attributes that a commercial airline brand would be interested in conveying. Some old airlines indeed still use birds in their logos, but these are large gliding birds, and their images are used only in the picture mark but not in the name (such as condor, crane, or albatross).

Still, KAL earned many awards at the time for its brand and service. Are these signs of brand strength? Not necessarily. All over the world, airlines are part of such awards, votes, and accolades organised by publishing houses and other institutions, and so was KAL. Maybe KAL's growth and success was somehow impressive. Considering, however, that KAL never made profit, there are two simple explanations for its success: either KAL spent so much money on marketing and customer service that it was impossible to break even, or KAL sold its tickets at dumping prices, cheaper than its competitors but at a similar level of service. In any case, KAL does not owe its success to superior performance or brand strength. Clearly, KAL has "bought" its success with huge amounts of losses. Everybody could achieve that, provided one gets enough funds. Operating profitably, KAL would certainly not have achieved a similar success and stayed much smaller.

Rebranding Air Deccan to Kingfisher Red in 2008 eventually doubled the revenue base of the brand and its value in a revenue-based valuation. It is, however, questionable whether this rebranding did add to Kingfisher's brand value at all or whether it seriously harmed brand strength. KAL's early success was due to a premium service strategy on Indian domestic flights. Air Deccan—later rebranded Kingfisher Red—was an aggressive no-frill airline based on low cost and on cheap ticket prices. While such conflicting concepts may merge and combine over time (i.e., many traditional airlines have added a low-cost carrier to their activities), experience shows that the most successful airlines follow a different strategy and focus on one of the two.

Trademark protection. Trademark protection is another important element of brand value, if not a prerequisite. Parent United Breweries, which is still the registered owner, registered "Kingfisher" in the Indian trademark register for airline services in 2004. It was only in 2009 when KAL filed "Kingfisher elite" for its special charter service and only in March 2010—after the first valuation—when it filed "Kingfisher Airlines" and "Kingfisher express" for protection in class 39 in India. This date of documentation of brand ownership is fairly close to the financial restructuring later in 2010 and looks like it was put together somewhat hastily. Outside India, "Kingfisher Airlines" has enjoyed protection in class 39 in the U.S., Europe, Australia, New Zealand, Singapore, and Indonesia since 2008 and is owned by KAL.

For the valuation in 2009, whether the trademark registrations filed later in 2010 would pass or whether United Breweries would oppose them based on their older brands in class 39 was unclear. Legally, no trademark rights existed when the brand was valued. At the least, the situation of the Kingfisher Airline trademark was extremely unclear and fragile at the date of its valuation.

Lessons to learn. Without access to internal data, it is not possible to estimate the appropriate value of the brand from here. Based on comparable data, there is, however, evidence that the brand valuation was abnormally high, by a factor of at least 10x. This factor is based on the assumption that the business had a real perspective to survive in the long run and that the brand was fully established and legally protected. All three premises seemingly do not apply in this case of why the factor of 10x might still be conservative. The firm that performed the 2009 valuation takes the position that its brand valuation was appropriate in the context of when it was done and the purpose for which it was done. Of course, there can be reasons and arguments not known in the public that justify a high valuation. In any case, the valuation this firm submitted was exceptional and courageous, and it must have strong arguments to support its case. The investigation of the SFIO will hopefully reveal whether the valuation was inexperienced, overly optimistic, abnormally high, or eventually fraudulent, as many commentators suspect. If fraudulent behaviour was involved, it will be interesting to see the role of Kingfisher Airlines, its promoter, and the "other" owner of the trademarks and shareholder of Kingfisher Airlines (United Breweries). Unless and until proven guilty, the valuation firm must be presumed innocent. And the lending banks must learn their lessons, too. However this case ends, it is bad for both the brand valuation profession and for brand-backed financing. Irrespective of SFIO's findings, there are some lessons to be learned immediately from the case.

1. *Multiples and other comparable data are used in all different kind of valuations.* Comparables are easily available for brands as well, and it is time to make use of them in brand valuations. Such comparables cannot replace the valuation as such or the valuer. But they provide useful guidelines for mean values and a usual bandwidth and distribution of values within which the subject case can be positioned based on its particularities. No valuer should do, and no auditor or bank should accept, a valuation without using comparable data.

2. *Don't trust a brand valuation based on excessively high revenue growth in the future*. Such growth is typically based either on expected market growth or on sizeable brand investments that are not yet paid or even known. Both have nothing to do with brand value as it stands at the date of the valuation. They are rather goodwill (or hope). If helpful for finance purposes, the brand can be revalued regularly in the future to include actual sales growth.

3. *Profitability is a prerequisite for the existence of brand value*. The sanity check of the good old profit split method is more important than ever. It is mostly impossible to justify any brand value under enduring losses. Temporary losses require strong arguments for the existence of intangible assets. Valuation methods based on historic cost, reconstruction cost, or replacement cost—instead on methods based on future earnings—should be considered in situations of weak profitability.

4. *Beware of stand-alone brand valuations*. Brand is only one of many different assets that make up a business. Sometimes, as in the Kingfisher case, brands are valued "standalone." Sometimes, brands are valued as part of purchase price allocations where the sum of all assets amounts to enterprise value of the business. Here, all different assets are valued separately and relative against each other, to arrive at the given enterprise value. Stand-alone brand valuations tend to neglect the value of other assets pertaining to that business (i.e., customer relations and goodwill and in particular landing rights and concessions in the case of airlines) and to overestimate the value of the brand.

5. *Comparable royalty rates from brand extension licencing must be treated with care*. Often, value drivers and margin structures in the core business or territory of the licensor are much different from the licensee. The trademark royalty rate reflects either of the two or a mixture of both. For comparability, it is important to understand which one. As we have seen in the Kingfisher case, royalty rates for beer and airlines are not the same.

6. *Brands are anything but infinite*. Often, they can perish much faster than real estate or machinery, especially in distress. Brand valuation needs to consider useful life and risk more seriously, especially for brands that hold less than a No. 1-to-No. 3 position in their market. A good indicator of brand persistence by industry is whether brands are replaced post-acquisition or whether they are kept and maintained.

7. *In most industries (except traditional consumer goods businesses), brands are extremely difficult to sell without the underlying business, like in insolvency*. Lenders have to take this into account when they accept brands as collaterals. The valuation and the grant should include a fallback position based on replacement value (cost of rebranding) or reproduction value. Further, the loan agreement should include

automatic provisions in case of default, such as, for example, options to convert the loan into equity. Overall, brand-backed loans are more risky than the average interest rate they reflect, not necessarily for the general risk of brands, but for the average risk of businesses seeking to pledge their brand.

8. *Full independence of the valuer from his or her client is of utmost importance*. Independence should not be limited to independence from follow-up business. It should also include independence from client briefings. Almost all valuations carry an explanation that they were done for a specific purpose and in a specific situation. The firm that valued Kingfisher also refers to this explanation today, when it states the valuation was appropriate in the context of when it was done and the purpose for which it was done. Of course, situations may change and purposes as well. But, if situation and purpose are major determinants of value, the result of the valuation is not an objective, realistic value but rather a value based on the client's briefing and desires. ◆