



August 10, 2018

Domain Names Acquired in a Business Combination

BUSINESS ADVISORS, BUSINESS VALUATION
BY DAN RISKE

This article provides a brief discussion of some common valuation methods used to determine the fair value of one particular type of intangible asset: domain names.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805 requires that an acquirer of a business record, separately from goodwill, the identifiable assets (tangible and intangible) and liabilities assumed of the acquired entity at their acquisition date fair values. Domain names meet the FASB's definition of an intangible asset separately identifiable from goodwill.

The Relief-from-Royalty Method, a form of the Income Approach to valuation, calculates the value of an intellectual property ("IP") asset as the amount that a company saves by owning the IP instead of licensing the use of the IP from a third party. An applicable royalty rate is multiplied by the future sales expected to be generated using the IP asset, and these future cash flows are discounted to the present day to determine the value of the IP. The applicable royalty rate can be derived based on analyzing third-party licensing agreements for similar property (i.e., other domain names). Because the Relief-from-Royalty Method utilizes royalty rates obtained from licensing transactions within the market, it is considered to be a hybrid of the Income and Market Approaches to valuation.

The Cost Approach establishes value based on the current costs needed to reproduce or replace the domain name. The acquired entity's management may have historical cost records supporting the acquisition of the domain name. These records may provide at least a general idea of what it would cost to recreate the website in the current year. However, the Cost Approach may not always be a relevant indication of fair value for the domain name asset. For example, if the related website has grown in popularity and is used to drive sales for the acquired entity, the domain name's current value may not be appropriately captured in historical cost records.

The Market Approach to valuation estimates the fair value of domain names using sale prices of similar intangible property. Various websites, including domainindex.com and namebio.com may provide historical sale prices of domain names similar to the target domain. However, it is important to note that a similar domain name may have completely different user traffic than the target domain, which would impact value. In addition, a domain that is also a generic term (e.g., food.com) or a short abbreviation (e.g., NHL.com) would typically have more value than a more specific or long brand/company domain name representing similar content. Therefore, it is important to consider the Market Approach, but other factors specific to the target domain name should be taken into account.

Schneider Downs has significant experience in determining the fair value of

intangible assets acquired through business combinations in order to comply with ASC 805. For more information about [Schneider Downs' business](#) valuation and other business advisory services, please contact Joel Rosenthal at 412.697.5387 or jrosenthal@schneiderdowns.com or Steve Thimons at 412.697.5281 or sthimons@schneiderdowns.com.

You've heard our thoughts... We'd like to hear yours

The Schneider Downs Our Thoughts On blog exists to create a dialogue on issues that are important to organizations and individuals. While we enjoy sharing our ideas and insights, we're especially interested in what you may have to say. If you have a question or a comment about this article – or any article from the Our Thoughts On blog – we hope you'll share it with us. After all, a dialogue is an exchange of ideas, and we'd like to hear from you. Email us at contactSD@schneiderdowns.com.

Material discussed is meant for informational purposes only, and it is not to be construed as investment, tax, or legal advice. Please note that individual situations can vary. Therefore, this information should be relied upon when coordinated with individual professional advice.

© 2024 Schneider Downs. All rights-reserved. All content on this site is property of Schneider Downs unless otherwise noted and should not be used without [written permission](#).