

VALUATION ON
THE MARKET
VALUE OF
INTELLECTUAL
PROPERTY RIGHTS

REPORT AND VALUATION ON

THE MARKET VALUE OF INTELLECTUAL PROPERTY RIGHTS OF KOYO CORPORATE (M) SDN BHD AND ITS COMMON SOLE DIRECTOR'S COMPANIES

Prepared for
MESSRS. KOYO CORPORATE (M) SDN. BHD.
[201301004535(1034378-D)]

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Redefining Assets

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16,203+ 
7,410+ 
4,991+ 
2,007+ 



EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Valuing IP Sdn Bhd (“VIP”) is an independent firm specializing in the valuation of intangible assets, in particular, intellectual property (IP) rights and therewithal, a few board members are also advocating and providing services to various organisations such as MITI, MATRADE, Bank Negara Malaysia and Malaysia Productivity Corporation (MPC) in the areas of Regulatory Impact Analysis (RIA), Good Regulatory Practice (GRP) and other governmental policies and strategies. Be that as it may, VIP is in the midst of developing a yellow brick road - a nifty platform and software to compute the imperceptible value of intangible assets leveraging and keep abreast of the latest development in IR4.0 and digitalization.

VIP’s team members comprise of IP lawyers, accountants, certified IP valuer and IP agents.

Valuing IP Sdn Bhd (“VIP”) was engaged by Messrs. Koyo Corporate (M) Sdn Bhd (“KOYO”) to conduct a valuation for its intangible asset in particular Intellectual Property pertaining to the brand (Trademark) “ICE KOYO” for the purpose of justifying the underpinning rebuttals proffered by TEE IP during the written appeal of Malaysia trademark application with MYIPO. The value to be measured is in its highest and best use basis to justify the Arm’s Length Transaction Value between related entities or parties, in particular 3 other companies namely: i) Koyo 5S (Sabah) Sdn Bhd, ii) Koyo 5S (Sarawak) Sdn Bhd, and iii) Koyo 5S (Southern) Sdn Bhd which are owned 100% personally by the sole director of Koyo Corporate (M) Sdn Bhd – Teoh Kah Yew. Koyo Corporate (M) Sdn Bhd being the rightful owner of the trademark “ICE KOYO” has allowed 3 other related parties as mentioned above to use the trademark freely without any assignment of consent letter between each entity and Koyo Corporate (M) Sdn Bhd but merely relying on an immutable fact that they are under the common founders cum shareholders of Koyo Corporate (M) Sdn Bhd to run and manage its core business activities. However, in the eyes of the law, Koyo Corporate (M) Sdn Bhd and 3 other related companies (as mentioned in the above) are 3 separate entities, henceforth to put things right especially when KOYO’s application of the Trademark on 8th December 2021 is still under examination and appeal stage prior to granting approval by MYIPO, an assignment of consent letter needs to be issued by Koyo Corporate (M) Sdn Bhd to 3 other common director’s companies. By doing so, it enables KOYO to envisage the imperceptible value of Trademark “ICE KOYO” embedded therein by exploiting the intellectual property right (IPR) through leasing or licensing out.

Koyo Corporate (M) Sdn Bhd formerly known as Pembinaan AOS Sdn Bhd which was incorporated in February 2013 but had since then changed its name to Koyo Corporate (M) Sdn Bhd in September 2016 and its core business activities involved in the trading, leasing, repairing and maintaining related services for ice making machines, as well as other food and beverages related equipment and machinery. KOYO is Malaysia number 1 ice making machine manufacturer and service provider based on the documentation provided and sighted in reaching the trademark valuation figures.

In reaching the valuation figure, VIP applied the Income Approach, in deploying this method, the valuer projects the economic income generated solely from the intellectual property over a discrete period, known as the Remaining Economic Life (REL).

Generally, the most common method used to calculate appropriate earnings/cashflows associated with IPRs is the Relief-from-Royalty Method. However, there are exceptions when circumstance does not permit and warrant the deployment of such method.

By deploying the selected method of Relief from Royalty Method for valuing the Trademark “ICE KOYO”, the imperceptible intellectual property (IP) Rights ingrained in KOYO could be computed and derived. The following are the market values of Intangible Assets in particular brand “ICE KOYO” of KOYO which as at 31st August 2022:

A. Open Market Value

The Industry Trends of Ice Maker Market size surpassed USD1.5 billion in 2020 and is projected to grow at 5.5% CAGR between 2021 and 2027. The expanding food & beverages industry and increasing number of fast-food chains across the globe are likely to drive the demand. The increasing adoption of ice makers in residential, commercial, and industrial sectors for storing perishable items will provide new market opportunities.

VIP concludes that the Fair Market Value of the IPRs in particular Trademark “ICE KOYO” which operated under the scenario of a Going Concern basis as at 31st August 2022 should be within the range of RM11.92 million to RM33.54 million. Henceforth, VIP opines that the Highest and Best Use Value of IPRs for KOYO Corporate (M) Sdn Bhd shall be **RM28.04 million** (see table 1 to table 3 below).

Scenario – Going Concern Basis

Table 1: IP- Brand (Trademark) “ICE KOYO”

Valuation of Intangible Assets – Trademark “ICE KOYO” on a Going Concern basis (in use)	RM
Relief from Royalty DCF Valuation	28.04 million

Table 2: Sensitivity Test

SENSITIVITY TEST							
@ DISCOUNT RATE (WACC)							
Scenario							
IP Value	Optimistic	Most Likely				Pessimistic	
	10%	12%	13.44%	18%	25%	33%	35%
		45,977,699	33,540,016	28,042,225	18,365,941	11,919,458	8,453,800

Table 3: Brand Strength Analysis

Factor	Score						
	0	1	2	3	4	5	
Market Factor							
1. Economic Growth					1		
2. Substitution		1					
3. Strength Of Competition			1				
Brand factor							
4. Brand Perception						1	
5. Loyalty						1	
6. History, Heritage, Longevity					1		
7. Price Premium			1				
8. Share Of market					1		
9. Potential For Line Extension					1		
10. Share Of Voice						1	
		0	1	0	6	16	15
Total Score							38
Total Possible Score							50
Royalty Rate Range-N1					3.3%		7%
Derived Royalty Rate							5.32%
Selected Royalty Rate							5%

Table: Profit Margins, Rates From The 25% Rule, & Reported Royalty Rates

KPMG Royalty Rate Report	3-Year Average EBIT Margin
Average Profit Margin	13.15%
25% Rule Of The Average Profit Margin	3.30%
Reported Average Royalty Rate	7%

(Source: KPMG Royalty Rate Report)

From the above Brand analysis scorecard, the selected Royalty rate shall be 5%.

KOYO has obtained relatively good scores in few areas viz, a). Brand Perception, b). Loyalty, c). Economic Growth and, d). Share Of Voice on the Brand Strength Analysis (see table 3 above and Appendix 6-Brand Strength Analysis). The management of KOYO should be commended for taking the initiative to register and obtain the legal rights as an assignee for the trademark “ICE KOYO”, in order to enjoy the exclusive rights to use their marks in trading as well as taking legal action for infringement under Trademark Act 2019 against others who use their marks without consent. They can either take civil action or lodge complaints to Enforcement Division for appropriate actions under the Trade Description Act 1972.

In order to leverage the strength and the imperceptible of the Trademark “ICE KOYO” IP value, KOYO should broaden beyond Malaysia and penetrate emerging markets like Indonesia or Thailand by ways of sub-licensing out the “ICE KOYO” Trademark to potential and financially sound sublicensees and charging a loyalty of 5% on Gross Sales and One-Off Set-Up Costs.

B. Distressed Market Value

(a) Intellectual Property Right (IPR)

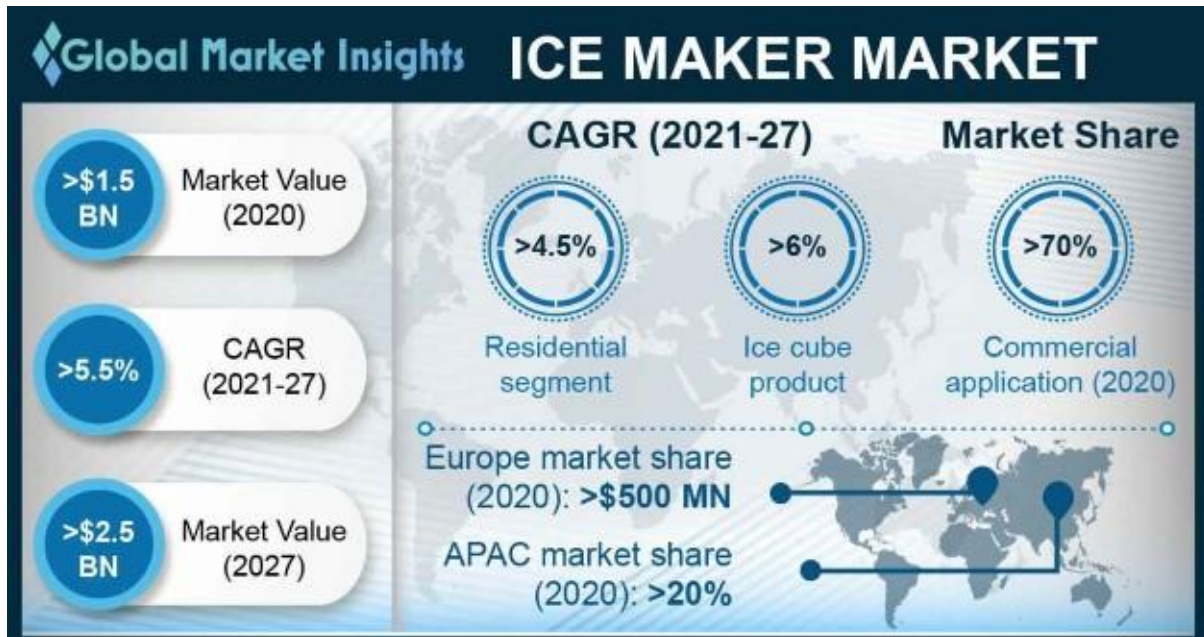
The valuation of a Distressed Market Value considers the Liquidation Discount as well as the cost of liquidations. The Distressed Market Value of KOYO’s IP as at 31th August 2022 is as follows: –

Table 4: Distressed Market Value for IPR

Liquidation discount @	40%	50%	60%
Total Intellectual Property Value (Going Concern Value) (RM)	28,042,224.63	28,042,224.63	28,042,224.63
Less: Liquidation Discount (RM)	(11,216,889.85)	(14,021,112.32)	(16,825,334.78)
Discounted IP Value (RM)	16,825,334.78	14,021,112.32	11,216,889.85
Less: Liquidation Cost of 10% (RM)	(1,682,533.48)	(1,402,111.23)	(1,121,688.99)
Net Distressed Value (RM)	15,142,801.30	12,619,001.08	10,095,200.87

VIP opines that the Distressed Market Value of IP right of KOYO should be in the region of RM10.1 million to RM15.1 million. VIP estimates that a realisable value of **RM12.6 million** would be reasonable.

Conclusion



On the whole, financial analysts estimate that by 2023, the market value will exceed 5 billion dollars. Due to this rapid growth, experts predict that the industry will see something of a renaissance that will incentivize companies to innovate and come up with new, ground-breaking technologies that will focus on an even greater user intuitiveness and network connectivity.

While North America holds (and will continue to hold for the foreseeable future) a large majority of the market shares in terms of sales, the spread of foodservices industries in developing countries and other economic and social factors will help the ice maker market grow beyond the American continent. As for other forecasts, industry experts at IMARC group estimate that the ice maker market will exceed \$5 billion, which will lead to the development of new technologies that will change the way we perceive and interact with these utility items.

The global prominent ice maker market players are: 1). Whynter LLC ii) A&V Refrigeration Corp. iii). AB Electrolux iv). Howe Corporation, etc.

Henceforth, in order to be relevant and make its presence felt in the market, KOYO needs to deploy Porter’s 5 forces analytical model namely i). Competitive rivalry ii). Threat of substitute products, iii) Bargaining power of buyers vi) Threat of new entrants and v). Bargaining power of suppliers to help the management to look at the balance of power in a market between different organisations on a global level, and to analyse the attractiveness and potential profitability of the latest market trends namely **Technologies Creating Environmentally Sustainable Solutions to favour Growth**- most of the R&D companies are creating product-based technologies that can improve environmental sustainability and lead to effective wastewater management while having a nominal impact on the environment, and low water usage.

Right strategies would eventually yield a very promising and maximising all shareholders’ returns through viz a viz, i). increasing sales and earnings, ii). global/local strategies for expanding markets, iii). Strengthening product businesses and differentiating through advanced technologies that anticipate megatrends; especially amid the Covid-19 pandemic catastrophe, which has had devastated the world economy. Nevertheless, while the ideas and strategy remain platitudes but it is a metaphor for digitalisation in the era of metaverse to abreast with the latest development in IR4.0 and digitalization so as to have a cutting-edge advantage to remain competitive and stay ahead of its rivals.

In view of the current accounting and tax treatment of the growth of the IP values and recognition the increases in IP values, KOYO should cash in on the imperceptible enormous value of its Intellectual Property Rights (IPRs) by reorganising its group structure to obtain and capitalise the new value.



APPENDICES

APPENDIX 1
Average EBITDA Margin

CONSOLIDATED INCOME STATEMENT
Years ended 31 December

	2019	% on	2020	% on	2021	% on	Actual
	RM	Revenue	RM	Revenue	RM	Revenue	% deployed (Average)
			Growth Rate				
	100.00%		137.4%		57%		
Revenue:							
Sale Of Goods	1,338,121	100.00%	3,176,557	100.00%	4,975,612	100.00%	100.00%
Total Revenue	1,338,121	100%	3,176,557	100%	4,975,612	100%	100%
Cost of Sales	(494,237)	37%	(1,435,361)	45%	(2,338,133)	47%	43%
Gross Profit	843,884	63%	1,741,196	55%	2,637,479	53%	57%
Other operating income	11,558	0.86%	31,397	1%	165,854	3.33%	1.73%
	855,442	64%	1,772,593	56%	2,803,333	56%	58.69%
Administrative And Operating Expenses	(737,039)	55%	(1,255,038)	40%	(2,098,859)	42%	45.59%
Other Operating Expenses	(12,488)	1%	(167,285)	5%	(247,499)	5%	3.7%
Finance Costs	(6,859)	1%	(44,227)	1%	(92,886)	1%	1%
Operating profit/(loss)	99,056	7%	306,043	10%	364,090	8%	8%
Share of results of associate	0		0		0		
Finance income	0		0		0		
Finance expense	0		0		0		
Profit/(loss) before tax	99,056	7%	306,043	10%	364,090	7%	8%
Add: Depreciation-Fixed Assets	82,578	6.17%	109,692	3.45%	225,098	4.52%	4.72%
Add: Amortisation-Intangible Assets- R&D	0		0		1,667	0.03%	0.01%
EBITDA	181,634	14%	415,735	13%	590,856	12%	13.15%
EBITDA-Attributable to Intangible Assets	-		-		-		
EBITDA-Attributable to Other Activities	-		-		-		
Tax	(31,410)	2%	(82,587)	2.60%	(95,096)	2%	
Profit for the year	150,224	11%	333,148	10%	268,994		

APPENDIX 2
IP Royalty Relief

Key Assumptions					
Valuation Date		8/31/2022			
Royalty Rate %		5.0%			
Discount rate (WACC)-Full Year Dicounting		13.44%			
Malaysia Corporate Tax Rate %		24.00%			
Growth in perpetuity (post 2024)-Inflation Rate		4.50%			
			2022(Jan-April)	2022	2023
					2024
RM			0	1	2
Months					3
			8 months Dec	4months Dec	12 months Dec
			Actual	Forecast	
N1. Revenue		15,838,888	6,587,842	39,246,778	70,644,200
<i>Growth Rate %</i>		<i>47%</i>	<i>23%</i>	<i>75%</i>	<i>80%</i>
Royalties before tax		791,944	329,392	1,962,339	3,532,210
<i>Royalty Rate %</i>		<i>5.0%</i>	<i>5.0%</i>	<i>5.0%</i>	<i>5.0%</i>
Net Royalty Before Tax		791,944	329,392	1,962,339	3,532,210
Tax		(190,067)	(79,054)	(470,961)	(847,730)
Royalties after tax		601,878	250,338	1,491,378	2,684,480
Free cash flow		601,878	250,338	1,491,378	2,684,480
<i>Discount period</i>		⁰	⁰	¹	²
<i>Discount factor</i>		1.00	1.00	1.13	1.29
Present value of discounted cash flow		601,878	250,338	1,314,710	2,086,145

Valuation Summary		
PV of discounted cashflow		RM
PV of discounted cashflow (3 years)		3,651,193
Value into perpetuity (post 2024)		24,391,032
Total IP value		28,042,225

Valuation Cross Check		RM
IP value as multiple of revenue calculation		
Forecast Revenue Average 3 years		44,105,903
IP Value		28,042,225
Revenue multiple		0.64

Sensivity Test			
Discount Rate (WACC)			
	10%	13.44%	35%
IP Value	45,977,699	28,042,225	7,874,745

N1. Revenues were retrieved From Projections Furnished By KOYO Corporate (M) Sdn Bhd(Annexures)

APPENDIX 3
WACC Calculations

WACC Calculation

MyIPO Intellectual Property Valuation Model

	Note	
Cost Of Equity		
Risk free rate	1	2.70%
Equity risk premium	2	6.60%
Releveled equity beta	3	1.48
Cost of equity capital		12.47%
*Specific risk adjustment	4	5%
Subject cost of equity capital		17.47%
**Weighting	5	55.0%
Weighted cost of equity		9.61%
Cost of debt		
Pre-tax rate	6	6.20%
*Specific risk adjustment	4	5%
Borrowing rate	7	11.20%
Corporate tax	8	24%
Subject cost of debt capital		8.51%
weighting	5	45.0%
Weighted after-tax cost of capital		3.83%
WACC, post-tax		13.44%

**Specific risk adjustment - The world economy is remained uncertainties and clouded by more contagious covid variant, coupled with the rising in demand pressures and supply chain bottlenecks, hence specific risk adjustment is necessary to cushion the sales projection*

***Weighting - Cost of equity * equity weighting*

Notes:

1. Malaysian Risk-Free Rate - Yield on 10-year Malaysian Government Bonds per Bank Negara Malaysia website
2. Equity risk premium- Global figure, average of Ibbotson 2013 Valuation Yearbook and NYU Damodaran website.
3. Sourced from "total Betas By Sector" NYU Damodaran Website. Average unlevered 5-year beta of comparable companies, releveled at average capital ratio.
4. Valuer's judgement, includes size premium (Ibbotson's annual risk premium report), Projection risk, IP-specific risk and eValuedata xls. NYU damodaran website.
5. Retrieved from Pre-audited Management Account for the financial year ended 31st December 2021.
6. Average yield on investment-grade long term debt (FINRA TRACE data)
7. This example illustrates full build-up but it is often appropriate to start with observed borrowing rate of market participants.
8. Estimated effective tax rate of potential market acquirer based on 5-year historical average.

APPENDIX 4
Sensitivity Test

Sensitivity Test							
Discount Rate (WACC)							
	Scenario						
	Optimistic	Most Likely				Pessimistic	
	10%	12%	13.44%	18%	25%	33%	35%
IP Value	45,977,699	33,540,016	28,042,225	18,365,941	11,919,458	8,453,800	7,874,745

WACC Selected:
13.44%

Accountants and Valuers by nature of their professional traits tend to be conservative hence they will select WACC which posits pessimistic range of values

APPENDIX 5
Orderly Disposal Distress Event Position

Orderly Disposal distress event position

Valuation on an orderly disposal distress	Liquidation Discount		
	40%	50%	60%
Total Intellectual Property Value (Going Concern Value)	28,042,224.63	28,042,224.63	28,042,224.63
Less: Liquidation Discount	(11,216,889.85)	(14,021,112.32)	(16,825,334.78)
	16,825,334.78	14,021,112.32	11,216,889.85
Less: Liquidation Cost of 10%	(1,682,533.48)	(1,402,111.23)	(1,121,688.99)
Net Distress Value	15,142,801.30	12,619,001.08	10,095,200.87

APPENDIX 6
Beta Value

<i>Industry name</i>	<i>Number of firms</i>	<i>BETA</i>	<i>D/E Ratio</i>	<i>Effective Tax Rate</i>
Machinery	125	1.05	19.65%	8.81%
Retail (General)	17	0.90	21.34%	12.48%
Retail (Distributor)	85	0.97	45.74%	12.21%
Average		1.48	29%	11%

Beta Selected: 1.48

Notes:

Source extracted from Damodaran Betas(pages.stern.nyu.edu)

APPENDIX 7
Brand Strength Analysis

Factor	Score					
	0	1	2	3	4	5
Market Factor						
1. Economic Growth					1	
2. Substitution		1				
3. Strength Of Competition				1		
Brand factor						
4. Brand Perception						1
5. Loyalty						1
6. History, Heritage, Longevity					1	
7. Price Premium				1		
8. Share Of market					1	
9. Potential For Line Extension					1	
10. Share Of Voice						1
		0	1	0	6	16
Total Score						38
Total Possible Score						50
Royalty Rate Range-N1					3.3%	7%
Derived Royalty Rate						5.32%
Selected Royalty Rate						5%

Table: Profit Margins, Rates From The 25% Rule, & Reported Royalty Rates

KPMG Royalty Rate Report	3-Year Average EBIT Margin
Average Profit Margin	13.15%
25% Rule Of The Average Profit Margin	3.30%
Reported Average Royalty Rate	7%

(Source: KPMG Royalty Rate Report)

From the above Brand analysis scorecard, the selected Royalty rate shall be 5%.

APPENDIX 8
Forecast Projection (2022-2024)

KOYO CORPORATE (M) SDN BHD			
Koyo Ice Maker Machine - Growth Chart and Forecast			
Year / Date	No. of New Ice Machines	Gross Revenue	Growth %
2020	331	8,094,882.00	
2021	520	13,192,194.00	63%
2022 AUG	668	15,838,888.00	
Total Up to Date	2,068	<-- (As at 26-08-2022)	
(No. of Machines in Malaysia):			
Forecast Growth			
Year	No. of New Ice Machines	Gross Revenue	Growth % (Projection)
2022	898	22,426,730.00	70%
2023	1,570	39,246,778.00	75%
2024	2,826	70,644,200.00	80%
Note: These are combination value and projection of Koyo Corporate and its subsidiary companies			
1) Koyo Corporate (M) Sdn Bhd			
2) Koyo 5S (Sabah) Sdn Bhd			
3) Koyo 5S (Sarawak) Sdn Bhd			
4) Koyo 5S (Southern) Sdn Bhd			



ANNEXURE

LIST OF ANNEXURES

Annexure 1 – KOYO Catalog (2000 customers)

Annexure 2 – KOYO Profile 2022 R8-R1

Annexure 3 – SSM of Competitor: Madison America Sdn Bhd

Annexure 4 – SSM of Competitor: Basic Kitchen Sdn Bhd

