Domain Name Liquidation Value

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Abstract
The paper outlines a statistical model to estimate the liquidation value of a domain name. The valuation model is based on the average ask price for domain names with the same characteristics. Information on sold as well as unsold domain names is included in the model's dataset. The estimated liquidation value can also be used to predict the impact of distress on a domain name's market value.

Introduction

There are three important concepts of value: intrinsic, market, and liquidation. In a well functioning market, the intrinsic value and market value converge.[1] Thus, in such a market an estimate of intrinsic value can be used to infer its fair market value.

Current domain name appraisal models have been developed to estimate the fair market value. The lack of a liquidation-based model is due to the current demand for appraisals being driven primarily by motivated buyers and sellers, and by the nonexistence of a robust scientific approach to estimate a domain name's liquidation value.

Due to a number of recent litigation cases involving domain name liquidations, the demand for such a model is on the rise.

What does Liquidation refer to?

There are two major distinctions between a fair market value and a liquidation value. Liquidation creates a situation where the sale must occur within a specific, short period of time and when there are no motivated buyers for the domain name at the fair market price. Thus, the seller needs to offer a reasonable discount to attract buyers. The liquidation value is an estimate of such a discount price.

[1] See Alex Tajirian, "Market Price and Value Can Diverge," DomainMart.

Comparables-based Liquidation Pricing Model

To estimate the liquidation value, we extend the application of our statistical classification model.[2] Our classification model predicts the likelihood of a sale for a specified ask price. Thus, to adopt the model for liquidation, we reverse the inquiry logic to ask what is the highest ask price that would generate, say, a hundred percent likelihood of sale and the ask price for, say, a seventy percent sale likelihood. Thus, these two estimated ask prices represent respectively the lower- and upper-end liquidation prices.

An Alternative Approach

The two major domain name valuation methodologies are based on estimating the stream of cash flows and based on comparables. The former typically decomposes the value drivers into two components: the present value of the domain name absent any distress factors and the present value of the impact of distress on value. The difference between these two components is the liquidation value. Nevertheless, in practice, estimating the present value of the distress factor for a domain name is not trivial.

In the absence of revenue generated by the domain name, one can estimate the expected cash flows based on, say, a pay-per-click (PPC) model.[3] However, until now, there has been no model or market transaction data to estimate the present value of distress.

Concluding Remarks

Our statistical model directly estimates the liquidation value. Moreover, the estimated discount over a fair value can also be used in an income approach to value the distress factor.

[2] See Alex Tajirian, "Likelihood of Sale, Given a Domain Name's Ask Price?," DomainMart.

[3] See Alex Tajirian, "Parked-Benchmark Appraisal Methodology," DomainMart.