

Brand Finance[®]



Brand Finance Institute



GIFT[™] **2017**

Global Intangible Finance Tracker 2017

An annual review of the world's intangible value

June 2017

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Foreword



**David Haigh, CEO
Brand Finance plc**

Each year, Brand Finance plc analyses the fluctuating value of intangible assets on world stock markets. Once again the Global Intangible Finance Tracker (GIFT™) highlights important trends which have developed over the last 16 years:

- 1) The absolute scale of global intangible assets and the high percentage of global enterprise value represented by intangible assets
- 2) The volatility of intangible asset values caused by changes in investor sentiment over time
- 3) The confusion created by some intangible assets appearing in balance sheets while most do not
- 4) The failure of IFRS 3 to adequately report the current real value of both internally generated and acquired intangibles

The phenomenon of ‘undisclosed intangibles’ has arisen because accounting standards do not recognise intangible assets unless there has been a transaction to support intangible asset values in the balance sheet.

To many accountants, the Historical Cost Convention is a prudent measure to prevent creative accounting and the distortion of reported asset values. But the ban on intangible assets appearing in balance sheets unless there has been a separate purchase for the asset in question, or a fair value allocation of an acquisition purchase price, means that many highly valuable intangible assets never appear on balance sheets.

This seems bizarre to most ordinary, non-accounting managers. They point to the fact that while Smirnoff appears in Diageo’s balance sheet, Baileys does not. The value of Cadbury’s brands was not apparent in its balance sheet

and probably not reflected in the share price prior to Kraft’s unsolicited and ultimately successful contested takeover of that once great British company.

There are many other examples of this unfortunate phenomenon, which has led to the call for a new approach to financial reporting, with fair values of all assets determined and reported by management each year. Annual fair value reporting would be a significant help to managers, investors and other interested parties.

There is a growing demand, strongly supported by Brand Finance plc, that it is time for a new form of financial reporting, whereby boards should be required to disclose their opinion of the fair value of the underlying values of all key intangible assets under their control. We believe that this exercise should be conducted annually and include explanatory notes as to the nature of each intangible asset, the key assumptions made in arriving at the values disclosed and a commentary about the health and management of each material intangible assets. They could then be held properly accountable.

We believe that too many great brands have been bought and transferred offshore as a result of the ongoing reporting problem.

We hope that this GIFT™ report will start a reporting revolution which is long overdue. Instead of meaningless balance sheet numbers we want to see living balance sheets with values that the board really considers appropriate and useful for customers, staff, investors, partners, regulators, tax authorities and other stakeholders.

We urgently need a more imaginative approach towards a regular revaluation and reporting of intangible assets. If we could achieve a more meaningful reporting approach we believe that it would lead to better informed management, higher investment in innovation and intangible asset value creation, stronger balance sheets, better defence against asset strippers and generally serve the needs of all stakeholders.

In our opinion it is time for CEOs, CFOs and CMOs to start a long overdue reporting revolution.

Definitions

Intangible assets can be grouped into three broad categories — rights, relationships and intellectual property:

1 Rights. Leases, distribution agreements, employment contracts, covenants, financing arrangements, supply contracts, licences, certifications, franchises.

2 Relationships. Trained and assembled workforce, customer and distribution relationships.

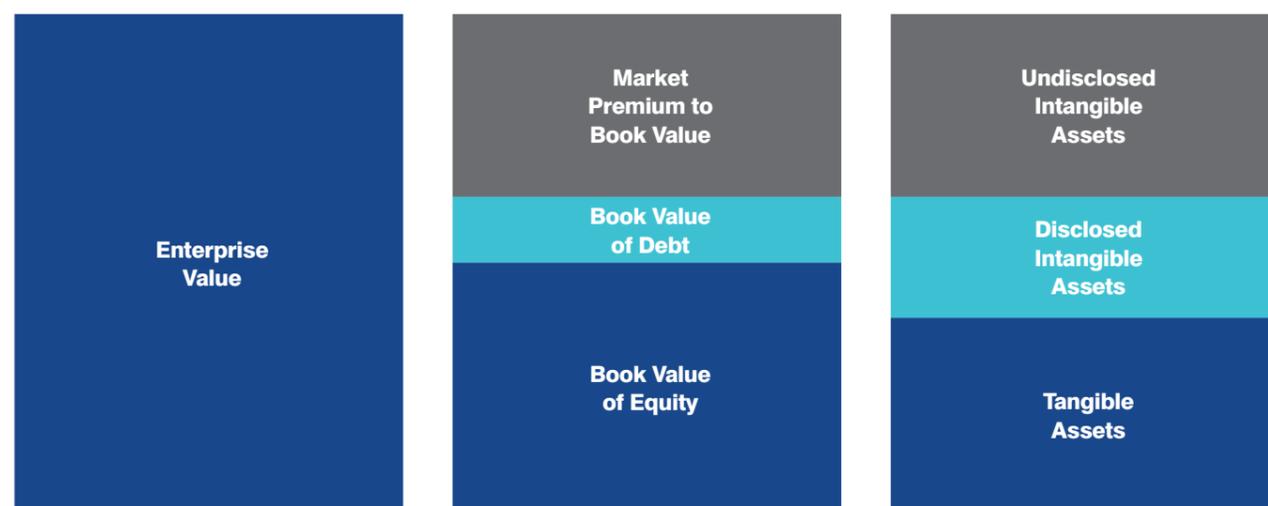
3 Intellectual property. Patents; copyrights; trademarks; proprietary technology (for example, formulas, recipes, specifications, formulations, training programmes, marketing strategies, artistic techniques, customer lists, demographic studies,

product test results); business knowledge — such as suppliers' lead times, cost and pricing data, trade secrets and knowhow.

Internally generated intangibles cannot be disclosed on the balance sheet, but are often significant in value, and should be understood and managed appropriately. Under IFRS 3, only intangible assets that have been acquired can be separately disclosed on the acquiring company's consolidated balance sheet (disclosed intangible assets).

The following diagram illustrates how intangible value is made up of both disclosed and undisclosed value.

Breakdown of corporate assets, including intangibles



'Undisclosed intangible assets', are often more valuable than the disclosed intangibles. The category includes 'internally generated goodwill', and it accounts for the difference between the fair market value of a business and the value of its identifiable tangible and intangible assets.

Although not an intangible asset in a strict sense — that is, a controlled 'resource' expected to

provide future economic benefits (see below) — this residual goodwill value is treated as an intangible asset in a business combination on the acquiring company's balance sheet. Current accounting practice does not allow for internally generated intangible assets to be disclosed on a balance sheet. Under current IFRS only the value of acquired intangible assets can be recognised.

In accounting terms, an asset is defined as a resource that is controlled by the entity in question and which is expected to provide future economic benefits to it. The International Accounting Standards Board's definition of an intangible asset requires it to be non-monetary, without physical substance and 'identifiable'.

In order to be 'identifiable' it must either be separable (capable of being separated from the entity and sold, transferred or licensed) or it must arise from contractual or legal rights (irrespective of whether those rights are themselves 'separable'). Therefore, intangible assets that may be recognised on a balance sheet under IFRS are only a fraction of what are often considered to be 'intangible assets' in a broader sense.

However, the picture has improved since 2001, when IFRS 3 in Europe, and FAS 141 in the US, started to require companies to break down the value of the intangibles they acquire as a result of

a takeover into five different categories — including customer- and market related intangibles — rather than lumping them together under the catch-all term 'goodwill' as they had in the past. But because only acquired intangibles, and not those internally generated, can be recorded on the balance sheet, this results in a lopsided view of a company's value. What is more, the value of those assets can only stay the same or be revised downwards in each subsequent year, thus failing to reflect the additional value that the new stewardship ought to be creating.

Clearly, therefore, whatever the requirements of accounting standards, companies should regularly measure all their tangible and intangible assets (including internally-generated intangibles such as brands and patents) and liabilities, not just those that have to be reported on the balance sheet. And the higher the proportion of 'undisclosed value' on balance sheets, the more critical that robust valuation becomes.

Categories of intangible asset under IFRS 3

Marketing-Related Intangible Assets	Customer-Related Intangible Assets	Contract-Based Intangible Assets	Technology-Based Intangible Assets	Artistic-Related Intangible Assets
Trademarks, tradenames	Customer lists	Licensing, royalty, standstill agreements	Patented technology	Plays, operas and ballets
Service marks, collective marks, certification marks	Order or production backlog	Advertising, construction, management, service or supply contracts	Computer software and mask works	Books, magazines, newspapers and other literary works
Trade dress (unique colour, shape, or package design)	Customer contracts & related customer relationships	Lease agreements	Unpatented technology	Musical works such as compositions, song lyrics and advertising jingles
Newspapers	Non-contractual customer relationships	Construction permits	Databases	Pictures and photographs
Internet Domain Names		Permits	Trade secrets, such as secret formulas, processes, recipes	Video and audio-visual material, including films, music, videos etc.
Mastheads		Franchise agreements		
Non-competition agreements		Operating and broadcast rights		
		Use rights such as drilling, water, air, mineral, timber cutting & route authorities		
		Servicing contracts such as mortgage servicing contracts		
		Employment contracts		

Reporting: Background

In 2001, FAS 141 introduced the requirement for US companies to capitalize acquired intangibles following an acquisition. Intangible assets should be separately disclosed on the acquiring company's consolidated balance sheet. In 2004, IFRS 3 introduced the same requirement as a global standard.

In 2005, all listed companies in EU member countries adopted IFRS.

At present, approximately 90 nations have fully conformed with IFRS, with further 30 countries and reporting jurisdictions either permitting or requiring IFRS compliance for domestically listed companies.

The adoption of IFRS accounting standards means that the value of disclosed intangible assets is likely to increase in the future. Strong advocates of 'fair value reporting' believe that the requirements should go further and that all of a company's tangible and intangible assets and liabilities should regularly be measured at fair value and reported on the balance sheet, including internally generated intangibles such as brands and patents, so long as valuation methods and corporate governance are sufficiently rigorous.

Some go as far as to suggest that 'internally generated goodwill' should be reported on the balance sheet at fair value, meaning that management would effectively be required to report its own estimate of the value of the business at each year end together with supporting assumptions.

However, the current rules state that internally generated intangible assets generally should not be recognised on the balance sheet. Under IFRS, certain intangible assets should be recognised, but only if they are in the "development" (as opposed to "research") phase, with conditions on, for example, technical feasibility and the intention and ability to complete and use the asset.

"Internally generated goodwill", as well as internally generated "brands, mastheads, publishing titles, customer lists and items similar in substance", may not be recognised.

IFRS: Allocating the cost of a business combination

At the date of acquisition, an acquirer must measure the cost of the business combination by recognising the target's identifiable assets (tangible and intangible), liabilities and contingent liabilities at their fair value. Any difference between the total of the net assets acquired and the cost of acquisition is treated as goodwill (or gain on a bargain purchase).

Goodwill: After initial recognition of goodwill, IFRS 3 requires that goodwill be recorded at cost less accumulated impairment charges. Whereas previously (under IAS 22) goodwill was amortised over its useful economic life (presumed not to exceed 20 years), it is now subject to impairment testing at least once a year. Amortisation is no longer permitted.

Gain on a bargain purchase: Gain on a bargain purchase arises where the purchase price is determined to be less than the fair value of the net assets acquired. It must be recognised immediately as a profit in the profit and loss account. However, before concluding that "negative goodwill" has arisen, IFRS 3 says that an acquirer should "reassess" the identification and measurement of the acquired identifiable assets and liabilities.

Impairment of Assets

A revised IAS 36 'Impairment of Assets' was issued at the same time as IFRS 3, on 31 March 2004. Previously an impairment test was only required if a 'triggering event' indicated that impairment might have occurred.

Under the revised rules, an annual impairment test is still required for certain assets, namely:

- Goodwill
- Intangible assets with an indefinite useful economic life and intangible assets not yet available for use.

Brands are one major class of intangible assets that are often considered to have indefinite useful economic lives. Where acquired brands are recognised on the balance sheet post-acquisition, it is important to establish a robust and supportable valuation model using best practice valuation techniques that can be consistently applied at each annual impairment review.

The revised IAS 36 also introduces new disclosure requirements, the principal one being the disclosure of the key assumptions used in the calculation. Increased disclosure is required where a reasonably possible change in a key assumption would result in actual impairment.

Impact on managers and investors

a) Management

Perhaps the most important impact of new reporting standards has been on management accountability. Greater transparency, rigorous impairment testing and additional disclosure should mean more scrutiny both internally and externally. The requirement for the acquiring company to attempt to explain at least a part of what was previously lumped into "goodwill" should help analysts to analyse deals more closely and gauge whether management have paid a sensible price.

The new standards are also having a significant impact on the way companies plan their acquisitions. When considering an acquisition, a detailed analysis of all the target company's

potential assets and liabilities is recommended to assess the impact on the consolidated group balance sheet and P&L post-acquisition.

Companies need to pay close attention to the likely classification and useful economic lives of the identifiable intangible assets in the target company's business. This will have a direct impact on the future earnings of the acquiring group. In addition to amortisation charges for intangible assets with definite useful economic lives, impairment tests on assets with indefinite useful economic lives may lead to one-off impairment charges, particularly if the acquired business falls short of expectations post-acquisition.

The requirement for separate balance sheet recognition of intangible assets, together with impairment testing of those assets and also goodwill, is expected to result in an increase in the involvement of independent specialist valuers to assist with valuations and on appropriate disclosure.

b) Investors

The requirement for companies to attempt to identify what intangible assets they are acquiring as part of a corporate transaction may provide evidence as to whether a group has paid too much in a deal. Subsequent impairment tests may also shed light on whether the price paid was a good one for the acquiring company's shareholders.

Regular impairment testing is likely to result in a greater volatility in financial results. Significant one-off impairment charges may indicate that a company has overpaid for an acquisition and have the potential to damage the credibility of management in the eyes of the investor community.



Expert Opinions - BF Institute



Strong demand for improved reporting of intangible assets

David Haigh, CEO of Brand Finance plc and Chairman of the Brand Finance Institute*

Last year Brand Finance commissioned an extensive study into the attitude of investment analysts in the City towards the reporting of intangible assets including brands. The study repeated an annual study we conducted for 5 years from 1997 to 2001. Back then, analysts felt that conventional accounts failed to give them the absolute values or the factual and narrative detail to form a correct view about the intangible assets owned by companies they followed. That research programme prompted Brand Finance to initiate the GIFT™ study (now running continuously for 16 years) and to launch the Brand Finance Institute to advocate for more granular reporting of intangible assets among accounting professionals.

GIFT™ continues to show the huge black hole in conventional accounting and financial reporting. Our Investment Analysts Study reveals that there is as much if not more dissatisfaction with the lack of information on intangible assets now as there was in 1997. Nothing has changed. Yet changes

in the nature of the world economy over the last 20 years, and the inexorable growth in the number of intangibles-based enterprises, means that the need for better reporting is even stronger now than 20 years ago. Our Investment Analysts research clearly shows that there is a strong demand from the most important users of financial reports for a sea change in the way intangible assets are recorded and reported.

Systematic underreporting of intangible assets in balance sheets

When IFRS 3 was published in 2004 there was a great deal of optimism that this would be the first step towards better, more meaningful and more insightful reporting of intangible assets. However, for various reasons that optimism was hugely premature and expectations have been dashed.

IFRS 3 specifically banned the recognition of internally generated intangible assets and the revaluation of externally acquired intangible assets, making it of limited relevance or use.

“There needs to be a concerted call from all stakeholders to demand that long-neglected ‘Cinderella Assets’ should finally be allowed to attend the annual financial reporting ball!”



Expert Opinions - BF Institute

Survey: CFO and Equity Analyst views on the importance of intangible assets

	2001	2016	2016
	Analysts	Analysts	CFOs
Agree that brands are becoming more important in...			
...risk management	20%	53%	68%
...lending decisions	18%	47%	53%
...tax planning	4%	25%	27%
...M&A activity	53%	72%	76%
...financial reporting	22%	38%	53%
...traditionally unbranded sectors	52%	53%	53%
Global brands will inevitably push out local brands			
	41%	34%	32%
Emerging market brands will inevitably push out global brands			
		16%	16%
All <u>acquired</u> intangible assets should be separately included in the balance sheet			
		79%	80%
All <u>internally generated</u> brands should be separately included in the balance sheet			
	56%	68%	58%
All intangible assets should be revalued each year			
		73%	58%
Who should prepare the valuations of intangible assets that are included in annual financial accounts?			
Independent third party intangible asset valuers		58%	46%
Intangible asset valuers working for the company's auditors		29%	19%
Staff and directors of the companies concerned		11%	30%
Other		2%	5%

However, IFRS 3 made it compulsory for CFOs and their financial advisers to fairly value all tangible and intangible assets at the point of acquisition and to conduct impairment reviews as and when appropriate. This requirement has created a huge industry in point in time valuations for accounting purposes which has lined the pockets of valuers and accountants but has delivered very limited informational value to management or users of accounts. Arguably one of the most expensive and pointless financial reporting exercises of all time.

About 5 years after the introduction of IFRS 3 the Financial Reporting Council commissioned a review of compliance with IFRS 3 which found that CFOs tended to underreport the number of

intangibles acquired, perhaps because each asset identified required a specialist valuation and then amortisation or impairment testing thereafter. Better to leave them out and drop the value into residual goodwill, which is only subject to an annual impairment test, and only if there are reasons to believe there has been an impairment. Inevitably CFOs do not willingly instigate the impairment process because of the cost and perceived low value of the outcomes. The study also found that there was a tendency towards conservatism in the values attributed to those intangible assets which were identified. So it is a widely held view that the utility of IFRS 3 reporting of intangible asset values is low. Hence the cynicism of many CFOs.



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Expert Opinions - BF Institute

One aspect of this is that while the use of IFRS 3 valuations of brands and other intangibles for comparable valuation purposes is of some value it is unwise to rely on so-called comparable market transactions to value brands and other intangibles for all purposes. In many cases, IFRS 3 asset valuations tend to be very conservative with any excess value from the transaction amount dropping into residual goodwill.

A Swiss firm called Markables has created a database which records all IFRS 3 valuations as a reference source for valuers and companies to benchmark the value of their intangibles. The Markables database is of some value but it has to be recognised that Purchase Price Allocations are just that... Allocations. They are not actual Transaction values. They are not stand alone arm's length valuations. Misdescribing them as Transaction values creates the risk that conservative Allocations of value to specific intangibles will indicate lower values than the subject assets would command in standalone arm's length transactions for the assets alone, separate from an enterprise valuation.

The upside with IFRS 3 reporting is that it has created a generation of professional valuers that are capable of producing reliable enterprise and intangible asset valuations from time to time. It is a huge resource waiting to be properly used. They could easily value the subject companies every year, identifying all internally and externally generated intangible asset and reconciling to enterprise value.

Anecdotally, it seems that the identification and fair valuation of all intangible assets post acquisition has improved. However, internally generated intangibles and revalued acquired intangibles are still 'Cinderella Assets' waiting to come to the financial reporting ball.

Recently, I have been made aware of certain companies which actually commission an IFRS 3 style valuation of their whole business each year with all intangible assets, both acquired and self-generated, identified and reported on. These valuations are used confidentially by the board to understand what assets are owned by the business and to aid decision making. This is the first step towards public disclosure.

“GIFT continues to show the huge black hole in conventional accounting and financial reporting. Changes in the nature of the world economy over the last 20 years, and the inexorable growth in the number of intangibles based enterprises, means that the need for better reporting is now stronger than ever.”



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Expert Opinions - BF Institute



Given the requirements of the IASB's own Conceptual Framework for financial reporting, which calls for the inclusion of all assets and liabilities in financial statements, to improve the usefulness of financial accounts for stakeholder decision making, it is surprising that such disclosure is not already compulsory.

Breakthrough in setting standards for intangible asset valuation

Fortunately, there has been a progressive improvement in valuation standards led by IVSC, at the instigation of the SEC and others. There is a strong and growing pressure from regulators worldwide for tighter standards on how these hugely valuable 'Cinderella Assets' are valued. Sir David Tweedie has become the unlikely Prince Charming for these long neglected assets.

Massive change in accreditation of valuers

This year the final piece in the puzzle came in April when The Royal Institute of Chartered Surveyors (RICS), the Association of International Certified Professional Accountants (AICPA) and the

American Society of Appraisers (ASA) launched a new valuation qualification, the Certificate in Enterprise and Intangible Valuation (CEIV). It is recommended by the SEC that values appearing in accounts for which the SEC is the regulator, should only be signed off by a CEIV valuer. The bar is set high and will no doubt transform the perception of the quality and reliability of intangible asset valuations in future. This should make it easier for accounting and other authorities to accept intangible asset values for publication.

Action is required

There now needs to be a concerted call from all stakeholders to demand that these long neglected 'Cinderella Assets' should finally be allowed to attend the annual financial reporting ball!

** Brand Finance Institute is the training and development arm of Brand Finance plc. The Institute offers courses and workshops, organises lectures and events, and conducts specialist studies on brand and business valuation.*



Expert Opinions - IVSC



Accounting for brands

Sir David Tweedie, Chairman,
Board of Trustees, IVSC

Accounting for brands in the United Kingdom began in 1987 when Grand Metropolitan included the cost of the brand Smirnoff on its balance sheet. Accounting for brands had two origins, first the problems of accounting for goodwill and for the tangible and intangible assets obtained by an acquisition of another company and second, by the desire of some companies to reflect in their balance sheets the value (as opposed to the cost) of their assets.

The UK accounting profession was initially reluctant to recognise acquired individual intangible assets on the balance sheet preferring instead to deal with intangibles in aggregate as goodwill. Unfortunately, the accounting policies of the time failed to show the economics of the purchase of a company.

The then accounting standard (SSAP22) allowed

two policies for the elimination of goodwill. The preferred method was the immediate write-off against reserves, the argument being that as the nature of goodwill differs from that of other assets it should not be shown as an asset and, therefore, requires special accounting treatment. The problem with this method was that it confused non-accountants (and some accountants!) and could lead to misinterpretation of a company's financial position. The alternative treatment allowed was amortisation through the profit and loss account over the asset's useful economic life. The objection to this was that companies who may have preferred this option were reluctant to allow their reported earnings and, therefore, earnings per share, to be lower than those of companies performing equally well but which wrote off goodwill directly to reserves.

Despite the fact that the standard clearly stated that write-off to reserves "did not imply an equivalent actual loss of value", acquisitive companies, while initially favouring the policy of elimination of goodwill against reserves, became increasingly concerned as the group's net worth appeared to decrease substantially and ill-informed criticism abounded about high gearing ratios and the apparent lack of reserves. Such companies also had problems with restrictive covenants based on reported net worth when looking for increased borrowings for further acquisitions.

The purchase of a single brand instantly places a value on the asset. In a business combination, however, where the brand is acquired as part of a portfolio of assets, the difference between the consideration given and the fair value of the tangible assets would normally place a ceiling on the cost of a brand. Indeed, given the existence of other non-separable or unidentifiable intangibles, it is unlikely that the entire difference could be attributed to the cost of the brand. However, the possibility of a bargain purchase always exists, in which case the fair value of the net assets (tangible



Expert Opinions - IVSC

"If purchased brands can be put on the balance sheet, there is no logic in banning internally generated brands being shown as assets."

and intangible) would exceed the consideration paid for them. There is, however, little enthusiasm for showing bargain purchases given the questioning about valuations that could ensue. If purchased brands can be put on the balance sheet, however, there is no logic in banning internally generated brands being shown as assets. Indeed, companies which fear predators and which possess highly visible, saleable home grown brands may be tempted to consider whether such brands should be on the balance sheet, given that many takeover bids initially seem to be at a premium in relation to a target's tangible assets but could well be at an economic discount if the value of the target's undisclosed brands were to be taken into account. Accounting standard setters, however, have been wary of allowing internally generated brands to be shown – their main concern being the reliability of the valuations. In the standard setters' view in purchase situation

there is at least a cap on the value.

Without a purchase all hinges on the valuation of the intangible and there are concerns that such valuations may not be trusted. There is, however, ultimately little logic in allowing only purchased assets being shown in the financial statements and an opportunity exists for the valuation profession to demonstrate to the standard setters' satisfaction the reliability of the valuations and encourage the balance sheets, especially of service companies, more faithfully to reflect the underlying assets of the business.

The present situation in the United Kingdom and internationally under IFRS is that goodwill and brands are rarely, if ever, revalued and only written down when it can be shown that their value has declined. The latter was a throwback to the Smirnoff case. As National Technical Partner of KPMG at the time, I helped devise a method whereby the auditor could check whether the value of Smirnoff was being maintained. The asset had been purchased using a valuation based on discounted cash flows. Our proposal was to insert the actual cash flows into the original estimates to ascertain whether the price paid could be shown to be equal to or less than the current value shown by the new discounted cash flow figures. Those of you who know accounting, will recognise that this became the impairment test introduced by the ASB while I was its Chairman and eventually brought into IFRS. While some may find the impairment test difficult, it was the price to pay for allowing intangible assets on the balance sheet.

More, however, could be done - as mentioned above showing only purchased intangibles does not reveal the whole story – a challenge awaits the valuation profession to convince the standard setters that the valuations of internally generated brands are sensible and that purchasers would offer similar prices to the values. A great opportunity for the valuation profession awaits.

Expert Opinions - Mazars



Accounting for the invisible asset

David Herbinet, Global Audit Leader,
Mazars, member of the Praxity alliance

Intangibles do not have physical presence not only by definition but under current accounting requirements they are also often 'invisible' from financial reporting unless they are acquired separately or in the context of the acquisition of a business.

As businesses in the global economy have generally shifted away from conventional manufacturing towards being more service and technology orientated in nature, so has the importance shifted regarding the nature of assets of these businesses from tangible to now primarily intangible assets. Recent studies have indicated that for listed companies that over 80% of their market capitalisation is intangible in nature. These intangibles inter-alia include brands, customer relations, human capital, patents, know-how and other technology based intangibles.

The importance of intangible assets to the overall value of many listed companies is perhaps not surprising given, for example, the significance of know-how for modern technology companies or the importance of brands in the consumer product industry in today's global economy. What is surprising is the failure in financial reporting, given the importance of brands and intangibles in general to the value of companies, to be able to report effectively for these assets. As a result, this is probably the single most important threat to the relevance of accountancy in modern times.

One of the main qualitative characteristics of useful financial information is 'comparability'. The justification for recognising acquired brands but not 'home grown' ones is very weak. Further, for intangibles, accounting standards only allow the subsequent revaluation where there is an active market. Given it is uncommon for an active market to exist, revaluation in practice is currently extremely rare.

Since accountants and auditors must get themselves comfortable with valuations of intangibles that are acquired as part of a business combination then instinctively they should also be able to get comfortable with valuation of internally generated intangibles. Whilst accepting to the non-specialist, intangible asset valuation might appear rather daunting, and accepting that it includes judgement and therefore is a statement of opinion not fact, it still seems that having valuation information on these assets is at the very least useful information that would be welcomed by users of financial statements.

Furthermore, it is hard in the modern age of accounting to ignore the reporting for brands, and other intangibles simply because these issues fell into the 'too difficult' box. Applying traditional assumptions based on the accounting world of yesterday where physical assets dominated can surely no longer be justified. Accounting for intangibles has been the forgotten

Expert Opinions - Mazars

“It is hard in the modern age of accounting to ignore the reporting for brands, and other intangibles simply because these issues fell into the ‘too difficult’ box.”

issue of financial reporting as standard setters have primarily focused on leasing, another invisible 'right of use' asset that will eventually be recognised on the balance sheet and also financial instrument projects which have received a disproportionate amount of time and effort compared to other areas of accounting.

Whilst standard setters are understandably nervous about recognising brands on the balance sheet when you need to consider the reliability of measurement for assets, the current alternative of showing nothing is equally unacceptable. If a valuation of a brand is a "best estimate" and if the reporting entity has properly applied an appropriate process, properly described the estimate and explained any uncertainties that significantly affect the estimate, then this should be able to be understood by users of financial statements. If there is no alternative representation that is more faithful, that estimate should provide the best available information. Either through recognition, or at the very least disclosure, financial reporting needs to narrow the reporting gap between market value and balance sheet value so that financial statements are truly fit for purpose.

The 'true and fair' concept has been a part of English law and central to accounting and auditing practice in the UK for many decades and assurance needs to be provided on the performance and position of the business under this concept. The non-recognition of many intangibles arguably undermines the level of assurance that is actually provided to stakeholders.

The lessons learnt from over 10 years of valuations of acquired intangibles in business combinations under both IFRS 3 and US GAAP requirements in ASC 805 has put the accounting profession in a better position to now move to the next level with regard to reporting for brands and other intangibles. However, perhaps even these standards are too restrictive by not recognising certain key intangibles such as human capital and corporate culture.

Conclusions

To compete, businesses must actively develop and leverage their brands and intangible assets. Understanding the value of these assets is therefore critical. In order to get a proper representation of an entity's net asset position you need financial reporting requirements that are both robust and transparent.

Improved financial reporting on brands and intangibles is essential and with appropriate valuation methodologies it is no longer as controversial as in earlier years. The recognition and/or disclosure of these 'invisible assets' is surely necessary in order to provide investors with the information they need on brands and other intangibles. Auditors, standard setters and investors need to work together to determine the way ahead on this issue which is surely an evolution worthy of consideration.

What a balance sheet currently shows is interesting, but what it hides is often more crucial!

Expert Opinions - IPA



Selling brand effectiveness short

Janet Hull, Director of Marketing Strategy, IPA

In advertising, we are driven to make the ‘magic’ of emotionally compelling brand communications - but we also strive to make ‘the business numbers’ by which the performance of marketing intangibles are judged.

Those global groups, such as WPP and Publicis, which own leading advertising agencies and dominate the marketing services industry, are publicly-quoted enterprises that must update markets and stakeholders on their performance, including on the value of their agency brands.

These marketing services groups have been corporate pioneers in intangible value reporting by regularly including their brands as assets on their balance sheets.

However, it is by helping their clients build strong brands and other marketing assets, that agencies also grow the value of marketing intangibles on the balance sheets of their client organisations.

Agencies succeed most when their work for clients succeeds too. So any signal, no matter how slim, that this work is undergoing challenges, is taken seriously by the marketing services sector, and the same should be true of all analysts who follow them.

Recently, the IPA published ‘Media in Focus: Marketing Effectiveness in the Digital Era’ to investigate the current status of marketing communications effectiveness. As evidence, it used the IPA Databank, the unique archive of cases from its biennial awards which reward brands for providing commercial proof of effectiveness. The results make for disquieting reading.

They show overall campaign effectiveness is falling. The average effectiveness of IPA case studies, as measured by the number of very large business effects reported in cases, is at its lowest ever level on a 10-year rolling basis.

Worryingly, the business metrics most in decline are those most associated with long-term brand growth – namely, increases in market share and consumer penetration.

The data suggests that effectiveness started to fall with the 2007/8 global financial crisis. The crisis appears to have triggered or amplified practices that prioritised short-term goals at the expense of long-term brand marketing effectiveness.

Since effective brand investment is a source of the intangible value that drives the long-term valuations of many of the world’s most successful businesses – as shown by Brand Finance’s Global Intangible Finance Tracker – this short-term mindset should worry financiers as much as marketers.

Expert Opinions - IPA

“Since effective brand investment is a source of the intangible value that drives the long-term valuations of many of the world’s most successful businesses (...) short-term mindset should worry financiers as much as marketers.”

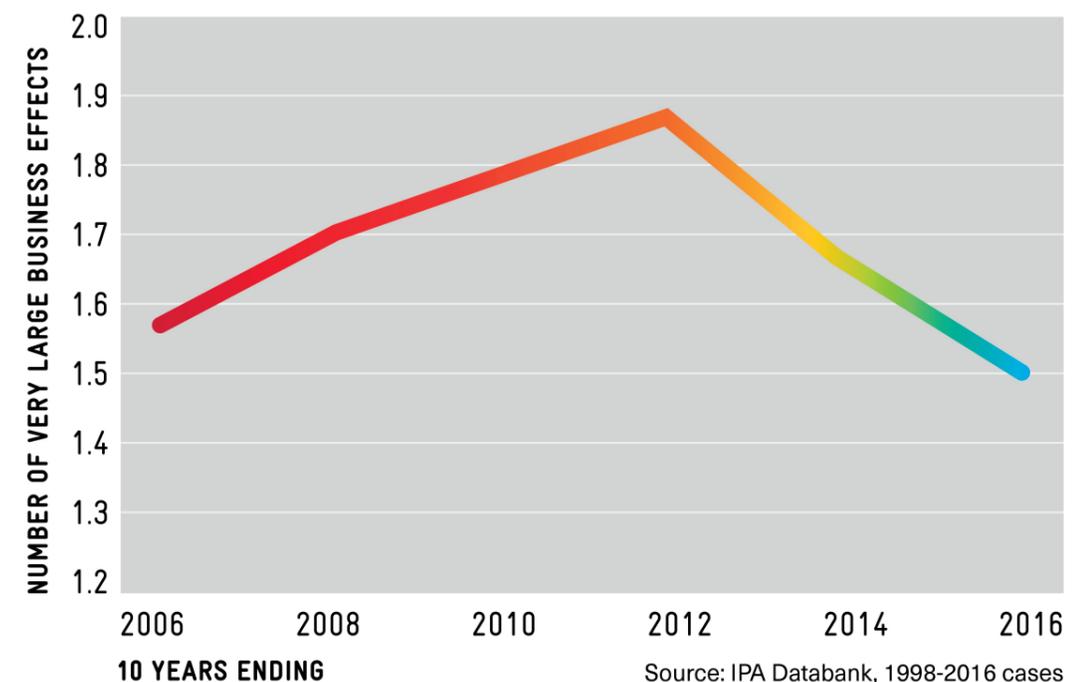
Elevating short-term activation over long-term brand-building

The IPA Databank shows clear evidence of a shift away from brand activities, such as advertising or sponsorship, designed to generate long-term brand equity, and towards activation which seeks short-term responses and sales.

Campaigns with activation objectives rose from 47 per cent of cases prior to the global financial crisis to 55 per cent subsequently. Over the four years to 2016, the figure reached 72 per cent. The proportion of cases evaluated over the short-term (i.e. for six months or less) grew from its long-term average of 8 per cent to 25 per cent.

There has been a levelling off or fall in the reported use of brand metrics, such as awareness, differentiation and image, which typically involve longer timeframes.

CAMPAIGN EFFECTIVENESS HAS FALLEN



Expert Opinions - IPA

Measured by their ability to generate large activation effects, short-term approaches can seem effective. But they can be disastrous for brands' future growth prospects.

For example, only 3 per cent of short-term cases report very large market share effects. This compares to 38 per cent among cases that lasted for three or more years. Typically, when both types of activity co-exist, brand building will overtake activation as the driver of growth after six months,

The 60:40 rule

The right blend of investment is also key. Previous IPA studies had estimated that the most effective mix to create a synergy of brand and activation was to allocate 60 per cent of budget to brand and 40 per cent for activation.

Given the rise in short-termism and increased expenditure in activation-led channels such as search, it was time to look again at this.

The pie charts on the right look at the budget split in 2016 IPA Awards campaigns from a variety of aspects.

However you look at it, the 60:40 rule is alive and well. Moreover, when brands varied from this mix, there was a marked reduction in long-term effectiveness.

False Conclusions

Short-term bias can lead businesses to draw false conclusions about what works. If you want immediate responses, talking to existing customers can be a good idea. However, Databank analysis shows that the most effective campaigns are those that address both current and potential users to ensure the brand has high awareness, relative to its rivals.

As activation often works via rational messaging, a short-term activation success can also create the illusion that rational advertising is more effective than emotional advertising. In fact, the reverse is true over the long-term.

The good news from the IPA research is that the digital revolution has increased the potential effectiveness of most media, including traditional media. The potential synergies between offline and online media have grown. It is also perfectly possible to use online for brand building. Indeed online can help extend brand reach, particularly among younger audiences.

But there is worrying evidence that firms are drawing the wrong lessons from the rise of digital. By ignoring the enduring axioms of marketing effectiveness, companies are undermining the tremendous promise of the new tools at marketers' disposal.

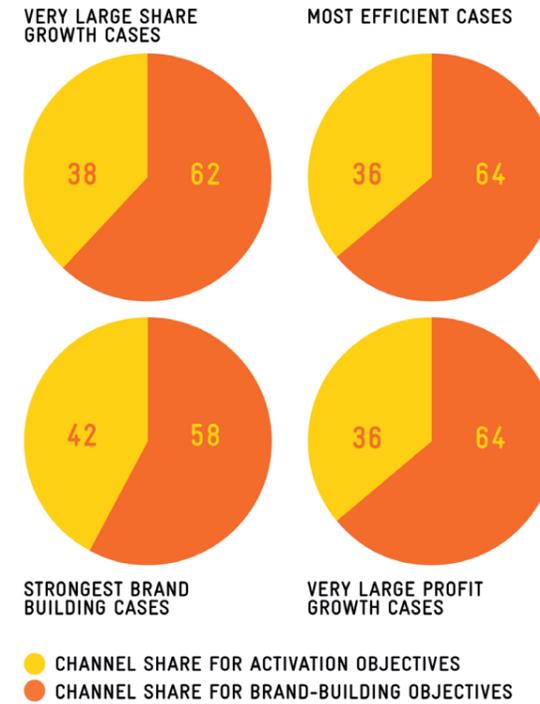
Without a rebalancing of budgets towards longer-term brand building, brands cannot achieve their full potential in our changing media landscape.

Copies of 'Media in Focus: Marketing Effectiveness in the Digital Era' by Les Binet and Peter Field are available from www.ipa.co.uk/effectiveness

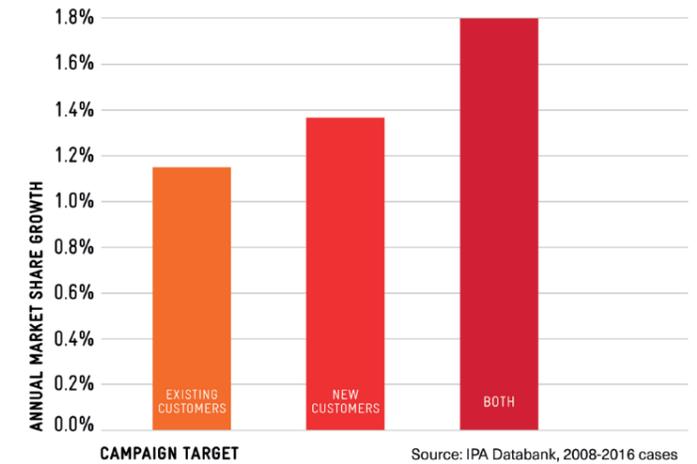


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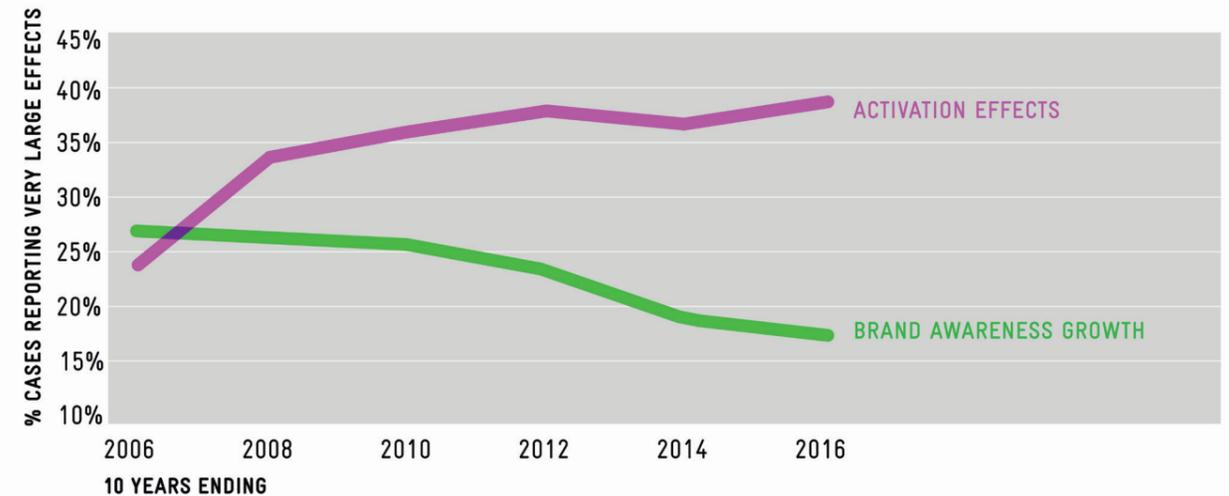
THE 60:40 RULE STILL APPLIES



BROAD-REACH CAMPAIGNS THAT TARGET NEW CUSTOMERS ARE BEST FOR TOP-LINE GROWTH



LIMITED ACTIVATION GROWTH HAS BEEN ACHIEVED AT THE EXPENSE OF BRAND HEALTH (FIGURE 49)



Expert Opinions - RICS



To be, or not to be? The relationship between tangible and intangible asset values in real estate

Becky Thomson, Associate Director Valuation
UK Markets, RICS

Distinguishing between tangible and intangible assets in real estate valuation may superficially seem relatively straightforward, but there are anomalies in some cases.

Certain commercial real estate assets often sell as going concern businesses. These assets are referred to in the UK property market as trade-related property and have the following defining characteristics:

a) The property is designed/adapted for a specific trading use. For example, a cinema can really only be utilised as a cinema; another type of business could not simply occupy it and operate successfully without making significant alterations to the building design.

b) Ownership of the property passes with the sale of the business — the two are interlinked.

“Understanding the methodologies, core concepts, industries and intended use (tax, financial reporting, etc.) requires experience and expertise to produce a quality valuation analysis that is reasonable and auditable.”



Expert Opinions - RICS

c) Value is based directly on trading potential for the specific use. Instead of using other comparable properties or rental income as the basis of value, valuers will analyse the potential for profit when valuing trade-related property.

Examples of real estate assets which are sold as a going concern include residential care homes, public houses/bars, hotels and restaurants.

The distinction between intangible assets and real estate becomes particularly nebulous when assessing the trading potential of a going concern property against the goodwill that is associated with a current owner. For example, a pub or restaurant with an excellent reputation will have some goodwill value, but when the current owner sells the property and moves on, the goodwill could go with them. Transferable goodwill is inherent in the property itself and brings economic trading benefit e.g. due to location or a monopoly position. The valuer’s expertise is called upon to distinguish between influence on property value, and what is classed as an intangible asset and needs identifying separately.

While real estate is a tangible asset, it may have intangible attributes that influence the value. However, these are not intangible assets and cannot be valued as such. For example, the location and situation of a property may increase its value through factors such as surrounding neighbourhood, adjacent occupiers, proximity to local amenities, proximity to transport links and development potential. These factors on their own are not individual intangible assets that can be valued as such in financial statements.

However, goodwill does carry intangible value, and this is not necessarily dealt with by a property valuer for a going concern transaction. At present, an instruction for an individual pub value would sit with a property valuer, but the Wetherspoons portfolio as a whole would be handled by a business valuer who would commonly have an



accountancy rather than a real estate background. The Wetherspoons portfolio would be more valuable than the individual values of the pubs added together due to the strength of the brand and the goodwill that is inherent within this.

Both types of valuer can learn from each other and RICS has a ‘Valuation of Businesses and Intangible Assets’ pathway to enable professionals to qualify as MRICS, together with an additional credential - Certified in Entity and Intangible Valuations (CEIV) – an additional, specialist qualification for professionals who perform fair value measurements for businesses and intangible assets.

Valuation is complex. Understanding the methodologies, core concepts, industries and intended use (tax, financial reporting, etc.) requires experience and expertise to produce a quality valuation analysis that is reasonable and auditable. Companies and financial stakeholders are protected and regulators can have confidence in the profession when valuers meet technical competency requirements, adhere to ethical codes of conduct, and act with due care.

Expert Opinions - Corporate Excellence



The challenge of managing intangible assets

Ángel Alloza, CEO, Corporate Excellence

Excellence in managing intangible assets is the best way for companies to create value and be successful. I like to refer to the new economic cycle we are in as the “economy of reputation and intangible assets” since the weight of these assets is dramatically increasing – the intangibles of S&P500 companies have tripled in value over the last thirty years. Just a few decades ago, intangible assets made up only 20% of an organisation’s total value, while now this figure stands at over 50%, reaching 80% in industries like advertising, technology, pharmaceuticals or personal care, as showed in this year’s Global Intangible Financial Tracker (GIFT) report.

Year after year, Brand Finance keeps proving that tangible capital is used less and less (in isolation) to quantify the value and potential risks of a company, while intangible metrics are increasingly being applied. The figures shoot up with digitalisation, the lack of a lasting differentiation of

products and services, and the crisis of trust in businesses and institutions (Edelman, 2017). There is a growing trend towards intangible assets being an essential part of the value creation and protection processes for present and future organisations.

Academic and business praxis have proven that the excellent management of intangible assets directly impacts business results, and that this impact can be measured. Experts agree that a new kind of leadership is emerging that is willing to compete on achieving and maintaining a “good reputation”, namely, on the recognition and trust of stakeholders. In this new model, success lies not only in the economic profit, but also in the ability to generate relational capital or, in other words, good lasting relationships with different stakeholders. Thus, competition is no longer focused on aspects such as size, scope or financial variables, but on obtaining respect, admiration, empathy and support from those whose actions determine the sustainability of the company (Carreras et al., 2013).

The business environment has evolved towards a model more focused on the strategic importance of intangible assets as a tool to generate and manage value. In this transition, companies need to “re-invent” themselves by managing their intangible assets in a way that allows them to attract investment, retain customers and talent, and build higher levels of satisfaction, loyalty and trust.

To appropriately manage these resources, it is necessary to define what the concepts of communication, reputation and brand mean for the company. For this reason, we should be able to develop metrics to measure and prove the economic return of our intangible assets, include non-financial KPIs in the scorecards of top-level management in addition to traditional financial indicators and link the company’s compensation policies to the improvement of these KPIs. There

Expert Opinions - Corporate Excellence

are five major challenges regarding these assets:

- To create and maintain over time differentiation from competitors.
- To create and strengthen the bond with key stakeholders (customers, employees, society, investors and regulators).
- To integrate excellence in managing intangible assets within the business strategy.
- To use intangible assets to articulate and align all stakeholders around business strategy.
- To supervise the management of intangible assets and protect their value.

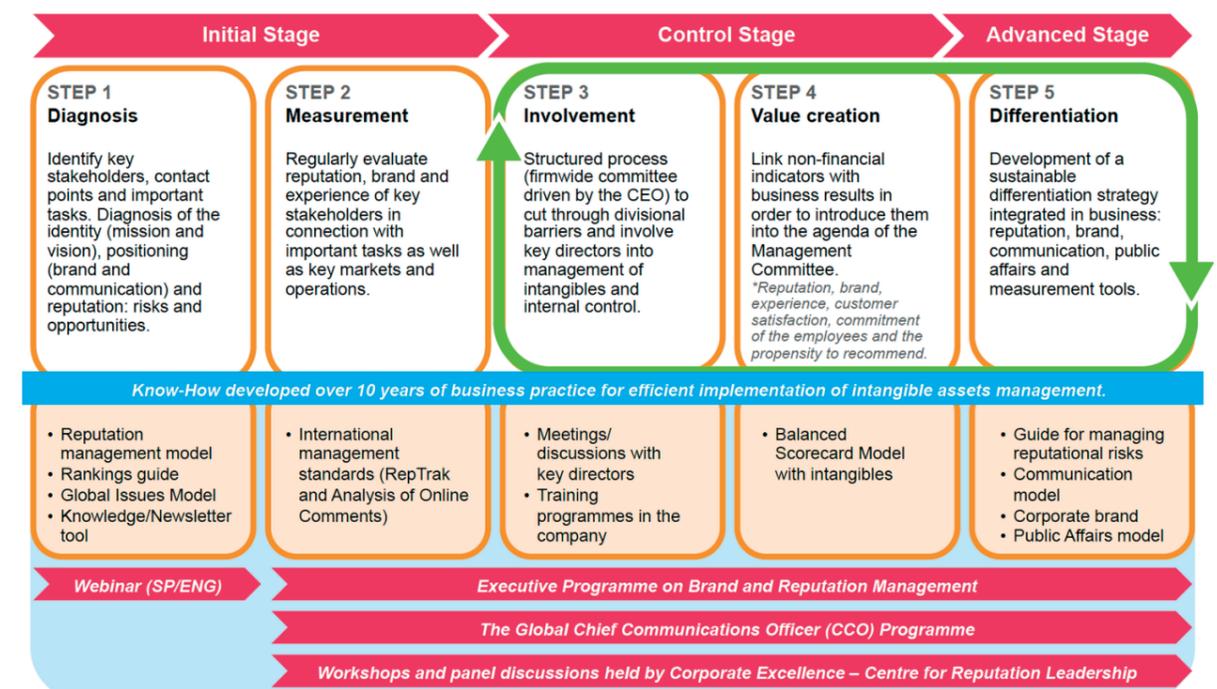
To achieve these goals, companies should follow the steps outlined in the following roadmap, which points the way to excellent management of intangible resources. It is structured as follows:

- Initial stage (step 1 & 2) - 52% of companies do not progress further.
- Control stage (step 3 & 4) - 45% of companies develop to this stage.
- Advanced stage (step 5) – only 3% of companies reach this stage

There are different reasons that can explain this paradigm shift in business. Over the last years, the sources of differentiation and legitimacy have transformed: they are no longer in the product, which can be easily and almost immediately copied, but in who you are and why you do things differently. A brand is just that: the core value proposal that an organisation offers to all their audiences, both internal and external; it has an aspirational value, and is the reference to guide the organisation’s behaviour.

We could say that the brand is the platform through

© CE Model: Roadmap for integrated management of reputation, brand and corporate communication



Source: Corporate Excellence - Centre for Reputation Leadership (2012), adapted from Living the Brand by Nicholas Ind (2001) and Navigating the Reputation Economy - A Global Survey of Corporate Reputation Officers by Reputation Institute (2012).

Expert Opinions - Corporate Excellence

which corporate identity is materialised. Therefore, companies need to create strong corporate brands articulated around a unique purpose and shared value system. This is the only way to generate a long-term differentiation that is able to attract new customers, talent and investors, and increase their loyalty. Managing the brand in exemplarily fashion is crucial, as differentiation allows companies to obtain profit margins that are above the average of competitors. Before this, differentiation was found in having better products and services than competitors, which led to the proliferation of trademarks. Today, however, the process of building the corporate brand is much more complex; it is not based just on functional characteristics or advantages, but on elements related to the identity of the organisation as well: who you are as a company and why you do what you do.

While the brand is the strategic platform used to generate differentiation, reputation allows us to create legitimacy by managing trust. As seen in 2017 Edelman Trust Barometer and Corporate Excellence's report *Approaching the Future 2017: Trends on the Management of Intangible Assets*, distrust in all four institutions —business, government, NGOs, and media— continues to grow. To fight the current crisis of trust, there are some basic requirements to be met: to establish a dialogue with stakeholders, have a clear purpose and aligned corporate values, meet the expectations of stakeholders, innovate, keep up with the latest trends and, especially, manage reputation.

When an organisation, institution, country or even a person succeeds in earning the trust of their stakeholders in the long term, that feeling of admiration, respect, and esteem translates into favourable behaviours towards that entity. The strategic importance of corporate reputation and its contribution to value generation — as well as the potential impact of reputation risks (AON,

2016) — is being included in the corporate agendas all over the world.

Committing to the expectations of our stakeholders, meeting their needs and communicating our actions are some of the foundations for building trust. A brand will be strong, and trustworthy as long as there is a consonance between these concerns or expectations and the experiences or actual facts. Thus, to generate trust, legitimacy, and earn a good reputation, there must be total consistency between what the brand says it does and what it actually does. In light of this, it seems impossible to separate business management from corporate culture, communication, brand, reputation or social responsibility.

To align what we say with what we do, it is important to implement an integral management model that helps strengthen the organisation over time. Such a model should be based on the coherence of all messages conveyed internally and externally, and the engagement of all stakeholders in a common system of beliefs and values. Communication appears to be the best lever to transform the actions of the company into positive attitudes and behaviours towards it.

There is no doubt that companies need to manage their intangible assets, both inside and outside the organisation, to strategically communicate the improvements that they are implementing. Communication allows organisations to profit from all the value hidden and build stories around each one of their capitals. However, to be effective, communication needs to be completely linked to the corporate strategy and the global vision or purpose of the company.

Intangible resources are now the most valuable elements in an organisation, although they can also entail the greatest risks if they are not well managed. As we have said, companies are increasingly appreciating the value of their

Expert Opinions - Corporate Excellence

Differentiation and Alignment



Purpose and Corporate Brand



Legitimacy and Trust



Corporate Reputation

STRATEGIC COMMUNICATION

intangible assets. In fact, interviews with CEOs from 30 countries in 28 activity sectors show that 80% agree with the essential role of intangible assets for business success. However, just 20% claim their organisations are properly prepared to manage them. For this reason, our challenge is to help the companies and their employees understand the importance of their intangible assets, as well as to offer the right training so that, through an excellent strategy, they can increase the value of their organisations.

One of the greatest challenges we are facing has to be with financial reporting. Many research studies — by MIT Sloan Management Review, The Boston Consulting Group, or PwC among others — are advancing dramatic changes in reporting. It needs indeed to evolve; data show that investors are increasingly demanding non-financial information to understand how companies generate social, intellectual, relational and environmental value, and to identify the best investment opportunities. We have a unique opportunity to keep inspiring this behaviour so that investors can base their decisions on a well-founded assessment of companies' actual

performance on all levels.

For years, Corporate Excellence has observed how the most advanced companies are embarking on authentic transformation processes to embrace a multi-stakeholder approach and integrate intangible metrics into their scorecards and compensation policies: the reputation, brand strength, employee engagement or customer satisfaction indexes are some examples of this.

We must admit that the current context presents great challenges, however, this is also the best moment to prove that intangible assets create value for companies. There are some fascinating changes still to come in this field of knowledge, and we must be aware of them to keep being relevant in the market and the society. I strongly believe that the on-going research covered by Brand Finance's GIFT is essential for companies and institutions to further advance on this journey to excellence.

Expert Opinions - CGMA



Managing and reporting value drivers to deliver sustainable success

Noel Tagoe, Executive Vice President, Academics, Association of International Certified Professional Accountants

Senior executives need to understand how their organisations create and preserve value. Although this has always been so it has gained added impetus more recently due to developments in the environments in which organisations inhabit and evolve. For example over the past 40 years the proportion of intangible assets represented in the market valuation of listed firms has risen significantly. This is important because intangible assets are drivers, carriers and repositories of value.

Measuring the whole value of organisations at different periods can show how successful senior executives have been in fulfilling their remit to create and preserve value. This provides useful information to determine how senior executives are incentivised and compensated. However, for those whose livelihoods and welfare depend on

the performance of organisations this information comes too late. For such people, reporting performance per se is not as important as managing the organisations to deliver superior performance.

Consequently an understanding of the drivers of value, their behaviours and their link to value creation and preservation is crucial to organisations. It is in this light that we issue a strong call for leaders of organisations to focus on the evolving drivers of value in the digital world. The quest to understand, manage, deploy and report value drivers should focus on three interacting spaces or networks.

First is the society or social spaces in which organisations operate. The permission to operate and the related regulatory conditions emanate and evolve within this space. Key value drivers such as organisational trust and reputation are nurtured and enhanced here. In many cases these value drivers are the most significant and viable barriers to entry into the organisations' competitive space. Understanding the dynamics of generating, nurturing and deploying these intangible value drivers will improve the performance and the overall value of organisations. This is not easy because, for example, in the digital age, the management of trust is moving from the physical spaces to digital platforms. This is exacerbated by the transparency and speed with which activities that affirm or destroy reputations can be reported to a wide range of people on these platforms.

The second space is the market which brings together providers who compete with each other to provide goods, services and experiences to customers. It is characterised by exchange and competition. The drivers of value in this space are constantly changing. For example the basis of value was the tangible assets and physical goods that were produced from those assets. Increasingly the focus is shifting from tangible assets to intangible assets. It is no longer about physical

Expert Opinions - CGMA

products or even services. Emerging evidence shows that for successful organisations it is not a matter of producing goods and services that meet or exceed customer expectations. The key is providing end-to-end experiences that meet or exceed expectations. Goods and services can be replicated easily but creating experiences that deliver value taps into underlying intangible value drivers, such as tacit knowledge and relational capital, which are not easy to replicate. Furthermore, in the past, most of the underlying value generating tangible assets were owned by the organisations themselves. Now there is no need to own the assets. The ability to curate a process by which asset owners are brought into partnership with the organisation and others through sharing arrangements to deliver value generating experiences to customers is a key condition for success. Once again, the underlying value drivers are intangible.

Finally organisations need to understand how the interactions within and between these spaces, facilitated by technology, create opportunities and

risks for them. This knowledge helps them to harness resources (both tangible and intangible) from markets and society and link them with their own internal resources to create the products, services and experiences that customers reward. As in other situations the underlying value drivers are intangible.

Putting a financial value on each of the intangible value drivers might be difficult but that does not constitute an argument for abandoning the quest to provide meaningful measures for them. Executives should be encouraged to evaluate the sources, nature and behaviours of the value drivers and their contribution to value creation and to the overall value of organisations. For finance professionals, this will constitute part of their remit to persuade with numbers and yet manage beyond numbers. This is a major but essential challenge in a digital age where many activities that finance professionals undertake can be automated. Finance professionals who can shape and tell the value story through a deep understanding of value drivers cannot easily be replaced by automation.

“Executives should be encouraged to evaluate the sources, nature and behaviours of the value drivers and their contribution to value creation and to the overall value of organisations.”



Executive Summary

GIFT™ 2017



Globally, intangible value continues to soar, rising from \$19.8 trillion in 2001 to \$47.6 trillion in 2016, despite a drop of over 50% during the financial crisis of 2008 (Figure 1).

However, despite moves towards improved reporting for intangibles being widely advocated and provided for, to a degree, with the IFRS and IAS 38 standards, the disclosure of intangibles still leaves a lot to be desired. Disclosed goodwill continues to hover at around 8-10% of total enterprise value and other disclosed intangibles at 6-8% (Figure 2). In fact, over the last five years, the problem has seemingly worsened. Though the values of disclosed intangibles on company balance sheets have increased by 5% annually over the last five years, total enterprise value grew 13% over the same period. More strikingly, global undisclosed intangible value rose from \$15tn in 2011 to \$35tn in 2016, an 18% annual increase, suggesting that, with effective reporting, disclosed intangible growth ought to have outstripped enterprise value rather than the reverse (Figure 1).

This lack of progress shows that the need for more effective reporting remains as urgent as ever.

Intangible reporting by sector

The Auto Manufacturing, Telecommunications, and Distribution & Wholesale sectors lead the way on intangible value reporting. They have the highest proportion of disclosed intangibles (including goodwill) to total intangibles, at 56.4%, 46.9%, and 44.8% respectively (Figure 3).

The Telecommunications sector, at the same time, boasts the highest absolute value of disclosed intangible assets (including goodwill) at \$1.3tn. Disclosed intangibles in Telecommunications grew 7% in the last year (Figure 6). Though falling far short of an ideal, the Telecommunications sector stands as something of an example to other sectors in the granularity of intangible reporting. Some of the most frequently disclosed intangible assets in the sector are spectrum licenses and customer relationships, which when combined

Figure 1: Global Enterprise Value - Absolute Breakdown

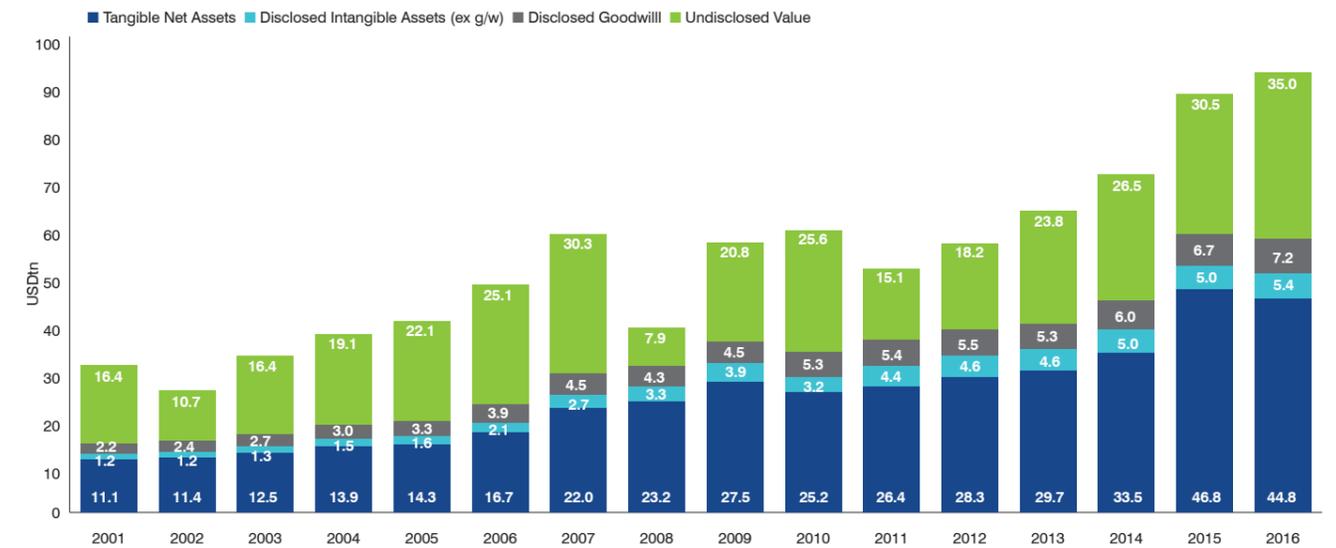
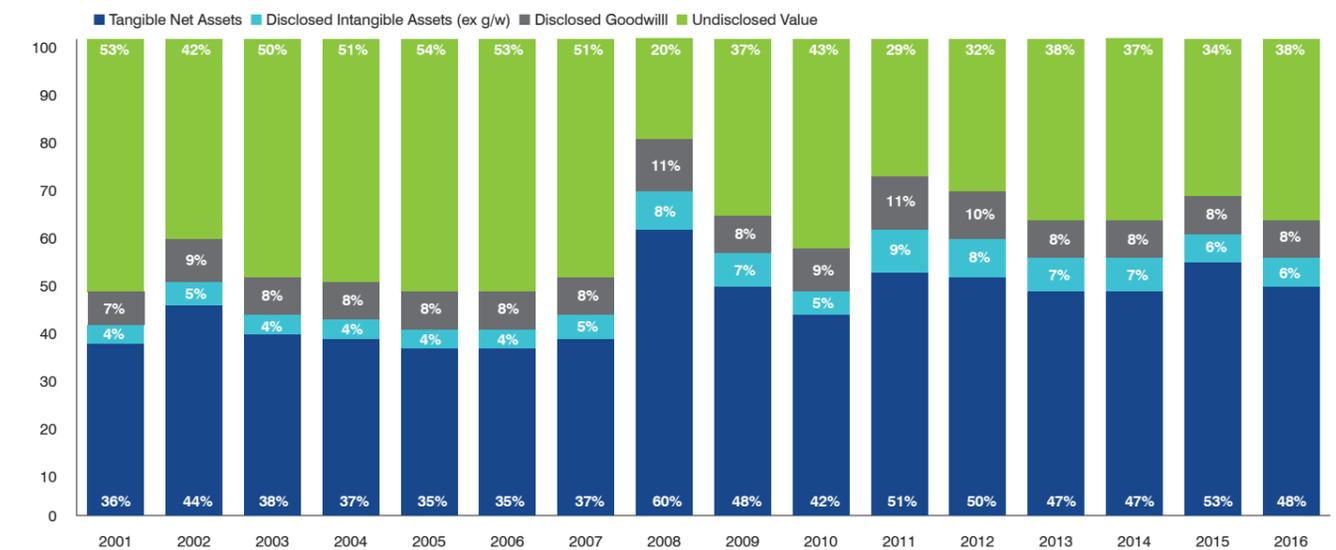


Figure 2: Global Enterprise Value - Breakdown



Executive Summary



make up the majority of the intangible value, but brands and trademarks are also recognised in almost all M&A transactions within the industry.

The Pharmaceuticals industry could be seen as strong on reporting in some respects, in that it places just behind Telecommunications for the absolute value of disclosed assets (including goodwill) at \$1.1tn (Figure 6) and that it outperformed other sectors in terms of the year-on-year positive change in disclosed intangible assets at \$114bn (Figure 7). However, despite this it could still be seen as a laggard in reporting intangibles. This is because Pharmaceuticals has a higher value of undisclosed intangibles than any other sector, at \$2.4tn, indicating the failure of accounting rules to capture the value of fundamentally important intangibles such as drug patents, customer and contractual relationships (Figure 5).

The Real Estate Investment, Internet, and Home Building sectors report an even lower proportion of intangibles (including goodwill) to total

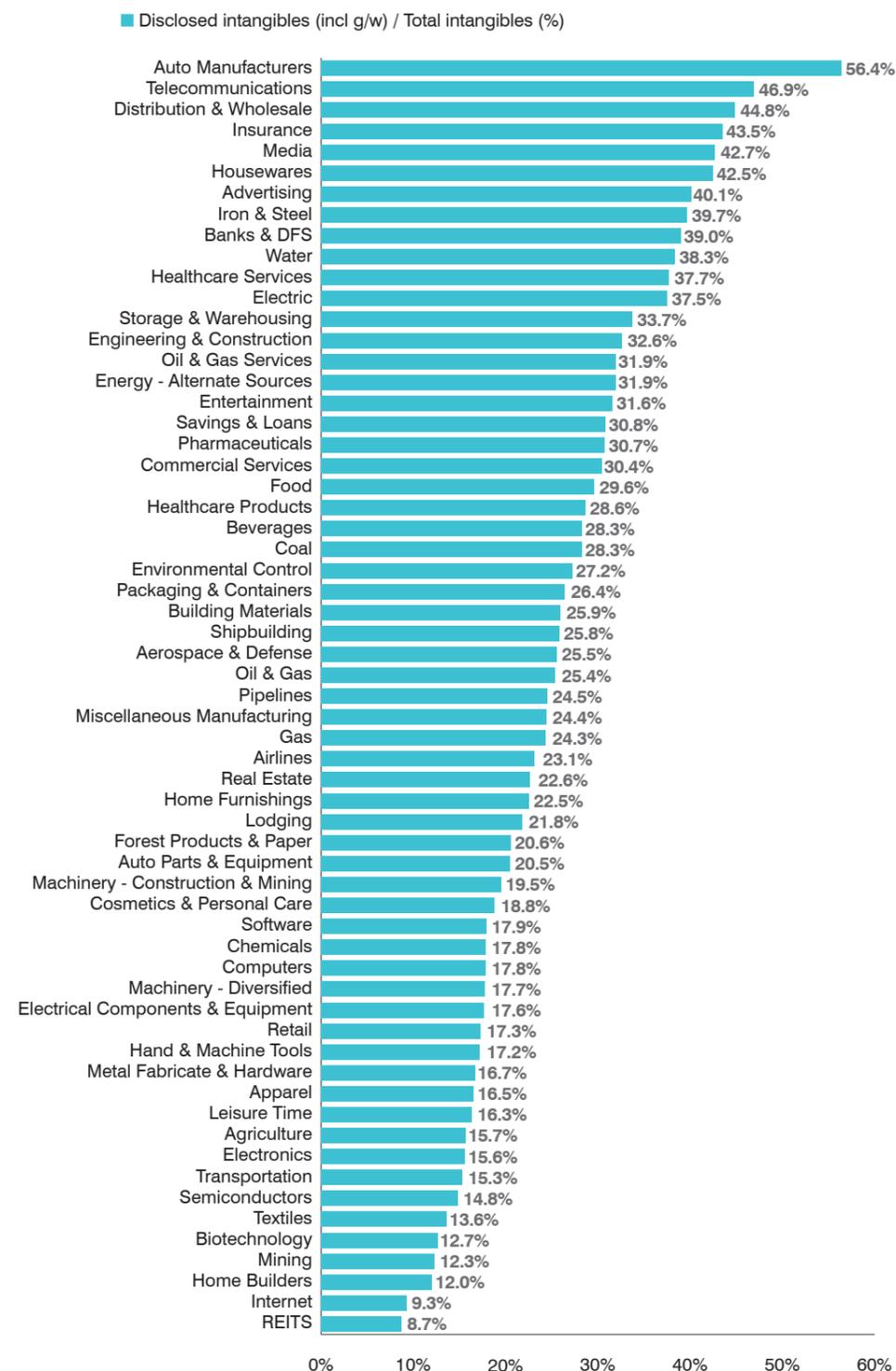
intangibles, at as little as 8.7%, 9.3%, and 12.0% respectively (Figure 3). The Internet sector, in addition, has a high absolute value of undisclosed assets, second only to Pharmaceuticals, at \$2.2tn (Figure 5).

Looking at the year-on-year increase of undisclosed intangibles by sector, Banks / Diversified Financial Services grew most in absolute terms. Rumors of the Trump administration's plans to deregulate the sector had a considerable impact on the industry's undisclosed value, with investor sentiment driving it up by \$655bn. The second-highest increase of undisclosed intangible value - \$610bn - was recorded in the Oil & Gas sector (Figure 9).

Intangible reporting by country

South Korea is the country with the highest proportion of disclosed intangibles (including goodwill) to total intangible value at 92.0%, followed by Cyprus (89.4%) and Mongolia (75.4%) (Figure 10).

Figure 3: Most Intangible Sectors - Disclosed Intangibles (incl g/w) / Total Intangibles %



Executive Summary



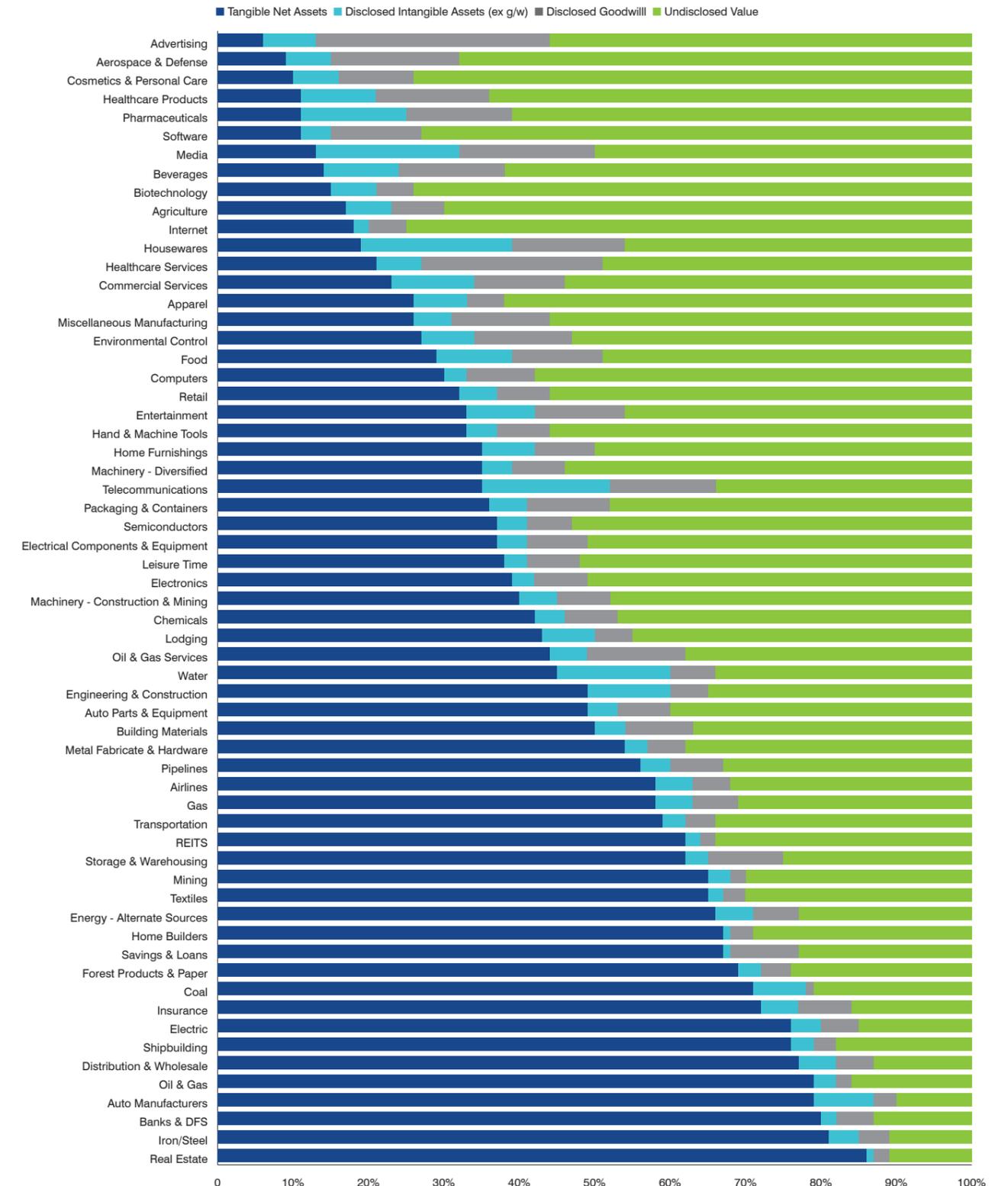
In Belgium the SAB Miller acquisition by AB InBev added \$20bn of disclosed intangibles or around 35% of the country's total disclosed intangibles, excluding goodwill, in 2016. As part of the acquisition, \$19.9bn of brand value in particular has been recognised on the AB InBev balance sheet, a very welcome sign of more granular, informative reporting of individual intangible asset classes.

Interestingly, in spite of the pickup in M&A activity in China over the last few years, the country is still lagging behind other big economies in terms of reporting intangibles. As of 2016, China's disclosed intangibles as a proportion of total intangible value stood at 9.5%, compared to 25.1% in the US, 32.6% in Japan, 42.5% in Germany and 36.0% in the UK (Figure 10).

Intangible reporting by company

Not surprisingly, among the world's top 10 most intangible companies in absolute terms (Table 1) are some of the largest Technology and Telecommunications giants such as Apple (with intangibles worth \$455 bn), Microsoft (\$442bn), and Amazon (\$410bn). The vast majority of these companies' intangible value is related to technological patents, customer relationships and brands, which are not reported in the financial statements, unless an acquisition takes place. For that reason, the disparity with the equivalent list ranked by disclosed as opposed to total intangibles is stark, with only three companies (AB InBev, Verizon and AT&T) appearing in the top ten of both. Apple, Amazon, Alphabet (the owner of Google), and Facebook – all in top 10 of the world's most intangible companies – do not even make the top 100 by disclosed intangible value (Table 2).

Figure 4: Sectors by Enterprise Value (%)



Executive Summary

Figure 5: Top 25 Sectors by Enterprise Value

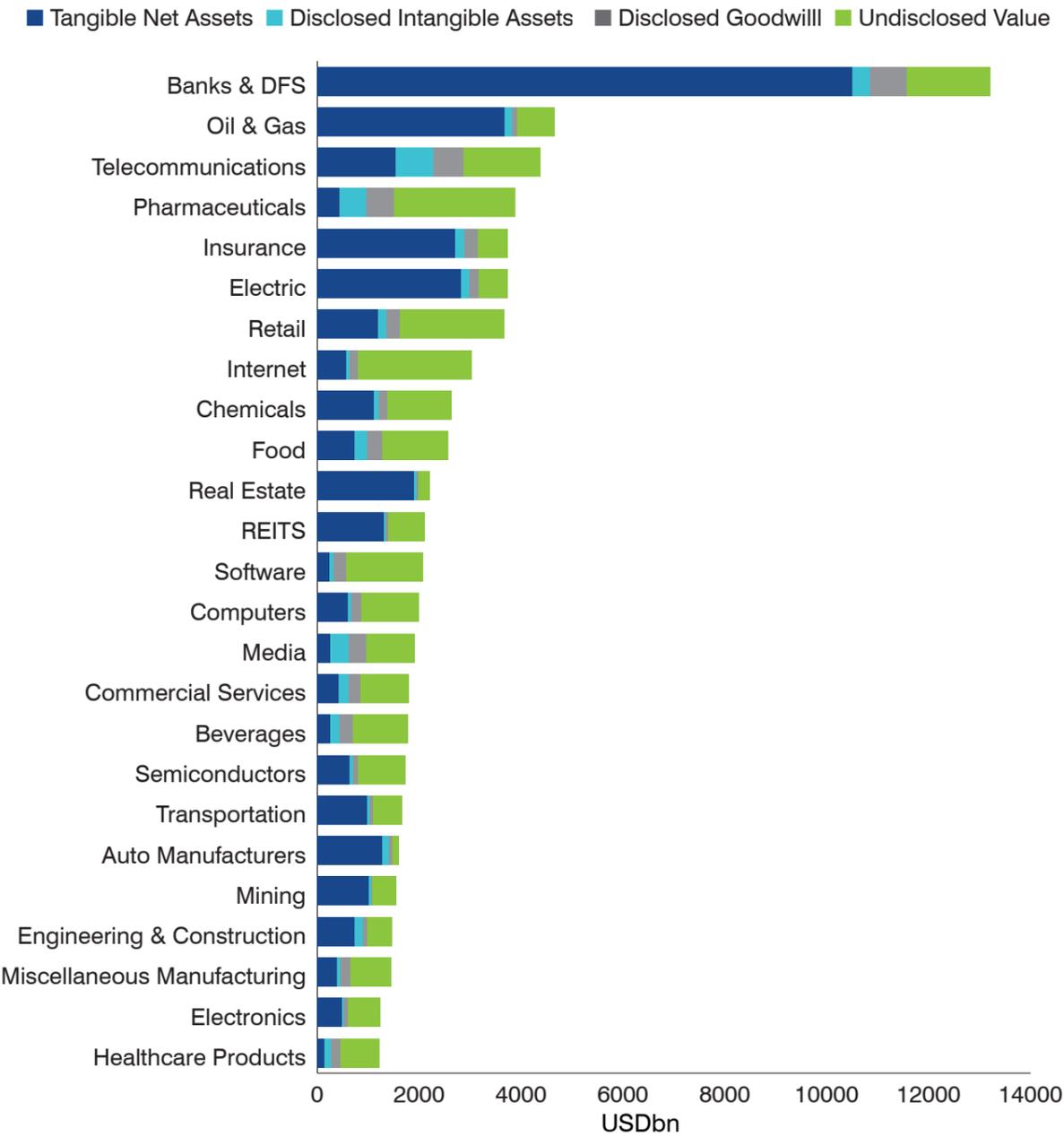
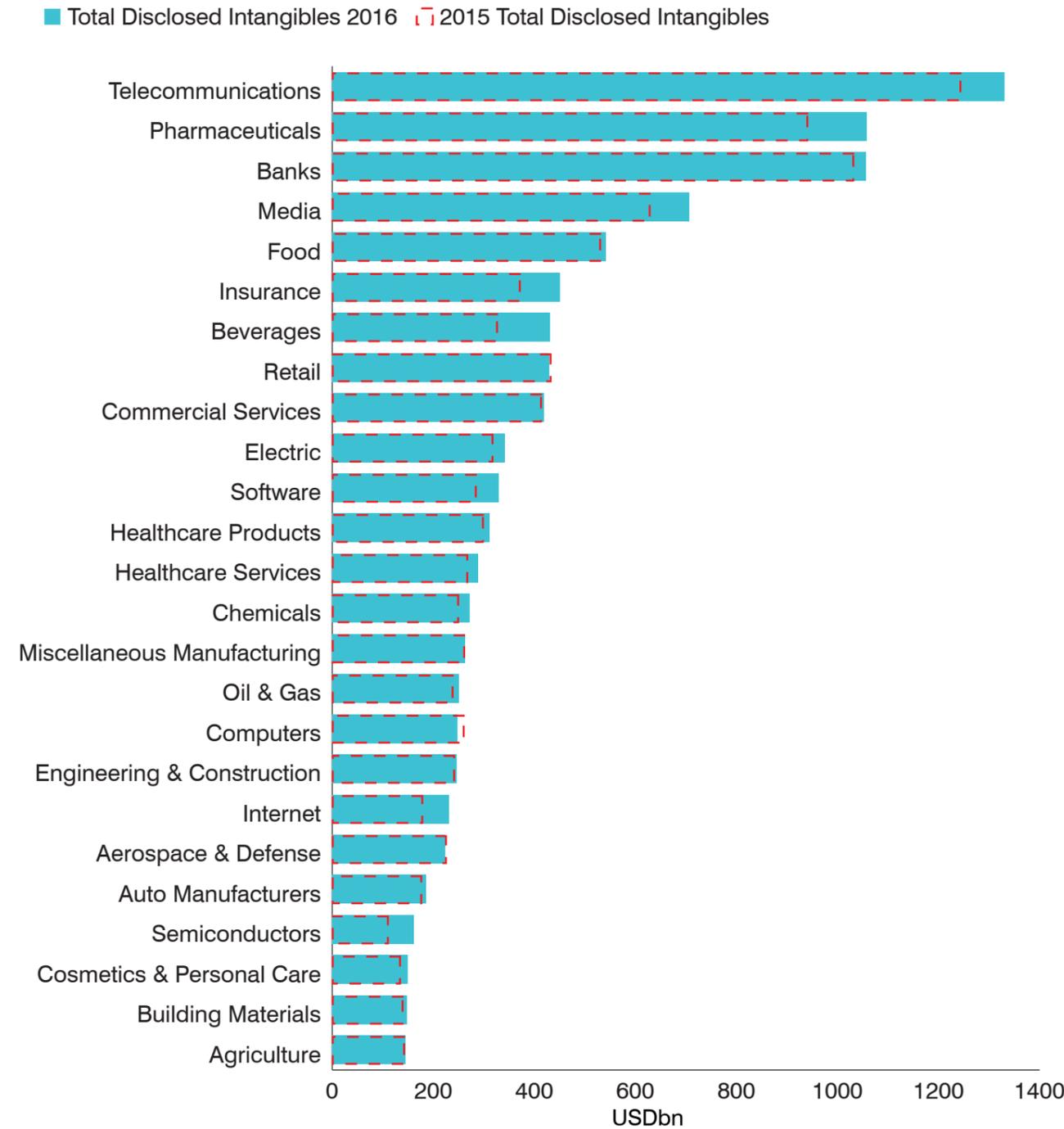


Figure 6: Most Intangible Sectors - Total Disclosed Intangibles (incl g/w)



Executive Summary

Figure 7: Change in Total Disclosed Intangibles (incl g/w) - YOY

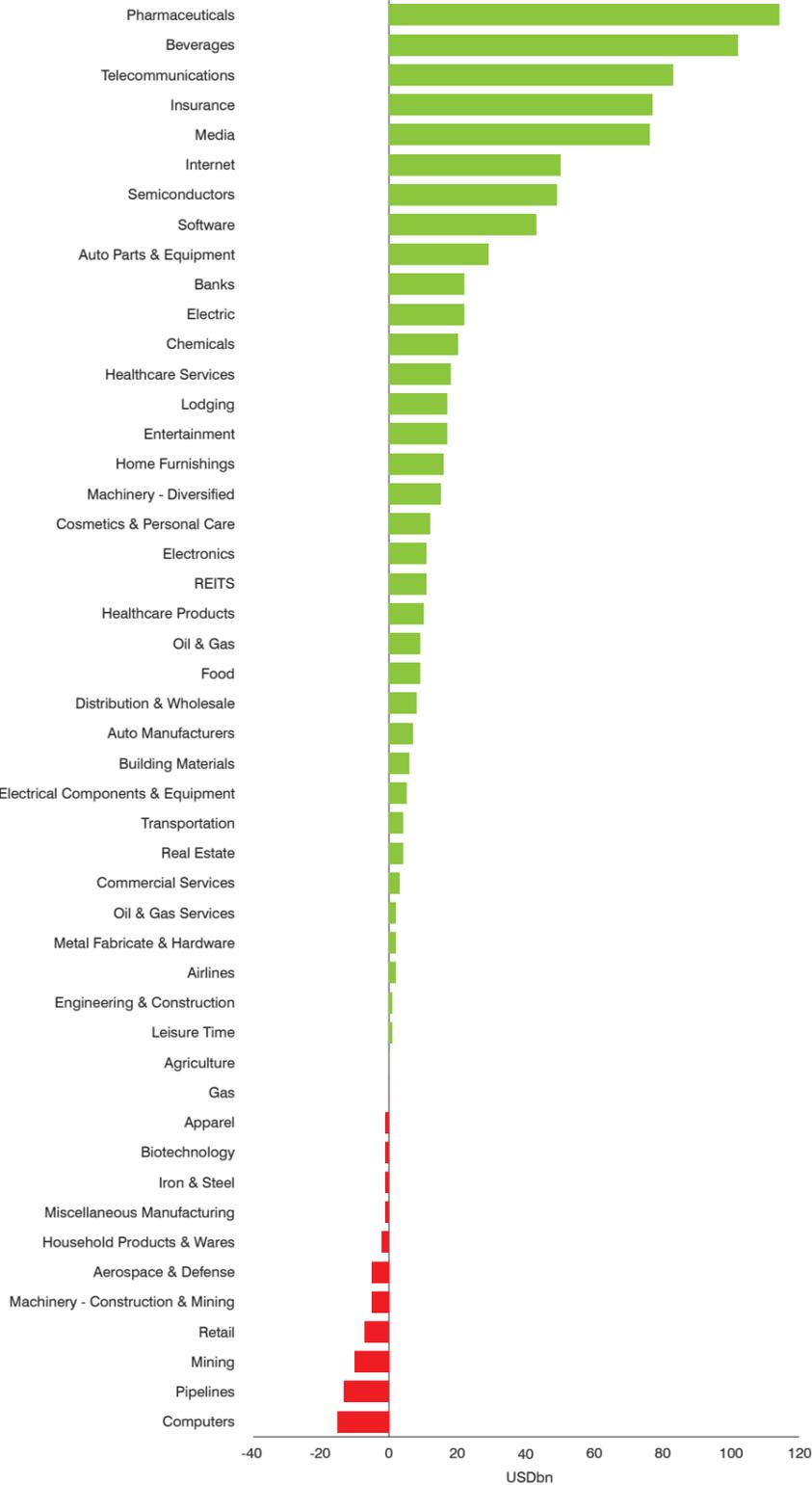
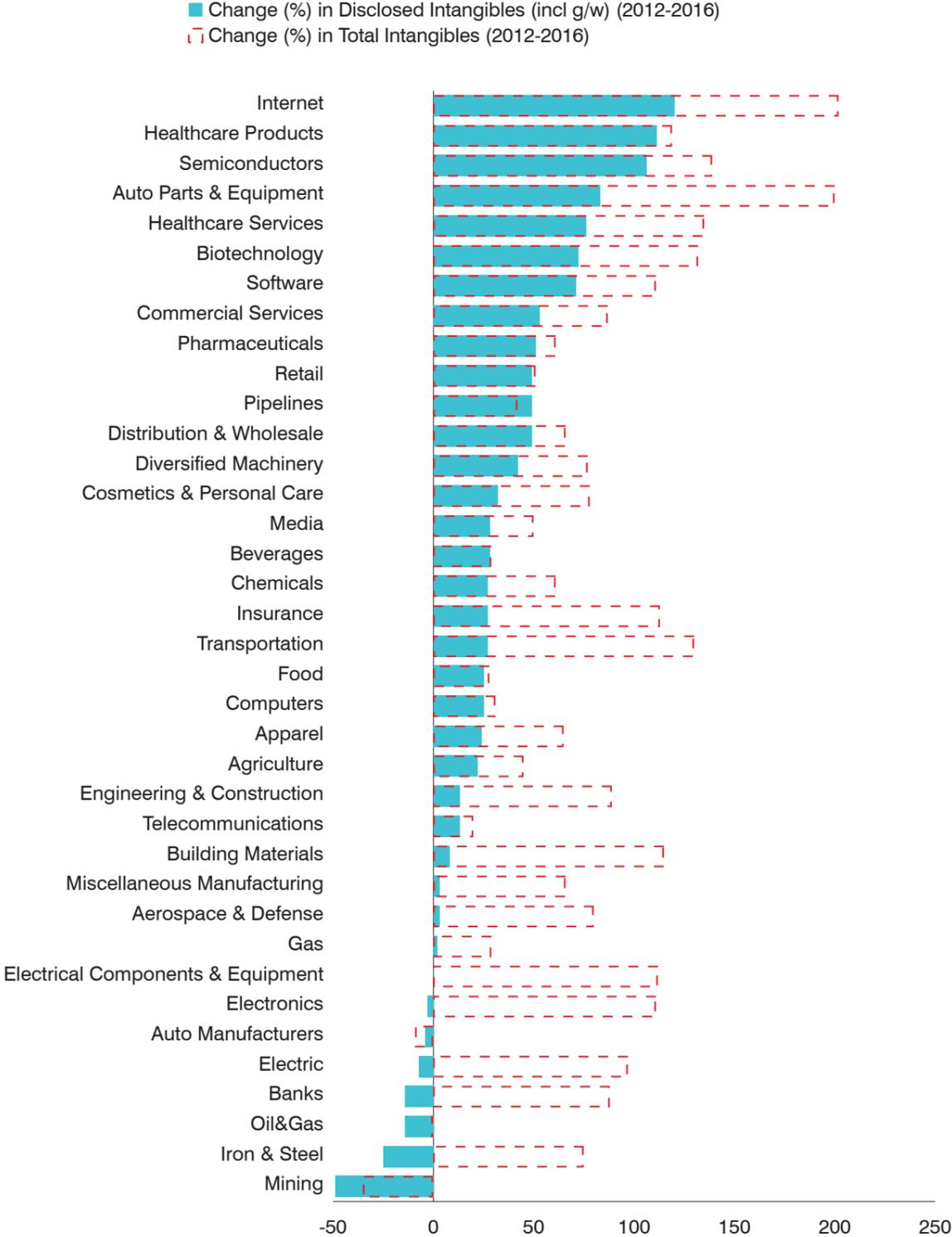


Figure 8: Sector Changes in Intangible Assets from 2012-2016 (%)



Executive Summary

Figure 9: Top 5 and Bottom 5 Sectors by change in Enterprise Value - YOY

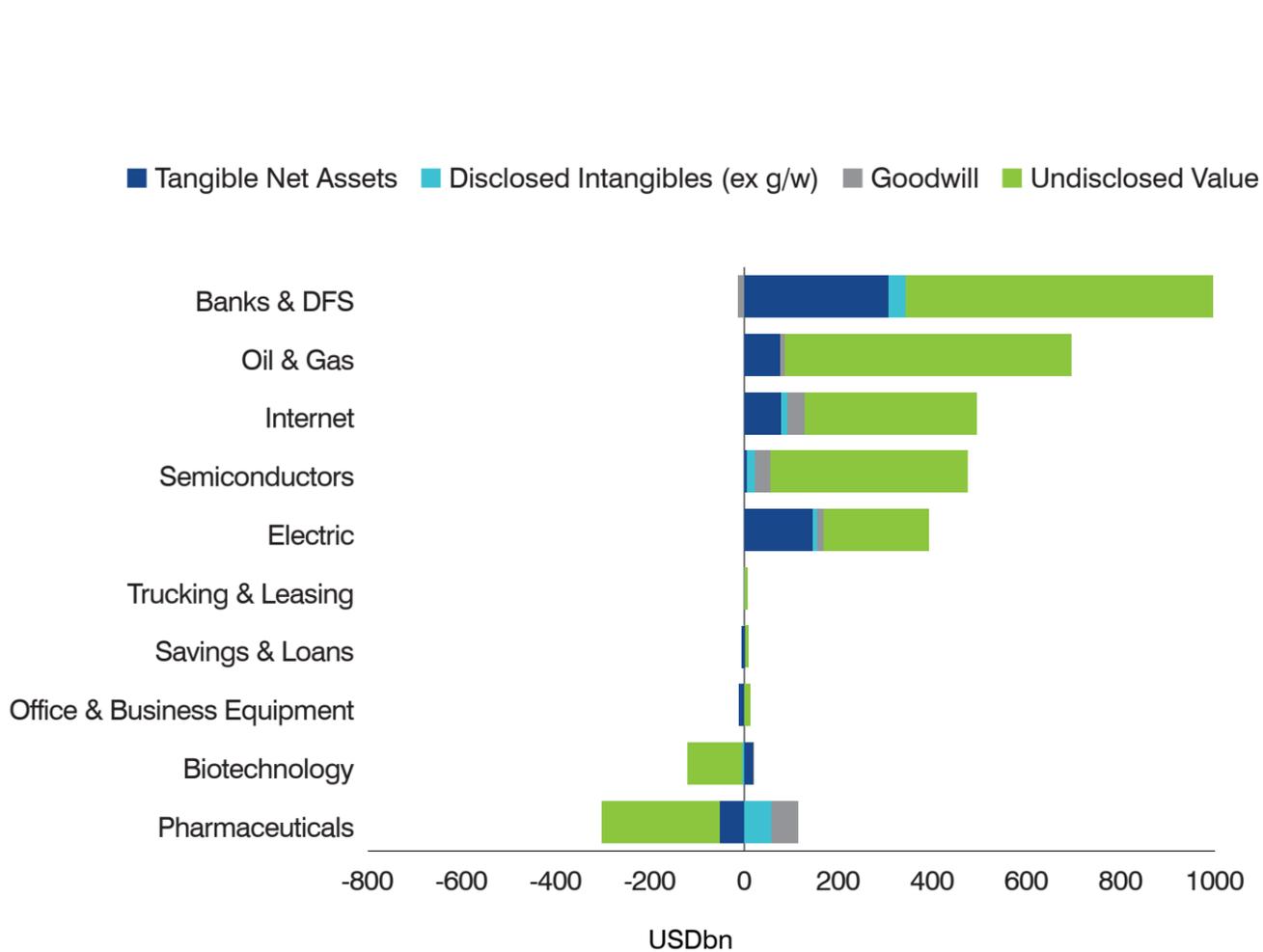
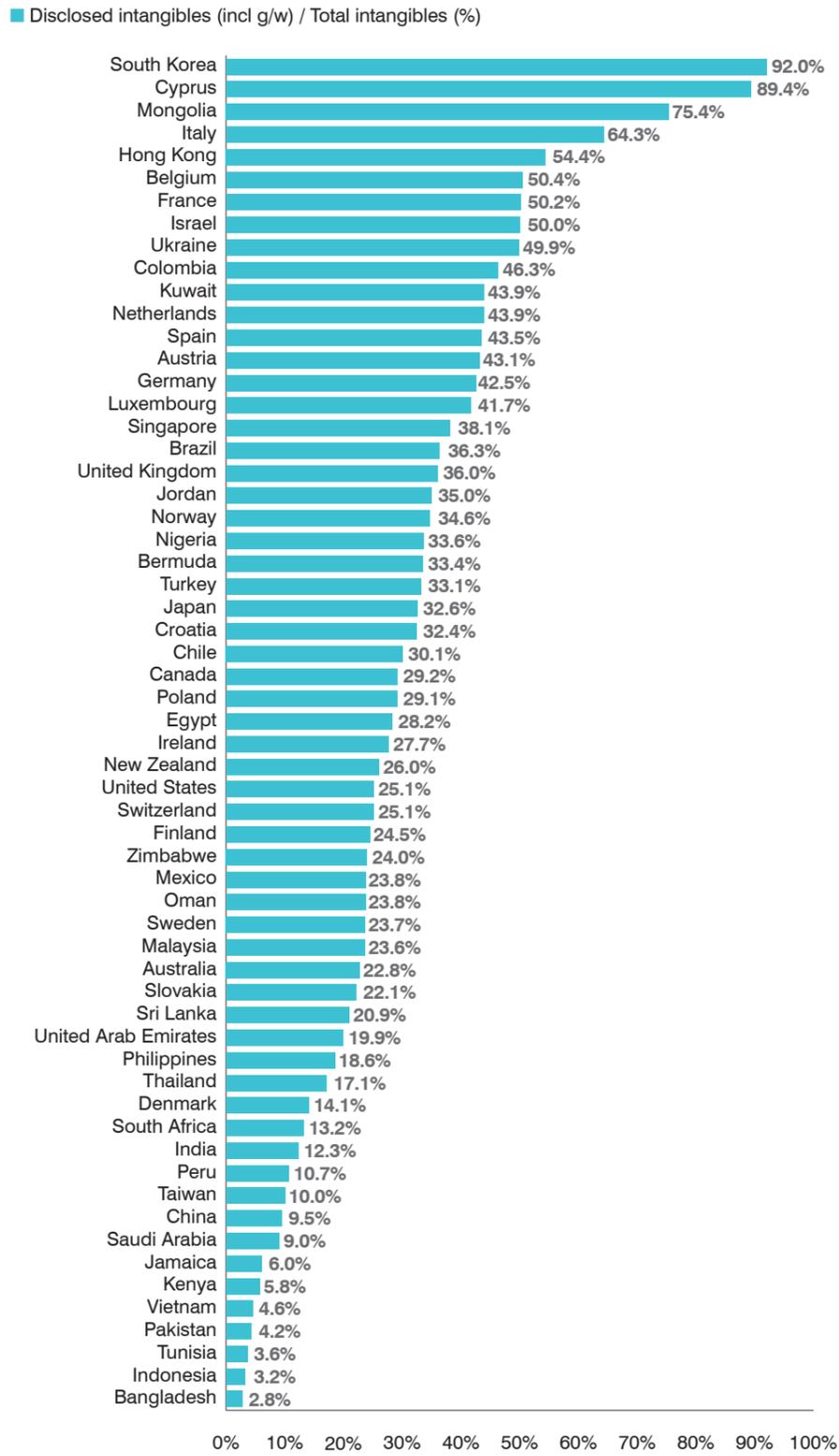


Figure 10: Most Intangible Countries - Disclosed Intangibles (incl g/w) / Total Intangibles %



Executive Summary

Figure 11: Most Intangible Countries (%)

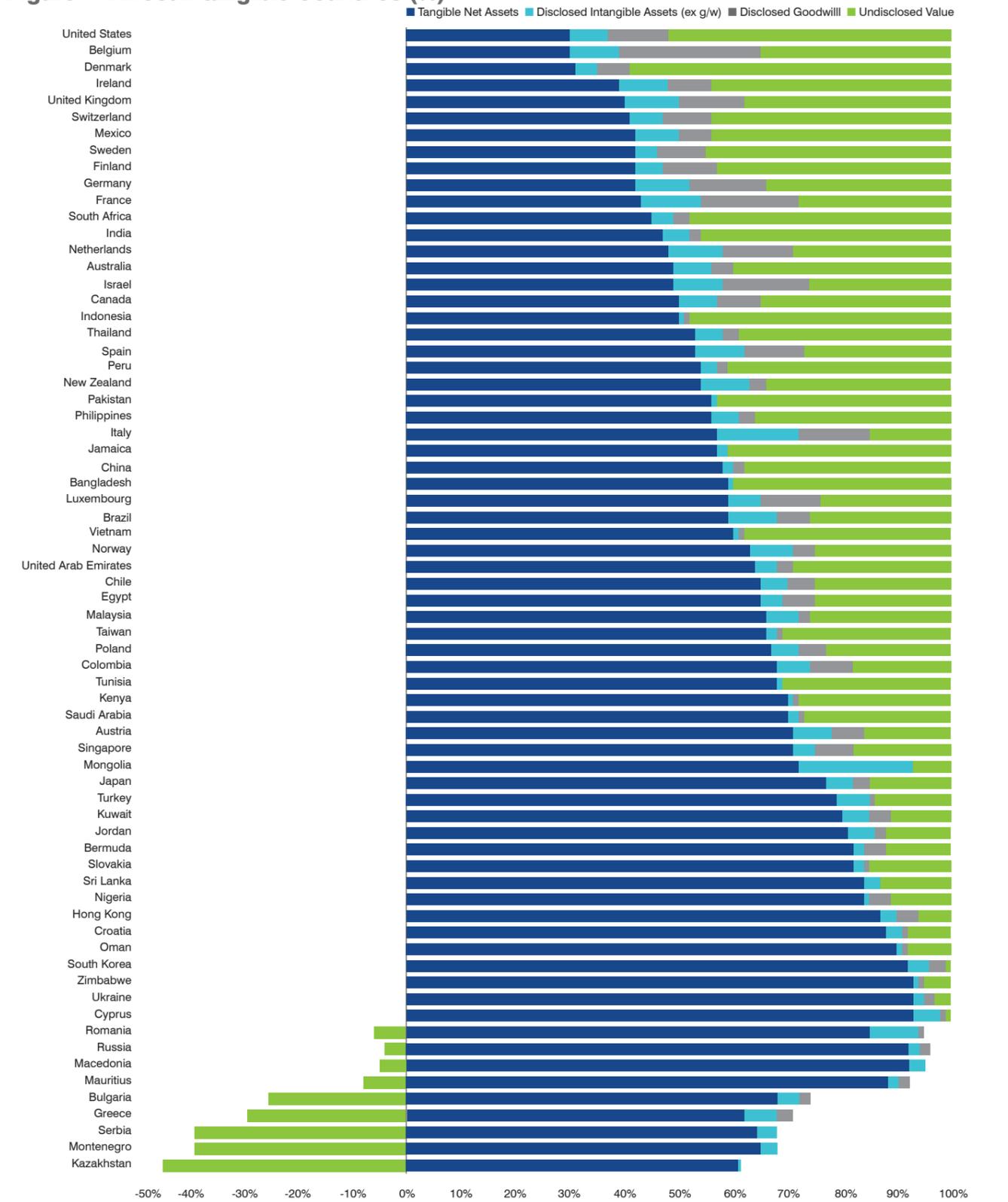


Figure 12: Country Changes in Intangible Assets from 2012-2016 (%)

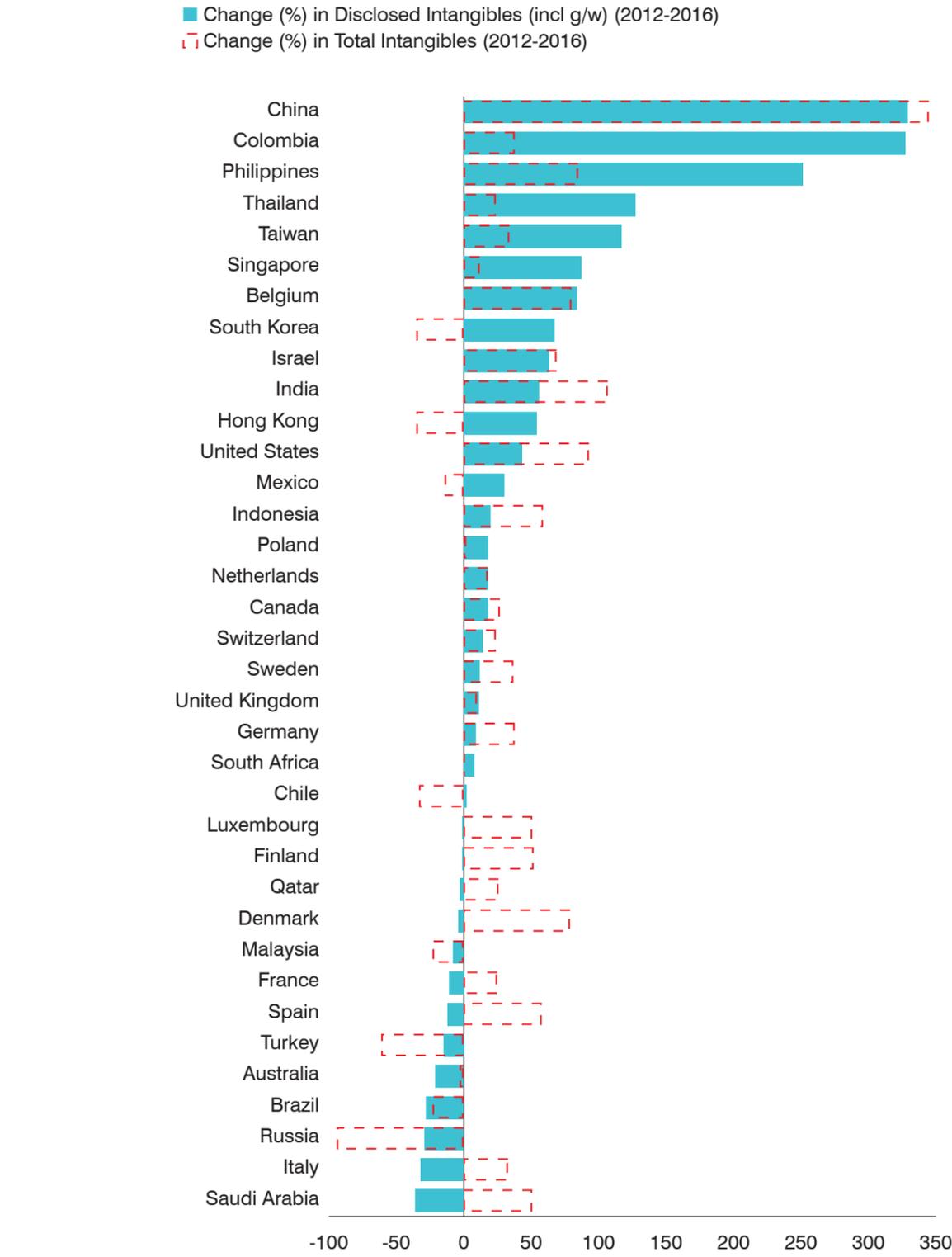


Table 1: Companies by Total Intangible Value

Rank 2017	Company	Sector	Total Intangible Value - USDbn	Total Intangible Value / Enterprise Value (%)
1	APPLE INC	Computers	455	62%
2	MICROSOFT CORP	Software	442	88%
3	AMAZON.COM INC	Internet	410	95%
4	ALPHABET INC-CL A	Internet	378	65%
5	AT&T INC	Telecommunications	347	95%
6	FACEBOOK INC-A	Internet	344	84%
7	ANHEUSER-BUSCH INBEV SA/NV	Beverages	333	98%
8	VERIZON COMMUNICATIONS INC	Telecommunications	300	98%
9	JOHNSON & JOHNSON	Pharmaceuticals	294	89%
10	GENERAL ELECTRIC CO	Miscellaneous Manufacturing	272	72%
11	TENCENT HOLDINGS LTD	Internet	260	93%
12	ALIBABA GROUP HOLDING-SP	Internet	251	91%
13	PFIZER INC	Pharmaceuticals	248	110%
14	PROCTER & GAMBLE CO/THE	Cosmetics/Personal Care	245	99%
15	COMCAST CORP-CLASS A	Media	237	99%
16	BERKSHIRE HATHAWAY INC-CL	Insurance	232	44%
17	NESTLE SA-REG	Food	224	89%
18	VISA INC-CLASS A SHARES	Diversified Finan Serv	224	102%
19	ROCHE HOLDING AG-	Pharmaceuticals	220	93%
20	PHILIP MORRIS INTERNATIONAL	Agriculture	199	98%
21	COCA-COLA CO/THE	Beverages	184	88%
22	NOVARTIS AG-REG	Pharmaceuticals	180	87%
23	PEPSICO INC	Beverages	179	98%
24	ORACLE CORP	Software	177	97%
25	UNITEDHEALTH GROUP INC	Healthcare-Services	175	98%
26	INTL BUSINESS MACHINES	Computers	175	95%
27	HOME DEPOT INC	Retail	175	88%
28	CHARTER COMMUNICATIONS	Media	174	107%
29	EXXON MOBIL CORP	Oil&Gas	174	45%
30	WALT DISNEY CO/THE	Media	171	85%
31	MERCK & CO. INC.	Pharmaceuticals	167	92%
32	UNILEVER NV-CVA	Cosmetics/Personal Care	165	98%
33	WAL-MART STORES INC	Retail	164	62%
34	KRAFT HEINZ CO/THE	Food	158	113%
35	SOFTBANK GROUP CORP	Telecommunications	150	74%
36	ALTRIA GROUP INC	Agriculture	144	97%
37	ABBVIE INC	Pharmaceuticals	141	107%
38	BRITISH AMERICAN TOBACCO	Agriculture	129	88%
39	GLAXOSMITHKLINE PLC	Pharmaceuticals	128	105%
40	MEDTRONIC PLC	Healthcare-Products	128	98%
41	INTEL CORP	Semiconductors	126	73%
42	SAP SE	Software	120	98%
43	JPMORGAN CHASE & CO	Banks	119	30%
44	MASTERCARD INC - A	Diversified Finan Serv	118	95%
45	ALLERGAN PLC	Pharmaceuticals	117	113%
46	BOEING CO/THE	Aerospace/Defense	116	106%
47	3M CO	Miscellaneous Manufacturing	115	94%
48	REYNOLDS AMERICAN INC	Agriculture	114	112%
49	DEUTSCHE TELEKOM AG-REG	Telecommunications	113	79%
50	MCDONALD'S CORP	Retail	113	85%

Rank 2017	Company	Sector	Total Intangible Value - USDbn	Total Intangible Value / Enterprise Value (%)
51	WELLS FARGO & CO	Banks	112	33%
52	AMGEN INC	Biotechnology	110	93%
53	LVMH MOET HENNESSY LOUIS	Apparel	109	94%
54	SANOFI	Pharmaceuticals	108	88%
55	SIEMENS AG-REG	Miscellaneous Manufacturing	107	82%
56	UNITED TECHNOLOGIES CORP	Aerospace/Defense	106	97%
57	BROADCOM LTD	Semiconductors	105	107%
58	CELGENE CORP	Biotechnology	104	102%
59	TAIWAN SEMICONDUCTOR	Semiconductors	104	65%
60	SCHLUMBERGER LTD	Oil&Gas Services	100	85%
61	ASTRAZENECA PLC	Pharmaceuticals	99	114%
62	HONEYWELL INTERNATIONAL	Electronics	96	97%
63	INDUSTRIA DE DISENO TEXTIL	Retail	96	83%
64	UNITED PARCEL SERVICE-CL B	Transportation	96	94%
65	CVS HEALTH CORP	Retail	96	91%
66	BAYER AG-REG	Pharmaceuticals	92	86%
67	CISCO SYSTEMS INC	Telecommunications	92	56%
68	LOCKHEED MARTIN CORP	Aerospace/Defense	91	101%
69	TIME WARNER INC	Media	89	88%
70	ALTICE NV - A	Media	88	95%
71	TELEFONICA SA	Telecommunications	88	73%
72	AMBEV SA	Beverages	87	97%
73	L'OREAL	Cosmetics/Personal Care	86	79%
74	WALGREENS BOOTS ALLIANCE	Retail	85	87%
75	NOVO NORDISK A/S-B	Pharmaceuticals	84	90%
76	ELI LILLY & CO	Pharmaceuticals	83	93%
77	STARBUCKS CORP	Retail	82	95%
78	MONDELEZ INTERNATIONAL	Food	81	97%
79	BRISTOL-MYERS SQUIBB CO	Pharmaceuticals	78	88%
80	NIKE INC -CL B	Apparel	77	84%
81	DIAGEO PLC	Beverages	75	89%
82	SHIRE PLC	Pharmaceuticals	75	102%
83	TEXAS INSTRUMENTS INC	Semiconductors	75	94%
84	PRICELINE GROUP INC/THE	Internet	74	86%
85	NASPERS LTD-N SHS	Media	74	89%
86	THERMO FISHER SCIENTIFIC INC	Healthcare-Products	74	97%
87	COMMONWEALTH BANK OF	Banks	73	57%
88	DANAHER CORP	Healthcare-Products	73	102%
89	GILEAD SCIENCES INC	Biotechnology	72	83%
90	RECKITT BENCKISER GROUP	Household Products/Wares	71	106%
91	DOW CHEMICAL CO/THE	Chemicals	70	77%
92	BASF SE	Chemicals	70	67%
93	ACCENTURE PLC-CL A	Computers	70	92%
94	COLGATE-PALMOLIVE CO	Cosmetics/Personal Care	69	97%
95	TEVA PHARMACEUTICAL IND LTD	Pharmaceuticals	68	95%
96	ABBOTT LABORATORIES	Healthcare-Products	67	85%
97	UNION PACIFIC CORP	Transportation	67	66%
98	ROYAL BANK OF CANADA	Banks	66	53%
99	IMPERIAL BRANDS PLC	Agriculture	66	105%
100	SPRINT CORP	Telecommunications	66	101%

Table 2: Companies by Disclosed Intangible Value

Rank 2017	Company	Sector	Disclosed Intangible Value - USDbn	Disclosed Intangible Value / Enterprise Value (%)
1	AT&T INC	Telecommunications	222	61%
2	ANHEUSER-BUSCH INBEV SA/NV	Beverages	181	53%
3	VERIZON COMMUNICATIONS INC	Telecommunications	123	40%
4	BERKSHIRE HATHAWAY INC-CL	Insurance	114	22%
5	COMCAST CORP-CLASS A	Media	113	47%
6	CHARTER COMMUNICATIONS	Media	111	68%
7	ALLERGAN PLC	Pharmaceuticals	109	105%
8	PFIZER INC	Pharmaceuticals	107	48%
9	KRAFT HEINZ CO/THE	Food	103	74%
10	SOFTBANK GROUP CORP	Telecommunications	97	48%
11	GENERAL ELECTRIC CO	Miscellaneous Manufacturing	87	23%
12	BANK OF AMERICA CORP	Banks	72	22%
13	PROCTER & GAMBLE CO/THE	Cosmetics/Personal Care	68	27%
14	MEDTRONIC PLC	Healthcare-Products	67	52%
15	VOLKSWAGEN AG	Auto Manufacturers	66	87%
16	TEVA PHARMACEUTICAL IND LTD	Pharmaceuticals	66	92%
17	DEUTSCHE TELEKOM AG-REG	Telecommunications	64	44%
18	NOVARTIS AG-REG	Pharmaceuticals	62	30%
19	VODAFONE GROUP PLC	Telecommunications	58	51%
20	UNITEDHEALTH GROUP INC	Healthcare-Services	56	31%
21	ALTICE NV - A	Media	55	59%
22	SANOVI	Pharmaceuticals	54	44%
23	SHIRE PLC	Pharmaceuticals	53	71%
24	NESTLE SA-REG	Food	53	21%
25	TELEFONICA SA	Telecommunications	52	43%
26	CVS HEALTH CORP	Retail	52	49%
27	SPRINT CORP	Telecommunications	51	78%
28	ORACLE CORP	Software	50	28%
29	JOHNSON & JOHNSON	Pharmaceuticals	50	15%
30	JPMORGAN CHASE & CO	Banks	48	12%
31	MICROSOFT CORP	Software	46	9%
32	CK HUTCHISON HOLDINGS LTD	Retail	45	53%
33	REYNOLDS AMERICAN INC	Agriculture	45	45%
34	ABBVIE INC	Pharmaceuticals	44	34%
35	ORANGE	Telecommunications	44	65%
36	UNITED TECHNOLOGIES CORP	Aerospace/Defense	43	39%
37	VISA INC-CLASS A SHARES	Diversified Finan Serv	41	19%
38	INTL BUSINESS MACHINES	Computers	41	22%
39	ASTRAZENECA PLC	Pharmaceuticals	39	45%
40	BROADCOM LTD	Semiconductors	39	39%
41	TELECOM ITALIA SPA	Telecommunications	39	79%
42	MONDELEZ INTERNATIONAL	Food	38	46%
43	EXPRESS SCRIPTS HOLDING CO	Pharmaceuticals	38	72%
44	VINCI SA	Engineering&Construction	37	60%
45	DANAHER CORP	Healthcare-Products	36	50%
46	TIME WARNER INC	Media	36	35%
47	MERCK & CO. INC.	Pharmaceuticals	35	19%
48	THERMO FISHER SCIENTIFIC INC	Healthcare-Products	35	46%
49	SCHLUMBERGER LTD	Oil&Gas Services	35	30%
50	WALT DISNEY CO/THE	Media	35	17%

Rank 2017	Company	Sector	Disclosed Intangible Value - USDbn	Disclosed Intangible Value / Enterprise Value (%)
51	VALEANT PHARMACEUTICALS	Pharmaceuticals	35	107%
52	SIEMENS AG-REG	Miscellaneous Manufacturing	35	26%
53	EXOR NV	Investment Companies	34	198%
54	BAYER AG-REG	Pharmaceuticals	32	30%
55	ENEL SPA	Electric	31	28%
56	BANCO SANTANDER SA	Banks	31	24%
57	GLAXOSMITHKLINE PLC	Pharmaceuticals	31	25%
58	BLACKROCK INC	Diversified Finan Serv	30	41%
59	ATLANTIA SPA	Commercial Services	30	79%
60	BP PLC	Oil&Gas	29	20%
61	LIBERTY EXPEDIA HOLD-A	Internet	29	132%
62	T-MOBILE US INC	Telecommunications	29	37%
63	CISCO SYSTEMS INC	Telecommunications	29	18%
64	UNILEVER NV-CVA	Cosmetics/Personal Care	29	17%
65	CHRISTIAN DIOR SE	Apparel	29	42%
66	SAP SE	Software	29	23%
67	FIAT CHRYSLER AUTOMOBILES	Auto Manufacturers	28	123%
68	JOHNSON CONTROLS	Auto Parts&Equipment	28	54%
69	PEPSICO INC	Beverages	28	15%
70	CITIGROUP INC	Banks	27	11%
71	CME GROUP INC	Diversified Finan Serv	27	56%
72	LIBERTY GLOBAL PLC-A	Media	27	37%
73	IMPERIAL BRANDS PLC	Agriculture	27	43%
74	WELLS FARGO & CO	Banks	27	8%
75	MERCK KGAA	Pharmaceuticals	26	44%
76	FRESENIUS SE & CO KGAA	Healthcare-Services	26	38%
77	ANTHEM INC	Healthcare-Services	26	58%
78	HEWLETT PACKARD ENTERPRIS	Computers	25	70%
79	ENGIE	Electric	25	40%
80	LVMH MOET HENNESSY LOUIS	Apparel	25	22%
81	AMGEN INC	Biotechnology	25	21%
82	NIPPON TELEGRAPH &	Telecommunications	25	17%
83	WALGREENS BOOTS ALLIANCE	Retail	25	25%
84	LIBERTY MEDIA COR-SIRIUSXM	Media	25	100%
85	NEWELL BRANDS INC	Housewares	24	72%
86	CENTURYLINK INC	Telecommunications	24	72%
87	ROYAL DUTCH SHELL PLC-A SHS	Oil&Gas	24	8%
88	MYLAN NV	Pharmaceuticals	24	69%
89	INTEL CORP	Semiconductors	24	14%
90	SCHNEIDER ELECTRIC SE	Electrical Compo&Equip	24	49%
91	AXA SA	Insurance	23	26%
92	ROCHE HOLDING AG-	Pharmaceuticals	23	10%
93	INTERCONTINENTAL EXCHANGE	Diversified Finan Serv	23	54%
94	CHUBB LTD	Insurance	22	27%
95	HONEYWELL INTERNATIONAL	Electronics	22	22%
96	MOLSON COORS BREWING CO	Beverages	22	69%
97	KINDER MORGAN INC	Pipelines	22	26%
98	ABERTIS INFRAESTRUCTURAS	Commercial Services	22	60%
99	THOMSON REUTERS CORP	Media	22	58%
100	RELIANCE INDUSTRIES LTD	Oil&Gas	22	24%

Towards Specific Reporting of Intangibles

We conducted an illustrative analysis on a company and industry level whereby we allocate the total intangible value to each of the five intangible asset classes – Marketing, Contractual, Customer, Technology and Artistic. For the purpose of the analysis we also assumed 10% of the intangible value of each company is allocated to goodwill. The rest of the intangible asset splits are based on various Purchase Price Allocation studies, while also utilising Brand Finance internal database of PPAs.

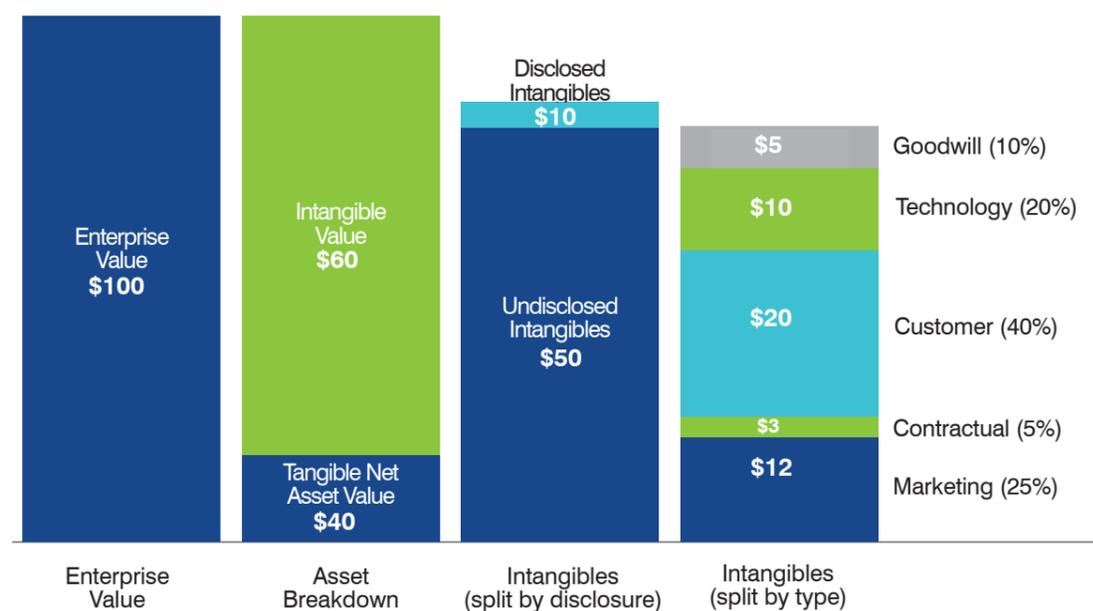
Similar splits were assumed for comparable sectors, for example splits in Food and Beverage industries were assumed similar to those in

Consumer Products sector.

Total intangible value for each company was then divided between intangible asset classes to calculate the absolute value of intangible assets of each class.

Although the exercise is just illustrative and a more in-depth study would be needed to more accurately allocate the total intangible value to each intangible asset class, the analysis indicates what intangible value in each sector actually is - whether that is mostly marketing and brand related, technology and patents, customer or contractual value.

Illustrative Example of Specific Intangible Splits



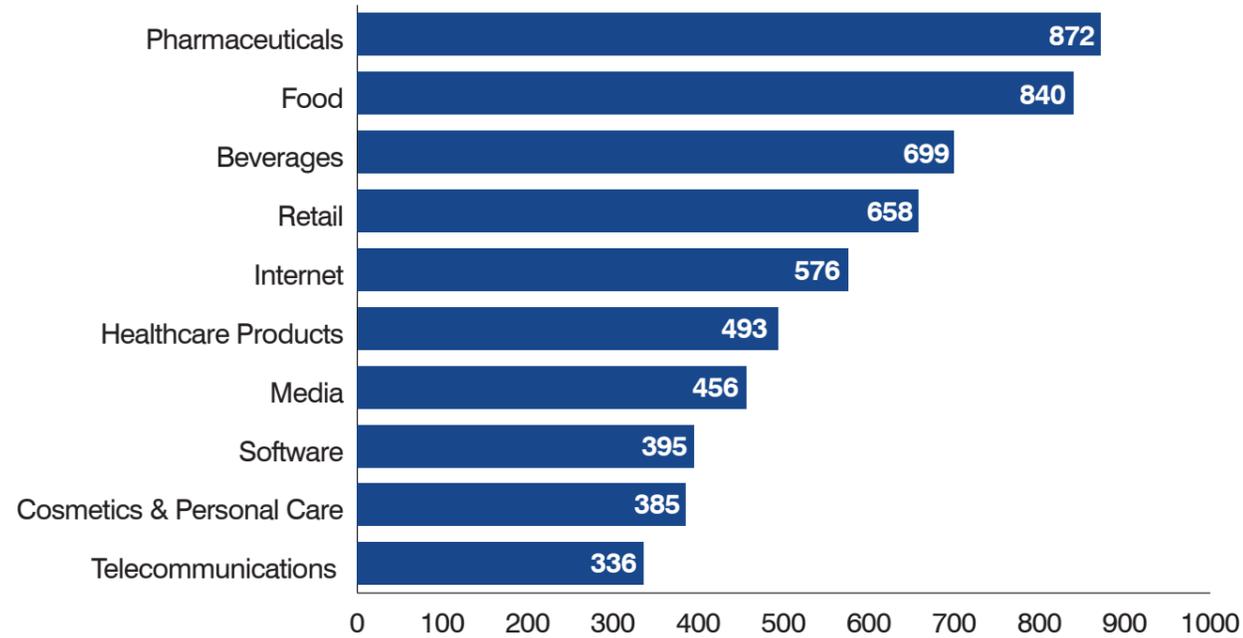
Towards Specific Reporting of Intangibles

Sector	Marketing	Contractual	Customer	Technology	Artistic	Goodwill
Automotive	20%	0%	60%	10%	0%	10%
Banking	20%	5%	65%	0%	0%	10%
Biotechnology	20%	0%	20%	50%	0%	10%
Construction	25%	10%	35%	20%	0%	10%
Consumer products	50%	5%	30%	5%	0%	10%
Insurance	10%	0%	80%	0%	0%	10%
Internet & Software	25%	5%	40%	20%	0%	10%
Manufacturing	15%	20%	25%	30%	0%	10%
Media	35%	0%	50%	5%	0%	10%
Mining	35%	0%	55%	0%	0%	10%
Oil & Gas	5%	20%	55%	10%	0%	10%
Pharmaceutical	30%	10%	30%	20%	0%	10%
Power & Utilities	10%	35%	45%	0%	0%	10%
Retail	30%	30%	20%	10%	0%	10%
Services	10%	15%	35%	30%	0%	10%
Telecoms	15%	30%	40%	5%	0%	10%
Transportation & Utilities	10%	40%	35%	5%	0%	10%
Wholesale	10%	35%	30%	15%	0%	10%

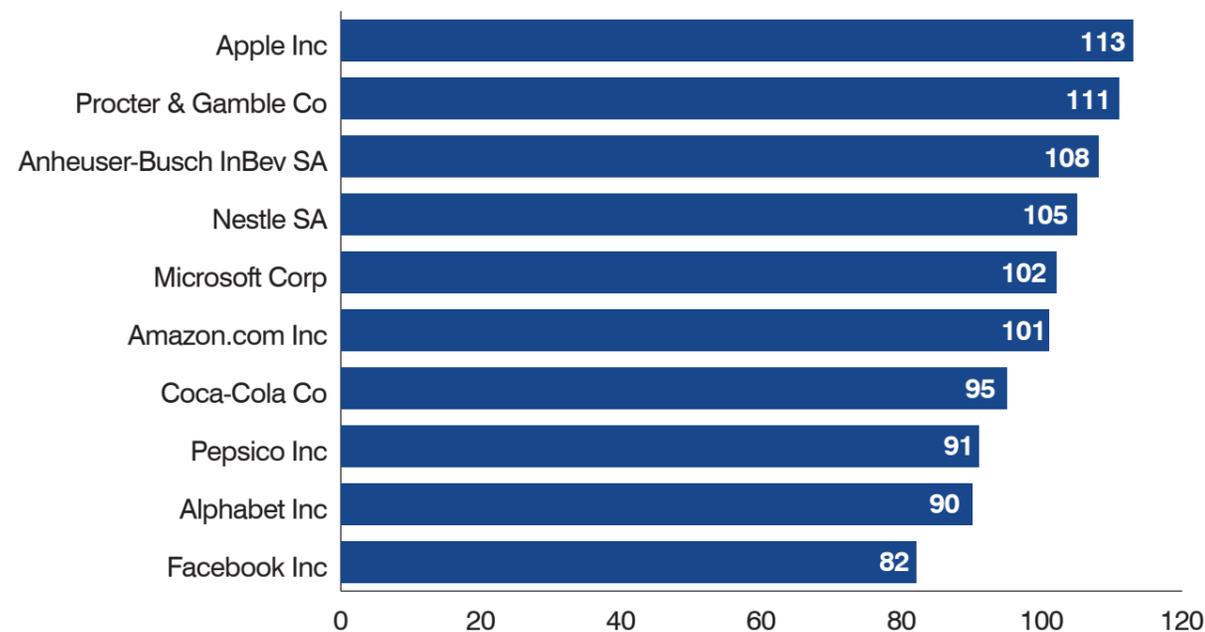
Towards Specific Reporting of Intangibles

Marketing

Illustrative Marketing Value by Industry - USDbn



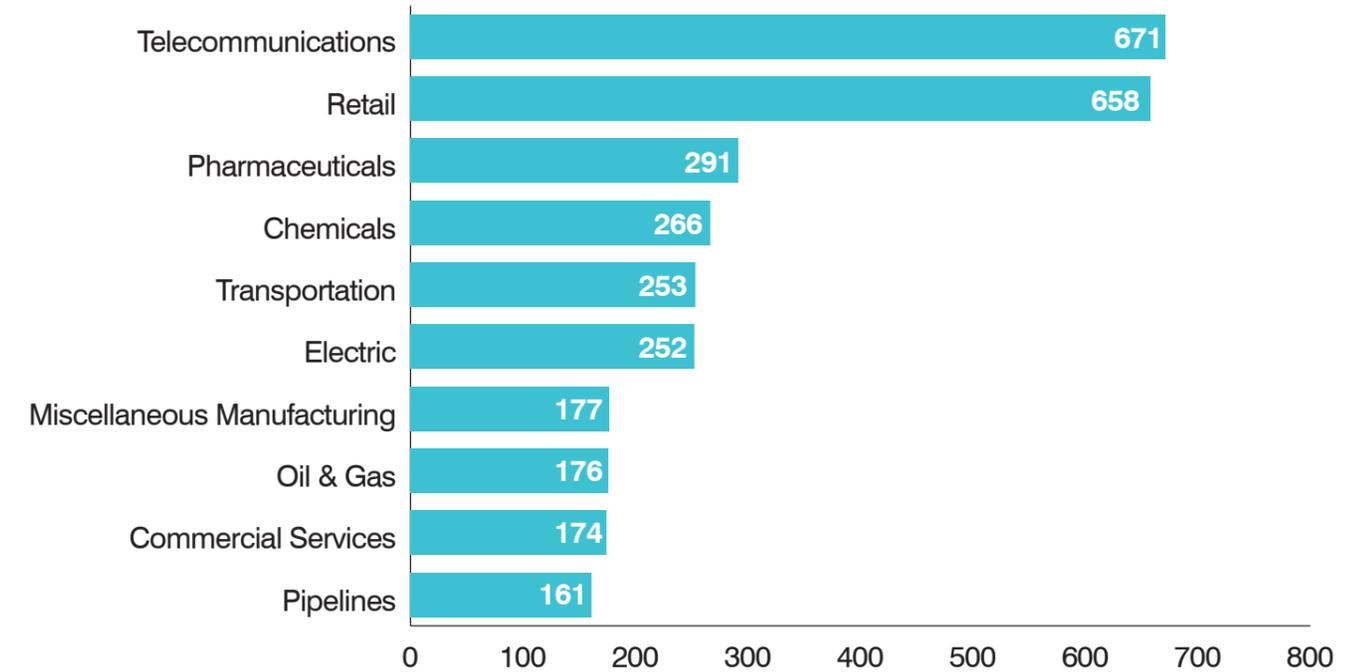
Illustrative Marketing Value by Company - USDbn



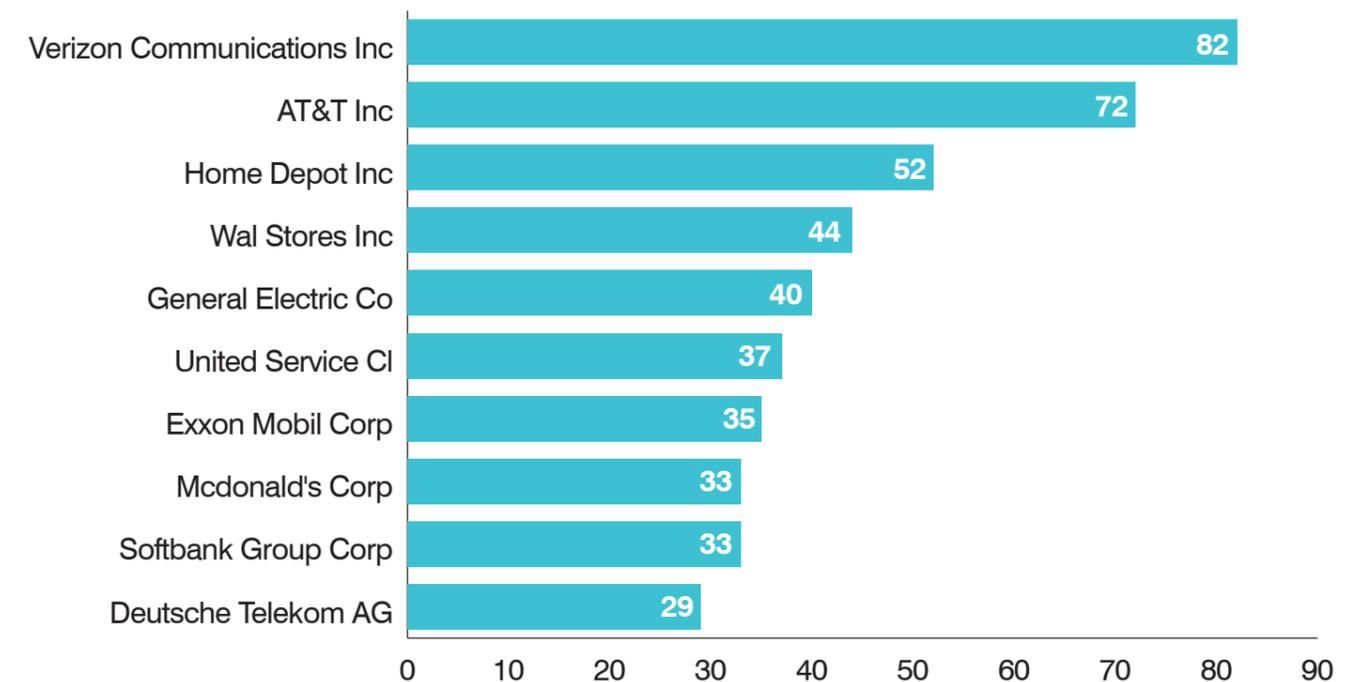
Towards Specific Reporting of Intangibles

Contractual

Illustrative Contractual Value by Industry - USDbn



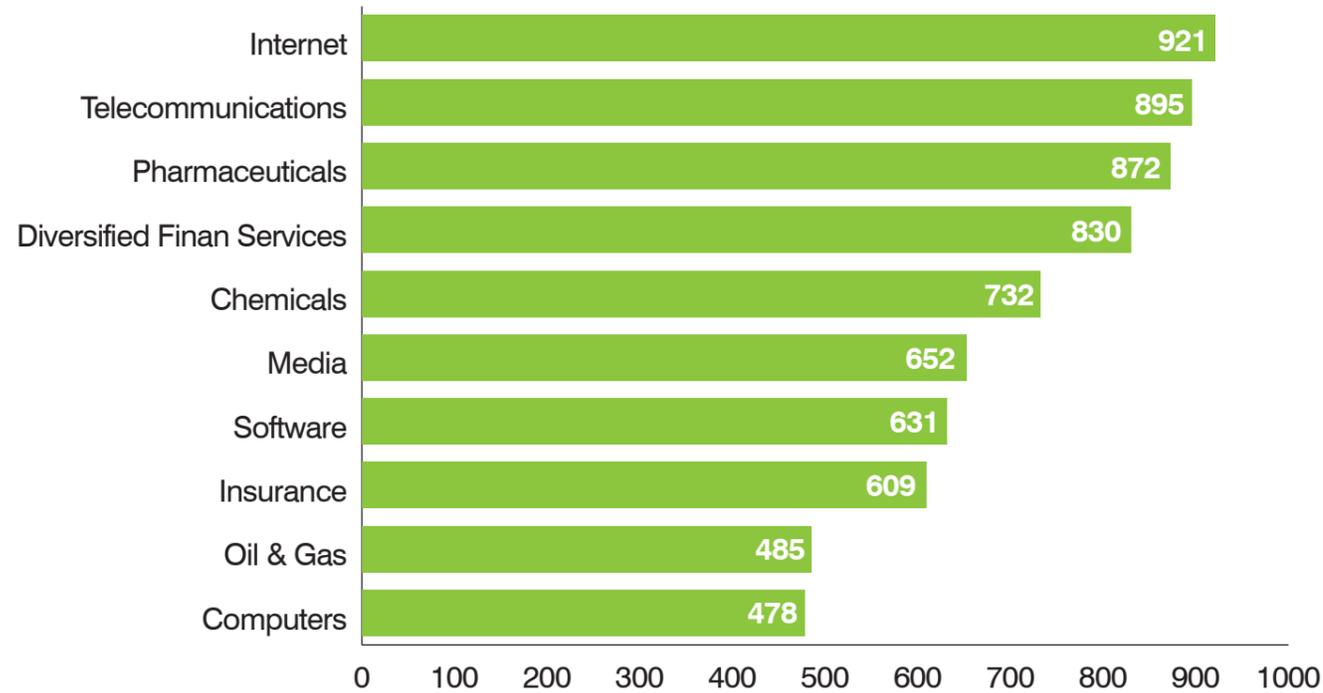
Illustrative Contractual Value by Company - USDbn



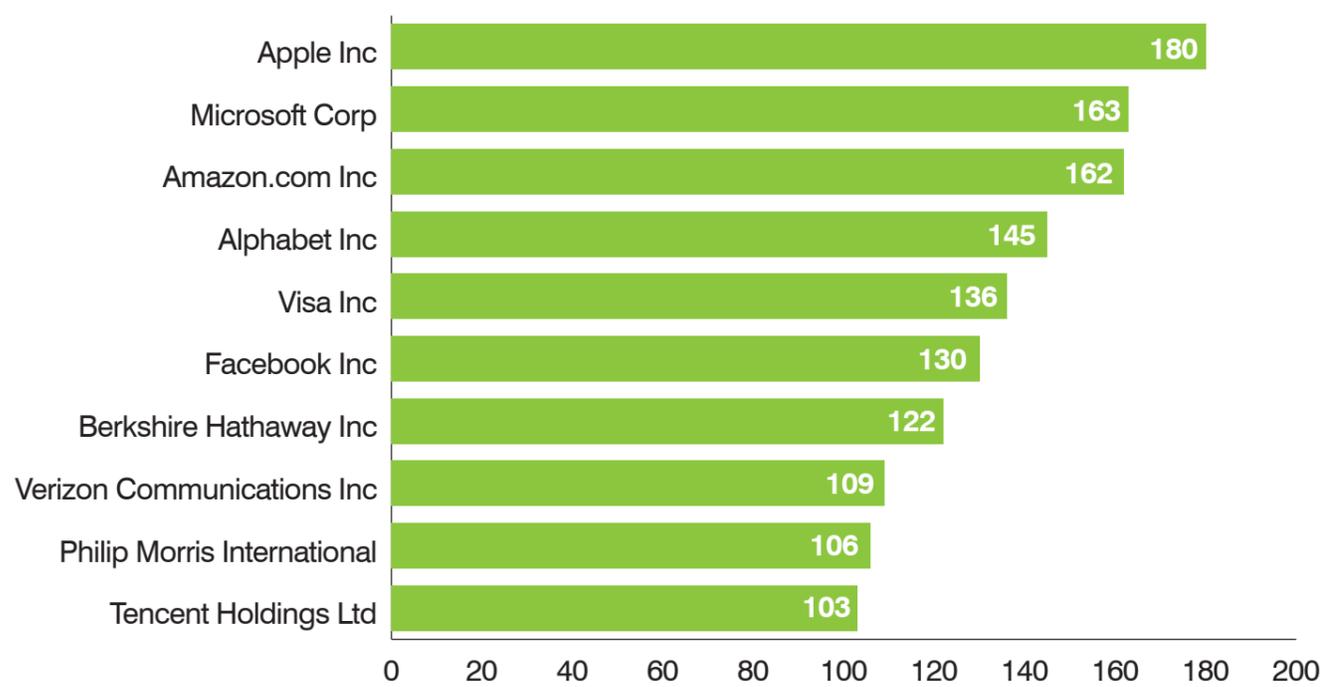
Towards Specific Reporting of Intangibles

Customer

Illustrative Customer Value by Industry - USDbn



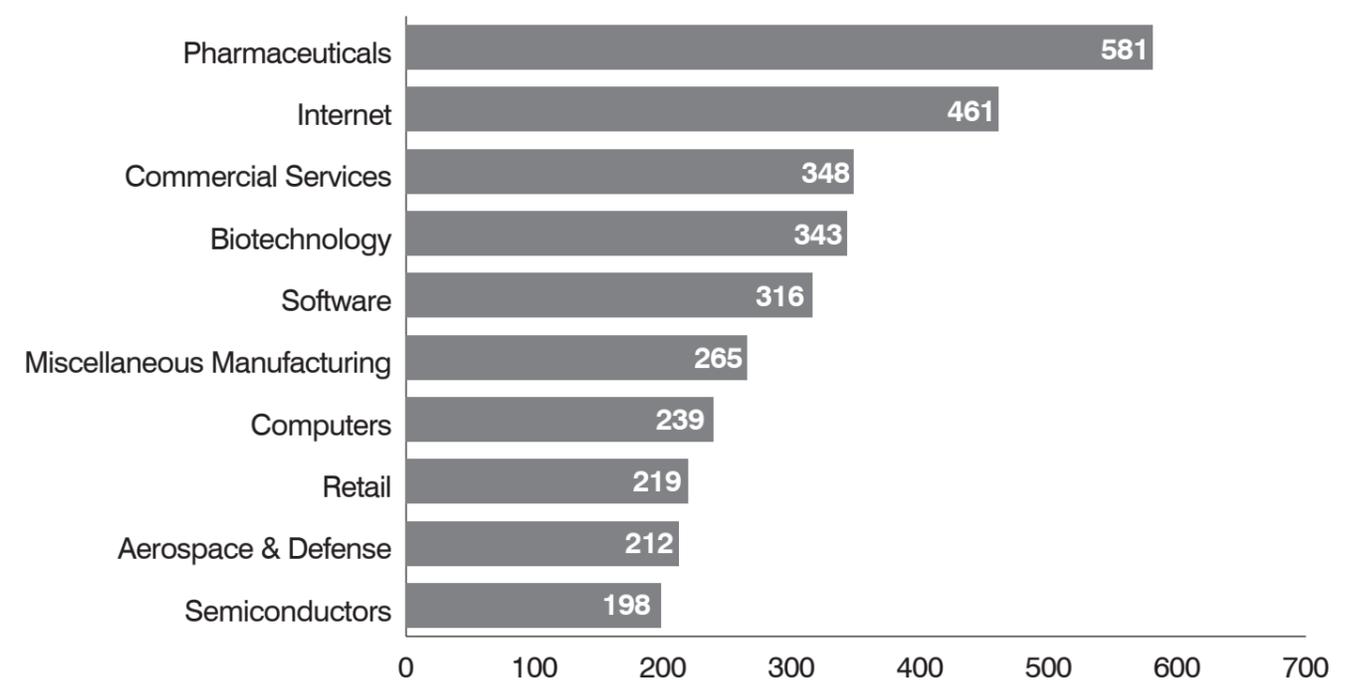
Illustrative Customer Value by Company - USDbn



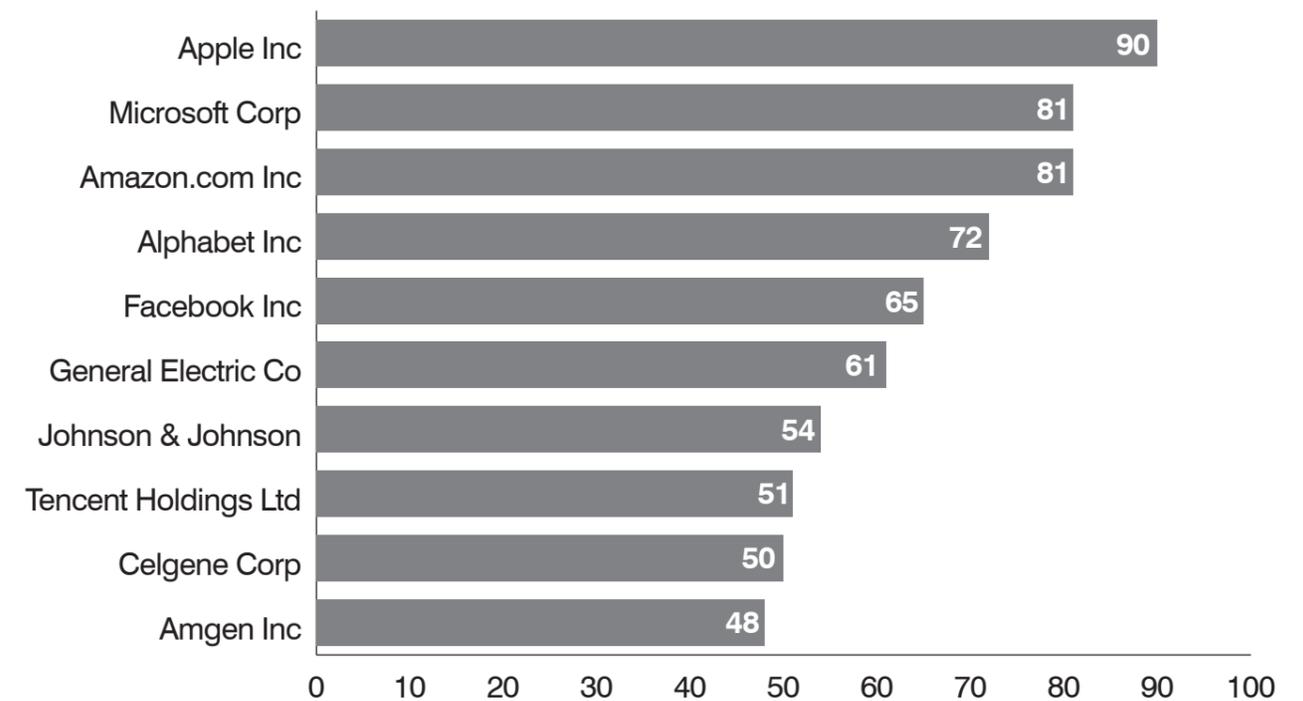
Towards Specific Reporting of Intangibles

Technology

Illustrative Technology Value by Industry - USDbn



Illustrative Technology Value by Company - USDbn



Role of M&A in Intangible Asset Reporting

	Global Mergers and Acquisitions							
	2009	2010	2011	2012	2013	2014	2015	2016
Deal Value (USDbn)	1,355	1,674	1,957	1,778	1,843	2,061	1,691	2,104
Growth		24%	17%	-9%	4%	12%	-18%	24%
Deal Volume	4,603	5,945	6,513	6,096	6,183	5,631	7,944	8,536
Growth		29%	10%	-6%	1%	-9%	41%	7%

Source: Bloomberg

Intangible assets are disclosed during M&A activity. Despite the periodic and ad hoc nature of such events, they remain the primary means by which intangible value becomes clear. Total deal value in 2016 increased by 24%, reaching its peak at \$2.1 trillion. Volume of M&A deals also increased from 7,944 in 2015 to 8,536 in 2016.

France, Germany and Japan experienced the biggest swings in M&A activity from 2015 to 2016. French M&A activity rose by approximately 121% year on year because of a \$12.3bn acquisition of the soy milk maker WhiteWave Foods by the French dairy giant Danone. The total value of deals by German companies increased by nearly 84% or \$23bn in 2016. The largest deal in 2016 was the \$6.4bn acquisition of the largest private Spanish hospital group Quirónsalud.

Total acquisitions by Japanese companies rose by 80% or \$56bn, mainly as a result of the \$30bn

acquisition of ARM Holdings in June 2016 by the Japanese multinational telecommunications and internet company SoftBank. The deal was the largest investment in the United Kingdom in 2016, dwarfing the second largest acquisition by Liberty Media of Delta Topco, the holding company of Formula One Group.

In the last year, in most regions, M&A activity was predominantly intra-regional. 2016 marks an especially big change for Middle Eastern companies which had traditionally focused on heavy investment in Europe, but last year made 92% of their acquisitions locally. On the other hand, companies from the Asia Pacific region registered an increased interest in M&A deals within Europe, with share of investments increasing to 15%, from 5% in 2015.

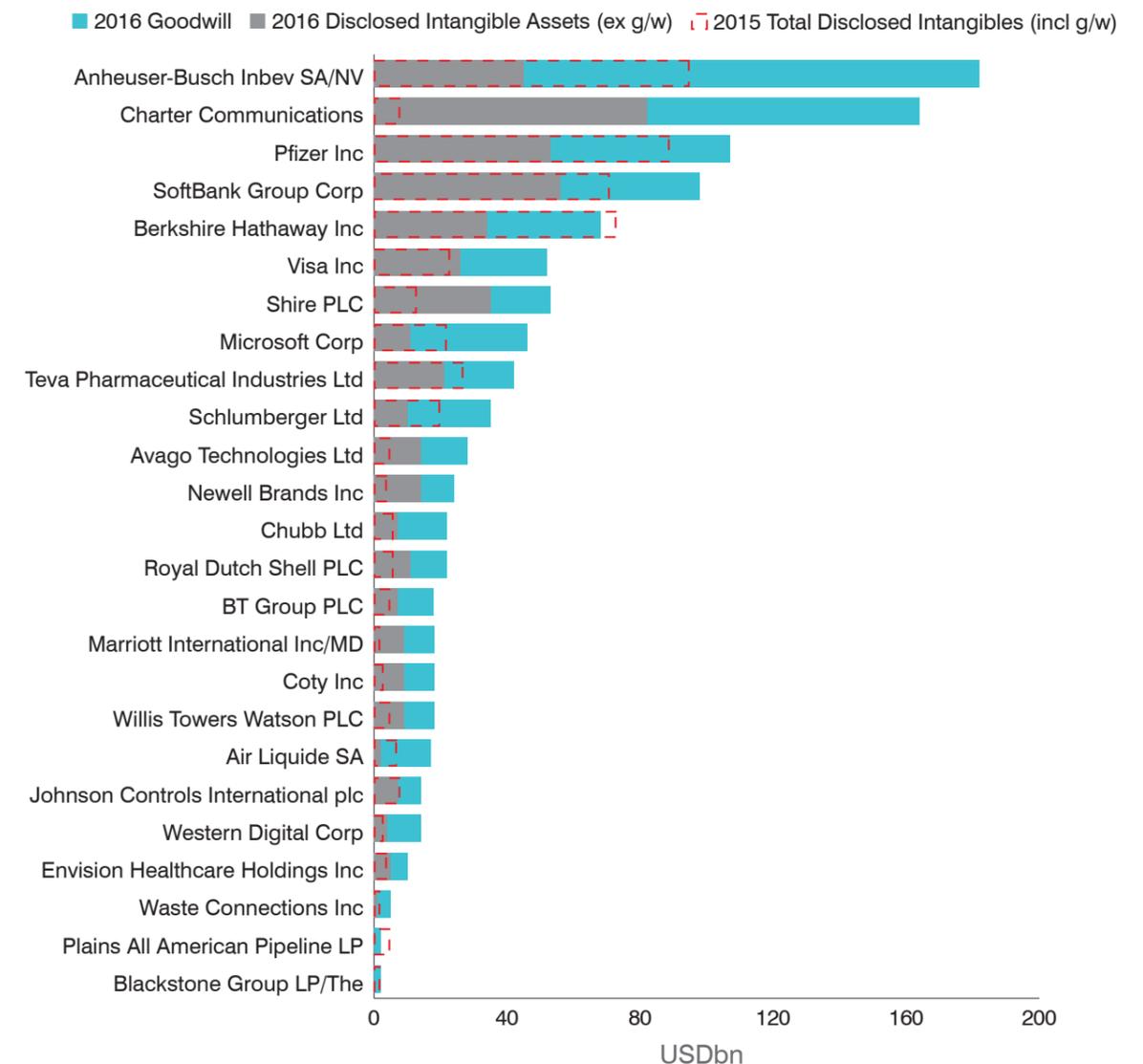
Country	Total Acquisitions (USDbn)								
	2009	2010	2011	2012	2013	2014	2015	2016	yoy %
United States	412	613	606	742	608	938	727	859	18%
United Kingdom	68	80	147	77	96	119	62	75	20%
Canada	56	62	76	81	83	104	99	145	45%
China	67	73	106	89	118	91	149	239	61%
Germany	54	34	32	49	23	76	27	50	84%
Japan	62	88	94	121	122	63	70	126	80%
Singapore	6	23	15	11	15	43	20	19	-2%
France	52	28	97	35	27	39	20	44	121%
Hong Kong	26	34	30	16	32	32	70	34	-52%
Switzerland	61	48	35	33	53	32	12	13	7%

Role of M&A in Intangible Asset Reporting

Acquiring Region	Target Region						
	North America	South America	Europe	Asia Pacific	Africa	Middle East	
North America	90%	1%	8%	1%	0%	0%	
South America	18%	45%	29%	6%	1%	0%	
Europe	32%	2%	58%	6%	1%	2%	
Asia Pacific	17%	4%	15%	64%	0%	0%	
Africa	53%	0%	14%	5%	28%	0%	
Middle East	0%	0%	3%	3%	2%	92%	

Source: Bloomberg

Top 25 Completed Acquisitions in 2016 - Disclosed Intangibles (USDbn)



Role of M&A in Intangible Asset Reporting - Case Studies

Charter Communications - Time Warner Cable

In May 2016, Charter Communications acquired Time Warner Cable for a preliminary purchase price of \$60.5bn, making it the third largest M&A deal in 2016. As a result of the deal, around \$67.5bn of intangible assets were recognised, excluding the \$28.3bn goodwill. The newly recognised intangible assets were primarily related to existing Time Warner Cable franchise agreements and the company's existing customer relationships.

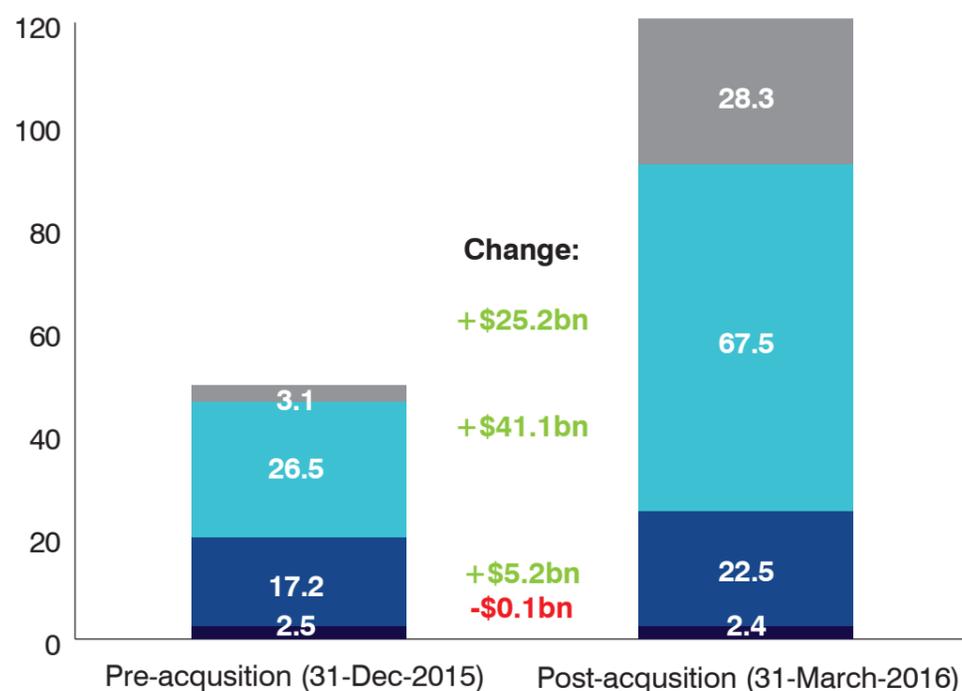
By comparing the Time Warner Cable balance sheet as of 31st of December 2015 with the Preliminary Purchase Price Allocation we discover a huge difference of around \$41.1bn between the intangible assets as recorded. On the other hand, differences in current and non-current tangible

assets were just \$100m and \$5.2bn respectively. Although significant in absolute terms the difference in tangible assets is an increase of just 26%, while the percentage change in disclosed intangibles (excluding goodwill) is 155%, clearly illustrating the significant drawbacks in the current reporting framework.

Time Warner Cable	USDm
Total Consideration	60,517
Total Tangible Assets	24,819
Intangible Assets:	
Franchises	54,085
Customer Relationships	13,460
Total Intangible Assets	67,545
Liabilities	(60,135)
Non-Controlling Interest	(4)
Residual Goodwill	28,292

Time Warner Cable - Total Assets Breakdown Pre- and Post-Acquisition (USDbn)

■ Current Assets ■ Tangible Non-Current Assets ■ Disclosed Intangibles Assets ■ Goodwill



Role of M&A in Intangible Asset Reporting - Case Studies

ANHEUSER-BUSCH INBEV - SABMiller

The Anheuser-Busch InBev acquisition of SABMiller was the largest M&A deal for 2016, with a purchase price tag of \$103bn. Around \$19.9bn of the \$20bn of intangible assets acquired were related brands with indefinite life. The valuation was done by applying a combination of royalty relief methodology, the method utilised by Brand Finance, and excess earnings approach.

An important implication from this acquisition is that the inclusion of all of those brands on the balance sheet creates a significant disparity between AB InBev and its competitors. Other brewing companies have created the vast majority of their brands internally, and hence are not able to disclose those assets on their balance sheets.

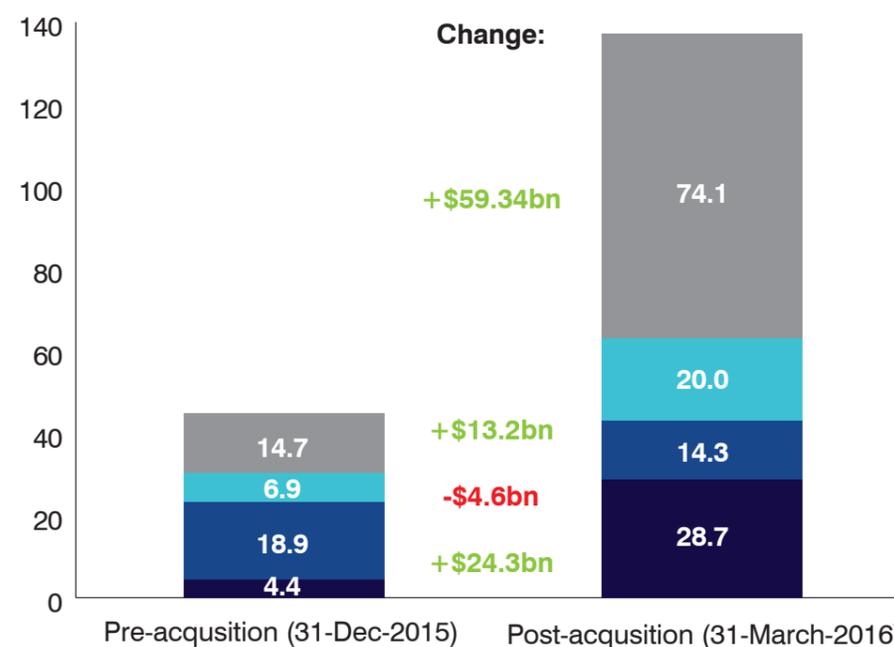
This difference has broader implications. It creates potentially distorting effects on the financial ratios

used to assess company performance. For example, financial ratios for leverage and gearing, profitability and asset turnover would be significantly different in consumer facing industries where brands make up the majority of the intangible value. The same applies to other intangible assets that are usually recognised only as a result of an acquisition such as customer relationships, contractual value, technology patents etc.

SAB Miller	USDm
Total Purchase Consideration	103,136
Total Tangible Assets	42,982
Intangible Assets (less g/w)	20,040
Total Intangible Assets	20,040
Total Liabilities	(27,769)
Non-Controlling Interest	(6,200)
Residual Goodwill	74,083

SAB Miller - Total Assets Breakdown Pre- and Post-Acquisition (USDbn)

■ Current Assets ■ Tangible Non-Current Assets ■ Disclosed Intangibles Assets ■ Goodwill



Role of M&A in Intangible Asset Reporting - Case Studies

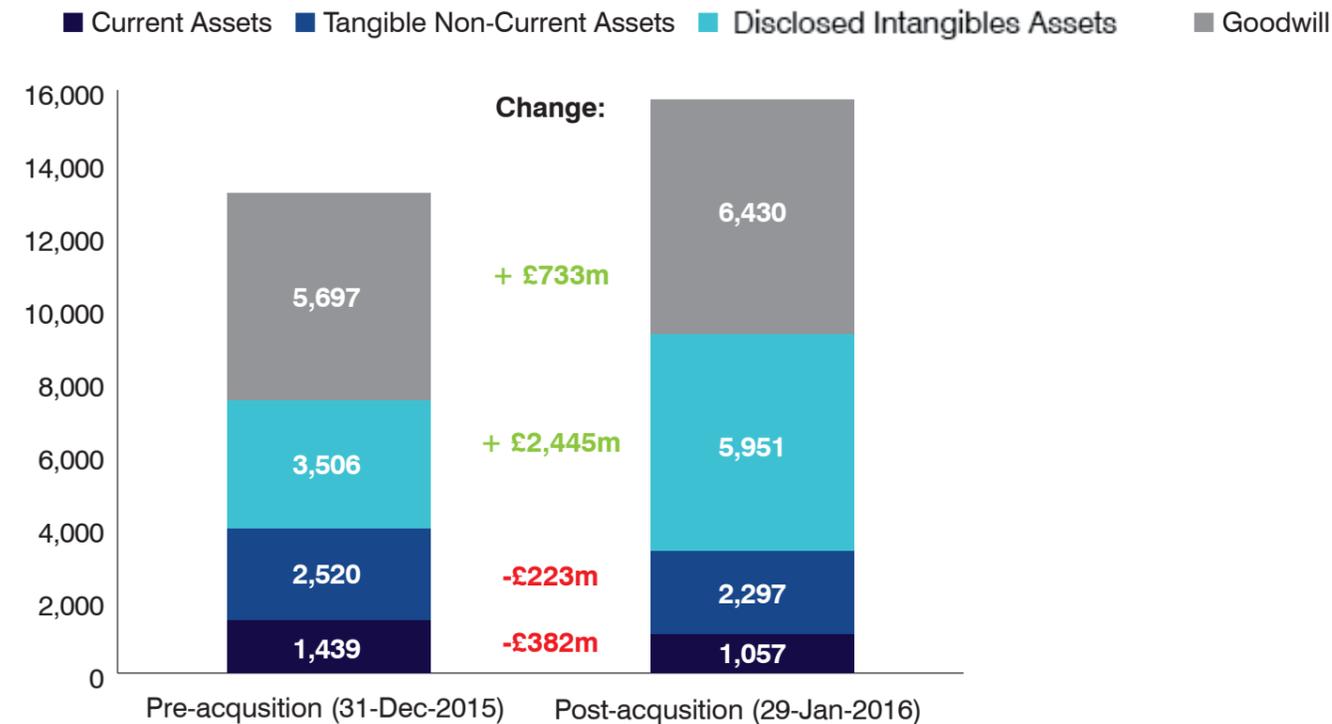
BT - EE

BT's £11bn acquisition of the mobile carrier EE in January 2016 also serves to illustrate the poor reflection of internally generated intangibles on balance sheets. As a result of the acquisition, nearly \$6bn of intangible assets were recognised on BT's balance sheet, excluding £6.4bn of goodwill. Customer relationships and Telecom licenses made up the vast majority of those intangible assets, while trademarks and software accounted for around 13%.

Although opinions on actual values of both tangible and intangible assets vary and are often subject to professional judgement, the largest discrepancy in value between pre and post-acquisition was in disclosed intangibles, signalling that current financial reporting practices of those assets are not reflective of the business reality.

EE	GBPm
Total Consideration	10,971
Total Tangible Assets	3,354
Intangible Assets:	
Customer Relationships	2,610
Trademarks	402
Telecom licenses	2,524
Software licenses	415
Total Intangible Assets	5,951
Total Liabilities	(4,764)
Residual Goodwill	6,430

EE - Total Assets Breakdown Pre- and Post Acquisition (GBPm)



Role of M&A in Intangible Asset Reporting - Case Studies

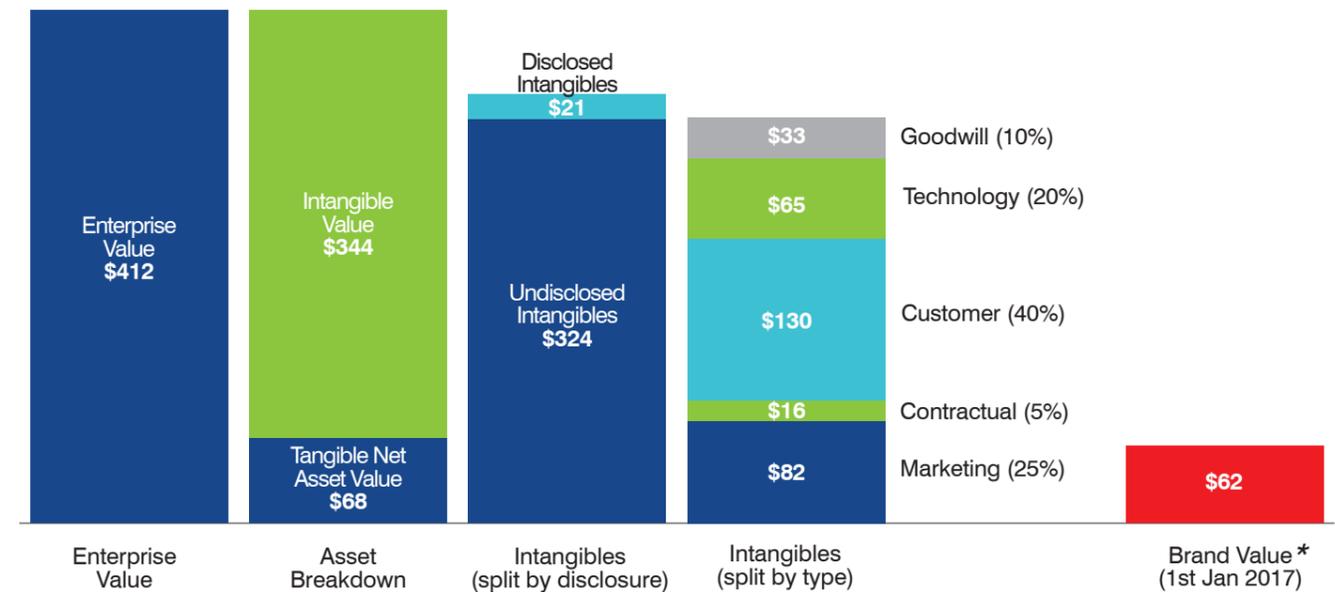
Facebook

The total intangible value of Facebook stands at \$344bn, consisting of just \$21bn of disclosed intangibles, recognised following acquisitions of companies such as WhatsApp, Oculus and Instagram. Even this handful of disclosed intangibles are disappearing at a rapid rate due to, in Brand Finance's view, excessively conservative amortization.

For example, the 2012 acquisition of Instagram was recognised at a fair value of \$521m, \$74m of which related to technology and \$64m to brands and trademarks. The brand-related intangibles are being amortised over the course of 2 to 7 years, meaning that by 2019 the whole value of the Instagram brand will be gone from Facebook's financials.

WhatsApp is another example. Its 600 million acquired users were valued at \$2bn in 2014. Since then, the number of users has doubled, so one might expect a value for this asset category alone of at least \$4bn. Yet accounts reveal only \$3bn of disclosed intangible value, which also includes other assets such as the WhatsApp brand. This again illustrates the clear discrepancy between intangible value creation and disclosure in financial statements.

Facebook Inc - USD bn



*as revealed in the Brand Finance Global 500 2017 study

How we can help



MARKETING

We help marketers to connect their brands to business performance by evaluating the return on investment (ROI) of brand based decisions and strategies.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Brand Scorecard Tracking
- + Return on Marketing Investment
- + Brand Transition
- + Brand Governance
- + Brand Architecture & Portfolio Management
- + Brand Positioning & Extension
- + Franchising & Licensing

FINANCE

We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Brand Scorecard Tracking
- + Return on Marketing Investment
- + Brand Transition
- + Brand Governance
- + Brand Architecture & Portfolio Management
- + Brand Positioning & Extension
- + Mergers, Acquisitions and Finance Raising Due Diligence
- + Franchising & Licensing
- + Tax & Transfer Pricing
- + Expert Witness

TAX

We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing and brand ownership arrangements.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Franchising & Licensing
- + Tax & Transfer Pricing
- + Expert Witness

LEGAL

We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in and outside of the courtroom.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Tax & Transfer Pricing
- + Expert Witness

BRAND FINANCE INSTITUTE



- + Technical Research
- + Standard Setting
- + Training and Development
- + Forums and Events
- + Professional Membership

Contact details

Contact us

For project enquiries, please contact:

Alex Haigh
Technical Valuations Director
Brand Finance
a.haigh@brandfinance.com

For media enquiries, please contact:

Konrad Jagodzinski
Senior Communications Manager,
Brand Finance
k.jagodzinski@brandfinance.com

For all other enquiries, please contact:

enquiries@brandfinance.com
+44 (0)207 389 9400



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Our offices



For further information on Brand Finance's services and valuation experience, please contact your local representative:

Country	Contact	Email address
Australia	Mark Crowe	m.crowe@brandfinance.com
Brazil	Geoffrey Hamilton-Jones	g.hamilton-jones@brandfinance.com
Canada	Bryn Anderson	b.anderson@brandfinance.com
China	Scott Chen	s.chen@brandfinance.com
Caribbean	Nigel Cooper	n.cooper@brandfinance.com
East Africa	Jawad Jaffer	j.jaffer@brandfinance.com
France	Victoire Ruault	v.ruault@brandfinance.com
Germany	Dr. Holger Mühlbauer	h.muehlbauer@brandfinance.com
Greece	Ioannis Lionis	i.lionis@brandfinance.com
Holland	Richard Haigh	rd.haigh@brandfinance.com
India	Ajimon Francis	a.francis@brandfinance.com
Indonesia	Jimmy Halim	j.halim@brandfinance.com
Italy	Massimo Pizzo	m.pizzo@brandfinance.com
LatAm	Laurence Newell	l.newell@brandfinance.com
Malaysia	Samir Dixit	s.dixit@brandfinance.com
Mexico	Laurence Newell	l.newell@brandfinance.com
Middle East	Andrew Campbell	a.campbell@brandfinance.com
Nigeria	Babatunde Odumeru	t.odumera@brandfinance.com
Portugal	Pedro Tavares	p.taveres@brandfinance.com
Russia	Alexander Eremenko	a.eremenko@brandfinance.com
Singapore	Samir Dixit	s.dixit@brandfinance.com
South Africa	Jeremy Sampson	j.sampson@brandfinance.com
Spain	Lorena Jorge Ramirez	l.jorgeramirez@brandfinance.com
Sri Lanka	Ruchi Gunewardene	r.gunewardene@brandfinance.com
Switzerland	Victoire Ruault	v.ruault@brandfinance.com
Turkey	Muhterem Ilgüner	m.ilguner@brandfinance.com
UK	Alex Haigh	a.haigh@brandfinance.com
USA	Bryn Anderson	b.anderson@brandfinance.com
Vietnam	Lai Tien Manh	m.lai@brandfinance.com



Contact us.

The World's Leading Brand and Branded Business Valuation Consultancy

T: +44 (0)20 7389 9400

E: enquiries@brandfinance.com

www.brandfinance.com