Brand Finance®

Restaurants 25 2018

The annual report on the world's most valuable restaurants brands

March 2018

Foreword.

David Haigh
CEO, Brand Finance

What is the purpose of a strong brand: to attract customers, to build loyalty, to motivate staff? All true, but for a commercial brand at least, the first answer must always be ‘to make money’.

Huge investments are made in the design, launch, and ongoing promotion of brands. Given their potential financial value, this makes sense. Unfortunately, most organisations fail to go beyond that, missing huge opportunities to effectively make use of what are often their most important assets. Monitoring of brand performance should be the next step, but is often sporadic. Where it does take place, it frequently lacks financial rigour and is heavily reliant on qualitative measures, poorly understood by non-marketers.

As a result, marketing teams struggle to communicate the value of their work and boards then underestimate the significance of their brands to the business. Sceptical finance teams, unconvinced by what they perceive as marketing mumbo jumbo, may fail to agree necessary investments. What marketing spend there is, can end up poorly directed as marketers are left to operate with insufficient financial guidance or accountability. The end result can be a slow but steady downward spiral of poor communication, wasted resources, and a negative impact on the bottom line.

Brand Finance bridges the gap between marketing and finance. Our teams have experience across a wide range of disciplines from market research and visual identity to tax and accounting. We understand the importance of design, advertising, and marketing, but we also believe that the ultimate and overriding purpose of brands is to make money. That is why we connect brands to the bottom line.

By valuing brands, we provide a mutually intelligible language for marketing and finance teams. Marketers then have the ability to communicate the significance of what they do, and boards can use the information to chart a course that maximises profits. Without knowing the precise, financial value of an asset, how can you know if you are maximising your returns? If you are intending to license a brand, how can you know you are getting a fair price? If you are intending to sell, how do you know what the right time is? How do you decide which brands to discontinue, whether to rebrand and how to arrange your brand architecture? Brand Finance has conducted thousands of brand and branded business valuations to help answer these questions.

Brand Finance’s research revealed the compelling link between strong brands and stock market performance. It was found that investing in highly-branded companies would lead to a return almost double that of the average for the S&P 500 as a whole.

Acknowledging and managing a company’s intangible assets taps into the hidden value that lies within it. The following report is a first step to understanding more about brands, how to value them and how to use that information to benefit the business.

The team and I look forward to continuing the conversation with you.

About Brand Finance.

Brand Finance is the world's leading independent brand valuation and strategy consultancy.

Brand Finance was set up in 1996 with the aim of 'bridging the gap between marketing and finance'. For more than 20 years, we have helped companies and organisations of all types to connect their brands to the bottom line.

We pride ourselves on four key strengths:
- Independence
- Technical Credibility
- Transparency
- Expertise.

Brand Finance puts thousands of the world's biggest brands to the test every year, evaluating which are the strongest and most valuable.

For more information, please visit our website:
www.brandfinance.com

Contents.

Foreword	3
About Brand Finance	4
Contact Details	4
Definitions	6
Executive Summary	8
Full Table	11
Methodology	12
Understand Your Brand's Value	13
Consulting Services	14
Communications Services	15

Contact Details.

For business enquiries, please contact:
Richard Haigh
Managing Director
rd.haigh@brandfinance.com

For media enquiries, please contact:
Konrad Jagodzinski
Communications Director
k.jagodzinski@brandfinance.com

For all other enquiries, please contact:
enquiries@brandfinance.com
+44 (0)207 389 9400

linkedin.com/company/brand-finance

facebook.com/brandfinance

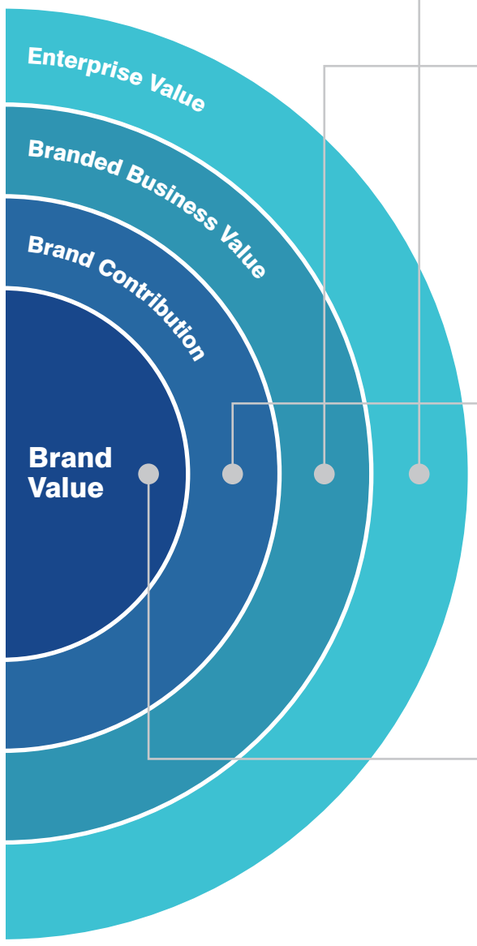
twitter.com/brandfinance

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

Country	Contact	Email Address	
Asia Pacific	Samir Dixit	s.dixit@brandfinance.com	+65 906 98 651
Australia	Mark Crowe	m.crowe@brandfinance.com	+61 282 498 320
Canada	Charles Scarlett-Smith	c.scarlett-smith@brandfinance.com	+1 647 3437 266
Caribbean	Nigel Cooper	n.cooper@brandfinance.com	+1 876 8256 598
China	Scott Chen	s.chen@brandfinance.com	+86 1860 118 8821
East Africa	Jawad Jaffer	j.jaffer@brandfinance.com	+254 204 440 053
Germany	Holger Mühlbauer	h.muehlbauer@brandfinance.com	+49 1515 474 9834
India	Savio D'Souza	s.dsouza@brandfinance.com	+44 207 389 9400
Indonesia	Jimmy Halim	j.halim@brandfinance.com	+62 215 3678 064
Ireland	Simon Haigh	s.haigh@brandfinance.com	+353 087 6695 881
Italy	Massimo Pizzo	m.pizzo@brandfinance.com	+39 230 312 5105
Japan	Jun Tanaka	j.tanaka@brandfinance.com	+8190 7116 1881
Mexico & LatAm	Laurence Newell	l.newell@brandfinance.com	+52 1559 197 1925
Middle East	Andrew Campbell	a.campbell@brandfinance.com	+971 508 113 341
Nigeria	Babatunde Odumeru	t.odumeru@brandfinance.com	+234 012 911 988
Romania	Mihai Bogdan	m.bogdan@brandfinance.com	+40 728 702 705
Spain	Teresa de Lemus	t.delemus@brandfinance.com	+34 654 481 043
South Africa	Jeremy Sampson	j.sampson@brandfinance.com	+27 828 857 300
Sri Lanka	Ruchi Gunewardene	r.gunewardene@brandfinance.com	+94 114 941 670
Turkey	Muhterem Ilgüner	m.ilguner@brandfinance.com	+90 216 3526 729
UK	Richard Haigh	rd.haigh@brandfinance.com	+44 207 389 9400
USA	Laurence Newell	l.newell@brandfinance.com	+1 917 794 3249
Vietnam	Lai Tien Manh	m.lai@brandfinance.com	+84 473 004 468

Definitions.

Brand Value



[Yum! Brands]

+ Enterprise Value

The value of the entire enterprise, made up of multiple branded businesses.

Where a company has a purely mono-branded architecture, the 'enterprise value' is the same as 'branded business value'.

[Pizza Hut]

+ Branded Business Value

The value of a single branded business operating under the subject brand.

A brand should be viewed in the context of the business in which it operates. Brand Finance always conducts a branded business valuation as part of any brand valuation. We evaluate the full brand value chain in order to understand the links between marketing investment, brand-tracking data, and stakeholder behaviour.

[Pizza Hut]

+ Brand Contribution

The overall uplift in shareholder value that the business derives from owning the brand rather than operating a generic brand.

The brand values contained in our league tables are those of the potentially transferable brand assets only, making 'brand contribution' a wider concept. An assessment of overall 'brand contribution' to a business provides additional insights to help optimise performance.

[Pizza Hut]

+ Brand Value

The value of the trade mark and associated marketing IP within the branded business.

Brand Finance helped to craft the internationally recognised standard on Brand Valuation – ISO 10668. It defines brand as a marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos, and designs, intended to identify goods, services or entities, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits.

Brand Strength

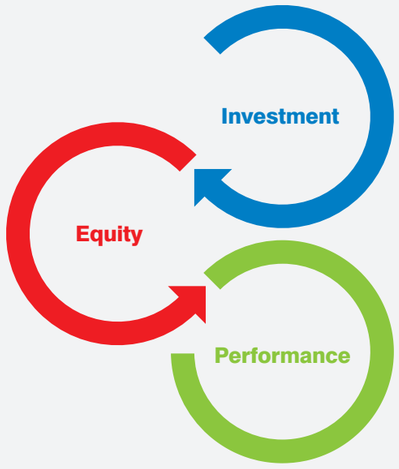
Brand Strength is the efficacy of a brand's performance on intangible measures, relative to its competitors.

In order to determine the strength of a brand, we look at Marketing Investment, Stakeholder Equity, and the impact of those on Business Performance.

Each brand is assigned a Brand Strength Index (BSI) score out of 100, which feeds into the brand value calculation. Based on the score, each brand is assigned a corresponding rating up to AAA+ in a format similar to a credit rating.

Analysing the three brand strength measures helps inform managers of a brand's potential for future success.

Brand Strength Index	
Marketing Investment	Widely recognised factors deployed by marketers to create brand loyalty and market share.
Stakeholder Equity	Perceptions of the brand among different stakeholder groups, with customers being the most important.
Business Performance	Quantitative market and financial measures representing the success of the brand in achieving price and volume premium.



Marketing Investment

- A brand that has high Marketing Investment but low Stakeholder Equity may be on a path to growth. This high investment is likely to lead to future performance in Stakeholder Equity which would in turn lead to better Business Performance in the future.
- However, high Marketing Investment over an extended period with little improvement in Stakeholder Equity would imply that the brand is unable to shape customers' preference.

Stakeholder Equity

- The same is true for Stakeholder Equity. If a company has high Stakeholder Equity, it is likely that Business Performance will improve in the future.
- However, if the brand's poor Business Performance persists, it would suggest that the brand is inefficient compared to its competitors in transferring stakeholder sentiment to a volume or price premium.

Business Performance

- Finally, if a brand has a strong Business Performance but scores poorly on Stakeholder Equity, it would imply that, in the future, the brand's ability to drive value will diminish.
- However, if it is able to sustain these higher outputs, it shows that the brand is particularly efficient at creating value from sentiment compared to its competitors.

Executive Summary.

Starbucks Takes Seat at Head of Table

Starbucks remains the world's most valuable restaurant brand following 27% growth to US$32.4 billion, while big restaurant chains boomed in value globally, according to a new report by Brand Finance, the world's leading independent brand valuation and strategy consultancy.

Starbucks' strong brand value results come on the back of strong annual revenues and solid forecasts, despite the brand facing global challenges as it seeks to expand into Asia, especially China. Starbucks' Brand Strength Index score increased 3% to 89.2 and retained a brand strength rating of AAA.

The remainder of the world's top six most valuable restaurants are ranked in the same order as last year, with McDonald's (up 23% to US$24.9 billion), KFC (up 31% to US$8.0 billion), Tim Hortons (up 23% to US$5.0 billion), and Domino's Pizza (up 22% to US$4.8 billion) all recording strong growth in brand value as they recalibrated their offerings to suit changing customer demands.

The results of the big restaurant brands are a reminder of the old adage that every happy family is alike, but every unhappy family is unhappy in its own way. The brands that have grown in value are those that are successfully responding to, and leading, customer demands. On the other hand, each of the big brands that suffered have unique causes.

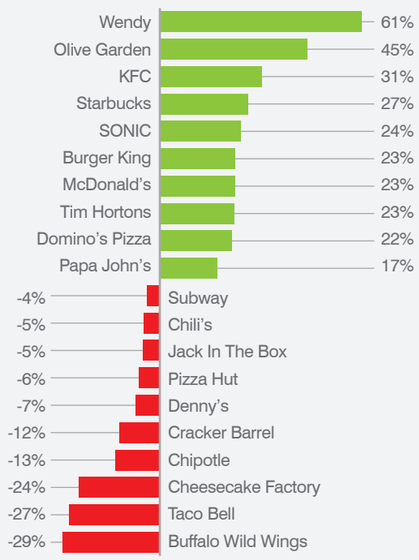
Bryn Anderson
Director, Brand Finance

On the other hand, Subway (down 4% to US$8.1 billion), Pizza Hut (down 6% to US$3.1 billion), and Chipotle (down 13% to US$2.5 billion) each struggled with different challenges. Subway brand suffered from reduced revenue forecasts as a consequence of closing more stores than it opened. Pizza Hut need to turn around fortunes in the USA to regain brand momentum, while Chipotle is still recovering from the food poisoning scares of 2015 and continues to search for new leadership.

Healthy Brands Lag Behind

The shift towards healthier choices may be regarded as one of the biggest trends in the restaurant sector, but it is not evident in the 2018 brand rankings, though all the largest restaurants have improved their product offerings in this segment in a bid to retain customers. 13th-ranked Panera Bread, which has crafted a reputation for the healthiest fast-food offering and has expanded rapidly in recent years, saw a brand value rise of a steady 7% to US$2.2 billion, though it was below the sector growth average.

Brand Value Change 2017-2018 (%)



Top 10 Most Valuable Brands

1 Rank 2018: **1** 2017: **1** →
BV 2018: **$32,421m**
BV 2017: **$25,615m** +27%
Brand Rating: **AAA**

2 Rank 2018: **2** 2017: **2** →
BV 2018: **$24,872m**
BV 2017: **$20,291m** +23%
Brand Rating: **AAA+**

3 Rank 2018: **3** 2017: **3** →
BV 2018: **$8,083m**
BV 2017: **$8,400m** -4%
Brand Rating: **AAA-**

4 Rank 2018: **4** 2017: **4** →
BV 2018: **$8,049m**
BV 2017: **$6,155m** +31%
Brand Rating: **AAA-**

5 Rank 2018: **5** 2017: **5** →
BV 2018: **$5,033m**
BV 2017: **$4,108m** +23%
Brand Rating: **AAA-**

6 Rank 2018: **6** 2017: **6** →
BV 2018: **$4,846m**
BV 2017: **$3,983m** +22%
Brand Rating: **AAA-**

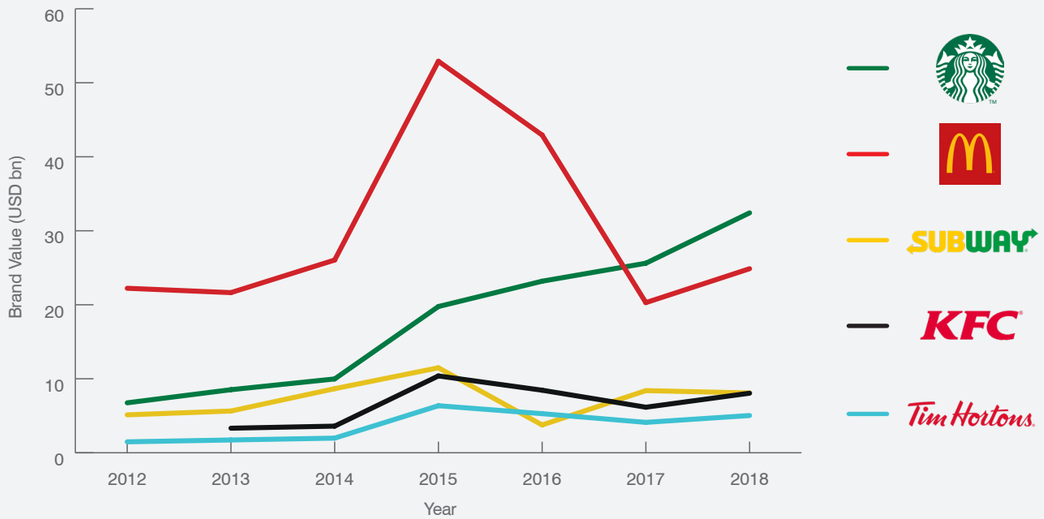
7 Rank 2018: **7** 2017: **9** ↑
BV 2018: **$3,150m**
BV 2017: **$2,568m** +23%
Brand Rating: **AA+**

8 Rank 2018: **8** 2017: **7** ↓
BV 2018: **$3,101m**
BV 2017: **$3,295m** -6%
Brand Rating: **AA+**

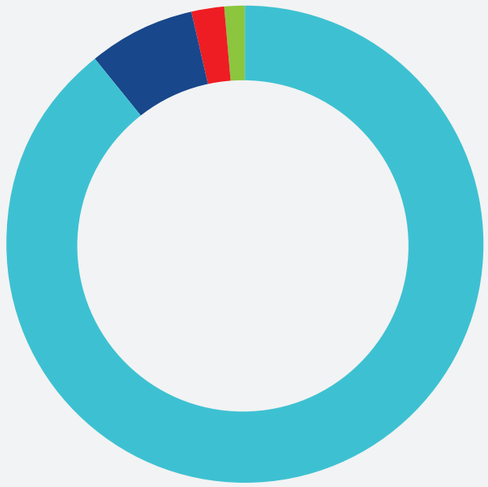
9 Rank 2018: **9** 2017: **10** ↑
BV 2018: **$2,677m**
BV 2017: **$2,401m** +11%
Brand Rating: **AA**

10 Rank 2018: **10** 2017: **8** ↓
BV 2018: **$2,541m**
BV 2017: **$2,935m** -13%
Brand Rating: **AA+**

Brand Value Over Time



Brand Value by Country



Colour	Country	Brand Value (USD bn)	% of total
	United States	101.3	89%
	Canada	8.2	7%
	United Kingdom	2.3	2%
	Philippines	1.5	1%
	Total	**113.4**	**100%**

The domination of US groups in the restaurant sector continues, with US operators accounting for US$104.5 billion of the aggregate US$113.4 billion of brand value and the US being home to 22 of the top 25 restaurant brands. Franchising has proved an effective way for groups to expand quickly at lower cost and the most successful groups have processes that reduce the risks associated with loss of control. Brands with 25% or more of revenues from franchisees increased brand value by an average 17% this year, compared to 6% where franchise revenues are less than 25% of the total.

Wendy's Tops Growth Table

The fastest-growing brand in the sector was 12th-ranked Wendy's (up 61% to US$2.3 billion) which has embarked on a global expansion and opened more than 100 sites in the first three quarters of 2017. Wendy's has increased same-restaurant sales for 19 consecutive quarters, reflecting the strength and popularity of the brand.

Top 5 Strongest Brands

	BSI Score **89.9**
	BSI Score **89.2**
COSTA	BSI Score **89.0**
KFC	BSI Score **84.5**
Tim Hortons	BSI Score **83.0**

Top 25 most valuable restaurants brands

Rank 2018	Rank 2017	Brand name	Country	Brand value (USD m) 2018	% change	Brand value (USD m) 2017	Brand rating 2018	Brand rating 2017
1	1	Starbucks	United States	32,421	+27%	25,615	AAA	AAA
2	2	McDonald's	United States	24,872	+23%	20,291	AAA+	AAA
3	3	Subway	United States	8,083	-4%	8,400	AAA-	AA+
4	4	KFC	United States	8,049	+31%	6,155	AAA-	AAA-
5	5	Tim Hortons	Canada	5,033	+23%	4,108	AAA-	AA+
6	6	Domino's Pizza	United States	4,846	+22%	3,983	AAA-	AAA-
7	9	Burger King	United States	3,150	+23%	2,568	AA+	AA+
8	7	Pizza Hut	United States	3,101	-6%	3,295	AA+	AAA-
9	10	Dunkin' Donuts	United States	2,677	+11%	2,401	AA	AA-
10	8	Chipotle	United States	2,541	-13%	2,935	AA+	AA+
11	13	Costa Coffee	United Kingdom	🔒	🔒	🔒	🔒	🔒
12	15	Wendy's	United States	🔒	🔒	🔒	🔒	🔒
13	12	Panera Bread	United States	🔒	🔒	🔒	🔒	🔒
14	11	Taco bell	United States	🔒	🔒	🔒	🔒	🔒
15	14	Jollibee	Philippines	🔒	🔒	🔒	🔒	🔒
16	18	Olive Garden	United States	🔒	🔒	🔒	🔒	🔒
17	20	Papa John's	United States	🔒	🔒	🔒	🔒	🔒
18	17	Chili's	United States	🔒	🔒	🔒	🔒	🔒
19	22	SONIC	United States	🔒	🔒	🔒	🔒	🔒
20	19	Jack In The Box	United States	🔒	🔒	🔒	🔒	🔒
21	16	Buffalo Wild Wings	United States	🔒	🔒	🔒	🔒	🔒
22	New	Texas Roadhouse	United States	🔒	🔒	🔒	🔒	🔒
23	23	Cracker Barrel	United States	🔒	🔒	🔒	🔒	🔒
24	25	Denny's	United States	🔒	🔒	🔒	🔒	🔒
25	24	Cheesecake Factory	United States	🔒	🔒	🔒	🔒	🔒

Methodology.

Brand Finance calculates the values of the brands in its league tables using the Royalty Relief approach – a brand valuation method compliant with the industry standards set in ISO 10668.

This involves estimating the likely future revenues that are attributable to a brand by calculating a royalty rate that would be charged for its use, to arrive at a 'brand value' understood as a net economic benefit that a licensor would achieve by licensing the brand in the open market.

The steps in this process are as follows:

1 Calculate brand strength using a balanced scorecard of metrics assessing Marketing Investment, Stakeholder Equity, and Business Performance. Brand strength is expressed as a Brand Strength Index (BSI) score on a scale of 0 to 100.

2 Determine royalty range for each industry, reflecting the importance of brand to purchasing decisions. In luxury, the maximum percentage is high, in extractive industry, where goods are often commoditised, it is lower. This is done by reviewing comparable licensing agreements sourced from Brand Finance's extensive database.

3 Calculate royalty rate. The BSI score is applied to the royalty range to arrive at a royalty rate. For example, if the royalty range in a sector is 0-5% and a brand has a BSI score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be 4%.

4 Determine brand-specific revenues by estimating a proportion of parent company revenues attributable to a brand.

5 Determine forecast revenues using a function of historic revenues, equity analyst forecasts, and economic growth rates.

6 Apply the royalty rate to the forecast revenues to derive brand revenues.

7 Brand revenues are discounted post-tax to a net present value which equals the brand value.

Brand Strength Index (BSI)

Brand strength expressed as a BSI score out of 100.

Brand Royalty Rate

BSI score applied to an appropriate sector royalty range.

Brand Revenues

Royalty rate applied to forecast revenues to derive brand value.

Brand Value

Post-tax brand revenues discounted to a net present value (NPV) which equals the brand value.

Disclaimer

Brand Finance has produced this study with an independent and unbiased analysis. The values derived and opinions produced in this study are based only on publicly available information and certain assumptions that Brand Finance used where such data was deficient or unclear. Brand Finance accepts no responsibility and will not be liable in the event that the publicly available information relied upon is subsequently found to be inaccurate. The opinions and financial analysis expressed in the report are not to be construed as providing investment or business advice. Brand Finance does not intend the report to be relied upon for any reason and excludes all liability to any body, government or organisation.

Understand Your Brand's Value.

A Brand Value Report provides a complete breakdown of the assumptions, data sources, and calculations used to arrive at your brand's value.

Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors.

What is a Brand Value Report?

Brand Valuation Summary

+ Internal understanding of brand
+ Brand value tracking
+ Competitor benchmarking
+ Historical brand value

Brand Strength Index

+ Brand strength tracking
+ Brand strength analysis
+ Management KPIs
+ Competitor benchmarking

Royalty Rates

+ Transfer pricing
+ Licensing/franchising negotiation
+ International licensing
+ Competitor benchmarking

Cost of Capital

+ Independent view of cost of capital for internal valuations and project appraisal exercises

Customer Research

+ Utilities
+ Insurance
+ Banks
+ Telecoms

For more information regarding our Brand Value Reports, please contact:

Richard Haigh
Managing Director, Brand Finance
rd.haigh@brandfinance.com

What are the benefits of a Brand Value Report?

Insight

Provide insight as to how the brand is performing vs. key competitors on underlying measures and drivers of brand value and brand strength.

Strategy

Understand where brand value is being generated by region and channel in order to identify areas of opportunity that warrant further investigation.

Benchmarking

Track year-on-year changes to brand value and set long-term objectives against which high-level brand performance can be benchmarked.

Education

Provide a platform of understanding which the company can use to educate employees on the importance of the brand.

Communication

Communicate your brand's success to shareholders, customers, and other strategically selected audiences.

Understanding

Understand and appreciate the value of your brand as an asset of the business.

Consulting Services.

1. Valuation: What are my intangible assets worth?

Valuations may be conducted for technical purposes and to set a baseline against which potential strategic brand scenarios can be evaluated.

+ Branded Business Valuation
+ Trademark Valuation
+ Intangible Asset Valuation
+ Brand Contribution

2. Analytics: How can I improve marketing effectiveness?

Analytical services help to uncover drivers of demand and insights. Identifying the factors which drive consumer behaviour allows an understanding of how brands create bottom-line impact.

Market Research Analytics +
Return on Marketing Investment +
Brand Audits +
Brand Scorecard Tracking +

3. Strategy: How can I increase the value of my branded business?

Strategic marketing services enable brands to be leveraged to grow businesses. Scenario modelling will identify the best opportunities, ensuring resources are allocated to those activities which have the most impact on brand and business value.

Brand Governance +
Brand Architecture & Portfolio Management +
Brand Transition +
Brand Positioning +

4. Transactions: Is it a good deal? Can I leverage my intangible assets?

Transaction services help buyers, sellers, and owners of branded businesses get a better deal by leveraging the value of their intangibles.

+ M&A Due Diligence
+ Franchising & Licensing
+ Tax & Transfer Pricing
+ Expert Witness

MARKETING

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

FINANCE

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

TAX

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

LEGAL

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

Communications Services.

We offer a variety of services to help communicate your brand's success.

Example digital endorsement stamp for use on your website as well as in investor relations and advertising, to recognise your brand's performance.

BRAND EXCHANGE®

WHERE BRANDS MEET FINANCE

BECOME A MEMBER

A contemporary and exclusive members' club & events venue in the heart of the City of London

Characterful space for meetings and private events
Members' events with focus on marketing and branding
Discounted room hire for members

3 Birchin Lane, London, EC3V 9BW +44 (0) 207 3899 410 www.brandexchange.com enquiries@brandexchange.com

Brand Exchange is a member of the Brand Finance plc group of companies

Brand Dialogue®

Value-Based Communications

We execute strategic communications programmes to optimise the value of your business and to enhance brand perception among stakeholders.

SERVICES
- Research and Insights
- Project Management and Agency Steering
- Content and Channel Strategy
- Integrated Communications Planning and Execution
- Communications Workshops

For more information, contact enquiries@brand-dialogue.co.uk or visit www.brand-dialogue.co.uk

Brand Dialogue is a member of the Brand Finance plc group of companies

Brand Finance®

Contact us.

The World's Leading Independent Brand Valuation and Strategy Consultancy
T: +44 (0)20 7389 9400
E: enquiries@brandfinance.com
www.brandfinance.com

BRAND·FINANCE®