Alcoholic Beverages 2017

The annual report on the world’s most valuable alcoholic beverages brands
March 2017
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. Skeptical 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 the marketing and financial worlds. 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 marketers 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 recently conducted share price study revealed the compelling link between strong brands and stock market performance. It was found that investing in the most 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.
Definitions

Branded Business Value

A brand should be viewed in the context of the business in which it operates. For this reason Brand Finance always conducts a Branded Business Valuation as part of any brand valuation. Where a company has a purely mono-branded architecture, the business value is the same as the overall company value or ‘enterprise value’.

In the more usual situation where a company owns multiple brands, business value refers to the value of the assets and revenue stream of the business line attached to that brand specifically. We evaluate the full brand value chain in order to understand the links between marketing investment, brand tracking data, stakeholder behaviour and business value to maximise the returns business owners can obtain from their brands.

Brand Contribution

The brand values contained in our league tables are those of the potentially transferable brand asset only, but for marketers and managers alike. An assessment of overall brand contribution to a business provides powerful insights to help optimise performance.

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

Brands affect a variety of stakeholders, not just customers but also staff, strategic partners, regulators, investors and more, having a significant impact on financial value beyond what can be bought or sold in a transaction.

Brand Value

In the very broadest sense, a brand is the focus for all the expectations and opinions held by customers, staff and other stakeholders about an organisation and its products and services. However, when looking at brands as business assets that can be bought, sold and licensed, a more technical definition is required.

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

Brand Strength

Brand Strength is the part of our analysis most directly and easily influenced by those responsible for marketing and brand management. In order to determine the strength of a brand we have developed the Brand Strength Index (BSI). We analyse marketing investment, brand equity (the goodwill accumulated with customers, staff and other stakeholders) and finally the impact of these on business performance.

Following this analysis, each brand is assigned a BSI score out of 100, which is fed into the brand value calculation. Based on the score, each brand in the league table is assigned a rating between AAA+ and D in a format similar to a credit rating. AAA+ brands are exceptionally strong and well managed while a failing brand would be assigned a D grade.
Methodology

League Table Valuation Methodology

Brand Finance calculates the values of the brands in its league tables using the ‘Royalty Relief approach’. This approach involves estimating the likely future sales that are attributable to a brand and calculating a royalty rate that would be charged for the use of the brand, i.e. what the owner would have to pay for the use of the brand—assuming it were not already owned.

The steps in this process are as follows:

1. Calculate brand strength on a scale of 0 to 100 based on a number of attributes such as emotional connection, financial performance and sustainability, among others. This score is known as the Brand Strength Index, and is calculated using brand data from the BrandAsset® Valuator database, the world’s largest database of brands, which measures brand equity, consideration and emotional imagery attributes to assess brand personality in a category agnostic manner.

2. Determine the royalty rate range for the respective brand sectors. This is done by reviewing comparable licensing agreements sourced from Brand Finance’s extensive database of license agreements and other online databases.

3. Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand’s sector is 0-5% and a brand has a brand strength 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 estimating a proportion of parent company revenues attributable to a specific brand.

5. Determine forecast brand specific 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 Value Dashboard

Brand Strength Index 2016

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. It includes:

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 KPI’s
- Competitor benchmarking

Drivers of Change

Three key areas impact Brand Value ($ billions)

Brand Investment

Proven inputs that drive the Brand Equity and financial results

Financial measures resulting from the relative quality of the brand’s investment in 

Sustainability, Employees and Governance.

Drivers of Change

Business Outlook

Long Term Growth 3.2%

Discount Rate 9.1%

Economic Outlook

Growth 2.6%

Discount rate (30.2%), the brand’s market is not growing as quickly and vice versa.

Cost of Capital

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

Trademark Audit

- Highlight unprotected marks
- Spot potential infringement
- Trademark registration strategy

For more information regarding our League Table Reports, please contact:

Alex Haigh
Director of League Tables, Brand Finance
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Brand Revenues

Brand value

Brand strength

(PSI)

Brand ‘Royalty rate’

Forecast revenues

Strong brand

Weak brand

BSI score applied to an appropriate sector royalty rate range.

Royalty rate applied to forecast revenues to derive brand values.

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

Brand performance

Brand equity

Brand investment

Brand strength expressed as a BSI score out of 100.
Executive Summary - Spirits 50

Spirits 50

2017 is the year of Baijiu brands. For the first time, the fiery Chinese drink now accounts for a greater share of brand value than any other spirit type. In 2016, Baijiu accounted for 23% of the total brand value of the Brand Finance Drinks 50 behind Whisky on 37%. However this year, the tables have turned. Whisky’s share has dropped to 28% while Baijiu’s has surged to 37.5%. The world’s top Baijiu brands have a combined value of over US$22 billion.

Moutai maintains its position as the world’s most valuable spirits brand with an outstanding 60% increase in brand value to US$11.548 billion. The Chinese brand has been performing well with a 19% year-on-year increase in revenue and 7% increase in net profit, driving up its share price.

Other Baijiu brands are performing extremely well too. Gujing Gong Jiu is the fastest growing brand this year, nearly doubling its brand value to US$1.1 billion. Wuliangye, Luzhou Laojiao and Yanghe follow suit, with 86%, 73% and 50% increases respectively. These rates of growth support existing evidence to suggest that consumers are trading up to more premium Baijius. The Baijiu market is resurgent but some have suggested this may only be temporary and that Chinese consumers’ tastes will diversity without corresponding growth internationally to compensate. In such a situation, strong brands will therefore be essential to maintain market share.

Johnnie Walker remains the world’s most valuable Whisky/Whiskey brand by a considerable margin despite a 2% brand value drop this year. Its US$4.5 billion brand value keeps it in second place within the sector as a whole. Demand for whisky remains robust and blended whiskies such as Johnnie Walker account for three quarters of the market. However that share is declining, so the brand building that Johnnie Walker is famous for is more important than ever before.

The last 18 months has seen the rollout of the ‘Joy Will Take You Further’ slogan, a fresh take on its 17-year-old “Keep Walking” campaign. The new slant is intended to convey a more cheerful and optimistic message than the serious tone struck previously which emphasized Johnnie Walker as a reward for years of hard work and personal success.

Towards the end of the year Diageo risked controversy with its ‘This Land Is Your Land’ advertisement on the night before Election Day, signaling a rejection of Trump’s anti-immigrant campaign. Though Diageo came out against Brexit, Britain’s decision to leave the EU may be a blessing for Johnnie Walker. Europe is an important market, but it is a saturated one and far less important than for many UK brands. The fall in the value of the pound on the other hand provides a major benefit with Diageo estimating a £460m profit boost as a result.

<table>
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<td>$7,211m</td>
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<td>Wuliangye</td>
<td>$2,874m</td>
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<td>$2,509m</td>
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<td>Bacardi Limited</td>
<td>$1,437m</td>
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Malibu has fallen more than any brand this year, mainly as a result of falling sales. Brand value is down 17% to US$273m. Part of this decline has been blamed on inappropriate brand extension into too many flavored variants. Consolidating and strengthening the brand will therefore be a priority.

Malibu’s demographic is skewed much younger than most spirit brands so it is moving marketing budgets online (to follow its millennial consumers). 75% will now be spend online, up from 60%.

A perennial problem for owners Pernod Ricard has been Malibu’s seasonality with sales spiking in July and spiking in September/October. To counter this, Malibu black has been introduced. With a less sweet taste and packaging more akin to a traditional dark rum, it is hoped that it will help to keep the brand top of mind and maintain market share through the winter months.
Executive Summary - Spirits 50

Brand Finance
Alcoholic Beverages March 2017

Top 50 most valuable spirits brands 1 - 50.

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<th>Rank 2016</th>
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Executive Summary - Beers 25

Beers 25

A handful of major brand portfolio owners dominate the industry with AB InBev, Heineken NV, Molson Coors and Asahi Group taking the lion’s share. AB InBev is first amongst them, controlling 11 of the world’s 25 most valuable beer brands. Following its high profile merger with SABMiller, for over US$100 billion, AB InBev commands a 46% market share.

Bud Light remains at the top of the table and is the biggest riser with a 34% brand value growth to US$ 6.6 billion. It is currently relaunching in the UK, a significant moment for the brand. Although its ‘Bud Light Party’ campaign featuring Seth Rogen and Amy Schumer didn’t manage to reverse slowing sales, they are hoping that their next campaign, ‘Famous Among Friends’, will. Sister brand Budweiser is in second place at US$5.9 billion. Anheuser Busch courted controversy with its Superbowl ad, ‘Born the Hard Way’. The cinematic spot emphasized Budweiser’s heritage and the perseverance of its founder, but drew the ire of Trump supporters who called for a boycott of the brand for what they saw as thinly veiled pro-immigrant propaganda. This does not appear to have had any lasting damage however, with brand value up 30%.

Heineken is in 3rd place again with a brand value growth of 22% to US$5.2 billion. Heineken is a major global sponsor, particularly of sports. It has a longstanding relationship with the UEFA Champions League. However Heineken is slowly shifting its focus away from football which it sees as ‘totally overcrowded’ with competitors brands making differentiation difficult. Heineken is instead developing its involvement with F1 and has renewed its association with Rugby by announcing that it will be the headline sponsor of the 2019 Rugby World Cup.

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<th>Rank</th>
<th>2017</th>
<th></th>
<th>2016</th>
<th></th>
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<tr>
<td>1</td>
<td>1</td>
<td>BV: $6,668m</td>
<td>1</td>
<td>BV: $4,922m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+34%</td>
<td></td>
<td>AAA-</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>BV: $5,963m</td>
<td>2</td>
<td>BV: $4,503m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+30%</td>
<td></td>
<td>AAA-</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>BV: $5,237m</td>
<td>3</td>
<td>BV: $4,326m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+21%</td>
<td></td>
<td>AA</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>BV: $3,148m</td>
<td>4</td>
<td>BV: $2,543m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+24%</td>
<td></td>
<td>AAA</td>
</tr>
<tr>
<td>5</td>
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<td>BV: $3,432m</td>
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<td></td>
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<td>-11%</td>
<td></td>
<td>AAA</td>
</tr>
<tr>
<td>6</td>
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<td>-9%</td>
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<td>7</td>
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<td>BV: $2,394m</td>
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<td>BV: $1,972m</td>
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<td></td>
<td>+21%</td>
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<td>AA+</td>
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<td>8</td>
<td>8</td>
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<td>BV: $2,185m</td>
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<td>+5%</td>
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<tr>
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<td>BV: $2,359m</td>
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<td></td>
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<td>-3%</td>
<td></td>
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<tr>
<td>10</td>
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<td>BV: $2,195m</td>
<td>10</td>
<td>BV: $1,828m</td>
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<td></td>
<td></td>
<td>+20%</td>
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<td>AA-</td>
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Left: ‘Bud Light Party’ campaign with Seth Rogen and Amy Schumer.
Right: Budweiser’s ‘Born the Hard Way’ Superbowl ad.
Executive Summary - Beers 25

Brand Value Over Time

Brand Value Change 2016-2017 (USDm)

Brand Value Change 2016-2017 (%)

Brand Finance Beers 25 (USDm)

Top 25 most valuable beer brands 1 - 25.

<table>
<thead>
<tr>
<th>Rank 2017</th>
<th>Rank 2016</th>
<th>Brand name</th>
<th>Domicile</th>
<th>Brand value (USDm) 2017</th>
<th>% change</th>
<th>Brand value (USDm) 2016</th>
<th>% change</th>
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<th>Brand rating 2016</th>
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<tr>
<td>1</td>
<td>1</td>
<td>Bud Light</td>
<td>United States</td>
<td>6,608</td>
<td>34%</td>
<td>4,922</td>
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<td>AAA-</td>
<td>AAA-</td>
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<tr>
<td>2</td>
<td>2</td>
<td>Budweiser</td>
<td>United States</td>
<td>5,863</td>
<td>30%</td>
<td>4,503</td>
<td>AAA-</td>
<td>AAA-</td>
<td>AAA-</td>
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<tr>
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<td>Heineken</td>
<td>Netherlands</td>
<td>5,237</td>
<td>21%</td>
<td>4,326</td>
<td>AA-</td>
<td>AA-</td>
<td>AA-</td>
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<td>4</td>
<td>6</td>
<td>Brahma</td>
<td>Brazil</td>
<td>3,148</td>
<td>24%</td>
<td>2,543</td>
<td>AAA</td>
<td>AAA-</td>
<td>AAA-</td>
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<tr>
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<td>-11%</td>
<td>3,432</td>
<td>AAA</td>
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<td>Asahi Beer</td>
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<td>1,972</td>
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<td>Guinness</td>
<td>United Kingdom</td>
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<td>5%</td>
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<tr>
<td>9</td>
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<td>Kirin</td>
<td>Japan</td>
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<td>-3%</td>
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<td>Miller Lite</td>
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<td>13</td>
<td>Coors Light</td>
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<td>Stella Artois</td>
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<td>AA-</td>
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<td>16</td>
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<td>Busch</td>
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<td>27%</td>
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<td>17</td>
<td>14</td>
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<td>842</td>
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<td>38%</td>
<td>851</td>
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<td>863</td>
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<td>20</td>
<td>Amstel</td>
<td>United States</td>
<td>1,131</td>
<td>34%</td>
<td>850</td>
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<td>AA-</td>
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<td>799</td>
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<td>24</td>
<td>Carlsberg</td>
<td>United States</td>
<td>1,039</td>
<td>20%</td>
<td>831</td>
<td>AA-</td>
<td>AA-</td>
<td>AA-</td>
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<tr>
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<td>Sol</td>
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<td>20%</td>
<td>831</td>
<td>AA-</td>
<td>AA-</td>
<td>AA-</td>
</tr>
</tbody>
</table>
How we can help

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

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 allow an understanding of how brands create bottom-line impact.

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

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 Transition
   - Brand Architecture & Portfolio Management
   - Brand Positioning & Extension

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
   - Tax & Transfer Pricing
   - Franchising & Licensing
   - Expert Witness

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

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

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

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

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11. Brand Finance Alcoholic Beverages March 2017