Brand Finance®



Mexico 50 2017

The annual report on the most valuable Mexican brands

June 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.

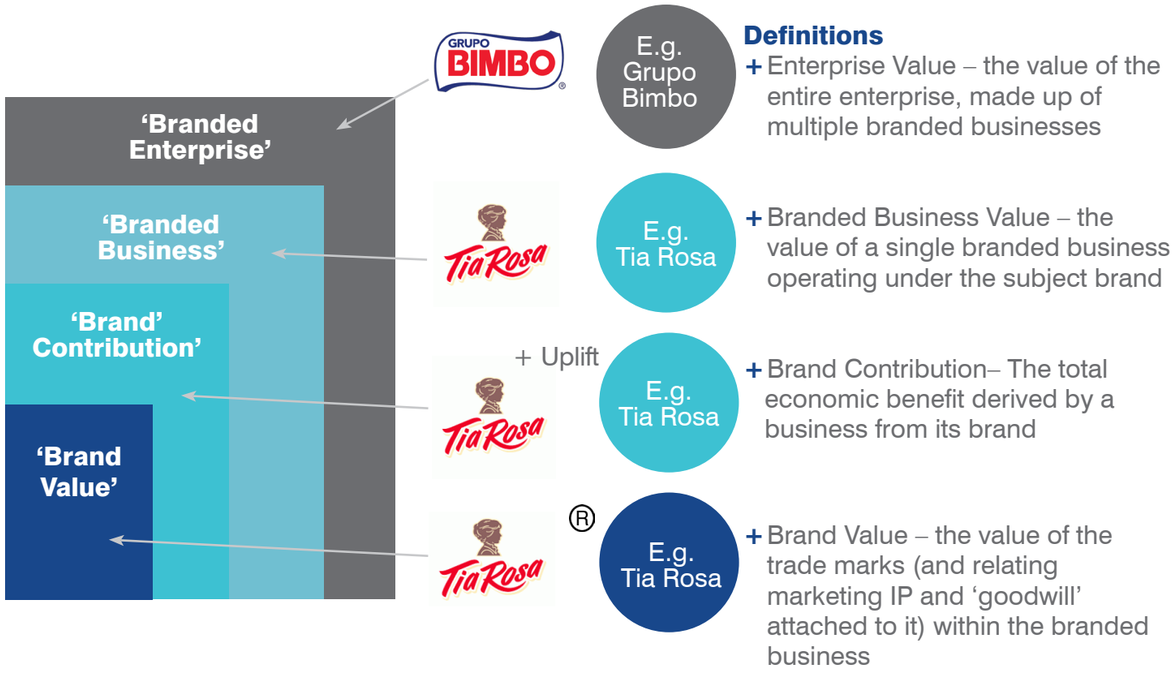
By valuing brands, we provide a mutually intelligible language for marketers and finance teams. Marketers then have the ability to communicate the significance of what they do and boards can use the information to chart a course that maximises profits.
Without knowing the precise, financial value of 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.

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Definitions



E.g. Grupo Bimbo

E.g. Tia Rosa

E.g. Tia Rosa

E.g. Tia Rosa

Definitions

+ Enterprise Value – the value of the entire enterprise, made up of multiple branded businesses

+ Branded Business Value – the value of a single branded business operating under the subject brand

+ Brand Contribution– The total economic benefit derived by a business from its brand

+ Brand Value – the value of the trade marks (and relating marketing IP and ‘goodwill’ attached to it) within the branded business

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.

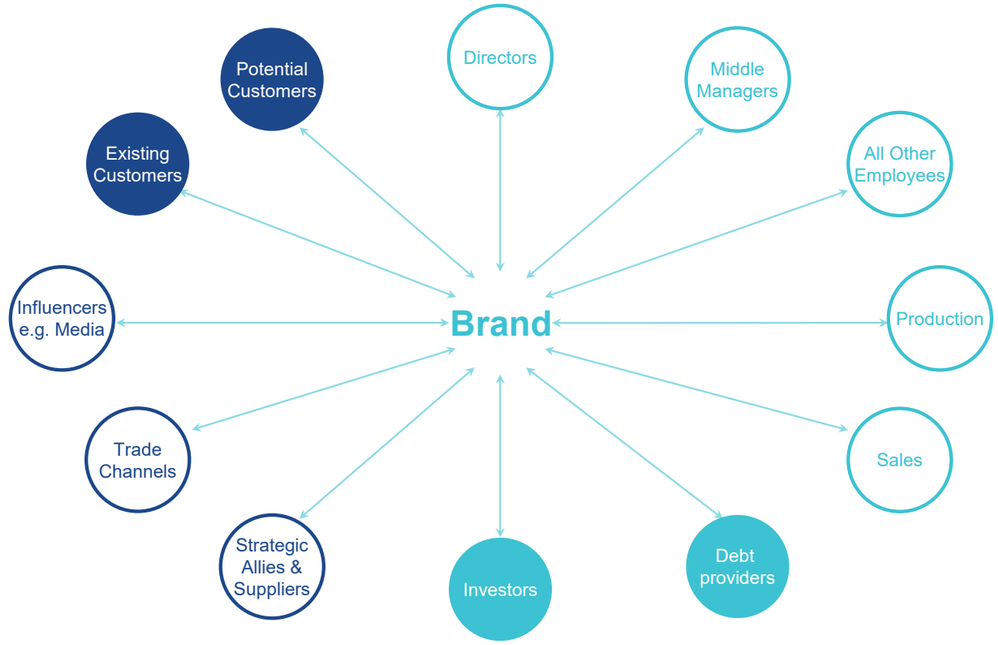
Brand Contribution

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.

Effect of a Brand on Stakeholders



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 those 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.

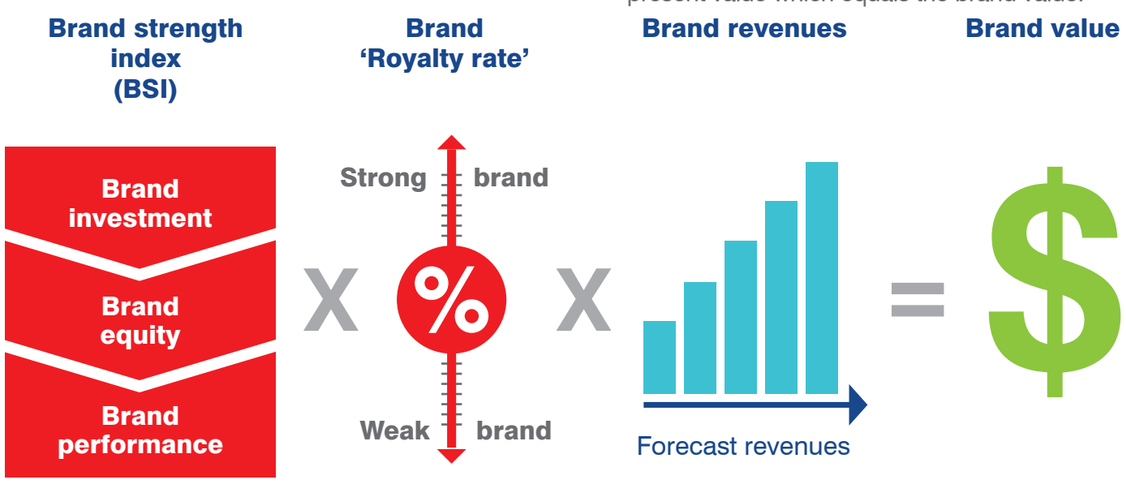
Methodology

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.



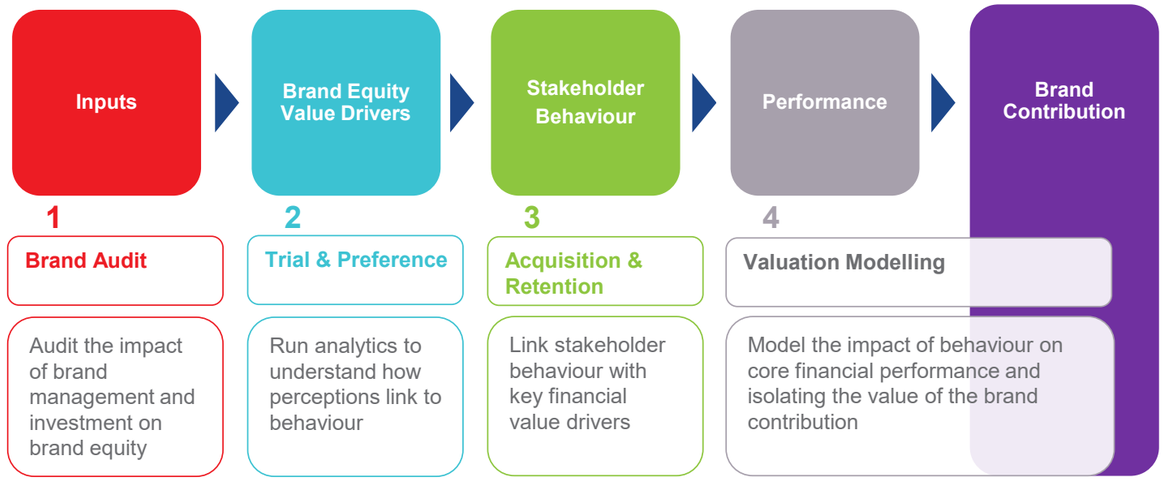
Brand strength expressed as a BSI score out of 100.

BSI score applied to an appropriate sector royalty rate range.

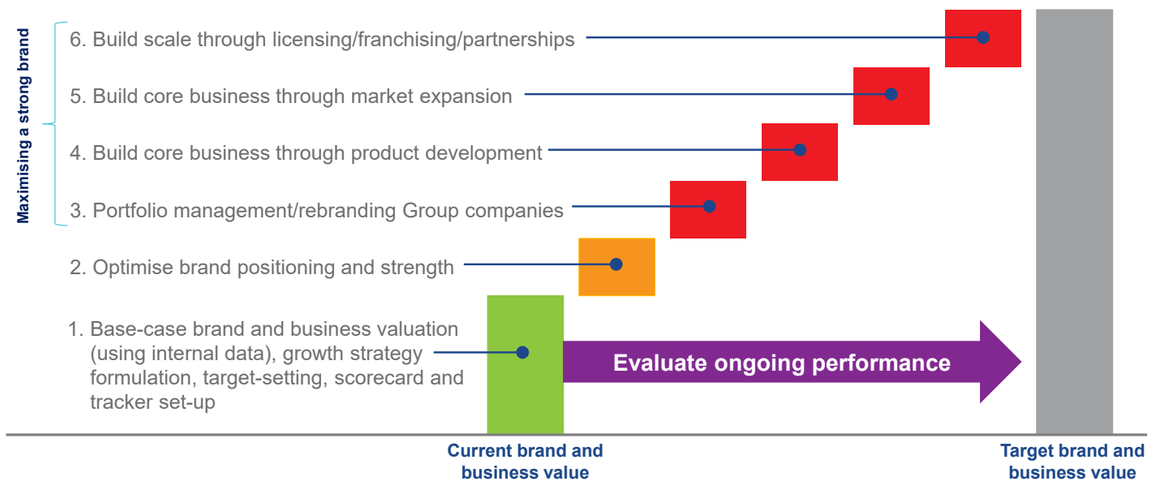
Royalty rate applied to forecast revenues to derive brand values.

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

Brand Finance Typical Project Approach

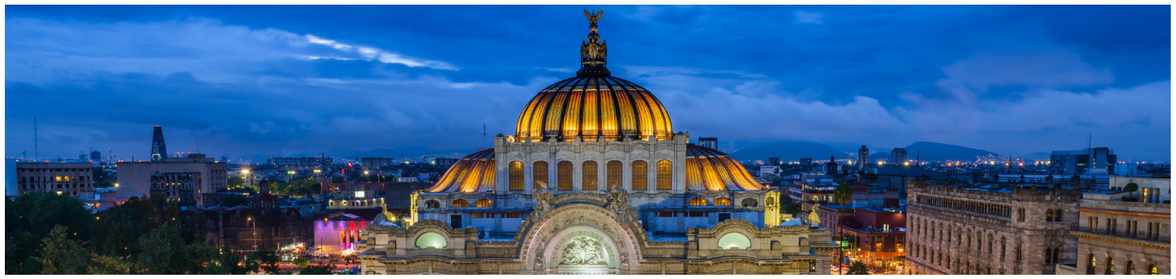


How We Help to Maximise Value



Executive Summary

Mexico 50



OXXO is Mexico's strongest brand and the only one in the country to receive the highest rating of AAA+. The AAA+ rating is assigned to the world's strongest brands and only ten out of the 500 top brands globally can boast this achievement. The nation's largest convenience chain, opened 1,164 new stores in 2016, bringing the total to 15,225. With over 300 gas stations being rebranded as OXXO since last year's liberalization of the energy market, the brand's visibility in the public arena has increased even further. Moreover, the parent company, Femsa, announced it will continue to invest in the OXXO brand, with 50 new gas stations set to open every year. While being the nation's strongest, OXXO is the 6th most valuable in the Brand Finance Mexico 50 study, up 25% to a value of US$2.101 billion.

Pemex, however, is the most valuable Mexican brand, with a value of US$8.477 billion. The brand appears in the Brand Finance Mexico 50 for the first time as the energy reform put an end to 75 years of state monopoly in the oil and gas sector and introduced market conditions that now make Pemex's performance more comparable with that of similar brands worldwide. Although starting from a significantly safer market position than rivals, Pemex has struggled with profitability and now faces newfound challenges as a brand because of deregulation, as consumers welcome the arrival of global competitors.

"As the Mexican oil and gas industry becomes more competitive, for the first time in its history, Pemex must contend for consumer preference. Like in other sectors, the brand will come under increasing pressure to perform," said Brand Finance Mexico Managing Director, Laurence Newell. "There is a new dynamic which both sides of the equation need to understand – Pemex must define what their retail value proposition is, and consumers must ask themselves why they should prefer Pemex."

After Pemex, the top spots of the Brand Finance Mexico 50 2017 ranking go to industry leaders: telecommunications giant, Telcel (2), valued at US$3.552 billion (+16%), and building materials conglomerate, Cemex (3), valued at US$2.938 billion (+3%).

Telecommunications is another sector facing a transformative market dynamic. This year, Iusacell dropped out of the market as a brand, and AT&T – the most valuable global telecommunications brand of 2017 according to Brand Finance's research – made a formal entrance. Telcel will no longer compete only with smaller players, rather it must now hold its own against a global heavyweight.

Year to year, brand values in the Brand Finance Mexico 50 league table grew by an average of 12%. The market's alcoholic beverages sector is one of the strongest in the table. Six of Mexico's most valuable brands belong to the beer category – including new entrants, Tecate (US$1.215 billion), Modelo (US$608 million), Victoria (US$586 million), and Carta Blanca (US$491 million). However, with a brand value of US$2.394 billion, Corona Extra remains the nation's most valuable beer brand, defending the fourth position in the Brand Finance Mexico 50 overall. Notably, all of the big Mexican beer brands are now part of the brand portfolios of two industry giants, AB InBev SA NV, which in fact controls 11 of the world's 25 most valuable beer brands, and Heineken NV. At the same time, a brand of the country's probably most emblematic alcoholic product, Jose Cuervo enters the list ranked 30th, as Mexico's most valuable spirits brand, estimated at US$473 million.

PEMEX	1	Rank 2017: **1** 2016: **New** BV 2017: **$ 8,477m** BV 2016: **New** Brand Rating: **AAA-**	
telcel	2	Rank 2017: **2** 2016: **1** BV 2017: **$ 3,552m** BV 2016: **$ 3,053m** Brand Rating: **AAA-**	+16%
CEMEX	3	Rank 2017: **3** 2016: **2** BV 2017: **$ 2,938m** BV 2016: **$ 2,844m** Brand Rating: **AA+**	+3%
Corona Extra	4	Rank 2017: **4** 2016: **4** BV 2017: **$ 2,394m** BV 2016: **$ 1,972m** Brand Rating: **AA+**	+21%
BIMBO	5	Rank 2017: **5** 2016: **3** BV 2017: **$ 2,199m** BV 2016: **$ 2,335m** Brand Rating: **AAA-**	-6%
OXXO	6	Rank 2017: **6** 2016: **5** BV 2017: **$ 2,101m** BV 2016: **$ 1,678m** Brand Rating: **AAA+**	+25%
citibanamex	7	Rank 2017: **7** 2016: **7** BV 2017: **$ 1,915m** BV 2016: **$ 1,548m** Brand Rating: **AA+**	+24%
BodegaAurrera	8	Rank 2017: **8** 2016: **New** BV 2017: **$ 1,829m** BV 2016: **New** Brand Rating: **A**	
TELMEX	9	Rank 2017: **9** 2016: **6** BV 2017: **$ 1,690m** BV 2016: **$ 1,650m** Brand Rating: **AA+**	+2%
Coca-Cola FEMSA	10	Rank 2017: **10** 2016: **12** BV 2017: **$ 1,635m** BV 2016: **$ 1,228m** Brand Rating: **AA**	+33%

Executive Summary



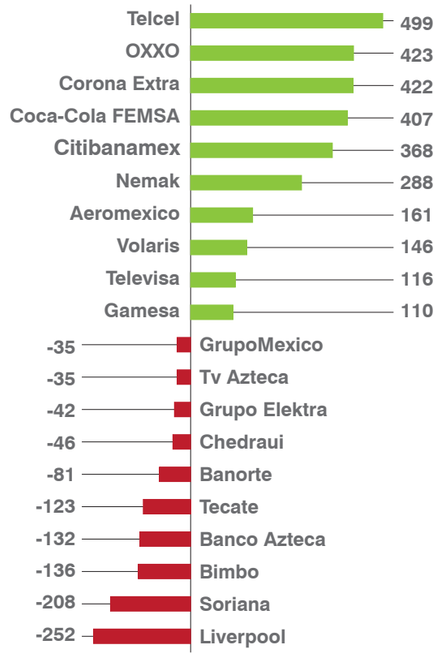
Bank brands feature prominently in this year's Brand Finance Mexico 50. Citibanamex is valued at US$1.915 billion, in a year in which the brand is undergoing the important transition from Banamex to Citibanamex. Other bank brands on the list include Banorte (US$1.409 billion), Inbursa (US$511 million), Banco Azteca (US$328 million), and Compartamos Banco (US$238 million).

Mexico's retail sector is the largest generator of brand value. This year's list includes 9 retailers, with brands that total US$7.788 billion dollars in value, and include players such as Walmex's Bodega Aurrerá (US$1.829 billion) and La Comer (US$271 million).

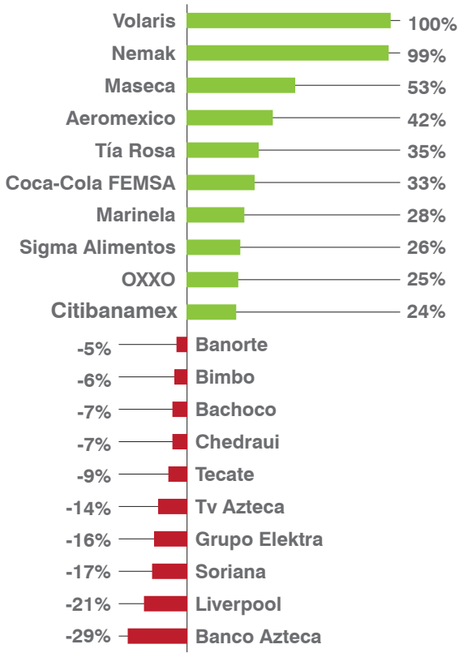
Separately, Grupo Bimbo's brand portfolio continues to spearhead the food industry in terms of brand value. In addition to the corporate brand, Brand Finance Mexico 50 2017 also ranks 2 of the multinational bakery's product lines. Another brand to watch over the coming years in this sector is Lala (US$725 million). The country's top dairy company, which operates production and distribution plants nationwide, is looking to fuel organic growth and is moving into new markets, including the US and Central America; it recently announced a $30 million dollar investment to build a dairy plant in Guatemala.

2017 has been a year of transformation for Mexico's brand landscape, and under these circumstances, metrics such as brand valuation set a clear baseline that helps stakeholders understand how their asset contributes to the business. Going forward, brands must reexamine the virtues of strategy, positioning, and measurement, to understand how to generate value in the long run and what to do strategically to consolidate and extend that value.

Brand Value Change 2016-2017 (USDm)



Brand Value Change 2016-2017 (%)





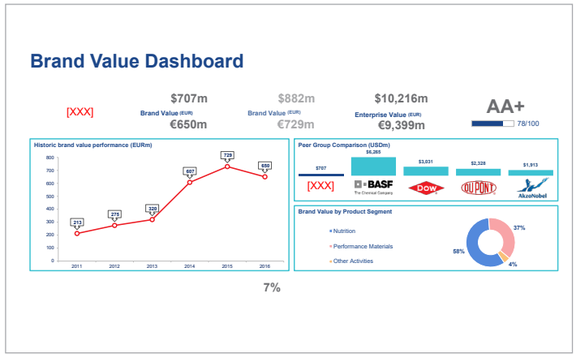
Brand Finance Mexico 50 (USDm)

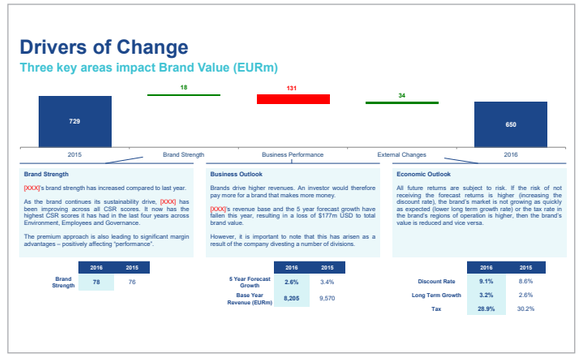
Top 50 most valuable Mexican brands 1 - 50.

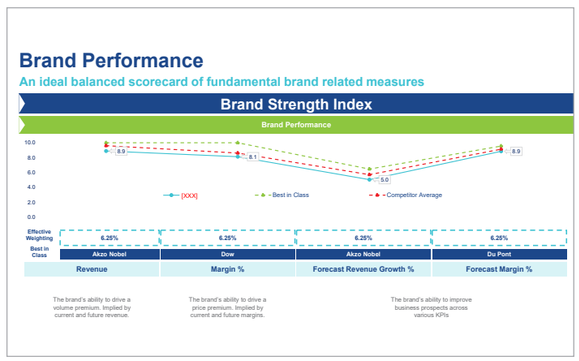
Rank 2017	Rank 2016	Brand name	Sector	Brand value (USDm) 2017	% change	Brand value (USDm) 2016	Brand rating 2017	Brand rating 2016
1	New	PEMEX	Oil & Gas	8,477			AAA-	
2	1	Telcel	Telecoms	3,552	16%	3,053	AAA-	AA+
3	2	Cemex	Engineering & Construction	2,938	3%	2,844	AA+	AA
4	4	Corona Extra	Beers	2,394	21%	1,972	AA+	AA+
5	3	Bimbo	Food	2,199	-6%	2,335	AAA-	AA+
6	5	OXXO	Retail	2,101	25%	1,678	AAA+	AA
7	7	Citibanamex	Banks	1,915	24%	1,548	AA+	AAA-
8	New	Bodega Aurrera	Retail	1,829			A	
9	6	Telmex	Telecoms	1,690	2%	1,650	AA+	AA+
10	12	Coca-Cola FEMSA	Non Alcoholic Drinks	1,635	33%	1,228	AA	AA+
11	9	Televisa						
12	8	Banorte						
13	New	Tecate						
14	13	Gamesa						
15	10	Soriana						
16	11	Liverpool						
17	15	Sol						
18	New	Arca						
19	17	Lala						
20	16	GrupoMexico						
21	18	Chedraui						
22	New	Modelo						
23	New	Victoria						
24	29	Nemak						
25	23	Aeromexico						
26	New	Sanborns						
27	20	Inbursa						
28	New	Carta Blanca						
29	22	izzi						
30	New	Jose Cuervo						
31	25	Mexichem						
32	27	Sigma Alimentos						
33	31	Tía Rosa						
34	New	Sabritas						
35	30	Marinela						
36	26	Condumex						
37	21	Banco Azteca						
38	28	Alpek						
39	45	Volaris						
40	35	Industria Peñoles						
41	33	La Comer						
42	36	Palacio de Hierro						
43	41	Compartamos Banco						
44	40	Megacable						
45	32	Grupo Elektra						
46	39	Herdez						
47	38	Bachoco						
48	37	Tv Azteca						
49	47	Maseca						
50	New	GNP						

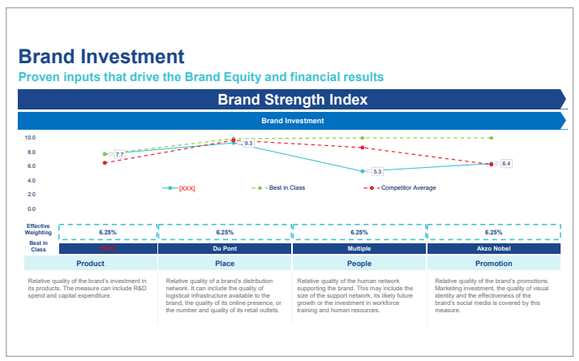


Understand Your Brand's Value









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.

A full report includes the following sections which can also be purchased individually.

Brand Valuation Summary

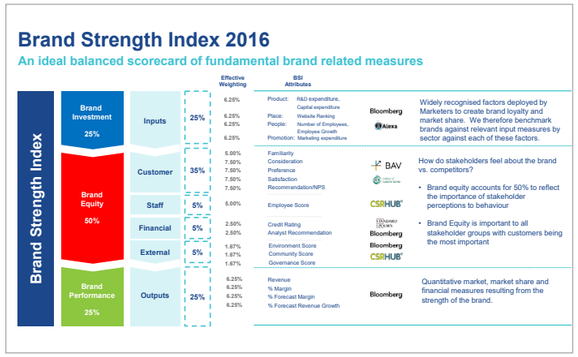
Overview of the brand valuation including executive summary, explanation of changes in brand value and historic and peer group comparisons.

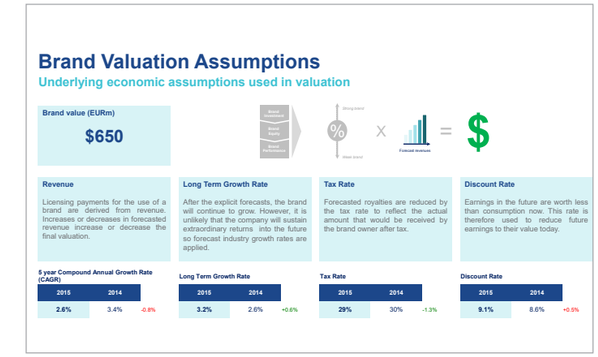
+ Internal understanding of brand
+ Brand value tracking
+ Competitor benchmarking
+ Historical brand value

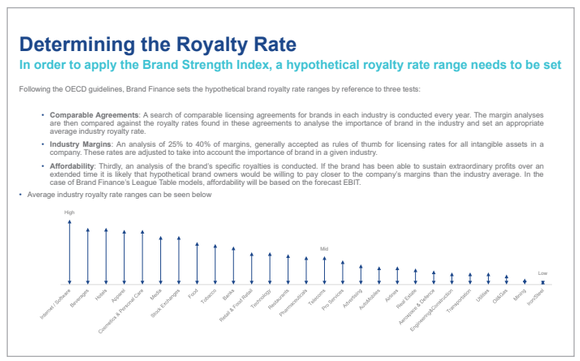
Brand Strength Index

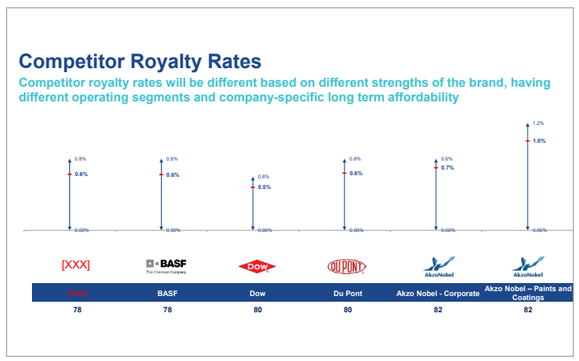
A breakdown of how the brand performed on various metrics of brand strength, benchmarked against competitor brands in a balanced scorecard framework.

+ Brand strength tracking
+ Brand strength analysis
+ Management KPI's
+ Competitor benchmarking









Royalty Rates

Analysis of competitor royalty rates, industry royalty rate ranges and margin analysis used to determine brand specific royalty rate.

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

Cost of Capital

A breakdown of the cost of capital calculation, including risk free rates, brand debt risk premiums and the cost of equity through CAPM.

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

Trademark Audit

Analysis of the current level of protection for the brands word marks and trademark iconography highlighting areas where the marks are in need of protection.

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

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

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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
- Intangible Asset Valuation
- Trademark 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 allow an understanding of how brands create bottom-line impact.

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



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

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

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

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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.

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