



# GIFT 2016

**Global Intangible Financial Tracker 2016**

**An annual review of the world's intangible value**

May 2016

In partnership with:

**CIMA**

Chartered Institute of  
Management Accountants

**IPA**

Institute of Practitioners in  
Advertising

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# Foreword



**David Haigh, CEO  
Brand Finance**

**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 15 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 IFRS3 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 UK 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 UK plc.

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

# Foreword



**Charles Tilley OBE,**  
Chief Executive,  
CIMA

## Accounting for the Business, not just the Balance Sheet

The focus for all organisations should be achieving success over the short, medium and long term.

Quality decision making to create and preserve value for organisations has never been more important or more difficult. Organisations need to account for the whole of the business, not just the balance sheet, to turn risk into opportunity in the face of rapid change and huge complexity.

With continued importance being placed on the value of intangible assets, and with intangible value representing an ever-growing part of an organisation's enterprise value, accounting for the whole of the business helps organisations to take better decisions and to tell their full value creation story.

This global analysis by Brand Finance, in partnership with CIMA and IPA, reinforces the importance of intangibles in decision making and challenges leaders to consider intangible assets and intangible value drivers such as customer satisfaction, quality of business process, customer relationships, quality of people (human capital) and reputation of brands as a precondition of taking decisions to create and preserve value.

All relevant information needs to be brought together, organised on the basis of a shared understanding of the business model, and focused on key performance indicators. Management accounting brings professional rigour to decision making by ensuring that decisions and performance are informed by proper analysis of the relevant management information and that the business is managed

in the long-term interests of its stakeholders, customers and society.

Our Global Management Accounting Principles© provide this framework to help people and businesses to succeed, ensuring that information is influential, relevant and underpins analysis on a basis of trust across and beyond the business. The Principles therefore provide the new operating framework for quality decision making to create and preserve value for the short, medium and long term.

## About CIMA

Taking the best possible decisions to create and preserve value for the short, medium and long term has never been more challenging, more important or richer in opportunity. Management Accounting enables boards and management teams around the world to 'join the dots' bringing together the information they need in the way that they need it to inform strategy formation and execution.

The Chartered Institute of Management Accountants (CIMA) is the world's largest and leading professional body of management accountants. Through our partnership with the American Institute of CPAs (AICPA) we support and give voice to over 150,000 Chartered Global Management Accountants (CGMA) across the globe.

Our members' expertise is rooted in the intensive and rigorous training and practical education provided by the CIMA syllabus which informs critical business decisions and judgments reached every day drawing on our Global Management Accounting Principles and competency framework. CIMA helps people and businesses succeed. We provide CPD services, fund academic research, develop thought leadership, maintain a code of ethics for members and monitor professional standards. We also work with external tuition providers and assessment services to provide an excellent study and examination experience to our customers.

For more information about CIMA and our Global Management Accounting Principles, please visit: [www.cimaglobal.com](http://www.cimaglobal.com) and [www.maprinciples.com](http://www.maprinciples.com).

# Foreword



**Janet Hull,**  
Executive Director  
and Director of  
Marketing Strategy,  
IPA Institute

Evidence-based decision-making for marketing and advertising lies at the heart of the IPA Effectiveness initiative. Our ambition is to provide continuous learning from best practice case examples in order to encourage better business and brand outcomes. We aim to separate myth from reality, using insight from data to inform our thought leadership white papers, events and continuous professional development.

As we approach our centenary in 2017, the IPA is putting ever more resource behind its sustained drive to promote the development of a more coherent effectiveness culture, uniting agencies, marketing and finance.

With the support of 12 industry associations in the UK, an advisory board of 20 top corporates, and a select group of leading global academic institutions, we are taking evidence-based decision-making for marketing upstream, and mainstream, with the creation of an annual Effectiveness Week and the provision of a continuous all-year-round Effectiveness Institute.

That's why we place so much importance on the Brand Finance GIFT™ report, of which we have been long-term supporters. The 2016 Brand Finance Global Intangible Finance Tracker (GIFT™) demonstrates the continued importance of intangibles to value creation for business, and provides a framework for identifying the pathways to sound stewardship of intangible assets, from brands to customers, to employees.

Working with the Chartered Institute of Management Accountants (CIMA) the IPA is leading the debate on how to embed this learning in management culture, when it comes to reporting the value of brands and marketing.

There has never been a more important time to frame the debate about how to deliver intangible value to business. Brands and customers deserve a long, mid and short-term commitment to investment if they are to optimize their business potential.

Creativity is not just a rescue strategy for an underinvested brand. It is the cornerstone for sound business management.

## About the IPA

The IPA is widely recognised as the world's most influential professional body for practitioners in advertising and marketing communications, with a well-earned reputation for international thought leadership, best practice and continuous professional development. Our 311 agencies lead 4,300 brands, employ over 25,000 staff and contribute £17bn in UK spend.

The mission of IPA member agencies is to help client organisations create, develop and deliver value by better servicing the needs and wants of customers.

The evidence of the IPA Databank of winning case studies demonstrates how a long-term commitment and sustained investment in marketing and brands delivers a better return on investment than more stop-start short-term tactical activities. However, the winning combination comes from the pursuit of a mid to long-term brand strategy and programme, enhanced by shorter-term brand activation.

The IPA seeks to lead by example, drawing on practitioner case work submitted for its biennial Effectiveness Awards and ongoing IPA SocialWorks project to inform its thought leadership practice. We created the IPA Eff Test, an online learning programme that promotes the comprehension of, and engagement with, planning as the USP of agencies, and our IPA Effectiveness Leadership Group provides a quarterly sounding board for its programmes.

For more information about IPA effectiveness visit [www.ipa.co.uk/effectiveness](http://www.ipa.co.uk/effectiveness).

# 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.

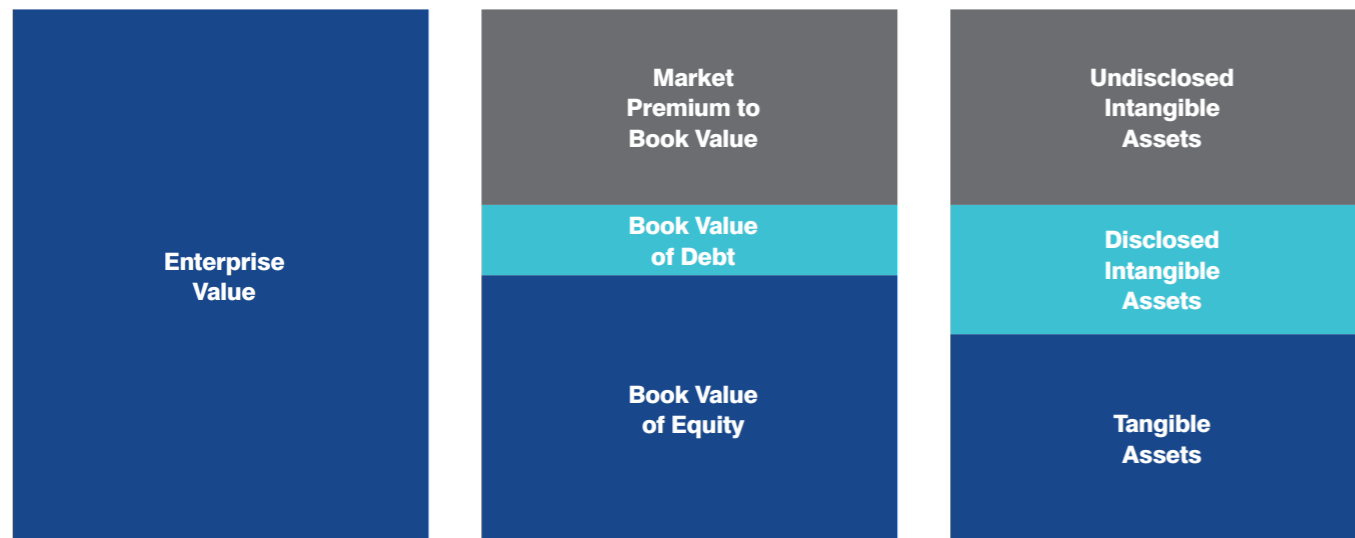
**3 Intellectual property.** Patents; copyrights; trademarks; proprietary technology (for example, formulas, recipes, specifications, formulations, training programmes, marketing strategies, artistic techniques, customer lists, demographic studies,

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 IFRS3 in Europe, and FAS141 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's 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,	Computer software	Books, magazines, newspapers and other literary works
Trade dress (unique colour, shape, or package design)	Customer contracts & related customer relationships	service or supply contracts	and mask works	Musical works such as compositions, song lyrics and advertising jingles
Newspaper		Lease agreements	Unpatented	Pictures and photographs
Mastheads	Non-contractual customer relationships*	Construction Permits	Technology*	Video and audio-visual material, including films, music, videos etc
Internet domain Names		Permits	Databases*	
Non-competition agreements		Franchise agreements	Trade secrets, such as secret formulas,	
		Operating and broadcast rights	processes, recipes	
		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 FAS141 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 IFRS3 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 domestic 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 international consensus amongst auditors and accounting standards setters is 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 asset 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.

# Introduction

# GIFT 2016



**Global Intangible Finance Tracker (GIFT) is an annual review of the world's intangible value produced by Brand Finance in partnership with CIMA and IPA. This major analysis reinforces the importance of intangibles - reputation, brands, intellectual property - and challenges those leading the debate on our economic policy.**

Behind the strongest and most valuable global economies are strong brands. In the world's leading economies, intangible assets, such as brands, people, know-how, relationships and other intellectual property now make up a greater proportion of the total value of most businesses than tangible assets, such as plant, machinery and property.

Strong brands create high 'brand equity' with customers, allowing a business to charge a

premium for its product or services, sell greater volumes than its competitors and promote brand loyalty. This creates shareholder and business value. However, as important as these intangible assets are, many CEOs, CFOs and CMOs do not have an adequate understanding of how their brand and customer bases impact the value of their businesses.

This year's GIFT study covers more than 57,000 companies domiciled in 160+ jurisdictions. For the purpose of the study around 14,000 entities were excluded from the sample due to lack of disclosed information or consolidated reporting as part of a larger group. The total Enterprise value of corporates under the scope of the study was \$89 trillion of which \$46.8 trillion represented Net Tangible Assets (NTA), \$11.8 trillion Disclosed Intangible Assets including Goodwill and \$30.1 trillion 'Undisclosed Value'.

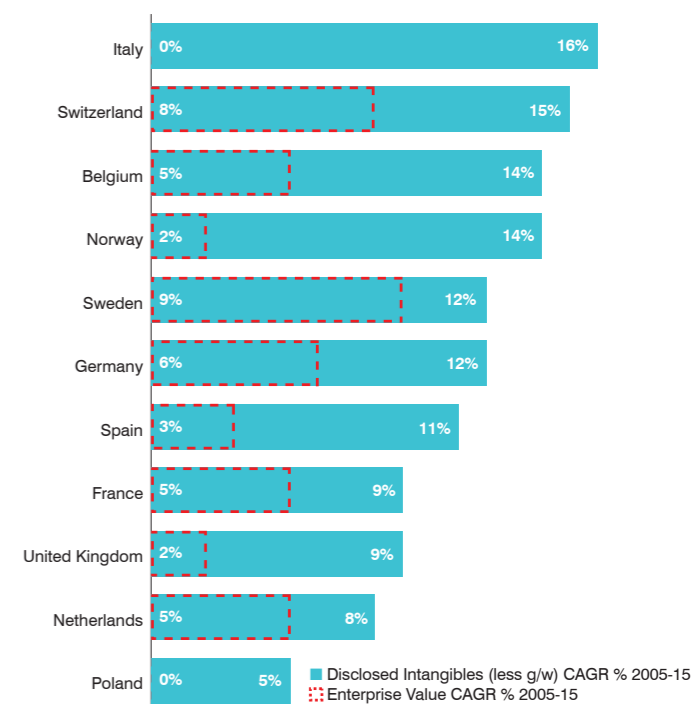
# Reporting: Recent Developments

Financial reporting for intangible assets and goodwill has changed dramatically over the last decade. With the advent of IFRS 3 a more robust framework for the recognition of various intangibles was created. Since the adoption of IFRS 3 and IAS 38 in most European countries in 2005, the value of disclosed intangibles has surpassed that of overall business value, with the CAGR of intangible assets, excluding goodwill, being as high as 16% in Italy and 15% in Switzerland. In the meantime the overall Enterprise Value in these two countries has grown by 0% and 8% CAGR respectively. This significant gap suggests that, with the adoption of IFRS, companies are increasingly recognising more intangible value on their balance sheets, thus providing a better picture of their business and improving transparency of corporate reporting.

Although IFRS 3 and IAS 38 represented an important step towards the recognition of intangible value on companies' balance sheets, a large proportion of total intangible value within these countries remains unaccounted for. In Belgium, for example, the undisclosed value in 2015 stands at 41% of total business value, in Switzerland the ratio is 42%, while in Denmark an astounding 61%.

One key area for future development of these two standards is the recognition of internally created intangibles such as trademarks, brands and customer-related assets. At present companies are not allowed to disclose the values of such intangibles on their balance sheets, since they are internally created. Nonetheless when an acquisition takes place IFRS requires that intangible assets of the acquired company to be recognised on the group's balance sheet at their fair value. This creates an inconsistency in financial reporting by allowing intangible value to be recognised on the balance sheets, but only if a transaction has taken place.

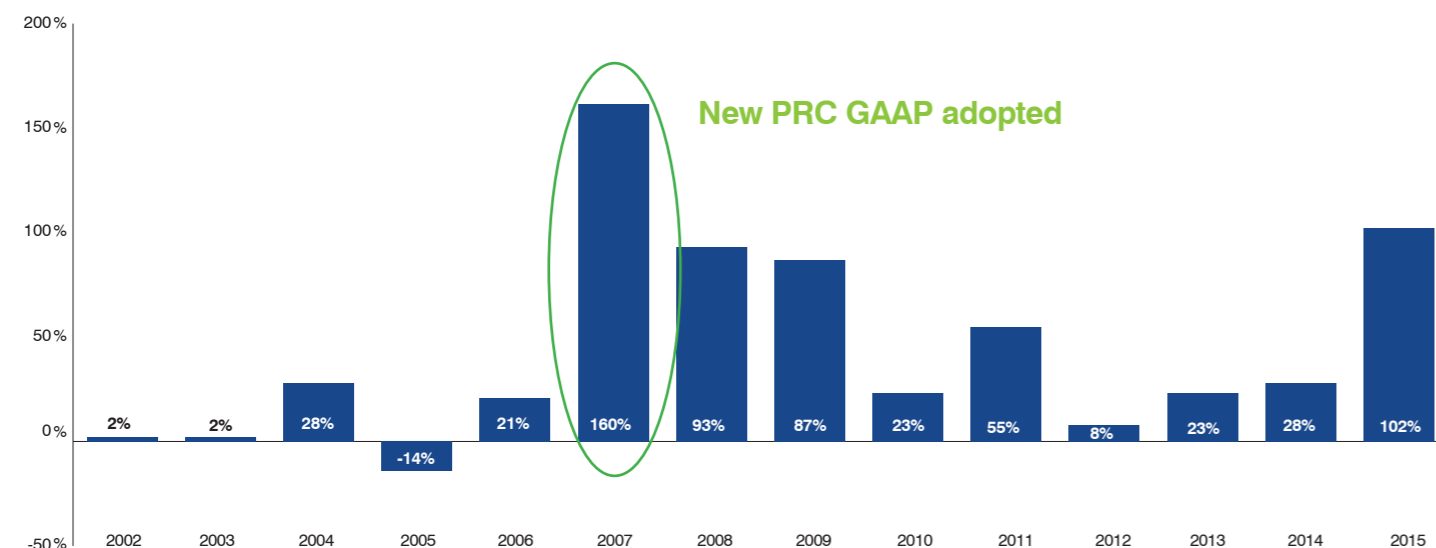
**Disclosed Intangibles Assets vs. Enterprise Value CAGR % 2005 - 2015**



As China has been trying to shift away from capital intensive industries to more technologically advanced and highly intangible sectors it has issued a set of new accounting standards, commonly referred as the New PRC GAAP. Since the official adoption of the standard in 2007, its application has been gradually expanding to different sectors and SME companies. In relation to intangible assets the new PRC standard introduced significant changes aiming to capture more accurately the value of both internally created and externally acquired intangible assets.

# Reporting: Recent Developments

Disclosed Intangibles (exc. g/w) growth rate year-on-year



Unlike the Old PRC GAAP, the new set of standards requires that:

- Intangible assets with indefinite useful lives should not be amortised
- Expenditures incurred during the development phase to be capitalised as an intangible asset
- Value of intangible assets contributed by investors should be measured at fair value where the value stated in the contract differs from the fair value estimate

As a result in 2007 total disclosed intangibles (excluding goodwill) skyrocketed by 160%, followed by another two years of astounding growth at rates of 93% and 87%. This clearly shows that since the adoption of the New PRC GAAP, intangible value has been slowly catching up with the overall growth of Chinese businesses. Nonetheless disclosed intangible value relative to overall Enterprise value in China currently stands at 4%, which is significantly lower than the 14% proportion globally.

The strong emphasis on intangible assets in the

New PRC GAAP clearly shows the Chinese authorities intend to promote the recognition of intangible assets on balance sheets and improve transparency in financial reporting.

## Survey Reveals Demand for Greater Transparency

This year Brand Finance, in partnership with the Institute of Practitioners in Advertising (IPA), recommissioned a survey of equity analysts originally undertaken in 2001 to determine whether opinions over the impact of brands has changed, and whether intangible assets should be included in annual reports. The survey was also extended by CIMA to include the views of CFOs.

It is clear that the importance of brands in financial decisions and reporting has increased significantly since 2001 in the minds of the equity analysts (see table to the right).

The CFOs broadly followed the equity analysts' impressions of the importance of brands, in many cases feeling even more strongly about the importance of providing greater information about brands in financial reporting.

Perhaps unsurprisingly, there was general agreement that intangible assets should be reported in the balance sheet following an acquisition, with approximately 80% of both groups in agreement. More significant were the answers to the two subsequent questions.

68% of analysts and 58% of CFOs thought all internally generated brands should be separately included in the balance sheet and that all intangibles should be revalued each year. However

IAS 38 currently forbids such a step. With such strong support for a change from CFOs, analysts and other groups such as the Marketing Accountability Standards Board, surely it is time for a revolution in the reporting of intangible assets.

There was also widespread support that not only should internally generated assets be valued, but that these and all intangibles should be revalued annually to better reflect Fair Value. 68% of analysts felt this way versus 56% in 2001, reflecting a growing consensus.

As for who should conduct these valuations, a majority saw third parties (such as Brand Finance) to be the most appropriate choice.

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

	2001 Analysts	2016 Analysts	2016 CFOs
<b>Agree that brands are becoming more important in...</b>			
...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%

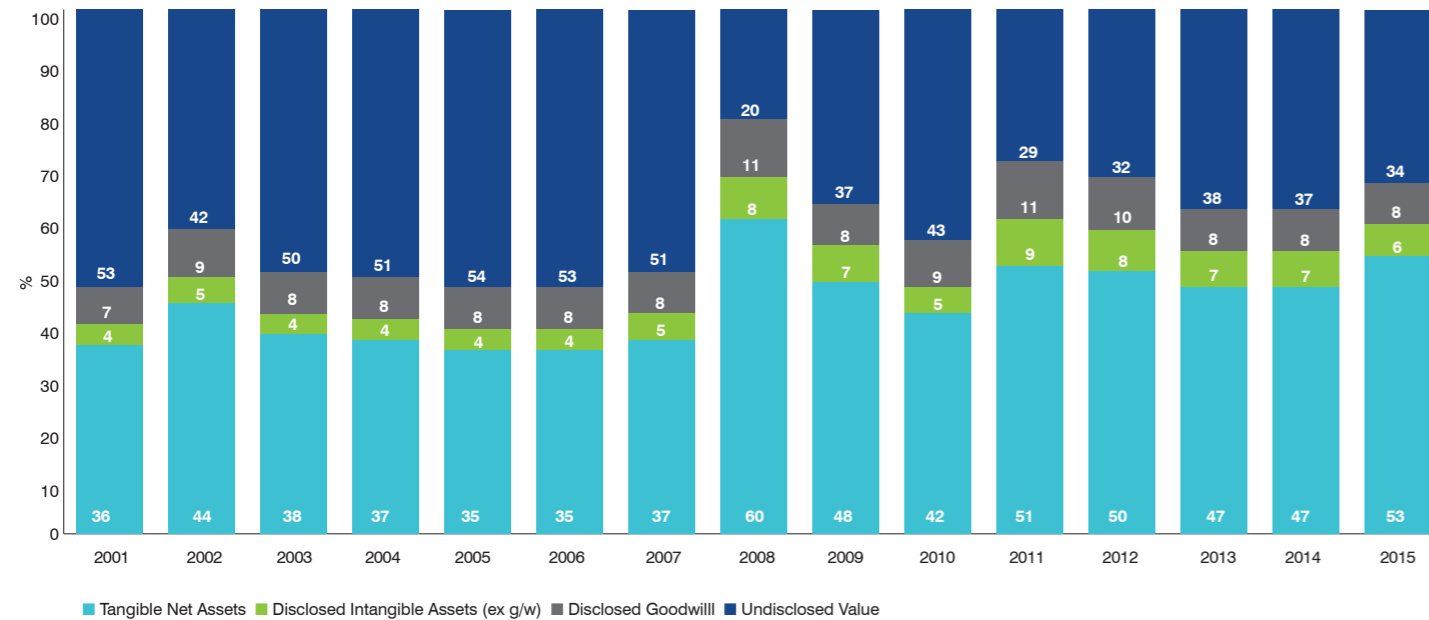
Global brands will inevitably push out local brands	41%	34%	32%
Emerging market brands will inevitably push out global brands		16%	16%

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%

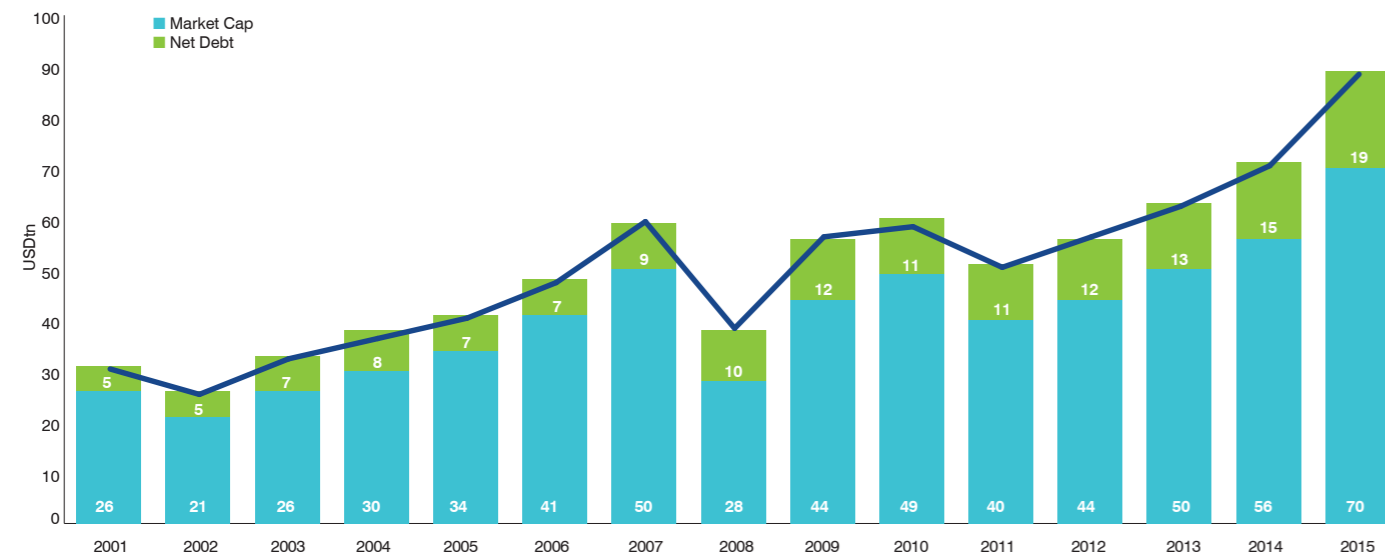
<b>Who should prepare the valuations of intangible assets that are included in annual financial accounts?</b>			
Independent third party intangible asset valuers		58%	46%
Intangible asset valuers working for the company's auditors		29%	19%
Staff and directors of the companies concerned		11%	30%
Other		2%	5%

# Executive Summary: 2015/16 Trends

Global Enterprise Value Breakdown (%)



Total Global Enterprise Value Over Time



Commodity-based industries were hit the hardest during 2015, with the Mining sector's total disclosed intangibles decreasing by as much as 27% year-on-year. The iron & steel, oil & gas and metal fabricate industries noted large drops in intangible value. Nevertheless this is largely attributed to the business cycle stage and

overproduction over the last couple of years which resulted in unprecedented falls in commodity prices and a resulting dip in the market cap in these industries.

The reported asset values, both tangible and intangible, tied up in the iron and steel sector

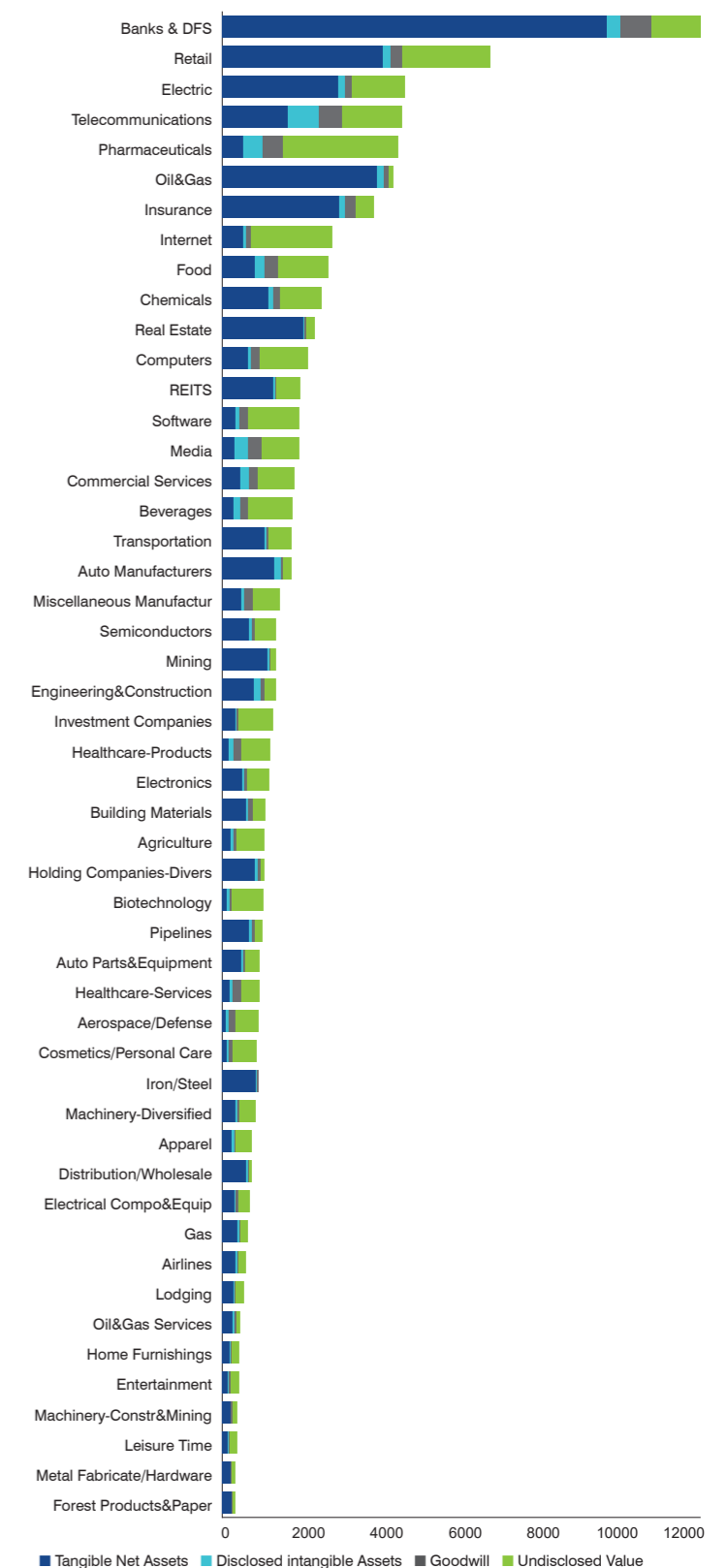
exceeded market cap by 8%. If one looks at it on a company-by-company basis, of the 565 iron and steel companies in our analysis, 60% had tangible assets in excess of their market cap. The oil and gas sector continued to deteriorate over the last year with total value of disclosed intangibles (including goodwill) falling by 23% in total, and 22% of the companies in this sector having negative intangible value. Total Goodwill impairment for the sector stands at \$11.5bn or close to 13% of the total goodwill within the industry. A further drop in the proportion of intangibles in this sector is to be expected if oil prices fail to rebound over the course of 2016.

Despite the slight drop of 0.4% in disclosed intangible assets (excluding goodwill) the telecoms sector continues to dominate in absolute terms with total disclosed intangible value currently standing at \$707bn. Goodwill within the sector on the other hand noted a 7% increase year on year, suggesting that telecom carriers are either paying large premiums for acquisitions in their intensified competition for market share or simply bundling together various intangible assets within overall value of goodwill.

Gripped by a consolidation wave, the Pharmaceuticals sector is currently the second highest in absolute value of intangible assets and the fourth highest as a proportion of the industry Enterprise Value. The proportion of disclosed intangible assets within the sector has been steadily increasing from 2% in 2001 to almost 12% in 2015.

When compared to last year, Healthcare was the industry experiencing one of the largest increases in total intangible value. Both goodwill and other intangibles doubled over the course of 2015.

Top 50 Sectors by EV (US\$ billion)





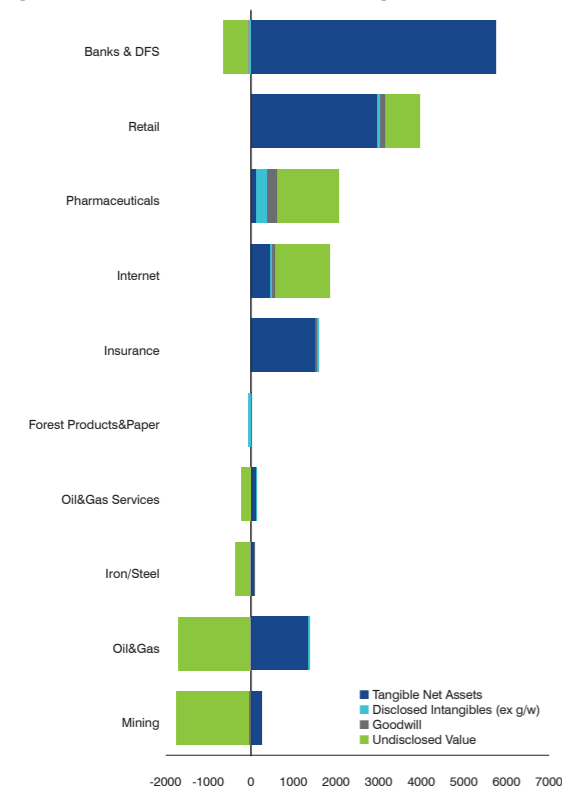
# Executive Summary: 2015/16 Trends

Advertising remains as the most intangible industry with tangible assets comprising only 9% of the overall Enterprise Value. The sector is also characterised by having the highest proportion (83%) of goodwill relative to all disclosed intangible assets.

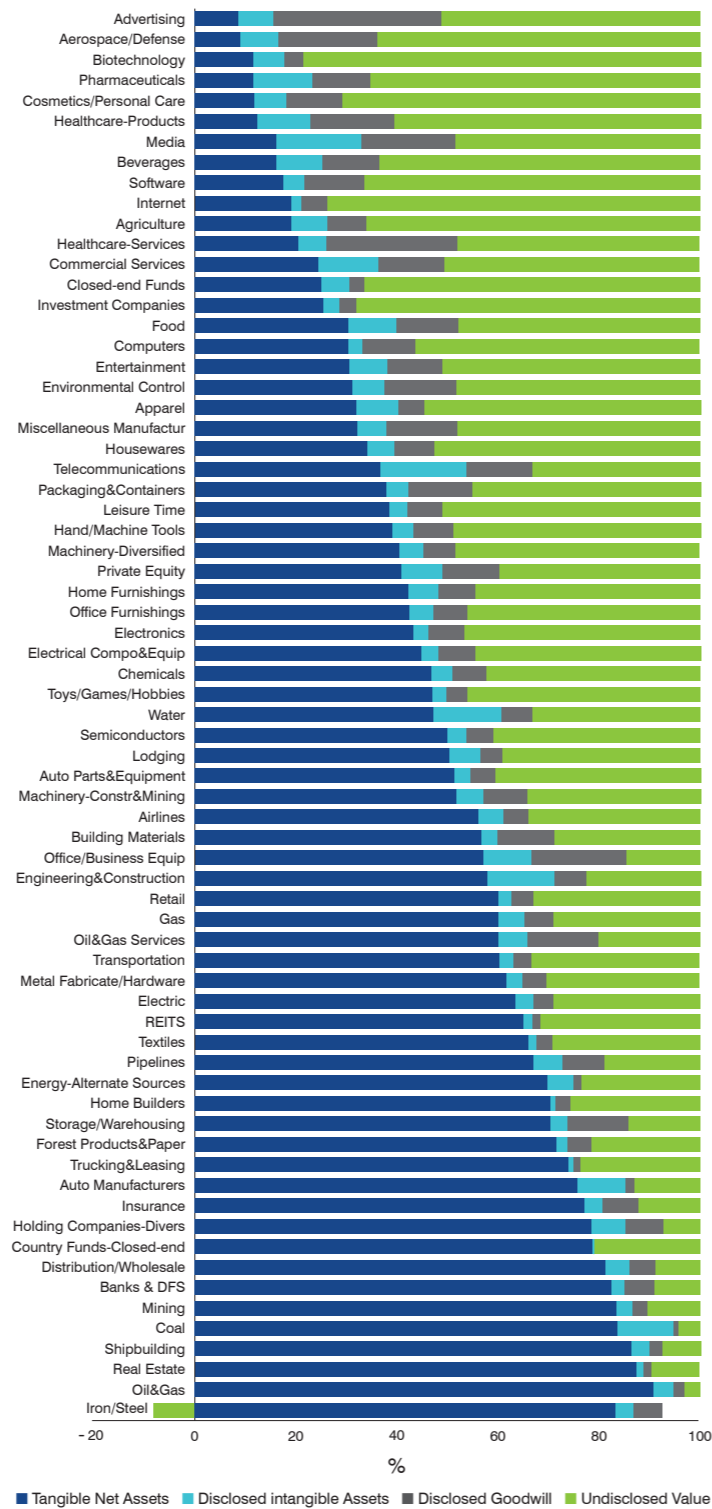
At the other end of the scale, the most tangible sectors are predominantly commodity-related, with iron & steel being the only one with negative undisclosed intangibles value, suggesting that significant impairments/write offs of tangible assets could be expected.

Over the last 5 years the financial sector saw the largest increase in total Enterprise value, mainly driven by massive QE undertaken by the central banks around the globe. A closer look at financial institutions' balance sheets shows an actual decrease of disclosed intangibles of more than \$500m over the period under review.

## Top 5 and Bottom 5 Sectors by EV Δ (2009 - 2015, US\$ billion)



## Sectors by Enterprise Value (% split)



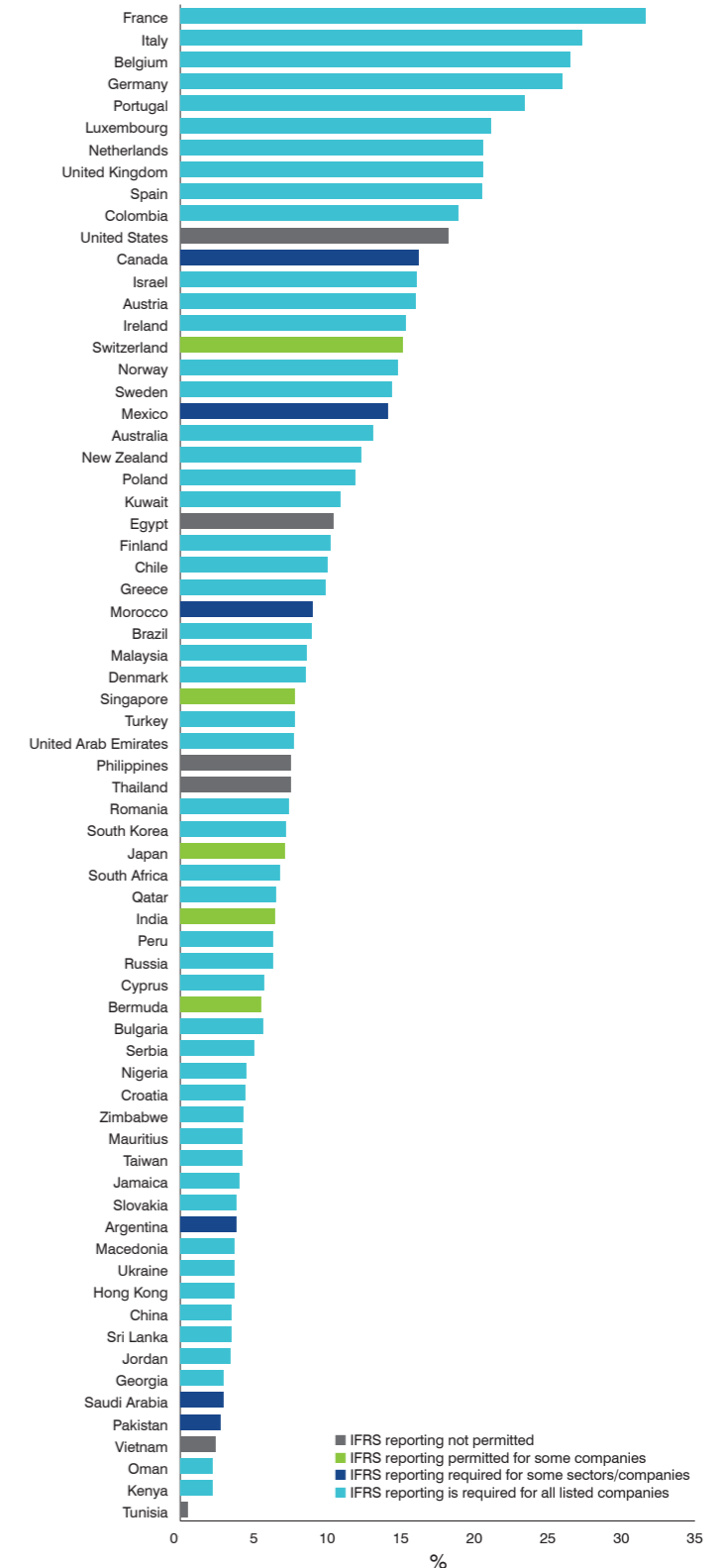
There were no significant movements in proportions of disclosed intangibles to total enterprise values on a national level. France, Italy, Belgium, Germany and Portugal remain as the top 5 most "intangible" countries in the world. Disclosed intangible assets of French companies are little changed from the year before, currently stated at 32% compared to 35% in 2014, while those of Belgium companies fell to 26% from 32% in 2014.

Almost all jurisdictions within the top most intangible nations require full compliance with IFRS by all domestic listed companies and are classified as innovation-driven economies by the OECD. The only exception is Colombia, which only recently adopted the IFRS, and is characterised as an efficiency-driven economy.

Some of the biggest increases in disclosed intangibles relative to enterprise value within the European Union were reported in Germany (2%), Switzerland (2%) and Netherlands (1%), while at the other end Belgium, Denmark, France and Portugal disclosed intangibles decreased between 4%-5% relative to overall business values. In France and Denmark the drop was primarily due to a significant drop in overall M&A transactions taking place in 2015, while in France considerable goodwill impairments and the merger of Lafarge and Holcim put further pressure on the country's disclosed intangibles.

China, despite still appearing towards the bottom of the rankings, showed a large jump in disclosed intangibles over the last year, going up from \$189bn in 2014 to \$406bn in the current period. The total number of M&A transactions in the country remained high, while the total Enterprise Value of Chinese companies continued to grow. This trend in disclosed intangibles is expected to continue in the future as the country's Ministry of Finance gradually expands the application of the new PRC GAAP.

## Most Intangible Nations - Disclosed Intangibles (%)



# Executive Summary: 2015/16 Trends

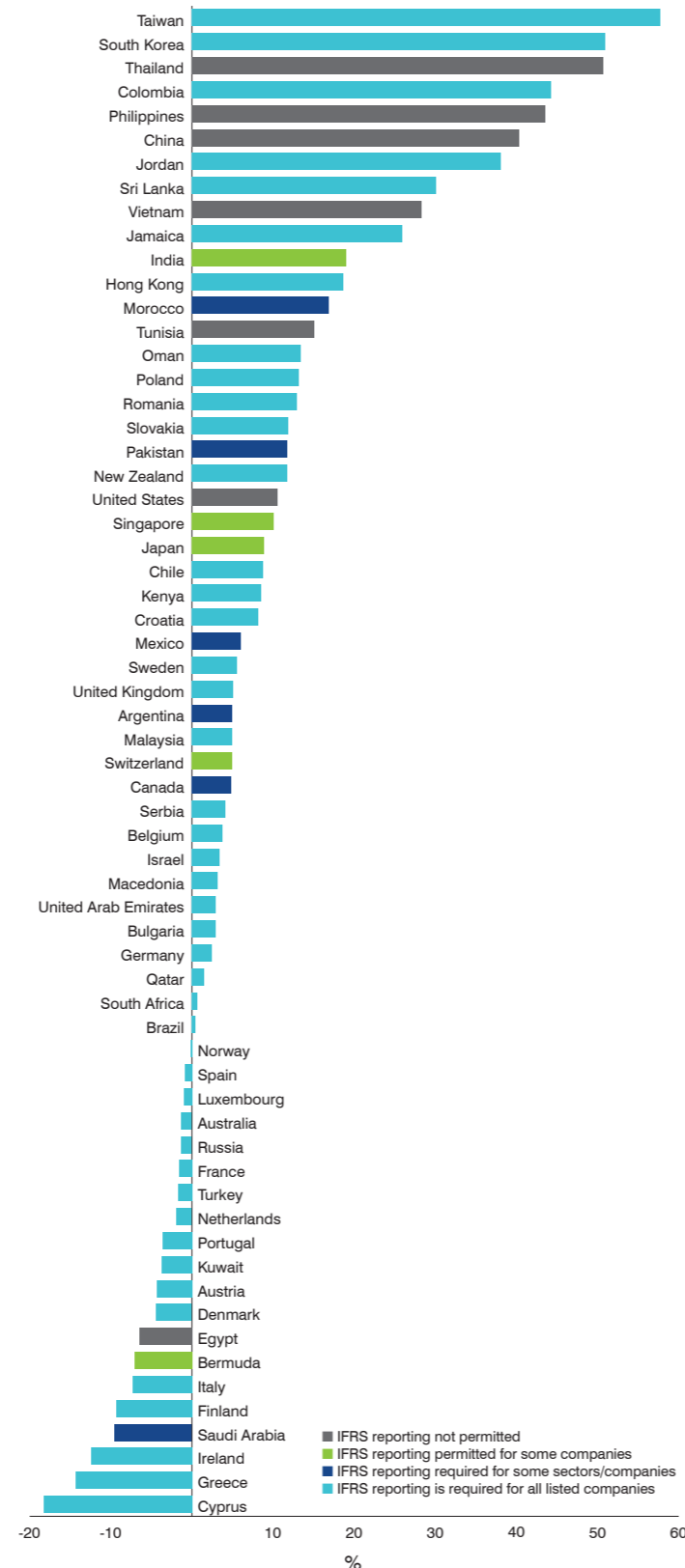
When reviewing the total amount of disclosed intangibles and how these have changed over the past 5 years, Taiwan appears as the highest growing country with an impressive CAGR of 58%, followed by South Korea and Thailand with 51% each.

From the jurisdictions that do not permit IFRS, Vietnam Accounting Standards (VAS) differ the most from the IFRS framework. Under VAS, entities should amortise intangible assets over a useful life of no longer than 20 years, unless there is evidence that a longer period is appropriate. Companies should also recognise intangible assets at cost less accumulated amortisation. As a result the country experienced a gap between goodwill growth and the increase in other intangible assets, with the former growing at 54% CAGR and the latter at 12%.

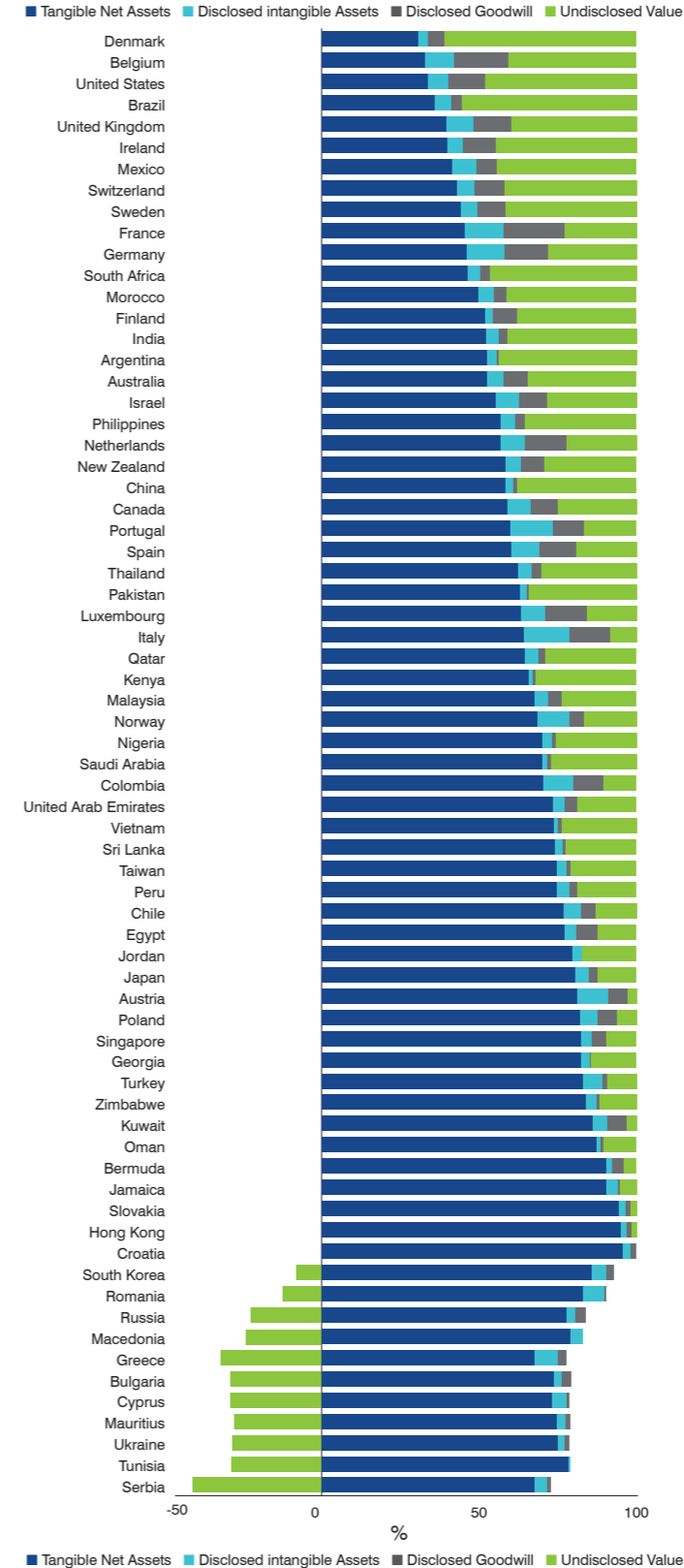
The fastest rate of decline in intangible value over the 2010-15 period was registered by Cyprus, followed by Greece and Ireland. All three countries were heavily damaged by the European Sovereign crisis and although in the case of Ireland capital inflow returned back to the country the amount of disclosed intangibles remains low.

Finland and Italy were also among the biggest losers of intangible value since 2010. Finland's disclosed intangibles continued to decline as the country's champion of intangibles, Nokia, completed the sale of its mapping service 'HERE' following the earlier sale of its mobile phones division and all IP associated with it.

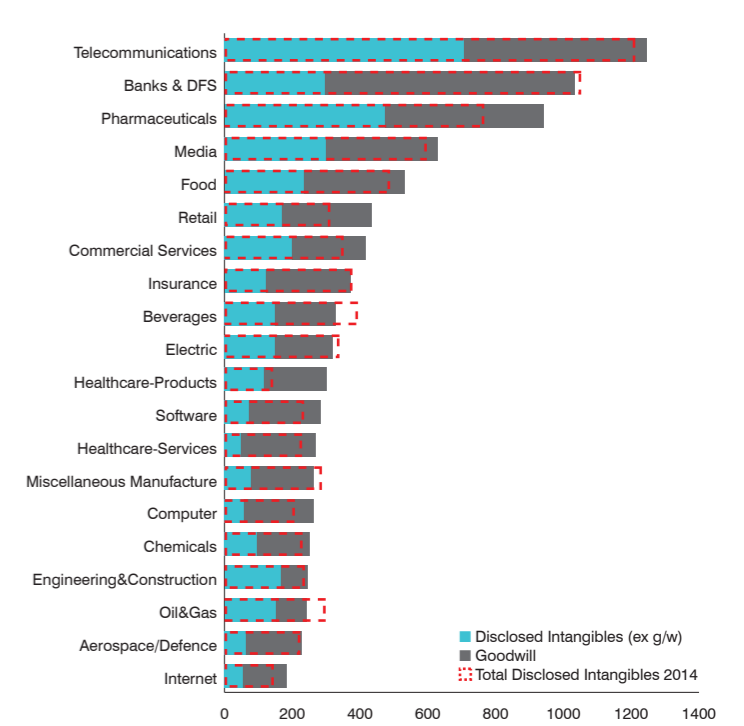
**Fastest Growth in Intangibles (CAGR 2010 - 2015)**



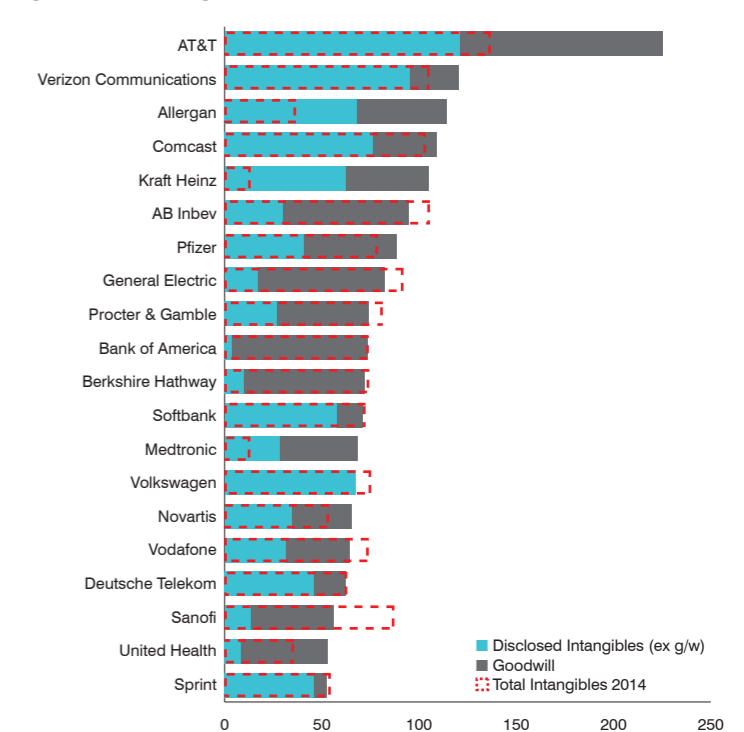
**Most Intangible Countries (%)**



**Top 20 Sectors - Disclosed Intangibles (US\$ billion)**



**Top 20 Companies - Disclosed Intangibles (US\$ billion)**



# Implications for M&A and Tax

## Recent Acquisition Trends

	Global Acquisitions (US\$ billion)						
	2009	2010	2011	2012	2013	2014	2015
<b>Deal Value (US\$ billion)</b>	1,355	1,674	1,957	1,778	1,843	2,061	1,691
<b>Growth</b>		24%	17%	-9%	4%	12%	-18%
<b>Deal Volume</b>	4,603	5,945	6,513	6,096	6,183	5,631	7,944
<b>Growth</b>		29%	10%	-6%	1%	-9%	41%

Source: Bloomberg

The total value of acquisitions in 2015 fell by 18% compared to the previous year, however the total volume of acquisitions increased significantly compared to 2015 suggesting a lower average deal size.

	Total Acquisitions (US\$ billion)							
Country	2009	2010	2011	2012	2013	2014	2015	yoy %
<b>United States</b>	412	613	606	742	608	938	727	-23%
<b>United Kingdom</b>	68	80	147	77	96	119	62	-48%
<b>Canada</b>	56	62	76	81	83	104	99	-4%
<b>China</b>	67	73	106	89	118	91	149	63%
<b>Germany</b>	54	34	32	49	23	76	27	-64%
<b>Japan</b>	62	88	94	121	122	63	70	12%
<b>Singapore</b>	6	23	15	11	15	43	20	-54%
<b>France</b>	52	28	97	35	27	39	20	-48%
<b>Hong Kong</b>	26	34	30	16	32	32	70	118%
<b>Switzerland</b>	61	48	35	33	53	32	12	-62%

Source: Bloomberg

Although the US dwarfs all other regions in terms of total value, the growth rate in the country is negative and particularly low when compared to that in Hong Kong and China. Total value of acquisitions in Hong Kong more than doubled in 2015 reaching \$70bn, while in China it reached \$149bn thus surpassing United Kingdom and Canada.

		Target Region					
		North America	South America	Europe	Asia Pacific	Africa	Middle East
Acquiring Region	North America	88%	1%	10%	1%	0%	0%
	South America	1%	51%	39%	9%	0%	0%
	Europe	36%	3%	55%	6%	1%	0%
	Asia Pacific	10%	5%	5%	80%	0%	0%
	Africa	6%	2%	27%	1%	64%	0%
	Middle East	0%	0%	48%	4%	4%	44%

Source: Bloomberg

## Acquisition case studies

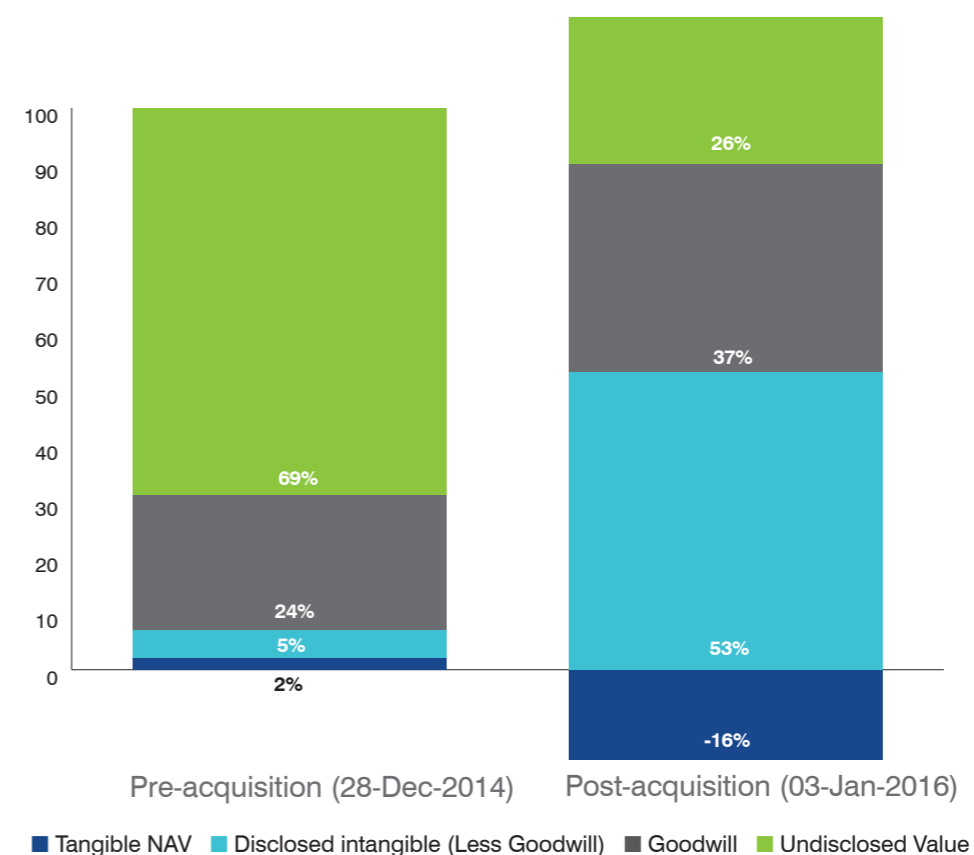
### (1) Kraft-Heinz

In 2015, Berkshire Hathaway and 3G capital completed the merger of Kraft Foods Group and H.J. Heinz Company. The total purchase consideration of \$55bn, included a recognition of an unprecedented amount of intangible assets and more specifically trademarks. These included some of the most renowned food brands such as Kraft, Oscar Mayer and Planters nuts.

The preliminary purchase price allocation of Kraft Foods included \$45bn of indefinite-lived and \$1.7bn definite-lived trademarks, or more than 80% of acquired assets were reported as intangibles. The combined entity used excess earnings and relief from royalty methods to value all acquired trademarks.

Kraft Foods	\$ million
Total Consideration	55,423
Net Tangible Assets	7,930
Intangible Assets:	
Indefinite-lived trademarks	45,082
Definite-lived trademarks	1,690
Customer relationships	2,977
Total Intangible Assets	49,749
Liabilities	(34,285)
Non-controlling interests	
Residual Goodwill	29,029

### Enterprise Value Breakdown pre- and post-merger



# Implications for M&A and Tax

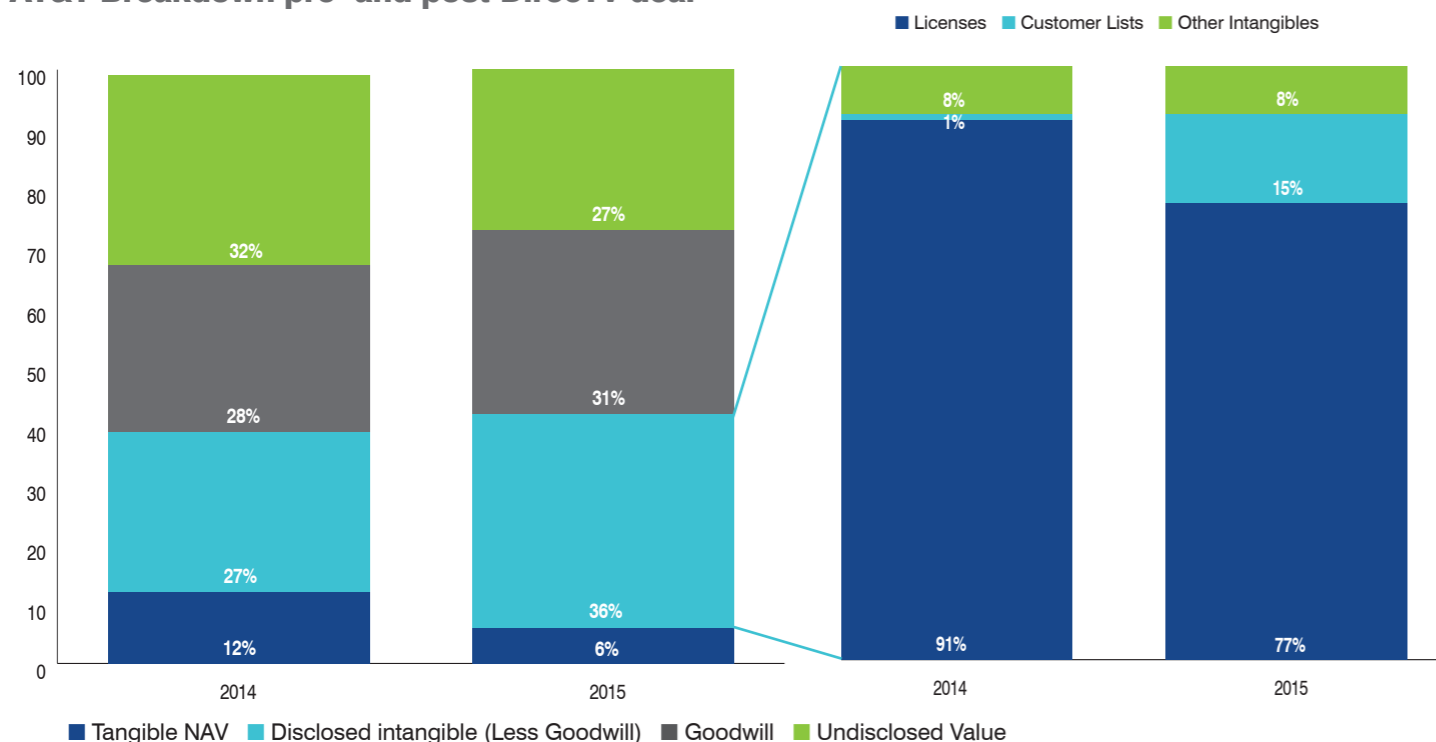
## (2) AT&T / DirecTV

In July 2015 AT&T completed its acquisition of DirecTV, paying \$49bn for the satellite television provider. The deal made AT&T the largest paid-TV provider in the U.S. with more than 26 million subscribers.

From the assets acquired \$36.195bn (43%) were classified as intangibles, Goodwill comprised around 41% of total assets, while the tangible net assets were merely \$14.311bn (16%). A further breakdown of acquired intangible assets revealed that more than 50% of the total (excluding goodwill) was customer lists and relationships, around 33% orbital slots and the rest (12%) was the value of associated trademarks, ie the DirectTV brand.

DirecTV	\$ million
Total Consideration	47,409
Net Tangible Assets	14,311
Intangible Assets:	
Trade names	4,287
Customer lists & relationships	19,505
Orbital Slots	11,946
Other	467
Total Intangible Assets	36,195
Liabilities	(37,170)
Non-controlling interests	(354)
Residual Goodwill	34,427

### AT&T Breakdown pre- and post-DirecTV deal



## (3) Lockheed Martin / Sikorsky

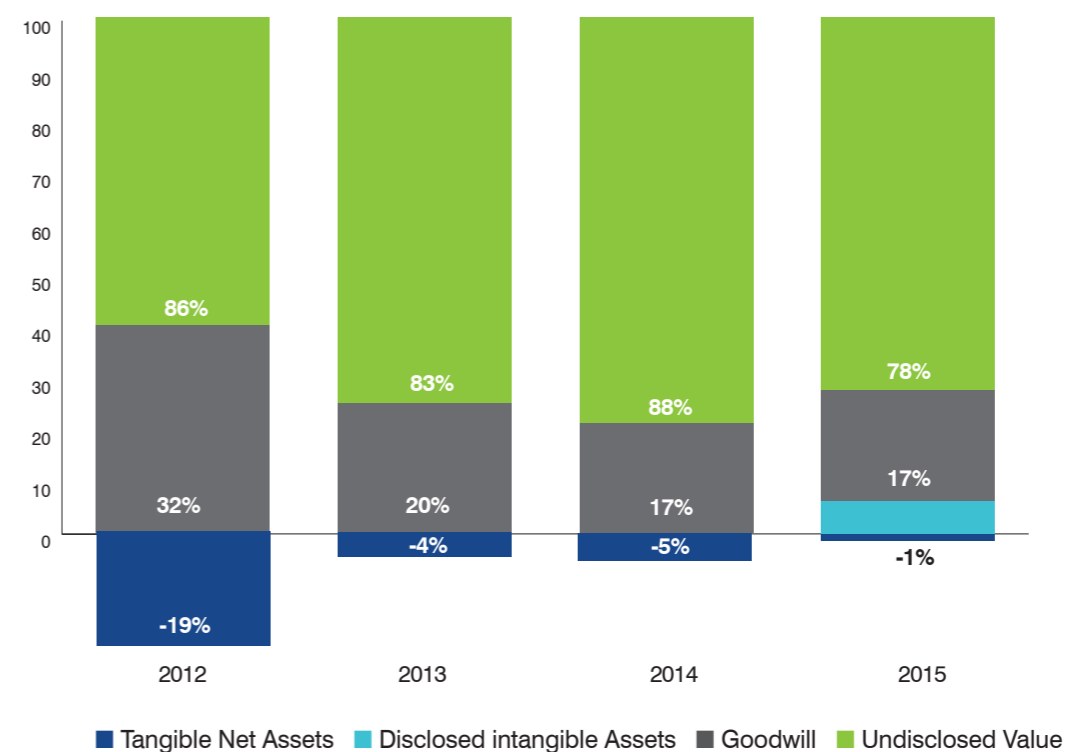
At the end of 2015 Lockheed Martin has closed the acquisition of Sikorsky Aircraft for the amount of \$9bn. Although a purchasing price allocation study by Stout Risius Ross within the Aerospace & Defence sector shows that on average Trade Names & Trademarks comprise around 6.9% of total consideration in M&A deals, in the case of Sikorsky the share of Sikorsky brand was 9% of the total consideration paid by Lockheed Martin, which shows the importance of trademarks even in highly technological and B2B sectors.

The president of Sikorsky's Defence Systems and Services unit stressed the importance of Sikorsky's brand with the following statement:

"Lockheed didn't go and buy our company and pay \$9 billion to turn us into a department of Lockheed. Part of what they paid for was the brand, the reputation, the history and the legacy, all the things that go with it. I don't think they want to destroy value there, either."

Sikorsky	\$ million
Total Consideration	9,083
Net Tangible Assets	5,291
Intangible Assets:	
Customer programs	3,127
Trademarks	816
Total Intangible Assets	3,943
Liabilities	(2,915)
Non-controlling interests	
Residual Goodwill	2,764

### Historical Enterprise Value of Lockheed Martin



# Apple Enterprise Value Breakdown

Apple's stock price (and therefore enterprise value) has been the subject of considerable scrutiny over the past couple years with it becoming the first US company to have a market cap greater than \$700 billion following the phenomenal sales of the iPhone 6.

However, since the lofty highs of February 2015, where it achieved a market cap of \$775 billion, the stock has since tumbled by 31% to \$536 billion as at 28th April 2016. With such a significant decrease in the value of the company, it is interesting to examine how the components which make up Apple's value have changed over the past year.

At January 1st 2016, tangible net assets accounted for 39% (\$252 billion) compared to intangible assets which accounted for 61% (\$388 billion). The striking point here is that out of the total intangible asset value of \$388 billion, \$379 billion was undisclosed, which is 98%. The wider financial community is calling out for further information of this vast chunk of undifferentiated intangible value, at the very least into the main intangible asset classes (goodwill, technology, contract, customer and marketing).

In the Apple case we consider marketing and technology related intangibles as the two most important classes of intangible assets. Apple branded products command a significant price

premium when compared to other products with similar technological specifications but sold under different brand name. Technology is another intangible assets class that is of great importance within the sector as illustrated by the billion dollar patent law suits that Apple seems to endlessly find itself involved with against Samsung and others.

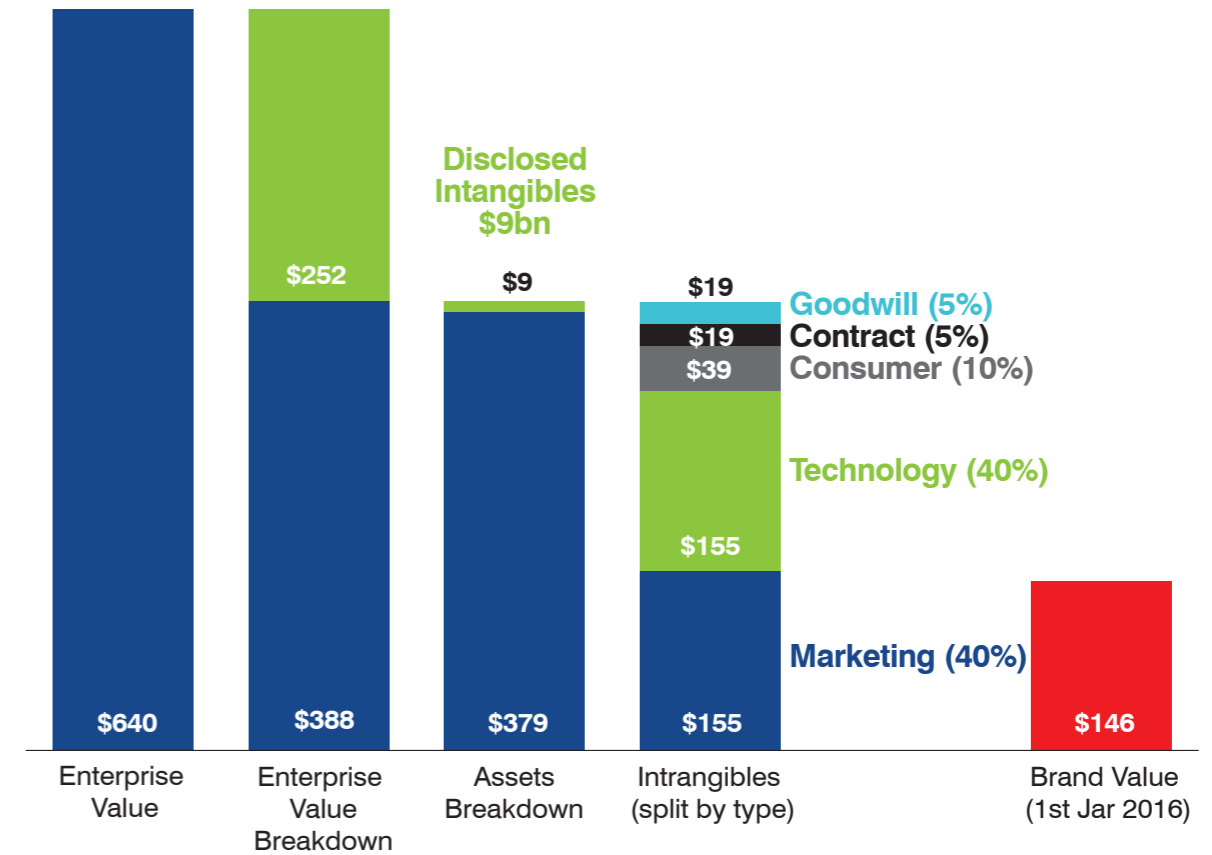
Since January, Apple's enterprise value has decreased by 16% to \$536bn. Though this may not sound like a big decrease, the interesting point to note is the shift in the proportion of intangible assets that make up the value of the business. Intangible assets now account for 49% (\$261 billion) of the enterprise value.

Brand Finance conducted a revaluation of Apple's brand value as at 28th April 2016 to allow for a direct comparison. It can be seen that the brand value has decreased by 17% to \$121 billion which was mainly due to lower consensus analyst forecast revenue stemming from declining iPhone sales. According to our analysis, the brand now accounts for 46% of intangible value.

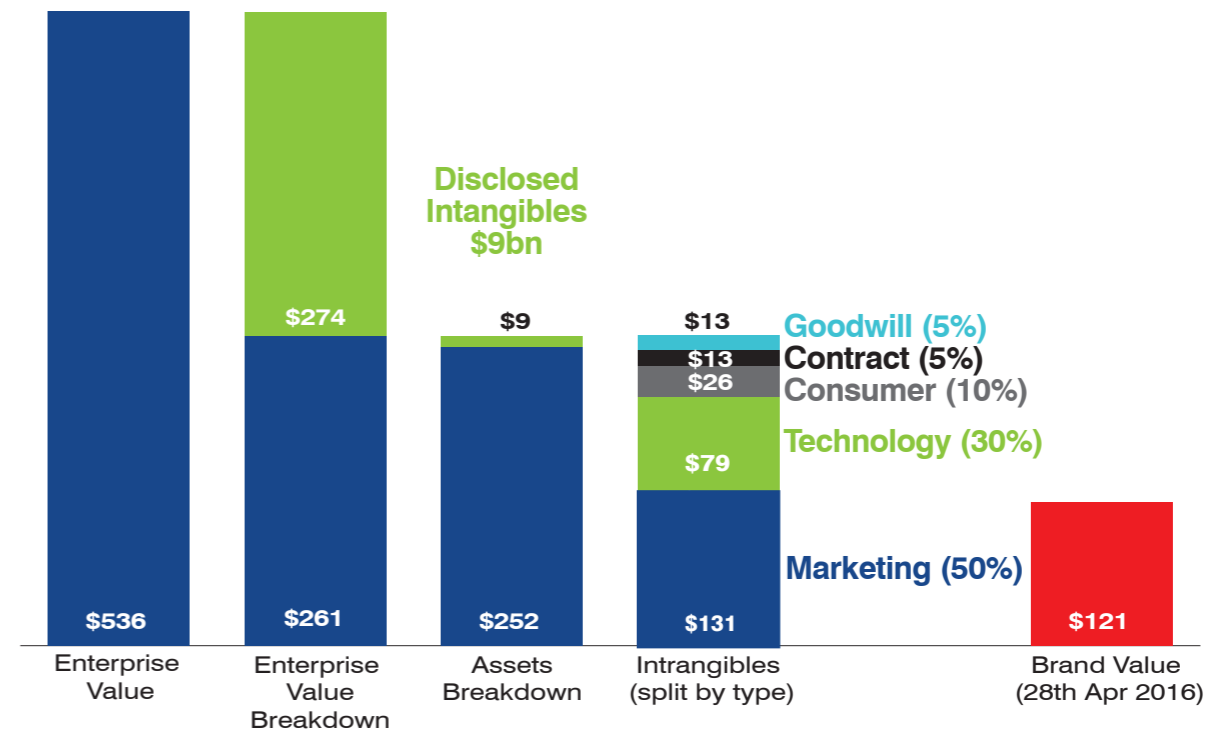
Given that intangible assets still account for half of Apple's enterprise value despite decreasing by 33%, this brief analysis highlights the volatility that is associated with intangible assets and further stresses the need for adequate and transparent reporting in this field.



Apple EV as of January 1st 2016



Apple EV as of 28th April 2016



# Inform to Transform



## CIMA Thought Piece: The Challenge of Managing and Reporting Intangible Value

**Noel Tagoe,**  
Executive Director  
of CIMA Education,  
CIMA

Organisations exist to create, deliver and share value for their salient stakeholders. This is done through the business model. Finance professionals add value by reporting on value to both external and internal stakeholders. Their remit can be summed up in the phrase: “**inform to transform**”. Accountants collect, clean and connect information to ensure its integrity. However the proliferation of information has reduced its value to managers who need insight to tackle the issues at hand. Insight “is like a refrigerator – the moment you open the door a light comes”. It is produced by transforming and analysing information. This is then communicated to those tasked with generating and preserving value to influence their decisions, actions and behaviours. Subsequently, resources are provided so that they act in a manner that produces the right value impact.

### Inform to Transform

Given the central nature of value to organisational mission it is important to say a few things about it. Value is about people. It is about how their needs are met. It is created by people, with people and for people. So it is contingent on context and experience.

Value goes beyond shareholder value to creating shared value. Firms like Nestle now produce Shared Value Reports annually. This acknowledges that it is co-created by different stakeholders. There needs to be symmetry in the value exchange between the participating stakeholders. Put

another way shareholder value can be optimized in the long run if other stakeholders are given appropriate incentives to co-create value.

Value can be financial or non-financial and must be differentiated from price, cost, profit or cash flow. These are related concepts but they are not the same as value. For example we value air but we do not pay for it. Nevertheless they are important as they act as measures or stores of value.

Value is not limited to the past but extends to the present and the future. Past value is often used in reporting, present value in operational management and future value in investment appraisal.

Value covers both the short-term and the long term. The short term is important because firms must survive in the short term for them to have any long term prospects. However the short term value must not undermine long term value

Finally value and its drivers can be both tangible and intangible. The move from an industrial economy to a knowledge and information-based economy increased the importance of intangible value to firms. A recent report by CIMA and Oracle (The Digital Finance Imperative: Measure and Manage What Matters Next) showed that the top five value drivers were all intangible values. (See next page for graph).

The report argues that accountants must begin to develop KPIs that measure and report on these intangible drivers to enable managers to manage them to generate and preserve value for their organisations.

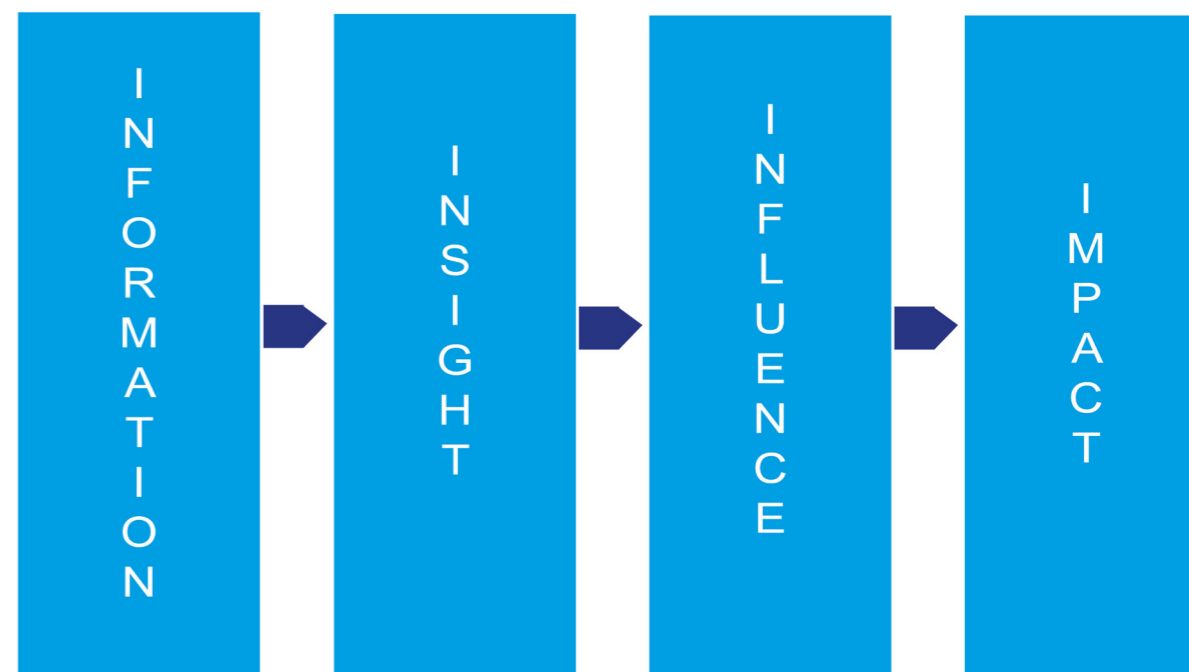
The six capitals of integrated reporting <IR> acknowledges this trend because three of them are intangibles.

It is within this context that the analysis presented in the 2016 GIFT report is incredibly valuable. It shows the continuing importance of intangible assets as a percentage of market value and how existing accounting rules have proved inadequate

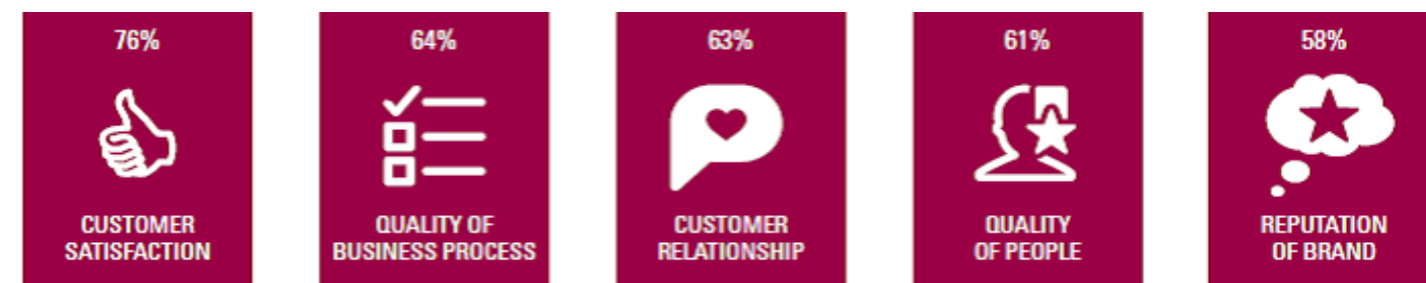
to report effectively on intangible assets and thus bridge the gap between market value and book value (which represents undisclosed intangibles).

The GIFT 2016 report provides the basis for a call to action for accountants and regulators of the accounting profession to get to grips with this important issue. Intangible value drivers and value are not going away. They reflect the economic and technology trends in which organisations operate. If accounting is to give value it should learn to measure and report them appropriately. This will enable accountants to fulfil their mandate to inform to transform.

### Inform to Transform



### Top 5 Value Drivers (The Digital Finance Imperative: Measure and Manage What Matters Next)



## Contact us.

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