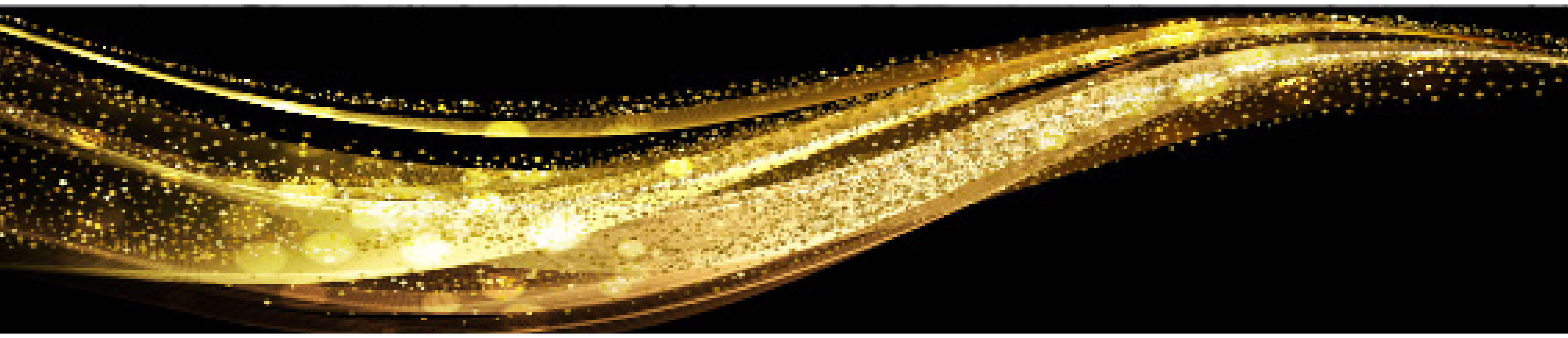
Brand Finance®



GIFT™ 2021

Global Intangible Finance Tracker (GIFT™) — an annual review of the world's intangible value

September 2021

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About Brand Finance.

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

We bridge the gap between marketing and finance
Brand Finance was set up in 1996 with the aim of 'bridging the gap between marketing and finance'. For 25 years, we have helped companies and organisations of all types to connect their brands to the bottom line.

We quantify the financial value of brands
We put 5,000 of the world's biggest brands to the test every year. Ranking brands across all sectors and countries, we publish nearly 100 reports annually.

We offer a unique combination of expertise
Our teams have experience across a wide range of disciplines from marketing and market research, to brand strategy and visual identity, to tax and accounting.

We pride ourselves on technical credibility
Brand Finance is a chartered accountancy firm regulated by the Institute of Chartered Accountants in England and Wales, and the first brand valuation consultancy to join the International Valuation Standards Council.

Our experts helped craft the internationally recognised standards on Brand Valuation – ISO 10668 and Brand Evaluation – ISO 20671. Our methodology has been certified by global independent auditors – Austrian Standards – as compliant with both, and received the official approval of the Marketing Accountability Standards Board.

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Brand Finance®

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Brand Value Report

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.

Visit **brandirectory.com/request-a-valuation**
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Benefits

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+ Track brand value, strength, and rating across publications and over time
+ Use interactive charts to compare brand values across countries, sectors, and global rankings
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Brand Finance Group.

Brand Finance Institute

Brand Finance Institute
Brand Finance Institute is the educational division of Brand Finance, whose purpose is to create and foster a professional environment for knowledge-sharing and networking among practitioners and experts in the market. BFI organises events, in-company training, and corporate educational initiatives around the world. In the quest for marketing excellence and with the purpose to equip the brand valuation and strategy practitioners with the necessary skills and tools, we have developed a wide range of programmes and certifications in collaboration with the most coveted business schools, universities and thought leaders in the field.

Brand Dialogue®

Brand Dialogue
Brand Dialogue is a public relations agency developing communications strategies to create dialogue that drives brand value. Brand Dialogue has over 25 years of experience in delivering campaigns driven by research, measurement, and strategic thinking for a variety of clients, with a strong background in geographic branding, including supporting nation brands and brands with a geographical indication (GI). Brand Dialogue manages communications activities across Brand Finance Group's companies and network.

vi360

VI360
VI360 is a brand identity management consultancy working for clients of all sizes on brand compliance, brand transition, and brand identity management. VI360 provide straightforward and practical brand management that results in tangible benefits for your business.

Brand Finance®

Global Brand **Equity Monitor**

- Original market research on **2,500 brands**
- **29 countries** and **23 sectors** covered
- More than **50,000 respondents** surveyed annually
- We are now **in our 5th consecutive year** conducting the study

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Foreword.

David Haigh
CEO, Brand Finance

25 years ago, on 1st April 1996, I launched Brand Finance to 'Bridge the Gap Between Marketing and Finance'. I thought that the gap between the silos would progressively disappear as finance people learned the importance of marketing for driving growth and marketing people learned the need for financial accountability.

Progress has been made but the gap is still there and we are now working hard through our publications, rankings, forums and the Brand Finance Institute training programmes to narrow the gap.

Over the last 25 years we have lived through four major recessions: 2001, when the dotcom bubble burst; 2009, when the Great Financial Crash washed over us; 2013, when the Euro caused a meltdown in Europe and in 2020, when the Covid Pandemic brought the world to a halt.

Brand Finance has been through many ups and downs but we have survived because we have always tried to lead our growing niche market. We claim to be the World's Leading Brand Valuation Consultancy. Over the last 25 years we have innovated continuously in our market place and we have transparently shared our innovations, knowledge and techniques to help grow the market, most obviously via ISO global standards on Brand Valuation and Brand Evaluation.

Throughout the last 25 years we have always invested heavily in training and professionalising our staff, in research to bring greater insight to our work and in high profile marketing and communications. We practice what we preach to clients.

There has never been greater recognition of brands as assets and the need to manage them for value. We are poised for significant growth as CEOs and Boards wake up to the need to manage brands better.

I started Brand Finance in the spare bedroom in Teddington. We now operate from the Brand Exchange building in the heart of the City of London and in 25 cities worldwide.

Over the last 25 years, many famous brands have disappeared or declined. Many new brands have emerged. Sectors have risen and fallen. Oil and gas brands are in decline while data- and technology-driven brands are booming. America and Europe are losing out to China and Asia.

But while there may be volatility, brands have never been more important for Nations, Companies, Products and Services. With a nudge from Brand Finance even Football teams and the Monarchy now recognise that they have valuable brands.

I hope the next 25 years will be as interesting and fun as the last. I would like to thank all the clients, staff and partners who have helped Brand Finance over the last 25 years.

Global Intangible Value Grows by Over 1000% in 25 Years.

+ Corporates booming – global intangible value has grown by nearly a quarter over the past two years of the pandemic, from $61 trillion in 2019 to $74 trillion in 2021, despite COVID-19 uncertainty.

+ Over the past 25 years, intangibles have seen astronomical growth – increasing 1145% from an estimated $6 trillion in 1996. At this historic rate of change, global intangibles could be worth $1 quadrillion by 2050.

+ Internet & Software, Tech, and Pharma are the top sectors for total intangible asset value, while Cosmetics top the ranking for intangible share of asset value (89%).

+ Dominated by Tech and Internet & Software giants, United States is the world's most intangible economy, with intangibles accounting for 76% of total asset value.

+ With an intangible value of nearly $2 trillion, Microsoft becomes the world's most intangible company, overtaking Apple, Saudi Aramco, and Amazon, as Microsoft Teams keeps the global economy running through the COVID-19 pandemic.

+ Increased M&A activity in 2021 is driving intangible asset disclosure at a faster pace, but new financial reporting rules are necessary to address a knowledge gap which undermines investor confidence in the markets.

Definitions.

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

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

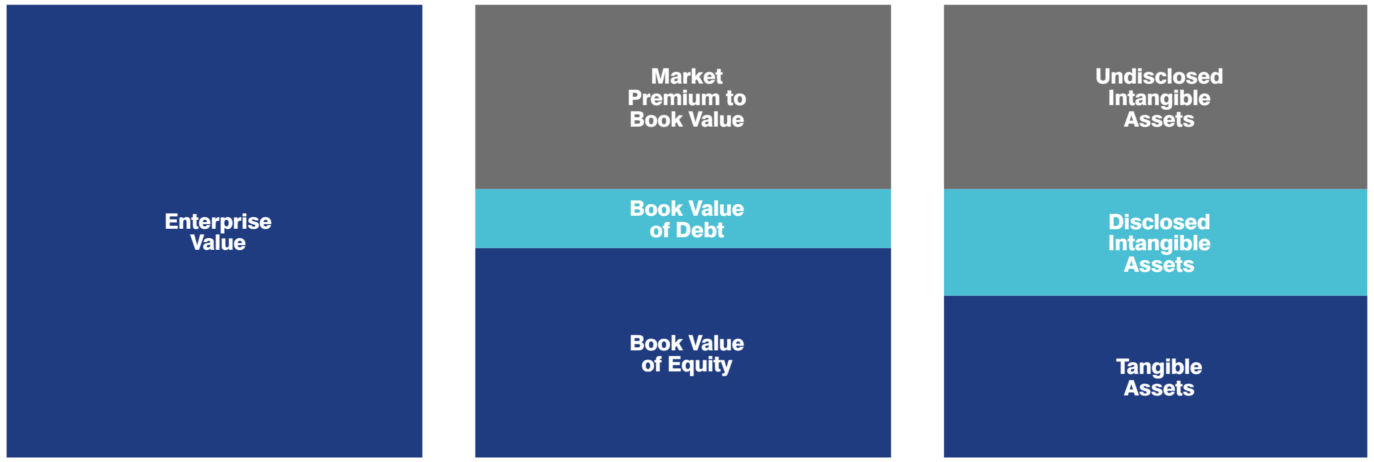
2 Relationships. Trained and assembled workforce, customer and distribution relationships.

3 Intellectual property. Patents; copyrights; trademarks; proprietary technology (for example, formulas, recipes, specifications, formulations, training programmes, marketing strategies, artistic techniques, customer lists, demographic studies, product test results); business knowledge — such as suppliers' lead times, cost and pricing data, trade secrets and knowhow.

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

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

Breakdown of corporate assets, including intangibles



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

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

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

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

However, the picture has improved since 2001, when IFRS 3 in Europe, and FAS 141 in the US, started to require companies to break down the value of the intangibles they acquire as a result of a takeover into five different categories — including customer- and market related intangibles — rather than lumping them together under the catch-all term 'goodwill' as they had in the past. But because only acquired intangibles, and not those internally generated, can be recorded on the balance sheet, this results in a lopsided view of a company's value. What is more, the value of those assets can only stay the same or be revised downwards in each subsequent year, thus failing to reflect the additional value that the new stewardship ought to be creating.

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

Categories of intangible asset under IFRS 3

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

Intangible Asset Classes

Goodwill	Reputation of the company (generally calculated at the time of acquisitions)
Franchise Agreements	Legal right to operate under the name of another company
Parents	Exclusive rights to manufacture, sell or use of specific invention
Copyright	Eextensive right to reproduce and sell a software, book, journal, etc.
Trademark	Legal rights to a business's name, logo or other branding item
Licenses	Permits licensee to use trademark, patent or copyright though a license.
Broadcast Rights	Allows broadcasting organisation to display products/activities
Government Grants	Financial aid provided by the government to promote businesses
Non-Competition Agreement	Prevents a party from working with or becoming a competitor
Internet Domain Name	Ownership or control of the internet domain
Customer Lit	List of key clientele
Order Backlog	Orders yet to be fulfilled by the business
Work of Artistic Importance	Musical or dramatic stage works, audio-visual works, graphic novels and comics and works of pictorial art, and photographic works
Service Contract	An agreement between the business and its employees, the clients or customers
Trade Secret & Know How	Proprietary information or materials used in the trade which provide a competitive advantage
Research & Development	Planned and detailed investigation into a product or service for gaining scientific or technical know-how and application of this to develop new and better products and service

Financial Reporting: Background.

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

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

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

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

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

However, the current rules state that internally generated intangible assets generally should not be recognised on the balance sheet. Under IFRS, certain intangible assets should be recognised, but only if they are in the "development" (as opposed to "research") phase, with conditions on, for example, technical feasibility and the intention and ability to complete and use the asset. "Internally generated goodwill", as well as internally generated "brands, mastheads, publishing titles, customer lists and items similar in substance", may not be recognised.

IFRS: Allocating the cost of a business combination

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

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

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

Impairment of assets

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

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

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

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

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

Impact on managers and investors

a) Management

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

The new standards are also having a significant impact on the way companies plan their acquisitions. When considering an acquisition, a detailed analysis of all the target company's potential assets and liabilities is recommended to assess the impact on the consolidated group balance sheet and P&L post-acquisition.

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

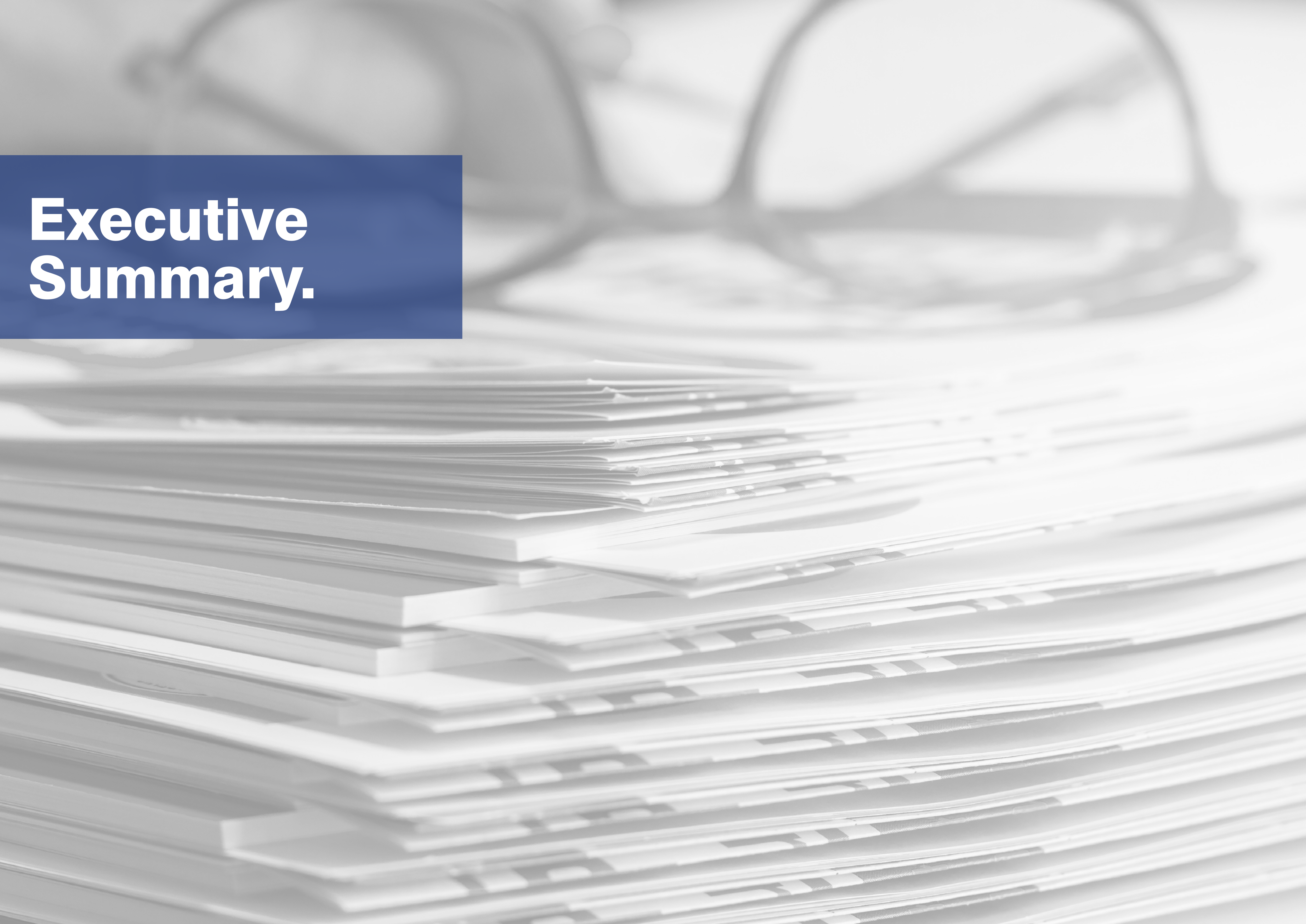
The requirement for separate balance sheet recognition of intangible assets, together with impairment testing of those assets and also goodwill, is expected to result in an increase in the involvement of independent specialist valuers to assist with valuations and on appropriate disclosure.

b) Investors

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

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

Executive Summary.



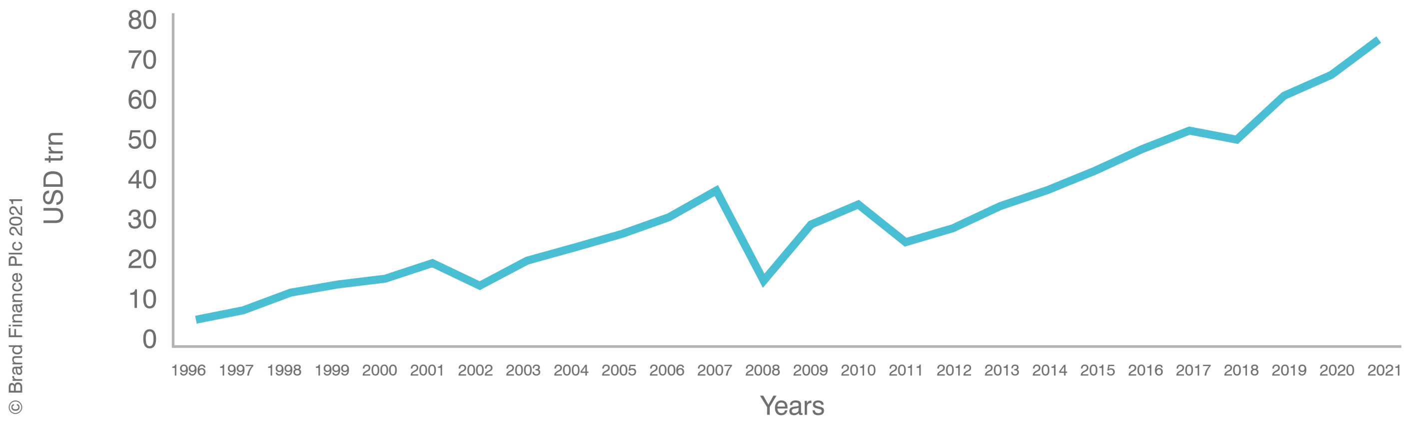
Executive Summary.

25 years ago, Brand Finance was established with a mission to bridge the gap between marketing and finance – to provide the insights and vocabulary with which these two departments can interact. At that time, global intangible assets were worth an estimated $6 trillion, less than a tenth of the same value today. As of September 2021, global intangible assets are worth over $74 trillion. This is a 1145% growth over 25 years – approximately 11% per annum.

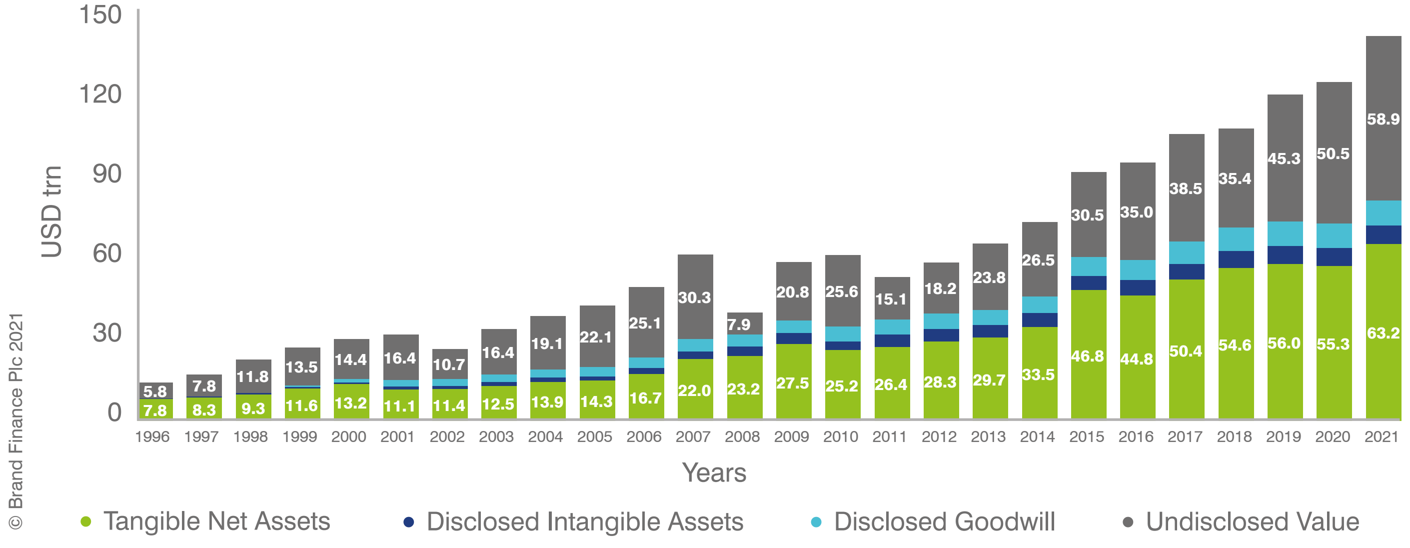
Over the past year in particular, the total intangible asset value has grown faster than usual, and exceeds pre-pandemic levels by nearly a quarter, having increased 23% compared to $61 trillion in 2019. The COVID-19 pandemic has demonstrated even further the importance of people, innovation, reputation, and brand for businesses all around the world. Intangible assets are now unequivocally a boardroom priority.

Increases through the pandemic were primarily fuelled by the growth of the world's largest organisations which were resilient to investor uncertainty due to their scale and their focus on technologies which we continued to rely on through lockdowns. This year, growth has been driven by China and the USA, with a handful of industries recovering from the downturn in 2020. In the USA, the Automobiles and Banking industries have fuelled intangible asset value growth. While in China, the Tech, Banking, and Real Estate industries have restored their value and driven up the global asset value sum.

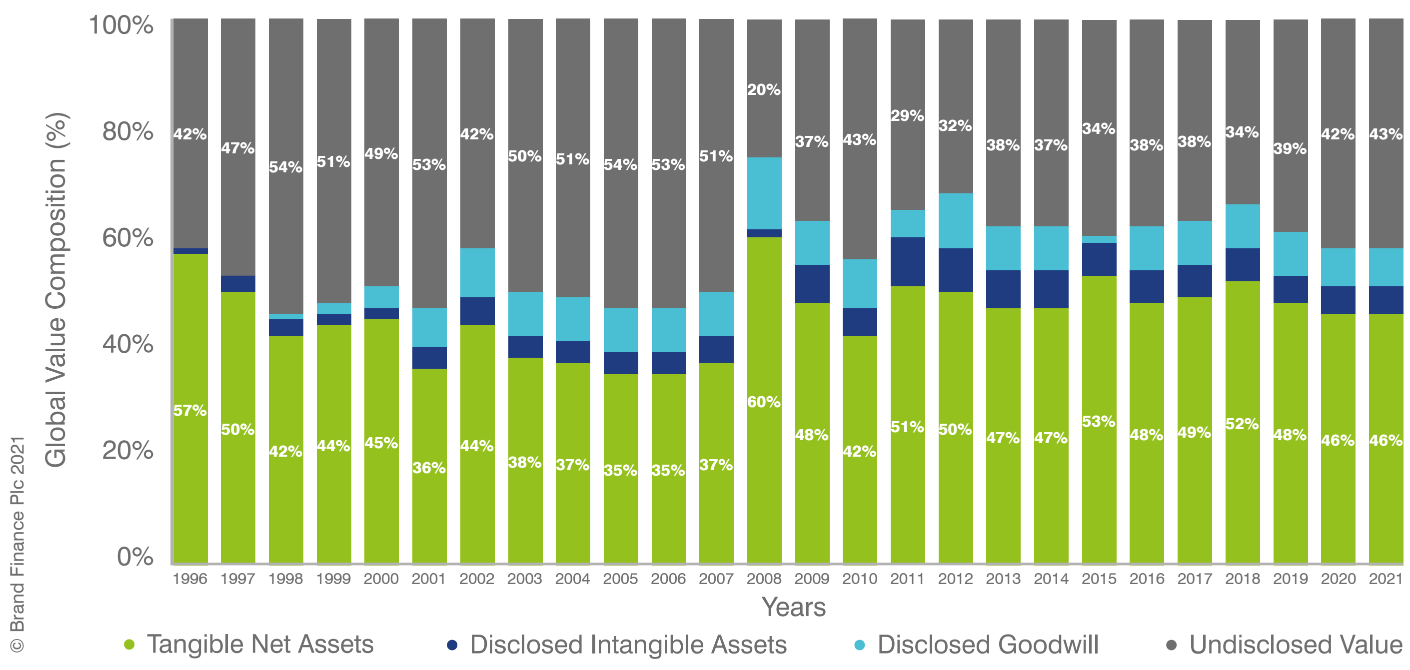
Global Intangible Value (USD trn)



Global Value Composition Trend (USD trn)



Global Value Composition (USDtrn)



> **In times of crisis, brands – especially those most valuable and strongest in their categories and markets – become a safe haven for capital. Like gold or fine art during past economic downturns, nowadays well-managed, innovative, and reputable brands are what the global economy turns to in the hour of need. There can be no better evidence for why brands matter than the role they have already played and will continue to play in the post-COVID recovery.**
>
> **David Haigh**
> Chairman & CEO, Brand Finance Plc

Sector trends

There is no doubt that the future growth potential and investor appetite for different sectors has changed in the past 25 years. In 1996, the Drinks industry held the most intangible value by sector worldwide; it is 10th today. Between 1999-2001, Telecoms had the highest total intangible value worldwide. Today, Telecoms is only the 9th most valuable sector by total intangible value. Banking took the lead every year between 2002 and 2016, except for 2008 and 2011 when financial crises caused the share price and estimated intangible value of banks to plummet, leaving space for Telecoms to come out on top again in those years.

Since 2017, there has been a more definitive shift in the landscape – Internet & Software carries the most intangible asset value worldwide, followed by Tech (defined as encompassing hardware brands). More recently, in the past two years, Pharma has jumped up to 3rd position behind Tech, due to the role of pharmaceutical companies in the route out of the global pandemic.

The rise of Internet & Software and Tech, and the fall of Banking in this ranking by total sector intangible value, is part of the longer-term shift towards digital technologies, but also a ripple-effect of the financial crises and the reputational and regulatory impact of those crises which have suppressed banking margins and share prices since.

When controlling for the size of the industry, Drinks again ranked first in 1996 in terms of the proportion of asset value which was intangible. This stood at 86% for Drinks in 1996. The sector is no less intangible today at 83% of total asset value, but it has been overtaken by Cosmetics (89% intangible) as well as a number of other intangible-heavy industries.

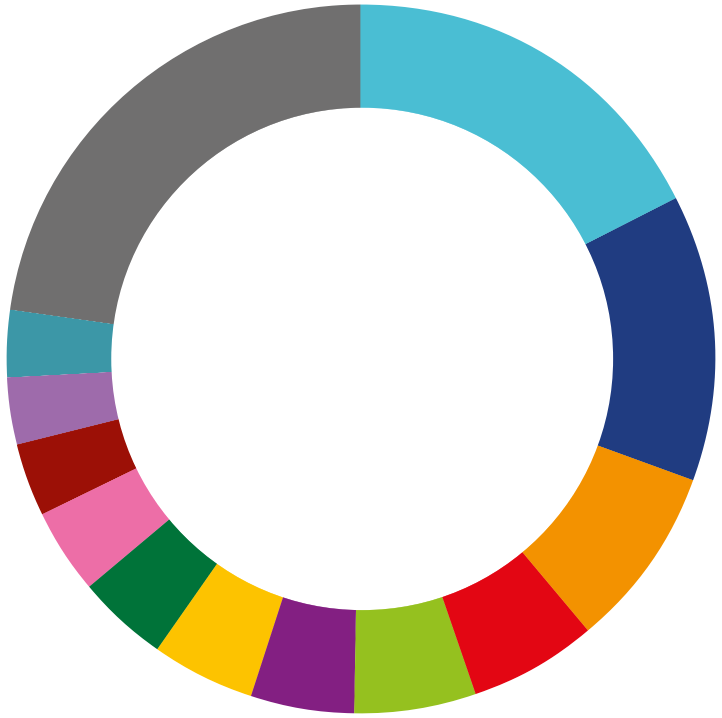
Banking and Commercial Services have seen the biggest drop in ranking by intangible share of asset value over the past 25 years. Banking dropped 13 ranks – from the 13th to the 26th most intangible industry. Commercial Services dropped 9 ranks – from 2nd to 11th – not to suggest that the sector has become less intangible in nature. The sector continues to rely on expertise, know-how, relationships, and reputation for performance.

Rather, the results reflect tougher competition, and the fact that many of the most influential players are unlisted. These unlisted players such as Deloitte and McKinsey are further examples of private firms that, if offered publicly, could have a material impact on the results of our study, and on investor ability to analyse market performance. Just as investors lack holistic data due to the absence of key players from public markets, investors also lack holistic data on listed players. Home-grown intangibles are a critical tool for growth which investors should have more information on to aid in capital allocation and investment decision-making between industries and organisations.

Today's most intangible sectors

At 89%, Cosmetics is currently the most intangible industry. Increased attention to health, wellbeing and the environment means that strong branding, reputation and innovation are critical to be competitive in the industry. Physical production machinery and plants are of course important - some of the leading cosmetics brands made agile moves to produce hand

Intangible Asset Value by Industry (USD trn)



	Sector	Total Intangible Value, USD trn
●	Internet & Software	13.10
●	Tech	9.66
●	Pharma	6.16
●	Engineering & Construction	4.45
●	Healthcare	4.00
●	Retail	3.52
●	Banking	3.45
●	Food	3.10
●	Telecoms	2.95
●	Drinks	2.44
●	Oil & Gas	2.34
●	Utilities	2.24
●	Other	16.72

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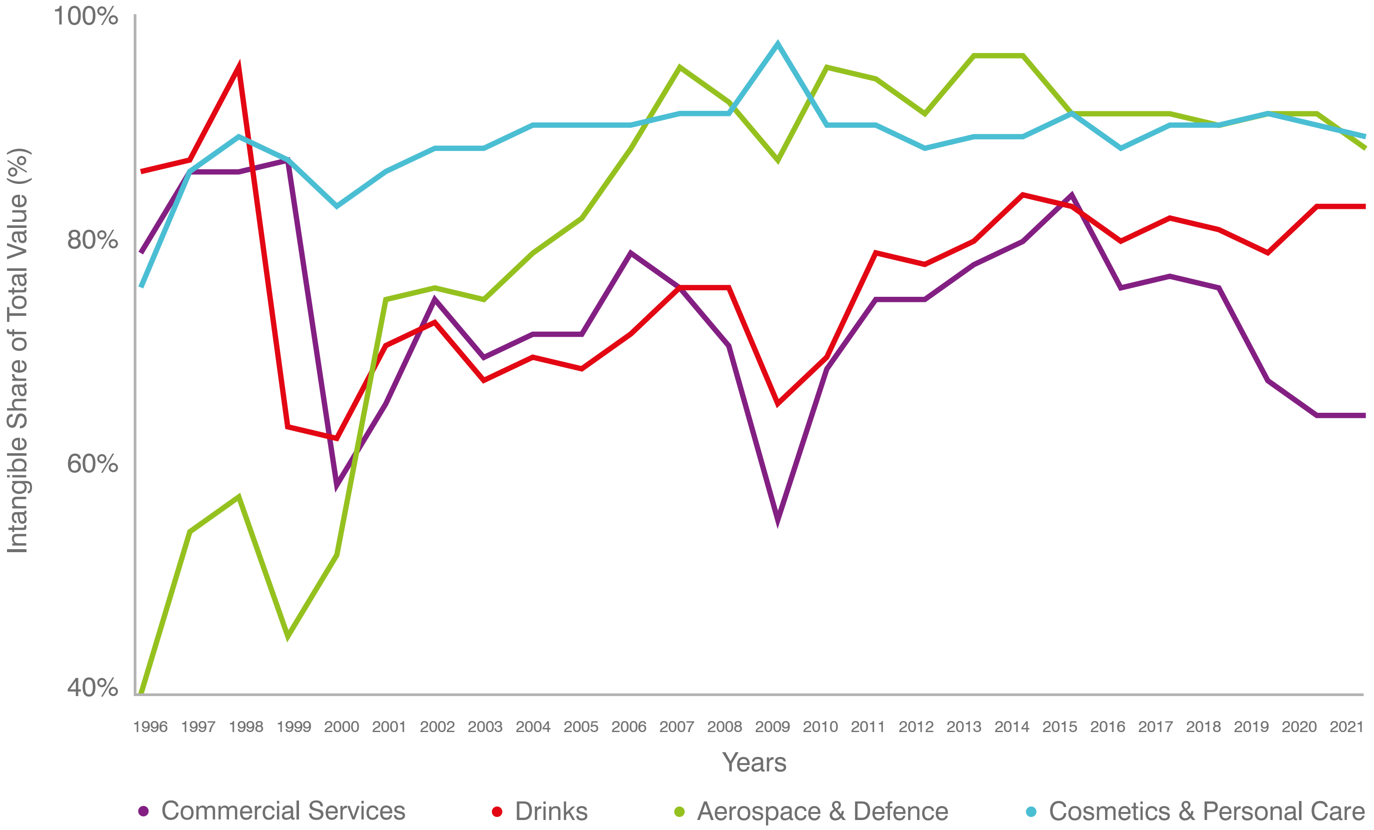
Intangible Share of Total Value for 1996 & 2021's Most Intangible Sectors



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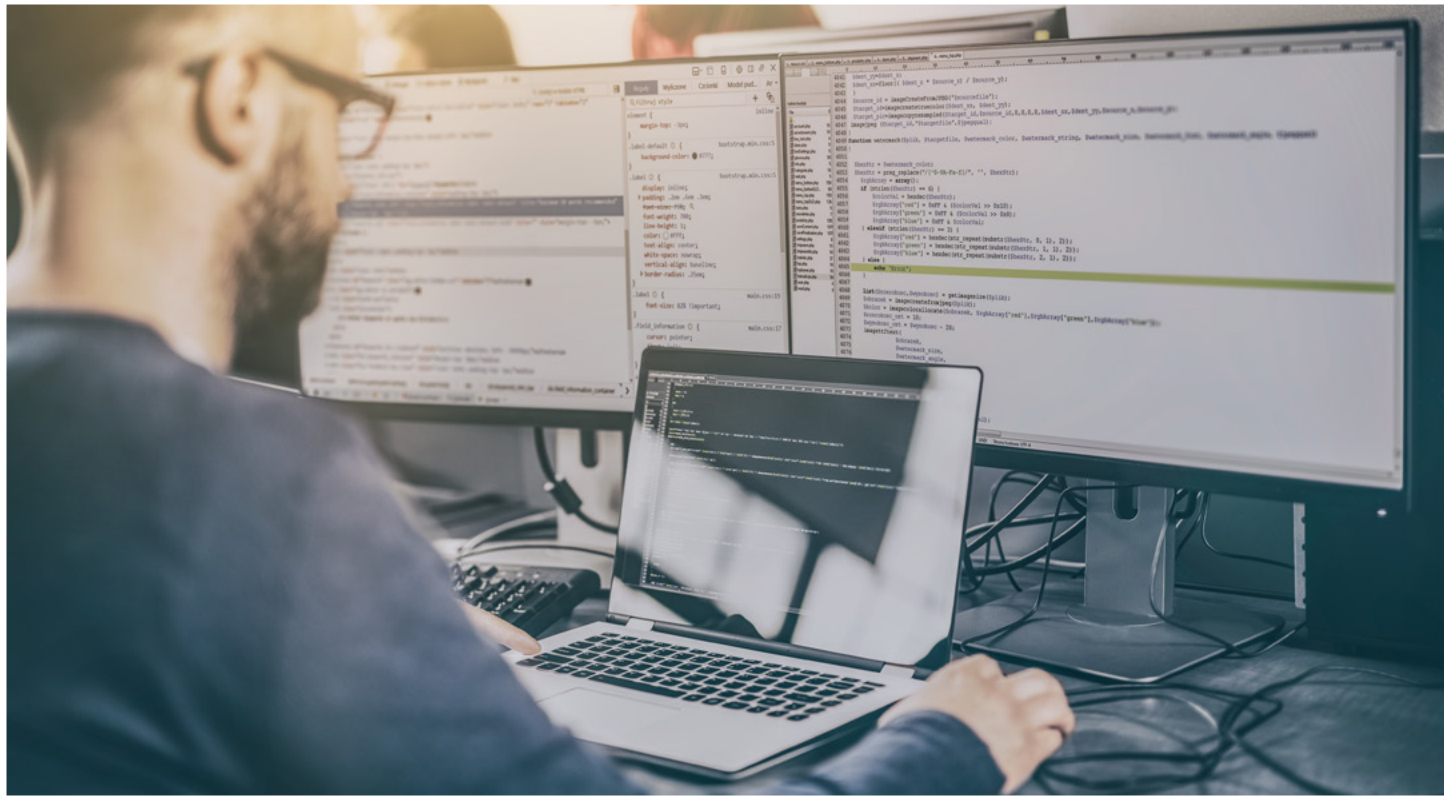
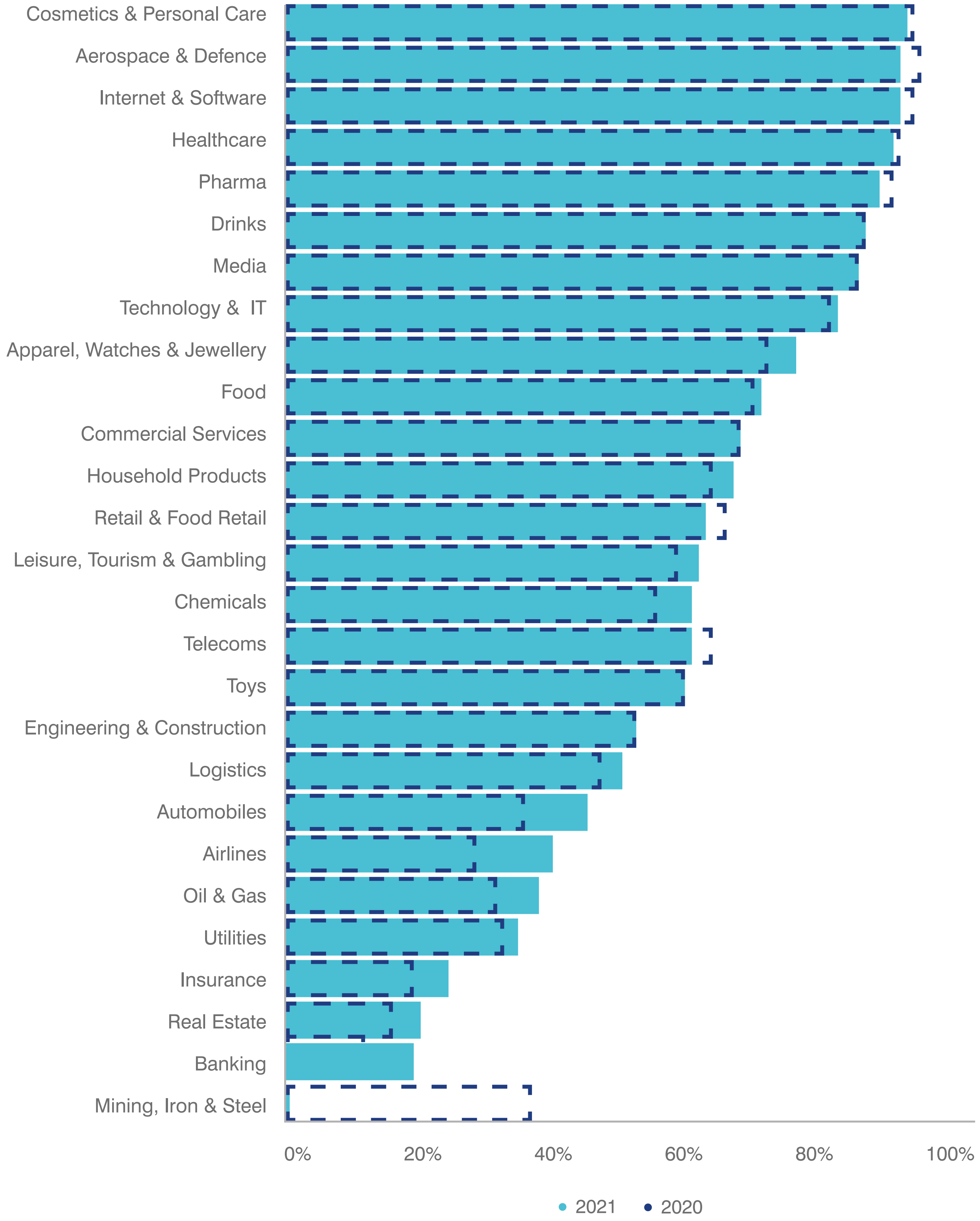


Intangible Share of Total Value by Sector(%)



sanitizer last year in the face of shortage concerns. However, these physical assets are not the drivers of industry growth. Rather, it is the innovation and marketing of companies which facilitates their growth.

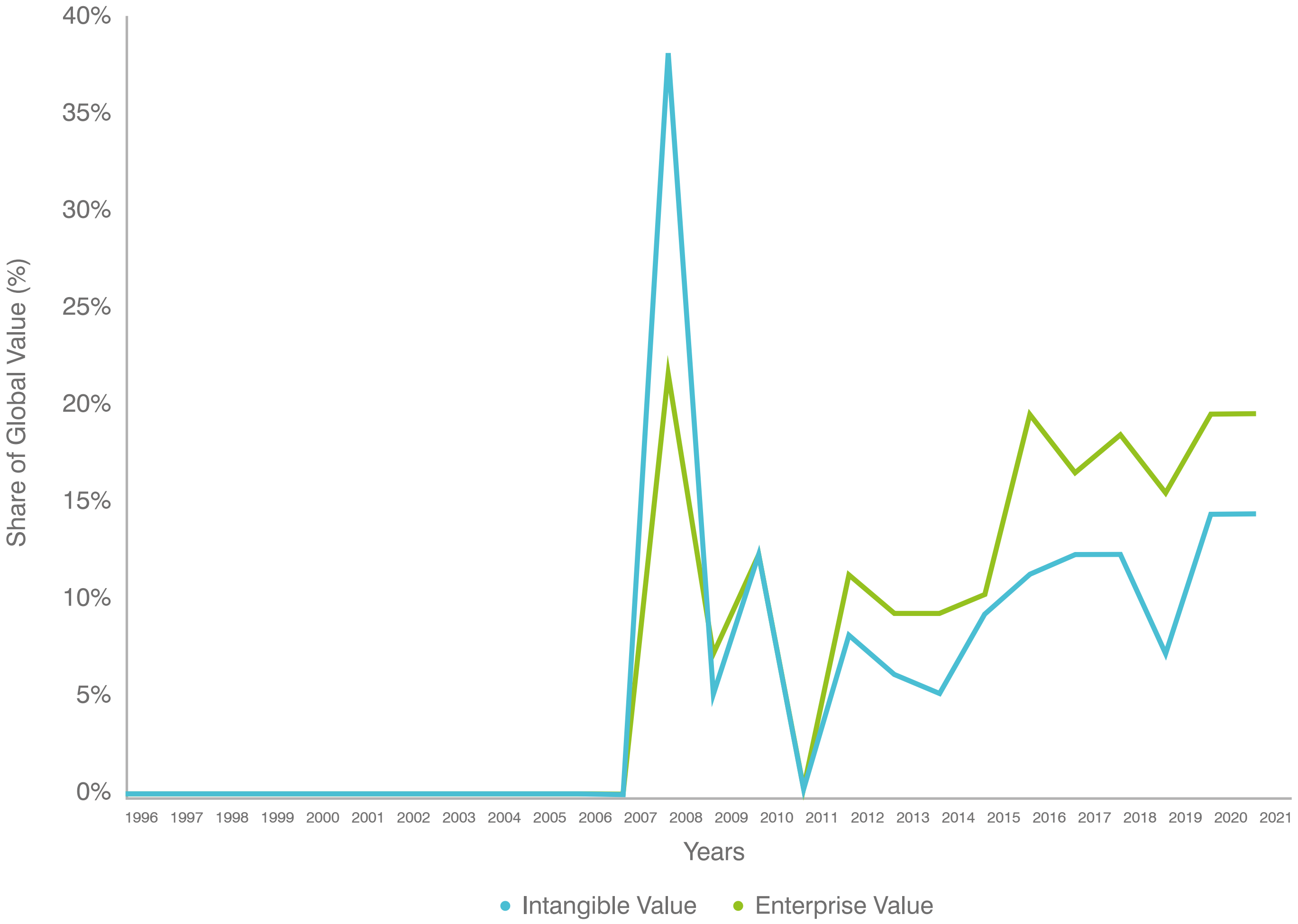
One of the most significant recoveries seen since 2019 is the intangible share of business value in the Automotive sector. This year, intangibles are estimated to represent 43% of enterprise value, versus 14% in 2019. This recovery reflects the industry shift towards electric vehicles and a slowly but surely growing global appetite for fossil-fuel-free transportation. After a period of significant investment in R&D, automotive companies are starting to reap the rewards, despite supply chain issues exacerbated by the COVID-19 pandemic.

The Airlines industry was around 50% intangible 5 years ago. Last year, intangible share of business value dropped to 27%. So far, this has not fully recovered due to suppressed share prices in the face of international travel restrictions and low demand. The composition of intangible asset value has shifted slightly, as aviation companies have taken impairments against disclosed intangibles, while undisclosed intangible asset value has risen.

Country trends

The past 25 years have also seen the rise of developing economies. India was the most intangible country between 2003-2006. China overtook between 2007-2009. In 1996, China represented less than 1% of global intangible value. This spiked to over a third during the 2008 financial crisis, in which China swiftly reacted with stimulus packages and became a safe haven for capital in Asia. Today, China represents 14% of global intangible value.

China's Share of Global Value Over Time



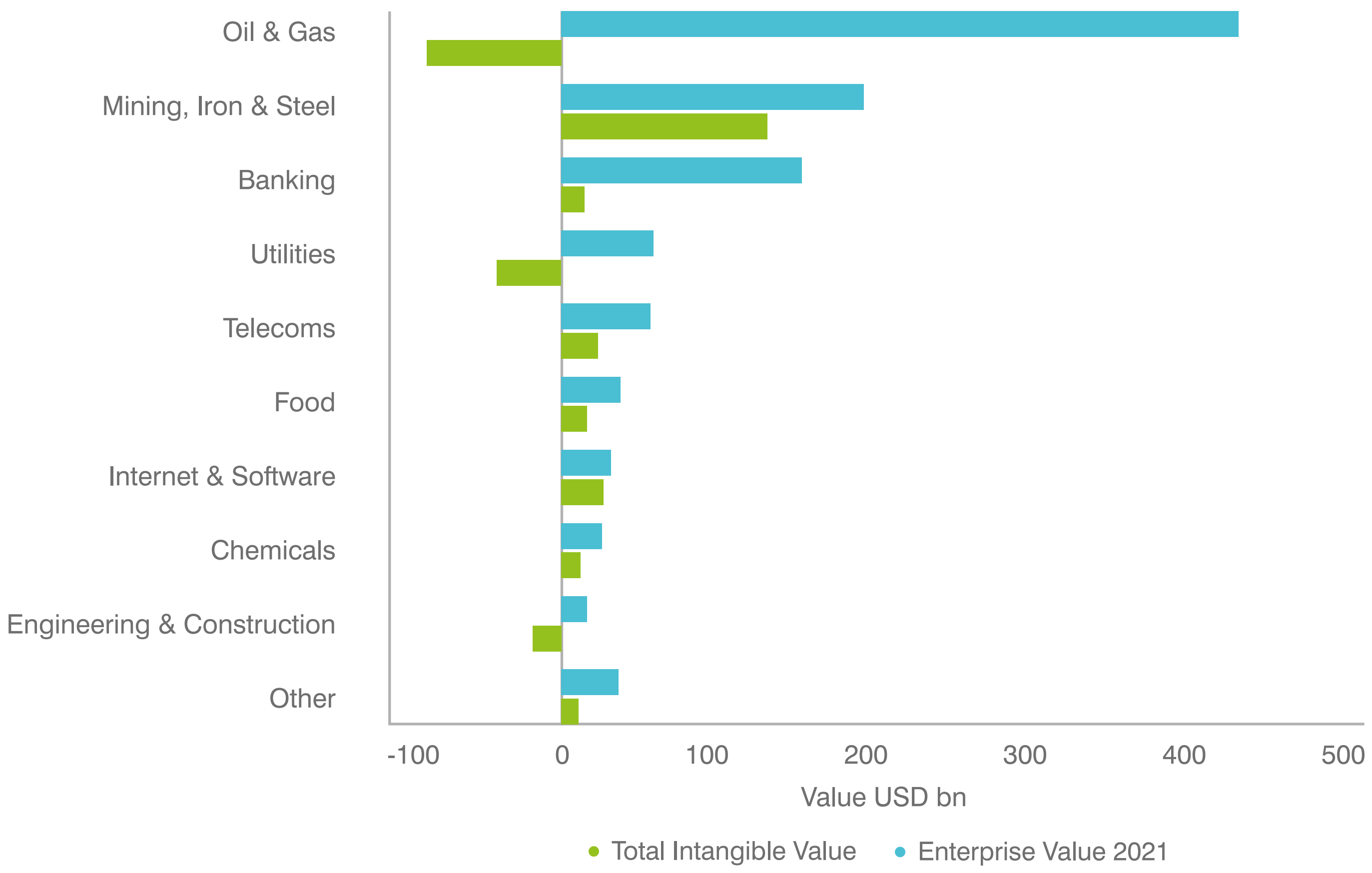
Although this reflects a major leap in China's standing and trade position over the past 25 years, China is punching below its weight in its share of intangible asset value worldwide. China now represents 19% of total asset value, up from 1% in 1996. The difference between 19% of global total asset value and just 14% of global intangible asset value suggests that Chinese intangible assets are underdeveloped, or under-recognised by investors.

One of the least intangible countries is Russia, where intangible value is often a negative proportion of enterprise value. This occurs when the market valuation of a firm is lower than the book value of equity and debt. Today, within Russia, intangible assets represent just 9% of total asset value. Russian businesses grapple with dampened international investor appetite. Firms such as Sber are working hard to embrace innovation and have thus built an extremely strong brand. But Russia remains heavy-industry intensive – over half of total company value in Russia is derived from Oil & Gas and Mining companies.

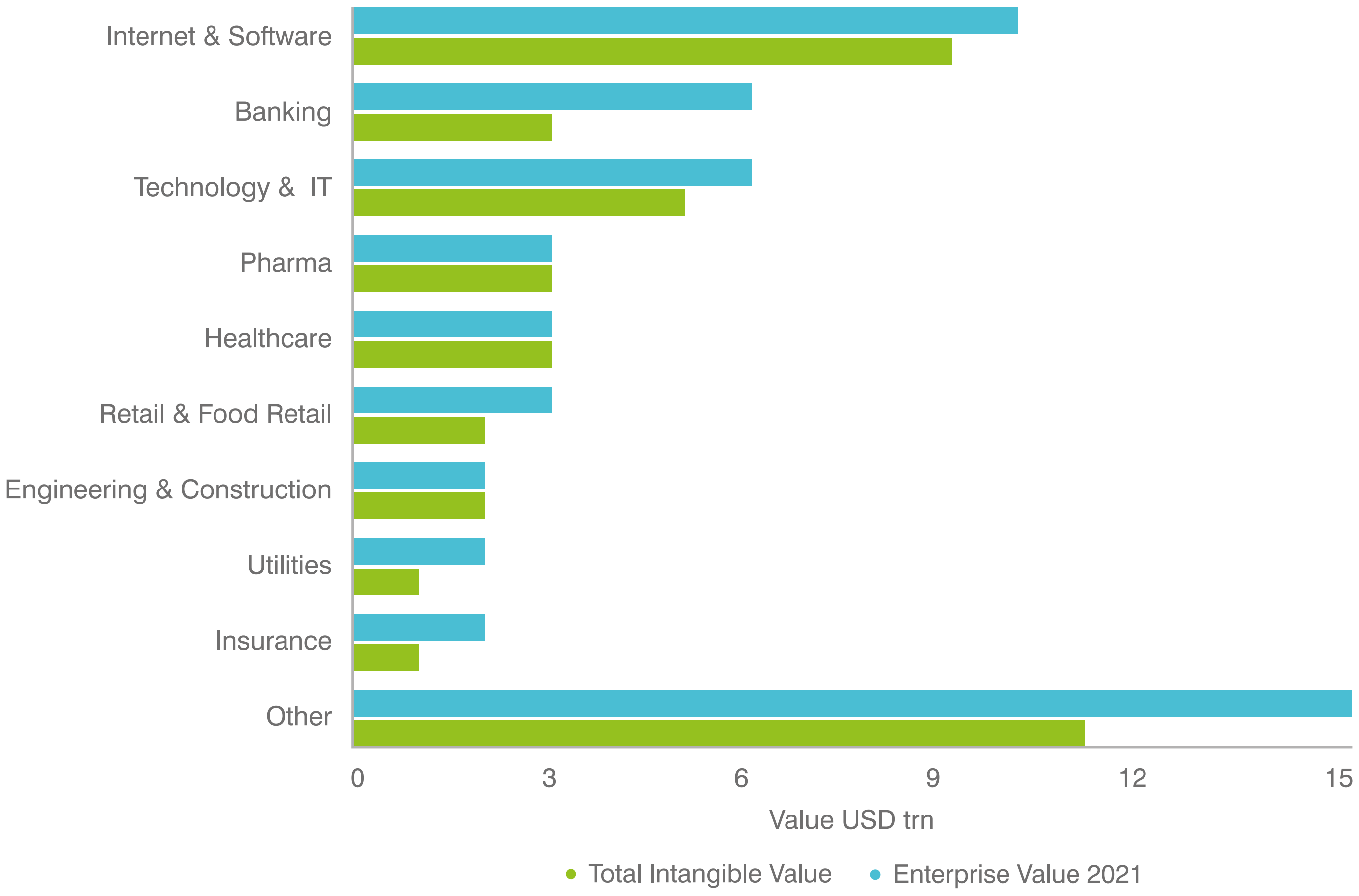
The United States on the other hand is dominated by Tech and Internet & Software companies – about 30% of the total value of US companies is attributable to these sectors. Little surprise then, with market dominance of such innovative, intangible-heavy industries that the US is the most intangible country in the world – with intangibles estimated to represent over 76% of assets.

Saudi Arabia is now the 4th most intangible country in the world; 72% of total business value is estimated to be intangible. Saudi Arabia's rise in the ranking was driven primarily by the IPO of Saudi Aramco, which at the time of the IPO was the world's most valuable publicly traded company. There are further private organisations from the Middle East which could IPO and draw equal interest and influence over our results for the region. As countries open up to international investment, domestic organisations are working hard to adjust their disclosure and communications to appeal to a wider set of international investors.

Russia - Value by Sector (USD bn)



USA - Value by Sector (USD trn)

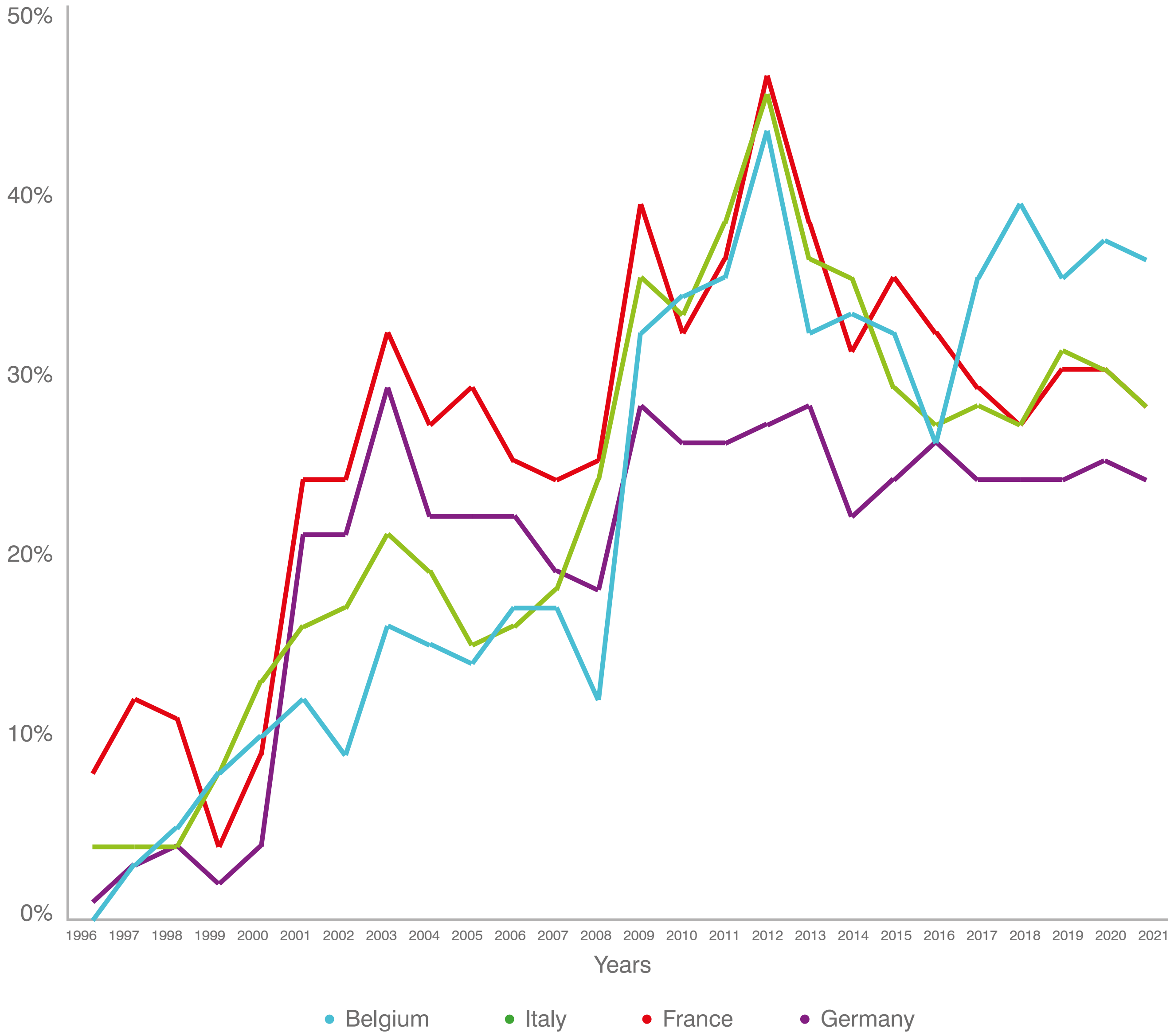


Following the 2015 acquisition of SABMiller by AB InBev, Belgium has since been the most goodwill-intensive country, with over 26% of total company value recognised as goodwill gained from acquisitions. The vast majority of Belgium's goodwill value today is attributable to AB-InBev - 73%.

Since 2015, Italy has consistently had the highest disclosed intangibles (excluding goodwill) as a proportion of business value. In 1996, only 3% of total business value in Italy was associated with disclosed intangibles (excluding goodwill). Today, that figure stands at 16%. Other countries with high level of intangible asset disclosure include European peers Portugal, Germany and France.

As discussed by Lorenzo Coruzzi and Sandro Feole in their articles, Italy has recently introduced a new decree which permits small and medium sized unlisted companies to recognise the value of home-grown intangibles, such as brands. This is a major advancement in intangible asset reporting. If extended to all Italian companies, investors could compare companies with home-grown intangibles with the high levels of acquired intangibles currently disclosed.

Disclosed Intangibles as a Percentage of Enterprise Value, Top 4 Countries



Understanding Italian SME Brand Values.

Lorenzo Coruzzi
Associate,
Brand Finance

At Brand Finance, we have been measuring the phenomenon of undisclosed intangibles on stock markets every year since 2002 through our Global Intangible Finance Tracker (GIFT). Under the IFRS or US GAAP, companies are not allowed to declare most of the intangible assets they generate internally. Brand Finance has been fighting for a more innovative approach to the regular evaluation of intangible assets, particularly brands, and their inclusion in the balance sheet for years.

This year, the Italian government introduced a new measure: The "Decreto Agosto"- August Decree. This now authorises Italian companies for the first time to put their homegrown brands on the balance sheet. This will strengthen their balance sheets and revive the nation's economy following the devastating COVID-19 pandemic.

This new measure could revolutionise accounting and financial reporting for years to come, improve transparency for investors, make it easier to compare companies pursuing organic vs inorganic growth, and assist boards in understanding and financially supporting their brands. Companies which disclose brand value under the August Decree could benefit from tax breaks, improved bank ratings, lower cost of capital, and reduced risk of takeover. This exciting development in the world of intangible asset valuation offers a trial run which could influence IFRS in the future.

If we think that the average undisclosed intangible value of listed companies in Italy was 12% of the market value (as determined by investors) in 2020 and 14.5% in 2021, then non-listed companies that have taken advantage of the opportunity would have substantially strengthened their company's balance sheets.

At Brand Finance, we went a step further and we also estimated the overall value per company size that could be generated by brand valuation. Should trademark valuation have been adopted by 100% of eligible Italian companies, it would have increased the value of balance sheets by a total of €200 billion. To put this in context, the value of the top 50 most valuable Italian brands was around €125 billion, according to the Brand Finance Italy 50 2021 ranking.

Applied to the Italian market composition, 90% of Italian companies, which employ up to 9 people, would achieve an average brand value added by the scheme of just under €15,000, which is equivalent to a tax benefit of approximately €4,000 over 18 years of amortization with a payment of €450 as a substitute tax at 3%. For companies with 50-250 employees, the average brand value would be around €2.5 million, which would create a tax benefit of around €700,000 against a payment of only €75,000.

Despite the many benefits to the scheme if correctly executed, there is a danger that valuations conducted by people who are not professionally qualified to value brands could result in challenges, chaos, and legal actions.

Brand valuation is an exercise that is more complex than the valuation of other assets. It is precisely because of this that the ISO 10668 standard for monetary brand valuation has existed for several years, which has been supplemented by the ISO 20671 standard for determining the strength of the brands.

Potential Cumulative Brand Balue per Company Size and Industry (EURbn)

Sector	0-9	10-19	20-49	50-249	250 e più	Total
Retail & Food Retail	10.9	5.3	5.9	9.6	19.6	51.5
Food	1.4	1.6	2.9	7.8	10.3	24.1
Commercial Services	5.3	1.4	1.6	2.8	5.8	17.0
Automotive	1.2	0.8	1.5	3.9	8.0	15.3
Leisure, Tourism & Gambling	4.0	1.9	1.6	2.2	2.7	12.4
Logistics	1.1	0.7	1.1	1.9	5.7	10.7
Engineering & Construction	2.2	1.0	1.4	2.7	3.3	10.6
Apparel, Watches & Jewellery	0.8	0.9	1.4	2.5	3.8	9.4
Chemicals	0.5	0.5	0.9	2.1	5.0	9.0
Household Products	0.2	0.3	0.7	1.9	3.8	6.8
Internet & Software	0.7	0.4	0.6	1.4	3.8	6.8
Drinks	0.2	0.3	0.8	1.9	3.1	6.4
Utilities	0.2	0.2	0.3	1.2	4.0	5.8
Mining, Iron & Steel	0.2	0.3	0.5	1.1	2.5	4.7
Media	0.2	0.1	0.2	0.5	2.0	2.9
Healthcare	0.8	0.1	0.2	0.5	0.9	2.5
Telecoms	0.1	0.0	0.0	0.1	1.7	1.9
Real Estate	1.1	0.1	0.1	0.1	0.0	1.3
Technology & IT	0.4	0.1	0.1	0.2	0.4	1.2
Pharma	0.0	0.0	0.0	0.0	0.2	0.3
Aerospace & Defence	0.0	0.0	0.0	0.0	0.2	0.2
Total	**31.4**	**16.3**	**21.9**	**44.4**	**87.1**	**201.0**

Average Brand Value for Individual Company Based on Industry and Company Size (EURm)

Sector	0-9	10-19	20-49	50-249	250 e più
Drinks	69.2	809.4	3,053.1	14,748.0	111,618.9
Telecoms	14.9	120.7	556.6	1,643.6	87,949.6
Food	31.9	369.3	1,621.6	9,746.5	81,750.6
Media	15.0	214.6	685.2	3,545.6	63,015.2
Automotive	9.8	136.2	559.9	2,922.7	35,674.7
Internet & Software	14.2	208.2	658.1	2,373.2	35,668.5
Retail & Food Retail	11.2	209.9	660.4	3,102.9	31,642.5
Household Products	22.9	172.2	577.6	3,029.4	31,019.4
Apparel, Watches & Jewellery	16.4	131.8	480.2	2,586.2	27,757.0
Chemicals	8.2	99.0	376.8	2,115.0	25,564.3
Utilities	12.7	144.2	342.7	2,087.4	24,109.1
Leisure, Tourism & Gambling	10.0	80.4	284.6	1,579.9	15,609.1
Technology & IT	10.2	108.1	380.2	1,786.3	14,681.0
Logistics	9.3	93.6	256.7	918.0	14,194.9
Mining, Iron & Steel	4.3	36.0	125.1	702.9	13,273.8
Engineering & Construction	4.6	58.4	196.2	998.5	9,272.4
Aerospace & Defence	2.3	18.7	88.1	301.2	7,547.4
Real Estate	4.9	133.7	421.7	2,368.0	6,313.1
Pharma	5.4	45.3	84.2	352.4	3,653.8
Healthcare	2.7	35.2	78.6	302.2	2,628.7
Commercial Services	4.9	45.0	66.5	128.9	287.3
Average	**13.6**	**155.7**	**550.2**	**2,730.4**	**30,630.1**

The Pandemic and Italy's Courage to Dare.

Sandro Feole
Manager & Financial
Consultant

In the past, intangible value in Italy has been discussed with a certain reticence and scepticism. The fabric of small and medium-sized enterprises makes it difficult to enhance what is increasingly becoming the real value of companies in global business, and not just technological ones.

There are three essential points of view to contextualise these historic difficulties in understanding intangible value:

1. The banking system has always been an essential pillar of the economy of Italian companies, especially small and medium-sized ones;

2. The statutory rules on financial statements and the OIC (Organismo Italiano di Contabilità) accounting standards;

3. Regulation of company defaults, which Italian courts have had to deal with over the last two decades.

Italian Banking System

Banks have always been highly sceptical about the inclusion of intangible values in the financial statements of the companies they analyse. There has been little emphasis on establishing clear methods to understand increasingly recognised know-how or patent value, not to mention other more taboo categories of intangible assets such as brand. To construct rating models, many banks - particularly larger institutions - still measure equity by subtracting disclosed intangible assets from the book value of equity. Evidently, this has disincentivised companies from recognising intangible value, and has penalised the most innovative companies. There is a total absence of alternative finance for small, innovative companies who instead rely on bank debt to fund growth. Therefore, many Italian companies have adjusted their disclosure towards what their financial partners agreed to truly recognise.

Statutory accounting & reporting rules

In terms of civil law principles, in addition to the provisions of Article 2426 of the Civil Code, to the most commonly used rules are the Italian accounting principles OIC, in particular principle no. 24 in points 78 and 79, which cover the devaluation and revaluation of intangible assets. These principles require systematic impairment testing as a criterion of prudence. However, the principles do not deal with the matter except for a reference to the possibility of revaluation only under special laws. In the Italian principles, the subject of intangible asset valuation is not present except in relation to acquisitions.

Company default

History dictates greater scrutiny and liability for the corporate bodies of administration and control, in the presence of insolvency procedures and particularly in the event of bankruptcy. The presence of intangible assets or intangible values has been, in several cases, the lever to profile offences of false accounting, with significant personal implications. It is not that Italy has been lacking in cases where the use of artifices has covered up illegal practices, but the Italian productive fabric is made up of working entrepreneurs not of fraud scientists, even if this shame is perceived internationally.

Reflecting on these historic challenges, it can be said that the Italian historical and regulatory context is not particularly mature when it comes to intangible values.

The pandemic has changed the wind. On 14th August 2020, a historic measure was introduced, known commonly as "August Decree" Decree Law 104., In the midst of the pandemic, the decree introduced an innovative and great opportunity for companies to revalue business assets - both tangible (as precedented) and intangible and equity investments. This opportunity concerns only OIC-adopter companies, so it is mainly aimed at the small and medium-sized enterprises that comprise a large share of the Italian businesses landscape

The August Decree opened the way for a revaluation of balance sheet data with or without tax effect. The difference lies in the price to be paid to have the values recognised for tax purposes. This price is in most cases 3% of the highest value entered in the balance sheet for each individual asset. The 3% revaluation allows the values to be recognised for tax purposes as early as 2021 for depreciation and 2024 for capital gains. Considering that taxation in Italy for corporations is 27.9%, the effect in terms of tax savings diluted over time is a significant 25%.

This historical novelty provides an opportunity for Italy to adopt corporate structures more aligned to what is required to operate effectively in a global market.

I believe the legislator, in a situation of absolute criticality such as the pandemic, has cut some red tape and introduced a unique opportunity that I hope Italian companies have fully grasped.

Measuring the solidity of a company by looking at how many square metres of industrial property it owns or, worse still, how many private homes its founder has, is what has characterised average company valuations to date, made in particular by the banking system. Today, there is the possibility of bringing out the real values and displaying them in the most representative document for stakeholders, the annual report.

In particular, Italian entrepreneurship is increasingly characterised by the ability to innovate and create; these are values that must be represented in a global market, otherwise small businesses will remain invisible to the market. In the growth phases of new projects or new lines of business, the intangible asset is the real foundation on which the development or sometimes the survival of some realities that post-Covid -19 will need to renew themselves.

What are the DNA values of the most virtuous companies of the future? The average age of their employees, the hours of training invested in their development, the fidelity of relationships in terms of the number of years the relationship has lasted, innovative patents, brand identity, marketing and the ability to be recognised by their market, the ability to sell a new product or service: these are all values that we can define as useful and necessary for the future.

The August Decree has given an opportunity to take a more innovative look at the entire Italian economic system, from banks, to the tax authorities, to the courts; entrepreneurs need a new mentality of communicating externally how much intangible value their company possesses. This should certainly be done with prudence and conservatism, operating on the principles of fair value and sourcing independent parties to certify these values. Only by understanding and supporting intangible assets can you fully benefit from and communicate its value.

Company Trends.

Every year, the Brand Finance GIFT™ report ranks the world's most intangible companies and those with the highest levels of intangible asset disclosure.

This year's number one company in terms of total estimated intangible value is Microsoft, which has jumped from 4th position in 2020 to overtake Apple, Amazon, and Saudi Aramco. Microsoft Teams has become embedded into business life for global organisations, once again proving the value of Microsoft's ability to innovate and roll-out at scale. Microsoft is investing heavily in its business suite solutions. Although Apple is the more valuable company by approximately $200 billion, Microsoft is estimated to have more intangible value – a total of $1.9 trillion- with its portfolio of brands and business operations.

Today, the top 10 companies continue to represent a disproportionate share of intangible value. 15% of the intangible value of ~60,000 companies is held between Microsoft, Apple, Saudi Aramco, Amazon, Alphabet, Facebook, Tencent, Tesla, TSMC and Alibaba. Of these top 10, 6 did not yet exist in 1996 (Amazon, Alphabet/Google, Facebook, Tencent, Tesla, and Alibaba. Aramco and TSMC existed but were not listed 25 years ago.

Despite this high level of flux, some of the world's most intangible companies have been consistently so. Johnson & Johnson ranks 11th this year, as it also did in 2020 and 5 years ago in 2016. 10 years ago, the company ranked 14th in the world by intangible value.

Ranking by Disclosed Intangibles

The usual suspects continue to rank highly when considering disclosed intangible value. Major acquirers such as AT&T, Comcast, AB InBev are – by virtue of their acquisitory past – top in terms of intangible asset disclosure.

Evidently, the top performers in intangible asset disclosure and total intangible asset value do not align. It is this dichotomy between acquired and home-grown intangible asset disclosure which causes investors and analysts to disregard reported intangible asset value.

Top 10 Intangible Companies 2021

Microsoft	1	↑ 4	🇺🇸	2021: **$1,904bn**	2020: **$1,598bn**
	2	↓ 1	🇺🇸	2021: **$1,871bn**	2020: **$2,151bn**
أرامكو السعودية saudi aramco	3	← 3	🇸🇦	2021: **$1,644bn**	2020: **$1,651bn**
amazon	4	↓ 2	🇺🇸	2021: **$1,471bn**	2020: **$1,694bn**
Alphabet	5	← 5	🇺🇸	2021: **$1,309bn**	2020: **$838bn**
f	6	← 6	🇺🇸	2021: **$813bn**	2020: **$704bn**
Tencent	7	↑ 8	🇨🇳	2021: **$661bn**	2020: **$610bn**
TESLA	8	↑ 9	🇺🇸	2021: **$619bn**	2020: **$433bn**
tsmc	9	↑ 18	🇨🇳	2021: **$471bn**	2020: **$316bn**
Alibaba Group 阿里巴巴集团	10	↓ 7	🇨🇳	2021: **$462bn**	2020: **$693bn**

Top 100 Companies by Total Intangible Value.

Rank 2021	Rank 2020		Name	Country	Industry	Total Intangible Value (USD bn)	Total Intangible Value/ Enterprise Value (USD bn)	Total Intangible Value 2020 (USD bn)	Year on Year Change	Tangible Net Asset Value (USD bn)	Net Disclosed Intangibles (USD bn)	Disclosed Goodwill (USD bn)	Undisclosed Intangible Value	Enterprise Value (USD bn)
1	4	↑	Microsoft	United States	Internet & Software	$1,904	$1	$1,598	+306.8	$133	$8	$50	$1,847	$2,037
2	1	↓	Apple	United States	Technology & IT	$1,871	$1	$2,151	-280.5	$152	-	-	$1,871	$2,023
3	3	←	Saudi Aramco	Saudi Arabia	Oil & Gas	$1,644	$1	$1,651	-6.8	$329	$17	$27	$1,601	$1,974
4	2	↓	Amazon	United States	Internet & Software	$1,471	$1	$1,694	-222.4	$116	$0	$15	$1,456	$1,587
5	5	←	Alphabet	United States	Internet & Software	$1,309	$1	$838	+470.8	$321	$2	$22	$1,285	$1,630
6	6	←	Facebook	United States	Internet & Software	$813	$1	$704	+108.8	$170	$1	$19	$793	$983
7	8	↑	Tencent	China	Internet & Software	$661	$1	$610	+50.7	$111	$7	$17	$637	$772
8	9	↑	Tesla	United States	Automobiles	$619	$1	$433	+185.6	$24	$2	$0	$617	$643
9	18	↑	TSMC	China	Technology & IT	$471	$1	$316	+155.6	$82	$1	$0	$471	$553
10	7	↓	Alibaba	China	Internet & Software	$462	$1	$693	-231.2	$152	$11	$45	$407	$615
11	11	←	Johnson & Johnson	United States	Pharma	$450	$1	$417	+32.4	-$12	$51	$36	$363	$438
12	10	↓	VISA	United States	Banking	$422	$1	$427	-4.8	$5	$28	$16	$379	$428
13	20	↑	UnitedHealth Group	United States	Healthcare	$389	$1	$312	+76.8	$16	$11	$72	$306	$405
14	14	←	Mastercard	United States	Banking	$357	$1	$356	+0.9	-$1	$3	$7	$347	$356
15	17	↑	Nvidia	United States	Technology & IT	$357	$1	$331	+26.2	$17	$3	$4	$350	$374
16	21	↑	Kweichow Moutai	China	Drinks	$355	$1	$312	+43.4	$30	-	-	$355	$385
17	13	↓	Procter & Gamble	United States	Cosmetics & Personal Care	$354	$1	$362	-8.3	$2	$24	$41	$290	$356
18	22	↑	Home Depot	United States	Retail & Food Retail	$350	$1	$310	+39.6	$30	$0	$7	$343	$380
19	28	↑	Disney	United States	Media	$347	$1	$252	+94.7	$43	$18	$78	$251	$390
20	12	↓	Walmart	United States	Retail & Food Retail	$343	$1	$372	-29.2	$96	$0	$29	$314	$439
21	15	↓	Nestle	Switzerland	Food	$334	$1	$347	-13.0	$33	$23	$31	$280	$367
22	24	↑	Comcast	United States	Media	$331	$1	$283	+47.8	$24	$94	$70	$167	$355
23	16	↓	AT&T	United States	Telecoms	$314	$1	$333	-19.7	$103	$136	$135	$43	$416
24	31	↑	LVMH	France	Apparel, Watches & Jewellery	$309	$1	$233	+76.2	$28	$21	$20	$269	$337
25	23	↓	Roche	Switzerland	Pharma	$306	$1	$291	+14.5	$27	$14	$11	$281	$333
26	25	↓	Abbvie	United States	Pharma	$291	$1	$267	+23.8	-$24	$81	$32	$177	$267
27	19	↓	Verizon	United States	Telecoms	$288	$1	$312	-23.9	$120	$105	$25	$158	$408
28	59	↑	ASML	Netherlands	Technology & IT	$279	$1	$156	+122.8	$9	$1	$5	$272	$288
29	30	↑	PayPal	United States	Commercial Services	$272	$1	$238	+34.5	$13	$1	$9	$262	$285
30	39	↑	Oracle	United States	Internet & Software	$263	$1	$212	+50.3	$0	$2	$44	$216	$263
31	84	↑	JP Morgan Chase & Co	United States	Banking	$261	$0	$119	+142.0	$312	$1	$49	$211	$573
32	33	↑	Berkshire Hathaway	United States	Insurance	$245	$0	$230	+14.2	$536	$30	$74	$140	$780
33	36	↑	Coca-Cola	United States	Drinks	$240	$1	$221	+19.5	$24	$11	$18	$212	$265
34	27	↓	Adobe	United States	Internet & Software	$239	$1	$255	-15.4	$1	$2	$12	$226	$241
35	40	↑	AB InBev	Belgium	Drinks	$232	$1	$212	+20.2	-$1	$42	$121	$69	$231
36	26	↓	Netflix	United States	Internet & Software	$228	$1	$261	-33.0	$16	$8	$0	$220	$244
37	38	↑	PepsiCo	United States	Drinks	$227	$1	$217	+10.0	$14	$19	$19	$189	$241
38	43	↑	Broadcom	United States	Technology & IT	$224	$1	$188	+36.6	-$3	$14	$43	$167	$222
39	37	↓	Charter Communications	United States	Media	$215	$1	$220	-5.1	$5	$72	$30	$113	$220
40	34	↓	Novartis	Switzerland	Pharma	$214	$1	$226	-12.1	$20	$35	$30	$150	$234
41	54	↑	Danaher	United States	Healthcare	$212	$1	$167	+45.4	$1	$21	$36	$156	$213
42	32	↓	Pfizer	United States	Pharma	$212	$1	$233	-20.4	$17	$28	$50	$134	$229
43	46	↑	T-Mobile	United States	Telecoms	$212	$1	$182	+30.4	$72	$88	$11	$113	$284
44	42	↓	Abbott Labs	United States	Healthcare	$210	$1	$197	+13.1	$13	$14	$23	$172	$223
45	58	↑	Cisco	United States	Telecoms	$205	$1	$160	+44.7	$10	$4	$38	$163	$215
46	35	↓	Merck & Co	United States	Pharma	$203	$1	$223	-19.7	$17	$14	$20	$168	$220
47	44	↓	Deutsche Telekom	Germany	Telecoms	$202	$1	$185	+17.2	$92	$129	$24	$50	$295
48	49	↑	Nike	United States	Apparel, Watches & Jewellery	$202	$1	$172	+30.8	$13	$0	$0	$202	$215
49	29	↓	Salesforce	United States	Internet & Software	$195	$1	$248	-52.8	$18	$7	$27	$162	$213
50	-	↑	KE Holdings	China	Media	$193	$1	$0	+192.6	$14	$0	$0	$192	$207
51	45	↓	Meituan Dianping	China	Internet & Software	$192	$1	$184	+8.1	$14	$1	$4	$188	$206
52	60	↑	Medtronic	United States	Healthcare	$184	$1	$154	+30.9	$8	$18	$42	$125	$193
53	62	↑	Eli Lilly	United States	Pharma	$184	$1	$148	+36.0	$8	$8	$4	$172	$193
54	57	↑	IBM	United States	Technology & IT	$184	$1	$161	+22.8	-$1	$14	$62	$109	$183
55	47	↓	Thermo Fisher	United States	Healthcare	$184	$1	$181	+3.4	$8	$13	$27	$144	$192
56	55	↓	L'Oreal	France	Cosmetics & Personal Care	$178	$1	$166	+12.3	$35	$4	$13	$161	$213
57	50	↓	Intel	United States	Technology & IT	$176	$1	$171	+5.2	$55	$8	$27	$142	$232
58	53	↓	Bristol Myers Squibb	United States	Pharma	$175	$1	$168	+6.5	$0	$51	$21	$103	$175
59	48	↓	Unilever	United Kingdom	Cosmetics & Personal Care	$174	$1	$177	-2.9	$8	$19	$23	$132	$182
60	74	↑	Texas Instruments	United States	Technology & IT	$170	$1	$130	+39.9	$8	$0	$4	$165	$178
61	-	↑	Bank of America	United States	Banking	$167	$0	$51	+116.3	$291	$2	$69	$96	$459
62	41	↓	SAP	Germany	Internet & Software	$166	$1	$209	-43.0	$10	$5	$34	$127	$176
63	75	↑	Shopify	Canada	Internet & Software	$166	$1	$129	+37.1	$16	$0	$0	$165	$182
64	52	↓	Amgen	United States	Pharma	$164	$1	$169	-4.5	$1	$16	$15	$134	$165
65	65	←	Accenture	Ireland	Technology & IT	$164	$1	$143	+21.3	$15	$1	$9	$154	$179
66	61	↓	BAT	United Kingdom	Food	$157	$1	$149	+8.1	-$16	$98	$59	-$1	$141
67	85	↑	Honeywell	United States	Technology & IT	$154	$1	$119	+35.6	$7	$4	$17	$134	$162
68	70	↑	Costco	United States	Retail & Food Retail	$153	$1	$138	+14.7	$17	-	-	$153	$170
69	67	↓	Qualcomm	United States	Technology & IT	$152	$1	$142	+9.2	$3	$2	$7	$143	$154
70	82	↑	Raytheon Technology	United States	Aerospace & Defence	$151	$1	$121	+30.7	$4	$40	$54	$58	$155
71	64	↓	Novo Nordisk	Denmark	Pharma	$151	$1	$144	+7.4	$6	-	-	$151	$158
72	98	↑	TCS	India	Technology & IT	$150	$1	$100	+50.4	$16	$0	$1	$150	$166
73	56	↓	Astrazeneca	United Kingdom	Pharma	$149	$1	$163	-14.3	-$5	$20	$12	$117	$144
74	90	↑	Pinduoduo	United States	Internet & Software	$148	$1	$115	+32.7	$20	$0	$0	$148	$168
75	68	↓	UPS	United States	Logistics	$146	$1	$142	+4.2	$20	$2	$3	$141	$167
76	73	↓	Linde	United States	Chemicals	$142	$1	$132	+10.0	$17	$15	$27	$100	$159
77	81	↑	Lowe's	United States	Retail & Food Retail	$140	$1	$123	+17.6	$21	$0	$0	$140	$161
78	69	↓	Prosus	Netherlands	Internet & Software	$140	$1	$139	+0.8	$42	$1	$2	$137	$182
79	80	↑	CVS Health	United States	Retail & Food Retail	$138	$1	$123	+15.0	$35	$31	$80	$28	$173
80	89	↑	Wuliangye	China	Drinks	$134	$1	$116	+17.7	$25	$0	$0	$134	$159
81	99	↑	Siemens	Germany	Engineering & Construction	$132	$1	$98	+33.9	$51	$13	$34	$85	$183
82	87	↑	Union Pacific	United States	Logistics	$129	$1	$116	+12.8	$44	-	-	$129	$173
83	-	↑	Kabsons	India	Utilities	$127	$1	$0	+127.0	$0	$0	$0	$127	$127
84	93	↑	Dell Technologies	United States	Technology & IT	$126	$1	$106	+20.0	-$11	$14	$41	$71	$115
85	-	↑	Christian Dior	France	Apparel, Watches & Jewellery	$124	$1	$97	+26.9	$28	$20	$18	$86	$152
86	71	↓	GlaxoSmithKline	United Kingdom	Pharma	$123	$1	$133	-9.2	$4	$41	$14	$68	$127
87	79	↓	American Tower	United States	Real Estate	$123	$1	$124	-0.6	-$15	$14	$7	$102	$108
88	76	↓	SoftBank	Japan	Telecoms	$122	$0	$128	-5.8	$160	$21	$42	$59	$282
89	-	↑	Samsung Electronics	South Korea	Technology & IT	$120	$0	-$2	+122.2	$311	$11	$5	$104	$431
90	78	↓	Sanofi	France	Pharma	$120	$1	$125	-4.8	$11	$23	$54	$43	$131
91	95	↑	3M	United States	Engineering & Construction	$120	$1	$103	+16.3	$9	$6	$14	$100	$129
92	-	↑	BHP	Australia	Mining, Iron & Steel	$118	$1	$84	+33.9	$65	$1	$0	$116	$183
93	-	↑	Caterpillar	United States	Engineering & Construction	$117	$1	$73	+44.4	$10	$1	$6	$110	$127
94	100	↑	Cigna	United States	Healthcare	$114	$1	$98	+16.5	-$7	$35	$45	$35	$108
95	-	↑	BlackRock	United States	Banking	$114	$1	$92	+21.9	$17	$19	$15	$80	$130
96	86	↓	Lockheed Martin	United States	Aerospace & Defence	$113	$1	$118	-5.5	$2	$3	$11	$99	$115
97	-	↑	JD Health	China	Pharma	$112	$1	-	-	$11	$0	$0	$112	$123
98	-	↑	Applied Materials	United States	Technology & IT	$112	$1	$51	+61.3	$9	$0	$3	$108	$121
99	97	↓	Nextera	United States	Utilities	$112	$1	$103	+8.9	$93	$0	$5	$107	$204
100	-	↑	Blackstone	United States	Banking	$111	$1	$61	+50.3	$10	$0	$2	$109	$121

Top 100 Companies by Disclosed Intangible Value.

Rank 2021	Rank 2020		Name Cleaned	Country	Industry	Disclosed Intangible Value (USD bn)	Disclosed Intangible Value/ Enterprise Value (USD bn)	Tangible Net Asset Value (USD bn)	Net Disclosed Intangibles (USD bn)	Disclosed Goodwill (USD bn)	Undisclosed Intangible Value	Enterprise Value (USD bn)
1	1	←	AT&T	United States	Telecoms	$270	$1	$103	$136	$135	$43	$416
2	2	←	Comcast	United States	Media	$164	$0	$24	$94	$70	$167	$355
3	4	↑	AB InBev	Belgium	Drinks	$162	$1	-$1	$42	$121	$69	$231
4	3	↓	BAT	United Kingdom	Food	$157	$1	-$16	$98	$59	-$1	$141
5	5	←	Deutsche Telekom	Germany	Telecoms	$153	$1	$92	$129	$24	$50	$295
6	6	←	Verizon	United States	Telecoms	$130	$0	$120	$105	$25	$158	$408
7	7	←	Abbvie	United States	Pharma	$114	$0	-$24	$81	$32	$177	$267
8	8	←	CVS Health	United States	Retail & Food Retail	$110	$1	$35	$31	$80	$28	$173
9	10	↑	Berkshire Hathaway	United States	Insurance	$104	$0	$536	$30	$74	$140	$780
10	9	↓	Charter Communications	United States	Media	$102	$0	$5	$72	$30	$113	$220
11	11	←	T-Mobile	United States	Telecoms	$99	$0	$72	$88	$11	$113	$284
12	12	←	Disney	United States	Media	$96	$0	$43	$18	$78	$251	$390
13	13	←	Raytheon Technology	United States	Aerospace & Defence	$94	$1	$4	$40	$54	$58	$155
14	15	↑	Johnson & Johnson	United States	Pharma	$87	$0	-$12	$51	$36	$363	$438
15	20	↑	UnitedHealth Group	United States	Healthcare	$83	$0	$16	$11	$72	$306	$405
16	21	↑	Volkswagen	Germany	Automobiles	$81	$0	$76	$52	$29	$26	$182
17	18	↑	Cigna	United States	Healthcare	$79	$1	-$7	$35	$45	$35	$108
18	14	↓	Pfizer	United States	Pharma	$78	$0	$17	$28	$50	$134	$229
19	27	↑	Sanofi	France	Pharma	$77	$1	$11	$23	$54	$43	$131
20	17	↓	Kraft Heinz	United States	Food	$76	$1	-$1	$45	$31	-$1	$74
21	23	↑	IBM	United States	Technology & IT	$75	$0	-$1	$14	$62	$109	$183
22	16	↓	Bayer	Germany	Pharma	$75	$1	$5	$31	$44	$22	$102
23	26	↑	Atlantia	Italy	Commercial Services	$73	$1	-$5	$58	$15	$8	$75
24	22	↓	Takeda	Japan	Pharma	$72	$1	$12	$35	$36	$10	$93
25	19	↓	Bristol Myers Squibb	United States	Pharma	$71	$0	$0	$51	$21	$103	$175
26	25	↓	Bank of America	United States	Banking	$71	$0	$291	$2	$69	$96	$459
27	24	↓	FIS	United States	Internet & Software	$71	$1	-$4	$18	$53	$39	$106
28	28	←	Novartis	Switzerland	Pharma	$65	$0	$20	$35	$30	$150	$234
29	29	←	Procter & Gamble	United States	Cosmetics & Personal Care	$64	$0	$2	$24	$41	$290	$356
30	35	↑	SoftBank	Japan	Telecoms	$63	$0	$160	$21	$42	$59	$282
31	33	↑	Vodafone	United Kingdom	Telecoms	$63	$1	$67	$26	$37	-$14	$116
32	32	←	CK Hutchinson	China	Banking	$62	$1	$57	$20	$41	-$37	$82
33	31	↓	Medtronic	United States	Healthcare	$60	$0	$8	$18	$42	$125	$193
34	30	↓	Broadcom	United States	Technology & IT	$58	$0	-$3	$14	$43	$167	$222
35	39	↑	Microsoft	United States	Internet & Software	$58	$0	$133	$8	$50	$1,847	$2,037
36	36	←	Danaher	United States	Healthcare	$56	$0	$1	$21	$36	$156	$213
37	44	↑	Alibaba	China	Internet & Software	$55	$0	$152	$11	$45	$407	$615
38	38	←	GlaxoSmithKline	United Kingdom	Pharma	$55	$0	$4	$41	$14	$68	$127
39	34	↓	Dell Technologies	United States	Technology & IT	$55	$0	-$11	$14	$41	$71	$115
40	40	←	Vinci	France	Engineering & Construction	$54	$1	-$1	$40	$14	$30	$84
41	41	←	Nestle	Switzerland	Food	$54	$0	$33	$23	$31	$280	$367
42	37	↓	Fiserv	United States	Internet & Software	$52	$1	$1	$16	$36	$48	$101
43	42	↓	JP Morgan Chase & Co	United States	Banking	$50	$0	$312	$1	$49	$211	$573
44	87	↑	Siemens	Germany	Engineering & Construction	$47	$0	$51	$13	$34	$85	$183
45	43	↓	Oracle	United States	Internet & Software	$46	$0	$0	$2	$44	$216	$263
46	45	↓	Orange	France	Telecoms	$46	$1	$30	$17	$28	$1	$77
47	47	←	Keurig Dr Pepper	United States	Drinks	$44	$1	-$6	$24	$20	$25	$63
48	46	↓	Saudi Aramco	Saudi Arabia	Oil & Gas	$44	$0	$329	$17	$27	$1,601	$1,974
49	48	↓	VISA	United States	Banking	$44	$0	$5	$28	$16	$379	$428
50	-	New	Gilead Sciences	United States	Pharma	$43	$0	$0	$35	$8	$62	$105
51	50	↓	Linde	United States	Chemicals	$42	$0	$17	$15	$27	$100	$159
52	51	↓	Unilever	United Kingdom	Cosmetics & Personal Care	$42	$0	$8	$19	$23	$132	$182
53	65	↑	Cisco	United States	Telecoms	$41	$0	$10	$4	$38	$163	$215
54	52	↓	Exor	Italy	Banking	$41	$2	-$18	$25	$16	$3	$26
55	55	←	Mondelez	United States	Food	$40	$0	$5	$19	$22	$55	$100
56	69	↑	LVMH	France	Apparel, Watches & Jewellery	$40	$0	$28	$21	$20	$269	$337
57	-	New	Viatris	United States	Pharma	$40	$1	$5	$28	$12	-$5	$41
58	53	↓	EssilorLuxottica	France	Healthcare	$40	$1	$4	$12	$28	$29	$72
59	56	↓	Thermo Fisher	United States	Healthcare	$40	$0	$8	$13	$27	$144	$192
60	59	↓	SAP	Germany	Internet & Software	$39	$0	$10	$5	$34	$127	$176
61	54	↓	Brookfield Asset Management	Canada	Banking	$39	$0	$8	$24	$15	$34	$81
62	61	↓	PepsiCo	United States	Drinks	$38	$0	$14	$19	$19	$189	$241
63	66	↑	Enel	Italy	Utilities	$38	$0	$78	$21	$16	$58	$174
64	57	↓	Abbott Labs	United States	Healthcare	$38	$0	$13	$14	$23	$172	$223
65	72	↑	CCCC	China	Engineering & Construction	$38	$0	$77	$37	$1	-$18	$96
66	78	↑	Christian Dior	France	Apparel, Watches & Jewellery	$37	$0	$28	$20	$18	$86	$152
67	58	↓	Becton Dickinson	United States	Healthcare	$37	$0	$2	$13	$24	$48	$87
68	64	↓	Fresenius	Germany	Healthcare	$37	$1	$25	$4	$32	$4	$65
69	-	New	Schneider Electric	France	Technology & IT	$36	$0	$3	$8	$28	$63	$103
70	63	↓	Global Payments	United States	Commercial Services	$36	$1	-$1	$12	$24	$33	$68
71	-	New	Intercontinental Exchange	United States	Banking	$36	$0	-$7	$14	$21	$43	$71
72	67	↓	GE	United States	Engineering & Construction	$35	$0	$28	$9	$25	$56	$118
73	81	↑	Anthem	United States	Healthcare	$35	$0	$9	$11	$24	$50	$93
74	73	↓	TIM	Italy	Telecoms	$35	$1	$29	$8	$27	-$20	$43
75	60	↓	Intel	United States	Technology & IT	$35	$0	$55	$8	$27	$142	$232
76	62	↓	Merck & Co	United States	Pharma	$35	$0	$17	$14	$20	$168	$220
77	82	↑	Bollore	France	Banking	$34	$1	$8	$15	$20	$1	$44
78	83	↑	Financiere de l'Odet	France	Banking	$34	$1	$7	$14	$20	-$1	$40
79	75	↓	BlackRock	United States	Banking	$34	$0	$17	$19	$15	$80	$130
80	70	↓	Telefonica	Spain	Telecoms	$33	$0	$50	$13	$20	-$2	$81
81	-	New	TotalEnergies	France	Oil & Gas	$33	$0	$117	$24	$9	$14	$163
82	71	↓	Salesforce	United States	Internet & Software	$33	$0	$18	$7	$27	$162	$213
83	97	↑	POWERCHINA	China	Engineering & Construction	$32	$0	$45	$32	$0	-$5	$72
84	80	↓	Astrazeneca	United Kingdom	Pharma	$32	$0	-$5	$20	$12	$117	$144
85	76	↓	CME Group	United States	Banking	$31	$0	$6	$21	$11	$47	$85
86	-	New	Reckitt Benckiser	United Kingdom	Household Products	$31	$0	-$7	$24	$7	$51	$76
87	-	New	Stellantis	Netherlands	Automobiles	$31	$1	$2	$15	$16	-$4	$28
88	77	↓	Amgen	United States	Pharma	$31	$0	$1	$16	$15	$134	$165
89	-	New	SoftBank Group	Japan	Telecoms	$30	$0	$34	$19	$11	$48	$113
90	99	↑	Dish Network	United States	Media	$29	$1	-$3	$29	$0	$8	$34
91	90	↓	Coca-Cola	United States	Drinks	$29	$0	$24	$11	$18	$212	$265
92	86	↓	Walmart	United States	Retail & Food Retail	$29	$0	$96	$0	$29	$314	$439
93	-	New	International Flavors & Fragrances	United States	Chemicals	$29	$1	$5	$12	$17	$13	$47
94	68	↓	Teva Pharmaceuticals	Israel	Pharma	$29	$1	$6	$8	$20	$2	$37
95	88	↓	Merck Group	Germany	Pharma	$29	$0	$7	$9	$19	$52	$88
96	92	↓	Danone	France	Food	$28	$0	$7	$7	$21	$23	$58
97	95	↓	Enbridge	Canada	Engineering & Construction	$28	$0	$79	$2	$26	$30	$136
98	98	←	AXA	France	Insurance	$27	$0	$87	$7	$20	-$22	$92
99	94	↓	Truist	United States	Banking	$27	$0	$61	$3	$24	$12	$101
100	100	←	Centene	United States	Healthcare	$27	$1	$7	$8	$19	$11	$44

M&A Activity.

M&A Activity.

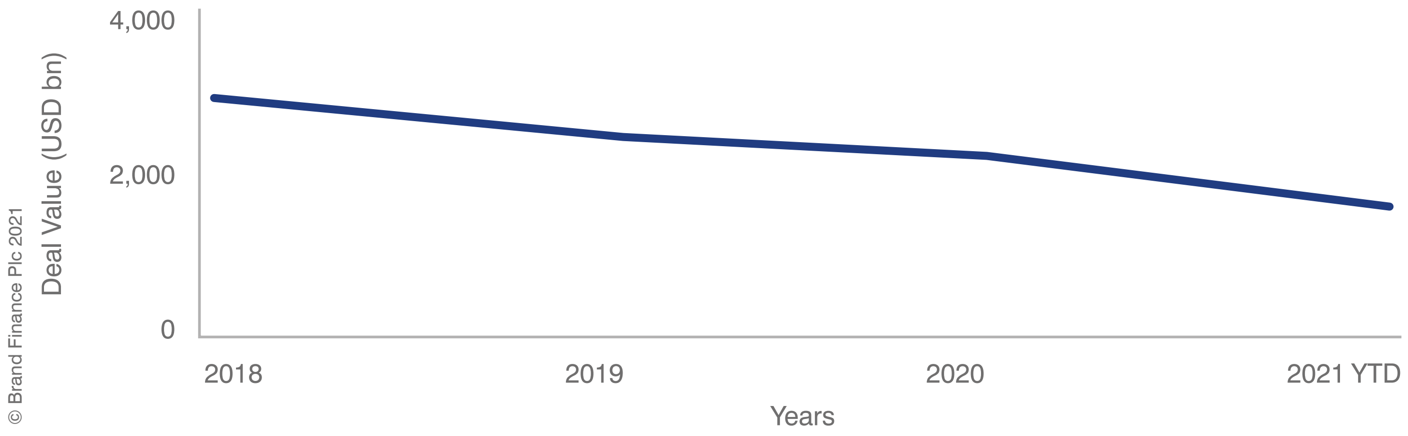
Following a persistent decline in both the value and volume of mergers and acquisitions since 2018, 2021 is projected to reverse this trend, already boasting the largest M&A value announced in the first 4 months than any other year previously.

General market malaise led to a 17% drop in deal value and an 11% drop in the number of deals being completed in 2019 compared to 2018. Moving into the unprecedented circumstances of early 2020, confidence remained low, and previous strategic investors focused their efforts on keeping their own companies afloat and many pending deals were delayed or abandoned.

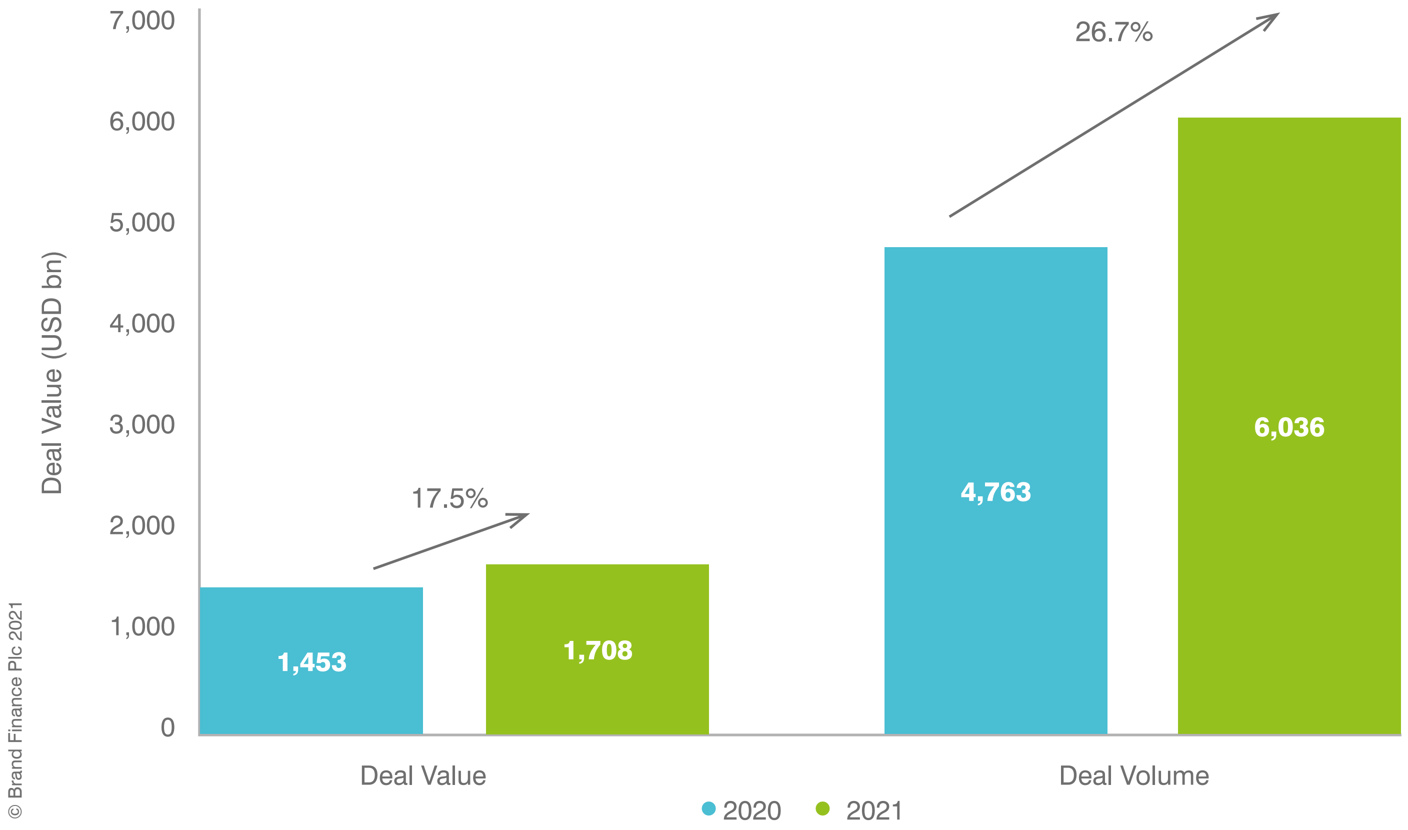
Total Value of Completed Acquisitions in 2021, USDbn

1	Internet & Software	$185
2	Real Estate	$179
3	Banking	$140
4	Commercial Services	$137
5	Pharma	$124
6	Oil & Gas	$107
7	Telecoms	$104
8	Retail	$90
9	Engineering & Construction	$81
10	Tech	$71

Deal Value Trend



2020 Vs. 2021 Comparison YTD



The UK market has experienced the most noticeable recovery so far in 2021, with a 308% increase on the value of M&A versus the comparable period in 2020. Similarly, in France and Canada, deal value has more than doubled on the same period last year. M&A is dramatically rising due to rebounded confidence, extremely low interest rates which are causing individuals to chase yield, and revisiting of previously delayed deals. In particular, we have seen a surge in M&A activity in the Internet & Software sector, which was vital for business continuity, collaboration, and connectivity during the lockdowns. As the world continues to transition to a more flexible working-from-home model, M&A activity in this area is set to continue throughout the remainder of 2021.

Brand Finance Exchanges 10 (USD m).

CME stays on top

CME remains the most valuable exchange brand in the world despite recording a 15% drop in brand value to US$1.8 billion.

The pandemic saw its average daily volume decrease year-one-year, limiting its clearing and transaction fees, which account for a large portion of its total revenues. CME reported negative revenue growth from Q2 to Q4 last year, leading to unfavourable revenue growth forecasts.

NYSE retains strongest brand title

In addition to measuring brand value, Brand Finance also determines the relative strength of brands through a balanced scorecard of metrics evaluating marketing investment, stakeholder equity, and business performance. Alongside revenue forecasts, brand strength is a crucial driver of brand value. According to these criteria, **NYSE** is the strongest exchange brand, with a Brand Strength Index (BSI) score of 79.3 out of 100 and a corresponding AA+ brand strength rating.

It credits the technology that underpins its trading floor operations - NYSE Pillar - with providing consistency and dependability at the height of the pandemic, processing 330 billion messages in one day.

The New York-based exchange also saw an impressive 20% jump in brand value to US$1.6 billion, closing the gap on second placed **HKEX** (brand value up 8% to US$1.6 billion) to US$8 million.

Top 10 Most Valuable Brands

CME Group	1	← 1	🇺🇸	2021: $1,823m	2020: $2,149m	-15.2%
HKEX 香港交易所	2	← 2	🇨🇳	2021: $1,616m	2020: $1,495m	+8.1%
NYSE	3	← 3	🇺🇸	2021: $1,608m	2020: $1,336m	+20.3%
ice	4	← 4	🇺🇸	2021: $1,153m	2020: $1,003m	+14.9%
Nasdaq	5	← 5	🇺🇸	2021: $966m	2020: $949m	+1.8%
Cboe	6	← 6	🇺🇸	2021: $403m	2020: $402m	+0.2%
EUREX	7	← 7	🇩🇪	2021: $375m	2020: $382m	-1.7%
SGX	8	← 8	🇸🇬	2021: $375m	2020: $368m	+2.1%
London Stock Exchange	9	← 9	🇬🇧	2021: $363m	2020: $345m	+5.2%
SIX Swiss Exchange	10	← 10	🇨🇭	2021: $361m	2020: $323m	+11.7%

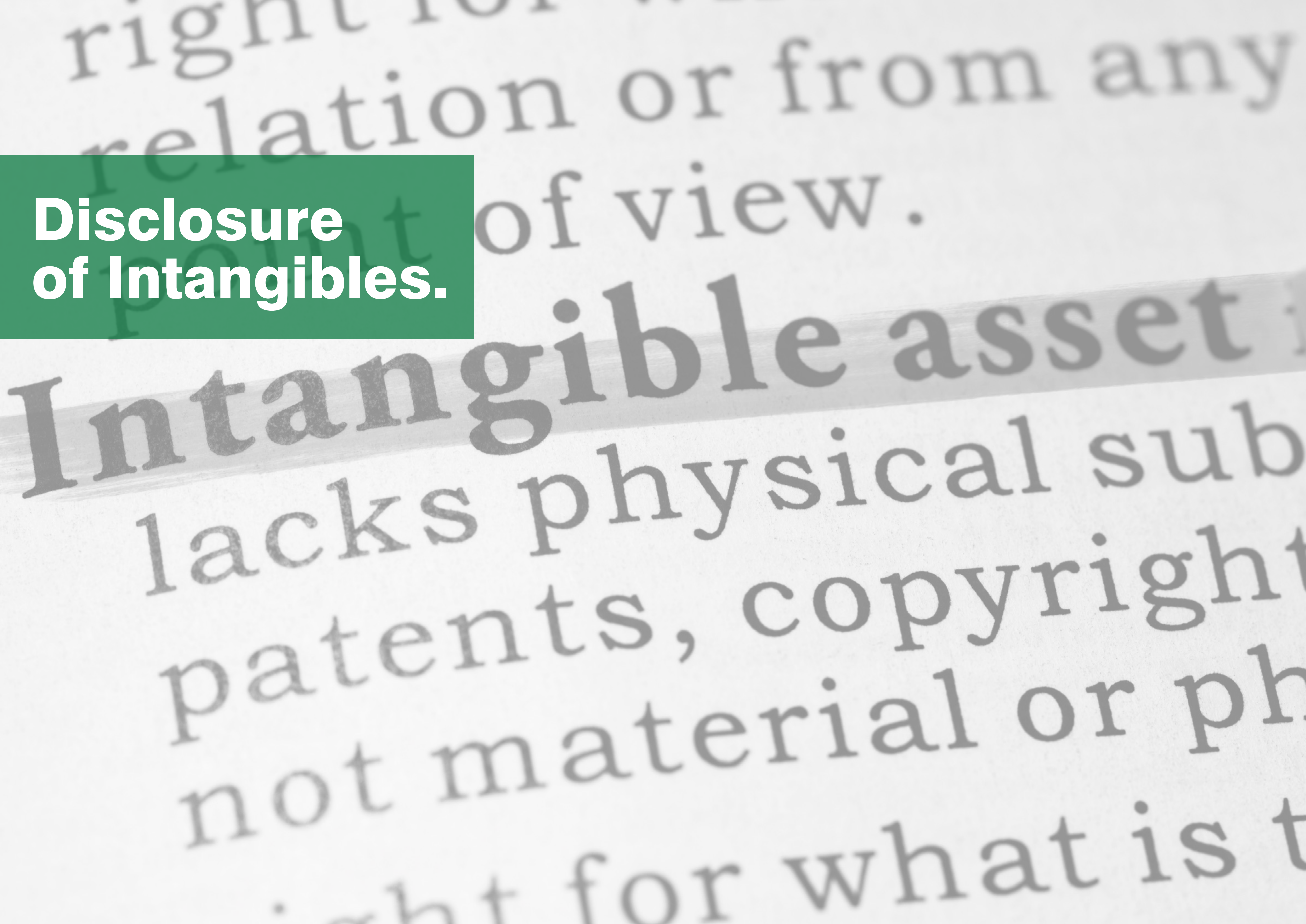
> **The markets fluctuated throughout the year due to COIVD-19 but overall, the industry held firm seeing a 3% increase in cumulative brand value. Those brands which embraced technology and the new normal have managed to capitalise on the unprecedented situation and have positioned themselves well for continued growth.**

Savio D'Souza
Director, Brand Finance

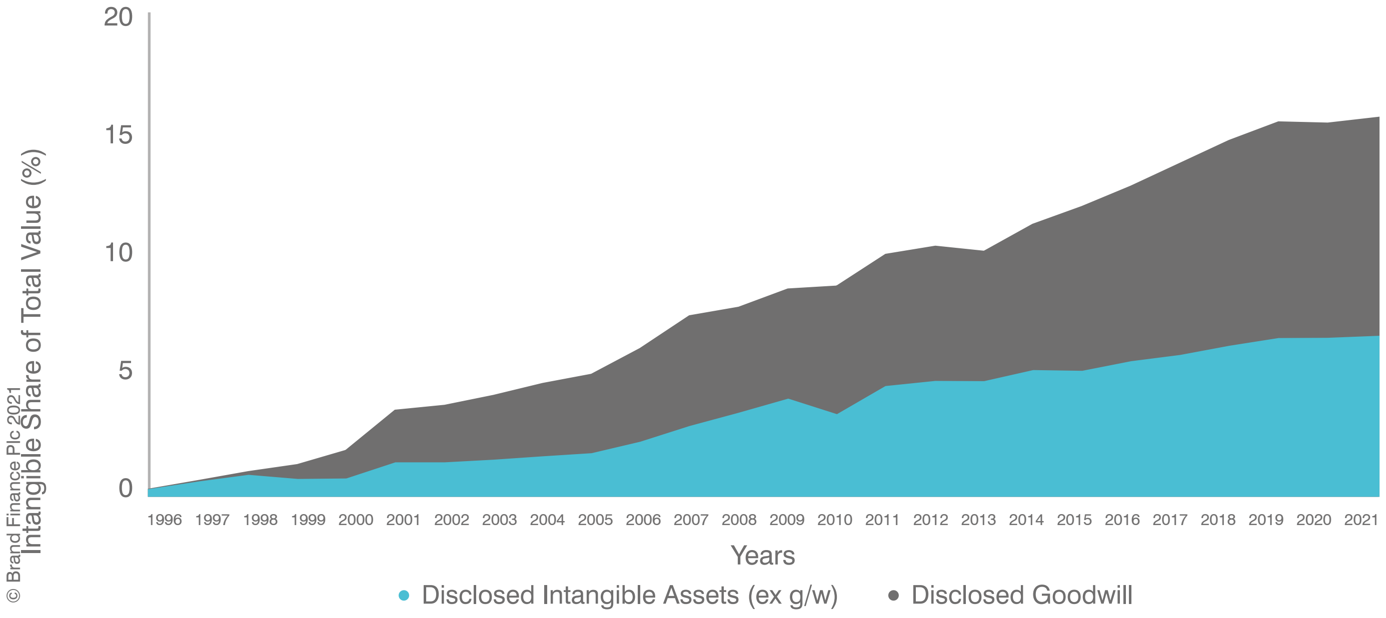
Top 5 Strongest Brands

NYSE	1	← 1	🇺🇸	2021: 79.3 AA+	2020: 75.9 AA+	+3.4
SGX	2	← 2	🇸🇬	2021: 74.8 AA+	2020: 74.2 AA	+0.6
ice	3	↑ 7	🇺🇸	2021: 71.2 AA	2020: 70.3 AA	+0.9
HKEX 香港交易所	4	↑ 5	🇨🇳	2021: 70.9 AA	2020: 72.2 AA	-1.3
London Stock Exchange	5	↓ 4	🇬🇧	2021: 70.9 AA	2020: 72.2 AA	-1.3

Disclosure of Intangibles.



Disclosure of Intangibles.



Disclosed Intangible Value (USD trn)

In 1996, $131 billion of intangible asset value was recognized on balance sheets worldwide. Today, this figure stands at $15.4 trillion.

The main driver of this growth over 25 years is the rise in goodwill value due to M&A activity. Goodwill is the balancing figure between the price paid to acquire a company and the identifiable value of net assets acquired. It is in essence, unquantifiable value, quantified. Theoretically, goodwill represents the synergies gained due to economies of scale or reduced duplication when combining businesses.

In practice, goodwill is understood to represent the price premium paid (or overpaid), for mostly justified but often unknown reasons. Therefore, investors tend to disregard the reported value of goodwill as it provides little insight. Considering how much confusion continues to surround the notion of intangible assets, this $15.4 trillion is astonishing.

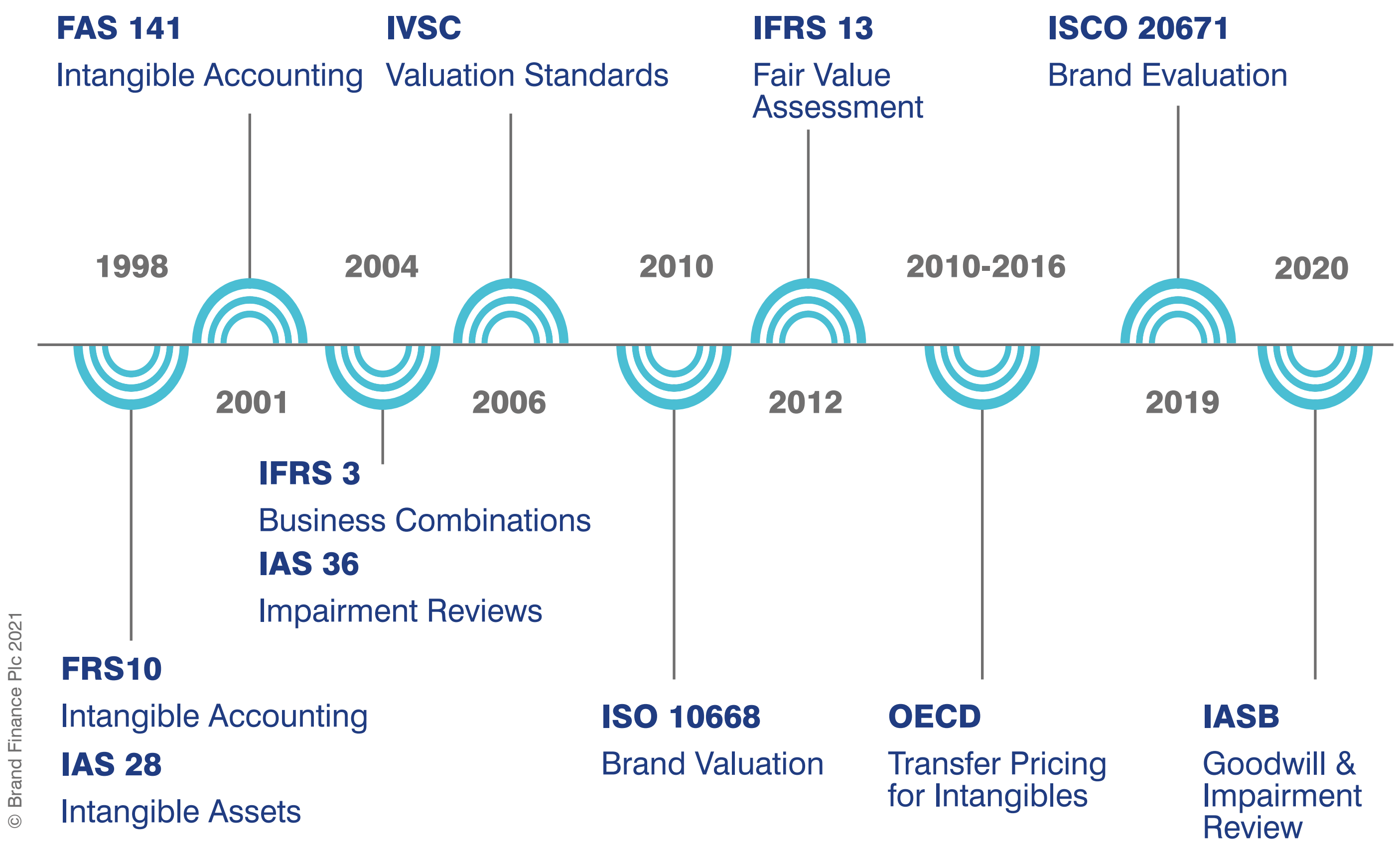
Despite the large growth in disclosed intangible value over the last 25 years, we estimate that the true value of intangible assets is a further $58.9 trillion – a total of $74.3 trillion as of September 2021.

The gap in true intangible asset value and what is disclosed is due to financial reporting rules which dictate that, for the majority of intangible asset classes, intangible value can only be disclosed when it has been gained via acquisition. This rules out the disclosure of “home-grown” intangibles - such as the value of the Apple brand, estimated to stand at $263 billion as of January 2021. Therefore, investors must grapple with an information vacuum surrounding intangible asset value. These rules make reported intangible asset value even more perplexing, so that many analysts and investors disregard reported intangible value altogether.

Outlook for intangible asset reporting

Over the past 25 years, reporting and valuation standards have expanded their remit to cover intangible assets. These developments signal the pressure from market players- including investors, corporates, and professional valuers – to provide clear guidance on handling the asset class.

The watershed came with the Goodman Fielder Wattie bid for Ranks Hovis McDougall in 1988. In its defence document, RHM played heavily on the power of its various brands and the fact that GFW's bid was an attempt to get them on the cheap. The RHM defence document stated that: "RHM owns a number of strong brands, many of which are market leaders, which are valuable in their own right, but which the stock market tends consistently to undervalue. These valuable assets are not included in the balance sheet, but they have helped RHM build profits in the past and provide a sound base for future growth."



Outlook for Intangible Asset Reporting

After fighting off GFW, and in case there was any doubt about the arguments put forward in the heat of the bid battle, RHM's 1988 accounts incorporated the first independently prepared balance sheet valuation of a brand portfolio. A figure of £678 million was included under intangible assets, being the valuation of both internally generated and externally acquired brands.

The RHM action provoked much argument within the accountancy profession. It also led to a wider debate which significantly raised awareness of the brand valuation issue, not only in finance departments but in marketing departments and at board level.

In 1998, the UK Financial Reporting Council introduced FRS 10 – Intangible Accounting. This standard introduced amortisation of goodwill and intangible assets. The US FASB followed suit in 2001 and introduced FAS 141 – Intangible Accounting.

Between 1998-2004, the International Accounting Standards Board (IASB) introduced three key standards pertaining to intangible asset value treatment: International Financial Reporting Standard (IFRS) 3: Business Combinations, IAS 38: Intangible Assets and IAS 36: Impairment Reviews.

Together, these three standards provide guidance on the recognition, disclosure, amortisation, and impairment testing of intangible assets. In practice, these standards primarily concern acquired intangibles; of internally generated intangibles only in-progress R&D is eligible for recognition at the level of incurred investment.

In 2001, the International Valuation Standards Council (IVSC) launched the first International Valuation Standards (IVS), designed to provide a basis for the convergence of differing national standards to meet the needs of an increasingly inter-related global market. The IVSC aims to design its valuation standards to be compatible with IFRS.

In 2010, Brand Finance CEO and Founder, David Haigh, chaired a committee to introduce the world's first international brand valuation standard, ISO 10668. This standard provides guidance on accepted methodologies, analysis lenses, and required disclosures for compliance. ISO 10668 was a major leap to document the robustness of brand valuation.

The IASB launched IFRS 13 – Fair Value in 2012, which provides guidance on valuing assets from a fair value perspective- the approach adopted by practitioners when valuing acquired brands and by Brand Finance in its annual ranking of approximately 3,000 brands.

Between 2010-2016, the Organization for Economic Cooperation and Development (OECD) rolled out transfer pricing guidelines for intangibles, providing guidance to multinationals on accepted methods to determine fair transfer pricing rates across various markets, for which there is a tax implication. The OECD guidelines for intangibles was a line in the sand for key international stakeholders officially recognizing the significance of intangibles and their financial impact.

In 2019, David Haigh again chaired a committee of delegates to deliver an international standard on Brand Evaluation, ISO 20671. This standard provides guidance on measuring the strength of brands and their ability to influence stakeholder behaviour, a key conceptual and mechanical input to Brand Valuation. ISO 10668 and ISO 20671 equip valuation practitioners with the guidelines needed to ensure brand valuations are consistent, reliable measures of financial value.

Despite this, there remain limitations to which intangible assets companies can report. Most intangible assets value ($58.8 trillion) is not recognised, due to the limitations set by the accounting standards boards worldwide which state that internally generated intangible assets such as brands cannot be disclosed in a company balance sheet.

These limitations rule out the disclosure of “home-grown” intangibles - such as the value of the Apple brand, estimated to stand at $263 billion as of January. Therefore, investors must grapple with an information vacuum surrounding intangible asset value. These rules make reported intangible asset value even more perplexing, so that many analysts and investors disregard reported intangible value altogether.

The future

We are now in a pivotal moment for the future of intangible asset reporting. With M&A on the rise this year, we are set to see greater disclosure of acquired intangibles and goodwill.

In March 2020, the IASB released a discussion paper on the post-implementation review of IFRS 3, focusing specifically on goodwill and impairment. In the ongoing 3rd agenda consultation, the IASB must determine how to address the topic and the specific projects required surrounding intangible assets.

The IVSC has relaunched the IVS this year, providing updated guidance on intangible asset valuation to practitioners. Intangible Assets (IVS 210) is one of eight asset-specific standards. The latest version of the Standards brings greater depth to the IVS, as recommended by member organisation, including the major accountancy firms and Valuation Professional Organisations.

Change is on the horizon, and we are optimistic about the future of intangible asset reporting.

> **Brand Finance has been lobbying for greater intangible asset disclosure for about 20 years now. The IVSC supports Brand Finance, and all others, that look to make progress on this most critical issue.**
>
> **Kevin Prall**
> Technical Director, IVSC & Managing Director, BDO

Time to Get Tangible about Intangible Assets.

Kevin Prall
Technical Director,
IVSC & Managing
Director, BDO

The Case for Realigning Reporting Standards with Modern Value Creation

At the International Valuation Standards Council (IVSC), our mission is to develop and propagate a truly global set of valuation standards to the benefit of the capital markets and all its stakeholders. Consistent with this mission we also explore certain emerging issues which we believe are systemic impediments to our valuation profession stakeholders and also to the capital markets at large. We do so through thought leadership research and publications, stakeholder engagement, and sharing our perspectives via public meetings, and webinars. Recently we have begun work on an issue of great importance, exploring the need and opportunities for financial reporting standards to better align with the role of intangible assets in the modern economy.

Intangible assets have long been the engine for value creation in the world's developed economies. The investment in intangible assets, both internally generated and through acquisition, is critical to an enterprises' capital allocation process. Similarly, investors' ability to identify those enterprises best able to translate such investments into long-term returns is equally as critical.

Despite the importance of intangible assets to the capital markets, only a small percentage are recognised on balance sheets, typically via acquisition from a third-party transaction. As many current business models have evolved over decades, namely, to rely more heavily on intangible assets at the expense of tangible, the standards to report on such activity have not. As a result, the economics and the reporting standards have become misaligned.

This misalignment has ripple effects through the financial statements. In the income statement, immediate expensing ignores the matching principle that governs nearly all other enterprise activities. In reaction, many companies choose to communicate various Non-GAAP measures that adjust for such activity. Additionally, failure to recognise internally generated intangibles means that such investments are largely excluded from the governance, financial reporting, and auditing ecosystems. Therefore, such investments are less likely to have corresponding disclosures or be included in the management discussion and analysis (MD&A), and therefore less likely to receive scrutiny from auditors or be visible to investors.

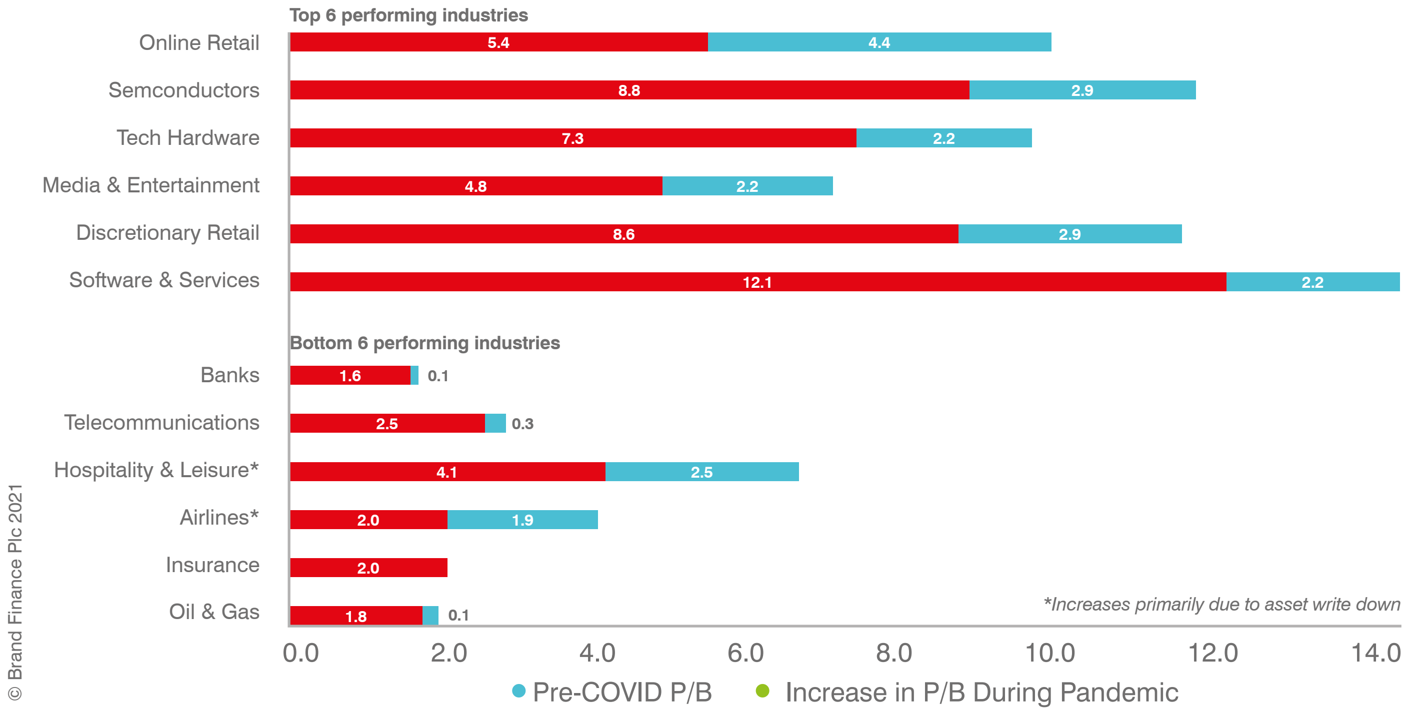
There are also practical implications for specific accounting standards, none more obvious than the disconnect between acquired intangible assets and certain internally-developed intangible assets. This disconnect permeates through the impairment testing processes as well, as acquired goodwill and intangibles can be shielded from impairment write downs by internally-developed goodwill and intangibles that are not reflected on the balance sheet . All told, such limitations have caused many to question the relevance of financial statements in the modern economy . For example, in The End of Accounting and the Path Forward for Investors and Managers the authors, Baruch Lev and Feng Gu, examined the explanatory power of reported earnings and book value for market value between 1950 and 2013. Lev and Gu found that the R2 (i.e., the explanatory power of reported earnings and book value on market value) declined from approximately 90% to 50% over the period .

Many have noted this severe disconnect between market values and book values (i.e., the unidentified intangible asset value) . Per The unbalanced balance sheet: Making intangibles count, the unrecorded intangible asset value has grown exponentially from 2009 to 2019.

Beginning in 2020, the pandemic acted to further accelerate this long-standing trend, particularly for those industries most reliant on intangible value creation, as it has fundamentally changed how people live and work . An excerpt from a recent analysis that looked at 24 separate industries shows that market values have increased more from February 2020 to May 2021 for those companies which already had the highest market value to book value multiples. To show the acceleration of the trend in 2020 and 2021, the below graph displays the price to book value for the top 6 performing industries and the bottom 6 performing industries.

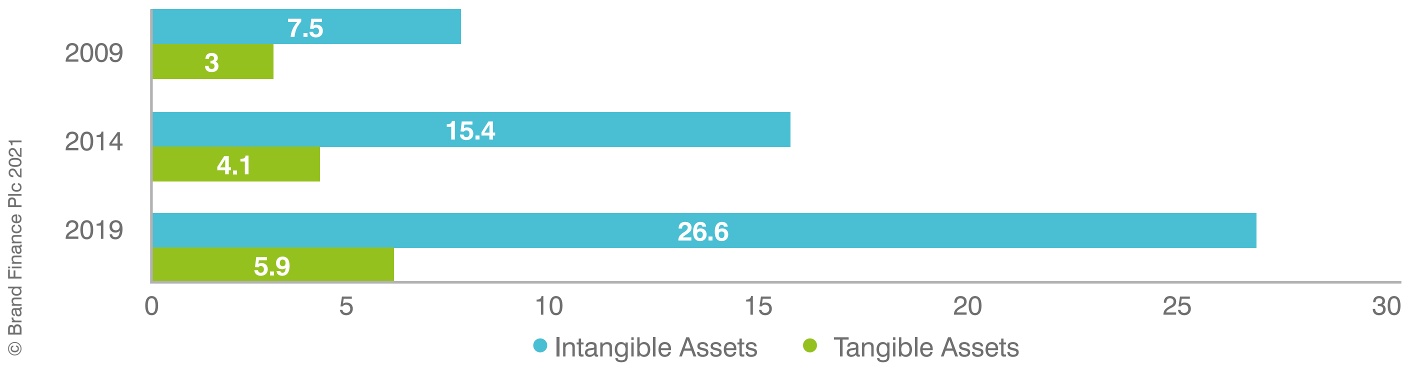
This confirms that the pandemic has further exacerbated the disparity between market values and book values for those industries most reliant on brands, technology, and human capital for value creation. The IVSC supports Brand Finance, and all others, that look to make progress on this most critical issue.

Industry Average Price to Book Value



*Increases primarily due to asset write down

Value of Tangible vs Intangible Assets at S&P 500 Companies (US$ trn)



Intangible Asset Reporting: A Manifesto.

Annie Brown
Associate,
Brand Finance

Regular readers of the GIFT™ report will be familiar with Brand Finance's position on intangible asset reporting.

The majority of intangible assets are not recognised, due to the limitations set by the accounting standards boards which state that internally generated intangible assets such as brands cannot be disclosed in a company balance sheet.

The rationale of the existing recognition criteria is that for any recognised asset value, there needs to be a counter-balancing figure elsewhere in the financial statements. For current assets in a balance sheet, the balancing figures are usually the cost of purchasing or developing said assets.

For intangible assets, such as brand, the relevant costs are hard to measure. Trade mark registration and marketing investment alone will underestimate the value of a brand, particularly in B2B businesses where much of the brand reputation is built via 1-to-1 relationships.

Simultaneously, corporate leadership teams are careful to tiptoe within corporate governance principles here in the UK, and rules in the US. These principles mean management must avoid sharing anything that could be deemed forward-looking information which could unduly influence the share price.

If you consider both the reporting rules and the limitations of corporate governance, it is unsurprising that few corporates report the value of their "home-grown" intangibles. Not to mention the perceived cost of this exercise.

However, investors should not be deprived on this critical information. Intangible assets such as strong, valuable brand and innovative technology can be the differentiators that drive a $2 billion company to $2 trillion in 25 years – as witnessed with Apple. This information vacuum for investors is part of the reason why Brand Finance endeavours to estimate the extent of "undisclosed intangible value" in our GIFT™ study each year.

We feel the financial reporting standards will always be flawed while there is a dichotomy between recognising the value of acquired intangibles, versus no required disclosures about internally generated intangibles.

To truly aid investors and provide them with useful information, we believe management should be allowed and required to:

1. Identify the key intangibles of the entire business – both internally generated and acquired.

2. Provide an opinion on the value of those intangibles in the notes to the financial statements.

3. Provide an opinion of the overall business value at the reporting date, to help investors to understand whether or not their capital is allocated efficiently.

Identifying the key intangibles of the entire business should be a feature of good corporate governance anyway. Strong management teams should be able to identify these assets, describe their nature and understand the levers that drive the value of those intangibles for the firm.

It logically follows that management should also understand the value of these intangibles so that risks can be accurately estimated and managed. We would suggest that independent experts are best placed to assist management in these valuations.

As part of this process, the value of the overall business should also be calculated. Again, this should be either completed or verified independently to avoid price manipulation. This is both to provide information in itself to investors, and to provide a sense check for the specific intangible asset values – the sum of the net asset values should not exceed the total business value.

While we think this should apply to all listed companies of sufficient size, this process is particularly beneficial for firms undergoing business combinations. In particular, those companies that acquire others to gain intangible assets and integrate them into the overall business. More holistic reporting of all group intangibles will better reflect the performance of integrated acquisitions to investors, rather than just the separate intangibles acquired.

Note that we do not think internally generated intangibles should be disclosed on balance sheets, as we agree with the recognition criteria established under IAS 38. Instead, we think this information should be available in the notes to the financial statements.

It is a pivotal moment in financial reporting for intangibles. Total estimated intangible value has grown by over 1000% in the past 25 years - approximately 11% per annum. At the same rate, total global intangible value could stand at over $1 quadrillion by 2050 (that is $1,000,000,000,000,000). As investors grapple with balancing various issues such as Climate Change and ESG over the coming years, it is essential that the data they need to understand these vast sums is readily available.

Brand Value Landscape.

What's Changed in the Past 15 Years?

Richard Haigh
Managing Director,
Brand Finance

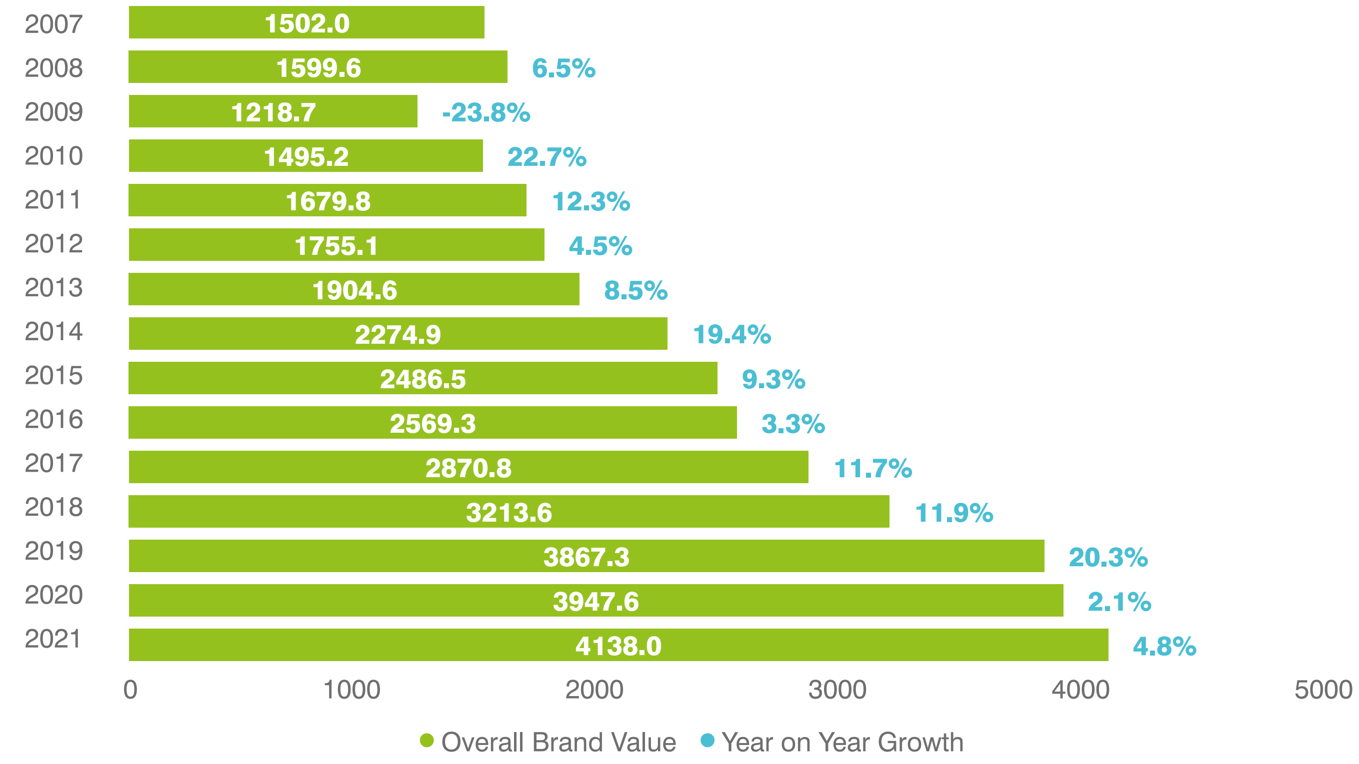
Brand Finance was set up in 1996 with the aim of bridging the gap between marketing and finance. A decade later, our analysts started conducting public studies on the most valuable and strongest brands in the world. Now, celebrating 25 years in business and 15 years of its brand rankings, Brand Finance performs more than 5,000 brand valuations a year, relying on ISO-certified methodology and insights from our original market research, and publishes nearly 100 reports annually which rank brands across all sectors and countries.

The Brand Finance Global 500 is our flagship report, explaining the dynamics shaping the industry-leading ranking of the world's 500 most valuable and strongest brands. This year saw the publication of the 15th iteration of the study. The world has changed profoundly since its first issue and just a quick glance at the data proves just how different the brand landscape was at the start of 2007 compared to 2021.

To start with, brands are immensely more important to businesses today, which is reflected in the growth of brand values over the years. At $263 billion, this year's ranking leader – Apple is worth six times the value of 2007's number #1 – Coca-Cola. The combined value of the world's top 100 brands has increased threefold from $1.5 trillion to $4.1 trillion over the past 15 years.

Recording just one year-on-year decline following the Global Financial Crisis of 2008, the top 100 brands saw a steady annual growth rate of 8% over the whole period, immune even to the effects of COVID-19. Although the pandemic wreaked havoc on the global economy and smaller brands saw considerable damage, the top 100 brands increased their values by 5% in the year leading to the 2021 valuations – adapting relatively quickly to new market conditions and reinforcing their reputation as a safe haven for capital in times of uncertainty.

Brand Value Growth by Year - 100 Most Valuable Brands



Top 10 Most Valuable Brands 2007

Coca-Cola	1	2007: **$43,146m**	🇺🇸
Microsoft	2	2007: **$37,074m**	🇺🇸
citi	3	2007: **$35,148m**	🇺🇸
Walmart	4	2007: **$34,898m**	🇺🇸
IBM	5	2007: **$34,074m**	🇺🇸
HSBC	6	2007: **$33,495m**	🇬🇧
GE	7	2007: **$31,850m**	🇺🇸
BANK OF AMERICA	8	2007: **$31,426m**	🇺🇸
hp	9	2007: **$29,445m**	🇺🇸
Marlboro	10	2007: **$26,990m**	🇺🇸

Top 10 Most Valuable Brands 2021

	1	2021: **$263,375m**	🇺🇸
amazon	2	2021: **$254,188m**	🇺🇸
Google	3	2021: **$191,215m**	🇺🇸
Microsoft	4	2021: **$140,435m**	🇺🇸
SAMSUNG	5	2021: **$102,623m**	🇰🇷
Walmart	6	2021: **$93,185m**	🇺🇸
f	7	2021: **$81,476m**	🇺🇸
ICBC 中国工商银行	8	2021: **$72,788m**	🇨🇳
verizon	9	2021: **$68,889m**	🇺🇸
	10	2021: **$67,902m**	🇨🇳

Nevertheless, maintaining relevance proved to be a challenge for many brands that once topped our rankings. More than half of the brands that made up the top 100 in 2007 dropped out of it by 2021. 47 brands managed to defend their spots and 53 new entrants took the places of the brands that struggled to keep up with change.

The competition proved especially fierce at the very top – Microsoft and Walmart are the only brands from the original top 10 that remain in this elite club today. This year's top 3 brands – Apple, Amazon, and Google – all started way out of the top 10 in 2007, while Facebook (7th) was still a private company and WeChat (10th) did not even exist. The two social media giants have seen the highest annual growth rates among the top 10, at 55% and 36% respectively, even though they both entered the race halfway through the competition. However, they lose to Amazon when it comes to overall brand value growth – the e-commerce giant has seen an astronomical 4527% brand value increase from $5 billion in 2007 to $254 billion this year.

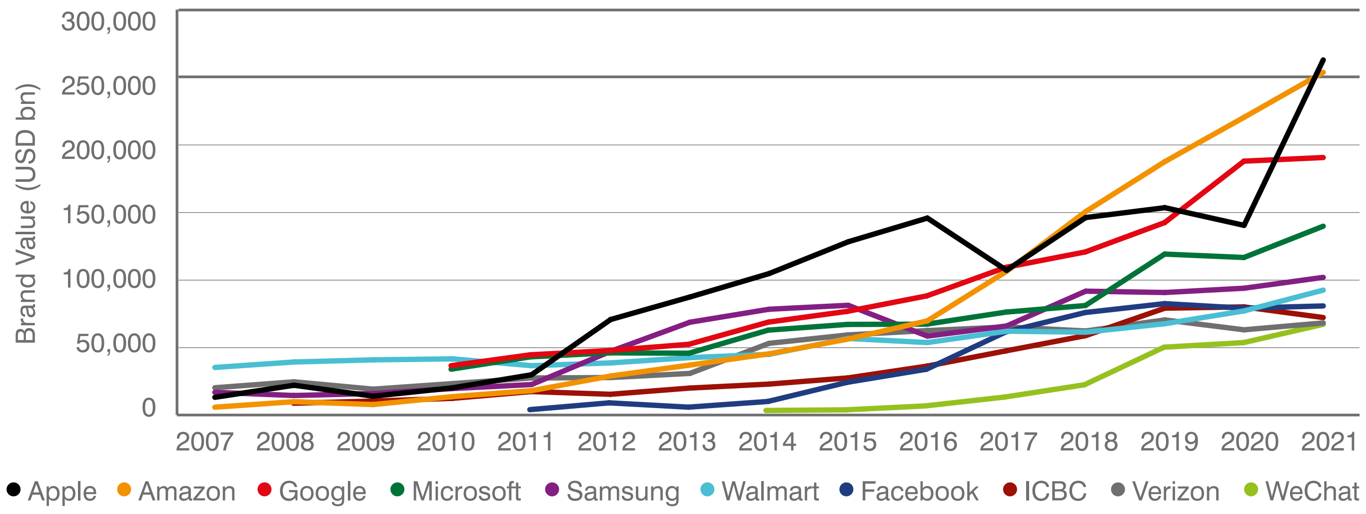
In addition to measuring brand value, Brand Finance determines brand strength through a balanced scorecard of metrics evaluating marketing investment, stakeholder equity, and business performance. According to these criteria, Coca-Cola is the only brand in the top 100 to retain its AAA+ rating 15 years on. It may have lost its position as the world's most valuable brand, but it sure has remained the world's favourite soda brand.

Indeed, while brands in many traditional sectors have hit their capacity in terms of growing brand value, for others sky is the limit as they capitalise on innovation – in terms of both latest technological solutions and adapting to customer needs faster than ever before.

In light of this, Tech is unsurprisingly the most valuable sector, accounting for 18% of total value among the world's top 100 brands today. But it is the sectors revolutionised by technological innovation – Retail and Media – that really dazzle with their performance over the past 15 years. The two industries, ranking 2nd and 3rd behind Tech, have seen the fastest brand value growth in the top 100 among all large sectors of the economy at 454% and 467% respectively, as they benefit from the boom of e-commerce and the ascent of digital media. Oil & Gas and Automobiles have also seen solid growth (259% and 257%) as they continue to enjoy high demand and gradually address the challenge and opportunity of energy transition.

The case of Banking, which was the top industry in 2007, tells a different story. Today, still recovering from reputational damage incurred in the Global Financial Crisis and undermined by low interest rates as the global economy aims to bounce back from lockdowns, it accounts for merely 10% of total brand value and ranks 4th, soon to be overtaken by 5th-ranked Automobiles. Banking has 9 brands fewer in the top 100 than 15 years ago – the worst result across all industries, and the lowest overall growth (48%) bar Insurance (35%). As Banking and Insurance brands stagnated, another financial services sector has boomed – Commercial Services have gained 4 brands in the top 100 and increased in value by 433%, testament to the conscious efforts of both B2C payment services and B2B professional services companies to invest in their brands over the years.

Brand Value Growth by Year - 100 Most Valuable Brands



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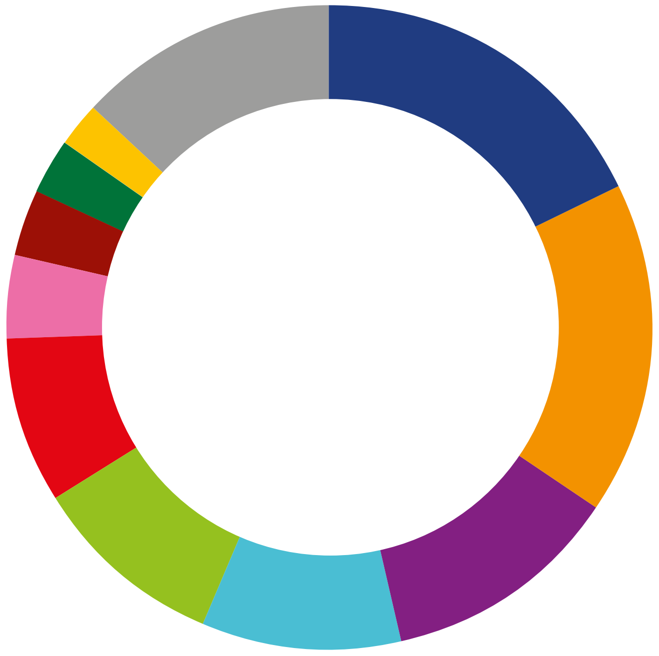
Brand Value by Sector 2021



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	Sector	Brand Value (USD bn)	% of total	Number of Brands
●	Tech	742,769	17.9%	12
●	Retail	690,368	16.7%	12
●	Media	498,286	12.0%	7
●	Banking	404,511	9.8%	10
●	Automobiles	402,664	9.7%	11
●	Telecoms	349,276	8.4%	10
●	Oil & Gas	176,936	4.3%	6
●	Commercial Services	138,365	3.3%	6
●	Engineering & Construction	108,722	2.6%	5
●	Insurance	97,361	2.4%	3
●	Other	528,785	12.8%	18
	Total	**4,138,042**	**100.0%**	**100**

Brand Value by Sector 2007

© Brand Finance Plc 2021

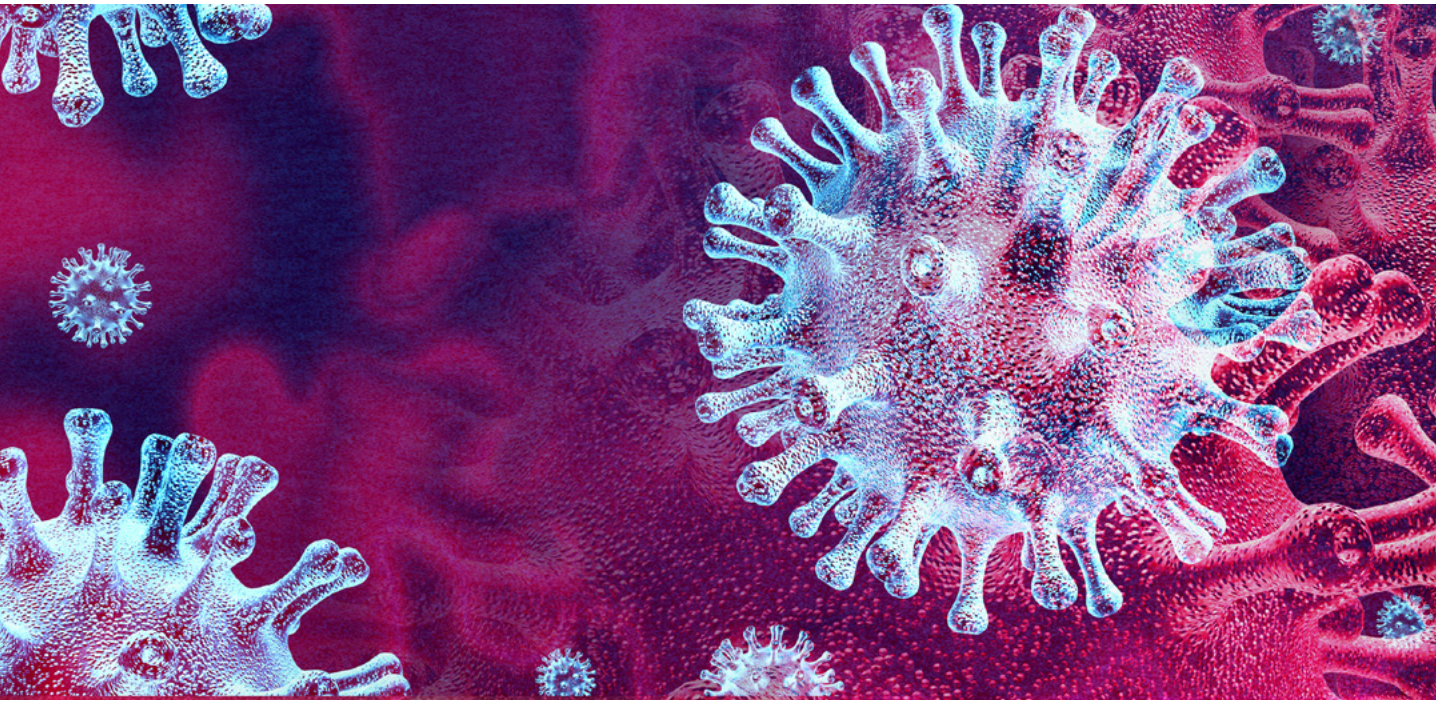
	Sector	Brand Value (USD bn)	% of total	Number of Brands
●	Banking	273,575	18.2%	19
●	Tech	272,760	18.2%	15
●	Retail	124,508	8.3%	9
●	Telecoms	114,908	7.7%	9
●	Automobiles	112,749	7.5%	8
●	Media	87,866	5.9%	5
●	Insurance	71,915	4.8%	6
●	Engineering & Construction	58,770	3.9%	4
●	Oil & Gas	49,230	3.3%	4
●	Commercial Services	25,960	1.7%	2
●	Other	309,713	20.6%	19
	Total	**1,501,954**	**100.0%**	**100**

A perfect example of a country, in turn, that has undertaken specific efforts to invest in brands is China. From barely any presence among the world's top 100 brands in 2007, China has seen a staggering 8696% growth and now accounts for nearly a quarter of the top 100's total brand value. Chinese authorities and industry associations actively support the creation and development of brands and the country has made considerable efforts in building a whole intangible asset accountability and best-practice ecosystem through the adoption of new standards and regulations, not to mention the introduction of the National Brand Day celebrated annually on 10th May.

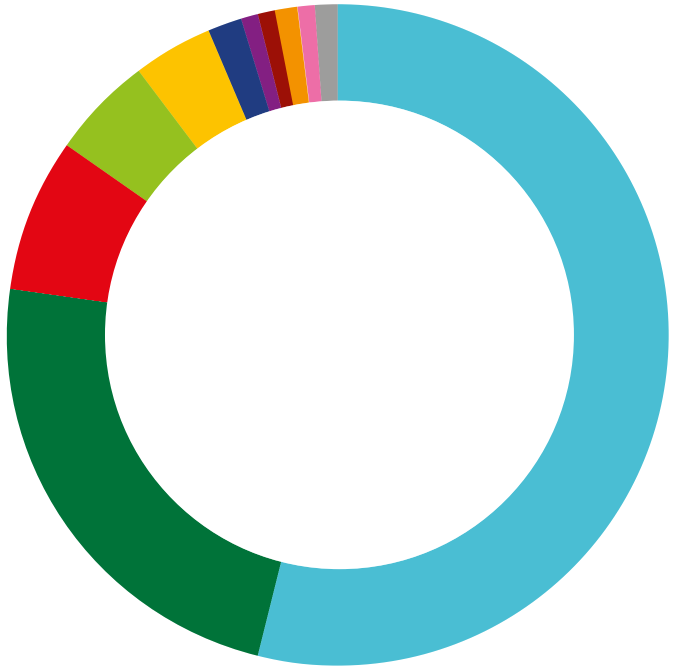
Although in competition with China's growing potential, the United States has very much held its own over the past 15 years and still accounts for over half of the total brand value among the world's top 100 brands. America's economy remains the world's largest and healthy competition regulated by the free market alone has created a perfect environment for innovation and brand development, which made the rise of the global tech giants such as Apple, Amazon, Google, Microsoft, or Facebook possible.

Other developed economies have seen mixed fortunes. Germany's and Japan's brand value within the top 100 has tripled over the past 15 years, but the UK's presence has halved and France's diminished to just one-third of what it was in 2007.

> **From the rise of tech and decline of financial services, to the rise of China and stagnation in the West, the last 15 years brought a revolution in the brand value landscape. With the challenge of reviving the global economy after the COVID-19 pandemic, growing inequalities within and between societies, and the irreversible impact of the climate crisis casting a shadow over our tomorrow, brands have an important role to play beyond value creation and it is their response to these issues that will determine their future.**
>
> **Richard Haigh**
> Managing Director, Brand Finance



Brand Value by Country 2021



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	Sector	Brand Value (USD bn)	% of total	Number of Brands
●	United States	2,233,015	54.0%	47
●	China	969,139	23.4%	23
●	Germany	308,347	7.5%	9
●	Japan	207,998	5.0%	6
●	South Korea	165,350	4.0%	4
●	United Kingdom	60,906	1.5%	3
●	Netherlands	42,156	1.0%	1
●	Saudi Arabia	37,479	0.9%	1
●	France	37,214	0.9%	2
●	Sweden	35,727	0.9%	2
●	Other	40,711	1.0%	2
	Total	**4,138,042**	**100.0%**	**100**

Brand Value by Country 2007

© Brand Finance Plc 2021

	Sector	Brand Value (USD bn)	% of total	Number of Brands
●	United States	922,882	61.4%	55
●	United Kingdom	124,533	8.3%	7
●	France	101,949	6.8%	8
●	Germany	97,867	6.5%	8
●	Japan	71,367	4.8%	6
●	Netherlands	36,093	2.4%	4
●	South Korea	16,537	1.1%	1
●	China	11,018	0.7%	1
●	Sweden	8,917	0.6%	1
●	Saudi Arabia	-	0.0%	0
●	Other	110,791	7.4%	9
	Total	**1,501,954**	**100.0%**	**100**

Our Services.

Consulting Services.

Make branding decisions using hard data

Brand Research

What gets measured

Brand evaluations are essential for understanding the strength of your brand against your competitors. Brand Strength is a key indicator of future brand value growth whether identifying the drivers of value or avoiding the areas of weakness, measuring your brand is the only way to manage it effectively.

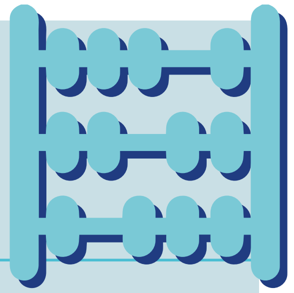
+ Brand Audits
+ Primary Research
+ Syndicated Studies
+ Brand Scorecards
+ Brand Drivers & Conjoint Analysis
+ Soft Power

+ Are we building our brands' strength effectively?
+ How do I track and develop my brand equity?
+ How strong are my competitors' brands?
+ Are there any holes in my existing brand tracker?
+ What do different stakeholders think of my brand?

Brand Valuation

Make your brand's business case

Brand valuations are used for a variety of purposes, including tax, finance, and marketing. Being the interpreter between the language of marketers and finance teams they provide structure for both to work together to maximise returns.



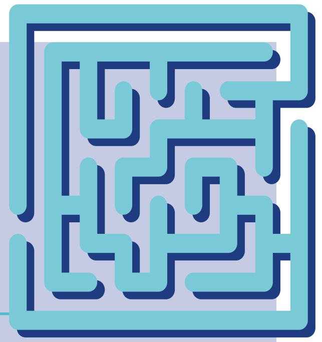
+ Brand Impact Analysis
+ Tax & Transfer Pricing
+ Litigation Support
+ M&A Due Diligence
+ Fair Value Exercises
+ Investor Reporting

+ How much is my brand worth?
+ How much should I invest in marketing?
+ How much damage does brand misuse cause?
+ Am I tax compliant with the latest transfer pricing?
+ How do I unlock value in a brand acquisition?

Brand Strategy

Make branding decisions with your eyes wide open

Once you understand the value of your brand, you can use it as tool to understand the business impacts of strategic branding decisions in terms of real financial returns.



+ Brand Positioning
+ Brand Architecture
+ Franchising & Licensing
+ Brand Transition
+ Marketing Mix Modelling
+ Sponsorship Strategy

+Which brand positioning do customers value most?
+What are our best brand extension opportunities in other categories and markets?
+Am I licensing my brand effectively?
+Have I fully optimised my brand portfolio? Am I carrying dead weight?
+Should I transfer my brand immediately?
+Is a Masterbrand strategy the right choice for my business?

Brand Evaluation Services.

How are brands perceived in my category?

Brand Finance tracks brand fame and perceptions across 30 markets in 10 consumer categories. Clear, insightful signals of brand performance, with data mining options for those who want to dig deeper – all at an accessible price.

What if I need more depth or coverage of a more specialised sector?

Our bespoke brand scorecards help with market planning and can be designed to track multiple brands over time, against competitors, between market segments and against budgets. Our 30-country database of brand KPIs enables us to benchmark performance appropriately.

Do I have the right brand architecture or strategy in place?

Research is conducted in addition to strategic analysis to provide a robust understanding of the current positioning. The effectiveness of alternative architectures is tested through drivers analysis, to determine which option(s) will stimulate the most favourable customer behaviour and financial results.

How can I improve return on marketing investment?

Using sophisticated analytics, we have a proven track record of developing comprehensive brand scorecard and brand investment frameworks to improve return on marketing investment.

What about the social dimension? Does my brand get talked about?

Social interactions have a proven commercial impact on brands. We measure actual brand conversation and advocacy, both real-world word of mouth and online buzz and sentiment, by combining traditional survey measures with best-in-class social listening.

Communications Services.

How we can help communicate your brand's performance in brand value rankings

Brand Accolade – create a digital endorsement stamp for use in marketing materials, communications, annual reports, social media and website. Advertising use subject to terms and conditions.

2021 Brand Finance® Awards
TOP 10 BRAND

2021 Brand Finance® Awards
MOST VALUABLE BRAND

2021 Brand Finance® Awards
STRONGEST BRAND

Video Endorsement – record video with Brand Finance CEO or Director speaking about the performance of your brand, for use in both internal and external communications.

Bespoke Events – organise an award ceremony or celebratory event, coordinate event opportunities and spearhead communications to make the most of them.

Digital Infographics – design infographics visualising your brand's performance for use across social media platforms.

Trophies & Certificates – provide a trophy and/or hand-written certificate personally signed by Brand Finance CEO to recognise your brand's performance.

Sponsored Content – publish contributed articles, advertorials, and interviews with your brand leader in the relevant Brand Finance report offered to the press.

Media Support – provide editorial support in reviewing or copywriting your press release, pitching your content to top journalists, and monitoring media coverage.

Brand Dialogue®

With strategic planning and creative thinking, we develop communications plans to create dialogue with stakeholders that drives brand value.

Our approach is integrated, employing tailored solutions for our clients across PR, marketing and social media, to deliver strategic campaigns and helping us to establish and sustain strong client relationships.

We also have a specific focus on geographic branding, including supporting nation brands and brands with a geographical indication (GI).

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

Research, Strategy & Measurement
- Brand & Communications Strategy
- Campaign Planning
- Communications Workshops
- Market Research & Insights
- Coverage Analysis
- Social Media Analytics

Public Relations & Communications
- Media Relations
- Press Trips & Events
- Strategic Partnerships
- Relationship Management
- Influencer Outreach
- Media Training
- Social Media Management

Marketing & Events
- Promotional Events
- Conference Management
- Sponsorship Management
- Native Advertising
- Print Advertising
- Shopper Marketing
- Trade Marketing

Content Creation
- Bespoke Publications
- Press Releases
- Blog Posts & Newsletters
- Marketing Collateral Design
- Photography & Videography
- Social Media Content

Strategic Communications
- Crisis Communications
- Brand Positioning & Reputation
- Geographic Branding
- Corporate Social Responsibility (CSR)

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

Brand Finance Institute

Learn how to build, protect and measure brand value

The Brand Finance Institute is the educational division of Brand Finance, offering expert training on brand evaluation, management and strategy.

Our in-house training and workshops, online learning offer and webinars will help you answer key strategic questions about your brand for different levels of seniority and development needs:

- How can I grow brand value?
- How can I build a business case to show the return on my marketing investment?
- How can I set up my marketing budget using brand research and analytics?

For more information, contact enquiries@brandfinance.com

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

Brand Finance Network.

For further information on our services and valuation experience, please contact your local representative:

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