
Improving Financial Reporting With Brand Valuations

Keynote Speakers Excerpts

Introduction by
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University of California Riverside
MASB Advisor
Co-Lead IFR Project

August 16, 2012
Chicago



Marketing Accountability Standards Board
of the Marketing Accountability Foundation

The Next 3-Years: Change the Game

- **Brand Investment & Valuation Standards (BIV)**
Provide consistent, comparable, credible and actionable brand valuations through establishment of “generally accepted brand investment and valuation standards” for both acquired and internally developed Brands... the critical “missing link” between the marketing & financial communities.
- **Improve Financial Reporting (IFR)**
Partner with the Financial Reporting and Investment communities for improving the accounting and/or reporting rules related to marketing such that financial returns from corporations will be driven & measured by buyer behavior in markets over time.
Ensure marketing is at the table when reporting of Brand Value is required for internally developed brands.

MASB Directors

The BIV Methodology & Trials

- Will demonstrate how the marketing & financial concepts relate to one another empirically (according to MMAP)
- With standard metrics that are simple, transparent, relevant, and calibrated across categories, cultures & conditions
- And reliably linked to both short & longer term financial return

Keeping in mind that the Strength of the Brand
lies in the hearts, minds and hands of customers

BIV will apply the “Principles”

MASB Marketing Accountability Standards Board
of the Marketing Accountability Foundation

A rationale and proposed set of principles for brand valuation

August, 2011

Drafted by Roger Sinclair PHD

Commissioned by Association of National Advertisers



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Basic Principle #5

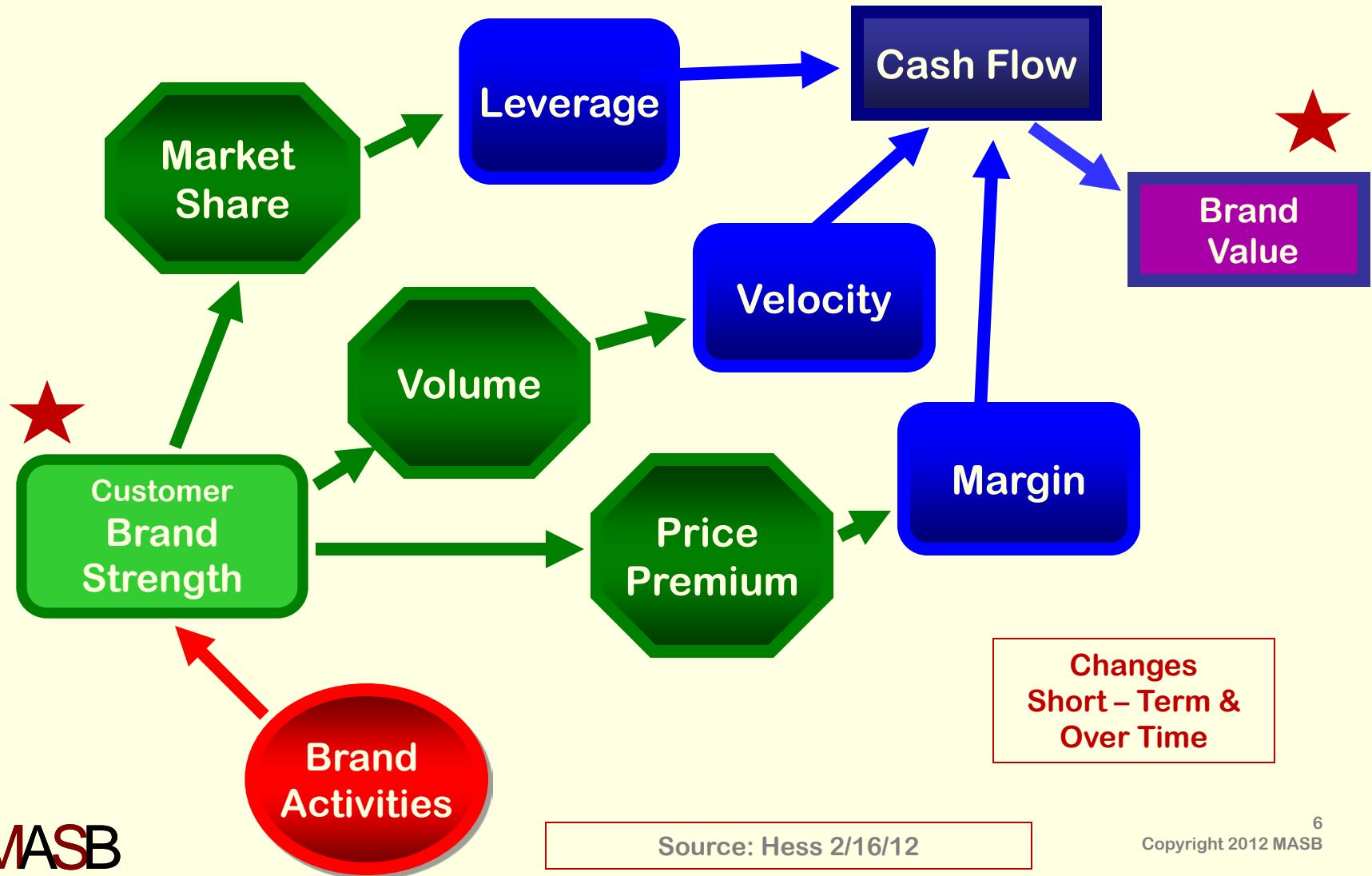
What part does the consumer play in brand valuation?

The brand strength principle (BP # 5)

The valuation method must have a component in the model that uses brand strength as a driver of value*

* Brand strength, measured by reliable and valid market research (see MASB MMAP standards), is a crucial input to any valid valuation.

MMAP: Brand Investment & Valuation Model (Conceptual Links)



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IFR Landscape

- Without appropriate changes in the financial accounting and/or reporting rules
 - Brand valuations will continue to be conducted by accountants
 - Without marketing input/metrics
- And marketing activities will continue to be managed
 - As “discretionary” expense
 - Not as strategic investment that adds value to the firm
- It makes no sense that brand valuations have no marketing input
 - Brand value lies in the hearts, minds & hands (choices) of customers
 - Can be measured in a manner that ties to market & financial return
- But finance/accounting has heretofore believed our story
 - Marketing is an art (in their terms “soft”)
 - Can’t be measured with direct links to financial return
- We must be invited to their table and demonstrate otherwise
 - Take control of our territory (self-govern)
 - Move up the food chain (with their help)

Proposed Note for MD&A

“As of June 30, 2012 , the senior management of Gadget Corporation value the Widget Brand at \$2.9B, up 7% from year ago, and 20% over the past 3 years. We estimate this value using the methodology provided by ValuePack LLC, a MASB qualified Brand Valuator.

Leigh McAlister: Professor of Marketing UTA, Founding MASB Advisor,
Improving Financial Reporting Project Team.

Proposed Note for Corporate Brand

“We, the senior management of Alpha Corporation, believe the value of our corporate brand, as of December 31, 2011, is \$26.4 billion, up 2.7% from year ago, and down 3.8% over the past 3 years. We estimate this brand value using the methodology provided by BrandTop, LLC, a MASB qualified Brand Valuator.”

Jim Gregory: CEO & Founder of CoreBrand, Founding MASB Advisor,
Co-Lead of IFR Project Team

Our Keynote Speakers



David Haigh
Founder & CEO
Brand Finance

Brand Valuator Perspective



Michael Corty
Senior Equity Analyst
Morningstar

Financial Analyst Perspective

- **What they will do with it**
- **How it will help them**

- **Q&A**



Improving Financial Reporting: Brand Valuator Perspective

David Haigh, CEO & Founder, Brand Finance plc

Brand Finance Plc

Bridging the gap between marketing and finance™



- **Independent** brand valuation consultancy with offices in 20 countries worldwide
- **Certified specialists** providing ISO, IVSC and IASB compliant Valuation and Analytics services
- A **combination of expertise** in marketing, research, legal and financial fields to support Strategy, Transactions and Tax advice
- **Global experience** of valuing branded businesses and intangible assets to help clients **maximise shareholder value**
- **Training office** for Chartered Accountants, Marketers, Financial Analysts, Surveyors and Valuers
- Committed to the **professional development** of open source, non-proprietary, best practice brand valuation techniques
- Sharing **thought leadership** information freely via the BrandFinance® Institute, BrandFinance® Forums, Brandirectory.com, BrandFinance® Journal



Some of our blue chip clients



MASB Brand Investment & Valuation Project

What will you do with it? How it will help you in your work?

- Having a transparent and widely accepted framework for measuring marketing ROI and valuing brands will legitimise the discipline and grow the market for such activities internally and externally
- We won't have to spend so much time persuading sceptical Boards that these things can be done professionally...ISO has already had this effect to some extent. MASB will do more.
- Having a set of recognised tools, techniques and terminology fits with what we have been trying to do for nearly 20 years...the elimination of proprietary black boxes
- The model approach needs to be recognised globally and by all financial, marketing and market research parties which means engagement with ISO, IVSC, IASB, MRS etc
- It will simplify and improve professional training to have standards
- When agreed we will certainly adopt and apply it



Brand Value in the MD&A section of the Annual Report

What will you do with it? How it will help you in your work?

- We all agree that a brand value number alone is unhelpful without disclosure of inputs, assumptions, sensitivities and calculations for scrutiny and challenge
- FAS 13 (Fair Value Measurement) lays down detailed disclosure rules
- But we need to beware of the:
 - *commercial risks of significant disclosure about the business*
 - *personal risks of providing Forward Looking Statements*
 - *legal risks of Sarbanes Oxley obligations on the CEO/CFO to sign off on the 'accuracy' of Financial Statements*
 - *regulatory scrutiny and risks of class actions*
 - *need to demonstrate professional competence and independence*
- In my view Management Boards should give their opinion on the value of the enterprise and its assets to shareholders once a year. But for public companies the legal, regulatory and professional obstacles are formidable .



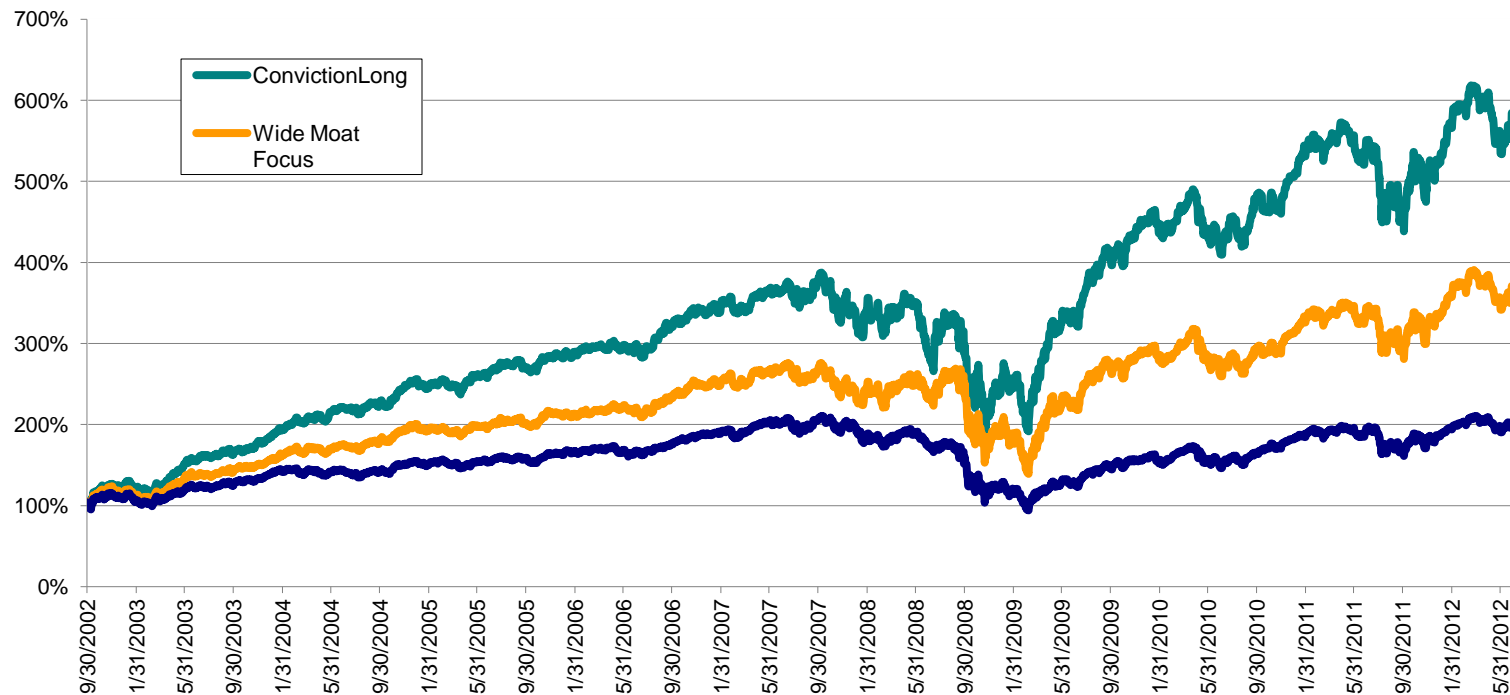
Improving Financial Reporting Financial Analyst Perspective

**Michael Corty
Senior Equity Analyst
MASB 2012 Summer Summit
August 2012
Chicago**

Snapshot of Morningstar Equity Research

- × Broad coverage: 120 equity and credit analysts & strategists covering 1,800 companies across the globe.
- × Consistent, disciplined research approach focused on intrinsic values and economic moats. We evaluate stocks as small pieces of a business.
- × We believe that competitive advantages—“economic moats”—add intrinsic value, and we rigorously assess the competitive position of the companies we cover.
- × We believe that the ability of a business to generate ROIC above cost of capital is the primary test of shareholder value creation.
- × Why have a long-term perspective?
 - × Consistent with a business-centered approach.
 - × Opportunities for time-horizon arbitrage.
 - × Intrinsic values require thinking about *what the business is worth*, rather than *what other investors might pay*.

The Morningstar Wide-Moat Focus Index and Conviction Long Strategy Demonstrate the Effectiveness of Our Ratings Over Time



	Trailing 1-Year	Trailing 3-Year*	Trailing 5-Year*	Since Inception* (9/30/2002)
Morningstar Wide Moat Focus Index (Ticker: WMW)	9.36%	17.68%	6.71%	14.38%
Morningstar Conviction Long Strategy	7.52%	20.16%	9.99%	19.83%
S&P 500 Index (cap-weighted)	5.45%	16.40%	0.22%	7.54%

Time-weighted returns through 6/29/2012.

Initial Views on Standards for Brand Valuations Reported in Financial Statements

- × In general, equity analysts want more disclosure and information
- × The power of brands is often under and over-rated by investors
- × For now, evaluating brands is done as part of qualitative analysis of competitive advantage
- × Comparable and credible brand valuations across industries would add a metric for equity analysts to assess on a periodic basis
- × Forecasting the long-term brand power (or lack thereof) for a business creates investment opportunities
- × Having a metric in the financial statements could lead to more informative discussions with management teams about how they are investing and supporting brands

Creating Value in 21st Century

MASB

Where marketing & finance align on measurement for reporting, forecasting & improving financial returns from buyers in markets...short-term & over time

Game Changing Project

BIV
Brand Investment & Valuation

IFR
Improving Financial Reporting

Issue Addressed

Brand represents great Value (but how much)

Intangibles >80% of Corp Value (need better info)

Project Outcome

Empirically proven model for valuing brands & guiding investment decisions

Brand Value as KPI and MD&A Notes... better info for capital providers



Thank-you!



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