

A long-exposure photograph of a city street at night. The street is illuminated by several tall, modern streetlights that cast a warm, yellow glow. The lights create a series of bright, starburst patterns against the dark sky. In the foreground, there are blurred streaks of red and white light, likely from traffic. On the right side, a large, curved architectural structure is visible, possibly a bridge or a modern building. The overall scene is a vibrant, urban nightscape.

Improving Financial Reporting: Brand Valuator Perspective

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Brand Finance Plc

Bridging the gap between marketing and finance™



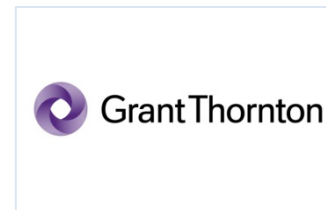
- **Independent** brand valuation consultancy with offices in 20 countries worldwide
- **Certified specialists** providing ISO, IVSC and IASB compliant Valuation and Analytics services
- A **combination of expertise** in marketing, research, legal and financial fields to support Strategy, Transactions 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



Technical review



Our work is frequently reviewed by independent audit practices and tax authorities.

Reporting results

Investor Relations

Our studies are used by leading global brands as a performance benchmark in annual financial and sustainability reporting to shareholders and other stakeholders.



Brand

We have continued to build brand value by delivering a superior, consistent and differentiated customer experience. During the 2010 financial year we evolved our brand positioning to "power to you" emphasising our role of empowering customers to be able to live their lives to the full. It is a further expression of the importance of the customer being central to everything we do and is reinforced in communications substantiating how products and services impact and empower our customers.

We regularly conduct brand health tracking which is designed to measure the performance of the brand in each country and generate insights to manage the brand as effectively as possible. External benchmark studies have shown that Vodafone brand equity has maintained a top ten position in a number of rankings of brands across all industries including the seventh most valuable brand in the world as measured by BrandFinance.



BrandFinance global ranking

7th

most valuable brand (2009: 8th; 2008: 11th)

Value of AEGON's brand



In 2010, AEGON ranked tenth out of 27 insurance companies in Brand Finance's annual Global 500 index of leading brands, up from twelfth the previous year. Brand Finance, a global independent brand consultancy, valued the AEGON brand at EUR 4.0 billion, up from EUR 3.3 billion, in part because of improved market conditions during the year. At EUR 4.0 billion, brand represents approximately 34% of AEGON's enterprise value[1].

Group Chief Executive's Business Review (continued)

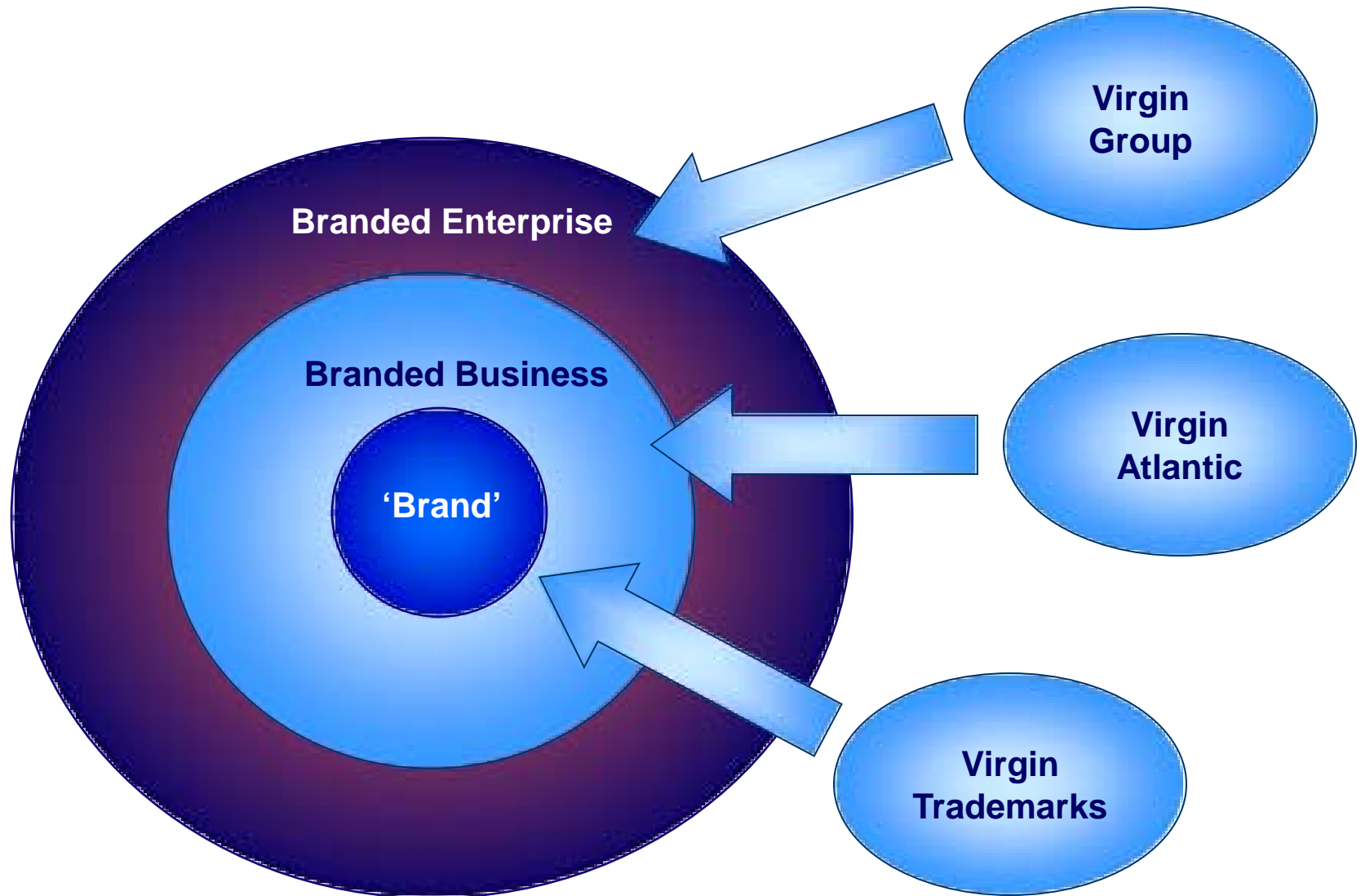
Developed markets

"In this uncertain environment, the strength of the HSBC brand remains one of our most important assets. In 2009, we were named the world's most valuable banking brand by Interbrand and last month we were named number one banking brand by *Brand Finance* for the third year running."



What exactly is the asset that
we are valuing?

What exactly do we mean by 'brand'?



What exactly do the financial pedants mean by ‘brand’?

- **An identifiable , separable , transferrable intangible asset**
- 5 classes of intangible asset...customer, contractual, technological, artistic and marketing related
- Marketing related include trademarks, trade dress, mastheads, domain names and non competition agreements

- **FAS 141 (and IAS 38) definitions:**

‘an intangible asset is an identifiable non-monetary asset without physical substance’ controlled by an entity , delivering future economic benefits

‘brand and brand name , often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark and its related trade name, formulas, recipes and technological expertise’ which may be recognized together if they have ‘similar useful lives’.



Are brands Cash Generating Units (CGUs)?

- According to IAS 36 brands are individual assets not CGUs. However, in the context of impairment reviews, IAS 36 says:
- *'If it is not possible to identify the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit)...*

A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets'.

- In practice, identifying the relevant CGU can be a challenge...e.g.
- *What is the CGU for Virgin, Shell, Heineken, Samsung, Tata brands?*
- *What is the CGU for a brewery producing Heineken, Amstel and Peroni brands?*

Financial reporting pedants are forensically pernickety.



Behavioural Analysis...

How 'brands' add value?

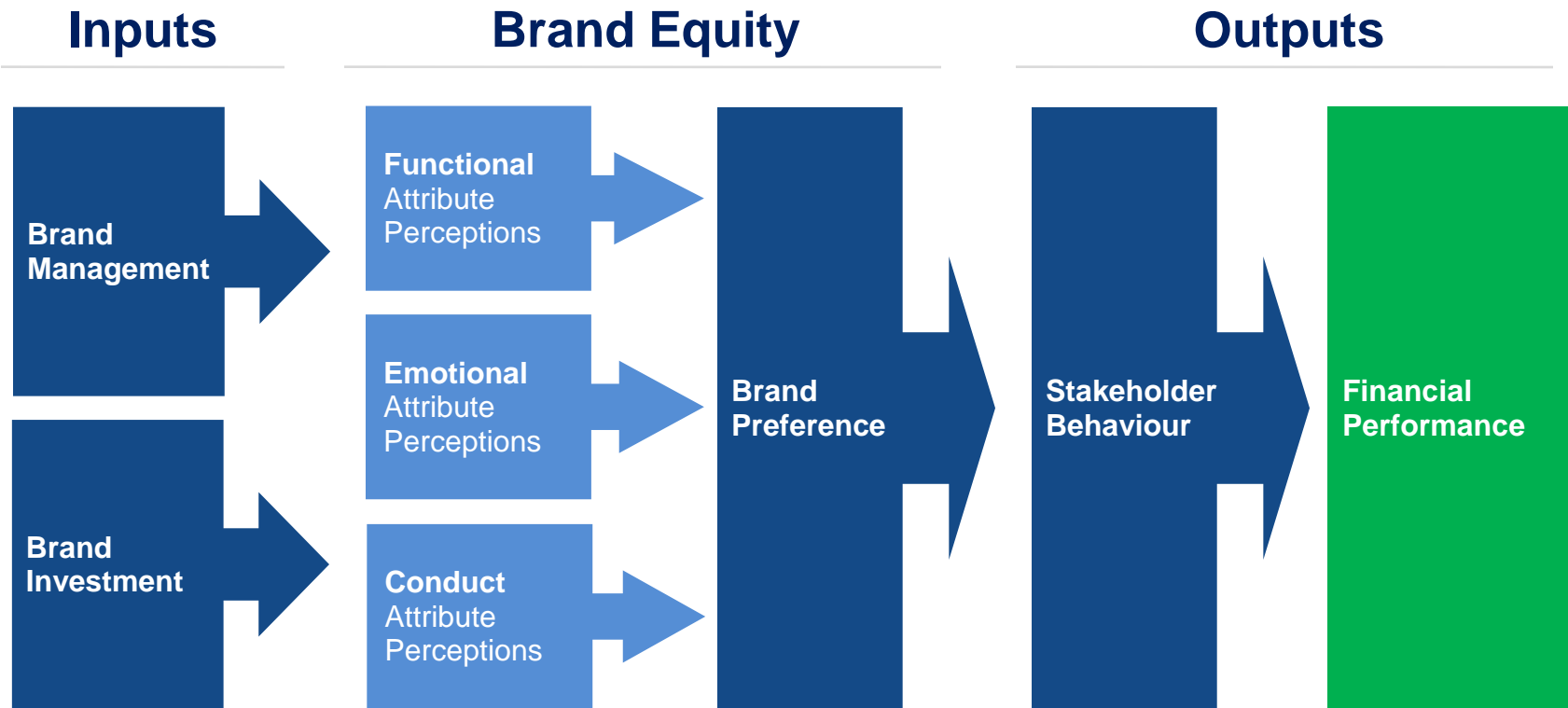
Brands attract different financial responses and benefits



Multi-stakeholder brand impacts are now generally accepted.

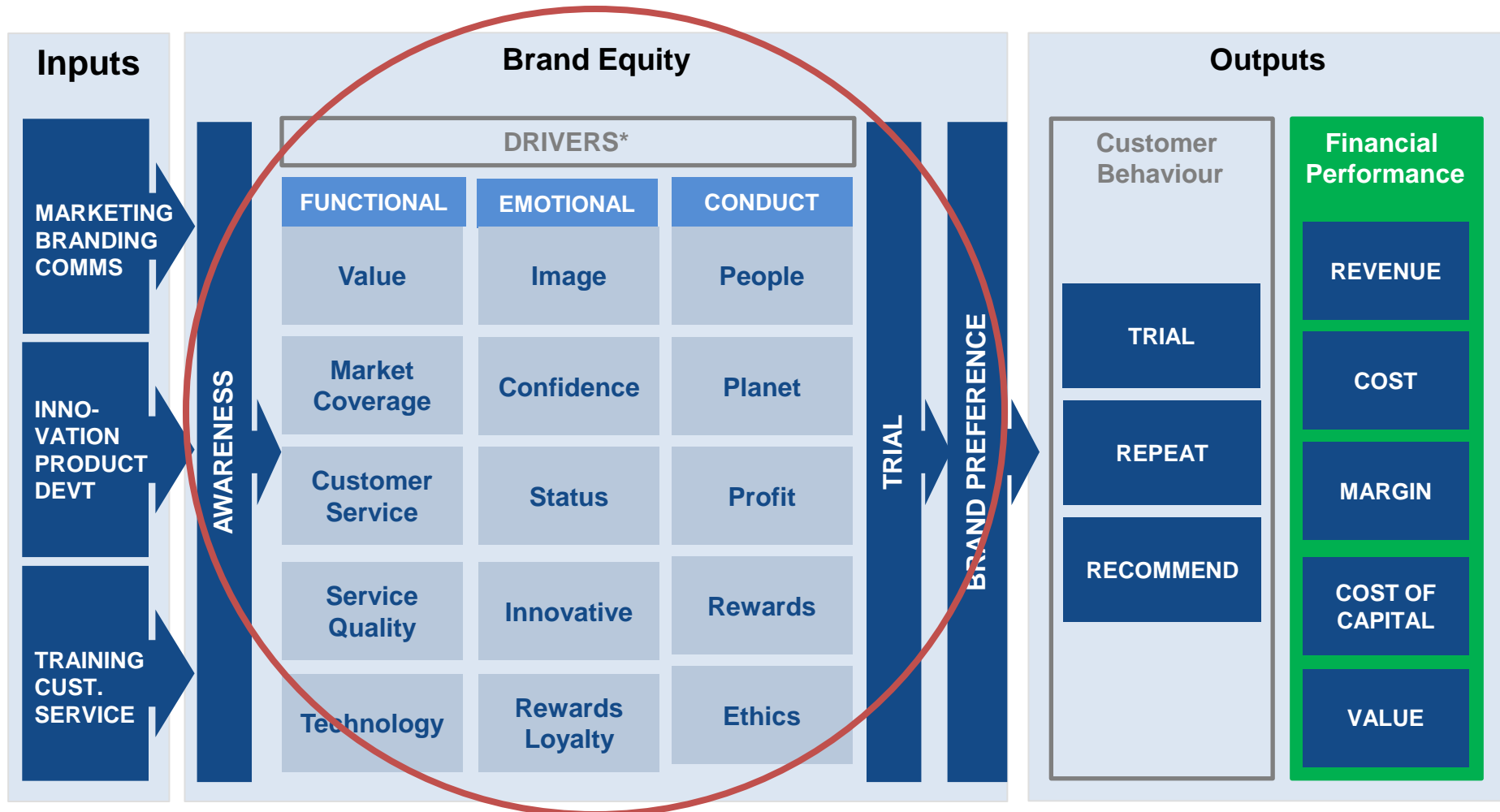


How does brand equity affect behaviour and financial outcomes?



Stakeholder behavioural drivers research is now widely practised.

How does brand equity affect behaviour and financial outcomes?



The key challenge: consistency, transparency, credibility



MASB Brand Investment & Valuation Project/Model

A Valuator's Perspective

1a – MASB BIV Project Landscape

- Marketing & finance practitioners have agreed



- It is marketing's job to create, build & sustain brands

Building brands is a multi-functional responsibility.



- They produce current & future economic benefits for the firm



- They are an important intangible asset owned by the enterprise



- Brands create options for the firm




- Brands represent much of the value of the firm

The financial value of most businesses is driven by a variety of tangible and intangible assets other than brands. Is MASB going to engage in the wider debate?

1b – MASB BIV Project Landscape

- Marketing's activities are designed to

 – Enhance the strength of the brand among customers

 – In a manner that positively impacts market and financial returns

 – Short term and over time.

They build brands and reputation among all stakeholders.

They also help to leverage the other intangible assets (technology, customer, contract, artistic, marketing and goodwill) to build the overall value of the branded business.

1c – MASB BIV Project Landscape

? • There are no generally accepted standards for measuring the success of this marketing function

Specifically in relation to brand valuation both ISO and IVSC standards are widely accepted.

? – Extant measures do not agree in magnitude or direction of change

Existing measures could produce consistent values. But different asset definitions, data sources and opinions result in divergence on magnitude and direction of change. In many respects this is inevitable.

? – There are many “measures” but few tied to financial performance

For many years brand valuers and researchers have worked together to provide brand equity measures which are tied to financial performance. This needs to be standardised.

2 Objectives of MASB BIV Project

? To provide consistent, comparable, credible and actionable brand valuations through establishment of “generally accepted brand investment and valuation standards”

Involving:

✓ Creation of general principles, standards/methodology and empirical trials among 3-5 brands as examples

Primary output:

? A model/methodology for marketers to use to value their brands, guide investment decisions, and learn how to improve performance

Great idea but will this be in co-operation with ISO and IVSC or independently? Both are already recognized with management and financial audiences globally.

All valuers would agree with the idea of developing flexible standards, defining Approaches, Methods and Methodologies but would probably not welcome entirely prescriptive Models.

Income is not always the best Approach

**Market
Approach**

**Cost
Approach**

**Income
Approach**



3 The MASB 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

Measures need to be simple, transparent, relevant, reliable and CONSISTENT.

They need to reflect the impact of all STAKEHOLDERS (NOT JUST CUSTOMERS OR CONSUMERS).

4 MASB BIV will apply “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



5 Basic Principle #5



What part does the consumer play in brand valuation?

The brand strength principle (BP # 5)

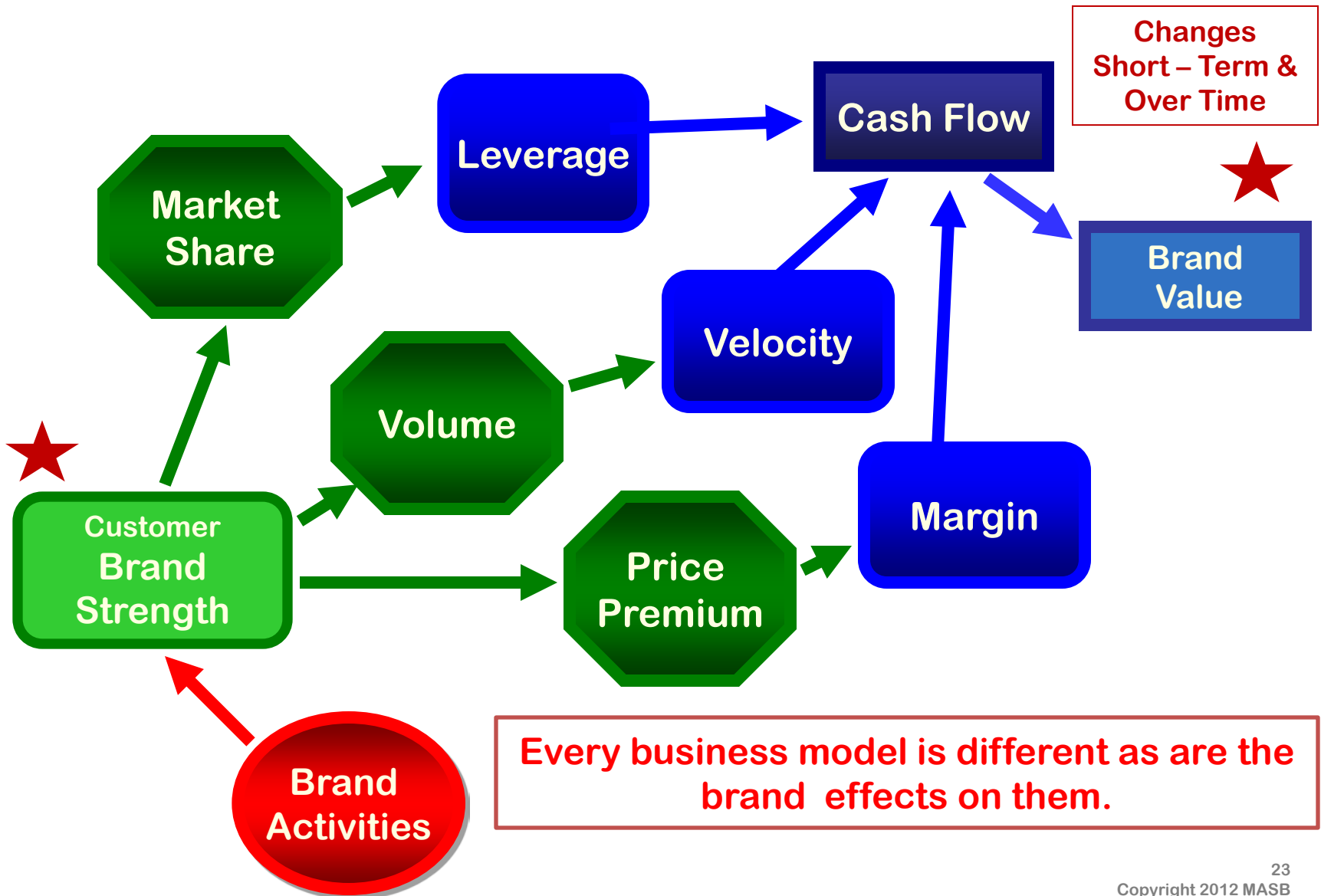
The valuation method must have a component in the model that uses brand strength as a driver of value*

Measures need to reflect the impact of all STAKEHOLDERS (NOT JUST CONSUMERS OR CUSTOMERS).

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

6 - MMAP: Brand Investment & Valuation Model (Conceptual Links)

?



Reporting in MD&A Section of Annual Report

A Valuator's Perspective

1a – MASB 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

Asset valuation is an increasingly important professional discipline which is rapidly becoming regulated. In the future only accredited valuers will be permitted to pass opinions where important internal and external investment decisions are made.

Both ISO and IVSC already mandate the use of marketing and market research data. There are many established brand valuers with an overt marketing orientation. Even accountancy firms include such measures.

1b – MASB IFR Landscape



- And marketing activities will continue to be managed
 - As “discretionary” expense
 - Not as strategic investment that adds value to the firm

Many companies do NOT measure marketing as an entirely discretionary expense....Aviva, BMW, Virgin, Unilever, P+G, Accenture etc

Many companies DO treat marketing as a strategic investment that adds value to the firm...Orange, HSBC, Diageo, Coca Cola, Heineken, PwC etc

1c – MASB IFR Landscape

- It makes no sense that brand valuations have no marketing input
 - Brand value lies in the hearts, minds & hands (choices) of customers



Both ISO and IVSC already mandate the use of marketing and market research data. Best practice brand valuations already include both.

- Can be measured in a manner that ties to market & financial return



Best practice brand valuations already do this although there is definitely room for improving and standardising the way such marketing and market research inputs are structured.

1d – MASB IFR Landscape

- But finance/accounting has heretofore believed our story

- Marketing is an art (in their terms “soft”)

Although Marketing is considered to require inspiration a significant number of companies now recruit highly numerate CMOs who integrate Market Research, Marketing Science and Marketing Finance personnel into their overall Marketing team.

- Can't be measured with direct links to financial return

This will continue to be a challenge but capabilities and attitudes are rapidly changing. New more accountable marketing channels are helping this trend.

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



2 – MASB IFR 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.

•Yes but the devil is in the detail.

3 – MASB IFR Proposed Note for Corp 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.”

•Yes but the devil is in the detail.

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 .



Summary Comments

A Valuator's Perspective

The need for independence



“Independence”

“The appraiser shall use care and professional judgment to maintain independence and objectivity in reaching the valuation opinion.”

Five recognised threats to independence:



Self-interest



INTIMIDATION



Self-review



Advocacy



Familiarity

Thank you

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Brand Finance plc (London), the world's leading independent brand valuation consultancy has a global footprint with over 15 offices world wide. For more information please refer to our website: www.brandfinance.com