
MASB Standards Project

Improving Financial Reporting (IFR) Project Review & Status

**Edgar Baum, Strata Insights
February 2017
Orlando**



**Marketing Accountability Standards Board
of the Marketing Accountability Foundation**

IFR: Game Changer

| | | |
|-------------------|---|---|
| Project | Improving Financial Reporting (IFR) (Moore & Baum) | Strategy Partner w/financial reporting & investment communities, and educate re: brands are cash generating units & sizable intangible assets...so financial returns from corporations will ultimately be driven and measured by buyer behavior in markets. |
| Issue Addressed | Intangibles >80% of Corp Value (need better info) | |
| Project Objective | Marketing at table when reporting of Brand Value is required for all brands | |
| Expected Outcome | Brand Value as KPI, MD&A Notes or B/S... better info for capital providers | |
| When | 2018 | |

In dialogue with (2010-2013)...

FASB
(2010)



The FASB and Accounting Standards-setting, Sue Bielstein, Director of Planning and Support Financial Accounting Standards Board, Presentation to MASB ([August 2010](#))

FASRI
(2011)



An Accounting Professor's Perspective on MASB's Objectives, Robert Bloomfield, Cornell University Director, Financial Accounting Standards Research Initiative, Presentation to MASB ([February 2011](#))

ISO
(2011)



ISO 10668: Brand Valuation, Christopher Schotz, Chairperson, ISO Committee on Brand Valuation Presentation to MASB ([February 2011](#))

CFAI
(2011)



Brand from the Investor Side, Wendy Pirie, Director Curriculum Projects, Education Division at CFA Institute Presentation to MASB ([August 2011](#))

IFRSB
(2011/12)



Fair Value Measurement & IFRSB Agenda, Hilary Eastman, Leader Investor Liaison Program, International Financial Reporting Standards Board, Various emails & guidance ([May 2011 – Feb 2012](#))

IIRC
(2012)



Communicating Value in the 21st Century, Change in Requirements for Reporting Intangible Assets, Bob Laux, Sr Director Accounting & Reporting, Microsoft Corporation & Working Member, International Integrated Reporting Council, Presentations to MASB ([February 2012](#))

IIRC
(2013)



Integrated Reporting: What it is and Where it Stands, Lisa French, Head of External Relations, International Integrated Reporting Council, Presentation to MASB ([February 2013](#))

**Morning-
star**
(2013)



Improving Financial Reporting: Financial Analyst Perspective, Michael Corty, CFA, Senior Equity Analyst, Morningstar, Presentation to MASB ([August 2013](#))

Also in dialogue with (2014-2016)...

Financial Panel

(2014)



Esther Mills, President & Founder, Accounting Policy Plus
MASB IFR Team Attaché

CFAI



Sandy Peters, Head, Financial Reporting Policy Group, Certified Financial Analyst Institute

FASB



Jennifer Hillenmeyer, Practice Fellow, Financial Accounting Standards Board (FASB)



Justin Nash, Vice President, Blackrock



Kunal Kahara, Director, BlackRock



Michael Moore, Professor of Accounting, Loyola Marymount University, MASB Advisor

IASB

(2015)



Valuing & Reporting Brands as Assets: Post IFRS3 Preparer Review, Plotting a Course for MASB, Roger Sinclair, MASB Advisor, , Presentation to MASB (August 2014)

IVSC

(2015)



The IVSC an Intangible Assets, Steve Sherman , Chairman, International Valuation Standards Board, Presentation to MASB (February 2015)

ANSI/ISO

(2016)



ISO TC 289, Gerhard Hrebicek, President, EBI, Co-presentation to MASB (August 2016)



ISO TC 289, Bobby Calder, Northwestern, MASB Advisor, Co-presentation to MASB (August 2016)

IIRC

(2016)



Integrated Reporting, Lisa French, Chief Technical Officer, IIRC, Presentation to MASB (August 2014)

IFR Milestones (2010 – 2013)

5 partners and
7 communications



El Frame-Up 5/10

Leaders & Plan 8/10

Action Plan 10/11 +

FASB 8/10 & 2/11

ISO 2/11

CFA 8/11 & 8/13

IASB 2/12

IIRC 2/12 & 2/13

KPI.MDA Notes 6/12

CFR Paper 12/12

ISO Response 4/13

FASB Response 5/13

IIRC Response 6/13

Paradox Paper 7/13

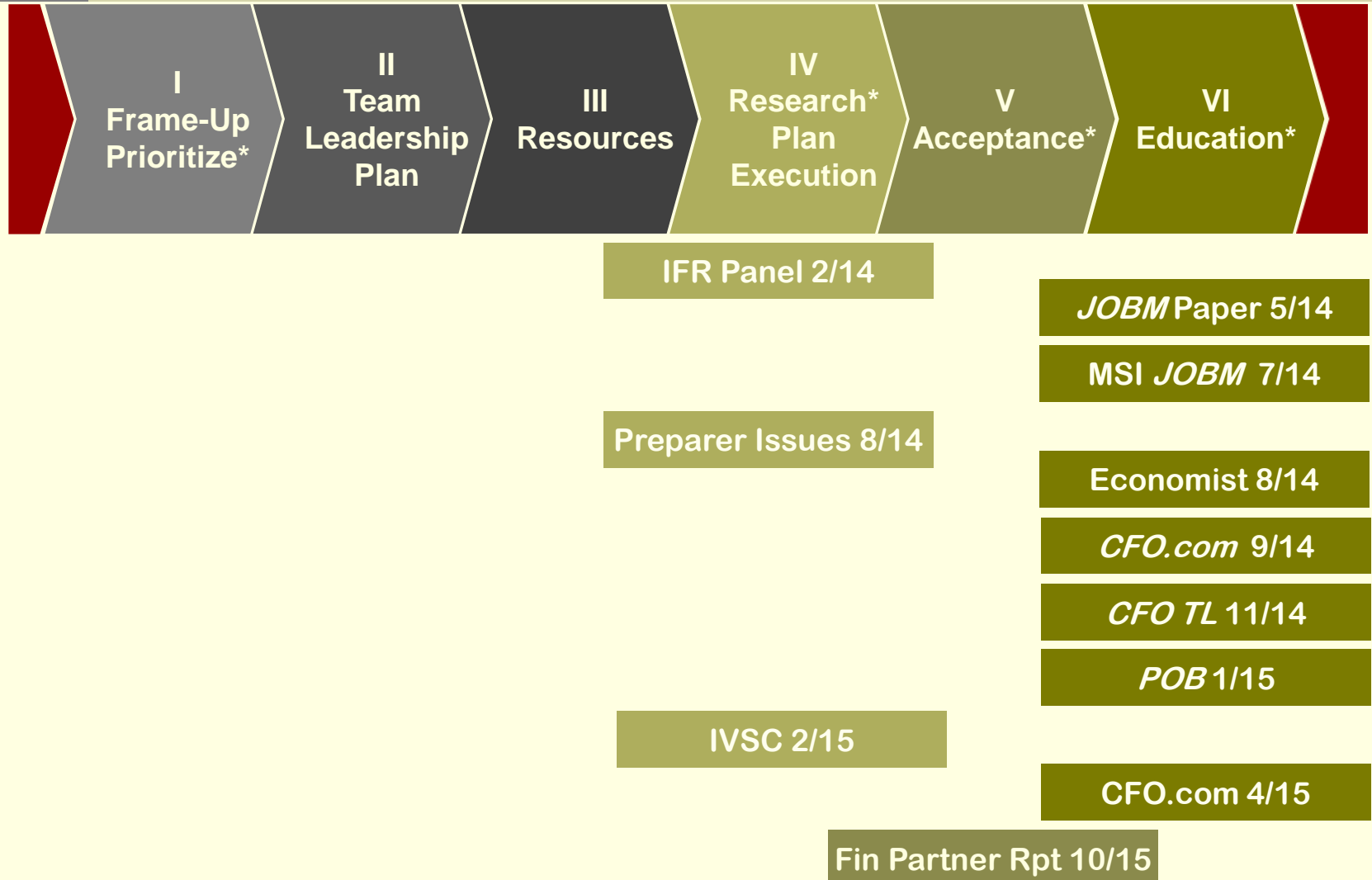
JFT Paper 10/13

FASB 6/13

Def Intangibles 8/13

IFR Milestones (2014 to 2015)

5 partners and
10 communications



IFR Milestones (2016)



ISO 289 Frame-Up 3/16

Ad tax review 2/16

CFO.com 3/16

CFO.com 5/16

IVS Response 7/16

SASB 8/16

IIRC 8/16

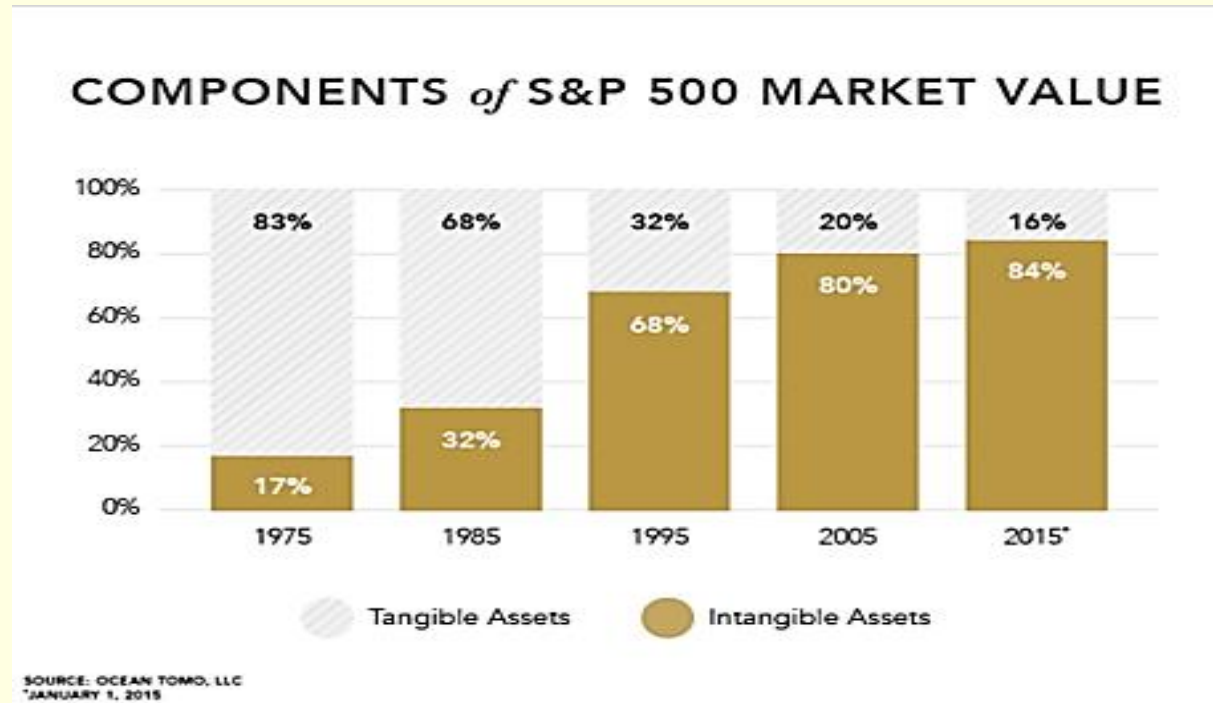
End of Acct 8/16

Ad/Tax Position 8/16

A/T White Paper 10/16

FASB Response 10/16

S&P 500 Intangibles Value



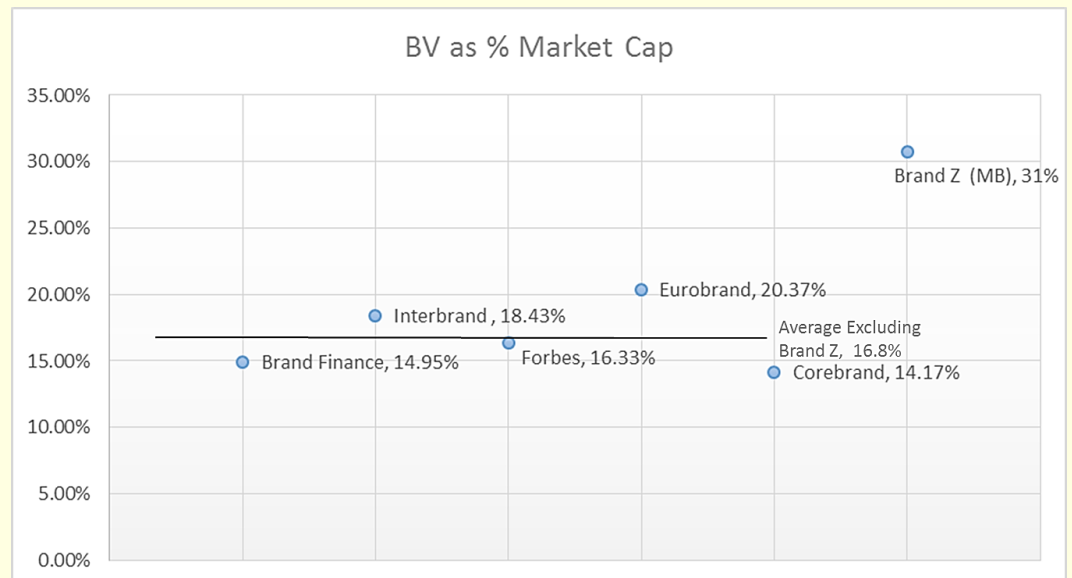
- Market Cap of S&P500 for Dec. 31, 2016: \$20,222,191 M
- Projected Average Brand Value of 2016: \$3,876,950M (19% of Market Cap based on calculations)
 - This projection may be underestimated since some of the brands of multi brand companies are not valued by all firms

S&P 100 and S&P 500 Implied BV- 2015

- Market Cap of S&P500 for 2015: \$18,774,069 M
- Average Brand Value for S&P 500 projected: \$3,599,319 M (19%)
 - Without Brand Z, Average brand value is projected: \$3,163,290 M (17%)

| 2015 Segment (000s) | Brand Finance | Interbrand | Forbes | Eurobrand | Brand Z (MB) | CoreBrand | Average |
|----------------------------|---------------|------------|-------------|-----------|--------------|-----------|------------------|
| S&P100 BV projection (\$M) | 1,516,559 | 1,887,285 | \$1,648,076 | 2,217,767 | 3,108,414 | 1,776,402 | 2,025,751 |
| S&P500 BV projection (\$M) | 2,806,973 | 3,459,647 | 3,065,161 | 3,825,015 | 5,779,462 | 2,659,656 | 3,599,319 |

- 2015 is the only year with reliable data from all brand valuation firms



Brand Finance Coverage of S&P500 (2015)

- 100 of the S&P100 are evaluated= 113%* Market Cap (\$11.4T)
 - Market Cap is overestimated since all brands of some multi-brand companies are not individually valuated.
- 372 of the S&P500 are evaluated = 81% Market Cap (\$15.5T)

| BF Valuation | \$ Market Cap | Average Brand value | Aggregate Brand Value |
|---------------------------------------|---------------|---------------------|-----------------------|
| Top 100 Market Cap brands | \$ 9,411,974 | 19% | 15% |
| Top 101-200 Market Cap brands | \$ 3,726,714 | 16% | 13% |
| Top 201-300 Market Cap brands | \$ 1,793,341 | 18% | 15% |
| Top 301-372 Market Cap brands | \$ 572,591 | 35% | 29% |
| ALL S&P 500 Valuated by Brand Finance | \$ 15,504,620 | 21% | 15% |
| Not included in BF valuation | \$ 3,269,450 | | |

Based on 2015 data

Brands with Common Coverage

| Brands | Brand Finance | Interbrand | Forbes | Eurobrand | Brand Z (MB) | CoreBrand | Average |
|------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Apple | 21.9% | 30.4% | 26.3% | 28.0% | 38.9% | 17.3% | 27.1% |
| Google | 15.7% | 27.3% | 16.9% | 20.8% | 46.9% | 17.4% | 24.1% |
| Microsoft | 15.1% | 16.4% | 17.0% | 18.9% | 27.5% | 17.8% | 18.8% |
| Amazon | 17.7% | 15.9% | 11.1% | 18.9% | 31.2% | 14.4% | 18.2% |
| General Electric | 16.3% | 14.7% | 12.5% | 14.6% | 18.4% | 16.5% | 15.5% |
| Coca-Cola | 19.2% | 39.1% | 31.3% | 43.5% | 43.0% | 19.4% | 32.6% |
| IBM | 26.5% | 39.3% | 31.0% | 35.0% | 64.6% | 15.9% | 35.4% |
| Walt Disney | 17.7% | 22.3% | 22.7% | 22.3% | 28.3% | 18.6% | 22.0% |
| Intel | 15.4% | 22.7% | 17.0% | 22.1% | 11.5% | 12.7% | 16.9% |
| Nike | 28.6% | 29.7% | 32.6% | 29.6% | 44.4% | 16.9% | 30.3% |
| McDonald's | 20.3% | 36.3% | 36.0% | 43.0% | 81.7% | 18.5% | 39.3% |
| American Express | 31.5% | 26.8% | 35.5% | 23.5% | 38.9% | 18.3% | 29.1% |
| Pepsi | 14.7% | 13.9% | 13.3% | 34.3% | 8.4% | 17.6% | 17.0% |
| Ford | 37.0% | 23.6% | 25.7% | 32.6% | 23.8% | 15.7% | 26.4% |
| UPS | 29.2% | 22.9% | 19.4% | 36.3% | 74.4% | 16.8% | 33.2% |
| HP | 84.5% | 48.6% | 64.5% | 92.3% | 100.0% | 15.2% | 67.5% |
| FedEx | 32.5% | 13.3% | 18.3% | 39.5% | 38.6% | 17.4% | 26.6% |
| J.P. Morgan | 4.9% | 5.9% | 4.2% | 6.6% | 4.9% | 13.4% | 6.7% |
| Starbucks | 12.5% | 8.4% | 13.4% | 19.9% | 48.9% | 18.3% | 20.2% |
| Visa | 5.6% | 5.1% | 12.7% | 16.3% | 66.8% | 18.7% | 20.9% |
| Mastercard | 6.3% | 5.4% | 9.7% | 17.3% | 43.1% | 18.9% | 16.8% |
| Colgate | 6.0% | 14.1% | 15.4% | 22.1% | 30.7% | 18.3% | 17.8% |
| Average | 21.8% | 21.9% | 22.1% | 29.0% | 41.6% | 17.0% | 25.6% |
| Aggregate | 17.5% | 21.6% | 19.1% | 23.9% | 36.1% | 17.1% | 22.5% |

- Companies like Pepsi and Chase are underrepresented since some of the sub-brands are not evaluated by all firms.
- Corebrand reports top 100 brands average.

Comparison on Common Coverage

- **22 Brands are covered by all 6 firms:**

| Segment | Metric | Brand Finance | Interbrand | Forbes | Eurobrand | Brand Z (MB) | CoreBrand | Average |
|----------------------------|-----------|---------------|------------|--------|-----------|--------------|-----------|------------|
| Brands covered by 6 firms | Average | 14% | 28% | 18% | 22% | 24% | 17% | 20% |
| | Aggregate | 18% | 22% | 19% | 24% | 36% | 17% | 22% |
| Brands covered by <6 firms | Average | 22% | 22% | 22% | 29% | 42% | 17% | 25% |
| | Aggregate | 14% | 13% | 11% | 19% | 21% | 17% | 16% |

- **Consistently 2% less when excluding Brand Z**

- **43 brands are covered by at least 4 firms.**
- **The average brand is valued at 23.5% by minimum of 4 methodologies.**
 - **Excluding Millward Brown this number drops to 19.7%.**

| Deviation from Average | Brand Finance | Interbrand | Forbes | Eurobrand | Brand Z (MB) | CoreBrand |
|------------------------|---------------|------------|--------|-----------|--------------|-----------|
| Average | -2% | -2% | -4% | 3% | 12% | -7% |
| Aggregate | -1% | -1% | -4% | 1% | 9% | -4% |

Coverage of S&P100

- About half of S&P100 are have values disclosed by each firm (Brand Finance publishes values for all)

| Segment | Metric | Brand Finance | Interbrand | Forbes | Eurobrand | Brand Z (MB) | CoreBrand | Average |
|--------------------------------|-----------|---------------|------------|--------|-----------|--------------|-----------|--------------|
| S&P 100 Market Cap covered | Coverage | 100% | 50% | 63% | 69% | 58% | 63% | 67.2% |
| S&P 100 published | Count | 100 | 35 | 44 | 45 | 41 | 42 | 51 |
| | Average | 19% | 18% | 17% | 23% | 17% | 32% | 20.9% |
| | Aggregate | 14% | 18% | 15% | 21% | 29% | 17% | 18.9% |
| Others not in S&P100 published | Count | 223 | 12 | 6 | 3 | 4 | 31 | |
| | Average | 18% | 50% | 43% | 60% | 49% | 17% | 39.4% |
| | Aggregate | 13% | 35% | 34% | 54% | 42% | 32% | 35.2% |

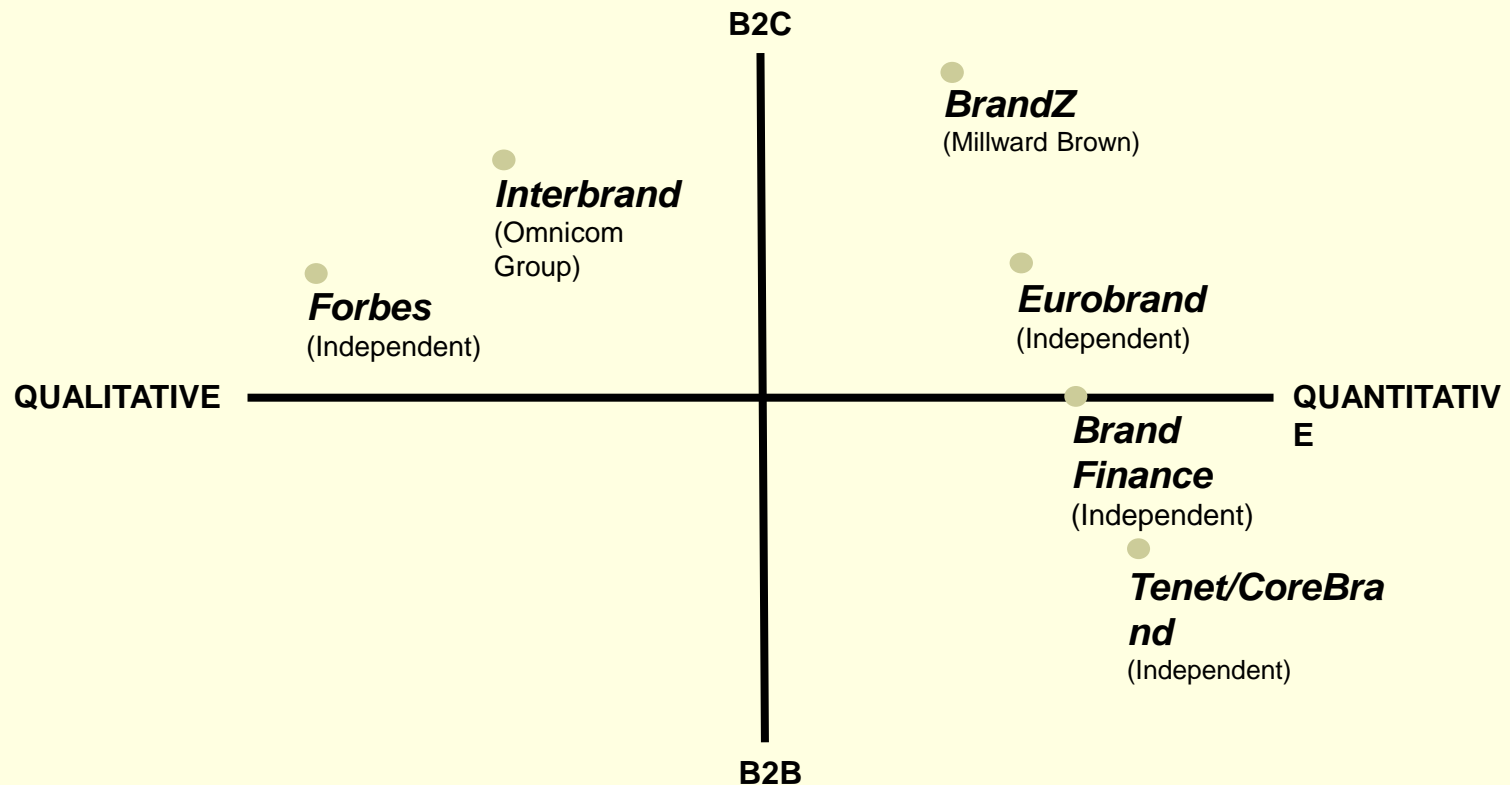
- *Brand Finance and Interbrand undervalue multi-brand valuations due to a lack of data

Valuation Practices are Not Similar

| | BrandZ | Brand Finance | Tenet/CoreBrand | Eurobrand | Forbes | Interbrand |
|------------------------------|----------------|----------------|-----------------|----------------|-------------------|----------------|
| Corporate Brands | Yes | Yes | Yes | Yes | Yes | Yes |
| Sub Brands | Yes | Yes | No | No | Yes | Yes |
| B2B vs B2C | B2C | Both | Both | Both | Both | Both |
| Flagship Publication | 100 | 500 | 100 | 100 | 100 | 100 |
| Total valued (annual) | 500+ | 3,000+ | 850+ | 3,000 | 200 | 250+ |
| 100 Largest Global Companies | No | Yes | US Presence | Yes | US Presence Only | No |
| Region | International | International | US Footprint | International | US Footprint Only | International |
| Revenue | No | Yes | Yes | Yes | No | No |
| Profits | Yes | Yes | Yes | Yes | Yes | Yes |
| Forecasts | Yes | Yes | Yes | Yes | No | Yes |
| Past Performance | Undisclosed | Yes | Yes | Yes | Yes | Yes |
| Market Research | Quant | Both | Quant | Both | None | Qual |
| Proprietary Research | Yes | No | Yes | Undisclosed | None | Yes |
| Research Audience | Consumer | Undisclosed | Influencers | Consumer | None | Qual |
| Valuation Method | Earnings Split | Royalty Relief | Proprietary | Royalty Relief | Proprietary | Earnings Split |
| External Validation | None | ISO | MASB | ISO | None | ISO |

Methodological Discrepancy

- Methodological and coverage bias results in a difficulty comparing brand values against each other



Observations & Conclusions

- The percentage of S&P 500 that has been calculated is likely understated as many multi-brand firms don't have their brands individually valued
- Brand Value as a percentage of market capitalization is relatively consistent across the S&P 500
- Several brand valuation firms calculate brand value to be close to or higher than the market capitalization of the firm
- Valuation consistency varies significantly for the same brand across brand valuation firms yet average value across a large set valuations is similar
- Firms using NPV or PV calculations use indefinite terminal values while the average lifespan of companies and brands continue to decline year over year

Project Next Steps

- Increase the number of comparable companies with increased participation from valuation publishers
- Compare valuation changes year over year to see if methodological changes match up and determine major trends
- Determine if growth/decline is consistent year over year for the same brand across valuation firms
- See if variances by industry are consistent across valuation firms
- Reconcile outlier brands that have values close to or greater than market capitalization

IFR Next Steps

- WIP discussion of percent of market cap is represented by brands (**today**)
- White paper and/or publication of % market cap study
- Ad taxation paper expanded to journal publication to include exclusion of taxation as brand value reporting issue
- Awaiting publication of “Moribund” paper in JBM
- 2017 webinar update to finance partners

IFR Team

Team Leaders



Michael Moore
LMU



Edgar Baum
Strata Insights

Team Heroes



Jim Gregory
Tenet Partners



Dave Stewart
LMU



Neil Bendle
Ivey

Staff



Allan Kuse
MMAP Center
Sponsor



Meg Blair
MAF/MASB



Richardson
Membership



Erich Decker-Hoppen
Communication



Karen Crusco
Executive Assistant
Admin

Team Meets: 4th Friday at 11:00 ET



Thank-you!



**Marketing Accountability Standards Board
of the Marketing Accountability Foundation**