

Marketing Accountability Standards

Brand Value as % of Market Cap

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MASB Advisor

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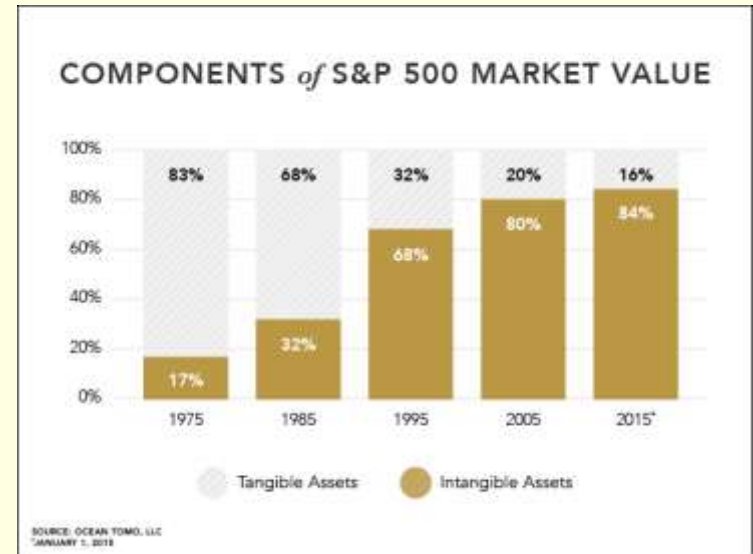
10 Year Anniversary



Marketing Accountability Standards Board
of the Marketing Accountability Foundation

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 **appears to be underestimated by 4-9%** since many of the brands of multi brand companies are not valued by any of the brand valuation firms based on findings since February '17 MASB Winter Summit

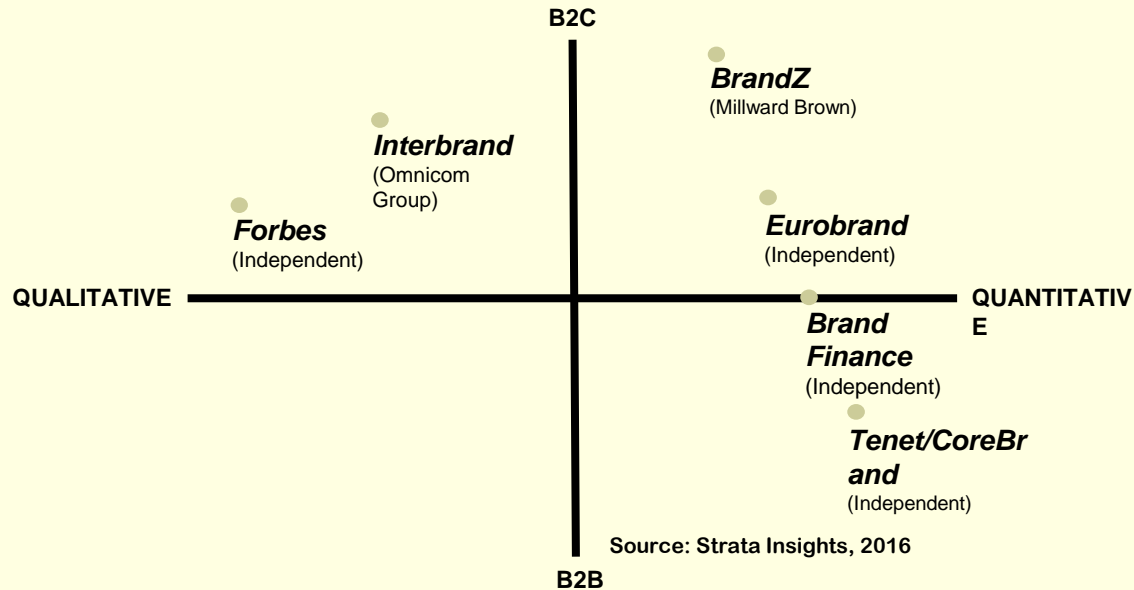


Valuation Practices are Not Similar

	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



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



New Discoveries: Brand value is biased

- Mono-brands are easier to value externally and consistently have higher brand value!

Segment	Brand Finance	Interbrand	Forbes	Eurobrand	Corebrand	Brand Z (MB)
Mono Brands	14%	22%	18%	23%	17%	23%
Multi brands	16%	24%	22%	28%	17%	30%
All S&P100	14%	18%	15%	21%	17%	29%

- 26% of Mono-brands had complete coverage as opposed to 8% of multi-brands.
- 13 Mono-brands are covered by all 6 firms

- Mono-brands have average BV of 28% (23% excluding Brand Z)

Brand	Brand Finance	Interbrand	Forbes	Eurobrand	Corebrand	Brand Z (MB)	Average	Average w/o MB
Apple	22%	30%	26%	28%	17%	39%	27%	25%
Google	35%	59%	36%	45%	17%	101%	49%	38%
Amazon	18%	16%	11%	19%	14%	31%	18%	16%
General Electric	16%	15%	12%	15%	17%	18%	16%	15%
IBM	27%	39%	31%	35%	16%	65%	35%	30%
Nike	29%	30%	33%	30%	17%	44%	30%	27%
McDonald's	20%	36%	36%	43%	19%	82%	39%	31%
American Express	32%	27%	35%	23%	18%	39%	29%	27%
UPS	29%	23%	19%	36%	17%	74%	33%	25%
FedEx	32%	13%	18%	40%	17%	39%	27%	24%
Starbucks	12%	8%	13%	20%	18%	49%	20%	14%
Visa	6%	5%	13%	16%	19%	67%	21%	12%
Mastercard	6%	5%	10%	17%	19%	43%	17%	12%
Average	22%	24%	23%	28%	17%	53%	28%	23%

Mono-brands uncover systemic challenges

- Inconsistency of coverage by brand valuation firms leads to major discrepancies in valuation
- This requires a sum-of-the parts valuation approach to multi-brand organizations
- Lowest variance in value is 90% between firms
- Highest variance is 860% indicating that there is a lack of common definition as to what constitutes as the brand in corporate value vs other factors

Brand	Brand Finance	Interbrand	Forbes	Eurobrand	Corebrand	Brand Z (MB)	Average	Average w/o MB
Apple	22%	30%	26%	28%	17%	39%	27%	25%
Google	35%	59%	36%	45%	17%	101%	49%	38%
Verizon	32%	#N/A	14%	31%	#N/A	50%	#N/A	#N/A
AT&T	28%	#N/A	15%	31%	17%	51%	#N/A	#N/A
Amazon	18%	16%	11%	19%	14%	31%	18%	16%
General Electric	16%	15%	12%	15%	17%	18%	16%	15%
IBM	27%	39%	31%	35%	16%	65%	35%	30%
Wells Fargo	13%	#N/A	5%	12%	17%	21%	#N/A	#N/A
Citi	17%	7%	5%	14%	#N/A	11%	#N/A	#N/A
Home Depot	15%	#N/A	8%	11%	17%	22%	#N/A	#N/A
Facebook	10%	14%	22%	18%	#N/A	43%	#N/A	#N/A
Nike	29%	30%	33%	30%	17%	44%	30%	27%
Cisco	17%	22%	21%	21%	#N/A	11%	#N/A	#N/A
Oracle	15%	17%	18%	16%	#N/A	12%	#N/A	#N/A
McDonald's	20%	36%	36%	43%	19%	82%	39%	31%
American Express	32%	27%	35%	23%	18%	39%	29%	27%
UPS	29%	23%	19%	36%	17%	74%	33%	25%
Chevron	11%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Walgreens	17%	#N/A	#N/A	22%	17%	#N/A	#N/A	#N/A
Target	34%	#N/A	16%	37%	17%	#N/A	#N/A	#N/A
Boeing	16%	#N/A	7%	24%	17%	#N/A	#N/A	#N/A
FedEx	32%	13%	18%	40%	17%	39%	27%	24%
Lowe's	18%	#N/A	#N/A	#N/A	17%	19%	#N/A	#N/A
Starbucks	12%	8%	13%	20%	18%	49%	20%	14%
Accenture	17%	18%	20%	#N/A	#N/A	35%	#N/A	#N/A
Costco	15%	#N/A	9%	#N/A	17%	20%	#N/A	#N/A
Goldman Sachs	12%	12%	#N/A	17%	#N/A	#N/A	#N/A	#N/A
Capital One	24%	#N/A	#N/A	#N/A	17%	#N/A	#N/A	#N/A
Morgan Stanley	14%	12%	#N/A	#N/A	17%	#N/A	#N/A	#N/A
Honeywell	11%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Visa	6%	5%	13%	16%	19%	67%	21%	12%
Caterpillar	20%	14%	21%	#N/A	#N/A	#N/A	#N/A	#N/A
Paypal	16%	11%	#N/A	#N/A	#N/A	36%	#N/A	#N/A
Metlife	13%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Union Pacific	10%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Mastercard	6%	5%	10%	17%	19%	43%	17%	12%
Medtronic	6%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Lockheed Martin	9%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Allstate	24%	#N/A	#N/A	#N/A	17%	#N/A	#N/A	#N/A
U.S. Bancorp	8%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Qualcomm	7%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
BNY Mellon	11%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Southern Compa	10%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Schlumberger	5%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Emerson Electric	12%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Raytheon	9%	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A

Industry consistency analysis

- Wide variations in brands in common sectors :

- Beverages (~4x)

Soft Drink Beverages	Brand Valuation (\$M)						% Brand Value						Average
	Brand Finance	Interbrand	Forbes	Eurobrand	Corebrand	Brand Z (MB)	Brand Finance	Interbrand	Forbes	Eurobrand	Corebrand	Brand Z (MB)	
Coca-Cola	\$ 35,797	\$ 73,102	\$ 58,500	\$ 81,236	\$ 27,797	\$ 80,314	25%	39%	41%	43%	19.4%	43%	35%
Pepsi	\$ 21,379	\$ 20,265	\$ 19,400	\$ 49,868	\$ 9,636	\$ 12,188	39%	14%	35%	34%	17.6%	8%	25%
Industry Average	\$ 6,746	\$ 32,838	\$ 38,950	\$ 65,552	\$ 18,716	\$ 46,251	25%	19%	22%	39%	17%	26%	25%

- Credit Cards (~4x)

Credit Cards	Brand Valuation (\$M)						% Brand Value						Average
	Brand Finance	Interbrand	Forbes	Eurobrand	Corebrand	Brand Z (MB)	Brand Finance	Interbrand	Forbes	Eurobrand	Corebrand	Brand Z (MB)	
American Express	\$ 21,567	\$ 18,358	\$ 24,300	\$ 16,087	\$ 12,527	\$ 26,641	32%	27%	35%	23%	18.3%	39%	28%
Visa	\$ 8,528	\$ 7,747	\$ 19,200	\$ 24,610	\$ 28,227	\$ 100,800	6%	5%	13%	16%	18.7%	67%	23%
Mastercard	\$ 6,790	\$ 5,736	\$ 10,400	\$ 18,569	\$ 20,245	\$ 46,141	6%	5%	10%	17%	17%	43%	18%
Industry Average	\$ 12,295	\$ 10,614	\$ 17,967	\$ 19,755	\$ 20,333	\$ 57,861	14%	12%	19%	19%	18%	50%	23%

- Transport (~3x)

Transport services	Brand Valuation (\$M)						% Brand Value						Average
	Brand Finance	Interbrand	Forbes	Eurobrand	Corebrand	Brand Z (MB)	Brand Finance	Interbrand	Forbes	Eurobrand	Corebrand	Brand Z (MB)	
UPS	\$ 19,538	\$ 15,333	\$ 13,000	\$ 24,332	\$ 11,254	\$ 49,816	29%	23%	19%	36%	16.8%	74%	39%
FedEx	\$ 13,672	\$ 5,579	\$ 7,700	\$ 16,639	\$ 7,320	\$ 16,236	32%	13%	18%	40%	17.4%	39%	32%
Industry Average	\$ 16,605	\$ 10,456	\$ 10,350	\$ 20,486	\$ 9,287	\$ 33,026	31%	18%	19%	38%	17%	56%	36%

- Banks (~3.5x)

Banks	Brand Valuation (\$M)						% Brand Value						Average
	Brand Finance	Interbrand	Forbes	Eurobrand	Corebrand	Brand Z (MB)	Brand Finance	Interbrand	Forbes	Eurobrand	Corebrand	Brand Z (MB)	
Wells Fargo	\$ 34,925	#N/A	\$ 12,700	\$ 33,708	\$ 46,092	\$ 58,540	13%	#N/A	5%	12%	16.6%	21%	16%
Citi	\$ 26,210	\$ 10,276	\$ 8,200	\$ 21,899	#N/A	\$ 17,055	17%	7%	5%	14%	#N/A	11%	#N/A
Bank of America	\$ 25,713	#N/A	\$ 8,300	\$ 23,354	\$ 23,926	\$ 11,289	18%	#N/A	6%	13%	16.6%	6%	14%
Chase	\$ 24,819	#N/A	\$ 8,500	#N/A	#N/A	\$ 12,330	19%	#N/A	7%	#N/A	#N/A	5%	#N/A
Industry Average	\$ 27,917	#N/A	\$ 9,425	#N/A	#N/A	\$ 24,804	17%	#N/A	6%	#N/A	#N/A	11%	#N/A

Kraft Heinz change in reporting

■ External Valuation

- Average BV: \$19.3 B (22% of Market Cap)

KHC Market Cap: \$88,291 (\$M)	Brand Finance	Interbrand	Forbes	Eurobrand	Corebrand	Brand Z (MB)	Average
Brand Value (\$M)	\$ 12,143	\$ 17,166	\$ 9,000	\$ 14,355	\$ 14,656	\$ 48,424	\$ 19,291
% Brand Value	14%	19%	10%	16%	17%	55%	22%

■ Internal Valuation (via PwC):

- Average BV: \$44.8 B (51% of Market Cap) – 2.3x higher than average of external – BrandZ closest
- KraftHeinz Market Cap went from being 92% undisclosed value to 62% explicitly valued (balance in Goodwill) between 2013 and 2015

■ Impairment testing:

- Annual
- Makes notes if Fair Value is less than 10% over Carrying cost – otherwise undisclosed
- 2016 – Historical Heinz North America has Fair Value less than 10% over Carry
- 2017 Seven brands had Fair Value less than 10% over Carry (Velveeta, Lunchables, Maxwell House, Cracker Barrel)
- Acknowledges recently acquired goodwill recently valued at Fair Value is more likely to have impairment

KH: the 10K reporting language is changing

- “*Goodwill and Intangible Assets (KraftHeinz Annual 10K filing for FY2016 from Q1 2017):*
- “No impairment of goodwill was reported as a result of our **2015** or 2014 annual goodwill impairment tests; however, the **historical Heinz North America Consumer Products reporting unit** had an estimated fair value in excess of its carrying value of less than 10%. As a result of our annual indefinite-lived intangible asset impairment tests, we recognized non-cash impairment losses of \$58 million in the year ended January 3, 2016 and \$221 million in the year ended December 28, 2014.
- “We test indefinite-lived intangible assets for impairment at least annually in the second quarter or when a triggering event occurs. We performed our **2016** annual impairment testing in the second quarter of 2016. There was no impairment of indefinite-lived intangibles as a result of our testing; however, we noted that **seven brands** each had excess fair value over its carrying value of less than 10%. These brands had an aggregate carrying value of \$6.1 billion at April 4, 2016 (our indefinite-lived intangible asset impairment testing date). **Of the \$6.1 billion aggregate carrying value, \$5.6 billion was attributable to Velveeta , Lunchables , Maxwell House , and Cracker Barrel.**”

KH: the reporting language is changing

- **Impact:**
 - PwC is conducting brand impairment testing within US GAAP with a sum of parts (portfolio) approach to valuing brands
 - This type of commentary is not applied to trademarks in isolation
 - Brands are intertwined in value with other Intangible assets such as Customers, Trade secrets, etc.
- “We consider our intellectual property rights, particularly and most notably our trademarks, but also our patents, trade secrets, copyrights, and licensing agreements, to be a significant and valuable aspect of our business.
- Third- party claims of intellectual property infringement might also require us to enter into costly license agreements.

A standard definition for Brand is required

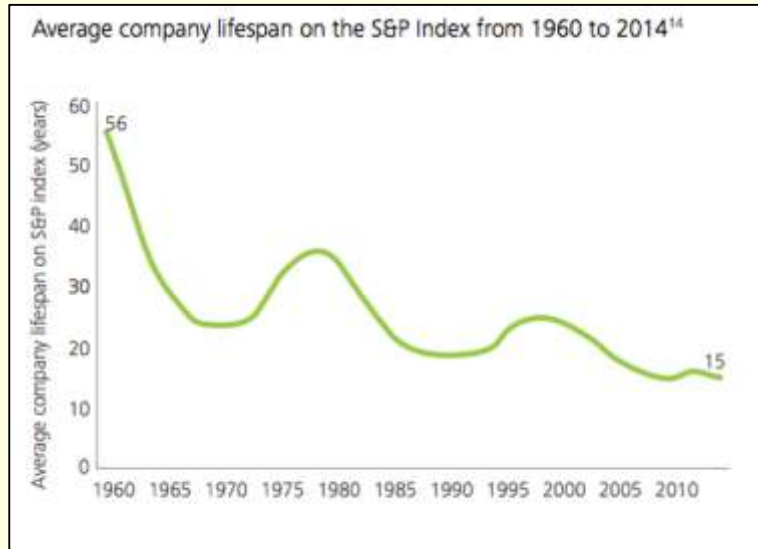
- It is clear that we need to come up with a new definition of Brand – it is not just the trademark any longer
- The lack of consistency is creating a major discrepancy in valuation
 - Microsoft ascribed a value of 8% to LinkedIn's trademarks and ~70% to Goodwill under IFRS (transaction in Ireland)
 - The Brand was not referenced
 - KraftHeinz ascribed a value of 51% to Brand portfolio and 38% to Goodwill under FASB (transaction in USA)
 - Trademarks were not explicitly identified
- The 'Moribund Effect' is still alive and real as KraftHeinz is not obliged to explicitly disclose increases in brand value since the initial valuation – only whether it is below original value (impairment), within 10%, or above 10%

Observations & Conclusions

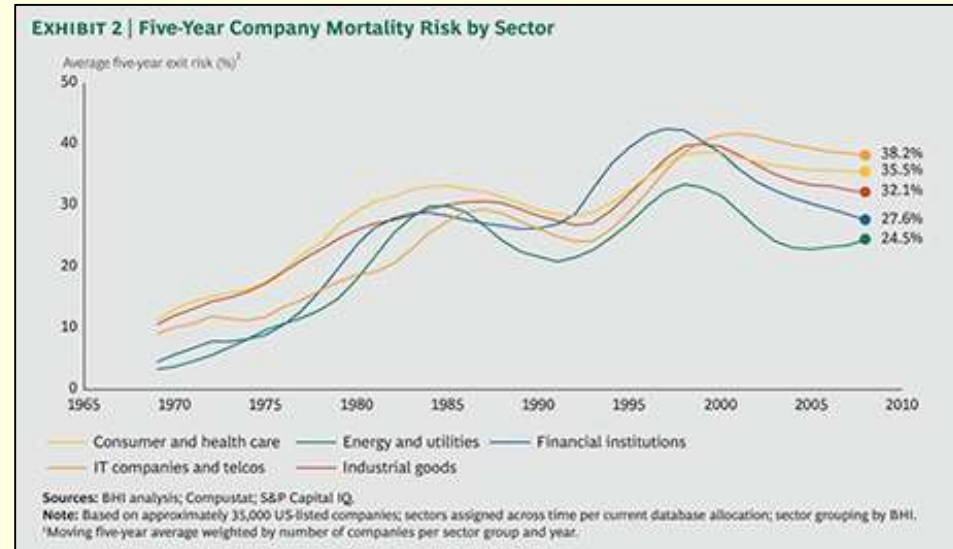
- The percentage of S&P 500 that has been calculated for Brand Values appears to be explicitly understated as many multi-brand firms don't have their brands individually valued and have aggregate BV lower than comparable mono-branded competitors
- Brand Value as a percentage of market capitalization 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 including firms that are financially healthy
- Valuation consistency varies significantly for the same brand across brand valuation firms yet average value across a large set of valuations is similar

Observations & Conclusions

- Average lifespan of companies and brands continue to decline year over year creating a risk of overvaluation for older brands and/or very young brands



Source: Deloitte, 2015



Source: Compustat, 2010

Feb '17 Study Next Steps and Results

- Increase the number of comparable companies with increased participation from valuation publishers
 - **Insufficient participation in disclosure for holistic analysis**
- Compare valuation changes year over year to see if methodological changes match up and determine major trends
 - **Valuation changes vary considerably and in an inconsistent manner – some firms increase values while others decline with no disclosure as to “why”**
- Determine if growth/decline is consistent year over year for the same brand across valuation firms
 - **Changes in market capitalization does not correlate with changes in brand value**
- See if variances by industry are consistent across valuation firms
 - **Variances are highly inconsistent between brand valuation firms**
- Reconcile outlier brands that have values close to or greater than market capitalization
 - **Variance falls into two camps: depressed stock prices, brand value ‘anticipating’ an increase in future market capitalization (not always accurately)**

Thank-you!



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