Brand Finance®

GIFT™ 2019

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

November 2019

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About Brand Finance.

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

Brand Finance was set up in 1996 with the aim of 'bridging the gap between marketing and finance'. For more than 20 years, we have helped companies and organisations of all types to connect their brands to the bottom line.

We pride ourselves on four key strengths:
+ Independence
+ Transparency
+ Technical Credibility
+ Expertise

We put thousands of the world's biggest brands to the test every year, evaluating which are the strongest and most valuable.

Brand Finance helped craft the internationally recognised standard on Brand Valuation – ISO 10668, and the recently approved standard on Brand Evaluation – ISO 20671.

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Foreword: Brand Finance.

David Haigh
CEO, Brand Finance

Each year, Brand Finance plc analyses the fluctuating value of intangible assets on world stock markets. Once again the Global Intangible Finance Tracker (GIFT™) highlights important trends which have developed over the last 18 years:

1. The absolute scale of global intangible assets and the high percentage of global enterprise value represented by intangible assets;
2. The volatility of intangible asset values caused by changes in investor sentiment over time;
3. The confusion created by some intangible assets appearing in balance sheets while most do not;
4. The failure of IFRS 3 to adequately report the current real value of both internally generated and acquired intangibles.

The phenomenon of 'undisclosed intangibles' has arisen because accounting standards do not recognise intangible assets unless there has been a transaction to support intangible asset values in the balance sheet.

To many accountants, the Historical Cost Convention is a prudent measure to prevent creative accounting and the distortion of reported asset values. But the ban on intangible assets appearing in balance sheets unless there has been a separate purchase for the asset in question or a fair value allocation of an acquisition purchase price, means that many highly valuable intangible assets never appear on balance sheets.

This seems bizarre to most ordinary, non-accounting managers. They point to the fact that while Smirnoff appears in Diageo's balance sheet, Baileys does not. The value of Cadbury's brands was not apparent in its balance sheet and probably not reflected in the share price prior to Kraft's unsolicited and ultimately successful contested takeover of that once great British company.

There are many other examples of this unfortunate phenomenon, which has led to the call for a new approach to financial reporting, with fair values of all assets determined and reported by management each year. Annual fair value reporting would be a significant help to managers, investors and other interested parties.

There is a growing demand, strongly supported by Brand Finance plc, that it is time for a new form of financial reporting, whereby boards should be required to disclose their opinion of the fair value of all key intangible assets under their control. We believe that this exercise should be conducted annually and include explanatory notes as to the nature of each intangible asset, the key assumptions made in arriving at the values disclosed and a commentary about the health and management of each material intangible assets. They could then be held properly accountable.

We believe that too many great brands have been bought and transferred offshore as a result of the ongoing reporting problem.

We hope that this GIFT™ report will start a reporting revolution which is long overdue. Instead of meaningless balance sheet numbers we want to see living balance sheets with values that the board really considers appropriate and useful for customers, staff, investors, partners, regulators, tax authorities, and other stakeholders.

We urgently need a more imaginative approach towards a regular revaluation and reporting of intangible assets. If we could achieve a more meaningful reporting approach, we believe that it would lead to better informed management, higher investment in innovation and intangible value creation, stronger balance sheets, better defence against asset strippers, and generally serve the needs of all stakeholders.

In our opinion, it is time for CEOs, CFOs, and CMOs to start a long overdue reporting revolution.

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.

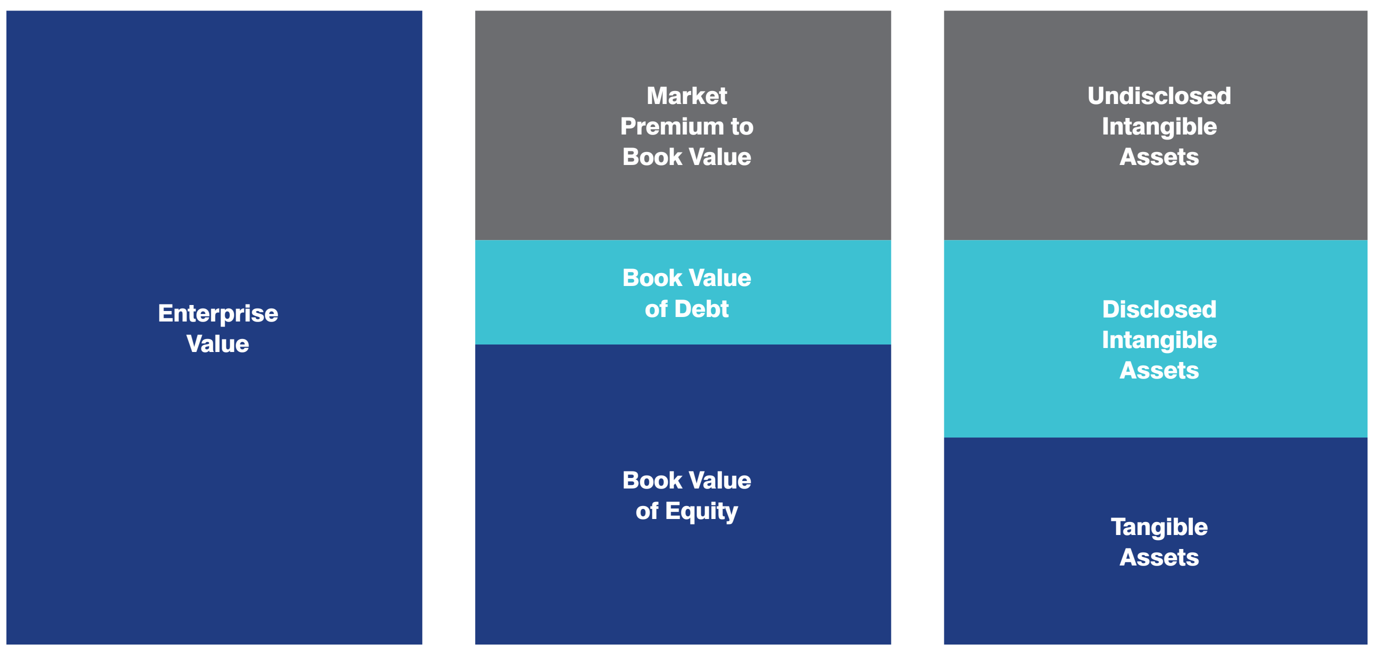
2 Relationships. Trained and assembled workforce, customer and distribution relationships.

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.

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.

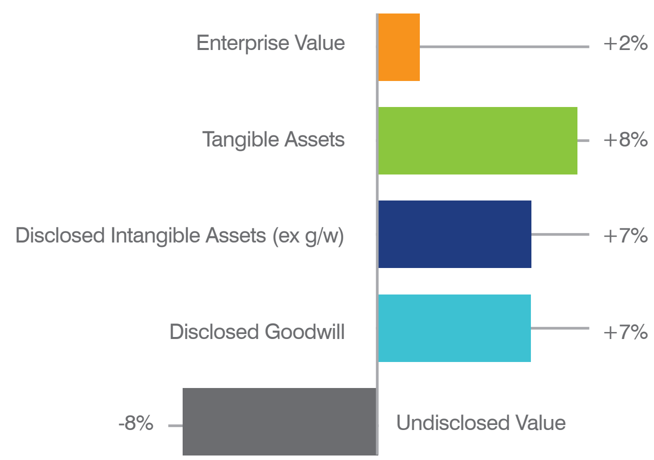
Global trends

The value of undisclosed intangible assets globally has declined for the first time since 2011, falling 8% year on year, according to the Brand Finance Global Intangible Finance Tracker (GIFT™) 2019 report. The value of the world's undisclosed intangible assets is now at US$35.4 trillion, compared to US$38.5 trillion the year before. This type of reduction is normally only recorded in years of recession.

At the same time, global enterprise value, understood as the total worth of the world's publicly traded companies, stands at US$104.5 trillion, up from US$102.5 trillion last year. Despite the rise in total business value, this 2% growth is also the smallest growth recorded since 2011.

Both the stagnation of growth in total enterprise value and the decline in the value of undisclosed

Global Enterprise Value Change (%) 2018-2019



intangible assets reflect the conservative behaviour of investors in global markets over the last year, as global economic activity remains weak. Key sectors have lost momentum, with the proportion of undisclosed intangibles within enterprise value falling to levels of the 2007-2008 global financial crisis. This slowdown, paired with rising trade tensions between the world's superpowers, has damaged global business confidence and investment.

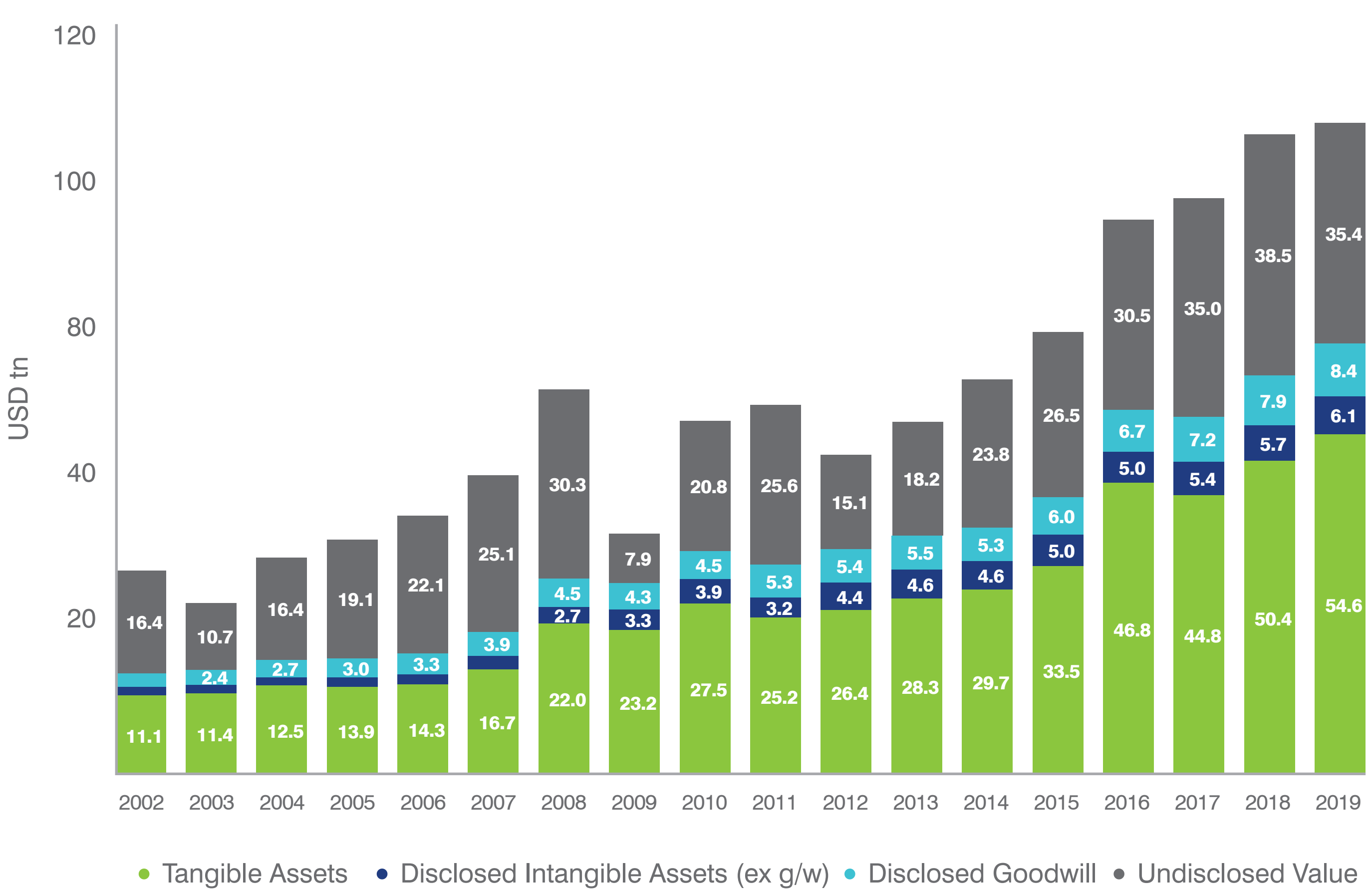
With the intangibles in decline, this year brought about a rebalancing of value between the two categories, with tangible assets - at 52% - now forming more than half of total global enterprise value. Undisclosed intangible assets are the balancing figure between market and book value, and therefore their decline is intrinsically connected to the decline of the market value of companies globally.

The share of reported intangibles and goodwill globally remains similar to previous years, at 6% and 8% of the global enterprise value respectively, highlighting the continued reluctance of companies to identify specific intangible assets on their balance sheets.

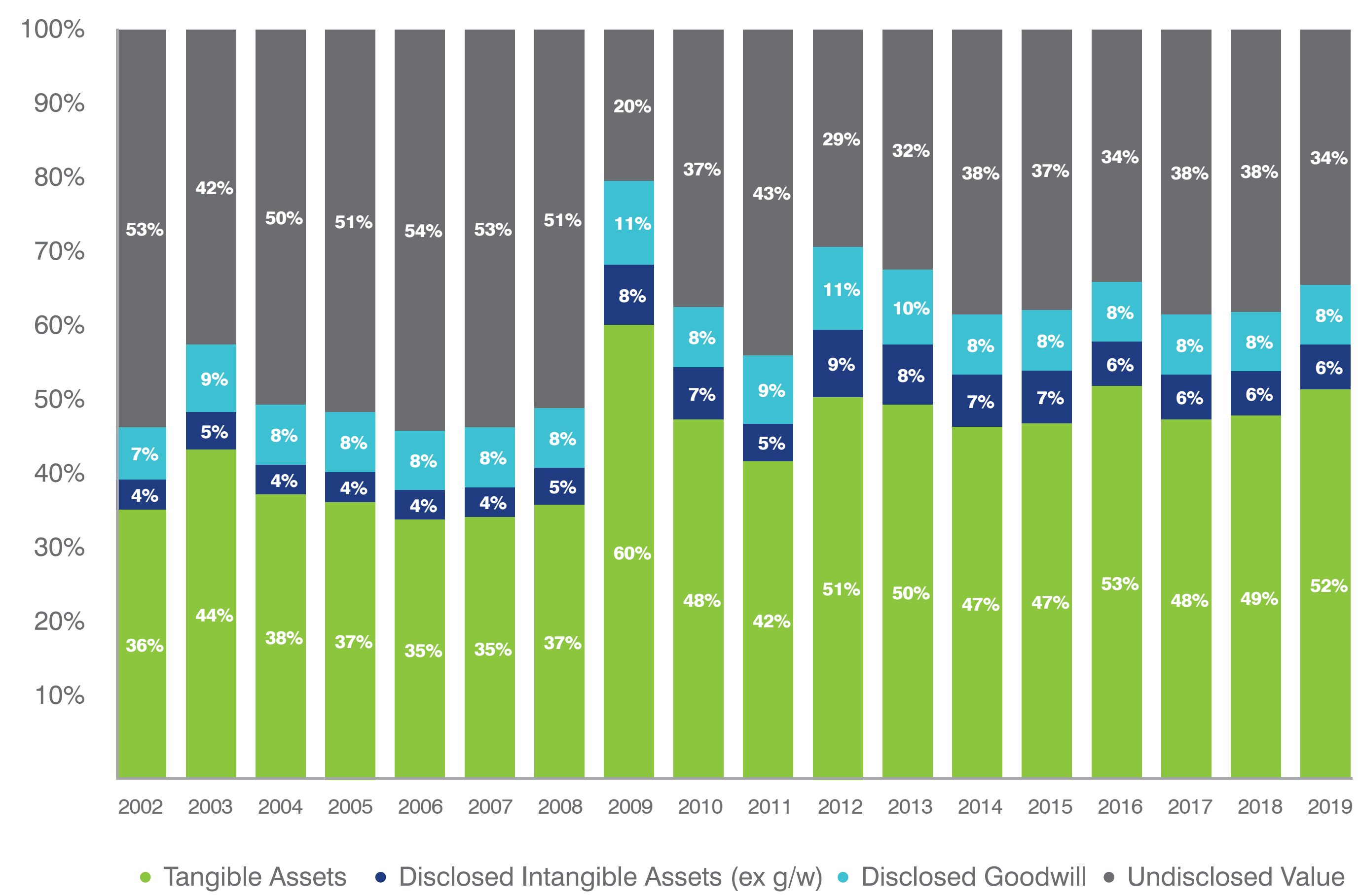
The global economy has entered troubled waters. With little sign of political winds changing any time soon, its resilience will be tested to the limits. Should tensions between East and West continue, we could find ourselves full steam ahead on course towards the next global financial crisis.

David Haigh
CEO of Brand Finance

Global Enterprise Value - Absolute Breakdown (USD tn)



Global Enterprise Value - Relative Breakdown (%)



Executive Summary.

Country trends

Looking at the trends on the national level, out of the top 50 countries globally by GDP, 35 have experienced a fall in undisclosed intangible value relative to their enterprise value.

The countries that have seen the greatest drop in their undisclosed intangible assets relative to their enterprise value year on year are Iraq (down 29 pp from 42% to 13%); Pakistan (down 28 pp from 31% to 3%); South Korea (down 21 pp from 0% to -21%); and India (down 16 pp from 47% to 31%).

Although Iraq's security position has improved in recent years after the defeat of ISIS, recovery has been slow, and the country remains extremely fragile. Iraq relies heavily on oil and gas, with the economy exposed to volatile fossil fuel prices. The government has, however, made commitments to diversify the economy and to promote private sector activity, which would, in turn, reassure investors.

Neighbours, Pakistan and India have been preoccupied with the ongoing dispute over the Kashmir territory, which reached peak tensions over the last few months, impacting both nations' market performance.

Pakistan's economy is suffering, and the government is failing to attract and win the confidence of investors. Foreign direct investment has halved in the last year, a reaction to the unfavourable environment in the country, with investors unable to get utility connections. The investment from China as part of the China-Pakistan Economic Corridor, however, is striving to develop Pakistan as a thriving market and economy to invest in.

India, in turn, while quick to recover following the global financial crisis, has since slumped significantly, which can be largely attributed to a deceleration in the manufacturing, automobile, and agriculture sectors. The country has relied on investment, both from the public and private sectors, since economic liberalisation in 1991, however, investment levels have drastically reduced, hitting the economy hard.

South Korea's role in steering the global economic outlook is vital due to the country's trade data serving as an important indicator for global demand generally. Furthermore, the nation's top companies are deeply entrenched in the global supply chain. The South Korean economy has been suffering recently due to the sharp downturn in exports. Amid global trade tensions, the country's neighbour, Japan, continues to impose restrictions on imports.

In contrast, Romania's (up 15 pp from -23% to -8%), Russia's (up 12 pp from -15% to -3%), and Turkey's (up 9 pp from -4% to 5%) undisclosed intangible asset values have entered recovery mode, recording an uptick in growth following turbulent years for all three countries.

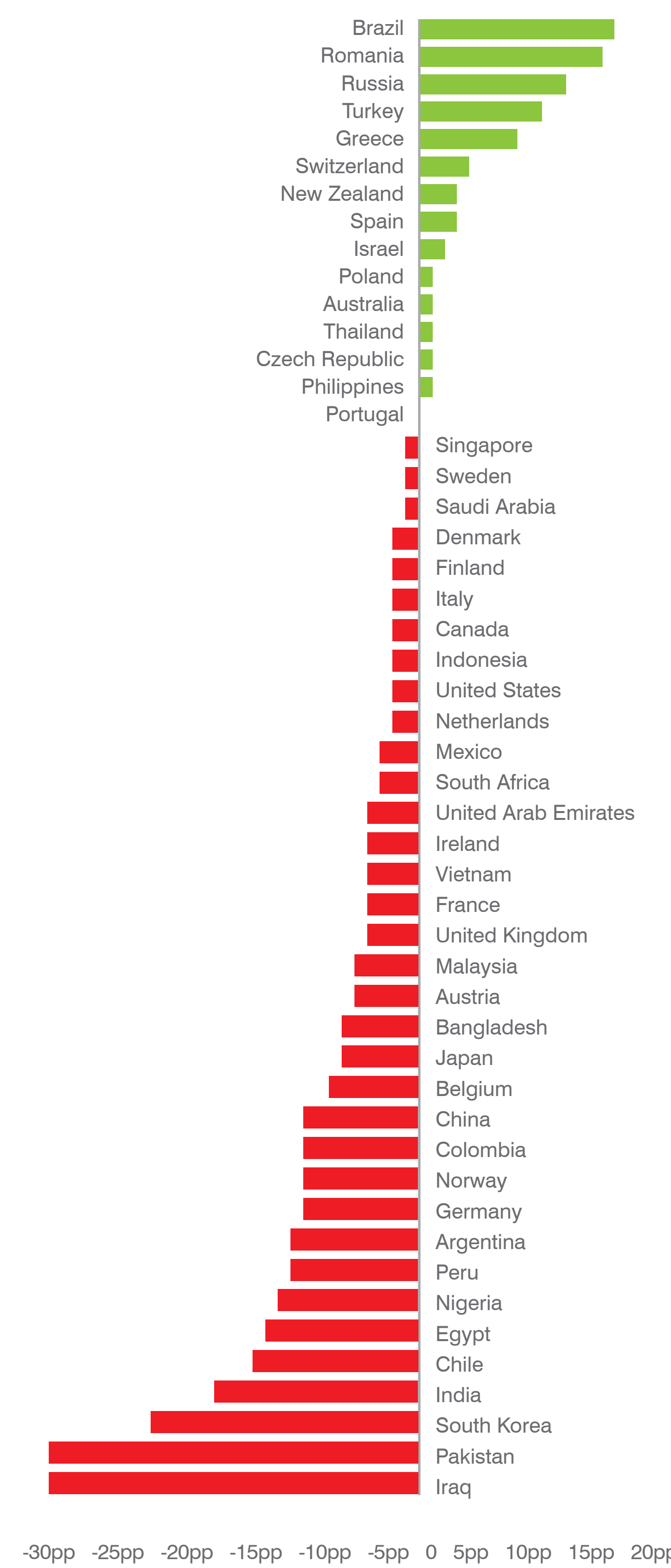
Since joining the EU, Romania has celebrated a significant upward trajectory in productivity. The country's economic growth has been one of the highest in the EU since 2010, helping Romania to reduce poverty levels, increase private consumption, and implement labour market improvements.
The outlook remains positive for the country, with Romania's public and external debt maintaining relatively low levels by EU standards.

Russia recorded higher than expected undisclosed intangible value growth, largely due to a successful year in the real estate, commercial services, and telecoms sectors. To some extent, Russia has been able to protect itself from global volatility through its low external debt and high levels of international reserves. Although this is an improvement from the disastrous situation last year, undisclosed intangible value is still in negative territory. This reflects a poor market sentiment relative to historical cost-based book values, implying a need for asset value impairment.

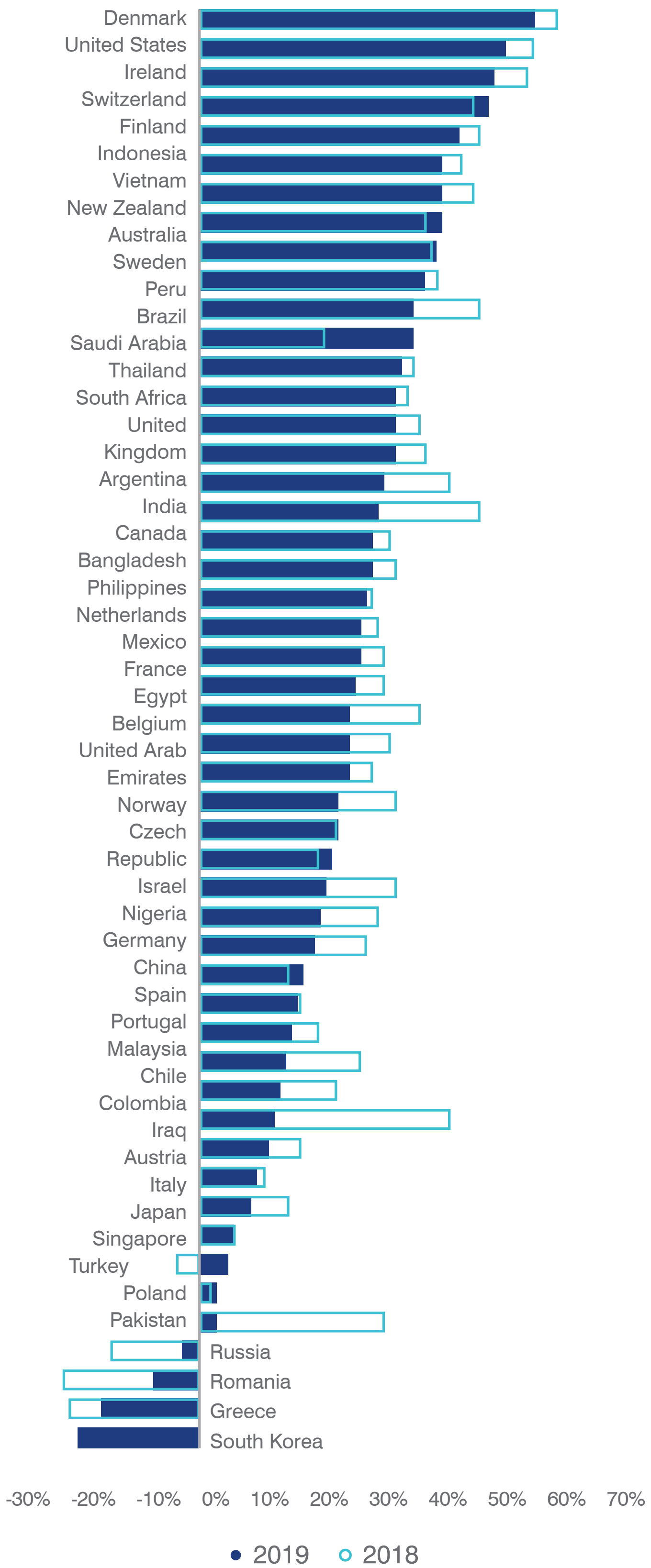
Turkey is back on track following a recession and the sharp fall in value of the lira, which tainted the economy in the second half of 2018. Turkey has the opportunity to thrive with the advantage of the youngest and fastest-growing population in Europe, as well as looser monetary policies that are still in place. Continued geopolitical tensions, however, could potentially blight this improvement.

More than a recovery story, Brazil is a standout country that has seemingly bucked the global trend with a 16 pp growth

Year on Year Change in Undisclosed Intangible Value's Share of EV 2018-2019 (pp)



Undisclosed Intangible Value as Share of EV by Country (%)



in undisclosed intangible asset value from 21% to 37% of the overall enterprise value. Like Turkey, Brazil has focused on recovery since the sapping recession of 2015 and 2016. Much faith has been put in the newly elected president, Jair Bolsonaro, as he promises to propel the country to economic growth.

The top 10 nations with highest percentage of undisclosed intangible asset value have recorded little change year on year, testament to their market stability. The list is made up of developed economies, with the exception of Indonesia and Vietnam – Southeast Asian countries recording consistent investment and growth levels over the past years. Denmark, United States, and Ireland rank highest, with 58%, 53%, and 51% of enterprise value attributable to undisclosed intangible assets respectively.

The list of countries with a high proportion of enterprise value residing in intangible assets does not surprise. The economies of the United States, Ireland, Nordic countries – all boast a solid reputation on the global stage. The combination of strong brands and market trust certainly helps cushion these countries from global economic turbulence.

David Haigh
CEO of Brand Finance

Sector trends

The automobiles, banking, and oil & gas sectors stand out in the GIFT™ report due to a very low proportion of undisclosed intangible value in their total enterprise values.

The automobiles industry has just 1% undisclosed value, compared to 86% tangible net asset value. This marks a sharp drop from 16% undisclosed value last year, by more percentage points than any other sector in the past year. Initially more gradual, this decline from peak share of undisclosed intangibles at 28% in 2014, is a result of missed expectations in the sector. Auto companies have

invested heavily in innovative technology, in particular electric and autonomous vehicles, in anticipation of increased global demand. However, such demand has not materialised, and the markets are now doubtful whether it ever will, especially with slowing economic growth in China.

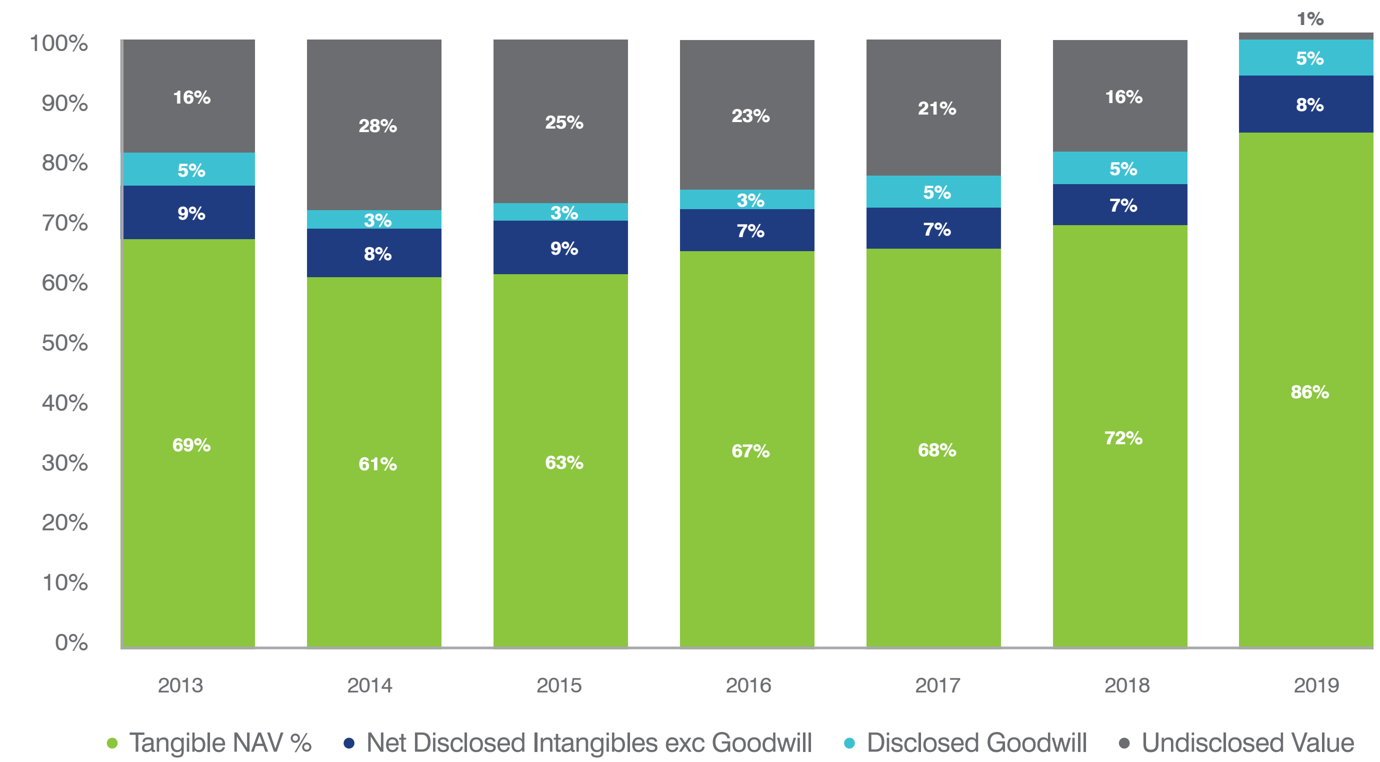
Auto manufacturers Hyundai, Volkswagen, Daimler, Honda, and Nissan have the highest negative undisclosed intangible values in this year's analysis – a direct correlation with their high exposure to the Chinese market. In contrast, Tesla, Ferrari, Toyota, Maruti Suzuki, and General Motors recorded positive undisclosed intangible values due to high sales volumes in the US.

At 5% of enterprise value, the banking sector has the second-lowest share of undisclosed intangibles behind only automobiles. Overall, the share of undisclosed intangible value in banking decreased 7 pp from 12% last year, as that of the tangible net asset value increased to 85%, and the enterprise value as a whole saw a dip of 2%. The absolute value of the banking sector remained considerably higher than any other's, at a colossal US$16.4 trillion.

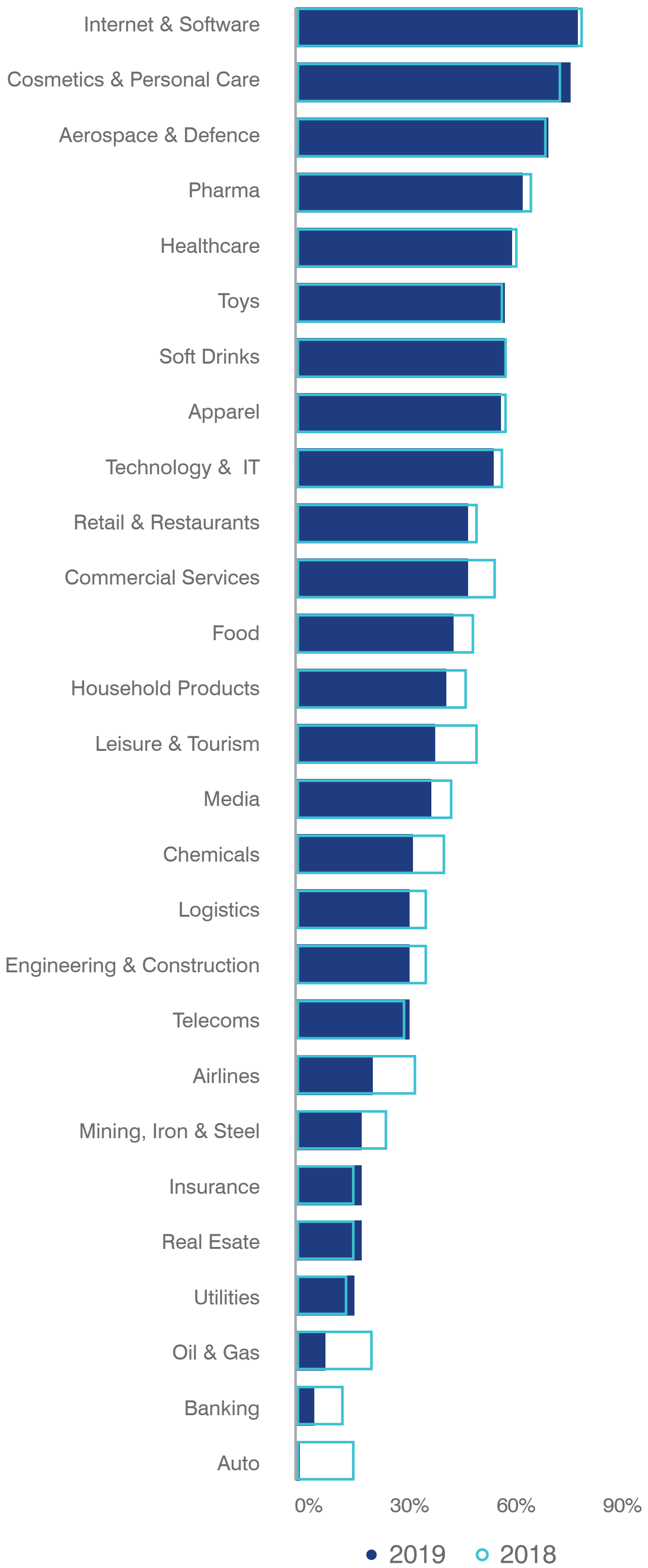
Automotive companies have yet to reap the rewards of high investment in R&D, especially in autonomous and electric vehicle technology. If they want to stimulate demand and improve investor perception to recover their market value, their attention must focus on marketing and brand investment.

David Haigh
CEO of Brand Finance

Automobiles – Enterprise Value Breakdown (%)



Undisclosed Intangible Value as Share of EV by Sector (%)



Even though the US banking sector recorded the highest undisclosed intangible value amongst the markets in our analysis, it decreased 23% year on year. As a result, undisclosed intangible value now comprises 31% of total business value for banks in the US, versus 38% in last year's analysis. As the banking and finance industry is the 3rd largest contributor to GDP in the US, this indicates investor apprehension of a looming global recession.

By comparison, the Chinese banking sector has the greatest negative undisclosed intangible value. In 2018, the Chinese banking and insurance regulators were merged, resulting in state-owned enterprises being overleveraged, which has brought about increased financial risk. Smaller Chinese banks are seeing an increase in non-performing loans, a result of the economic slowdown in the country. This coupled with the US-China trade war, placing downward pressure on the yuan, signals increasingly volatile times ahead.

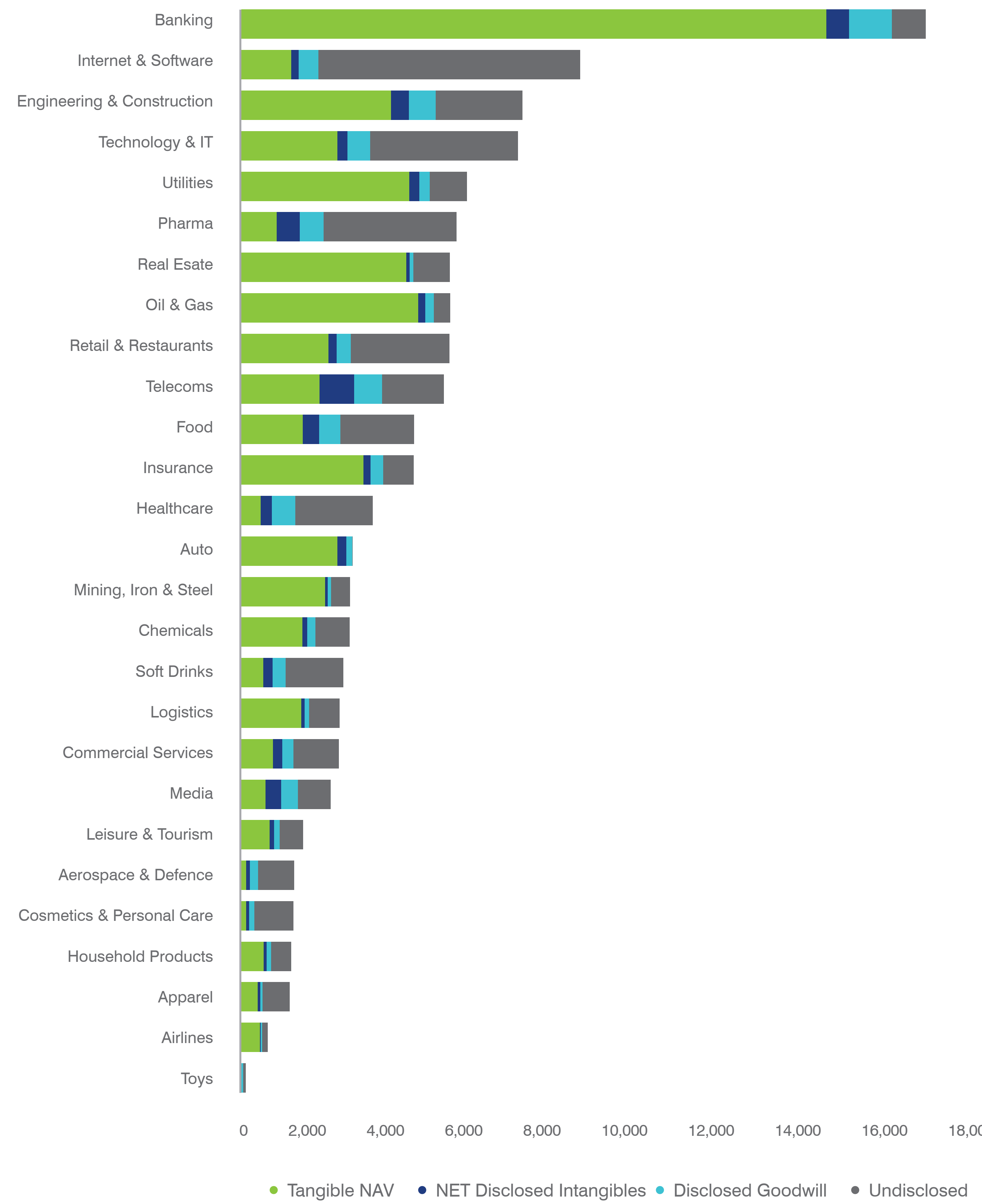
Globally, the banking sector will have to contend with the growing anticipation of a financial crisis, and the worldwide drop in interest rates, which will continue to impact levels of investment and economic growth.

The oil & gas sector has 8% undisclosed intangibles versus 85% tangible assets. The undisclosed value in this sector fluctuates significantly year on year, its highest in 2013 and again last year at 21%, to a low of -2% in 2015. This volatility echoes changing oil prices, including the crash of 2015. Now yet again, countries and companies alike are facing increased uncertainty in the face of the pessimistic outlook for the oil market, where prices and exports are expected to weaken due to lower global demand.

The OPEC+ agreed to extend oil output cuts until March 2020, a move that seeks to prevent prices from falling, as production in the US continues to soar. The ongoing concerns that oil storage is running low is also impacting the level of investments coming into the oil industry.

In addition, the combination of the Western world becoming ever more environmentally conscious and the rise of alternative fuels is putting increased long-term pressure on the sector.

Sectors – Enterprise Value Breakdown (USD bn)



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.

The very nature of the internet & software and technology & IT sectors means they are heavily reliant on intangible assets. These companies have the ability to differentiate themselves with limited physical assets, defending price and demand. 25 internet & software and technology & IT companies feature in the top 100 ranking of companies with the highest total intangible value.

This year, Microsoft has overtaken Amazon to become the company with the highest total intangible value, at US$904 billion, compared with Amazon at US$839 billion. US$860 billion of Microsoft's intangibles remain undisclosed, a jump from US$641 billion last year. 2019 has been a record-breaking year for Microsoft, which now boasts the largest commercial cloud business in the world.

Pharma and healthcare companies also feature heavily in the ranking, with 22 accounted for. The volume is unsurprising due to the dominance of patents, as well the M&A nature of the sector.

Abbvie has dropped 24 spots in the ranking, the greatest drop in the pharma and healthcare sector, with its intangible value decreasing from US$195 billion last year to US$142 billion in this year's analysis. Abbvie Inc recently lost its patent for Humira, the world's bestselling drug, which accounted for 70% of the company's annual turnover.

By contrast, Danaher Corporation has recorded the biggest positive jump in the ranking of all the pharma and healthcare companies, following an increase in total intangible value from US$79 billion last year to US$104 billion in this year's analysis. More than 50% of Danaher's total revenue comes from acquisitions in the past seven years. With the announcement that it plans to acquire GE's BioPharma, the company shows no sign of slowing down its relentless expansion programme.

Looking at levels of disclosure, AT&T, AB InBev, and Comcast Corporation are the most transparent companies in their reporting and take the top three ranks by disclosed intangible value.

Top 10 Companies by Total Intangible Value

Rank	Company	Previous rank	Total Intangible Value	Share of Enterprise Value
1	Microsoft	2	$904bn	90%
2	amazon	1	$839bn	93%
3	Apple	3	$675bn	77%
4	Alphabet	4	$521bn	65%
5	FACEBOOK	6	$409bn	79%
6	AT&T	9	$371bn	84%
7	Tencent 腾讯	7	$365bn	88%
8	Johnson & Johnson	8	$361bn	101%
9	VISA	11	$348bn	100%
10	Alibaba.com	5	$344bn	86%

All pharma companies have to negotiate losing patents. However, some of the damage from patent loss can be alleviated through strong branding. Brands help breed a solid market which increases volume and price, serving companies favourably post patent expiry.

David Haigh
CEO of Brand Finance

AT&T reports US$310 billion of disclosed intangibles versus US$60 billion undisclosed. This is a trend across the telecoms sector as companies rely on securing contracts and high levels of customer engagement to succeed.

Second-placed AB InBev reports US$178 billion of intangibles on its balance sheet. At the end of 2016, AB InBev merged with SAB Miller in a record-breaking US$100 billion deal, simultaneously creating the world's largest beer firm.

In third is Comcast Corporation, which reports US$164 billion of disclosed intangible assets, a jump from US$115 billion last year. In 2019 alone, Comcast has acquired three subsidiaries: BluVector, Deep Blue Communications, and Metrological. The biggest acquisition recently, however, is the purchase of British telecoms and media conglomerate Sky for US$39 billion at the end of 2018.

The highest new entrant into the GIFT™ ranking of the top companies by disclosed intangible value is healthcare giant Cigna, which reports US$84 billion of disclosed intangible assets. In December 2018, Cigna completed the US$54 billion acquisition of Express Script, in turn creating one the biggest providers of pharmacy benefits and insurance plans in the US. The acquisition has propelled them to the 14th spot in the ranking.

Top 10 Companies by Disclosed Intangible Value

Rank	Company	Previous rank	Disclosed Intangible Value	Share of Total Intangible Value
1	AT&T	1	$310bn	84%
2	AB InBev	2	$178bn	59%
3	COMCAST	6	$164bn	59%
4	British American Tobacco	3	$158bn	100%
5	verizon	4	$129bn	43%
6	Berkshire Hathaway Inc.	5	$119bn	54%
7	CVS Health	25	$115bn	91%
8	Charter Communications	7	$106bn	64%
9	SoftBank	12	$104bn	73%
10	Allergan	9	$90bn	109%

Top 100 Companies by Total Intangible Value.

2019 Rank	2018 Rank		Company	Sector	Total Intangible Value (USD bn)	Total Intangible Value/ Enterprise Value (%)	Tangible Net Asset Value (USD bn)	Net Disclosed Intangibles (USD bn)	Disclosed Goodwill (USD bn)	Undisclosed Intangible Value (USD bn)	Enterprise Value (USD bn)
1	2	↑	Microsoft Corp	Internet & Software	$904	90%	$106	$8	$36	$860	$1,009
2	1	↓	Amazon.com Inc	Internet & Software	$839	93%	$65	$4	$15	$820	$903
3	3	←	Apple Inc	Technology & IT	$675	77%	$199	$0	$0	$675	$874
4	4	←	Alphabet Inc	Internet & Software	$521	65%	$279	$2	$18	$501	$800
5	6	↑	Facebook Inc	Internet & Software	$409	79%	$110	$1	$18	$389	$518
6	9	↑	AT&T Inc	Telecoms	$371	84%	$70	$164	$146	$60	$441
7	7	←	Tencent Holdings Ltd	Internet & Software	$365	88%	$52	$3	$5	$357	$417
8	8	←	Johnson & Johnson	Pharma	$361	101%	-$2	$48	$30	$283	$359
9	11	↑	Visa Inc	Banking	$348	100%	-$1	$28	$15	$305	$348
10	5	↓	Alibaba Group Holding	Internet & Software	$344	86%	$56	$4	$26	$314	$400
11	17	↑	Nestle SA	Food	$313	89%	$40	$19	$32	$261	$353
12	19	↑	The Procter & Gamble Co	Cosmetics & Personal Care	$305	101%	-$2	$24	$45	$236	$303
13	10	↓	Anheuser-Busch InBev	Beers	$304	99%	$4	$45	$133	$126	$308
14	12	↓	Verizon Communications Inc	Telecoms	$300	83%	$62	$104	$25	$172	$363
15	22	↑	Comcast Corp	Media	$276	92%	$24	$98	$66	$112	$300
16	20	↑	Mastercard Inc	Banking	$259	99%	$3	$1	$3	$256	$263
17	29	↑	Novartis AG	Pharma	$252	101%	-$3	$39	$35	$178	$250
18	-	New	Walmart	Retail	$252	68%	$119	$0	$18	$234	$371
19	13	↓	Unitedhealth Group Inc	Healthcare	$245	94%	$15	$9	$59	$177	$260
20	14	↓	Pfizer Inc	Pharma	$235	98%	$5	$35	$53	$147	$241
21	16	↓	Home Depot Inc	Retail	$230	89%	$28	$0	$2	$228	$258
22	27	↑	The Coca-Cola Co	Soft Drinks	$224	88%	$32	$7	$14	$203	$256
23	30	↑	Roche Holding AG	Pharma	$222	91%	$22	$10	$9	$204	$244
24	15	↓	Berkshire Hathaway Inc	Insurance	$221	34%	$428	$38	$81	$103	$649
25	35	↑	Merck & Co Inc	Pharma	$216	93%	$16	$11	$18	$186	$232
26	25	↓	Oracle Corp	Internet & Software	$208	105%	-$10	$7	$44	$158	$198
27	34	↑	Cisco Systems Inc	Technology & IT	$206	94%	$13	$3	$32	$172	$220
28	21	↓	The Boeing Co	Aerospace & Defence	$203	103%	-$5	$3	$8	$192	$197
29	39	↑	The Walt Disney Co	Media	$197	63%	$114	$7	$31	$159	$311
30	32	↑	LVMH	Apparel	$196	87%	$29	$20	$16	$160	$225
31	33	↑	Pepsico Inc	Soft Drinks	$191	94%	$12	$16	$15	$160	$203
32	31	↓	Unilever	Cosmetics & Personal Care	$178	95%	$9	$14	$20	$144	$187
33	47	↑	Mcdonald's Corp	Restaurants	$170	83%	$35	$0	$2	$167	$205
34	18	↓	Intel Corp	Technology & IT	$169	77%	$52	$12	$25	$133	$221
35	26	↓	JPMorgan Chase & Co	Banking	$168	37%	$289	$1	$47	$120	$457
36	41	↑	Charter Communications Inc	Telecoms	$165	98%	$3	$77	$30	$59	$168
37	24	↓	British American Tobacco Plc	Tobacco	$158	113%	-$18	$99	$59	$0	$140
38	52	↑	Abbott Laboratories	Pharma	$157	96%	$6	$19	$23	$115	$164
39	-	New	Noble Vici Group	Technology & IT	$147	100%	$0	$0	$0	$147	$147
40	37	↓	Intl Business Machines Corp	Technology & IT	$146	97%	$4	$3	$36	$107	$151
41	40	↓	Philip Morris International	Tobacco	$146	95%	$8	$2	$7	$136	$153
42	50	↑	Medtronic Plc	Healthcare	$145	97%	$4	$22	$40	$83	$149
43	45	↑	SAP Se	Internet & Software	$144	92%	$13	$4	$27	$113	$156
44	28	↓	Netflix Inc	Internet & Software	$144	100%	-$0	$15	$0	$129	$143
45	46	↑	Softbank Group Corp	Telecoms	$142	64%	$79	$64	$41	$38	$221
46	63	↑	United Technologies Corp	Aerospace & Defence	$142	94%	$10	$26	$48	$68	$152
47	23	↓	Abbvie Inc	Pharma	$142	110%	-$13	$21	$16	$105	$129
48	59	↑	Kweichow Moutai Co Ltd	Spirits	$141	84%	$27	$0	$0	$141	$169
49	56	↑	Adobe Systems Inc	Internet & Software	$139	102%	-$2	$2	$11	$126	$137
50	53	↑	Taiwan Semiconductor	Technology & IT	$136	66%	$69	$0	$0	$135	$204

2019 Rank	2018 Rank		Company	Sector	Total Intangible Value (USD bn)	Total Intangible Value/ Enterprise Value (%)	Tangible Net Asset Value (USD bn)	Net Disclosed Intangibles (USD bn)	Disclosed Goodwill (USD bn)	Undisclosed Intangible Value (USD bn)	Enterprise Value (USD bn)
51	68	↑	Ping An Insurance Group Co	Insurance	$134	53%	$119	$8	$0	$125	$253
52	61	↑	Astrazeneca Plc	Pharma	$133	104%	-$5	$22	$12	$99	$128
53	57	↑	L'Oréal	Cosmetics & Personal Care	$127	89%	$16	$4	$11	$113	$144
54	90	↑	CVS Health Corp	Retail	$126	80%	$32	$37	$79	$11	$158
55	36	↓	General Electric Co	Engineering & Construction	$126	85%	$23	$18	$60	$48	$149
56	48	↓	Glaxosmithkline Plc	Pharma	$125	93%	$10	$22	$7	$95	$135
57	58	↑	Broadcom Inc	Technology & IT	$122	88%	$17	$11	$27	$84	$139
58	-	New	Starbucks Corp	Restaurants	$121	102%	-$3	$1	$4	$116	$118
59	49	↓	Amgen Inc	Pharma	$120	102%	-$2	$7	$15	$98	$118
60	65	↑	Deutsche Telekom AG	Telecoms	$120	68%	$58	$60	$14	$46	$178
61	74	↑	Thermo Fisher Scientific Inc	Healthcare	$119	95%	$6	$15	$25	$79	$125
62	60	↓	Honeywell International Inc	Technology & IT	$118	96%	$5	$4	$16	$99	$124
63	76	↑	Salesforce.com Inc	Internet & Software	$117	93%	$9	$1	$7	$109	$125
64	67	↑	Nike Inc	Apparel	$114	92%	$10	$0	$0	$114	$124
65	-	New	Sanofi	Pharma	$113	91%	$11	$25	$51	$37	$124
66	75	↑	Accenture Plc	Technology & IT	$113	90%	$12	$1	$5	$107	$125
67	72	↑	Lockheed Martin Corp	Aerospace & Defence	$113	98%	$2	$3	$11	$98	$115
68	86	↑	Eli Lilly & Co	Pharma	$110	92%	$9	$4	$4	$102	$119
69	73	↑	Novo Nordisk	Pharma	$110	94%	$7	$1	$0	$109	$117
70	-	New	Dell Technologies Inc	Technology & IT	$109	125%	-$22	$28	$40	$41	$87
71	88	↑	Paypal Holdings Inc	Commercial Services	$107	88%	$14	$1	$6	$100	$122
72	-	New	Airbus SE	Aerospace & Defence	$107	102%	-$2	$4	$15	$88	$105
73	38	↓	Exxon Mobil Corp	Oil & Gas	$106	31%	$238	$0	$0	$106	$344
74	-	New	American Tower Corp	Real Estate	$106	109%	-$9	$11	$6	$89	$97
75	70	↓	Texas Instruments Inc	Technology & IT	$106	95%	$5	$1	$4	$101	$111
76	98	↑	Danaher Corp	Healthcare	$104	100%	$0	$12	$26	$67	$105
77	77	←	Christian Dior Se	Apparel	$104	78%	$30	$19	$14	$71	$134
78	79	↑	Diageo Plc	Spirits	$103	91%	$10	$13	$4	$86	$113
79	-	New	Costco Wholesale	Retail	$101	86%	$16	$0	$0	$101	$117
80	71	↓	United Parcel Service	Logistics	$100	84%	$20	$2	$4	$94	$120
81	-	New	Cigna	Healthcare	$100	105%	-$5	$39	$45	$16	$95
82	89	↑	Union Pacific Corp	Logistics	$99	69%	$44	$0	$0	$99	$144
83	55	↓	3M Co	Engineering & Construction	$97	90%	$11	$3	$10	$85	$108
84	-	New	Linde	Chemicals	$96	82%	$21	$16	$27	$53	$117
85	85	←	Bayer AG	Pharma	$93	91%	$9	$42	$44	$8	$103
86	92	↑	Tata Consultancy Services	Technology & IT	$91	84%	$18	$0	$1	$91	$109
87	66	↓	Altria Group Inc	Tobacco	$90	79%	$24	$12	$5	$73	$115
88	-	New	Mondelez International Inc	Food	$88	94%	$6	$18	$21	$49	$94
89	-	New	Qualcomm	Technology & IT	$88	102%	-$2	$3	$6	$78	$86
90	-	New	Fidelity National Info Service	Internet & Software	$86	101%	-$0	$5	$14	$67	$86
91	51	↓	Bank of America Corp	Banking	$85	23%	$282	$2	$69	$15	$367
92	80	↓	Allergan Plc	Pharma	$83	112%	-$9	$44	$46	-$7	$74
93	97	↑	Vinci SA	Engineering & Construction	$82	88%	$11	$32	$11	$39	$93
94	-	New	Becton Dickinson	Healthcare	$82	99%	$1	$16	$24	$42	$83
95	-	New	American Express	Banking	$80	73%	$30	$0	$3	$77	$110
96	-	New	Celgene	Pharma	$80	104%	-$3	$16	$8	$56	$77
97	69	↓	Siemens AG	Engineering & Construction	$80	71%	$32	$12	$33	$35	$112
98	-	New	AIA	Insurance	$79	60%	$54	$1	$1	$77	$133
99	-	New	CME Group Inc	Stock Exchanges	$79	95%	$4	$23	$11	$46	$84
100	-	New	Reliance Industries Ltd	Oil & Gas	$78	53%	$70	$16	$1	$61	$148

Top 100 Companies by Disclosed Intangible Value.

2019 Rank	2018 Rank		Company	Sector	Disclosed Intangible Value (USD bn)	Disclosed Intangible Value/Total Intangible Value (%)	Tangible Net Asset Value (USD bn)	Net Disclosed Intangibles (USD bn)	Disclosed Goodwill (USD bn)	Undisclosed Intangible Value (USD bn)	Enterprise Value (USD bn)
1	1	←	AT&T Inc	Telecoms	$310	84%	$70	$164	$146	$60	$441
2	2	←	Anheuser-Busch InBev	Beers	$178	59%	$4	$45	$133	$126	$308
3	6	↑	Comcast Corp	Media	$164	59%	$24	$98	$66	$112	$300
4	3	↓	British American Tobacco Plc	Tobacco	$158	100%	-$18	$99	$59	$0	$140
5	4	↓	Verizon Communications Inc	Telecoms	$129	43%	$62	$104	$25	$172	$363
6	5	↓	Berkshire Hathaway Inc	Insurance	$119	54%	$428	$38	$81	$103	$649
7	25	↑	CVS Health Corp	Retail	$115	91%	$32	$37	$79	$11	$158
8	7	↓	Charter Communications Inc	Telecoms	$106	64%	$3	$77	$30	$59	$168
9	12	↑	Softbank Group Corp	Telecoms	$104	73%	$79	$64	$41	$38	$221
10	9	↓	Allergan Plc	Pharma	$90	109%	-$9	$44	$46	-$7	$74
11	8	↓	Pfizer Inc	Pharma	$89	38%	$5	$35	$53	$147	$241
12	10	↓	The Kraft Heinz Co	Food	$86	118%	-$4	$49	$37	-$13	$69
13	65	↑	Bayer AG	Pharma	$86	92%	$9	$42	$44	$8	$103
14	-	New	Cigna	Healthcare	$84	84%	-$5	$39	$45	$16	$95
15	14	↓	Johnson & Johnson	Pharma	$78	22%	-$2	$48	$30	$283	$359
16	11	↓	General Electric Co	Engineering & Construction	$78	62%	$23	$18	$60	$48	$149
17	-	New	Sanofi	Pharma	$76	67%	$11	$25	$51	$37	$124
18	37	↑	United Technologies Corp	Aerospace & Defence	$75	52%	$10	$26	$48	$68	$152
19	16	↓	Deutsche Telekom AG	Telecoms	$74	62%	$58	$60	$14	$46	$178
20	21	↑	Novartis AG	Pharma	$74	29%	-$3	$39	$35	$178	$250
21	15	↓	Volkswagen AG	Automobiles	$74	197%	$250	$47	$27	-$36	$288
22	17	↓	Bank of America Corp	Banking	$71	83%	$282	$2	$69	$15	$367
23	18	↓	The Procter & Gamble Co	Cosmetics & Personal Care	$69	23%	-$2	$24	$45	$236	$303
24	19	↓	Unitedhealth Group Inc	Healthcare	$68	28%	$15	$9	$59	$177	$260
25	-	New	Dell Technologies Inc	Technology & IT	$68	62%	-$22	$28	$40	$41	$87
26	61	↑	Atlantia SpA	Commercial Services	$66	85%	-$2	$42	$24	$12	$76
27	20	↓	Medtronic Plc	Healthcare	$61	42%	$4	$22	$40	$83	$149
28	-	New	CK Hutchison Holdings	Retail	$61	160%	$53	$20	$41	-$23	$91
29	30	↑	Vodafone Group Plc	Telecoms	$53	171%	$47	$20	$33	-$22	$79
30	26	↓	Nestle SA	Food	$51	16%	$40	$19	$32	$261	$353
31	27	↓	Oracle Corp	Internet & Software	$50	24%	-$10	$7	$44	$158	$198
32	28	↓	Sprint Corp	Telecoms	$50	98%	$16	$44	$7	$1	$68
33	23	↓	Telefonica Sa	Telecoms	$49	65%	$42	$19	$29	$26	$117
34	31	↓	JPMorgan Chase & Co	Banking	$48	29%	$289	$1	$47	$120	$457
35	29	↓	Orange	Telecoms	$47	80%	$24	$16	$31	$12	$83
36	33	↓	Siemens AG	Engineering & Construction	$45	56%	$32	$12	$33	$35	$112
37	-	New	Keurig Dr Pepper	Soft Drinks	$44	73%	-$5	$24	$20	$17	$55
38	35	↓	Microsoft Corp	Internet & Software	$44	5%	$106	$8	$36	$860	$1,009
39	-	New	Linde	Chemicals	$43	45%	$21	$16	$27	$53	$117
40	41	↑	Vinci Sa	Engineering & Construction	$43	52%	$11	$32	$11	$39	$93
41	40	↓	Visa Inc	Banking	$43	12%	-$1	$28	$15	$305	$348
42	34	↓	Abbott Laboratories	Pharma	$42	27%	$6	$19	$23	$115	$164
43	36	↓	Telecom Italia SpA	Telecoms	$41	138%	$19	$10	$31	-$11	$49
44	42	↓	Thermo Fisher Scientific Inc	Healthcare	$40	34%	$6	$15	$25	$79	$125
45	-	New	EssilorLuxottica	Healthcare	$40	66%	$4	$14	$27	$21	$65
46	-	New	Becton Dickinson	Healthcare	$40	49%	$1	$16	$24	$42	$83
47	44	↓	Intl Business Machines Corp	Technology & IT	$39	27%	$4	$3	$36	$107	$151
48	32	↓	Teva Pharmaceutical Ind Ltd	Pharma	$39	118%	$4	$14	$25	-$6	$37
49	39	↓	Centurylink Inc	Telecoms	$39	102%	$12	$11	$28	-$1	$50
50	46	↓	Mondelez International Inc	Food	$39	44%	$6	$18	$21	$49	$94

2019 Rank	2018 Rank		Company	Sector	Disclosed Intangible Value (USD bn)	Disclosed Intangible Value/Total Intangible Value (%)	Tangible Net Asset Value (USD bn)	Net Disclosed Intangibles (USD bn)	Disclosed Goodwill (USD bn)	Undisclosed Intangible Value (USD bn)	Enterprise Value (USD bn)
51	47	↓	Exor NV	Banking	$39	95%	-$19	$22	$16	$2	$22
52	45	↓	Reckitt Benckiser Group Plc	Household Products	$39	54%	-$7	$24	$15	$33	$64
53	53	←	Enel SpA	Utilities	$38	54%	$78	$22	$16	$33	$149
54	48	↓	The Walt Disney Co	Media	$38	19%	$114	$7	$31	$159	$311
55	55	←	Broadcom Inc	Technology & IT	$38	31%	$17	$11	$27	$84	$139
56	50	↓	T-Mobile Us Inc	Telecoms	$38	50%	$30	$36	$2	$38	$106
57	52	↓	Danaher Corp	Healthcare	$38	36%	$0	$12	$26	$67	$105
58	38	↓	Abbvie Inc	Pharma	$37	26%	-$13	$21	$16	$105	$129
59	51	↓	Intel Corp	Technology & IT	$36	21%	$52	$12	$25	$133	$221
60	54	↓	LVMH	Apparel	$35	18%	$29	$20	$16	$160	$225
61	63	↑	Cisco Systems Inc	Technology & IT	$34	17%	$13	$3	$32	$172	$220
62	59	↓	Unilever	Cosmetics & Personal Care	$34	19%	$9	$14	$20	$144	$187
63	49	↓	Astrazeneca Plc	Pharma	$34	25%	-$5	$22	$12	$99	$128
64	57	↓	Schlumberger Ltd	Oil & Gas	$34	71%	$17	$9	$25	$14	$65
65	79	↑	CME Group Inc	Stock Exchanges	$33	42%	$4	$23	$11	$46	$84
66	58	↓	Fresenius SE & Co	Healthcare	$33	79%	$24	$4	$29	$9	$66
67	60	↓	Christian Dior	Apparel	$33	32%	$30	$19	$14	$71	$134
68	56	↓	Banco Santander SA	Banking	$33	-	$127	$4	$29	-$46	$114
69	68	↓	Blackrock Inc	Banking	$31	47%	$13	$18	$14	$36	$80
70	64	↓	Wells Fargo & Co	Banking	$31	53%	$220	$5	$26	$27	$279
71	75	↑	SAP SE	Internet & Software	$31	21%	$13	$4	$27	$113	$156
72	77	↑	Pepsico Inc	Soft Drinks	$31	16%	$12	$16	$15	$160	$203
73	-	New	Alibaba Group Holding	Internet & Software	$30	9%	$56	$4	$26	$314	$400
74	62	↓	Merck & Co Inc	Pharma	$30	14%	$16	$11	$18	$186	$232
75	78	↑	Anthem Inc	Healthcare	$30	45%	$7	$9	$21	$36	$73
76	72	↓	BP Plc	Oil & Gas	$29	55%	$131	$17	$12	$24	$185
77	71	↓	Fiat Chrysler Automobiles	Automobiles	$29	141%	$3	$13	$16	-$9	$24
78	66	↓	Glaxosmithkline Plc	Pharma	$29	24%	$10	$22	$7	$95	$135
79	71	↓	Total SA	Oil & Gas	$29	70%	$124	$21	$8	$12	$165
80	-	New	Walgreens Boots	Retail	$29	56%	$13	$12	$17	$23	$64
81	76	↓	Engie	Utilities	$28	112%	$46	$8	$20	-$3	$71
82	73	↓	Bollore	Logistics	$28	94%	$9	$12	$17	$2	$39
83	74	↓	Financiere De L'odet	Banking	$28	95%	$8	$12	$17	$2	$37
84	70	↓	Danone	Food	$28	41%	$6	$8	$20	$40	$74
85	22	↓	Altice Europe NV	Telecoms	$28	80%	$13	$10	$18	$7	$48
86	-	New	Brookfield Asset Management	Banking	$28	55%	$10	$19	$9	$22	$60
87	-	New	China Communications Const	Engineering & Construction	$27	141%	$31	$27	$1	-$8	$50
88	95	↑	AXA SA	Insurance	$27	155%	$70	$8	$19	-$10	$88
89	69	↓	Enbridge Inc	Oil & Gas	$27	57%	$78	$2	$25	$20	$125
90	80	↓	Citigroup Inc	Banking	$27	-	$230	$5	$22	-$32	$224
91	86	↓	Baker Hughes	Oil & Gas	$26	78%	-$4	$6	$21	$7	$30
92	84	↓	Johnson Controls International	Engineering & Construction	$26	67%	-$3	$6	$19	$13	$35
93	-	New	Discovery Inc	Media	$26	71%	$1	$13	$13	$11	$38
94	87	↓	Altice Usa Inc	Media	$25	64%	$1	$17	$8	$14	$41
95	-	New	Bausch Health	Pharma	$25	82%	$1	$12	$13	$6	$32
96	83	↓	Imperial Brands Plc	Tobacco	$25	59%	-$2	$9	$16	$17	$40
97	97	←	Dish Network Corp	Telecoms	$25	82%	-$2	$25	$0	$6	$28
98	90	↓	Kinder Morgan Inc	Oil & Gas	$25	69%	$46	$3	$22	$11	$82
99	94	↓	Liberty Media Corp	Media	$25	117%	$12	$10	$14	-$4	$34
100	91	↓	Schneider Electric SE	Technology & IT	$24	50%	$7	$6	$19	$24	$56

Goodwill Hunting – How Not to Miss the Mark in Financial Accounting.

Annabel Brown
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In the whitepaper "Risky Business: The Accounting Treatment of Goodwill"[1], published last year, I commented on the widespread resistance to disclosing specific intangible assets. More commonly, excess value recognised on acquisition of a subsidiary is lumped into the ambiguous intangible asset class, goodwill. In the analysis, I noted the high booked goodwill versus total enterprise value for four major UK branded chains: Debenhams, Dixons Carphone, Pets at Home, and Thomas Cook Group.

These four chains were selected because they had a high goodwill to enterprise value ratio for two years running, adopt IFRS, and are well-known brands here in the UK.

Since that article was released, Debenhams have narrowly avoided administration, Dixons Carphone has faced a 22% profit slump, Pets at Home has witnessed a surprising revival, and… hopefully no readers recently booked a holiday with Thomas Cook.

So, in hindsight, what went wrong, how did the accounting treatment of goodwill contribute to the companies' woes, and what can other companies learn to avoid a similar fate?

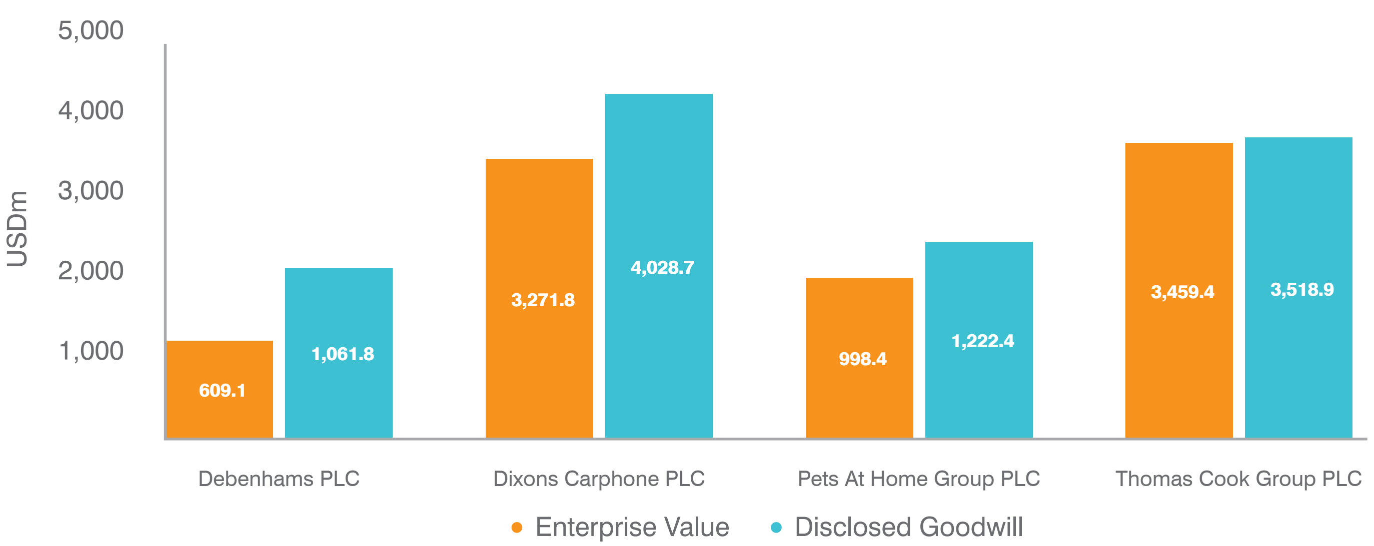
Debenhams

Shortly after the completion of the whitepaper analysis last year, Debenhams' new finance director took a decisive impairment against goodwill of $407m, which contributed to heavy losses and cancellation of dividends.

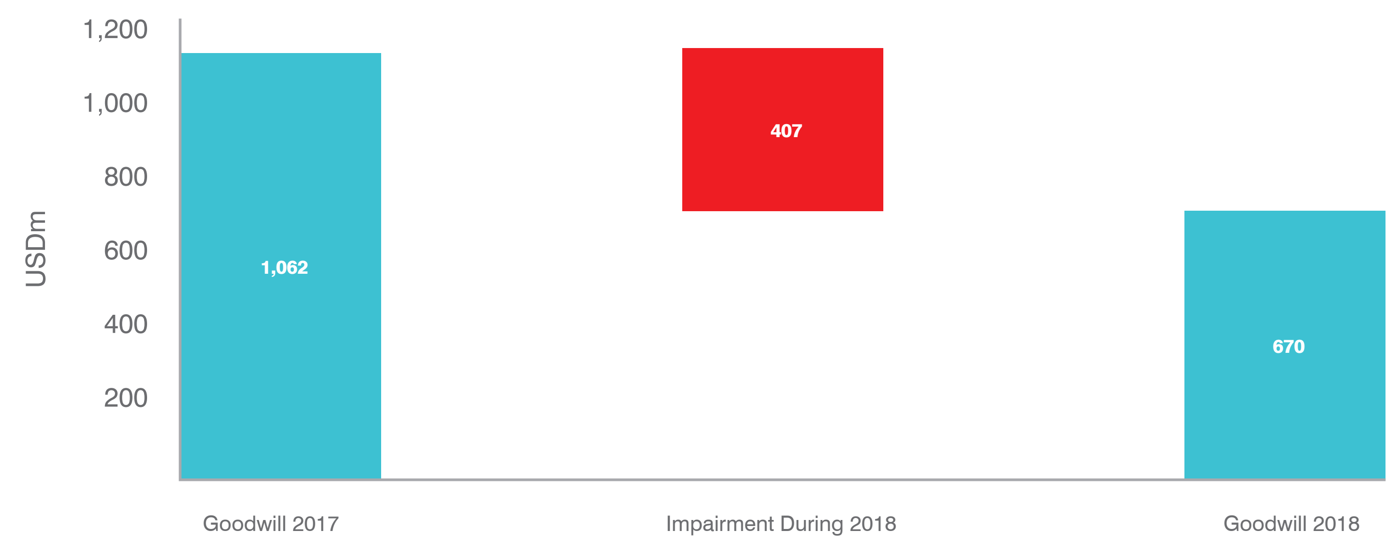
Later into 2018, Debenhams' largest shareholder at the time - Mike Ashley on behalf of Sports Direct - offered a credit line to keep the company afloat. Debenhams declined and took a loan with its existing creditors instead. In early 2019, Mr Ashley made further credit offers in a bid to keep the company out of administration and protect his equity investments.

[1] A. Brown, Brand Finance (2018) "Risky Business: The Accounting Treatment of Goodwill", available at: https://brandirectory.com/reports/risky-business-the-accounting-treatment-of-goodwill

Enterprise Value vs Disclosed Goodwill in GIFT™



Debenhams Enterprise Value vs Disclosed Goodwill in GIFT™



Debenhams again rejected his offers, and in April 2019 control passed to the company's lenders.

The $407m one-off impairment could have been avoided through higher levels of prudence in the initial fair value exercise, or through more rigorous annual impairment tests. Furthermore, the remaining $670m of goodwill, which still exceeded the enterprise value of $634m at the time, was retained on the balance sheet at the financial year end of September 2018, just three months before Mike Ashley revealed that his lifeline offer was snubbed.

In April, Debenhams announced a company voluntary arrangement (CVA) plan which outlined proposals for warehouse and store closures as part of the company's restructuring plan. Some landlords claim that CVAs are increasingly being used by struggling high-street chains to reduce costs and renege on contractual obligations to landlords.

In the case of the Debenhams CVA, it outlined that none of the group's 166 stores will close in 2019, 22 will close in 2020, and a further 28 will close in subsequent years, depending on performance. In addition, it allowed Debenhams to reduce rent on 100 more stores – by between 35-50% for some. This CVA sparked a legal challenge, led by six landlords and funded by Mike Ashley who described the process of pre-pack administration as "a national scandal". The case was dismissed in Debenhams' favour, allowing the retailer to avoid administration and continue in the execution of gradual store closures and rent reductions in line with the CVA.

Some attribute Debenhams' current situation with a failure to adapt to a changing competitive landscape and falling consumer confidence. While high levels of goodwill were not the direct cause of Debenhams' issues, the historic

accounting treatment did not help the situation. Goodwill is ambiguous and therefore challenging to interpret, without full knowledge of the model which underlies its calculation and annual impairment test. This provides further evidence supporting our view that specific intangible asset valuation should be conducted by independent experts, before and in the years after a significant acquisition.

The outlook for Debenhams' future is uncertain; in early November, the retailer launched the "Spectacular" sale online, with up to 30% off on clothing stock. Recently appointed chairman and previous exec of House of Fraser, Mark Gifford, is hoped to steer Debenhams back towards its long-term strategy of becoming a strong international, omnichannel retailer.

Dixons Carphone

In this year's analysis, Dixons Carphone's proportion of goodwill to enterprise value remains high, especially given that the latter fell further, by 42% year-on-year.

Subsequently to this year's GIFT™ analysis, Dixons released their 2019 financial results. While goodwill is still in excess of enterprise value, an impairment of $294 m is reflected in the new goodwill figure. The impairment was caused by a higher discount rate applied in the impairment test valuation, reflecting higher uncertainty for the UK retail environment.

Again, a change in the retail environment has been a major cause of Britain's biggest high street electrical goods retailer. A momentary boost from the closure of Comet

Dixon's Carphone Enterprise Value vs Disclosed Goodwill

did not last, and last month, Dixons Carphone reported a further 10% fall in mobile business revenue. Dixons have warned since June that changes in the market to post-pay contracts would severely impact profits this year.

Earlier this year, the board requested that their annual bonuses be paid in shares, deferred for two years, perhaps reflective of insider confidence in planned strategies yet to take effect. Watch this space.

Pets at Home

A slightly different tale for Pets at Home; the group position has improved year on year, enterprise value has grown by 53%, and the company has repeatedly exceeded analyst expectations.

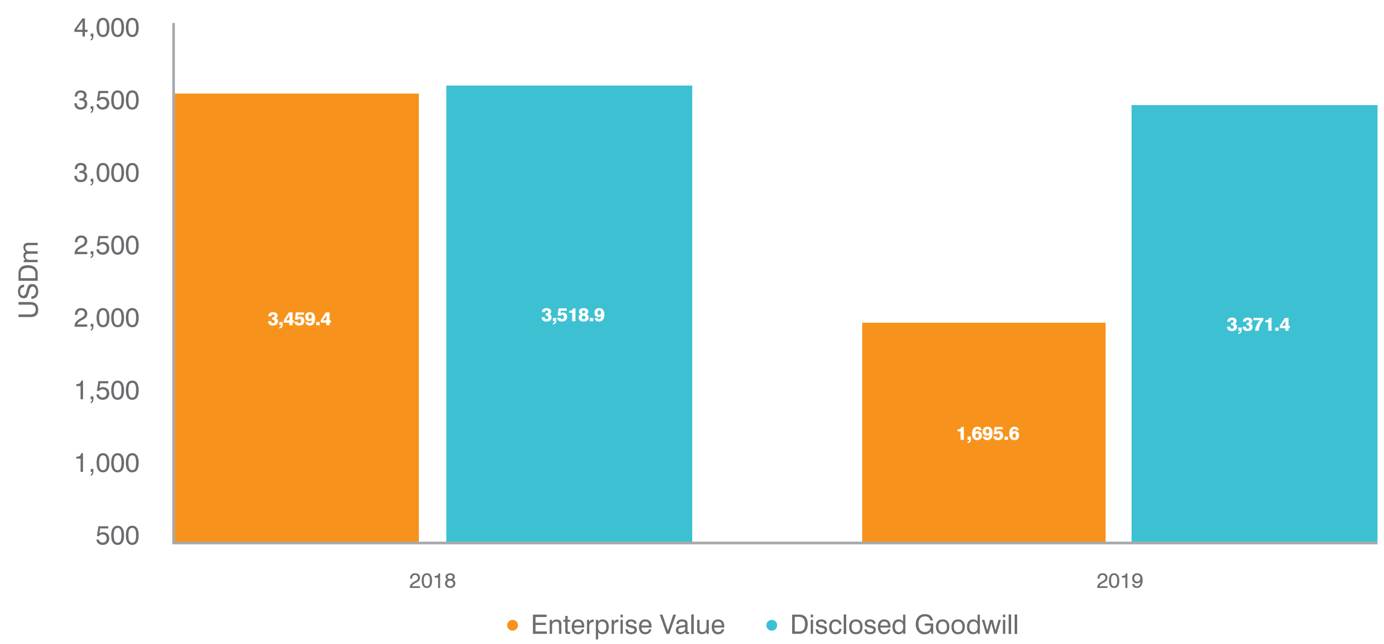
Growth has been attributed to the vet business and franchise model, indicating the importance of the strength of the brand in this recovery.

Had the excess value on acquisition of the joint venture veterinary practice unit been attributed to brand rather than goodwill, it is logical to wonder whether Pets at Home would have ever looked troubling. Investors could have more easily understood and been convinced of the future

viability of the company, thus maintaining holdings and the share price.

To improve transparency for analysts and for investors, expert intangible asset valuers should be consulted before, during, and following a transaction. An independent valuer can both help to advise and provide an opinion on the value of intangible assets under question, as well as recommendations on how to grow those asset values throughout the integration plan. The

Thomas Cook Enterprise Value vs Disclosed Goodwill



Goodwill Hunting.

alternative is ambiguity, left subject to management forecasts and assumptions.

Thomas Cook

Having failed to gain sufficient backing for a £900m rescue deal, Thomas Cook collapsed in September. As a result, 150,000 British holidaymakers were stranded overseas.

In the aftermath, executive management came under scrutiny for the high salaries and £20m in bonuses over the past 5 years – despite indications of the company's struggles.

Due to poor performance, management took no bonuses during the most recently reported financial year – the year ending September 2018. Following a poor summer in 2018, when Brexit concerns and mild domestic weather encouraged vacationing within the UK, performance was lacklustre. . And yet, despite these warning signs, the company's auditors, EY, stated:

> *"We agreed with management's conclusion that no impairments were required, based on the results of our work."*

The Financial Reporting Council probe into EY's audit of Thomas Cook is still ongoing at the time of writing this article.

When Brand Finance conducted this year's GIFT™ analysis, right before the company collapsed, the last reported goodwill was just shy of two times the enterprise value. However, an impairment to goodwill would have worsened the situation, by further reducing profits and therefore shrinking the pot for executive renumeration. This may have led to rapid turnover of the executive staff and further instability, rather than solving Thomas Cook's problems.

Ideally, Thomas Cook should have never recognised such a high value for goodwill. This goodwill value arose due to the series of acquisitions between 1993 and 2011. Assuming that the consideration paid for these acquisitions was reasonable, this value could have been allocated to other assets than goodwill. Specifically, it could have been allocated to brand, technology, contractual value, or even customer relationship value. The thorough valuation of specific identifiable intangible assets allows both investors and management to focus on investing in, maintaining, and ultimately deriving value from specific assets. The vagueness of goodwill leaves management and investors unable to interpret exactly how value will be extracted from the business combination.

At the beginning of 2019, Brand Finance valued the Thomas Cook brand at £836m. In early November, the Chinese conglomerate Fosun acquired the Thomas Cook trademarks, websites, social media accounts, and software across nearly all markets globally for only £11m. So did Fosun get an incredible bargain? Potentially. But the value of the Thomas Cook brand would have suffered significantly due to the reputational damage caused by the collapse. Customer perception of the credibility and reliability of the Thomas Cook name, built up over 178 years of operation, has been shattered by the collapse and subsequent dramas with stranded holiday makers and job losses.

Before the collapse, the brand already faced tough competition from DIY holiday sites including Skyscanner, Airbnb, Booking.com, and Trivago. Any resurgence of the Thomas Cook brand will require significant marketing investment and a business model aligned with the ever-evolving needs of the modern-day consumer.

Lessons

Many sources state that most M&A deals fail – i.e. they do not manage to make up for the initial cost. In a 2017 report[2], PwC cite four critical success factors of a post-acquisition integration:

1. Synergy targets are achieved
2. Integration happens within the defined time frame
3. Culture and change management is well-received
4. Strong project governance is implemented

The first factor, synergies, has a specific implication for the ongoing value of goodwill. Goodwill recognised on acquisition is theoretically representative of the future value generated through synergies between acquirer and target. In order to track and actualise these synergies, there must be realistic targets from the start. Therefore, a prudent goodwill valuation is critical not only to transparency and accuracy of financial reporting, but also to the success of an acquisition.

There are three ways to enable a prudent valuation of goodwill:

1. Pre-acquisition, understand the value of all intangible assets being acquired and establish the realistic synergies to make sure you know what you are buying and if you can integrate those assets effectively.
2. At acquisition, identify the specific intangible assets acquired on your balance sheet, rather than over-allocating residual value to goodwill.
3. Post-acquisition, if goodwill is higher than the expected synergies, and specific intangible assets cannot be identified, take a proactive impairment to goodwill.

In all three scenarios, the management's ability to integrate a target company is assisted through deeper understanding of intangible assets. Specific intangible asset values, such as brand, should be considered through a legal, behavioural, and financial lens. This exercise forces the intangible assets to be objectively appraised, grounded in the reality of actual – rather than expected or ideal – stakeholder perceptions and business performance.

A further impact of conservatism in goodwill valuation is that investors and other users of financial statements are able to better scrutinise the specific intangible assets expected to bring value to the business.

If deeper insight into the specific intangible assets acquired is offered to investors, there is a further case for intangible value disclosure. Currently, internally generated brand value cannot be capitalised and disclosed on the balance sheet. However, an opinion on all intangible asset values could be disclosed by the board. All intangible assets, both acquired and internally generated, should be revalued every year, and boards should be required to disclose their view of those values. Such transparency would facilitate informed decision-making for investors. The impact may also be that companies would have to admit to fair value write-downs, to both tangible and intangible assets. To avoid conflicts of interest, it is therefore essential for these valuations to be conducted by independent valuers.

[2] PwC (2017) "Success factors in post-merger integration", available at: https://www.pwc.de/de/deals/success-factors-in-post-merger-integration.pdf

Consulting Services.

1. Valuation: What are my intangible assets worth?

Valuations may be conducted for technical purposes and to set a baseline against which potential strategic brand scenarios can be evaluated.

+ Branded Business Valuation
+ Trademark Valuation
+ Intangible Asset Valuation
+ Brand Contribution

2. Analytics: How can I improve marketing effectiveness?

Analytical services help to uncover drivers of demand and insights. Identifying the factors which drive consumer behaviour allows an understanding of how brands create bottom-line impact.

+ Market Research Analytics
+ Return on Marketing Investment
+ Brand Audits
+ Brand Scorecard Tracking

4. Transactions: Is it a good deal? Can I leverage my intangible assets?

Transaction services help buyers, sellers, and owners of branded businesses get a better deal by leveraging the value of their intangibles.

+ M&A Due Diligence
+ Franchising & Licensing
+ Tax & Transfer Pricing
+ Expert Witness

3. Strategy: How can I increase the value of my branded business?

Strategic marketing services enable brands to be leveraged to grow businesses. Scenario modelling will identify the best opportunities, ensuring resources are allocated to those activities which have the most impact on brand and business value.

+ Brand Governance
+ Brand Architecture & Portfolio Management
+ Brand Transition
+ Brand Positioning & Extension

MARKETING

We help marketers to connect their brands to business performance by evaluating the return on investment (ROI) of brand-based decisions and strategies.

FINANCE

We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.

TAX

We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing, and brand ownership arrangements.

LEGAL

We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in- and outside of the courtroom.

Brand Finance Network.

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