

## **TTV119 Do Brands Belong on Balance Sheets: Implications for TM Practitioners**

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Time: Tuesday, November 10, 2020 3-5 PM Pacific Time

**Handout available at: <https://nevium.com/blog>**

### **Introduction**

Brand assets are widely acknowledged to be some of the most valuable assets at many global corporations.

*In today's knowledge-based economy, intangible assets, including brands, are recognized as highly valuable properties, contributing to revenue and growth, and propelling a significant share of the value of a business (INTA Brand Value Special Task Force Report, April 2020)*

While the common acknowledgement is that brands have great value, valuation of brand assets is a challenging analytical task. As a brand valuation professional and a champion for innovation in the valuation and analysis of intangible assets, I believe the practice of brand valuation could one day evolve to the point where valuation professionals achieve consensus on the valuation of brands, intangible assets and intellectual properties. If not consensus on the value of brand assets as of a specific valuation date, but consensus on the most applicable methodologies to analyze and determine the financial and economic value of brand assets owned and used by a business organization.

The purpose of a valuation analysis is provision of a transparent measure of the worth of an asset at a specific period of time. Valuation enables decision making, provides a clear measure across multiple functions of an organization and provides a benchmark for strategic decisions and the impact of strategic initiatives over time.

Although Brand Assets provide great value to their owners, accurate valuation of these assets requires professional skill and judgment. Therefore:

- What are the benefits and disadvantages (pros and cons) of reporting the value of brand assets on corporate financial statements?
- What guideline and procedures should corporations follow when reporting the value of their brand assets on their balance sheets?

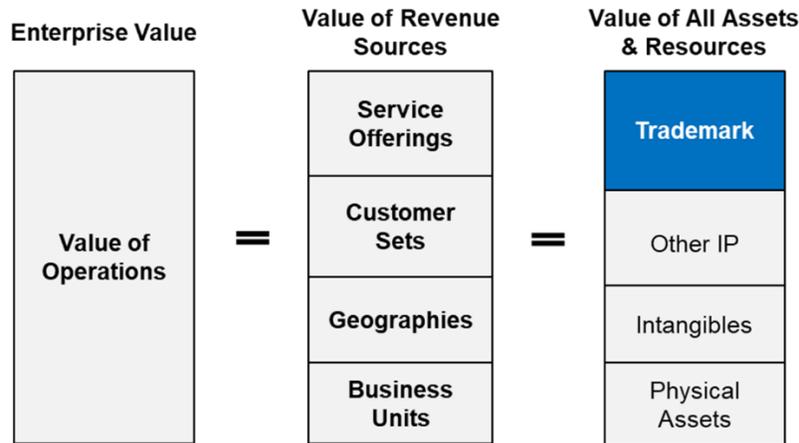
### **Suggested Topics for Today's Discussion:**

#### **1. The benefits of brands on balance sheets**

- a. Greater information regarding the most valuable and long-lived asset at many businesses
- b. Greater insight for investors and stakeholders
- c. Record over time the evolution of corporate brands
- d. Reduce difference between value of assets on balance sheets and market value

## 2. Brand Value and Enterprise Value

- a. Trademarks and Brands are only 1 of many resources used by business organizations to generate financial performance:



- b. Determining the portion of enterprise value yielded by trademarks or brand assets involves a thorough understanding of the organization and knowledgeable observations of finance, marketing, legal, and operations.
- c. Valuation requires transparency - Brand valuation relies on expert judgment and valuation results should be interpreted with an understanding of the observations, judgments and assumptions used in the valuation analysis.

## 3. Variance in the Brand Valuation League Tables

- a. Interbrand, Millward Brown, Brand Finance, Forbes and others publish annual lists of best / most valuable brands. The 2020 Results:

### Top 10 Brands from 2020 Tables

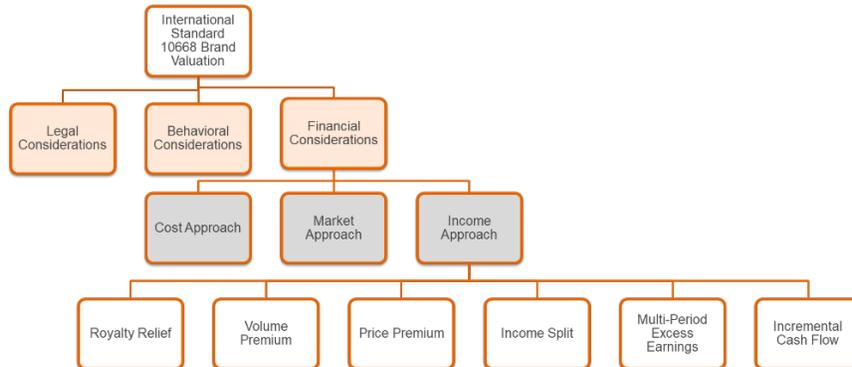
Amounts in US\$ billions

Forbes		Brand Finance		Interbrand		BrandZ	
Apple	241.2	Amazon	220.8	Apple	322.9	Amazon	415.8
Google	207.5	Google	159.7	Amazon	200.7	Apple	352.2
Microsoft	162.9	Apple	140.5	Microsoft	166	Microsoft	326.5
Amazon	135.4	Microsoft	117.1	Google	165.4	Google	323.6
Facebook	70.3	Samsung	94.5	Samsung	62.3	Visa	186.8
Coca-Cola	64.4	ICBC	80.8	Coca-Cola	56.9	Alibaba	152.5
Disney	61.3	Facebook	79.8	Toyota	51.6	Tencent	150.9
Samsung	50.4	Walmart	77.5	Mercedes-Benz	49.3	Facebook	147.2
Louis Vuitton	47.2	Ping An	69	McDonalds	42.8	McDonalds	129.3
McDonald's	46.1	Huawei	65.1	Disney	40.8	Mastercard	108.1

- b. Only 4 brands made the top 10 of all 4 tables: Apple, Google, Amazon and Microsoft. Valuations vary widely. These four corporations rely on large portfolios of technology and brand assets to achieve large market valuations.
- c. Accuracy and consistency are not necessarily the same thing. Two or more practitioners could be consistently inaccurate.

**4. Could valuation and brand analysis techniques evolve to provide more accuracy and consistency?**

- a. A “valuable” brand should impact one or more of an organization’s ability to achieve a price premium, sell a greater volume or reduce costs.
- b. Brand Valuation methodologies per Brand valuation standards (ISO 10668)
  - i. Cost approach
  - ii. Relief from royalty
  - iii. Excess earnings models



- c. Brand valuation analysis often depends on Brand Evaluation. ISO Standard for Brand Evaluation ISO 20671.<sup>1</sup>

**5. Which brand assets belong on balance sheets?**

- a. Corporate and/or Product Brands:
  - i. The corporate brand (Apple, Intel, Proctor & Gamble, Disney)
  - ii. Product brands (iPhone, Pentium, Olay, Marvel, ESPN, Captain America, Mickey Mouse)
  - iii. Website, social media, and internet assets?
  - iv. Slogans, logos, non-traditional marks, etc.?
- b. Which assets:
  - i. Trademark registrations (and applications?)
  - ii. All brand assets: trademarks, domain names, social media properties, endorsement contracts,
  - iii. Other intangibles: relationships, reputation, fame, awareness, customer lists, Internet search rankings, product placement (Amazon rankings), etc.
- c. Which companies should include brand assets on their balance sheets?
  - i. How often would public companies be required to conduct a brand valuation?
  - ii. Should and could private and closely held companies include brand assets on their balance sheets?
  - iii. Should not-for-profit organizations report the value of their brand assets?

<sup>1</sup> Link to ISO 20671 text: <https://www.iso.org/standard/68786.html>

## Moderator

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*Nevium specializes in intellectual property valuations and expert testimony. Nevium provides the IP community with a visionary approach to calculating and communicating the financial impact of trademarks, copyrights, patents, brands and intangible assets. For IP litigators we provide expert damages testimony that combines our knowledge of Internet and social media analytic tools with accepted methodologies and concise narratives. For C-level Executives and In-House Counsel we provide IP valuation and portfolio strategies with a focus on connecting IP to financial performance and using IP to increase profits.*

## Additional Resources

- INTA Brand Value Special Task Force Report, April 2020: <https://www.inta.org/wp-content/uploads/public-files/perspectives/industry-research/Brand-Value-Special-Task-Force-Report-Executive-Summary-1.pdf>
- Forbes, The World's Most Valuable Brands: <https://www.forbes.com/the-worlds-most-valuable-brands/#4d471607119c> (Excess earnings)
- Brand Finance: Top 500 Global Brands 2020: <https://brandirectory.com/rankings/global/> (Relief from Royalty)
- Interbrand: Best Global Brands: <https://www.interbrand.com/best-global-brands/> (Excess Earnings)
- Kantar / BrandZ: Top 100 Most Valuable Global Brands: <https://www.kantar.com/campaigns/brandz/global/> (Excess Earnings)