

Vietnam

50

2016

The Brand Finance Top 50 Vietnam Brands Report 2016
on Vietnam's intangible assets and brands

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Foreword



David Haigh
Chief Executive Officer
Brand Finance plc

In recent years there has been a growing controversy over the validity of brand valuations in general and brand valuation league tables in particular, so with my foreword this year I want to address the issue head-on.

The primary point of contention rests on the significant variation in the published values of brands by the major brand valuation agencies. However, we view these variations as a sign of healthy debate rather than as a source of weakness.

Just as equity analysts differ significantly in their target share prices for companies, so too can those in our industry differ in valuations of brands. The main reasons for differences of opinion are: brand asset definition, date of the valuation, approach adopted, financial forecasts, income attributed to the brand, weighted average cost of capital applied, growth, tax and inflation rates and the expected useful life of the brand.

Taking Apple as an example, it is quite possible for one serious valuer to take the view that Apple's dominance in smart phones is coming to an end, that volumes and margins will start dropping, that there are higher risk and therefore lower expected income, over a shorter life, with a higher cost of capital. This would tend to result in a lower brand valuation.

By contrast another valuer might believe the opposite. Some take the view that Apple will go from strength to strength in watches, televisions, finance and the auto industry and believe that it will shape all our lives for generations. This would obviously tend to result in a higher brand valuation.

There is now a widely accepted global brand valuation standard (ISO 10668) and the International Valuation Standards Council has produced a broader standard on the valuation of Intangible Assets including brands. Brand valuations are regularly relied upon by accountants, auditors, tax specialists, lawyers, licensing managers, lenders and investors who are always financially literate and enquiring.

Based on the results of this year's Brand Finance Global 500, 18% of all quoted company enterprise value, is made up of brands. What this points to is a renewed need to educate and explain how brand valuations are conducted and how critical an understanding of brand value is to marketers, finance teams and CEOs alike. At Brand Finance, we pride ourselves on our independence of thought, clarity and transparency and welcome the chance to explain how we produce our valuations to you, so please get in touch!

Foreword



Samir Dixit
Managing Director,
Brand Finance Asia Pacific

Home to 10% of the global population and poised to be the 5th largest economy by 2020, ASEAN countries have a lot more to plan for their business success than they are currently doing.

Most brands often approach ASEAN as a single market and use a uniform strategy across ASEAN. While some of the strategies work well in the home markets or larger markets, given the geographic and economic diversity combined with the varied consumer mix, the uniform strategies don't necessarily work across ASEAN. This poses a large challenge for brands not just for business growth but also for safeguarding from possible brand failures.

The real brand and business success issues therefore begin due to two critical factors that underline the ASEAN business landscape

a) When the local brands from the ASEAN countries start to imitate the western brands, by doing so, they not only lose their local relevance but also their competitiveness against the global players.

b) The brands in the smaller ASEAN countries are forced to compete with their larger ASEAN counterparts. These counterparts, unlike the global brands, have just as much local knowledge and come from larger ASEAN countries which consumers perceive to be ahead of the growth curve.

So what challenges does all this pose for the Vietnamese's brands? The short answer is "several."

- Vietnam will be more inclined to become a manufacturing hub than a regional business centre. This will impact the growth and creation of strong local brands from Vietnam just as it happened in China which did not have strong competitive brands till they decided to shake off the "world's factory" image.
- The competence and skill set of brand managers in Vietnam will have to be enhanced so they can manage Vietnamese brands with a regional mind-set. This would not happen naturally just because the playing field for the Vietnamese brands has become regional.
- The business will have to strongly and quickly adapt to a new way of doing business and will have to go through both reinvention and a sharp learning curve given a surge of regional and global competitors entering the market. Investors will not have this any other way.
- The manufacturing, distribution and retailing capabilities will have to be at both local as well as regional level, otherwise, new market entry will pose significant challenges.
- Vietnamese brands will have to be more aggressive and give up their usual wait and watch approach. If not, they will be exposed to higher business risks and failures.

It is therefore increasingly important for Vietnamese companies, no matter what their size, to recognise their brands as a strategic asset and invest in the brand to drive greater competitiveness in the region.

The key challenge to the marketing and brand professionals in Vietnam therefore is to effectively demonstrate that they have a robust approach to measuring the quality of their brand assets and for quantifying the contribution of the brand asset to shareholder value.

Foreword

Valuation is a great tool to evaluate, monitor and track the returns on brand investments and the long term contribution of your brand for your business success. This becomes critical since huge investments are already being made in the design, R&D, launch and re-launch and ongoing tactical promotion of numerous products around the world but unfortunately, most corporates fail to effectively measure the ROI for their important and valuable asset – their brand.

This is the challenge that we address in our 2016 report.

We have also observed that a number of brand valuation consultancies produce brand ranking tables using methods that do not stand up to technical scrutiny or to the ISO Standards for Brand Valuation. We use methods that are technically advanced, which conform to ISO Standards and are well recognised by our peers, by various technical authorities and by academic institutions.

Brand Finance published brand rankings are the world's only published ranking of ISO compliant brand values.

This annual report pits the best Vietnam brands against one another in the most definitive list of brand values available. The value accorded to each brand is a summary of its financial strength. Each brand has also been given a brand rating, which indicates its strength, risk and future potential relative to its competitors.

This report provides an opinion regarding the point in time valuations of the most valuable Vietnam brands as at 31st December 2015. We hope that this brand valuation analysis can offer marketers and financiers critical insight into their marketing activities and brand will always be considered as a key part of the decision making process.

Introduction

The balance between tangibles and intangibles has changed dramatically over the past 50 years as corporate performance is increasingly driven by exploitation of ideas, information, expertise and services rather than physical products.

Intangible assets have traditionally tipped the scales over tangible assets to create value for companies and the global economy. They now make up for a significantly large value of an enterprise. Yet, it's an area of least focus amongst the management

Whilst accountants do not measure intangible assets, the discrepancy between market and book values shows that investors do.

Brand Finance has been researching and tracking the role of intangible assets since 2001 as part of its annual Global Intangible Finance Tracker (GIFT™) with an emphasis on helping corporations understand brand strength and value.

Brand Finance has found that intangible assets play a significant part in enterprise value generation. The GIFT™ is a study that tracks the performance of intangible assets on a global level.

The GIFT™ is the most extensive study on intangible assets, covering more than 160 jurisdictions, more than 57,000 companies. The analysis goes back over a fifteen-year period from the end of December 2015.

Currently, 48% of global market value is vested in intangible assets. There is just a marginal decrease as compared to last year. However, the management paradigm is yet to shift in tandem with large proportion and the importance of intangible assets.

In this year's GIFT™ 2016 report , the Enterprise Value of the companies covered stands at \$89 trillion: of which, \$46.8 trillion represented Net Tangible Assets, \$11.8 trillion represented disclosed intangible assets (including goodwill) and \$30.1 trillion represented 'undisclosed value'.

The fact that most of the intangible value is not disclosed on company balance sheet further illustrates how poorly understood intangibles still are by investors and management alike – and how out of date accounting practice is.

Such ignorance leads to poor decision-making companies and systematic mis-pricing of stock by investors.

Purpose of study

To this end, our study aims to examine the performance of Vietnam's intangible assets and brands.

For the intangible asset study, the total enterprise value of corporate Vietnam is divided into four components shown below.

Undisclosed Value	Disclosed Goodwill
The difference between the market and book value of shareholders' equity, often referred to as the premium book value	Goodwill disclosed on balance sheet as a result of acquisitions
Disclosed Intangible Assets	Tangible Net Assets
Intangible assets disclosed on balance sheet including trademarks and licences	Tangible net assets is added to investments, working capital and other net assets

Vietnam's Report Card on Intangible Assets

Intangibles form 26% of business value in Vietnam

By the end of 2015, intangible assets value worth about US\$21 billion, making up 26% of enterprise value in Vietnam. This result represents about 1 % of the total intangible value in ASEAN countries and is significantly lower than the global average where the intangible asset % of enterprise value is 53%.

SPOTLIGHT ON SECTORS

Total Enterprise Value of the Top 10 Sectors in Vietnam is worth US\$42 billion

The ten largest sectors for Vietnam are Telecom, Food & Beverage, Banking, Real Estate & Construction, Oil & Gas, Retail, Investment Companies, Airlines, Auto Parts & Equipment and Insurance. These account for 89% Vietnam's total enterprise value and are worth about US\$42 billion.

Three of the banks - VietinBank, Vietcombank and Bank for Investment and Development of Vietnam (BIDV) made into **Brand Finance Banking 500 2016** this year with BIDV entering the list for the first time and VietinBank and Vietcombank both improving their global rankings amongst banks. Amongst all banks in ASEAN, VietinBank is the fastest climber – up 58 positions from 437th to 379th in just one year.

Banking Sector has the highest enterprise value

The banking sector has the highest Enterprise Value of US\$22.8 billion. Telecommunications sector becomes number 2 with an Enterprise Value of US\$7.3 billion. The investment sector comes in number 3 with an Enterprise Value of US\$4.2 billion. Oil & Gas sector has the fourth highest Enterprise Value of US\$3.8 billion amongst the top 10. Electric sector comes in at number 5 with an Enterprise Value of US\$2.1 billion.

Telecom Sector has the highest intangible value

The Telecommunications sector is number 1 for the highest Intangible Value of US\$2.1 billion followed by the Food & Beverage sector at number 2 with a total Intangible Value of US\$1.6 billion.

The growth rate of the Vietnam telecommunications in the past one year was exceptionally high. Both Mobifone and Vinaphone achieved large improvement in their **Brand Finance Telecom 500 2016** ranking. Viettel Telecom, for the first time, has made into the Top 100 Telecom worldwide.

The Brand Valuation Gaps during M&A

Lai Tien Manh

Country Representative, Brand Finance in Vietnam

Vietnam economy is in a massive changing process. We are observing huge growth in real estate, transportation, finance & banking and specially retail industry. The changes include new investments, new projects and moreover, there are a number of M&A activities are happening in big scales. Some major M&A deals announced recently involving international buyers from Thailand and Japan pouring money to big names like Masan (FMCG), Nguyen Kim & Fivimart (retail) and Vietnam Airlines (Transportation). Many real estate M&A have been declared in HCMC and the most ambitious M&A, which makes a big hit to the market, is the deal between Central Group (Thailand) and Big C. Central Group pay more than a billion dollar to buy the leading retail brand in the country. Local buyers such as VinGroup are also active in buying a large retail store chains and a textile trade centers.

According to IMAA – Institute for Merger, Acquisition and Alliances, M&A Vietnam may see a record number of M&A deals in 2016. The new Investment Law with more transparent applications will bring more confidence to foreign investors. Vietnamese entrepreneurs are also seeking for external investors to bring expertise and/or funds to their companies. However, in many M&A deals, the values of intangible assets such as brand are usually under valued. Most of the cases, the price of intangible assets are based on goodwill between buyers and sellers without proper calculations. Local consultants fail to support sellers, as they are lack of experiences and knowledge in this field. It is important to mention that in some case, buyers even refuse to pay for the brand value and the deal price is limit to tangible assets only.

This brings a big disadvantage for seller who had made many efforts in building brands. The limitation of this practice is due to the fact that evaluation of intangible brand value is still a new concept in Vietnam. Most Vietnamese businessmen have not recognized that brand is the golden asset they can turn into money. And that is the perception which local business community should change.

This year, Brand Finance brings to Vietnamese business community the Vietnam Top 50 report to make a firm commitment on bringing brand values more realistic to business owners. The report covers top 50 biggest brand

values on Vietnam Stock Market and it can be a strong benchmark for business owners to know how much a brand may worth. In addition, the comparison of brand values between 2016 and 2015 will also provide a sense of how much value a brand can grow in one year. In many cases, the grow rate of brand value is much greater than the growth of tangible assets.

The IP Ambassador for ASEAN?

Samir Dixit

Managing Director, Brand Finance Asia Pacific

The most valuable asset for all companies in the near future will not be the products, or healthy P&Ls or the factories and plants or the deep market penetration. It will be their Intellectual Property (IP) which will be the most valuable intangible asset. Sadly it's the least recognised and least managed asset at the moment by most countries in ASEAN.

Having an ASEAN IP agenda is inevitable in the near future given the strong trade and economic ties in the region. What's equally inevitable is the large IP infringements that will likely take place due to lack of guidance and knowledge base.

Due to trade dependencies and cross market ties in the ASEAN region, IP infringements (and protection) will become a way of doing business. Companies that realise the importance of protecting and building their IP will drive higher success. And someone needs to drive all this as a strategic agenda for the whole of ASEAN.

IP protection therefore will have to be driven as a focussed regional agenda and there has to be one country that spearheads this cause for all of ASEAN communities, businesses and countries.

So who can this be?

Before jumping to any conclusions or names, one must realise that IP protection is not a journey that can be embarked upon overnight by any country. It requires years of committed resources and strategic planning to create a whole IP ecosystem that has both "Protection + Growth" at the core of it.

The ASEAN IP ambassador must also have the resources, the infrastructure and most important of all, the required regional and global goodwill to be endorsed as an IP ambassador for the ASEAN community - to be able to "Protect and Grow"

While this is not an impossible task, it would not be an easy journey given the diversity of business and economic objectives and the magnitude of trade tie-ups within and outside of the ASEAN countries.

Currently there are two suitable candidates who could play the IP ambassador roles for ASEAN – Singapore and Malaysia.

The starting point for the journey to be the IP ambassador for ASEAN should ideally begin with the Country Brand itself and the analysis of the contribution from the various brand value drivers.

Singapore is behind the peers such as Malaysia in the Brand Finance 2016 GIFT (Global Intangible Financial Tracker) Study. Clearly the Singapore companies are more driven by the tangibles over intangibles. This is not an ideal mix towards the journey of being the IP ambassador of Asia when your own companies have very little focus and contributions from their IP. Singapore therefore needs to both actively participate and fundamentally change the ways in which both Singapore and the companies in Singapore manage their IP.

Singapore however is way ahead in terms of having full convergence and compliance to International Financial Reporting Standards (IFRS) which plays a critical role in recognition of IP as an asset as having a standardised accounting standard means that the value of disclosed intangible assets is likely to increase in the future.

Malaysia besides being IFRS compliant also has a special tax free IP zone in Labuan which provides a conducive environment for IP monetisation and growth. Both countries don't have a capital gain tax for IP which makes IP acquisition and disposal a whole lot easier and less complicated.

Both countries are the member of Madrid Protocol, both have strong WIPO association, both have a reasonable strong IP protection set-up in terms of legal and judiciary support and have been involved in landmark IP decisions resulting in protecting the local IP assets. Both countries have established IP offices facilitating the IP "Protection and Growth".

And most important of all, both countries have publicly shared their ambition to be the IP hub of Asia. So before their Asia dominance, let's wait and watch as to who is more inclined to drive and own the ASEAN IP agenda and be their IP ambassador.

Brand Performance and Sustainable Development

Lai Tien Manh

Country Representative, Brand Finance in Vietnam

Jaguar is an internationally famous car brand started in 1922 while the Range Rover is another name with more than 60 years establishment. When India's Tata group decided to spend US \$ 2.56 billion for acquisition of the Range Rover and Jaguar from Ford, everyone knew that Tata was not after the factories, equipment and workers. What they really wanted to own were the 2 famous car brands. And it is an absolutely good deal for Tata when the two brands have made improvement in sales volumes. After the Merger & Acquisition (M&A), sales of Range Rover and Jaguar have kept steady growth. By buying the brands, Tata has strengthened its foundation for sustainable growth in automotive industry. Similarly, the deal of Kraft Foods buying Cadbury was mainly because they wanted to own the Cadbury brand and InBev's acquisition of SABMiller was largely due to the portfolio of beer brands, including Budweiser to reinforce its global position.

Brand is never just for instant sales purpose. It provides the ability to demand a premium for products and services. Stronger brands drive higher revenues; investors would also be willing to pay a premium for the company. Hence, investing in brand is same as investing for the future - for the sustainable development of business.

In Vietnam, most businesses are still not fully aware of the role of brand on future business performance. In order to maintain a sustainable growth, it is important to look at the *Brand Strength Index (BSI)*, a proprietary tool of Brand Finance used to provide a more realistic picture of a brand's ability to compete. **It correlates three critical business aspects which are brand investment, the equity generated by that investment in the form of emotional connection harbored by a brand and the business performance as an outcome of the brand equity.**

In the 2016 Vietnam Top 50 Brand report, most people only pay more attention to the value of the brand. It is true that many brands have very strong growth in terms of value and have made improvement in the ranking. However, brand value alone does not sufficiently reflect the competitiveness of the brand. A brand can have positive improvement in its brand value but underperforms in its BSI. This is a very interesting point.

There are three key factors that impact the brand value, namely *Brand Strength*, *Business Performance* and *External* aspects. Brand Strength is the most critical of all simply because that's where the business has most control over and that's where all the marketing dollars are spent. BSI indicates the overall brand strength of a brand. In certain sectors brand plays a key role such as luxury goods, software or banking, an improvement in BSI index guarantees future development. The study of the 2016 Vietnam Top 50 Brand shows many brands have stagnant or even have negative growth in the BSI as compared to 2015. This is not a good sign of brand management. Only very few brands have achieved good progress in BSI. A very good example would be Vietinbank. In 2016, Vietinbank has done very well with its brand communication programs. Its BSI improved from 59 to 63 out of 100 and its brand rating was promoted from A to A+. It is not usual for a bank brand to achieve such progress in just one year.

In conclusion, Vietnam business owners should constantly track and monitor the progress of their brand strength index as it indicates the compatibility of the brand in the long run.

Getting A Grip on Intangibles

Bryn Anderson

Chief Operating Officer, Brand Finance UK

Getting a grip on intangibles

Intangible assets make up nearly half the value of quoted companies around the world. Yet intangibles remain poorly understood and managed.

Intangible assets including brands have never been more important. Survey after survey shows that brands and other intangibles typically account for between 30 per cent and 70 per cent of a company's market value, and in certain sectors, such as luxury goods, this figure can be even higher.

Research from Brand Finance, the 2016 BrandFinance Global Intangible Financial Tracker (GIFT) report is the most extensive research ever compiled on intangible assets. Over the past thirteen years, GIFT has tracked the performance of more than 57,000 companies domiciled in 160 over jurisdictions and it shows that in 2015, intangibles across the world accounted for 48 percent of the value of quoted companies, continuing the increase since the global economic downturn in 2008. The proportion of intangible assets not recognised on the global balance sheet is down from 37 per cent to 34 percent comparing from the year before. The increase can be attributed strong stock prices in the mining and oil and gas sector.

The balance between tangible to intangible assets has changed dramatically over the past 50 years, as corporate performance has become increasingly driven by the exploitation of ideas, information, expertise and services rather than physical things. Yet despite the rise in intangible value, the fact that most of it is not disclosed on company balance sheets highlights how poorly understood intangibles still are by investors and management alike — and how out of date accounting practice is. Such ignorance leads to poor decision making by companies and systematic miss-pricing of stock by investors.

Overall, the 2016 GIFT study shows that the value of the top 57,000 companies in the world has recovered from the 'double drip' result in 2011. The total Enterprise Value of corporates under the scope of the study was \$89 trillion as at the end of 2015. Of this value, \$46.8 trillion represented Net Tangible Assets (NTA), \$11.8 trillion disclosed intangible assets and \$30.1 trillion 'undisclosed value'.

Categories of intangible assets under IFRS 3

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.

But a fourth category, 'undisclosed intangible assets', is usually 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 value is treated as an intangible asset in a business combination when it is converted into goodwill on the acquiring company's balance sheet. Current accounting practice does not allow for internally generated brands to be disclosed on a balance sheet. Under current IFRS only the value of acquired brands can be recognised, which means many companies can never use the controlled 'resource' of their internally generated brands to their full economic benefit. For example, they can't take out a loan against the asset and potentially bolster their balance sheet.

Getting A Grip on Intangibles

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.

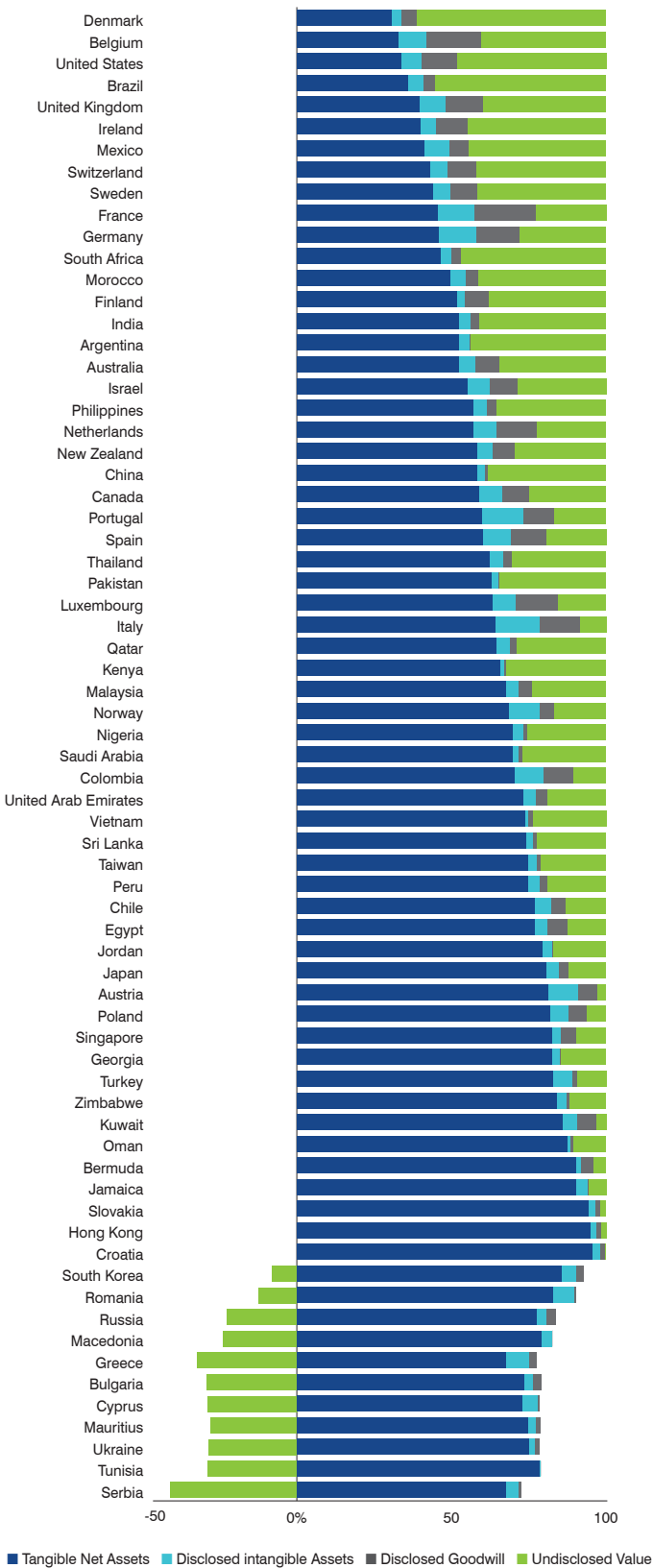
However, the picture has improved since 2001, when IFRS3 in Europe, and FAS141 in the US, started to require companies to break down the value of the intangibles they acquire as a result of a takeover into five

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's 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.

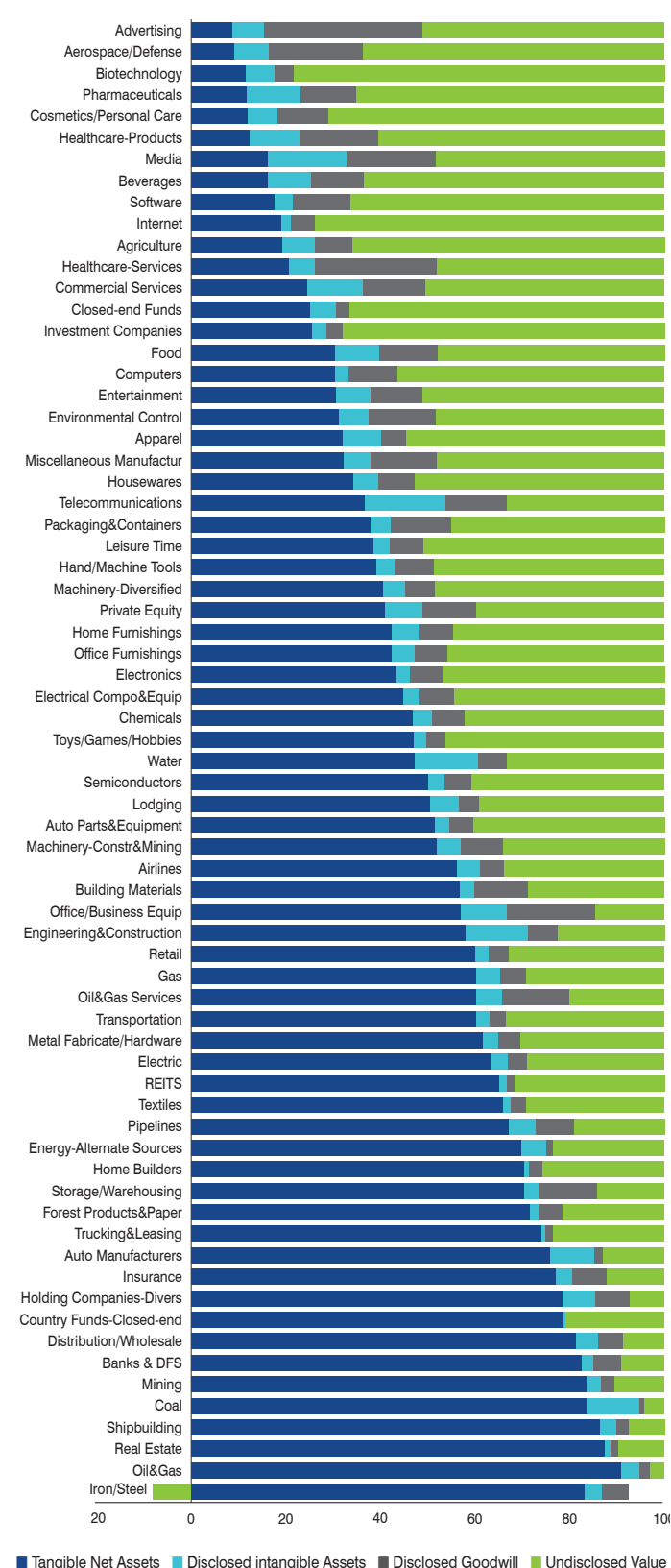
Clearly, therefore, whatever the requirements of accounting standards, companies should regularly measure all their tangible and intangible assets (including internally-generated intangibles such as brands and patents) and liabilities, not just those that have to be reported on the balance sheet. And the higher the proportion of 'undisclosed value' on balance sheets, the more critical that robust valuation becomes.

Getting A Grip on Intangibles

Global intangible and tangible value by country (%)



Global intangible and tangible value by sector (%)

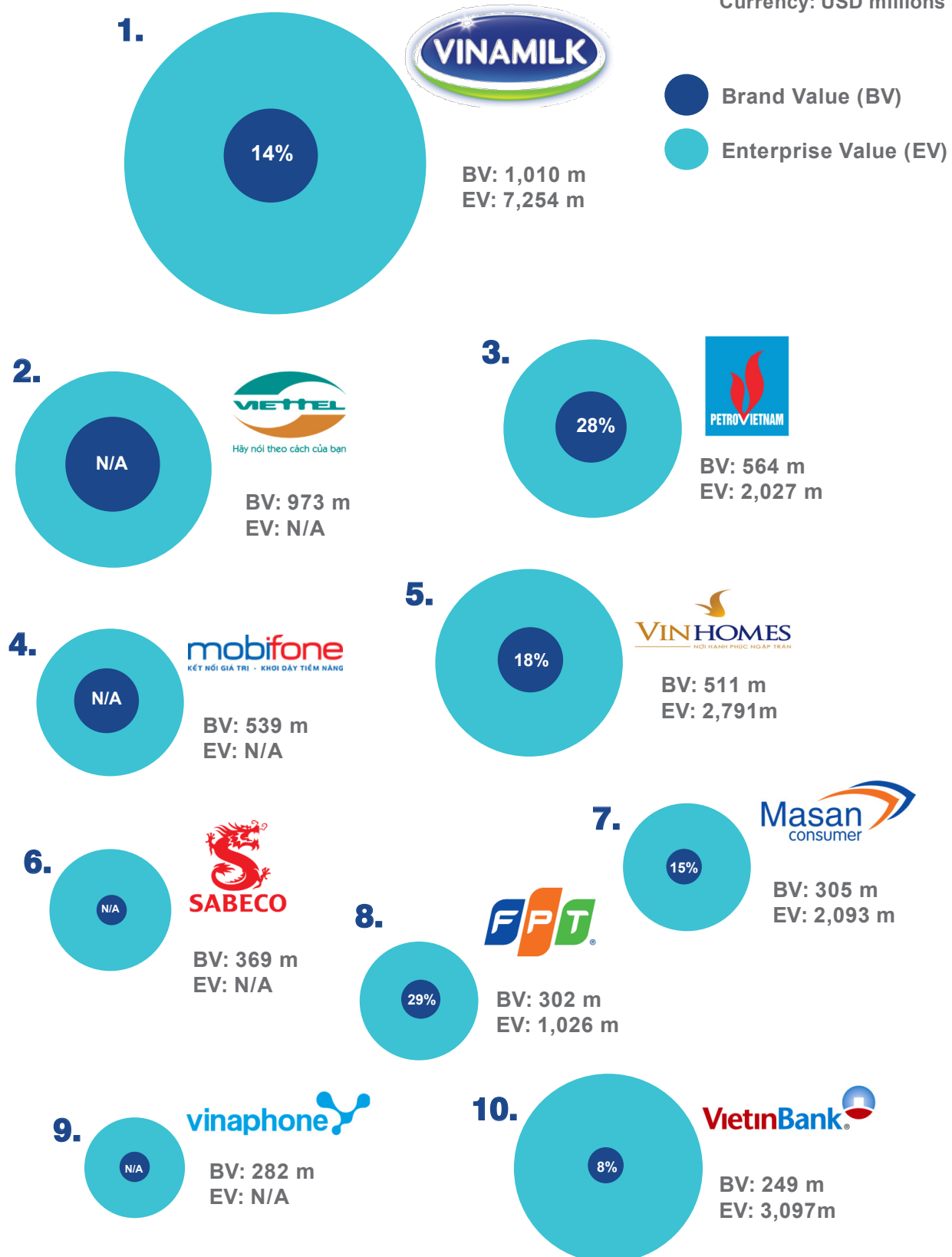


Categories of Intangible Asset under IFRS 3

MARKETING-RELATED INTANGIBLE ASSETS	<ul style="list-style-type: none"> • Trademarks, tradenames • Service marks, collective marks, certification marks • Trade dress (unique colour, shape or package design) • Newspaper mastheads • Internet domain names • Non-competition agreements
CUSTOMER-RELATED INTANGIBLE ASSETS	<ul style="list-style-type: none"> • Customers lists • Order or production backlog • Customer contracts and related customer relationships • Non-contractual customer relationships
CONTRACT-BASED INTANGIBLE ASSETS	<ul style="list-style-type: none"> • Licensing, royalty, standstill agreements • Advertising, construction, management, service or supply contracts • Lease agreements • Construction permits • Franchise agreements • Operating and broadcast rights • Use rights such as drilling, water, air, mineral, timber, cutting and route authorities • Servicing contracts such as mortgage servicing contracts • Employment contracts
TECHNOLOGY-BASED INTANGIBLE ASSETS	<ul style="list-style-type: none"> • Patented technology • Computer software and mask works • Unpatented technology • Databases • Trade secrets, such as secret formulas, processes, recipes
ARTISTIC-RELATED INTANGIBLE ASSETS	<ul style="list-style-type: none"> • Plays, operas and ballets • Books, magazine, newspaper 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

Vietnam's Top 10 Most Valuable Brands 2016

Currency: USD millions



N/A: Companies with financials not declared in the public domain

Vietnam's Top 10 Most Valuable Brands 2016



Company: **Vietnam Dairy Products JSC**
 Brand Value: **US \$1,010 m**
 Enterprise Value: **US \$7,254 m**
 Brand Rating: **AAA-**
 Industry: **Packaged Food**
 Year Formed: **1976**



Company: **Viettel Telecom**
 Brand Value: **US \$973 m**
 Enterprise Value: **N/A**
 Brand Rating: **A**
 Industry: **Telecommunications**
 Year Formed: **2001**



Company: **PetroVietnam Gas JSC**
 Brand Value: **US \$564 m**
 Enterprise Value: **US \$2,027 m**
 Brand Rating: **AA**
 Industry: **Midstream – Oil & Gas**
 Year Formed: **1977**



Company: **Vietnam Mobile Telecom**
 Brand Value: **US \$539 m**
 Enterprise Value: **N/A**
 Brand Rating: **A-**
 Industry: **Telecommunications**
 Year Formed: **1993**



Company: **Vinhomes**
 Brand Value: **US \$511 m**
 Enterprise Value: **US \$2,791m**
 Brand Rating: **AA**
 Industry: **Real Estate**
 Year Formed: **1993**



Company: **Saigon Alcohol Beer and Beverages Corporation**
 Brand Value: **US \$369 m**
 Enterprise Value: **N/A**
 Brand Rating: **A-**
 Industry: **Beverages**
 Year Formed: **1977**



Company: **Masan Consumer**
 Brand Value: **US \$305 m**
 Enterprise Value: **US \$2,093 m**
 Brand Rating: **AA-**
 Industry: **Packaged Food**
 Year Formed: **2000**



Company: **FPT Corporation**
 Brand Value: **US \$302 m**
 Enterprise Value: **US \$1,026 m**
 Brand Rating: **AA**
 Industry: **Infocom Technology**
 Year Formed: **1988**



Company: **Vinaphone**
 Brand Value: **US \$282 m**
 Enterprise Value: **N/A**
 Brand Rating: **A-**
 Industry: **Telecommunications**
 Year Formed: **1997**



Company: **Vietnam JS Commercial Bank for Industry and Trade**
 Brand Value: **US \$249 m**
 Market: Capitalization: **US \$3,097m**
 Brand Rating: **A+**
 Industry: **Bank**
 Year Formed: **1988**

Vietnam Top 50 Brands 2016

Rank 2016	Rank 2015	Brand	Logo	2016 Brand Value (US\$m)	2015 Brand Value (US\$m)	2016 Brand Rating	2015 Brand Rating	2016 Brand Value / Enterprise Value (%)
1	1	Vinamilk		1,010	1,137	AAA-	AAA-	14%
2	2	Viettel Telecom		973	580	A	A	N/A
3	5	PetroVietnam		564	488	AA	AA	28%
4	4	Mobifone		539	306	A-	A-	N/A
5	3	Vinhomes		511	343	AA	AA+	18%
6	-	Sabeco		369	-	A-	-	-
7	11	Masan Consumer		305	143	AA-	AA	15%
8	6	FPT		302	388	AA	AA+	29%
9	8	Vinaphone		282	193	A-	A-	N/A
10	7	VietinBank		249	197	A+	A	8%
11	9	BIDV		218	153	A	AA	7%
12	-	Vietnam Airlines		194	-	A	-	4%
13	10	Vietcombank		189	157	A+	A+	4%
14	-	Truong Hai Auto (Thaco)		154	-	A-	-	-
15	12	thegioididong.com		141	102	AA	AA	27%
16	16	HAGL		101	98	A+	AA-	6%
17	17	BaoViet		89	79	A+	A+	5%
18	14	Techcombank		88	76	AA	AA-	N/A
19	-	Vincommerce		84	-	A+	-	15%
20	28	Vincom		82	44	AA-	AA	17%
21	15	MB Bank		79	70	AA-	AA	7%
22	18	Vinacafe Bien Hoa		70	67	AA-	AA-	58%
23	32	Vinpearl		67	39	AA-	A+	18%
24	13	Sacombank		64	63	AA	AA-	7%
25	21	Hoa Phat		61	61	AA-	AA	5%

* N/A: Companies with financials not declared in the public domain.

* -: Companies not appeared on Brand Finance 2015 Ranking

Vietnam Top 50 Brands 2016

Rank 2016	Rank 2015	Brand	Logo	2016 Brand Value (US\$m)	2015 Brand Value (US\$m)	2016 Brand Rating	2015 Brand Rating	2016 Brand Value / Enterprise Value (%)
26	-	VPBank		57	39	A+	-	-
27	23	Asia Commercial Bank		52	62	A+	AA	7%
28	20	Phu Nhuan Jewelry		48	29	A	AA-	15%
29	33	PVI		45	N/A	A-	A	19%
30	-	Thanh Thanh Cong Tay Ninh		44	35	A+	-	10%
31	26	Eximbank		41	47	A-	AA-	6%
32	25	Hung Vuong		40	19	A-	A	9%
33	46	Coteccons		39	44	AA-	A	15%
34	27	SHB		38	37	A+	AA-	14%
35	30	Hoa Sen Group		37	62	A+	AA-	8%
36	19	DHG Pharma		37	N/A	A-	AA-	14%
37	-	Vietjet Air		34	38	AA	-	-
38	22	Kinh Do		32	28	A-	AA	25%
39	34	Vicem Ha Tien		30	N/A	A-	A+	4%
40	-	Vietnam Electric		29	-	A	-	18%
41	-	Nam Long		27	23	A-	-	18%
42	37	Pha Lai Thermal Power		25	34	BBB	A	8%
43	31	Vinh Hoan		25	22	A-	A-	12%
44	39	DGC		24	N/A	A	A-	22%
45	-	Viet Tien Garmen		23	28	A	-	21%
46	36	Vinasun		23	N/A	A-	AA-	23%
47	-	FLC Group		23	19	BBB	-	15%
48	45	Hanoi Southern City Development		22	N/A	A	BBB	8%
49	-	Binh Dien		22	21	A-	-	16%
50	44	Hoa Binh		21	160	A+	A	18%

* N/A: Companies with financials not declared in the public domain.

* -: Companies not appeared on Brand Finance 2015 Ranking

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ACORN MARKETING & RESEARCH CONSULTANTS (VIETNAM) LTD
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Background on Intangible Asset Value

There are different definitions of 'intangible assets'. According to Global Financial Reporting Standard (FRS) 38 'Intangible Asset', an intangible asset is 'an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes'. According to FRS 38 the definition of an intangible asset requires it to be:

- A) Non-monetary
- B) Without physical substance
- C) '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').

Intangible assets can be broadly grouped into three categories:

- (1) **Rights:** leases; distribution agreements; employment contracts; covenants; financing arrangements; supply contracts; licenses; certifications; franchises.
- (2) **Relationships:** trained and assembled workforce; customer and distribution relationships.
- (3) **Intellectual Property:** trademarks; patents; copyrights; proprietary technology (e.g. formulas; recipes; specifications; formulations; training programs; marketing strategies; artistic techniques; customer lists; demographic studies; product test results; business knowledge – processes; lead times; cost and pricing data; trade secrets and know-how).

In addition, there is what is sometimes termed 'Unidentified Intangible Assets', including 'internally generated goodwill' (or 'going concern value'). It is important to recognize the distinction between internally-generated and acquired intangible assets. Current accounting standards only allow acquired intangible assets to be recognized on the balance sheet. However,

this is provided that they meet the above-mentioned criteria i.e. internally generated intangibles of a company cannot be explicitly stated on its balance sheet.

This results in what is sometimes described as 'internally generated goodwill'. This is the difference between the fair market value of a business and the value of its identifiable net assets. Although this residual value is not strictly an intangible asset in a strict sense (i.e. a controlled "resource" expected to provide future benefits), it is treated as an intangible asset in a business combination when converted into goodwill on the acquiring company's balance sheet.

Intangible assets that may be recognized on a balance sheet under FRS 38 are typically only a fraction of the total intangible asset value of a business, with the remaining value continuing to be classified as 'goodwill'. Brands, if acquired, can be identified under these rules and added to the balance sheet. This results in an unusual situation where internally-generated brands of the acquiree may be recognized on the acquirer's balance sheet but the acquirer's own internally-generated brands may not. For this reason, Brand Finance thinks there is a strong case for the inclusion of internally-generated brands on the balance sheet.

Brands fulfil the definition of intangible assets above, in that they are controlled by management, provide future economic benefits and are identifiable and therefore can be sold, transferred or licensed as appropriate. We are increasingly seeing companies taking advantage of this transferability by moving brands (including trademarks and other associated intellectual property, such as design rights and other marketing collateral) to special purpose vehicles, such as brand holding companies, for the purpose of raising finance and tax planning.

VALUE CHARACTERISTICS OF DEFINITION OF INTANGIBLE ASSETS

Valuation of intangible assets requires an understanding of their characteristics and the role that they play in the entire value chain. The following attributes of intangible assets have important value implications:

Background on Intangible Asset Value

- **Absence of efficient trading markets:**
Unlike tangible assets, the absence of efficient trading markets for intangible assets makes the market approach to valuation by using transaction price not possible.
- **Lack of a linear relationship between investment and returns:**
This limits the use of the cost approach to valuation, except for easily replicable assets.
- **Poor non-financial metrics to measure the quality of intangible asset:**
Nevertheless, useful valuation insights can be gained from sources such as market research, intellectual property audits and business plans.
- **Value is derived from interactions with other assets (both tangible and intangible):**
This results in a complex value chain, and thus calls for the need of value maps to explore the interactions between them.
- **Specific bundle of rights (legal and otherwise):**
There are rights associated with the existence of any intangible asset.
- **The need for convenient identification:**
For valuation purposes, the intangible assets must be readily identifiable and capable of being separated from the other assets employed in the business. It is sometimes necessary to group complementary intangibles for valuation purposes.
- **The need for a detailed and precise definition of the asset:**
This is particularly important where this consists of a bundle of rights. The components should be broken down in terms of specific trademarks, copyright, design rights, formulations, patents, and trade secrets.

FRS 103: ALLOCATING THE COST OF A BUSINESS COMBINATION

Globally, the Financial Reporting Standard (FRS) 103 'Business Combination' is consistent with IFRS 3 in all material aspects. At the date of acquisition, an acquirer must measure the cost of the business combination by recognising the acquiree'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 negative goodwill).

The classifications of intangible assets under FRS 103 include:

- Artistic-related intangible assets
- Marketing-relating intangible assets
- Technology-based intangible assets
- Customer-related intangible assets
- Contract-based intangible assets

Goodwill: After initial recognition of goodwill, FRS 103 requires that goodwill be recorded at cost less accumulated impairment charges. Whereas previously goodwill was amortised over its useful economic life, it is now subject to impairment testing at least once a year. Amortisation is no longer permitted.

Negative Goodwill: Negative goodwill arises where the purchase price is 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, FRS 103 requires that an acquirer should "reassess" the identification and measurement of the acquired identifiable assets and liabilities.

Background on Intangible Asset Value

FRS 36: IMPAIRMENT OF INTANGIBLE ASSETS AND GOODWILL

Previously an impairment test was only required if a 'triggering event' indicated that impairment might have occurred. Under the revised rules, FRS 36 'Impairment of Assets', there is requirement for an annual impairment test. The test is required for certain assets, namely:

- Goodwill acquired in a business combination
- Intangible assets with an indefinite useful economic life (e.g. strong brands) and intangible assets not yet available for use. The recoverable amount of these assets must be measured annually (regardless of the existence or otherwise of an indicator of impairment) and at any other time when an indicator of impairment exists. Brands are one major class of intangible assets that are often considered to have indefinite useful economic lives. Where acquired brands are recognized 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. There is also 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.

IFRS 13: FAIR VALUE MEASUREMENT

IFRS 13 Fair Value Measurement applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and require disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement.

IFRS 13 was originally issued in May 2011 and applies to annual periods beginning on or after 1 January 2013. The objective of IFRS 13 is to set out a single IFRS framework for measuring fair value.

IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. [IFRS 13:72]

If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgement). [IFRS 13:73]

- **Level 1 inputs:** Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. [IFRS 13:76]
- **Level 2 inputs:** Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. [IFRS 13:81]
- **Level 3 inputs:** Level 3 inputs are unobservable inputs for the asset or liability. [IFRS 13:86]

IMPACT ON MANAGEMENT AND INVESTORS

Management

Perhaps the most important impact of new reporting standards has been on management accountability. Greater transparency, rigorous impairment testing and additional disclosure will mean more scrutiny both internally and externally. The requirement of the acquiring company having to explain at least a part of what was previously considered as "goodwill" should help analysts to analyse deals more closely and gauge whether management have paid a sensible price. The new standards will also have a significant impact on the way companies plan their acquisitions. When considering an acquisition, to assess the impact on the consolidated group balance sheet and profit and loss

Background on Intangible Asset Value

post-acquisition, a detailed analysis of all the target company's potential assets and liabilities is recommended.

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 finite useful economic lives, impairment tests on assets with indefinite useful economic lives may lead to one-off charges. This is particularly so 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 in valuations and appropriate disclosure.

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 overpaid in a deal. Subsequent impairment tests may also shed light on whether the price paid was a respectable 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 investment community. Analysts and investors are often sceptical about disclosed intangible assets. In the case of brand (and other intangible asset) valuation, where a high degree of subjectivity can exist, it is important to demonstrate that best practices have been applied and that the impairment review process is robust.

TAX AND INTANGIBLE ASSETS: IPCO ASPECT

Other than M&A, strategic planning and ROI analysis, the rise in the importance of marketing intangibles can often mean that there is a strong business case for setting up

a central intellectual property (IP) holding company (IPCo). Locating and managing an IPCo from one central location, potentially in a low tax jurisdiction, makes a compelling commercial case, particularly where a group is active in a number of different territories.

The size and authority of the IPCo are variable and dependent on the requirements of the group in question. The benefits include greater IP protection and consistency and improved resource allocation. It is important that genuine commercial drivers for the establishment of IPCo can be demonstrated.

Examples of established IPCo's by global companies include:

- BATMark (in UK, US, Switzerland & Netherlands)
- Shell Brand International AG (Switzerland)
- Société des Produits Nestlé (Switzerland)
- Philip Morris Products SA (Switzerland)
- Marvel Characters, Inc (USA)

Commercial benefits of central IPCo's include:

- Better resource allocation
- Higher return on brand investment
- Tax savings under certain circumstances
- Clarity of the strength, value and ownership of the IP will ensure that full value is gained from third party agreements
- Internal royalties result in greater visibility of the true economic performance of operating companies improved earnings streams from external licenses
- More effective and efficient IP protection will reduce the risk of infringement or loss of a trademark in key categories and jurisdictions

Background on Intangible Asset Value

- Internal licenses should be used to clarify the rights and responsibilities of the IPCo and operating units. The adoption of consistent and coherent brand strategy, marketing investment and brand control improves brand performance

This can have the following results:

- Accumulation of profits in a low tax jurisdiction
- Tax deductions in high tax jurisdictions
- Tax deductions for the amortisation of intangibles in IPCo
- Depending on double tax treaties, the elimination or reduction of withholding taxes on income flows resulting from the exploitation of the IP

Trademarks and Other Intangibles

Outlook, Importance, Challenges & Opportunities

Samir Dixit

Managing Director, Brand Finance Asia Pacific

1. Importance of Intellectual Property for the country?

- The IP industry drives significant contribution to the economies. It has increased by US\$ 40 trillion since 2001. Of these, over US\$ 18 trillion were intangibles.
- Current global Enterprise Value in GIFT is US\$ 71 trillion, of which US\$ 33.1 trillion is the TANGIBLES.
- The global intangibles are therefore upwards of US\$ 38 trillion to be more precise. (US\$11 trillion is disclosed and US\$26.5 trillion is undisclosed value).
- Let's see how Vietnam performs for their intangibles.
 - Vietnam has a total intangible value of about US\$ 21 billion.
 - ASEAN total is about US\$ 956 billion
 - Vietnam represents about 1% of the ASEAN intangible value
 - As a most intangible nation, Singapore is ranked last in ASEAN and is 43rd globally. Indonesia being ranked 7th globally.

2. Importance of IP for the Businesses?

- Intangibles form a large part of the business value - 53% globally and 26% in Vietnam.
- Depending on the type of business and the geographic penetration, the value of Intangibles and how it contributes to the business success varies.
- This is recognised by the shareholders and investors but unfortunately, the marketing fraternity and the management seldom pays attention to the

Intangibles. This is demonstrated by the fact that most companies would not even know the value of their most important intangible – The BRAND.

- Currently, 53% of all companies' value is in the Intangibles – disclosed & undisclosed.

- A very large number not to know anything about or to ignore from managing it as a business asset.

3. Importance of trademarks (Brand) for the business?

- Depending on the type of business and the geographic penetration, the value of Intangibles and how it contributes to the business success varies.
- While trademarks or brands are one of the many forms of IPs, Trademark/Brand is one of the most important and highest value contributing vs. others forms of Intellectual Property. There are however differences for B2B and B2C companies.
 - Brand is estimated to be 50-70% of the total value of the intangibles for a brand driven business – Singapore Airlines e.g. has an EV to BV of over 40%.
 - Brand finance has been tracking performance of strongly branded companies since 2007 and it is proven that companies with stronger brands perform better financially.

- Vietnam as a nation brand is ranked 49th globally (down from 43rd), this shows IP does not seem to be exploited very efficiently by the business in Vietnam. This is evident from the small overall intangible contribution by Vietnam businesses to the overall ASEANs intangible value. Currently Vietnam only contributes to 1%.

Trademarks and Other Intangibles

4. Trademarks vs. patents

Business Need

We have always talked about patents which of course are important. However, in the overall IP universe, the brand importance and their value contribution far exceeds the business contributions from the patents.

Patents usually have to be bundled together with other forms of IP and offered as a “branded benefit” which is critical for their commercial success.

Therefore it is safe to say that a company usually needs a strong brand to exploit the full value and potential of a patent and drive its commercial success. But a strong brand does not necessarily require a patent to drive success.

A patent always needs a brand

A brand does not always require a patent.

Useful economic life of patents vs brands.

- Unlike brands, patents have a significantly lower useful economic life.
- The usefulness gets further shortened with fast pace of technological changes and further improvements of patents by others.
- Trademarks or Brands on the other hand have an infinite useful economic life as long as they are managed and invested into and continue to provide the competitive advantage which gets enhanced over time through effective management.

Depreciating vs. appreciating IP value.

Patents and trademarks as two important forms of IP for the businesses have a uniquely opposite characteristic.

While patents are a depreciating IP due to the limited useful economic life, a brand is an appreciating IP.

Volume vs. Value Contribution

Patents are short term volume drivers. With patents, companies can make drive quick sales volume and monetary gains in a short period of time. Brands or trademarks on the other hand require investment & nurturing and are long term value drivers for any business.

So to conclude, if Vietnam wants to have stronger Intellectual Property dominance and contribution in ASEAN (& ASIA), it needs to have a story focus on both the Trademarks and the Patents. It needs to shift gears from short term gains to long term value creation.

New International Standard on Brand Valuation

David Haigh

CEO, Brand Finance plc

In 2007, the International Organisation for Standardisation ('ISO'), a worldwide federation of national standard setting bodies, set up a task force to draft an International Standard ('IS') on monetary brand valuation.

After 4 years of discussion and deliberation ISO 10668 – Monetary Brand Valuation – was released in 2010. This sets out the principles, which should be adopted when valuing any brand.

THE NEW ISO APPLIES TO BRAND VALUATIONS COMMISSIONED FOR ALL PURPOSES, INCLUDING:

- Accounting and financial reporting
- Insolvency and liquidation
- Tax planning and compliance
- Litigation support and dispute resolution
- Corporate finance and fundraising
- Licensing and joint venture negotiation
- Internal management information and reporting • Strategic planning and brand management

THE LAST OF THESE APPLICATIONS INCLUDES:

- Brand and marketing budget determination
- Brand portfolio review
- Brand architecture analysis
- Brand extension planning

Under ISO 10668 the brand valuer must declare the purpose of the valuation as this affects the premise or basis of value, the valuation assumptions used and the ultimate valuation opinion, all of which need to be

transparent to a user of the final brand valuation report.

REQUIRED WORK STREAMS IN AN ISO COMPLIANT BRAND VALUATION?

ISO 10668 is a 'meta standard' which succinctly specifies the principles to be followed and the types of work to be conducted in any brand valuation. It is a summary of existing best practice and intentionally avoids detailed methodological work steps and requirements.

As such, ISO 10668 applies to all proprietary and non-proprietary brand valuation approaches and methodologies that have been developed over the years, so long as they follow the fundamental principles specified in the meta standard.

ISO 10668 specifies that when conducting a brand valuation the brand valuer must conduct 3 types of analysis before passing an opinion on the brand's value.

These are Legal, Behavioural and Financial analysis. All three types of analysis are required to arrive at a thorough brand valuation opinion. This requirement applies to valuations of existing brands, new brands and extended brands.

MODULE 1 - LEGAL ANALYSIS

The first requirement is to define what is meant by 'brand' and which intangible assets should be included in the brand valuation opinion.

ISO 10668 begins by defining Trademarks in conventional terms but it also refers to other Intangible Assets ('IA') including Intellectual Property Rights ('IPR') which are often included in broader definitions of 'brand'.

International Financial Reporting Standard ('IFRS') specifies how all acquired assets should be defined, valued and accounted for post-acquisition. It refers to five specific IA types, which can be separated from residual Goodwill arising on acquisition.

New International Standard on Brand Valuation

These are: technological, customer, contractual, artistic and marketing related IA.

ISO 10668 mirrors this classification by defining brands as marketing related IA, including trademarks and other associated IPR. This refers inter alia to design rights, domain names, copyrights and other marketing related IA and IPR which may be included in a broader definition of 'brand'.

The brand valuer must precisely determine the bundle of IA and IPR included in the definition of 'brand' subject to valuation. He may include names, terms, signs, symbols, logos, designs, domains or other related IPR intended to identify goods and services and which create distinctive images and associations in the minds of stakeholders, generating economic benefits for the branded business.

The brand valuer is required to assess the legal protection afforded to the brand by identifying each of the legal rights that protect it, the legal owner of each relevant legal right and the legal parameters influencing negatively or positively the value of the brand.

It is vital that the brand valuation includes an assessment of the legal protection afforded to the brand in each geographical jurisdiction and product or service registration category. These legal rights vary between legal systems and need to be carefully considered when forming the brand valuation opinion. For example, the legal rights protecting brands exist at a national (UK), supra-national (EU) and global (WIPO) level and have different characteristics.

Extensive due diligence and risk analysis is required in the Legal analysis module of an ISO 10668 compliant brand valuation. It should be noted that the Legal analysis must be segmented by type of IPR, territory and business category.

The brand valuation opinion may be affected positively or negatively by the distinctiveness, scope of use or registration (territory and business category), extent of use, notoriety of the brand, risk of cancellation, priority, dilution and the ability of the brand owner to enforce such legal rights.

MODULE 2 - BEHAVIOURAL ANALYSIS

The second requirement when valuing brands under ISO 10668 is a thorough behavioural analysis. The brand valuer must understand and form an opinion on likely stakeholder behaviour in each of the geographical, product and customer segments in which the subject brand operates.

To do this, it is necessary to understand:

- Market size and trends - determined by conducting a critical review of predicted trends in distribution channels, customer demographics, market volumes, values and margins.
- Contribution of brand to the purchase decision - determining the monetary brand contribution in the geographical, product and customer segments under review.
- Attitude of all stakeholder groups to the brand - to assess the long-term demand for the brand, any risks to the branded business and the appropriate cost of capital.
- All economic benefits conferred on the branded business by the brand - to assess the sustainability of future revenues and profits.

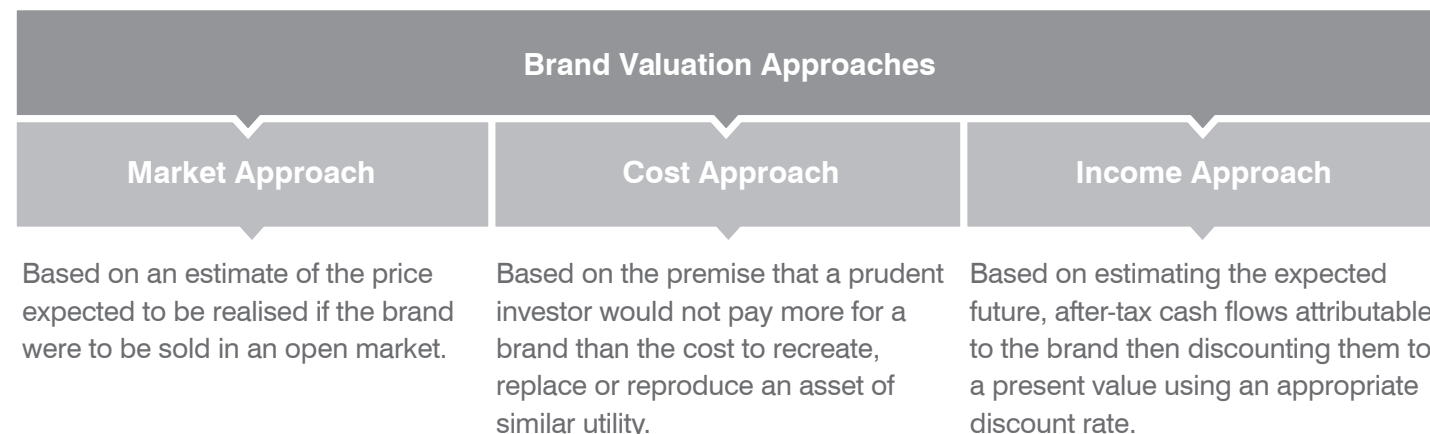
The brand valuer needs to research brand value drivers, including an evaluation of relevant stakeholders' perceptions of the brand in comparison with competitor brands. Measures commonly used to understand brand strength include awareness, perceptual attributes, knowledge, attitude and loyalty. The brand valuer needs to assess the brand's strength in order to estimate future sales volumes, revenues and risks.

MODULE 3 - FINANCIAL ANALYSIS

The third requirement when valuing brands under ISO 10668 is a thorough financial analysis.

ISO 10668 specifies three alternative brand valuation approaches - the Market, Cost and Income Approaches. The purpose of the brand valuation, the premise or basis

New International Standard on Brand Valuation



of value and the characteristics of the subject brand dictate which primary approach should be used to calculate its value.

Market approach

The market approach measures value by reference to what other purchasers in the market have paid for similar assets to those being valued. The application of a market approach results in an estimate of the price expected to be realised if the brand were to be sold in the open market. Data on the price paid for comparable brands is collected and adjustments are made to compensate for differences between those brands and the brand under review.

As brands are unique and it is often hard to find relevant comparables, this is not a widely used approach.

Cost approach

The cost approach measures value by reference to the cost invested in creating, replacing or reproducing the brand. This approach is based on the premise that a prudent investor would not pay more for a brand than the cost to recreate, replace or reproduce an asset of similar utility.

As the value of brands seldom equates to the costs invested creating them (or hypothetically replacing or reproducing them), this is not a widely used approach.

Income approach

The income approach measures value by reference to the economic benefits expected to be received over the remaining useful economic life of the brand. This involves estimating the expected future, after-tax cash flows attributable to the brand then discounting them to a present value using an appropriate discount rate.

As the value of brands stems from their ability to generate higher profits for either their existing or potential new owners, this is the most widely accepted and utilised brand valuation approach.

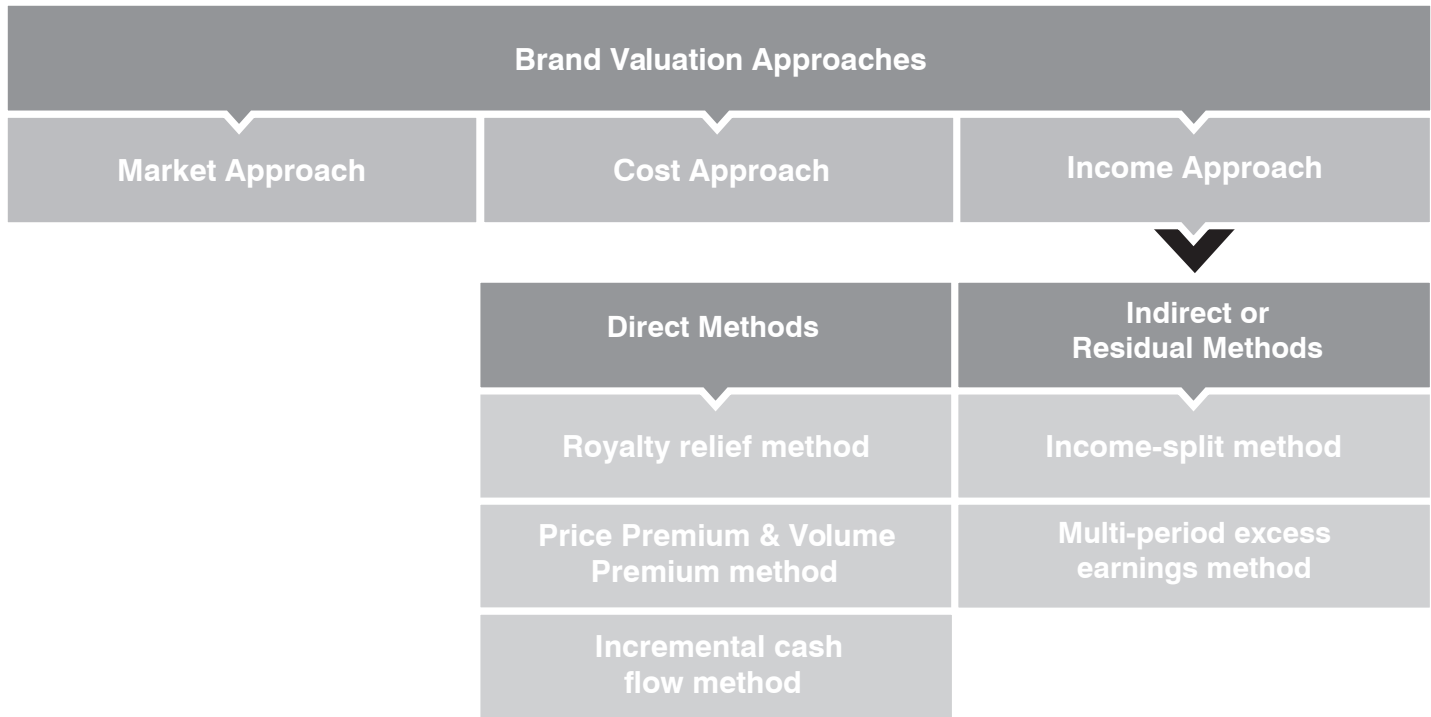
When conducting a brand valuation using the income approach, various methods are suggested by ISO 10668 to determine future cash flows.

Royalty relief method

This is the most widely used method used to determine brand cash flows. This method assumes that the brand is not owned by the branded business but is licensed in from a third party. The value is deemed to be the present value of the royalty payments saved by virtue of owning the brand.

The royalty rate applied in the valuation is determined after an in-depth analysis of available data from licensing arrangements for comparable brands and an appropriate split of brand earnings between licensor and licensee, using behavioural and business analysis.

New International Standard on Brand Valuation



The Royalty Relief method is widely used because it is grounded in commercial reality and can be benchmarked against real world transactions.

Price premium and volume premium methods

The Price Premium method estimates the value of a brand by reference to the price premium it commands over unbranded, weakly branded or generic products or services. In practice it is often difficult to identify unbranded comparators. To identify the full impact on demand created by a brand, the Price Premium method is typically used in conjunction with the Volume Premium method.

The Volume Premium method estimates the value of a brand by reference to the volume premium that it generates. Additional cash flows generated through a volume premium are determined by reference to an analysis of relative market shares. The additional cash flow generated by an above average brand is deemed to be the cash flow related to its ‘excess’ market share. In determining relevant volume premiums, the valuer has to consider other factors which may explain a dominant

market share, such as legislation which establishes a monopoly position for one brand.

Taken together, the Price Premium and Volume Premium methods provide a useful insight into the value a brand adds to revenue drivers in the business model. Other methods go further to explain the value impact of brands on revenue and cost drivers.

Income-split method

The income-split method starts with net operating profits and deducts a charge for total tangible capital employed in the branded business, to arrive at ‘economic profits’ attributable to total intangible capital employed. Behavioural analysis is then used to identify the percentage contribution of brand to these intangible economic profits. The same analysis can be used to determine the percentage contribution of other intangible assets such as patents or technology. The value of the brand is deemed to be the present value of the percentage of future intangible economic profits attributable to the brand.

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Multi-period excess earnings method

The multi-period excess earnings method is similar to the income-split method. However, in this case the brand valuer first values each tangible and intangible asset employed in the branded business (other than the brand). He uses a variety of valuation approaches and methods depending on what is considered most appropriate to each specific asset.

Having arrived at the value of all other tangible and intangible assets employed in the branded business, a charge is then made against earnings for each of these assets, leaving residual earnings attributable to the brand alone. The brand value is deemed to be the present value of all such residual earnings over the remaining useful economic life of the brand.

Incremental cash flow method

The incremental cash flow method identifies all cash flows generated by the brand in a business, by comparison with comparable businesses with no such brand. Cash flows are generated through both increased revenues and reduced costs.

This is a more detailed and complex approach, which tends not to be used in technical brand valuations but is extremely useful for strategic, commercial purposes such as when Virgin negotiates a new brand license with a new licensee. The incremental value added to the licensee's business forms the starting point for the negotiation.

Discount rate determination

Under the income approach, risks that are not already reflected in future cash flows must be considered in the discount rate.

The discount rate used for discounting future expected cash flows attributable to a brand is usually derived from the Weighted Average Cost of Capital ('WACC') of the business.

HOW SHOULD INTERNATIONAL BRANDS APPROACH THE VALUATION OF EXISTING MARKS?

ISO 10668 was developed to provide a consistent framework for the valuation of local, national and international brands both large and small. The primary concern was to create an approach to brand valuation which was transparent, reconcilable and repeatable. In the wake of the standard's launch, it is expected that many businesses will either value their brands for the first time or revalue them compliant with the standard.

HOW SHOULD COMPANIES APPROACH THE QUESTION OF BRAND DIVERSIFICATION VERSUS ENTRENCHMENT?

Common commercial applications of brand valuation are brand portfolio and brand architecture reviews. The first considers whether the right number of brands and sub-brands are in the portfolio. The second considers whether individual brands are too fragmented and extended.

A good example of both applications at work can be found in Unilever's 'Path to Growth' strategy. In 2000, Niall Fitzgerald announced a plan to increase Unilever's annual revenue growth rate to 5-6% with margins of 16%.

To achieve this, Unilever's 1600 brands were to be valued, reviewed and rationalised down to 400 power brands. The a priori assumption was that many smaller, local brands were sub-optimal and offered slower growth prospects than the global brands. Within 2 years, 1200 under-performing local and regional brands were sold or starved of investment to feed the growth of the 400 global power brands.

In many respects the Unilever policy made sense. For example, Dove has been turned into a global power brand with diversification into many product lines and market segments, rapid volume growth, and revenues and profits measured in billions of dollars.

However, the strategy sacrificed many new or developing brands in countries like India because they could not be turned into global brands quickly. Local brand owners

New International Standard on Brand Valuation

enthusiastically bought the divested brands or exploited the gap created by starving local Unilever brands of investment.

In this case, internal brand valuation teams were used to evaluate and prioritise the brand portfolio. Unilever is a leading edge company which follows best practices represented by ISO 10668.

Rationalisation and extension was supported by Legal Analysis to establish the strength and extendibility of its brands. Extensive Behavioural Analysis was applied throughout its portfolio and Financial Analysis was conducted by a cadre of internal marketing finance analysts.

If any mistakes were made, it merely demonstrates that brand valuations are a mechanism for decision making which are driven by data, analysis and assumptions that may prove to be incorrect. The ISO standard insists that sensitivity analysis showing a range of values, based on different assumptions, should be included in an opinion, not just a single value.

A brand valuation is an opinion at a point in time. Brand valuation models need to be updated and reviewed on a regular basis, and management decisions need to change in the light of changing conclusions flowing from them.

Brand valuation is a technique to support management, which is why it is vital that the technique should be consistent, transparent and reproducible as required by ISO 10668.

HOW DO YOU VALUE AN EXISTING BRAND, THEN EXTEND THE ANALYSIS TO MEASURE THE POSITIVE AND NEGATIVE IMPACT OF ADDITIONAL TRADEMARKS/BRAND EXTENSIONS TO THE EXISTING BUSINESS/MARKS?

Dove is a good example of a Unilever brand, which was prioritised in the 'Path to Growth' strategy. It has been extended into many product categories and each extension was rigorously valued.

The Dove brand was launched in the US in 1955, as a cleansing soap bar with moisturising properties, which had been developed to treat burn victims during the Korean war. In 1957, the basic Dove soap bar formula was refined and developed into the "Original Dove Beauty bar". It was launched as a beauty soap, clinically proven to be milder on dry and sensitive skins. In 1979, an independent clinical dermatological study proved Dove "Beauty bar" was milder than 17 leading bar soaps. The phrase "cleansing cream" was replaced with "moisturiser cream" in its marketing materials.

Dove was launched in the UK in the 1990s. In 2001, Dove made its first foray into antiperspirant deodorant lines. Hair care products followed in 2003. Dove was launched in the soap category but has always been positioned without referring to it as "soap". It is always referred to as a "beauty bar" with 25% cleansing cream. Positioning the brand this way has allowed it to extend into antiperspirants, deodorants, body washes, beauty bars, lotions, moisturisers, hair care and facial care products globally. It is now a global brand with a variety of sub-brand ranges (Original, Go Fresh, Intensive Care, Supreme, Summer Care).

To become a global brand, Dove needed wide appeal, across cultural, racial and age boundaries. In 2004, it therefore launched the Campaign for Real Beauty, which highlighted the brand's commitment to broadening definitions of beauty. Dove launched the Self Esteem Fund in 2005, which acts as an agent of change to educate and inspire young girls on a wider definition of beauty. It aims to boost the self-confidence of young girls and women, enabling them to reach their full potential in life. In 2007, Dove also launched Pro*Age, a range of skin care, deodorant and hair care specifically designed for mature skin.

Dove's apparently effortless success makes brand extension look easy. But the Unilever marketing team could have stumbled at many points. They needed a clear and universally appealing brand proposition... simple, natural, caring, feminine, healthy, inclusive, multi-cultural, unpretentious, good value. They then needed a strong and memorable brand name that could be registered and defended in all likely product

New International Standard on Brand Valuation

categories and geographical jurisdictions. They needed defensible sub-brand names. They needed a logo (a simply drawn dove), trade dress (predominantly white packaging), compelling copyright (advertising and collateral) and they needed a compelling trade sales force and campaign.

Having gone global in many SKUs, a valid question now hangs over the Dove brand. Has it reached the limits of its capacity to extend? There is a danger that if Dove is extended any further into fragrance, personal care or household products, its brand equity with consumers will become diluted and confused. Its brand value may decline.

IF BRANDS DIVERSIFY, WHAT CHALLENGES DOES THIS CREATE FOR TRADEMARK COUNSEL?

Brand valuations following the ISO 10668 standard help to alert management to all manners of opportunities and threats. They consider the Legal ability of the brand to win protection in new categories, the financial attractiveness of extending into any new categories, the risks posed by new extensions and above all the Behavioural response of consumers to further brand extension.

CONCLUSION

A robust brand valuation can help avoid the fate which befell the Pierre Cardin brand, which was extended and diluted to such an extent that over extension is now referred to as 'Cardinisation'.

The role of trademark counsel in this process is vital.

- Firstly, to keep up with marketing management keen to extend and extend.
- Secondly, to advise whether and how brands and sub-brands can be registered.
- Thirdly, providing advice on the cost efficiency of ever extending trademark protection; some global brands find that they have tens of thousands of trademarks which require huge financial and management support. Trademark counsel working within the brand valuation team help to answer the question of whether this is a value enhancing strategy.

ISO 10668 will help integrate Trademark Counsel into a multi-disciplinary brand management team. Trademark Counsel will no longer be working in their own technical silo.

In my view, ISO 10668 is a major breakthrough, which will help further professionalise the business of brand management.

Marketing Investment or Marketing Expenditure?

Alfredo Chandra

Director, Brand Finance Asia Pacific

“The impact of the world’s central bankers engineering lower currencies has resulted in anaemic global growth since the last financial crisis. Senior management is constantly looking for returns on marketing investment to ensure that funds are allocated to have maximum impact. What proof do marketers have that strong brands provide a financial return to shareholders?”

Brand Finance has tracked the value of global intangible assets across the world’s stock exchanges for over 10 years through the Global Intangible Financial Tracker (GIFT)©. This yearly study shows that brands are the most valuable intangible asset to a company. The value of brands contributes 30-50% of the value of the intangible assets (excluding goodwill). It is acknowledged amongst the marketing fraternity that strong brands, as perceived by customers, can command a price premium over generic brands. This treasured asset thus becomes a competitive advantage for organisations in generating above average business returns. Quantifying the magnitude of returns to a business as a result of a stronger brand is becoming increasingly important.

Marketing Expenditure A Thing Of The Past

Increasing frugality in doing business has resulted in cuts to marketing activities. However, where marketing expenditure was once seen as a cost to the company, business leaders are beginning to realise that marketing is in fact an investment that can create a competitive advantage. *“One of the biggest areas of expertise we are continuously asked by our clients is whether their marketing expenditure is optimal in comparison to their competitors.”* explains Alfredo Chandra, Director of Brand Finance Asia Pacific. *“The client’s frame of mind, especially the Management, is important is changing the context of how they view marketing. Through the use of the marketing mix, investments should be allocated through all channels so as to maximise the value of the invested capital which benefits the softer measures of brand, whilst at the same time impacting on the bottom line.”*

Our Core Beliefs

Organisations need to have a holistic view in brand management. When Brand Finance works with clients we have four core beliefs:

- 1. Understanding of consumers** – for Management to see marketing as an investment, they must understand their customers and their journey towards purchase. This in turn leads to better understanding of the objectives that marketing does for the organisation.
- 2. Effective messaging** – organisations who have a clear and consistent messaging that resonates with consumers can maximise the value of their marketing investment. Our experience shows us that effective messaging can improve marketing wastage by close to 15%.
- 3. Marketing-mix analytics lead to better business decisions** – an understanding of the marketing-mix and the levers which can be used by the business leads can reduce marketing wastage by up to 30%.
- 4. Industry understanding** – marketing investment should be geared towards products which will drive future profits for the organisation. Organisations that go against the tide and increase marketing investment in tougher times when competitors are cutting get the highest “bang for the buck.”

What Is Brand Management In The Eyes Of Brand Finance?

There is always an abundance of data within a business. What marketers fail to realise time and time again is analysing the data to make it into information that can be easily understood not only from a marketing perspective but from a financial perspective. Brand Finance’s proprietary technique in measuring brand performance is the Brand Strength Index (a score out of 100). It is a composite index that provides decision makers the linkages between investments to financial returns. The BSI comprises of:

Marketing Investment or Marketing Expenditure?

- Inputs – brand inputs are 100% controlled by the organisation and includes the brand investments. The product, place, and promotion are important levers in influencing a customer's perception of a brand.

- Brand Equity – the inputs that influence Brand Equity include the brand perceptions and elements of the customer decision journey (awareness, familiarity, consideration, recommendation, net promoter score).

- Outputs – measures of the overall performance of a brand (market share, revenue growth, and overall profitability). Organisations with a strong Brand Equity are able to increase brand performance.

Strong Brands Influence Business Performance?

The BSI is converted to a Brand Rating (AAA+ to D). This is an evaluation of the integrated brand performance. The BSI is simplified to a Brand Rating to allow for value range. E.g. a score of 90-100 would be classified as AAA+. A failing brand is one that has a score of less than 30, which is converted to a Brand Rating of D. Brand Finance's analysis shows that strong brands (those classified as AAA) outperform lower tiered brands as shown below.

Brand Finance's triple A-rated brands yield an average of 21.8% operating margin in 2015, higher than MSCI World Index average of 10% and S&P average of 12%. Double A-rated brands' average operating margin has fallen since 2013 to 12.4%, close to S&P average. The gap between triple A-rated brands and others has widened in

recent years, indicating the rising importance of brand strength to the businesses.

Our Five-Step Approach To Marketing Investment

An integrated approach to marketing investment across all Business Units is required. We have identified the best practice to be as follows:

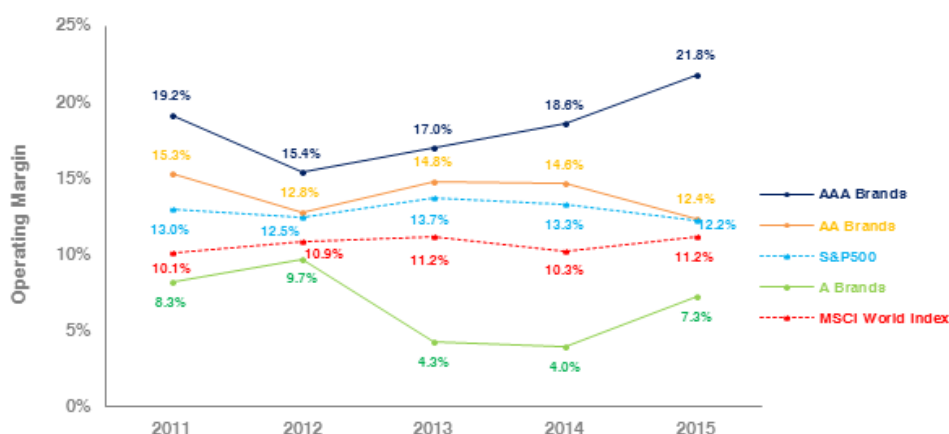
1. Internal alignment – ensure that the marketing strategy is integrated with the overall business strategy with clear objectives and significant insights into consumer interaction across all geographies, brands and marketing interactions.

2. Manage – Prioritise the avenues for growth and align marketing investment as required. Manage and ensure clear brand messaging and identify the investments that will be most effective across the consumer journey.

3. Measure – Pick the marketing mix having deep understanding of the business needs whilst integrating benchmarks, analytics, and econometrics and consumer brand insights.

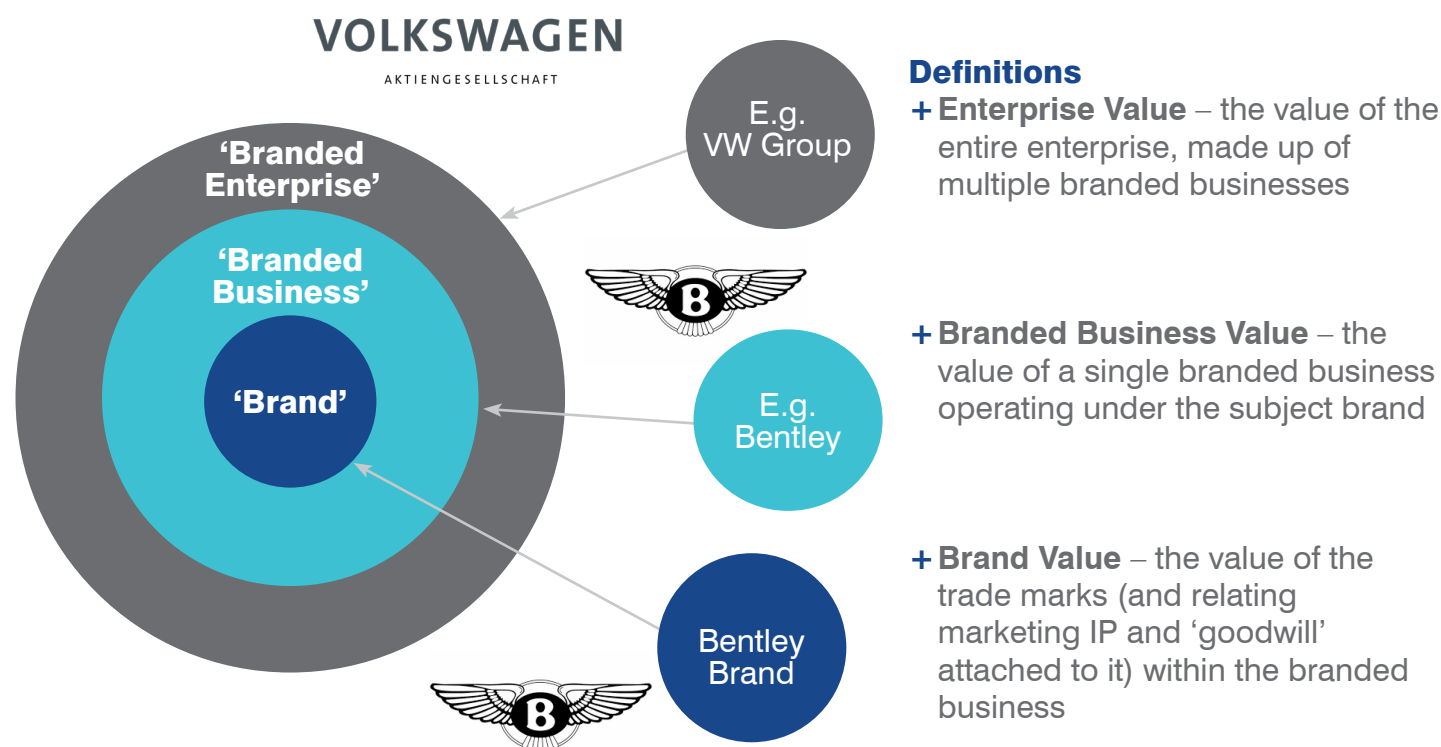
4. Monitor – assess the optimal marketing investment and improvements in Brand Equity and brand performance.

5. Maximise – drive sustainable long-term value through support of return on marketing investment tools and ensure that key performance measures are communicated to Senior Management.



Methodology

What do we mean by 'brand'?



Definition of 'Brand'

In the very broadest sense, a brand is the focus for all the expectations and opinions held by fans, players, staff and other stakeholders about a club. However when looking at brands as business assets that can be bought, sold and licensed, a more technical definition is required. Brand Finance helped to craft the internationally recognised standard on Brand Valuation, ISO 10668. That defines a brand as "a marketing related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/value"

Brand Strength

Brand Strength is the part of our analysis most directly and easily influenced by those responsible for marketing and brand management as well as success on the pitch. In order to determine the strength of a brand we have developed the Brand Strength Index (BSI). We analyse marketing investment, brand equity (the goodwill accumulated with fans, customers, staff and other stakeholders), which includes on-pitch success, and finally the impact of those on business performance. Following this analysis, each brand is assigned a BSI score out of 100, which is fed into the brand value calculation. Based on the score, each brand in the league table is assigned a rating between AAA+ and D in a format similar to a credit rating. AAA+ brands are exceptionally strong and well managed while a failing brand would be assigned a D grade.

Methodology



The Valuation Process

Brand Finance calculates the values of the brands in its league tables using the 'Royalty Relief approach'. This approach involves estimating the likely future sales that are attributable to a brand and calculating a royalty rate that would be charged for the use of the brand, i.e. what the owner would have to pay for the use of the brand if it were not already owned.

- 1 Calculate brand strength on a scale of 0 to 100: the BSI captures the ability of clubs to drum up popular interest and then convert interest into support and custom. The BSI covers three broad topics of brand investment, equity in the form of emotional connection harboured by a brand, and bottom line commercial performance.
- 2 As brand has differing effects on each source of income, we then split revenues down into three streams: match-day, broadcasting and commercial. As brands have differing effects on different revenue streams, these will each have their own respective royalty rate applicable to them. The royalty rates are derived by looking at comparable agreements and through in-house analysis.
- 3 Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand's sector is 0-5% and a brand has a brand strength score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be 4%.
- 4 Determine brand specific revenues estimating a proportion of parent company revenues attributable to a specific brand.
- 5 Determine forecast brand specific revenues using a function of historic revenues, equity analyst forecasts and economic growth rates.
- 6 Apply the royalty rate to the forecast revenues to derive brand revenues.
- 7 Brand revenues are discounted post tax to a net present value, equal to the brand value.

Glossary of Terms

Brand	Fair Market Value (FMV)
Trademarks and trademark licenses together with associated goodwill	The price at which a business or assets would change hands between a willing buyer and a willing seller, neither of whom are under compulsion to buy or sell and both having reasonable knowledge of all relevant facts at the time
BrandBeta®	Holding Company
Brand Finance's proprietary method for determining the strength, risk and future potential of a brand relative to its competitor set	A company controlling management and operations in another company or group of other companies
Branded Business	Intangible Asset
The whole business trading under a particular brand or portfolio of brands, the associated goodwill and all the intangible elements at work within the business	An identifiable non-monetary asset without physical substance
Brand Rating	Net Present Value (NPV)
A summary opinion, similar to a credit rating, on a brand based on its strength as measured by Brand Finance's 'Brand Strength Index'	The present value of an asset's net cash flows (minus any initial investment)
Brand Value	Tangible Value
The net present value of the estimated future cash flows attributable to the brand (see Methodology section for more detail)	The fair market value of the monetary and physical assets of a business
Discounted Cash Flow (DCF)	Weighted Average Cost of Capital (WACC)
A method of evaluating an asset value by estimating future cash flows and taking into consideration the time value of money and risk attributed to the future cash flows	An average representing the expected return on all of a company's securities. Each source of capital, such as stocks, bonds, and other debts, is assigned a required rate of return, and then these required rates of return are weighted in proportion to the share each source of capital contributes to the company's capital structure
Discount Rate	
The interest rate used in discounting future cash flows	
Enterprise Value	
The combined market value of the equity and debt of a business less cash and cash equivalents	

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📍 tầng 7 - tòa nhà Prima, số 22 Mai Anh Tuấn, Hoàng Cầu, Hà Nội

✉️ tienmanh.lai@mibrand.vn

☎️ 0902598228

🌐 mibrand.com.vn

Contact Details

Our offices



Contact us


For enquiries, please contact:


Samir Dixit

Managing Director
Brand Finance Asia Pacific
s.dixit@brandfinance.com
+65 6408 3377

Lai Tien Manh

Country Representative
Brand Finance in Vietnam
m.lai@brandfinance.com
+84 90 259 8228

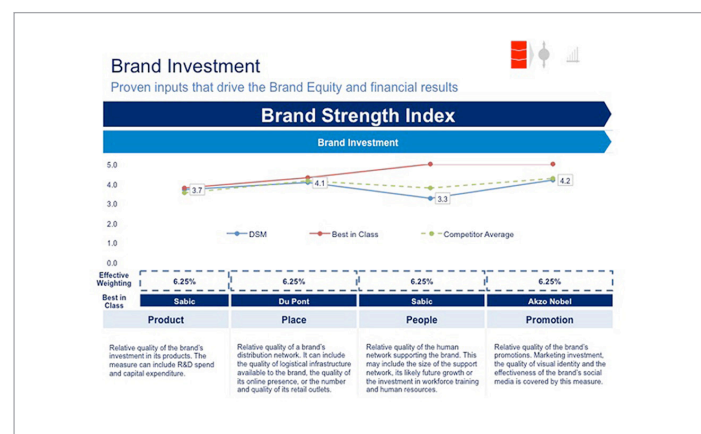
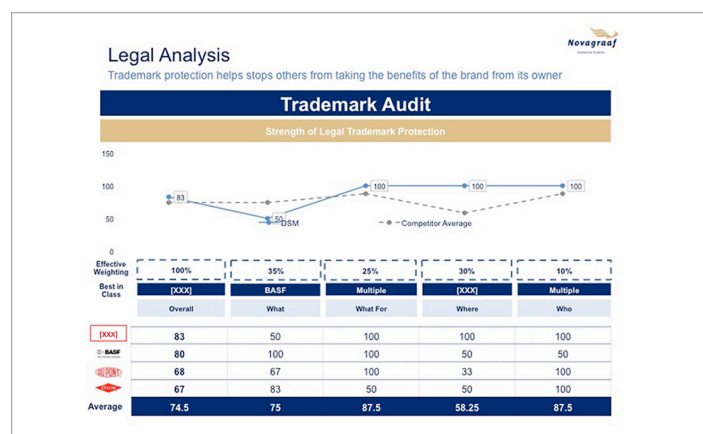
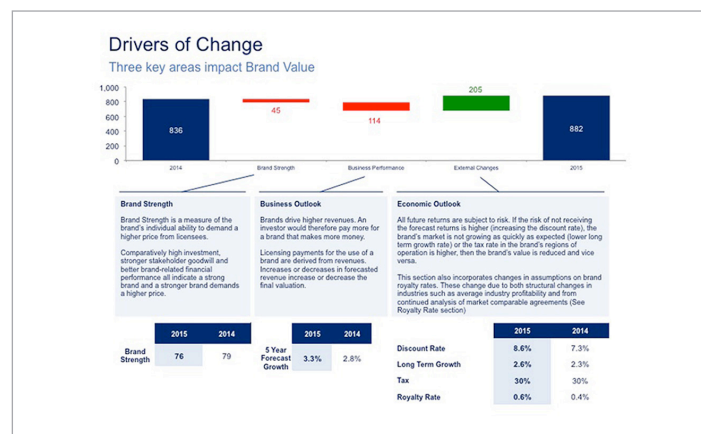
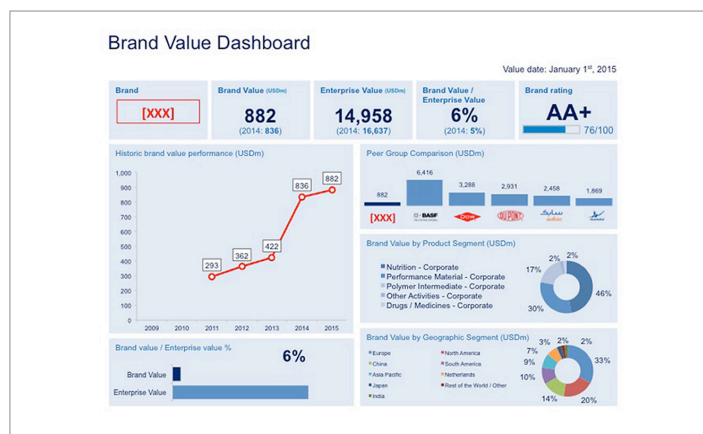
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 twitter.com/brandfinance

Country	Contact	Email address
Argentina	Pablo Bolino	p.bolino@brandfinance.com
Australia	Mark Crowe	m.crowe@brandfinance.com
Brazil	Geoffrey Hamilton-Jones	g.hamilton-jones@brandfinance.com
Canada	Bryn Anderson	b.anderson@brandfinance.com
Caribbean	Nigel Cooper	n.cooper@brandfinance.com
China	Eric Ke	e.ke@brandfinance.com
Central America	Rajesh Ingle	r.ingle@brandfinance.com
East Africa	Jawad Jaffer	j.jaffer@brandfinance.co.ke
France	Luc Bardin	l.bardin@brandfinance.com
Germany	Dr. Holger Mühlbauer	h.muehlbauer@brandfinance.com
Greece	Ioannis Lionis	i.lionis@brandfinance.com
Holland	Marc Cloosterman	m.cloosterman@brandfinance.com
India	Ajimon Francis	a.francis@brandfinance.com
Indonesia	Jimmy Halim	j.halim@brandfinance.com
Italy	Massimo Pizzo	m.pizzo@brandfinance.com
Middle East	Andrew Campbell	a.campbell@brandfinance.com
Nigeria	Tunde Odumeru	t.odumeru@brandfinance.com
New Zealand	Jai Basrur	j.basrur@brandfinance.com
Portugal	Joao Baluarte	j.baluarte@brandfinance.com
Russia	Alex Eremenko	a.eremenko@brandfinance.com
Singapore	Samir Dixit	s.dixit@brandfinance.com
South Africa	Oliver Schmitz	o.schmitz@brandfinance.com
Spain	Pedro Tavares	p.tavares@brandfinance.com
Sri Lanka	Ruchi Gunewardene	r.gunewardene@brandfinance.com
Turkey	Muhterem Ilguner	m.ilguner@brandfinance.com
UK	Bryn Anderson	b.anderson@brandfinance.com
USA	Ken Runkel	k.runkel@brandfinance.com
Vietnam	Lai Tien Manh	m.lai@brandfinance.com

Understand Your Brand's Value



A League Table Report provides a complete breakdown of the methodology, data sources and calculations used to arrive at your brand's value.

Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors. A full report includes the following sections which can also be purchased individually.

Brand Valuation Summary

Overview of the brand valuation including executive summary, explanation of changes in brand value and historic and peer group comparisons.

- + Internal understanding of brand
- + Brand value tracking

Royalty Rates

Analysis of competitor royalty rates, industry royalty rate ranges and margin analysis used to determine brand specific royalty rate.

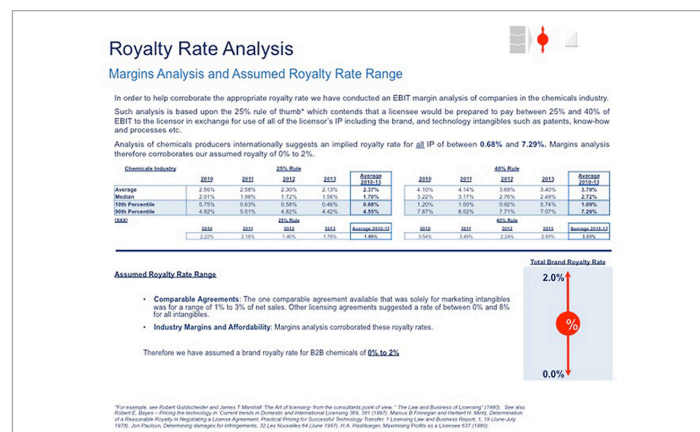
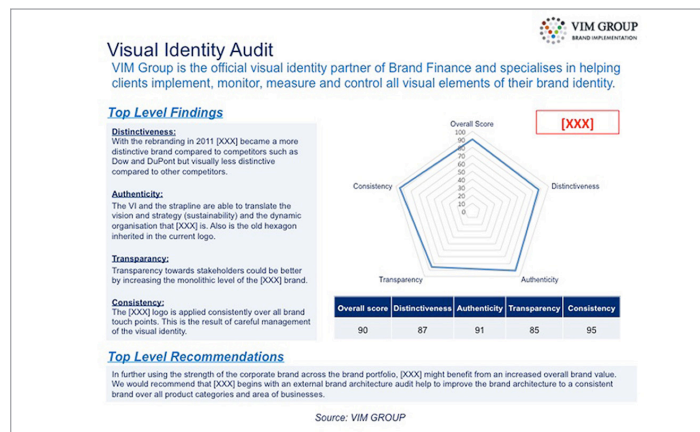
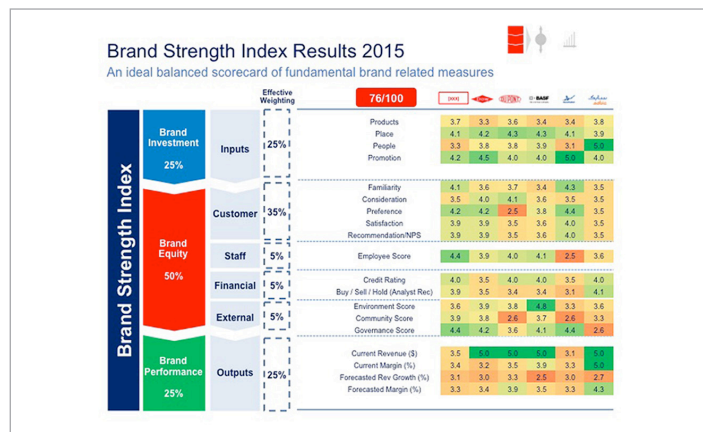
- + Licensing/ franchising negotiation
- + International licensing
- + Competitor benchmarking

Cost of Capital

A breakdown of the cost of capital calculation, including risk free rates, brand debt risk premiums and the cost of equity through CAPM.

- + Independent view of cost of capital for internal valuations and project appraisal exercises

Understand Your Brand's Value



Trademark Audit

Analysis of the current level of protection for the brands word marks and trademark iconography highlighting areas where the marks are in need of protection.

- + Highlight unprotected marks
- + Spot potential infringement
- + Trademark registration strategy

For more information regarding our League Table Reports and business enquiry, please contact:

Samir Dixit

Managing Director
Brand Finance Asia Pacific

s.dixit@brandfinance.com

+65 6408 3377

Lai Tien Manh


Country Representative
Brand Finance in Vietnam

m.lai@brandfinance.com

+84 90 259 8228



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At Brand Finance we focus on
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Brand Finance plc, the world's leading independent brand valuation and business strategy consultancy, has a global footprint with over 20 offices worldwide.

Our services complement and support each other, resulting in robust valuations underpinned by an in-depth understanding of revenue drivers and licensing practice.

Brand Finance is one of the few companies that has the ISO 10668 certification for valuation services. Our work is frequently peer reviewed by the large audit firms and is well recognized by the tax authorities and government bodies worldwide.

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Contact us.

The World's Leading Independent Valuation and Strategy Consultancy

Singapore office

T: +65 6408 3377

E: bfs@brandfinance.com

Vietnam office

T: +84 4 7300 4468

E: m.lai@brandfinance.com