



Utilities 50 2017

The annual report on the world's most valuable utilities brands
March 2017

Foreword



David Haigh, CEO, Brand Finance

What is the purpose of a strong brand; to attract customers, to build loyalty, to motivate staff? All true, but for a commercial brand at least, the first answer must always be ‘to make money’.

Huge investments are made in the design, launch and ongoing promotion of brands. Given their potential financial value, this makes sense. Unfortunately, most organisations fail to go beyond that, missing huge opportunities to effectively make use of what are often their most important assets. Monitoring of brand performance should be the next step, but is often sporadic. Where it does take place it frequently lacks financial rigour and is heavily reliant on qualitative measures poorly understood by non-marketers.

As a result, marketing teams struggle to communicate the value of their work and boards then underestimate the significance of their brands to the business. Skeptical finance teams, unconvinced by what they perceive as marketing mumbo jumbo may fail to agree necessary investments. What marketing spend there is can end up poorly directed as marketers are left to operate with insufficient financial guidance or accountability. The end result can be a slow but

steady downward spiral of poor communication, wasted resources and a negative impact on the bottom line.

Brand Finance bridges the gap between the marketing and financial worlds. Our teams have experience across a wide range of disciplines from market research and visual identity to tax and accounting. We understand the importance of design, advertising and marketing, but we also believe that the ultimate and overriding purpose of brands is to make money. That is why we connect brands to the bottom line.

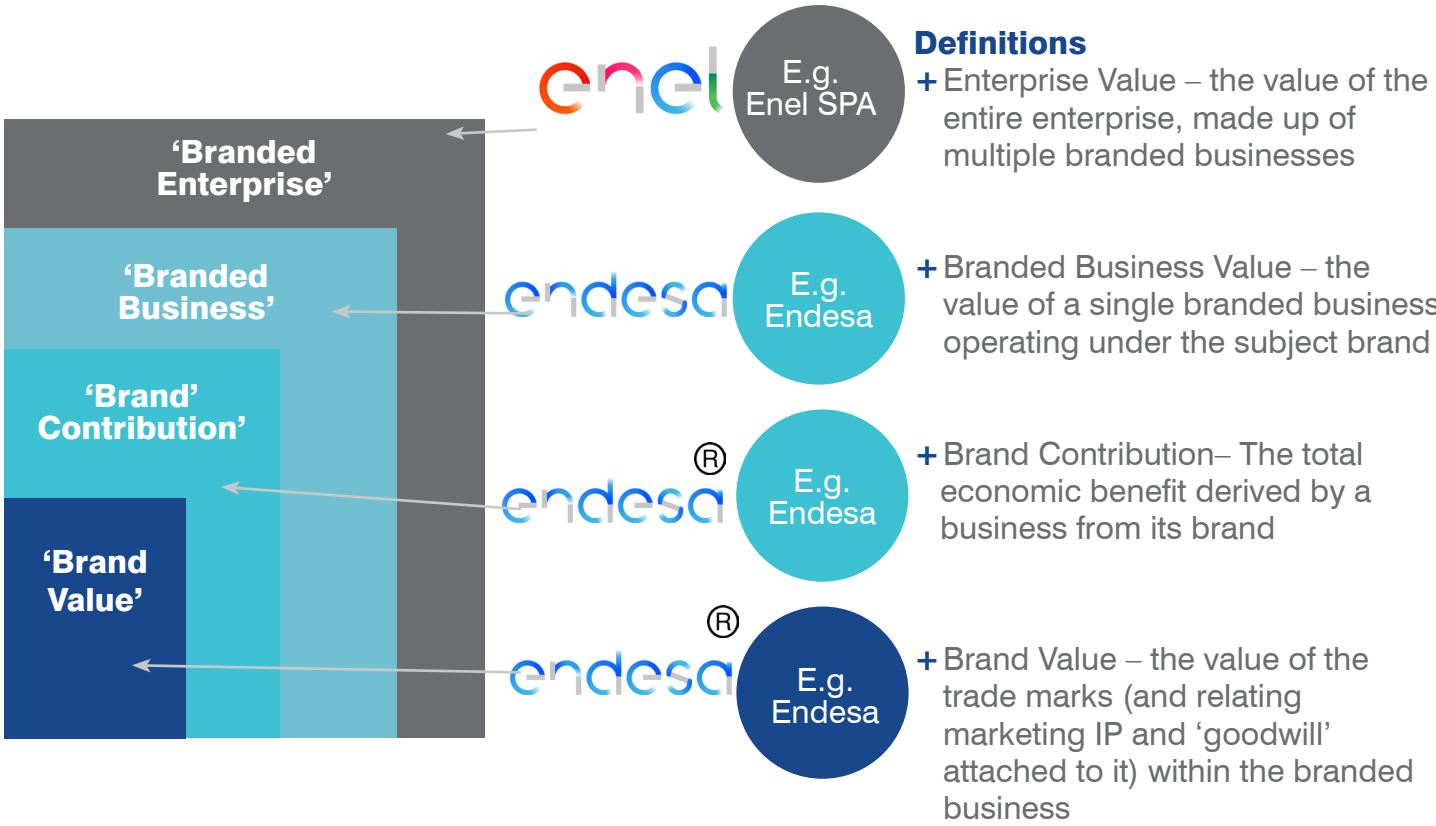
By valuing brands, we provide a mutually intelligible language for marketers and finance teams. Marketers then have the ability to communicate the significance of what they do and boards can use the information to chart a course that maximises profits. Without knowing the precise, financial value of an asset, how can you know if you are maximising your returns? If you are intending to license a brand, how can you know you are getting a fair price? If you are intending to sell, how do you know what the right time is? How do you decide which brands to discontinue, whether to rebrand and how to arrange your brand architecture? Brand Finance has conducted thousands of brand and branded business valuations to help answer these questions.

Brand Finance’s recently conducted share price study revealed the compelling link between strong brands and stock market performance. It was found that investing in the most highly branded companies would lead to a return almost double that of the average for the S&P 500 as a whole. Acknowledging and managing a company’s intangible assets taps into the hidden value that lies within it. The following report is a first step to understanding more about brands, how to value them and how to use that information to benefit the business. The team and I look forward to continuing the conversation with you.

Contents

| | |
|-------------------------------|----|
| Foreword | 2 |
| Definitions | 4 |
| Methodology | 6 |
| Executive Summary | 8 |
| Full Table | 12 |
| Understand Your Brand’s Value | 13 |
| How We Can Help | 14 |
| Contact Details | 15 |

Definitions



Branded Business Value

A brand should be viewed in the context of the business in which it operates. For this reason Brand Finance always conducts a Branded Business Valuation as part of any brand valuation. Where a company has a purely mono-branded architecture, the business value is the same as the overall company value or ‘enterprise value’.

In the more usual situation where a company owns multiple brands, business value refers to the value of the assets and revenue stream of the business line attached to that brand specifically. We evaluate the full brand value chain in order to understand the links between marketing investment, brand tracking data, stakeholder behaviour and business value to maximise the returns business owners can obtain from their brands.

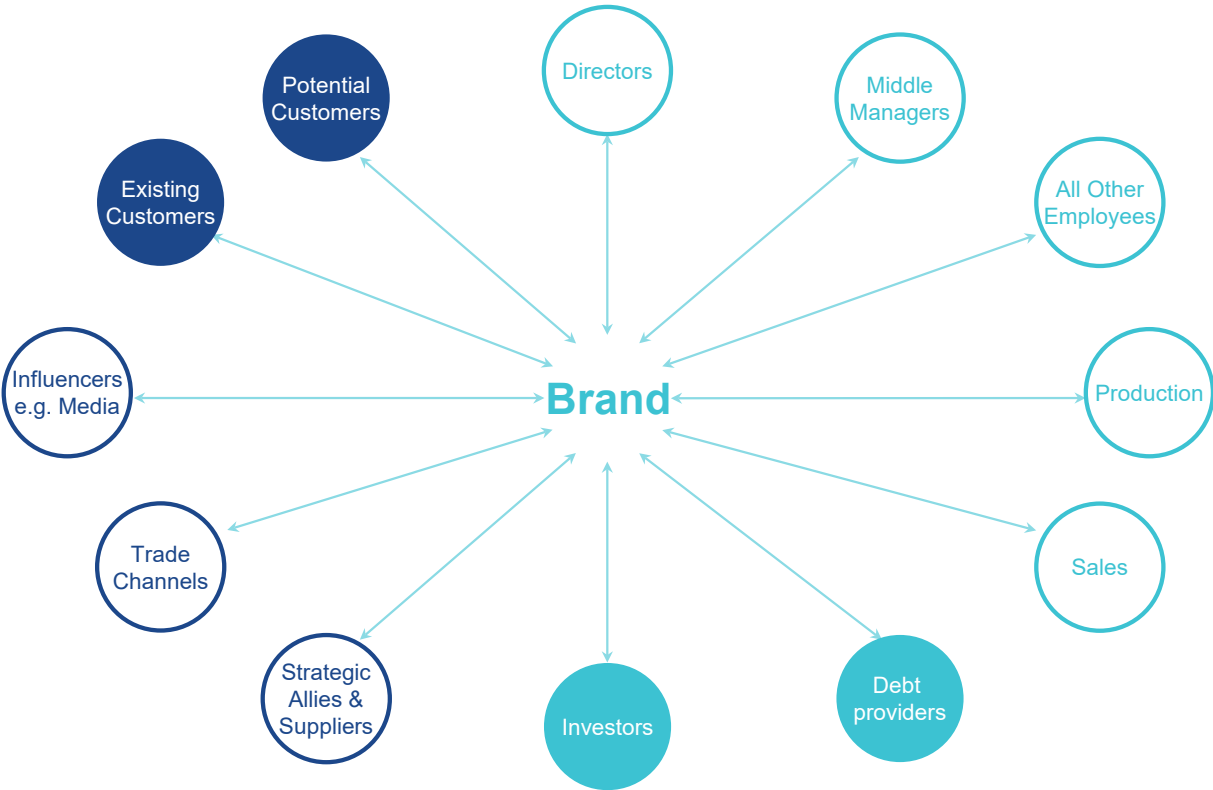
Brand Contribution

The brand values contained in our league tables are those of the potentially transferable brand asset only, but for marketers and managers alike. An assessment of overall brand contribution to a business provides powerful insights to help optimise performance.

Brand Contribution represents the overall uplift in shareholder value that the business derives from owning the brand rather than operating a generic brand.

Brands affect a variety of stakeholders, not just customers but also staff, strategic partners, regulators, investors and more, having a significant impact on financial value beyond what can be bought or sold in a transaction.

Effect of a Brand on Stakeholders



Brand Value

In the very broadest sense, a brand is the focus for all the expectations and opinions held by customers, staff and other stakeholders about an organisation and its products and services. 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. 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 customers, staff and other stakeholders) 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

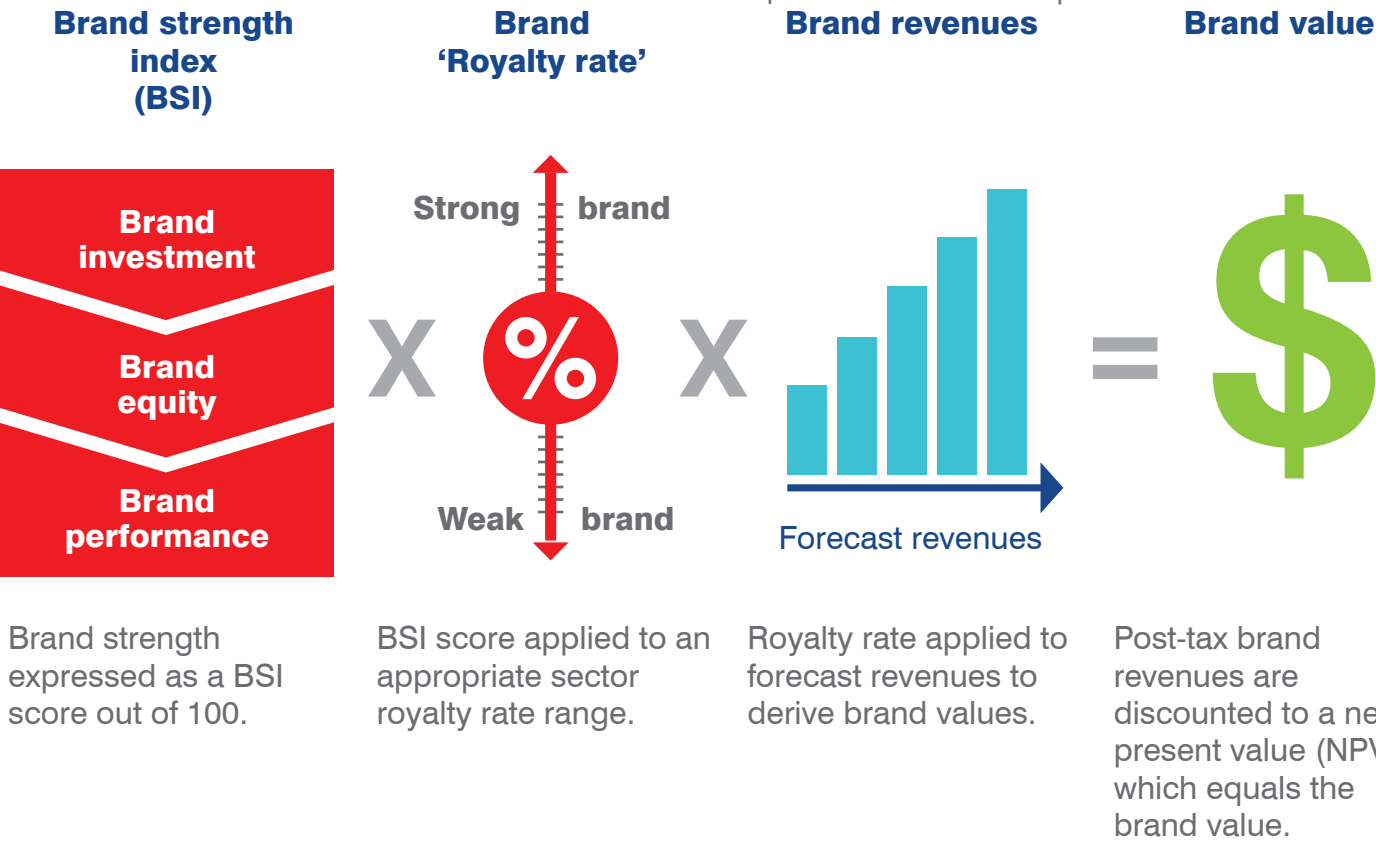
League Table Valuation Methodology

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—assuming it were not already owned.

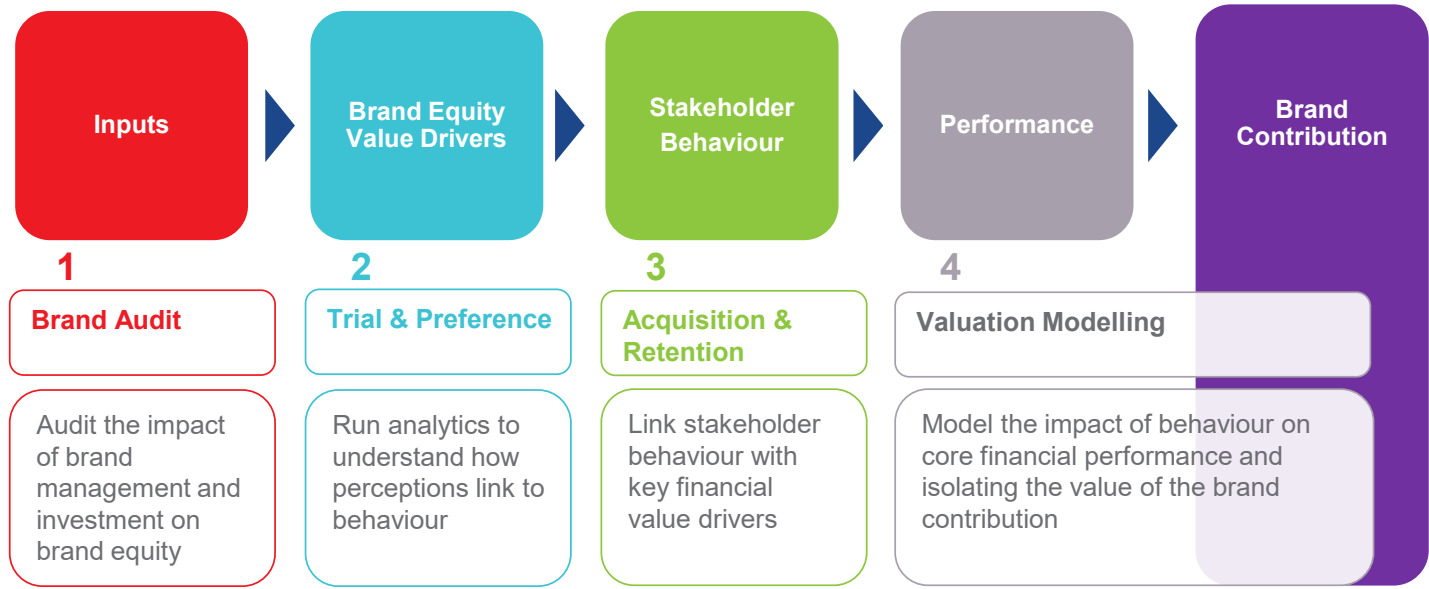
The steps in this process are as follows:

1 Calculate brand strength on a scale of 0 to 100 based on a number of attributes such as emotional connection, financial performance and sustainability, among others. This score is known as the Brand Strength Index, and is calculated using brand data from the BrandAsset® Valuator database, the world’s largest database of brands, which measures brand equity, consideration and emotional imagery attributes to assess brand personality in a category agnostic manner.

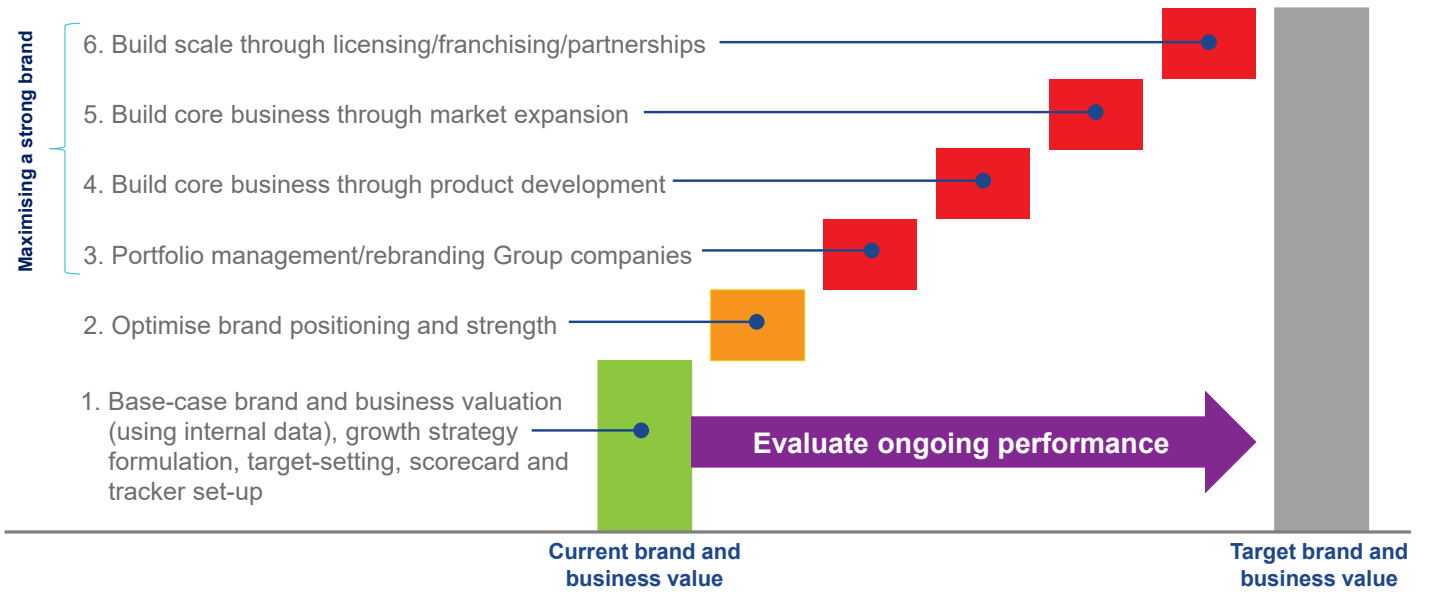
- 2** Determine the royalty rate range for the respective brand sectors. This is done by reviewing comparable licensing agreements sourced from Brand Finance’s extensive database of license agreements and other online databases.
- 3** Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand’s sector is 1-5% 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 4.2%.
- 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 which equals the brand value.



Brand Finance Typical Project Approach



How We Help to Maximise Value



Executive Summary

Utilities 50



Utilities brands are undergoing a tumultuous time due to regulatory changes, demand fluctuations, price volatility and new competition. More than half of the brands in this year's Brand Finance Utilities 50 have declined in value, including the all of the top three.

France's Engie is the world's most valuable utilities brand despite a fall in brand value of 12%, remaining approximately US\$2 billion ahead of compatriot and rival EDF.

Engie's 2015 rebrand was generally well received and its brand strength has actually improved this year (its Brand Strength Index Score is up from 70 to 71) however the financial impact of industry-wide issues have been unavoidable. Engie was hit particularly hard by falling prices, resulting in US\$4 billion worth of impairments.


















The group is selling €15 billion of assets between

2016 and 2018 and has already sold €8 billion, as part of a global retreat from fossil fuels.

With a new website and logo as a part of its brand identity overhaul, third placed Enel is making an effort to reposition itself as a sustainable and innovative global brand. The Italian electricity and gas distributor is focusing on grids and renewable energy to boost growth, installing smart meters to prepare for the era of the internet of things.

Furthermore, the company became a global partner of and strategic advisor to, Energy Excelerator, a leading Hawaii-based incubator for clean energy start-ups. Though brand value fell 8%, these efforts have helped Enel to significantly strengthen its brand this year. Its Brand Strength Index score of 83 make it the second strongest Utilities brand.

Brexit has added to the difficulties faced by UK

| | | |
|---|-----------|--|
|  | 1 | Rank 2017: 1 2016: 1  BV 2017: \$ 10,078m BV 2016: \$ 11,443m -12% Brand Rating: AA |
|  | 2 | Rank 2017: 2 2016: 2  BV 2017: \$ 8,268m BV 2016: \$ 9,121m -9% Brand Rating: AA+ |
|  | 3 | Rank 2017: 3 2016: 3  BV 2017: \$ 7,284m BV 2016: \$ 7,883m -8% Brand Rating: AAA- |
|  | 4 | Rank 2017: 4 2016: 4  BV 2017: \$ 7,061m BV 2016: \$ 6,709m +5% Brand Rating: AA+ |
|  | 5 | Rank 2017: 5 2016: 6  BV 2017: \$ 4,353m +16% BV 2016: \$ 3,752m Brand Rating: AA+ |
|  | 6 | Rank 2017: 6 2016: 5  BV 2017: \$ 4,126m -2% BV 2016: \$ 4,212m Brand Rating: AAA- |
|  | 7 | Rank 2017: 7 2016: 10  BV 2017: \$ 3,717m +18% BV 2016: \$ 3,143m Brand Rating: AA+ |
|  | 8 | Rank 2017: 8 2016: 9  BV 2017: \$ 3,471m 8% BV 2016: \$ 3,208m Brand Rating: AA+ |
|  | 9 | Rank 2017: 9 2016: 7  BV 2017: \$ 3,367m -3% BV 2016: \$ 3,486m Brand Rating: AA+ |
|  | 10 | Rank 2017: 10 2016: 14  BV 2017: \$ 3,188m +14% BV 2016: \$ 2,807m Brand Rating: AA+ |

utilities, as economic uncertainty reduces forecasts and the weaker pound increases the cost of inputs. The brand value of the UK's biggest supplier, British Gas, is down 11%. More reassuringly for owner Centrica however is the news that British Gas is the world's strongest utilities brand.

British Gas is a very prominent advertiser, investing heavily in brand building and in the communication of specific initiatives, such as its wireless thermostat and app Hive or smart meters to provide more accurate and transparent energy bills.

Fostering a more personal connection with consumers is this way is essential to avoid the worst effects of the industry's current malaise but is particularly key in the UK, where competition regulators are aggressively pushing for enhanced switching away from the big six (British Gas, E. ON, EDF, SSE, Npower & Scottish Power).

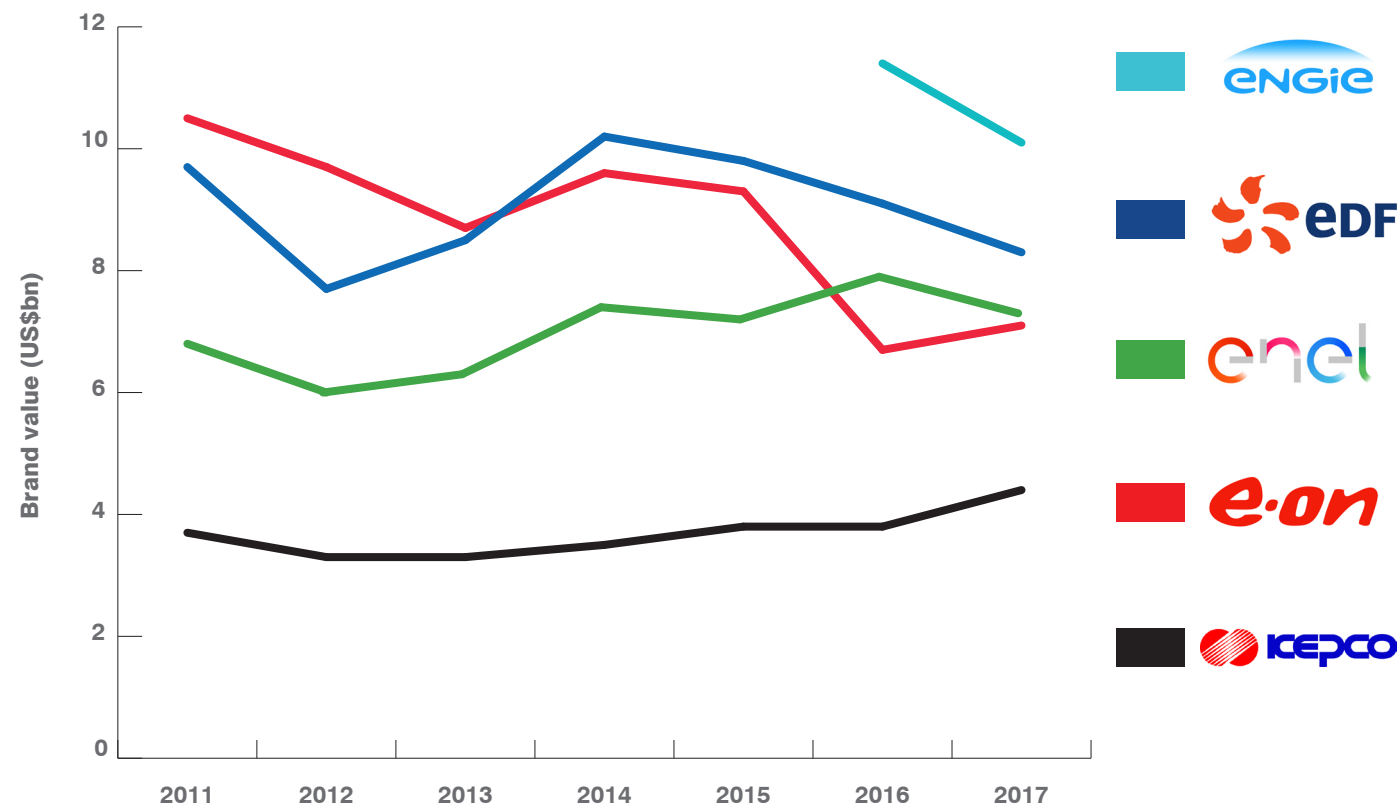
South East Asia's largest power company and the only electric utility in Malaysia, Tenaga Nasional, is the fastest growing brand in the Brand Finance Utilities 50. It reported impressive fiscal fourth-quarter earnings, helped by increasing demand and low fuel costs. It has embarked on a transformation program, 'Reimagining TNB' that could yield further growth.

The company also entered into a conditional subscription deal with India-based GMR Energy Ltd (GEL) to buy equity shares worth US\$300 million as part of its plan to secure new generation capacity internationally.

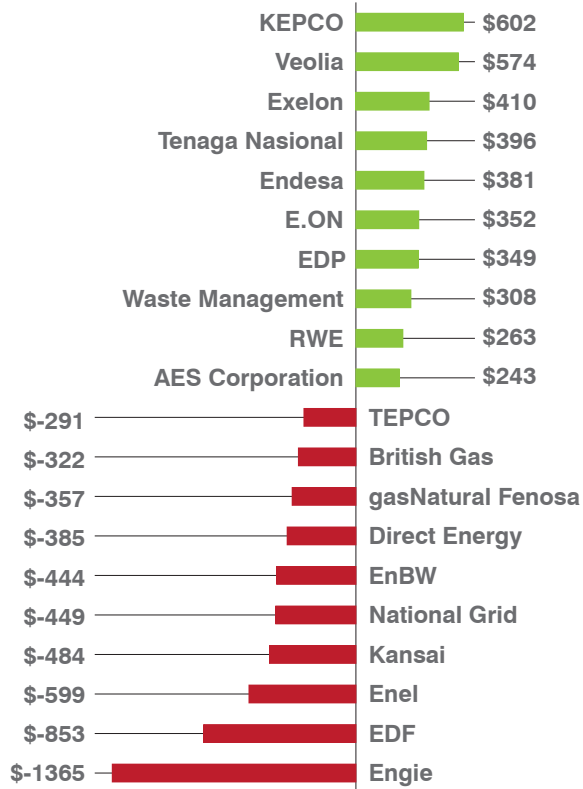
Japan's Kansai Electric Power is the fastest faller, losing 25% of its brand value. Kansai received an extension to the life of a nearly 40-year-old reactor but still faces costly upgrades and the threat of litigation risk as it tries to revive its nuclear power business in the wake of the Fukushima disaster.

Executive Summary

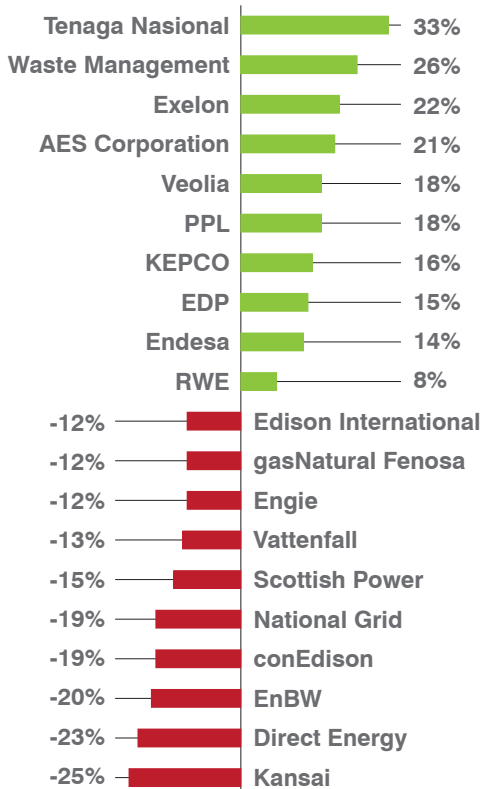
Brand Value Over Time



Brand Value Change 2016-2017 (US\$m)



Brand Value Change 2016-2017 (%)

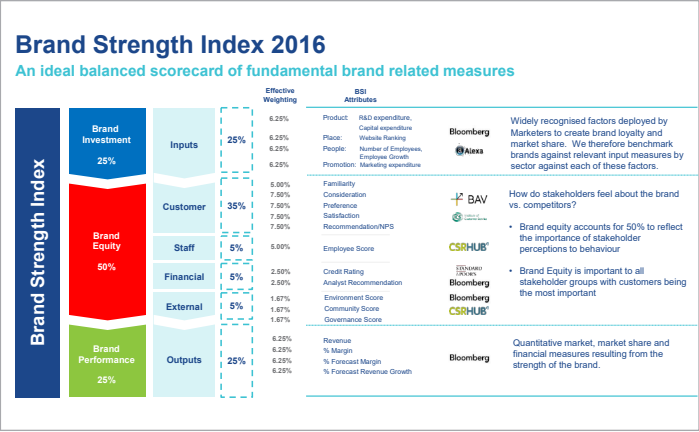
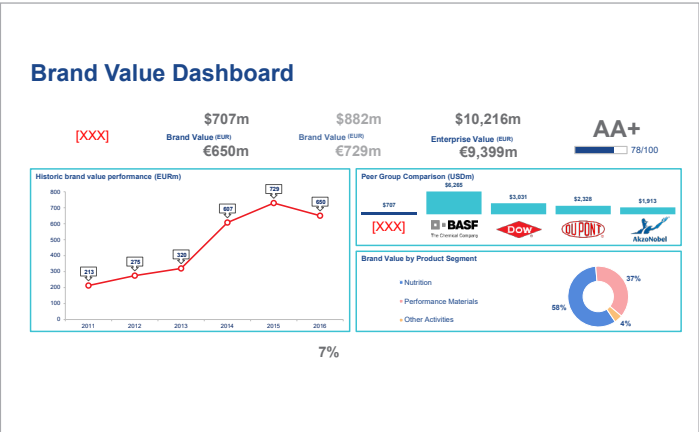


Brand Finance Utilities 50 (USDm)

Top 50 most valuable utilities brands 1 - 50.

| Rank 2017 | Rank 2016 | Brand name | Domicile | Brand value (USDm) 2017 | % change | Brand value(USDm) 2016 | Brand rating 2017 | Brand rating 2016 |
|-----------|-----------|---------------------------|----------------|-------------------------|----------|------------------------|-------------------|-------------------|
| 1 | 1 | Engie | France | 10,078 | -12% | 11,443 | AA | AA |
| 2 | 2 | EDF | France | 8,268 | -9% | 9,121 | AA+ | AAA- |
| 3 | 3 | Enel | Italy | 7,284 | -8% | 7,883 | AAA- | AAA- |
| 4 | 4 | E.ON | Germany | 7,061 | 5% | 6,709 | AA+ | AA |
| 5 | 6 | KEPCO | South Korea | 4,353 | 16% | 3,752 | AA+ | AA+ |
| 6 | 5 | Iberdrola | Spain | 4,126 | -2% | 4,212 | AAA- | AAA- |
| 7 | 10 | Veolia | France | 3,717 | 18% | 3,143 | AA+ | AA |
| 8 | 9 | RWE | Germany | 3,471 | 8% | 3,208 | AA+ | AA |
| 9 | 7 | SSE | United Kingdom | 3,367 | -3% | 3,486 | AA+ | AA- |
| 10 | 14 | Endesa | Spain | 3,188 | 14% | 2,807 | AA+ | AA+ |
| 11 | 8 | TEPCO | | | | | | |
| 12 | 12 | Duke Energy | | | | | | |
| 13 | 16 | EDP | | | | | | |
| 14 | 11 | gasNatural Fenosa | | | | | | |
| 15 | 13 | British Gas | | | | | | |
| 16 | 22 | Exelon | | | | | | |
| 17 | 17 | PG&E | | | | | | |
| 18 | 20 | Chubu | | | | | | |
| 19 | 19 | KOGAS | | | | | | |
| 20 | 15 | National Grid | | | | | | |
| 21 | 23 | DOMINION | | | | | | |
| 22 | 24 | Southern Company | | | | | | |
| 23 | 18 | EnBW | | | | | | |
| 24 | 39 | Tenaga Nasional | | | | | | |
| 25 | 28 | Entergy | | | | | | |
| 26 | 27 | FirstEnergy | | | | | | |
| 27 | 38 | Waste Management | | | | | | |
| 28 | 31 | Xcel Energy | | | | | | |
| 29 | 33 | PSEG | | | | | | |
| 30 | 21 | Kansai | | | | | | |
| 31 | 26 | Vattenfall | | | | | | |
| 32 | 35 | Florida Power & Light | | | | | | |
| 33 | 41 | AES Corporation | | | | | | |
| 34 | 36 | nrg | | | | | | |
| 35 | 43 | PPL | | | | | | |
| 36 | 29 | Edison International | | | | | | |
| 37 | 34 | DTE Energy | | | | | | |
| 38 | 25 | Direct Energy | | | | | | |
| 39 | 32 | Scottish Power | | | | | | |
| 40 | 30 | conEdison | | | | | | |
| 41 | 44 | Saudi Electricity Company | | | | | | |
| 42 | 37 | Edison | | | | | | |
| 43 | 47 | Tohoku Electric Power | | | | | | |
| 44 | 42 | We Energies | | | | | | |
| 45 | 48 | Kyushu Electric Power | | | | | | |
| 46 | New | Eversource Energy | | | | | | |
| 47 | New | Tata Power | | | | | | |
| 48 | 49 | CLP | | | | | | |
| 49 | New | Republic Services | | | | | | |
| 50 | New | NextEra ENERGY | | | | | | |

Understand Your Brand’s Value



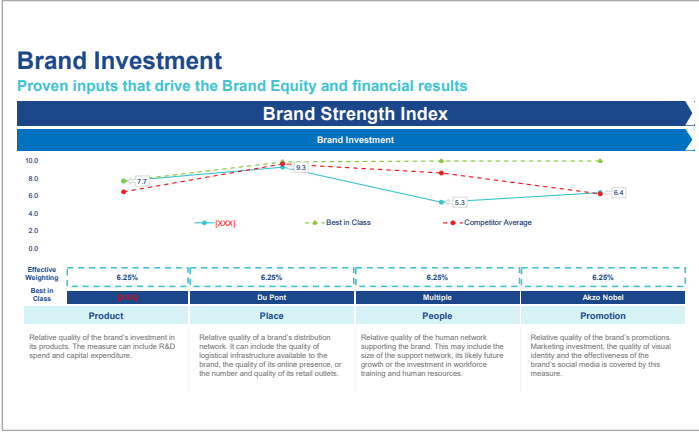
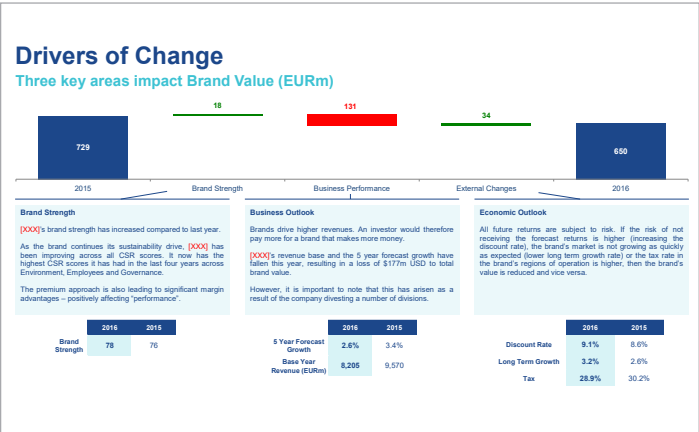
A Brand Value Report provides a complete breakdown of the assumptions, data sources and calculations used to arrive at your brand’s value. Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors. It includes:

Brand Valuation Summary

- + Internal understanding of brand
- + Brand value tracking
- + Competitor benchmarking
- + Historical brand value

Brand Strength Index

- + Brand strength tracking
- + Brand strength analysis
- + Management KPI’s
- + Competitor benchmarking



Royalty Rates

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

Cost of Capital

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

Trademark Audit

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

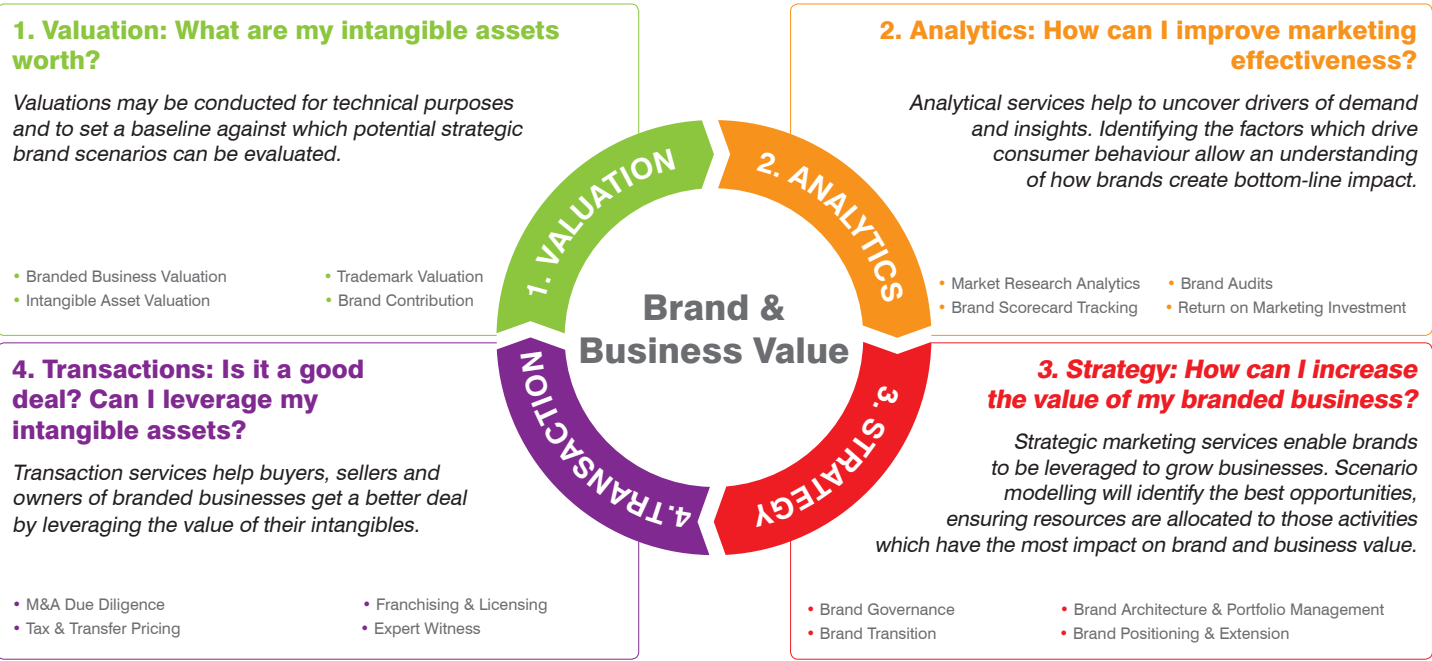
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How we can help



MARKETING

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

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Brand Scorecard Tracking
- + Return on Marketing Investment
- + Brand Transition
- + Brand Governance
- + Brand Architecture & Portfolio Management
- + Brand Positioning & Extension
- + Franchising & Licensing

FINANCE

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

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Brand Scorecard Tracking
- + Return on Marketing Investment
- + Brand Transition
- + Brand Governance
- + Brand Architecture & Portfolio Management
- + Brand Positioning & Extension
- + Mergers, Acquisitions and Finance Raising Due Diligence
- + Franchising & Licensing
- + Tax & Transfer Pricing
- + Expert Witness

TAX

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

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Franchising & Licensing
- + Tax & Transfer Pricing
- + Expert Witness

LEGAL

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

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Tax & Transfer Pricing
- + Expert Witness

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