Brand Finance®

Plain Packaging 2019

Brand impact analysis

September 2019

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The Grocer Front cover image supplied by The Grocer from the plain packaging special feature, 14 October 2017

About Brand Finance.

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

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

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

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

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

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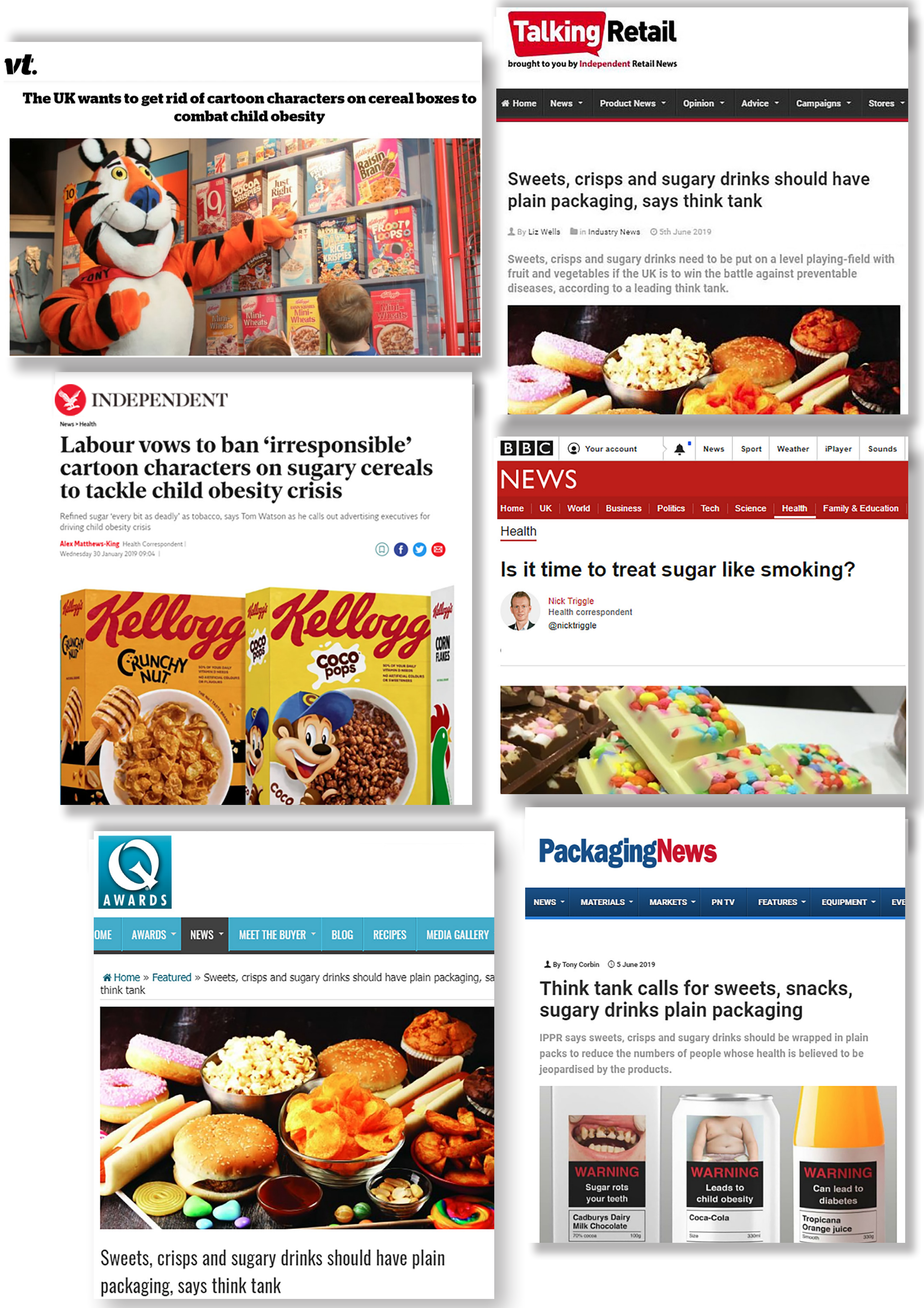


Executive Summary.

Following the introduction of plain packaging for tobacco products and repeated calls to extend the legislation to other sectors, Brand Finance has once again analysed the potential impact of such a policy on food and beverage brands in four categories: alcohol, confectionery, savoury snacks, and sugary drinks. Responding to growing demand for more up-to-date analysis, this second iteration of the Brand Finance Plain Packaging report builds on the findings of the original 2017 study.

Brand Finance's valuation methodology has been adapted to consider the impact on brand and enterprise value of the removal of branding elements for eight major brand-owning companies: AB InBev, The Coca-Cola Company, Danone, Heineken, Mondelēz International, Nestlé, PepsiCo, and Pernod Ricard.

+ US$234.0 billion of enterprise value stands to be lost if plain packaging legislation was implemented for these eight companies, nearly US$50 billion more than in 2017
+ The implied loss across the entire beverage industry is US$430.8 billion, almost 50% more than in 2017, as companies are increasingly relying on their brands' performance
+ Alcohol companies: AB InBev, Heineken, and Pernod Ricard, would see 100% of their revenue exposed
+ Pernod Ricard has the largest proportion of enterprise value at stake – 36.2%
+ AB InBev is set to lose the most enterprise value in absolute terms – US$64.6 billion
+ The Coca-Cola Company and PepsiCo could each see over 25% of their enterprise value at risk
+ Nestlé and Mondelēz, FMCG companies with diverse portfolios, are less exposed than those in the drinks industry, but Danone is the only company in the sample which would be able to avoid any damage

Background.

Image by The World Health Oraginisation

Plain packaging is often referred to as a branding ban or brand censorship. By imposing strict rules and regulations, the legislator requires producers to remove all branded features from external packaging, except for the brand name written in a standardised font, with all surfaces in a standard colour.

In 2012, Australia became the first country in the world to implement plain packaging for tobacco products. Since then, France, the UK, Ireland, Norway, and New Zealand have all implemented the policy. Several other countries have also legislated for it, including Belgium, Singapore, Thailand, Slovenia, Israel, Turkey, and Uruguay.

The controversy and debate surrounding plain packaging is rife. Supporters claim that plain packaging removes the visual cues that prompt existing users to purchase the product and that it prevents potential new customers from developing brand loyalty. Ultimately, this should lead to better health outcomes for these individuals and the population as a whole.

Opposers argue that plain packaging has not reduced smoking rates in any country where it has been introduced, and that the removal of branding has merely led to commoditisation, with incumbent brands losing market share to cheaper alternatives. Furthermore, they claim it has fuelled the increase in illicit trade. In Australia, for example, reports have suggested that illicitly sold tobacco represents 14% of the total tobacco market, costing the Australian economy up to AUS$2 billion a year.

Despite the ongoing disagreement, it appears as though plain packaging in the tobacco sector may have set legislators on a slippery slope that could see more products subject to similar measures. Alcohol, confectionery, salty snacks, and sugary drinks can all have negative health effects if consumed to excess and their prevalence and promotion is coming increasingly under intense scrutiny. In the past, food and drink producers distanced themselves from tobacco on the basis that if their products were consumed in moderation, they were not harmful.

It is time to end the pro-obesity supermarkets by putting fruit and veg on a level playing field with crisps and confectionery. Plain packaging would reduce the hassle of 'pester power' for busy parents.

Tom Kibasi
IPPR director – June 2019

Obesity, and particularly childhood obesity, are prevalent and rates are continuing to rise exponentially, primarily in the Western world. In June, the UK think tank, the Institute for Public Policy Research called for plain packaging to be extended to all confectionery, crisps, and sugary drinks in order to put them on a 'level playing field with fruit and vegetables.' According to Action on Sugar's 'Children's Plain Packaging' report, half of 500 food and drinks brands, that use cartoon animations on packaging, are high in fat, saturated fat, sugar, and salt. It is therefore not surprising that these products are now in the limelight.

Governments globally have started the crackdown on these types of products through the combination of marketing restrictions and the introduction of sugar taxes. Denmark has had a tax on sugary drinks since the 1930s and since then, Ireland, France, South Africa, Philippines, Hungary, Norway, Chile, the UK, Mexico, Brunei, Thailand, Saudi Arabia, the UAE, and two cities in the US: Berkeley and Philadelphia, have followed in the Danes' footsteps. Most recently, Malaysia, where the obesity epidemic swallows 19% of the national health budget, has introduced the tax.

The introduction of sugar taxes has led to some companies reducing the overall sugar levels in their products. In the UK, for example, where a sugar tax was introduced in 2018, AG Barr, which owns the Scottish drink Irn Bru stopped producing the original full-sugar version. However, there is no evidence to prove sugar taxes have actually reduced obesity levels in the countries in which they have been implemented.

The Chilean Government introduced a new food law two years ago, banning the use of cartoon characters on sugary children's cereal, in an attempt to tackle the soaring obesity rates in the country, where currently over half of six-year-olds are overweight or obese. In the UK, Transport for London, the network that operates all public transport across the capital with over 30 million journeys made each day, has banned junk food advertising.

In 2016, Public Health England released a report calling for plain packaging to be considered for alcohol. Other countries have started to implement measures in the face of rising alcohol consumption and misuse. Ireland passed the Public Health (Alcohol) Act in October 2018, which stipulated a minimum price per gram of alcohol, made the inclusion of health warnings on packaging compulsory (including of the links to cancer), and provided restrictions in relation to the advertising and sponsorship of alcohol products.

To apply plain packaging to alcohol, confectionery, salty snacks, and sugary drinks would render some of the world's most iconic brands unrecognisable, changing the look of household cupboards and supermarket shelves forever.

We have therefore felt it pertinent to examine the potential financial impact of such a policy and updated our 2017 study to model the brand and business value impact of a broader application of the plain packaging legislation.

A comprehensive examination of every affected brand at a global level would of course be impractical. However, a look at just a handful of the world's biggest and most iconic brands reveals the profound potential impact of plain packaging to corporate stock values.

The World Health Organisation's convention on tobacco control offers a potential template for similar international co-operation to reduce the intake of alcohol and unhealthy foods.

Dr Judith Mackay
Advisor to the WHO – May 2017

Before

After

Image by The New York Times

Findings.

Two years since the original report, Brand Finance has again analysed the potential effects of a global adoption of plain packaging on alcohol, confectionery, salty snacks, and sugary drinks products. The introduction of plain packaging has serious potential to significantly impact some of the world's most recognisable brands. Eight major brand owners: AB InBev, The Coca-Cola Company, Danone, Heineken, Mondelēz International, Nestlé, PepsiCo, and Pernod Ricard, face potential losses of US$234.0 billion (Fig 1).

Plain packaging damages a brand's ability to differentiate itself from others on the market. We have calculated that with plain packaging in place, the value that brands contribute to the overall business of these eight parent companies would fall from US$631.4 billion to US$397.5 billion, seeing overall enterprise value decline from US$1.2 trillion to US$966.4 billion. The staggering loss of US$234.0 billion represents a 37.1% drop in the value of brand contribution and a 19.5% fall in total enterprise value across these eight companies.

Fig. 1 - Implied Loss for Analysed Brand-Owning Companies in the Sample if Plain Packaging Enacted Globally

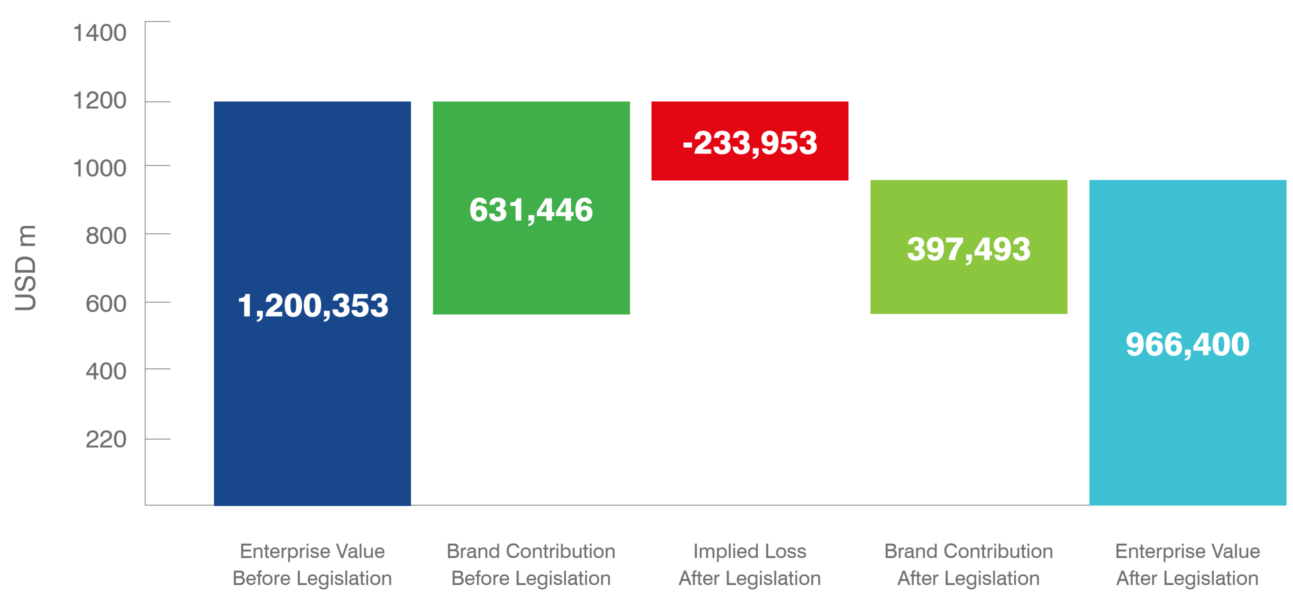


Fig. 2 - Breakdown of Affected Brands and Exposure to Legislation by Company

Parent	Alcohol	Sugary Drinks	Savoury Snacks	Confectio-nery	Revenue Exposure	Implied Loss (USDm)	Loss as Proportion of Enterprise Value
Pernod Ricard	100.0%	0.0%	0.0%	0.0%	**100.0%**	**-17,439**	**-36.2%**
Heineken	100.0%	0.0%	0.0%	0.0%	**100.0%**	**-17,843**	**-26.6%**
PepsiCo	0.0%	35.1%	25.4%	4.1%	**64.6%**	**-44,791**	**-26.3%**
AB InBev	100.0%	0.0%	0.0%	0.0%	**100.0%**	**-64,583**	**-26.0%**
The Coca-Cola Company	0.2%	77.4%	0.0%	0.0%	**77.6%**	**-57,228**	**-26.0%**
Mondelēz International	0.0%	0.0%	5.5%	40.9%	**46.4%**	**-6,953**	**-8.8%**
Nestlé	0.0%	0.8%	0.7%	29.9%	**31.4%**	**-25,116**	**-8.4%**
Danone	0.0%	0.0%	0.0%	0.0%	**0.0%**	**0**	**0.0%**

To put this into context, this loss, from just a handful of companies, is equivalent to the GDP of countries such as New Zealand or Greece. Given the growth of brand values over the last two years, the estimation is nearly US$50 billion larger than the US$186.7 billion calculated in 2017 when the first Brand Finance Plain Packaging study was conducted. This should raise concerns not only for brand owners, but also for governments, policy makers, marketers, and campaigners.

Trend analysis

Our analysis suggests that while enterprise values in the FMCG industry are growing, brand contribution is growing at a faster rate, thus increasing the relative importance of brands. In 2017, among the eight companies analysed, the proportion of brand contribution to overall enterprise value was 48.6%, versus 52.6% in 2019. If this trend continues, in future, the implied losses to FMCG businesses from the introduction of plain packaging would be even greater than our current estimations suggest.

The FMCG industry is operating in saturated markets with ever increasing levels of competition, resulting in a growing importance of branding for differentiation on the shelves, driving customer preference, and therefore business growth. FMCG companies are leveraging their brand heritage, brand perception, and brand loyalty to compete against their peers in the market. As consumers face an ever-wider supply of similar products, they become more brand-conscious, for instance by examining what brands stand for. With brands increasingly driving day-to-day consumer choices, the importance of storytelling and creative branding, also in packaging, is growing.

Alcohol giants exposed

Alcoholic drinks giants, AB InBev, Heineken, and Pernod Ricard face 100% revenue exposure to the introduction of plain packaging as their portfolios consist entirely of products that would be affected by the legislation, highlighting an undeniable risk for the industry. In relative terms, Pernod Ricard's enterprise value would suffer the most compared to all companies analysed, losing a significant 36.2%.

The trend continues, as Heineken and AB InBev would be set to lose over a quarter of enterprise value each. At the same time, AB InBev would lose the most in absolute terms, with US$64.6 billion value at stake.

The general decline in beer consumption across millennials, and the preference for healthier alcoholfree alternatives has resulted in the slow down of brand value for the biggest alcohol brands, particularly in the US and Europe. Demand for non-alcoholic beers is increasing exponentially, and traditional brewers are recognising this launching their own low- and non-alcoholic products. Regardless, it could be difficult for those companies to avoid plain packaging if their alcoholic products carry the same brand name. Low- and non-alcoholic products also tend to have a high sugar content and could therefore be subject to plain packaging in their own right.

AB InBev: 2017 vs 2019

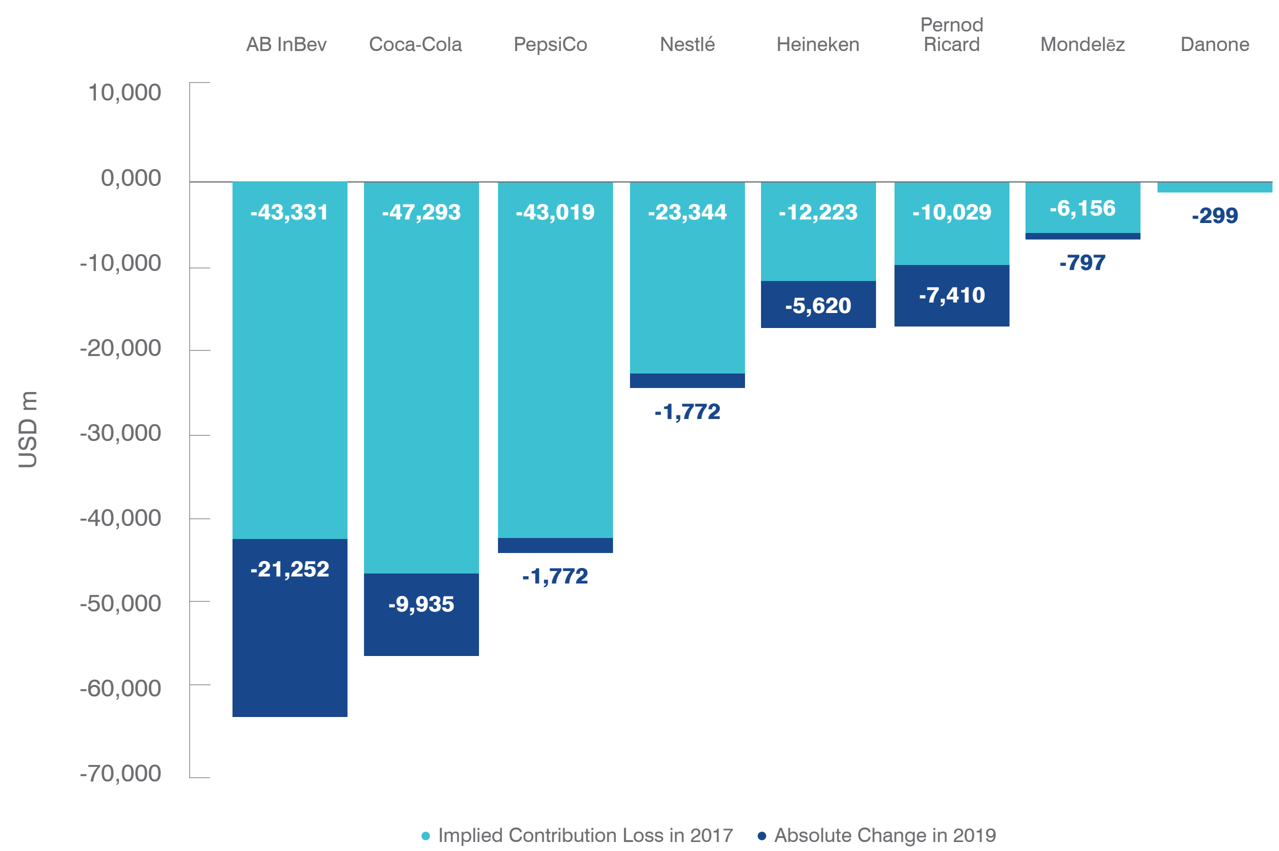
When comparing the 2017 and 2019 results, AB InBev has seen the starkest change in the financial impact of plain packaging, both relatively and absolutely. In 2017, the prospect of introduction of plain packaging meant AB InBev stood to lose 15.4% of its enterprise value, whereas in 2019 this has jumped significantly to 26.0%. In absolute terms, this equates to a loss of US$43.3 billion in 2017, compared to US$64.6 billion in 2019.

The reason behind this notable jump is due to a slight fall in AB InBev's enterprise value versus an increase in brand contribution, due to a number of fast-growing brands in their portfolio. This means the company stands to lose more should plain packaging be introduced, as brands now make up a larger proportion of its overall value compared to two years ago.

AB InBev is the largest brewing company in the world, boasting over 500 brands in its portfolio, a number that has significantly increased following its record-breaking merger with SAB Miller in 2016. AB InBev continues to leverage the success of its big-name brands in order to boost its overall business value, thus the introduction of plain packaging and the consequences associated would be the most sorely felt for the brewing giant versus the seven other companies analysed.

The most popular and consumed brands in the AB InBev portfolio, Budweiser and Bud Light, are household names across the Western world, and claim the top two spots in the Brand Finance Beers

Fig. 3 - Change of Implied Contribution Loss



25 ranking of the world's most valuable beer brands. Budweiser further increased its prominence worldwide following the success of its global sponsorship campaign of the 2018 FIFA World Cup, and consequently the brand was able to enter new markets, further driving business performance for AB InBev. AB InBev has positively exploited the strength of its flagship brand, even rebranding the company name to Budweiser Brewing Group in the UK and Ireland to boost its profile in those two markets.

Sugary drinks suffer significantly

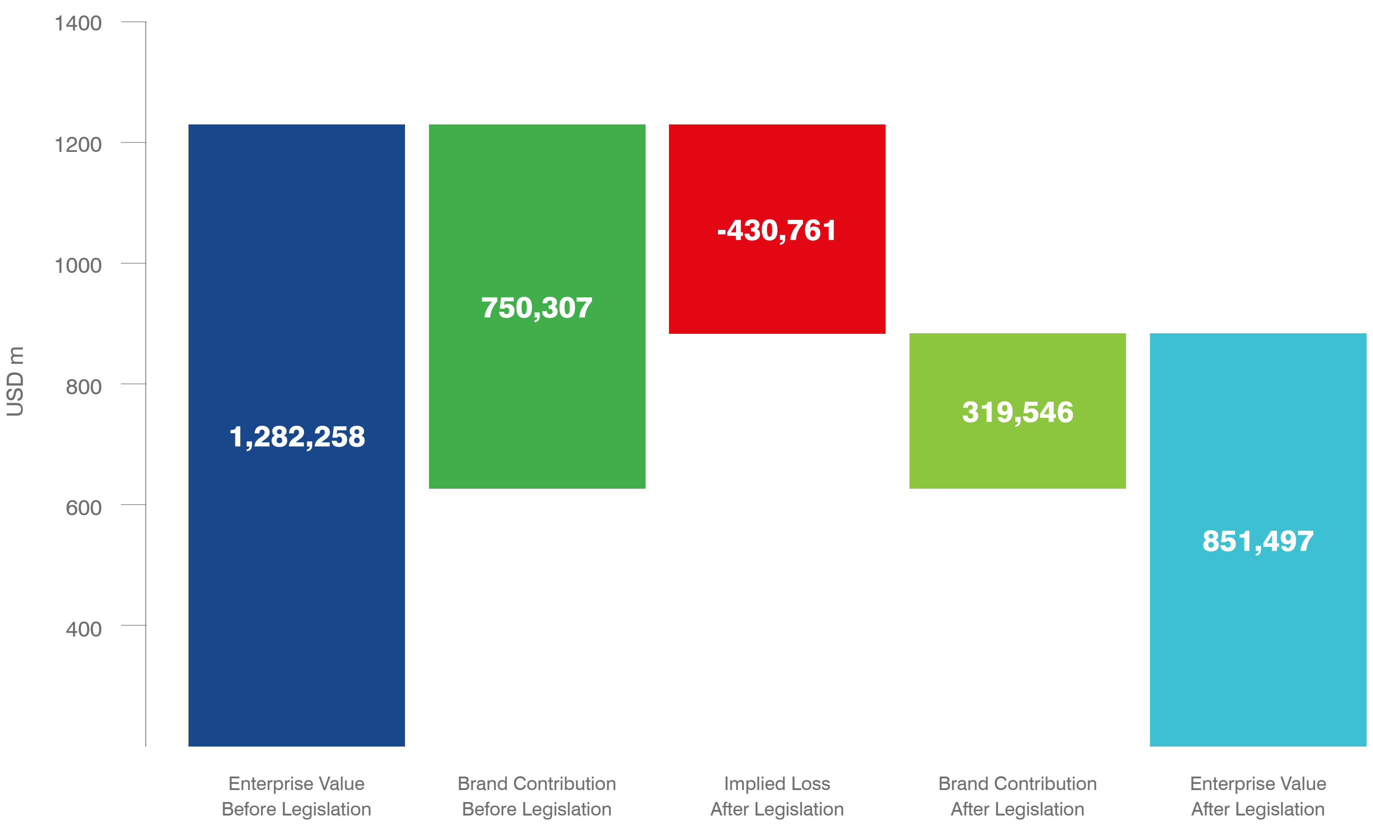
Given the importance of brand in the soft drink industry, the impact of plain packaging on sugary drinks is set to be more damaging financially to the brand-owning companies than in any of the other four segments analysed. Segment-wide, 34.9% of branded business value is at stake. The Coca-Cola Company's flagship brand Coca-Cola remains the most consumed carbonated drink in the world, with 1.9 billion servings, across 200 countries, enjoyed each day, and stands to suffer the most in the sector, with a potential 41.2% loss of branded business value. Other brands in The Coca-Cola Company's portfolio are in a similar position to the flagship brand, with Sprite and Fanta estimated to lose 27.4% and 22.7% respectively. A staggering 77.6% of The Coca-Cola Company's revenue would be exposed to the introduction of plain packaging.

When looking at the revenue split of the sub-Coca-Cola brands, around 20% comes from its zero sugar or diet offerings. The company has focused on improving its diet brands and has recently reported an uplift in sales of Diet Coke, following a slump lasting several years, as a result of successful marketing and rebranding campaigns. Although developing in that direction could be seen as an insurance policy to amortise the negative effects of the introduction of plain packaging, diet options can become subject to the legislation in their own right because of additives and preservatives some of the products in this category may contain.

The Coca-Cola Company's main rival PepsiCo is in a similar situation, with major sugary drinks brands set to lose value following the introduction of plain packaging. Brand contribution of popular brands can decrease significantly: Pepsi (implied loss of US$21.2 billion), Gatorade (US$4.4 billion), Mountain Dew (US$2.6 billion). As with Coca-Cola, PepsiCo's eponymous brand could drop the most losing 39.5% of its branded business value.

The Coca-Cola Company and PepsiCo are each susceptible to a potential loss of more than a quarter of their respective enterprise values, in absolute terms this is US$57.2 billion for Coca-Cola and US$44.8 billion for PepsiCo. When comparing to 2017, The Cola-Cola Company has seen a greater jump in potential loss

Fig. 4 - Implied Loss for the Beverage Industry if Plain Packaging Enacted Globally



(26.0%, up from 23.7% in 2017), compared to a slight decline for PepsiCo (26.3%, down from 26.6% in 2017), as the total value of the former's brand portfolio has gone up by 18.1%, while PepsiCo's has only increased by 11.4%.

Extrapolation to the entire beverage industry

Our analysis shows that companies which own sugary drinks and alcoholic beverage brands will be impacted the most by the introduction of plain packaging legislation. Looking beyond the five drink companies included in the study, the implied loss for the beverage industry as a whole after the introduction of plain packaging can be estimated at a whopping US$430.8 billion. This represents an almost 50% increase compared with Brand Finance's 2017 valuation. As brand values grow and parent companies are increasingly relying on their brands' success, estimations of potential losses will inevitably become greater with time.

The multiples for this extrapolation were obtained by identifying the percentage loss of brand contribution for five companies from the sample that operate brands within the alcohol and sugary drinks categories. The multiples were then applied across Brand Finance's database of the largest global beverage brands whose parent companies have an enterprise value of more than US$1.0 billion, to arrive at the estimated loss in brand contribution value to the sector.

Food sector not safe either

The food brand-owning companies in our analysis were less susceptible to the introduction of plain packaging than those owning drinks brands, but are still likely to suffer considerable losses. Food giants, Nestlé and Mondelēz International, both operate a similar business model, with a variety of food, drink, and other products in their portfolios. This similarity is reflected in the relative enterprise value loss for each of the two companies: Nestlé could lose 8.4% and Mondelēz

International 8.8%. In absolute terms however, this equates to as much as US$25.1 billion for Nestlé.

The impact of plain packaging on Nestlé's eponymous flagship brand alone would see US$21.3 billion in brand contribution lost. Mondelēz in turn has several brands with significant value at risk: Cadbury (US$2.1 billion), Milka (US$1.0 billion), and Oreo (US$992 million), among others.

In the case of Danone, we found that none of the brands assessed in the study would be affected by plain packaging. Thanks to the company's repositioning towards healthier products, there would be no potential loss to Danone's enterprise value.

Danone acquired WhiteWave in 2017, the parent company of several vegan dairy brands including Silk, So Delicious, and Alpro, showcasing the company's commitment to providing healthier product options. Danone reported a US$760 million spike in sales in the first quarter of 2018, following the acquisition, demonstrating sustainability of the rebalancing and diversification of its revenue sources.

At the same time, there have been further calls by some British politicians, supported by campaigning groups, including Unicef Baby Friendly, to extend plain packaging legislation to baby formula products. Danone, which owns several baby formula brands, would therefore see significant revenue exposure should such legislation be introduced.

Scope of analysis

The analysis models the impact of plain packaging on the appeal and thereby profitability of brands, but does not extend to other considerations. For example, the effects of a potential increase in illicit trade on reported sales have not been modelled as part of this study. The impact would likely differ depending on the nature of the products, i.e. illicit trade in alcohol would likely rise, although salty snacks would not be affected in the same manner.

The analysis is also conducted in isolation from any other government policies, such as changes in taxes. Therefore, the findings should be treated as a conservative estimate with the aim of providing an illustration of the possible impact of plain packaging on the brands in question rather than a definite valuation of total business losses. The total damage to businesses affected is likely to be higher than the figures presented in this report.

Predicted loss of brand contribution to companies at risk is only the tip of the iceberg. Plain packaging also means losses in the creative industries, including design and advertising services, which are heavily reliant on FMCG contracts.

With health advisors labelling obesity 'the new smoking', it is not surprising that there have been repeated calls for plain packaging legislation to expand into the food and drink sectors. It is obvious, however, that this type of legislation could severely damage these companies' business values. The contention between health and policy advisors and global food and drink brands will no doubt pick up pace as the issue continues to gain traction on the global stage.

David Haigh
CEO, Brand Finance

Pernod Ricard

EXPOSURE	IMPLIED LOSS	LOSS AS PROPORTION OF ENTERPRISE VALUE
100.0%	-$17,439m	-36.2%

Fig. 5a - Effect on Individual Brand Contribution Values - Pernod Ricard

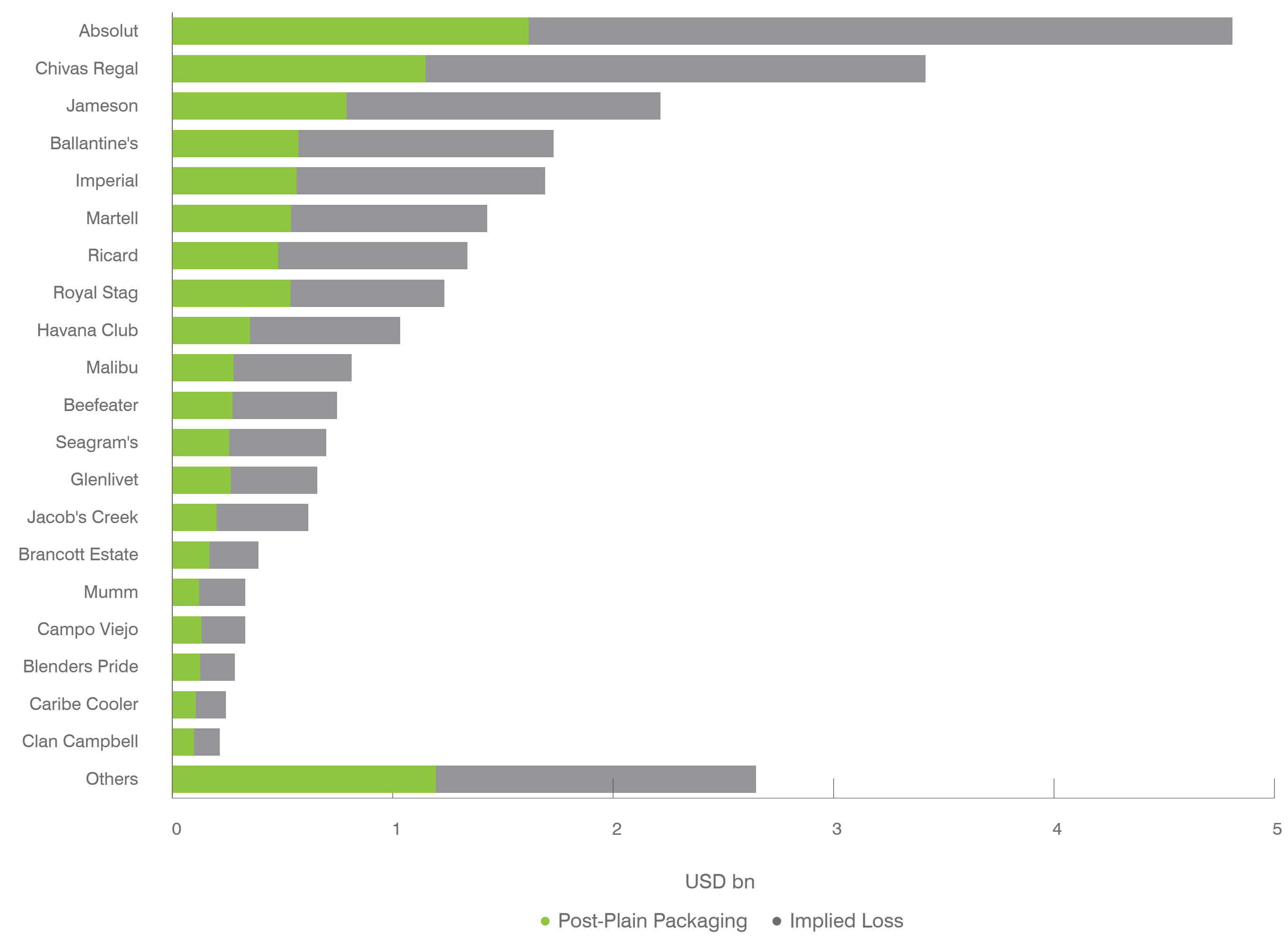
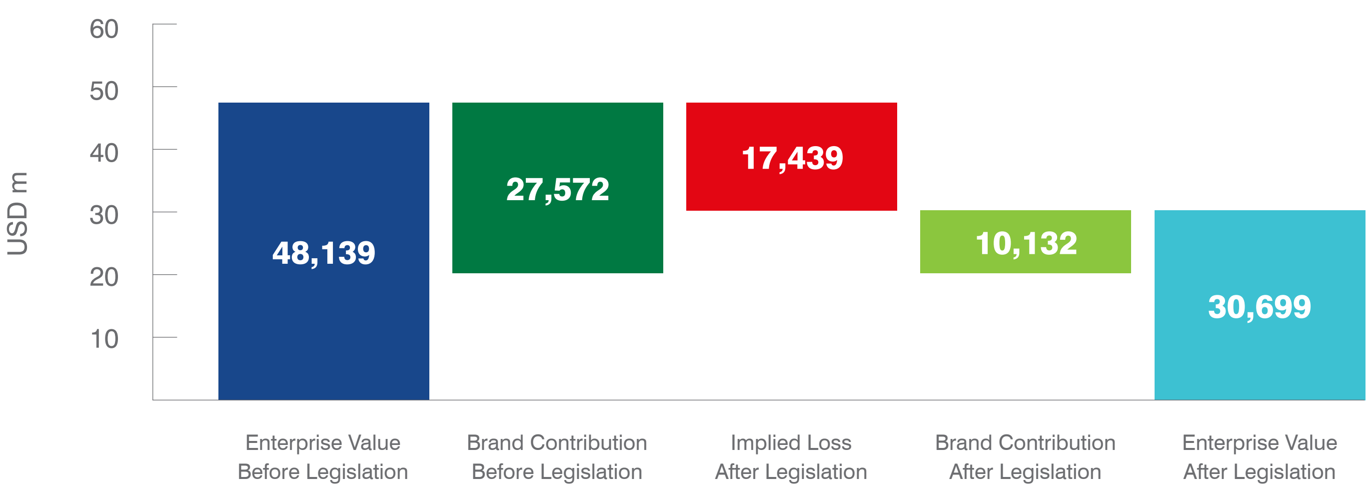


Fig. 5b - Total Value Loss for Pernod Ricard



HEINEKEN

EXPOSURE	IMPLIED LOSS	LOSS AS PROPORTION OF ENTERPRISE VALUE
100.0%	-$17,843m	-26.6%

Fig. 6a - Effect on Individual Brand Contribution Values - Heineken

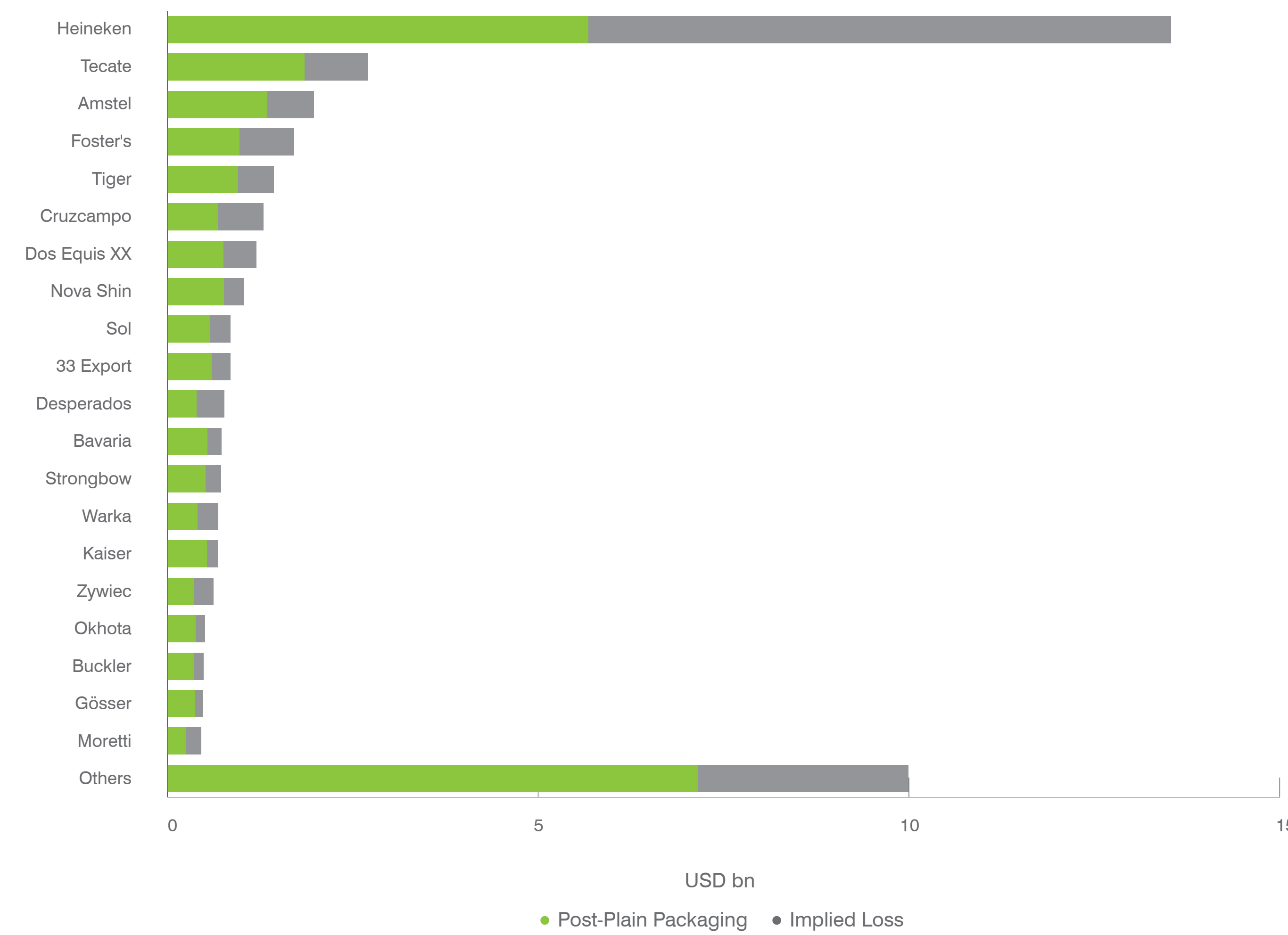
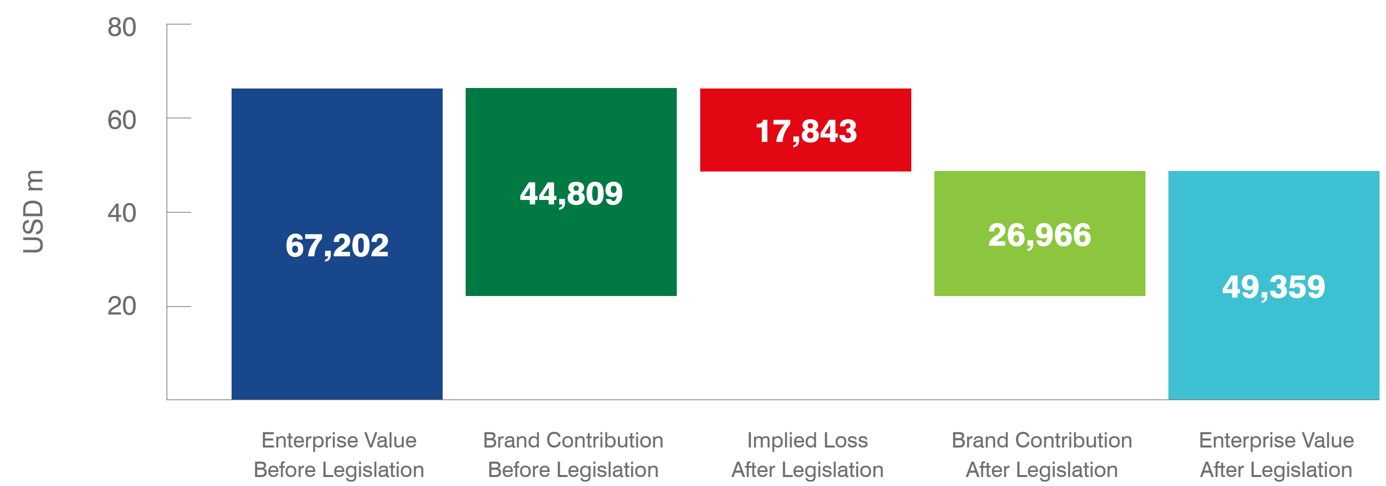


Fig. 6b - Total Value Loss for Heineken



PEPSICO

EXPOSURE	IMPLIED LOSS	LOSS AS PROPORTION OF ENTERPRISE VALUE
64.6%	-$44,791m	-26.3%

Fig. 7a - Effect on Individual Brand Contribution Values - PepsiCo

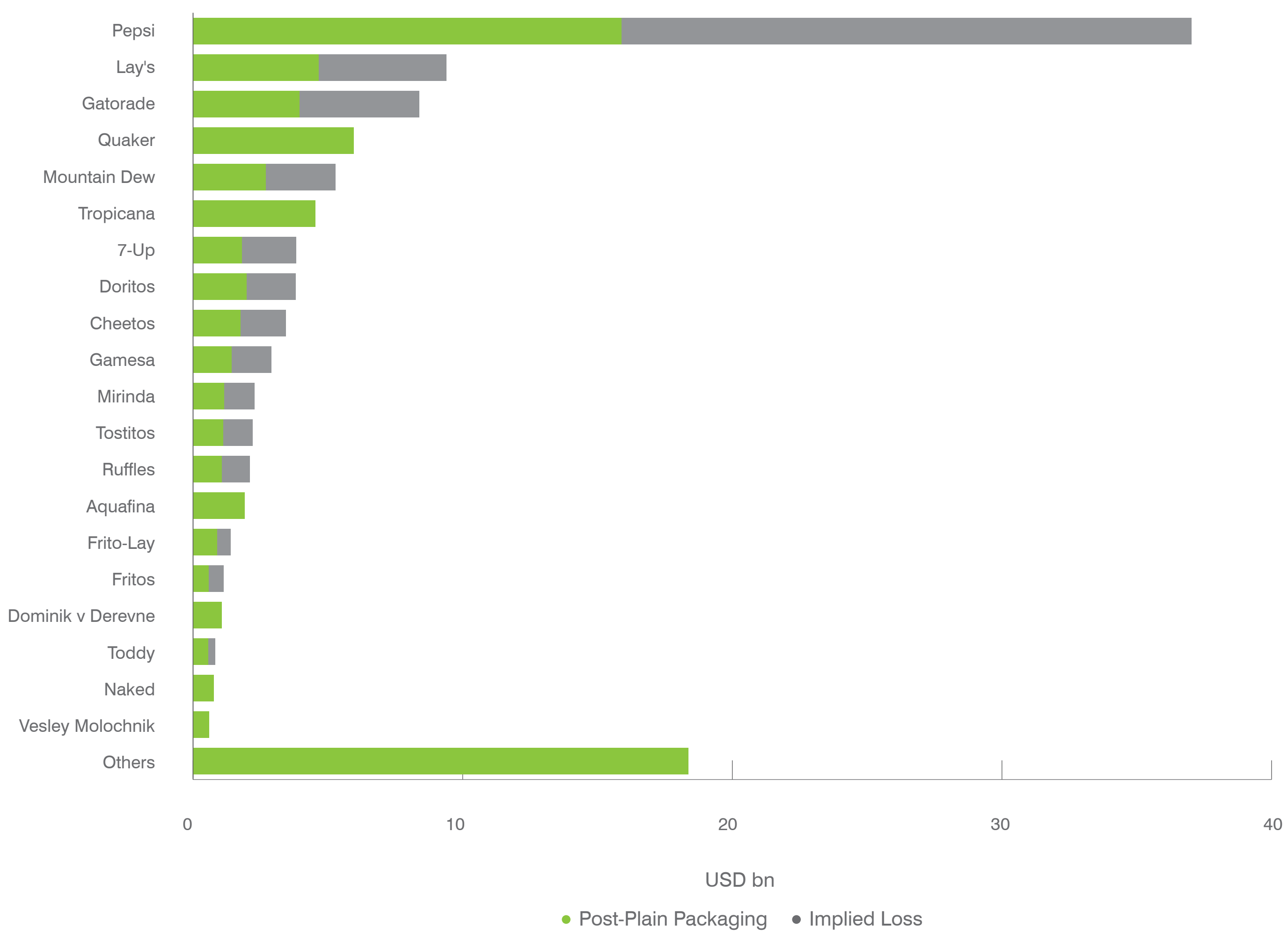
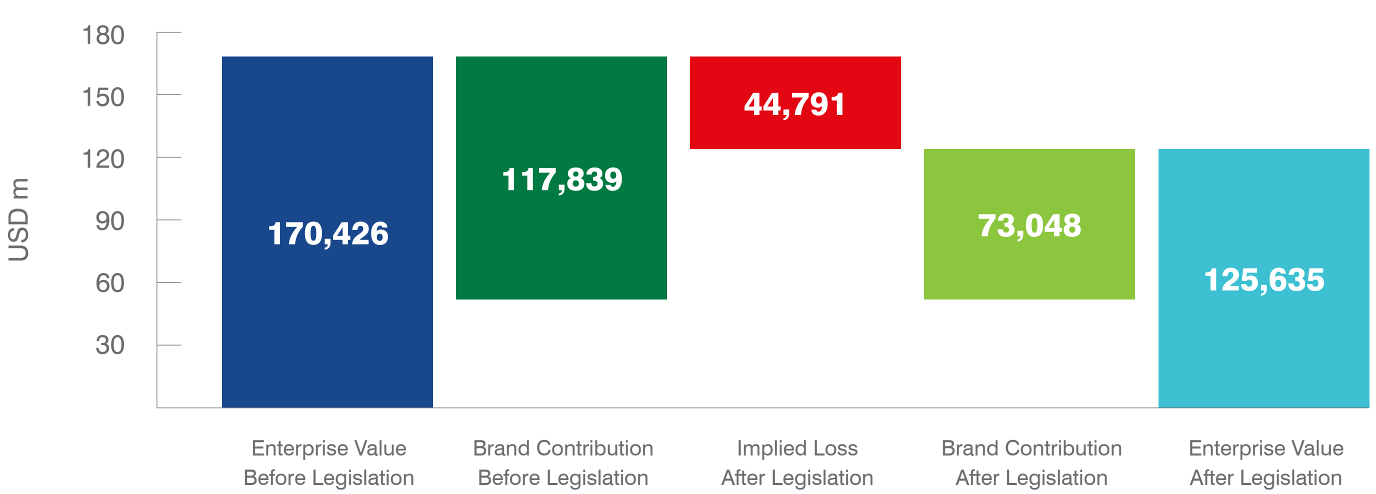


Fig. 7b - Total Value Loss for PepsiCo



AB InBev

EXPOSURE	IMPLIED LOSS	LOSS AS PROPORTION OF ENTERPRISE VALUE
100.0%	-$64,583m	-26.0%

Fig. 8a - Effect on Individual Brand Contribution Values - AB InBev

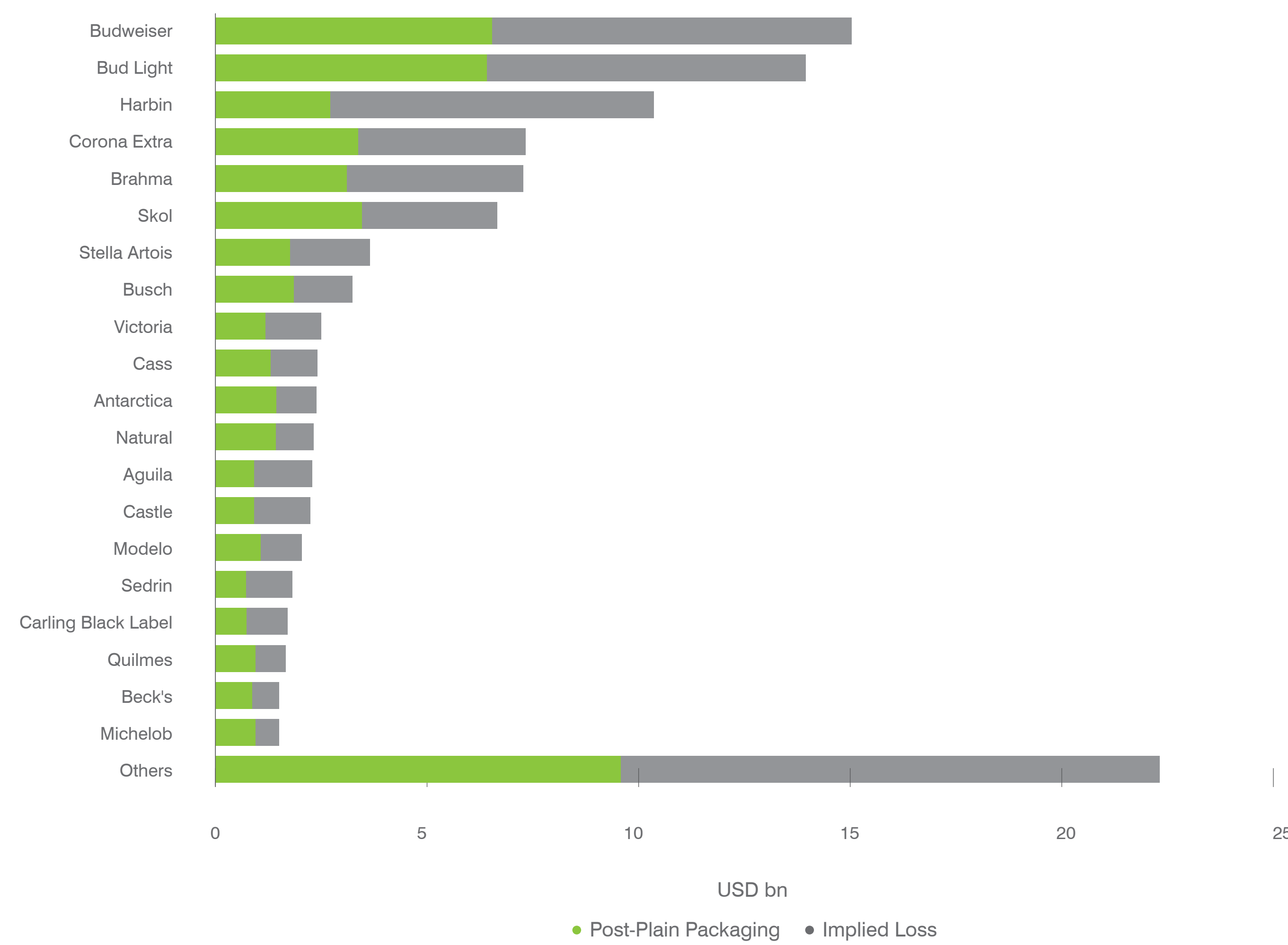
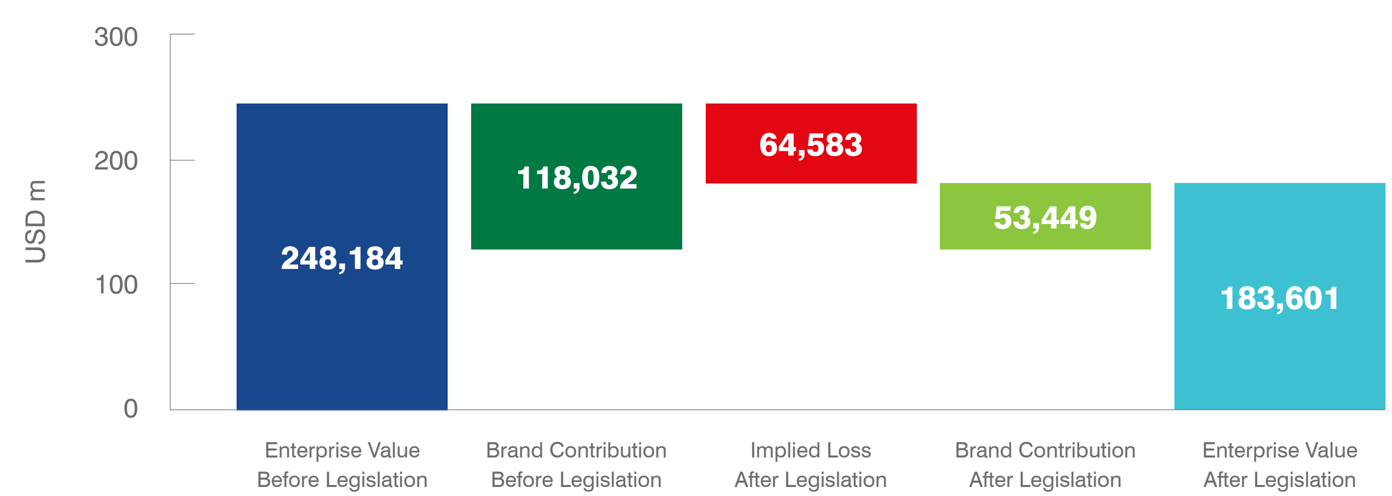


Fig. 8b - Total Value Loss for AB InBev



EXPOSURE 77.6% | **IMPLIED LOSS** -$57,228m | **LOSS AS PROPORTION OF ENTERPRISE VALUE** -26.0%

Fig. 9a - Effect on Individual Brand Contribution Values - The Coca-Cola Company

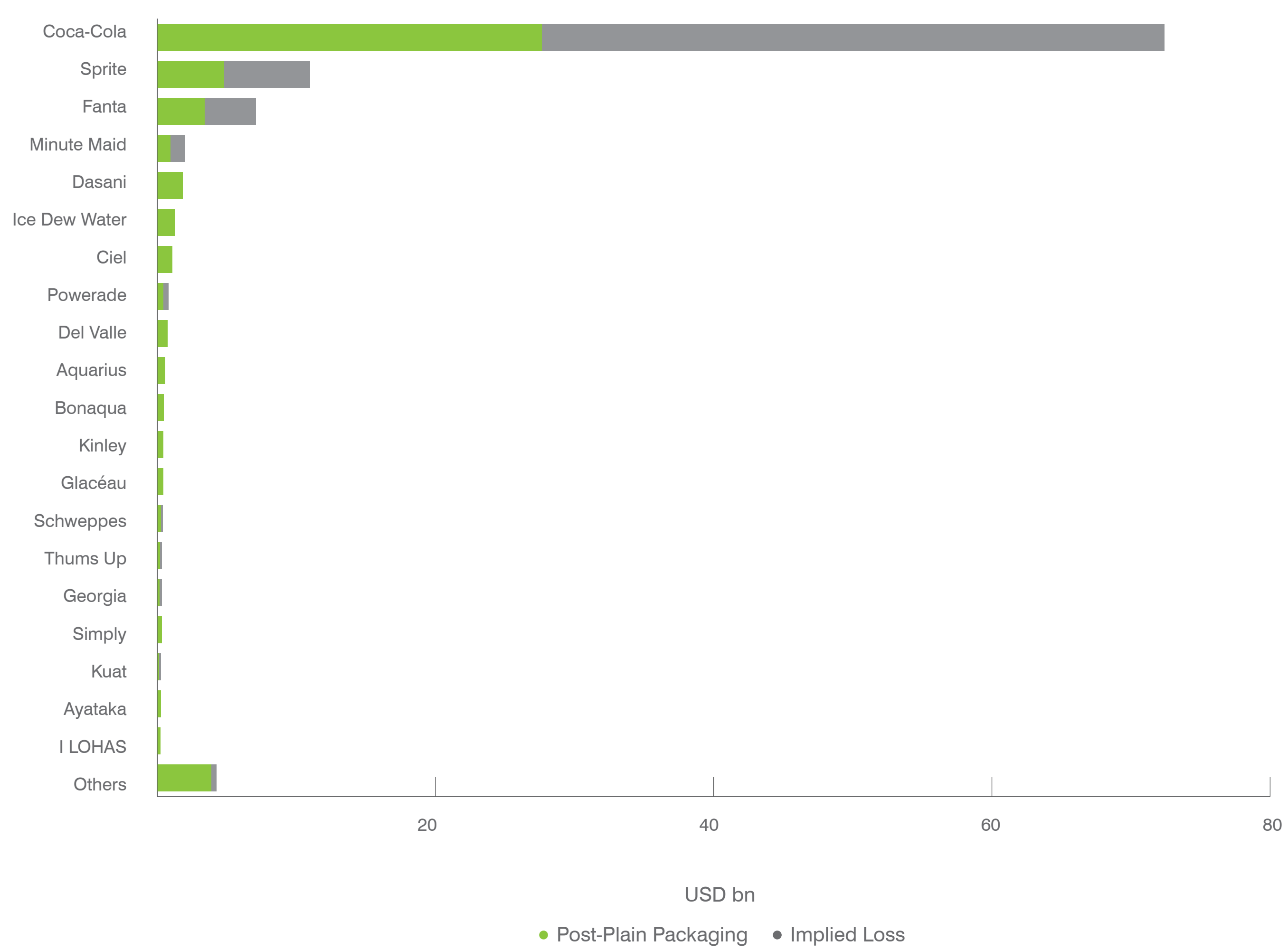
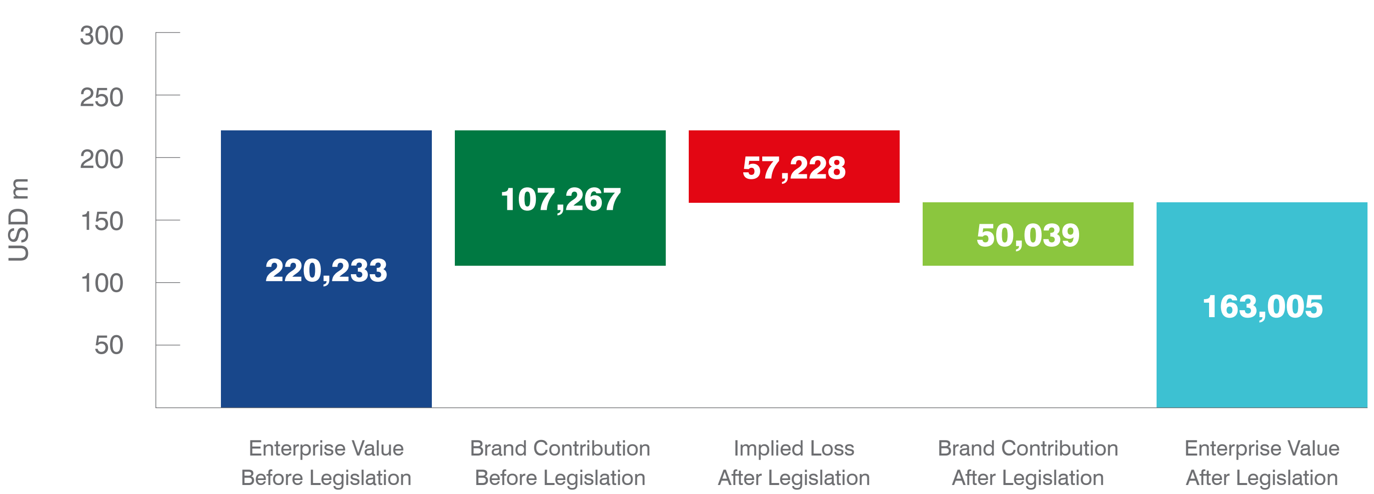


Fig. 9b - Total Value Loss for The Coca-Cola Company



EXPOSURE 46.4% | **IMPLIED LOSS** -$6,953m | **LOSS AS PROPORTION OF ENTERPRISE VALUE** -8.8%

Fig. 10a - Effect on Individual Brand Contribution Values - Mondelēz International

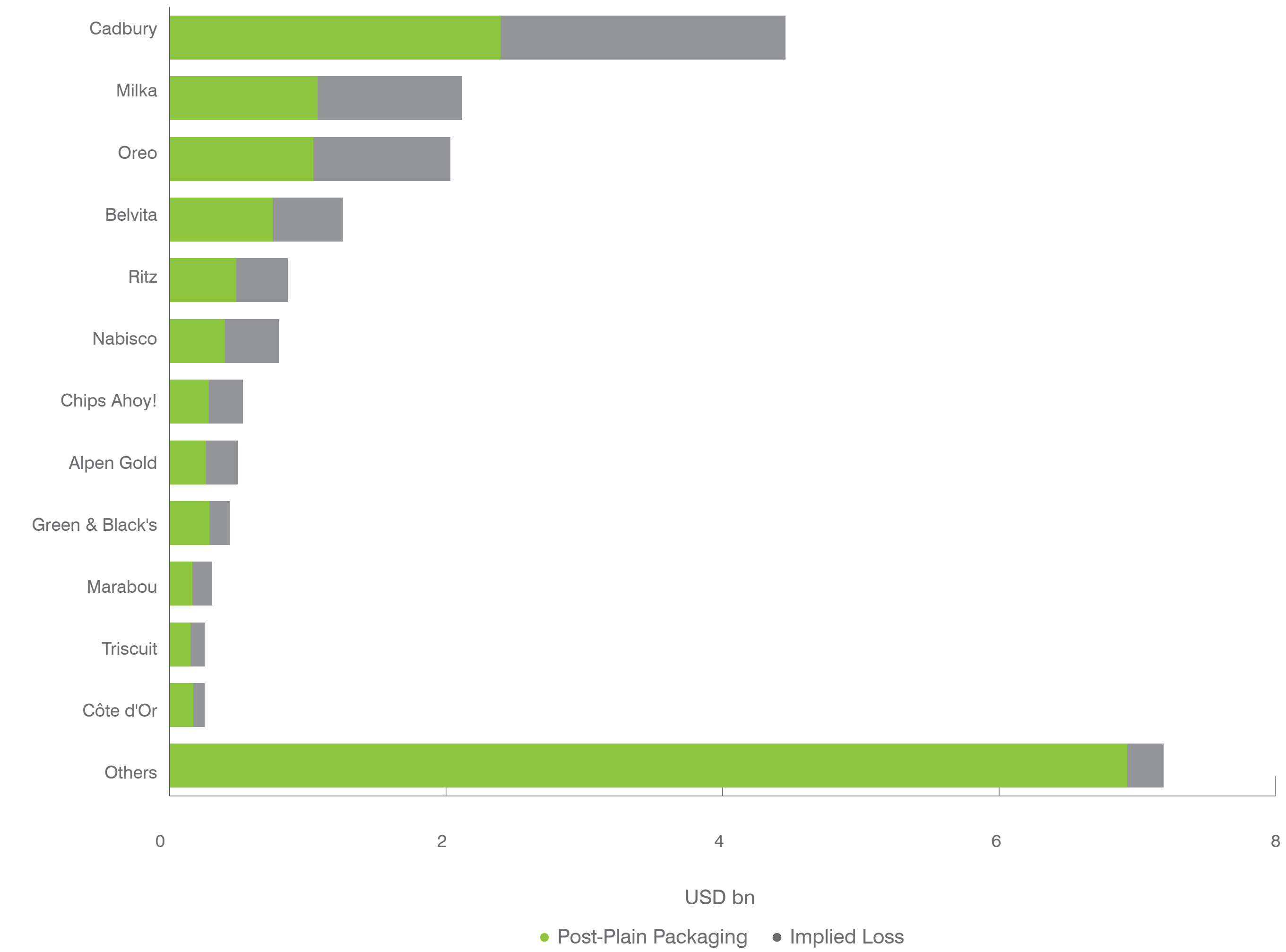
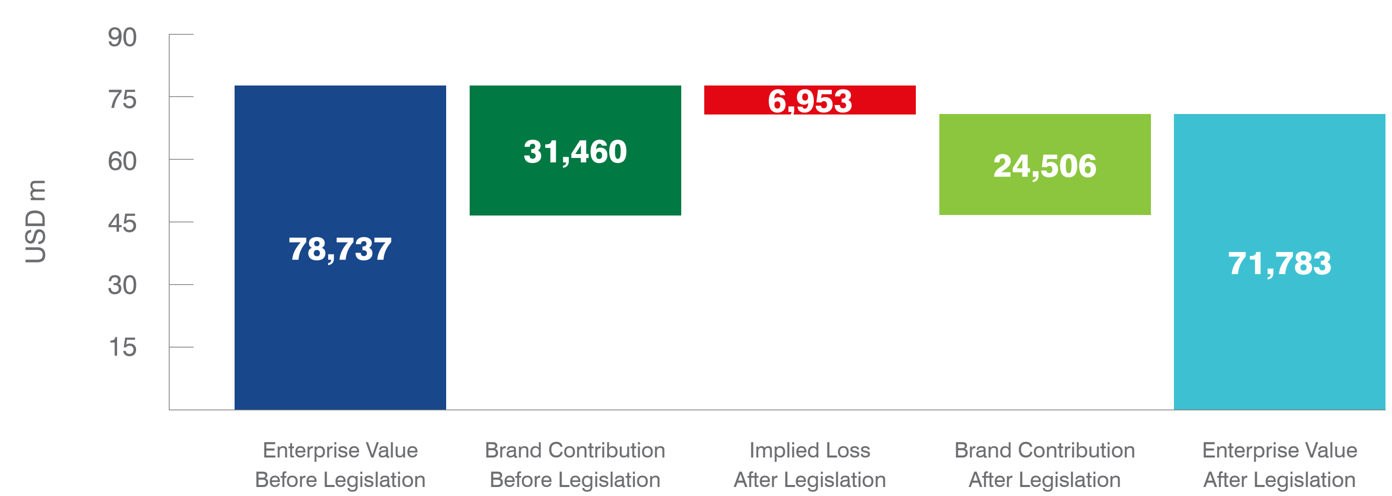


Fig. 10b - Total Value Loss for Mondelēz International



Nestlé

EXPOSURE	IMPLIED LOSS	LOSS AS PROPORTION OF ENTERPRISE VALUE
31.4%	-$25,116m	-8.4%

Fig. 11a - Effect on Individual Brand Contribution Values - Nestlé

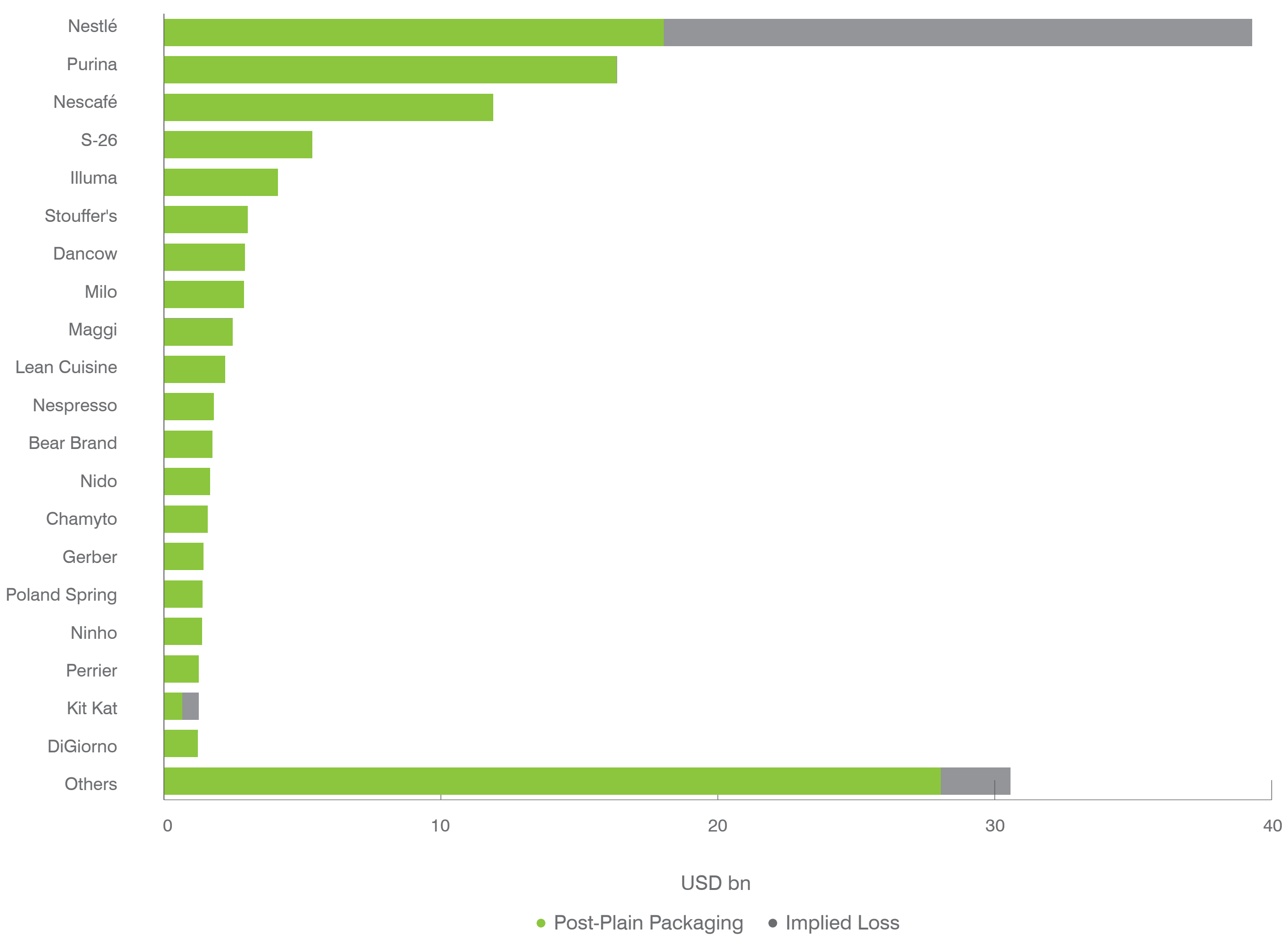
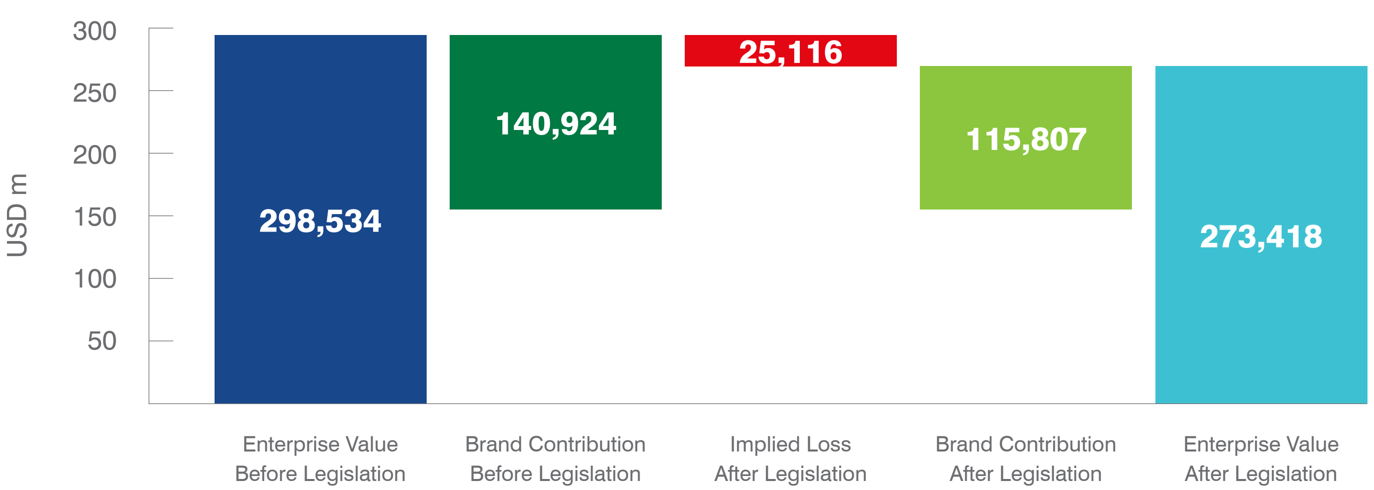


Fig. 11b - Total Value Loss for Nestlé



Danone

ONE PLANET. ONE HEALTH

EXPOSURE	IMPLIED LOSS	LOSS AS PROPORTION OF ENTERPRISE VALUE
0.0%	$0m	0.0%

Fig. 12a - Effect on Individual Brand Contribution Values - Danone

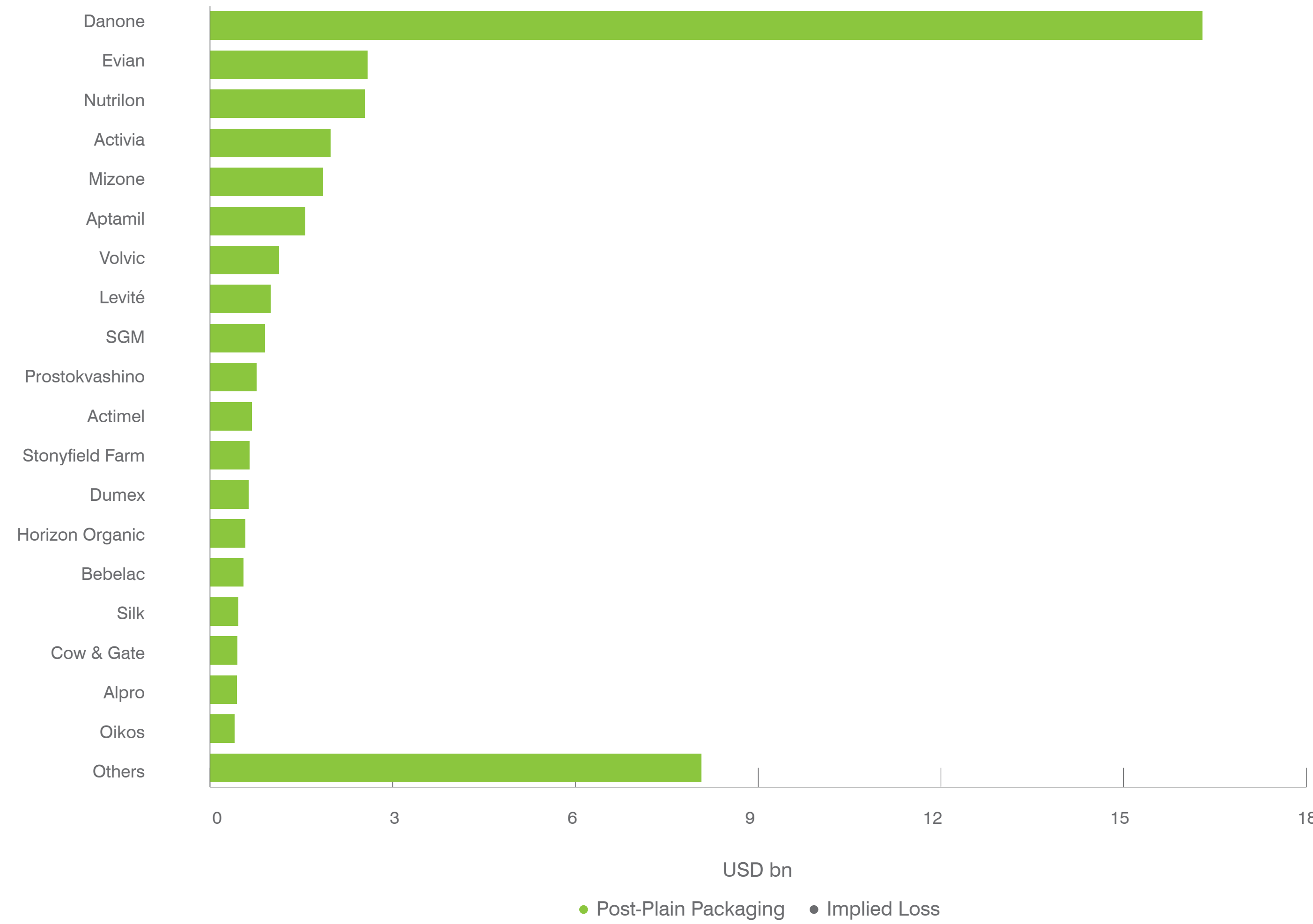
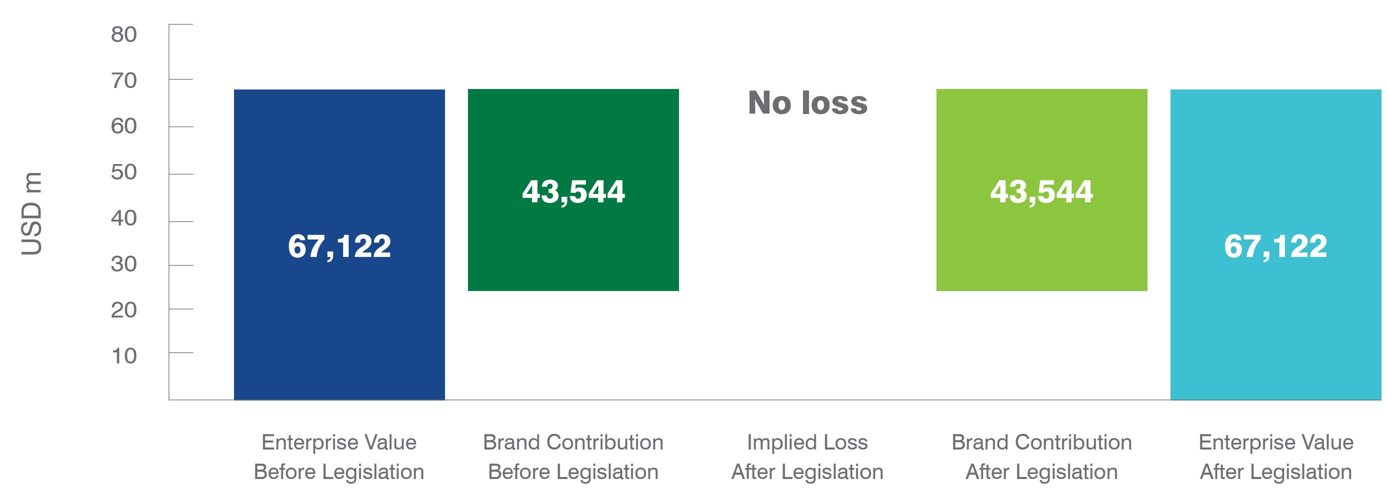
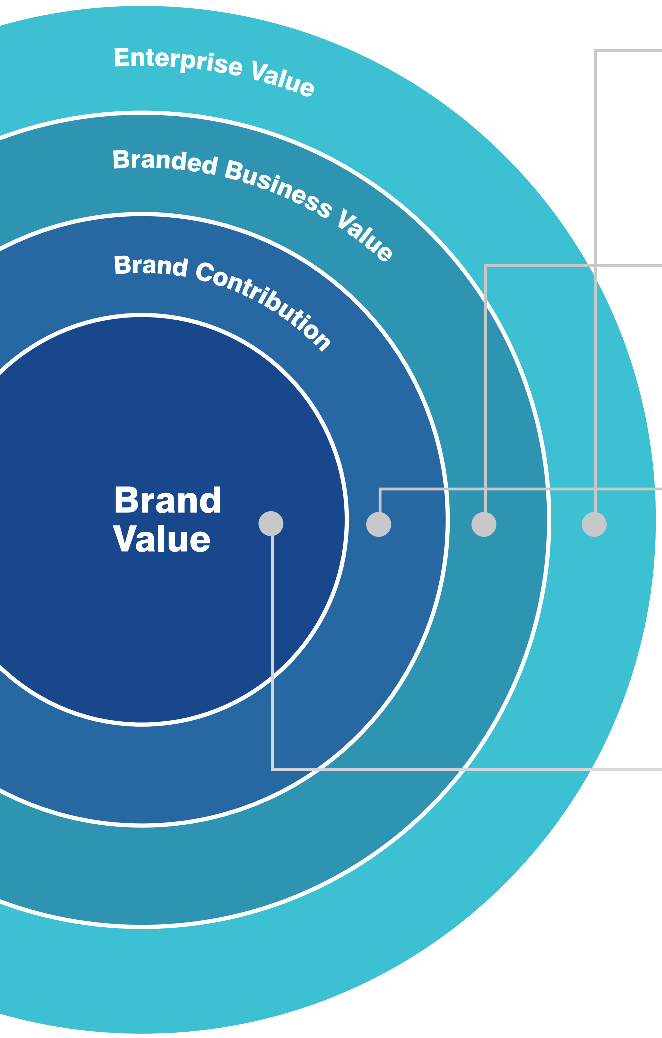


Fig. 12b - Total Value Loss for Danone



Definitions.

Brand Value



[PepsiCo]

+ Enterprise Value
The value of the entire enterprise, made up of multiple branded businesses.

[Doritos]

+ Branded Business Value
The value of a single branded business operating under the subject brand.

[Doritos]

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

[Doritos]

+ Brand Value
The value of the trade mark and associated marketing IP within the branded business.

Brand

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.

Brand Value

Brand value is calculated using the royalty relief approach. For each brand a royalty rate is set. This is based on the percentage of revenues that would have to be paid for the use of the brand if it were owned by a third party. The stronger the brand, the higher the proportion of a business's revenues that are likely to be attributable to the brand rather than other business assets. Therefore, in general, the higher the brand strength is, the higher the royalty rate will be.

The royalty rate is applied to forecast revenues, then discounted back to a net present value to determine brand value. The application of revenues explains how brand value and strength can diverge. It is possible for a brand to have a high brand strength score but mediocre value if revenue forecasts are low.

Brand Contribution

The brand values contained in our league tables are those of the potentially transferable brand asset only. 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.

Brand Valuation Methodology.

Brand Finance's proprietary valuation methodology was adapted to consider the impact to brand and enterprise value in the absence of certain branding elements as a result of plain packaging. Brand Finance uses the royalty relief method, a variant of the income approach to brand valuation. Under this method, brand value is represented as the net economic benefit that a licensor would achieve by licensing their brand in the open market.

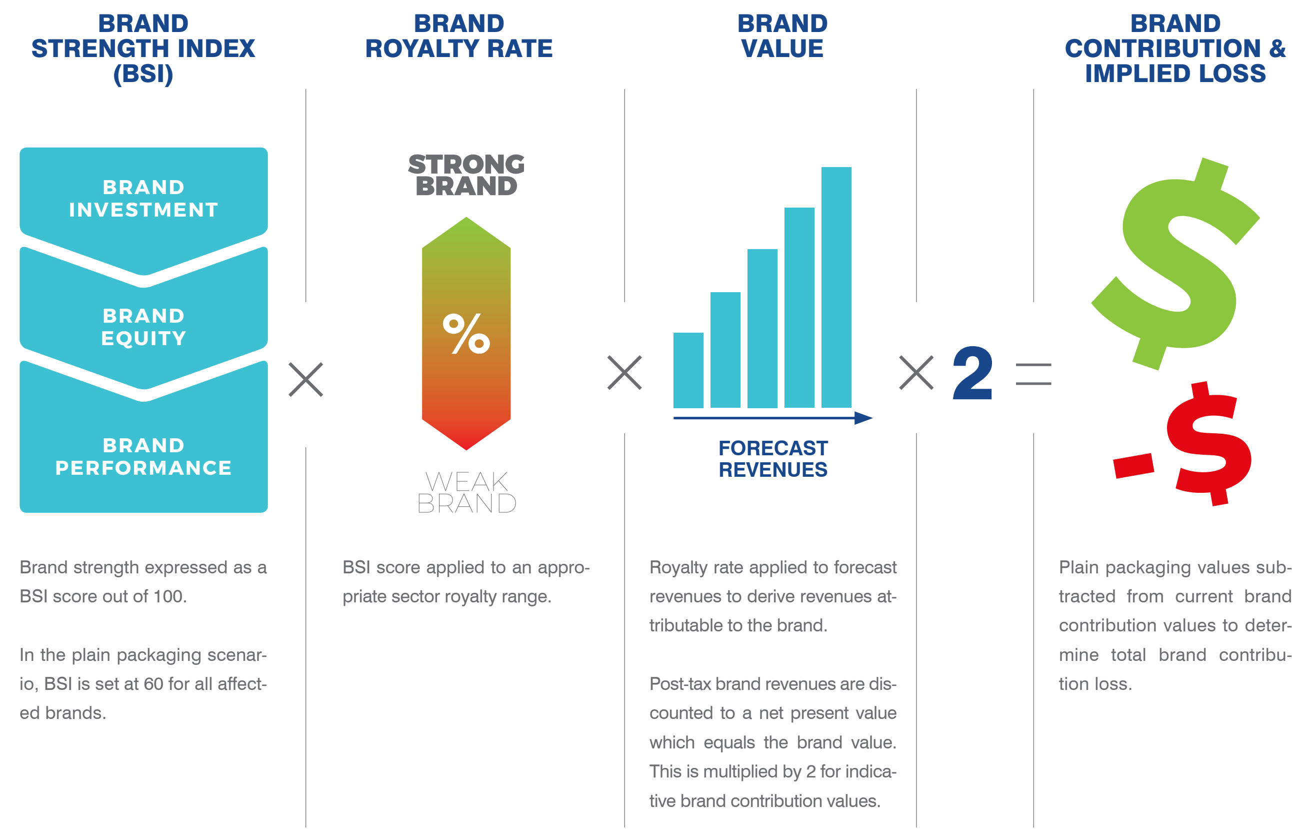
Brand Finance assesses the strength of a brand using a balanced scorecard of metrics evaluating marketing investment, stakeholder equity, and business performance, known as the Brand Strength Index (BSI) to determine a score out of 100 for each brand. A weak brand usually commands a BSI score in the range of 50 to 70. We assumed that in the absence of branded packaging, the score would be 60, the mid-point of this range, in order to keep the assessment of loss conservative.

The BSI score is used to set a royalty rate that the licensor could charge for licensing their brand. Brand Finance determines a royalty range for each specific industry, from 0% to a maximum percentage, based on the importance of brand to purchasing decisions in that industry. In luxury, the maximum percentage is high, in extractive industry, where goods are often commoditised, it is lower. The range is determined via reference to comparable real-world licensing agreements for that industry.

To determine the royalty rate for a specific brand, the BSI score is applied to the relevant royalty range. A BSI score of 60 and a royalty range of 0% to 5% would mean a royalty rate of 3% for that specific brand. The royalty rate is applied to a forecast of future revenues. The resulting figures are then discounted back to net present value to determine the value of the brand.

Since this methodology calculates the value of the brand to the owner and licensor of a brand but not the operator and licensee, a modifier was used to calculate brand contribution, which is the total value to a company that both owns and operates a brand.

Parent Company	Identify All Brands, Determine Whether Brand is Affected		Revenue Affected
Pernod Ricard	Absolut / Beefeater	ALL AFFECTED	100%
Heineken	Amstel / Sol	ALL AFFECTED	100%
PepsiCo	Pepsi	AFFECTED	65%
	Quaker	NOT AFFECTED	35%
AB InBev	Stella Artois / Bud Light	ALL AFFECTED	100%
The Coca-Cola Company	Sprite	AFFECTED	78%
	Smartwater	NOT AFFECTED	22%
Mondelēz International	Milka	AFFECTED	46%
	Philadelphia	NOT AFFECTED	54%
Nestlé	KitKat	AFFECTED	31%
	Maggi	NOT AFFECTED	69%
Danone	Taillefine / evian	NONE AFFECTED	0%



A rule of thumb in many licensing transactions is to calculate the uplift that would be created by a brand's use and then split it 50:50 to start negotiations. Taking this assumption into account, the brand value was doubled in order to calculate the brand contribution.

We identified alcohol, confectionery, savoury snacks, and sugary drinks as potential targets for plain packaging legislation. For the analysis, eight major, international companies, predominantly from the Global Fortune 500 list, with multiple brands in at risk sectors were sourced as case studies. The companies analysed were AB InBev, The Coca-Cola Company, Danone, Heineken, Mondelēz International, Nestlé, PepsiCo, and Pernod Ricard.

When studying each company, we looked at all brands in the portfolio, with the largest brands representing at least 80% of each company's revenue analysed individually and the smaller brands analysed collectively. Based on the branded products' segment, brands were judged as belonging to the affected categories (such as alcohol, confectionery, savoury snacks, and sugary drinks) and unaffected categories (such as those operating in still water or yogurt).

The brands in the affected categories were analysed with BSI scores based on the present situation first, and then with scores tapering down to 60 over the five-year explicit period, to represent a phased plain-packaging scenario. The combined difference in brand contribution between these two sets of information is the total loss to brand and therefore enterprise value.

Disclaimer

Brand Finance has produced this study with an independent and unbiased analysis. The values derived and opinions produced in this study are based only on publicly available information and certain assumptions that Brand Finance used where such data was deficient or unclear. Brand Finance accepts no responsibility and will not be liable in the event that the publicly available information relied upon is subsequently found to be inaccurate.

The opinions and financial analysis expressed in the report are not to be construed as providing investment or business advice. Brand Finance does not intend the report to be relied upon for any reason and excludes all liability to any body, government or organisation.

Financial support for the report was provided by JTI (Japan Tobacco International) with Brand Finance retaining complete responsibility for its analysis, findings, and conclusions.

Consulting Services.

1. Valuation: What are my intangible assets worth?

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

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

2. Analytics: How can I improve marketing effectiveness?

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

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

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

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

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

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

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

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

MARKETING

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

FINANCE

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

TAX

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

LEGAL

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

Brand Evaluation Services.

How are brands perceived in my category?

Brand Finance tracks brand fame and perceptions across over 30 markets in 10 consumer categories. Clear, insightful signals of brand performance, with data mining options for those who want to dig deeper – all at an accessible price.

What if I need more depth or coverage of a more specialised sector?

Our bespoke brand scorecards help with market planning and can be designed to track multiple brands over time, against competitors, between market segments and against budgets. Our 30-country database of brand KPIs enables us to benchmark performance appropriately.

Do I have the right brand architecture or strategy in place?

Research is conducted in addition to strategic analysis to provide a robust understanding of the current positioning. The effectiveness of alternative architectures is tested through drivers analysis, to determine which option(s) will stimulate the most favourable customer behaviour and financial results.

How can I improve return on marketing investment?

Using sophisticated analytics, we have a proven track record of developing comprehensive brand scorecard and brand investment frameworks to improve return on marketing investment.

What about the social dimension? Does my brand get talked about?

Social interactions have a proven commercial impact on brands. We measure actual brand conversation and advocacy, both real-world word of mouth and online buzz and sentiment, by combining traditional survey measures with best-in-class social listening.

Brand Finance Group.

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Value-Based Communications

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SERVICES

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- Integrated Communications Planning
- Project Management and Campaign Execution
- Content and Channel Strategy
- Communications Workshops

For more information, contact enquiries@brand-dialogue.co.uk or visit www.brand-dialogue.co.uk

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