Brand Finance®

Brand Finance plc and Solactive AG launch indices

Brand Finance is pleased to announce the launch of the Solactive BrandFinance® European Leaders Select 30 Index and Solactive BrandFinance® European Leaders Low Risk 30 Index in collaboration with Solactive AG, an innovative index provider based in Frankfurt.

The Solactive BrandFinance® indices were created in light of the link between brand value and shareholder value. Brand Finance's share price study conducted in December, 2015 revealed the compelling link between strong brands and stock market performance. In the study, the average return between 2007 and 2015 across the S&P 500 was 49%. However, if Brand Finance's data was used to create index funds each year, investors could have generated returns of 97%.

Stemming from the connection discovered in the study, Brand Finance has contributed its data on the most valuable European companies with a high brand value to enterprise value (BV/EV) ratio to the creation of the indices. As a result, 30 of the strongest brands are dynamically selected to form each index. The Solactive BrandFinance® indices serve as platforms for investors seeking to invest in companies with strong, valuable brands, high dividend yield and low volatility.

Henning Kahre, Head of Research, Solactive AG, said: "We are very pleased to partner up with Brand Finance plc, a world leading independent branded business valuation and strategy consultancy. We understand the critical importance of brand building and how this can benefit corporations. Strong brands generate customer loyalty and this can lead to better performance. Solactive BrandFinance® European Leaders Select 30 Index and Solactive BrandFinance® European Leaders Low Risk 30 Index give investors the opportunity to be exposed to companies deemed to have a strong brand value according to Brand Finance plc".

Research has shown that brands are associated with pricing premiums, greater customer loyalty and market share. These factors can have an impact on companies' profitability and therefore, other things being equal, more valuable brands can be expected to generate higher profits. The Solactive BrandFinance® European Leaders Select 30 Index and the Solactive BrandFinance® European Leaders Low Risk 30 Index seek to capture this performance premium.

The indices' unique concept also brings to light the importance of acknowledging a company's intangible assets. Another Brand Finance study, published in February, revealed that intangible assets account for 47% of total global enterprise value, and 52% of total European enterprise value. Without knowing the full value of their brands, companies are at a disadvantage as they will not be aware of the hidden strength that lies there and investors will be equally blind. Disclosure of intangible assets should lead to companies obtaining an additional competitive edge, since the disclosure of both intangible and tangible assets allows for proper strategic management. The brands selected for inclusion within the two indices are a clear indication that properly managed brands can become solid investment opportunities.

David Haigh, CEO, Brand Finance plc, commented: "For over 20 years, Brand Finance plc has been consistently measuring the impact of strong brands on stakeholder attitudes, behaviour and the effect this has on economic performance. In our experience, there is a clear relationship between strong brands and better financial outcomes in terms of higher revenues, and lower costs and volatility. Our collaboration with Solactive allows investors to invest behind the fact that well managed brands present greater potential for higher investment returns."

Brand Finance®

ENDS

Media Contacts

Alex Haigh, Head of Research
T: +44 (0)2073899400 M+44 (0)7711597580 a.haigh@brandfinance.com

Joslyn Pannu, Communications Manager
T: +44 (0)2073899400 M: +44 (0)7885666236 j.pannu@brandfinance.com

Note to Editors

2016 brand values are calculated in USD with a valuation date of 1/1/16.

About Brand Finance plc

Brand Finance plc is the world's leading branded business valuation and strategy consultancy, with offices in over 30 countries. We provide clarity to marketers, brand owners and investors by quantifying the financial value of brands. Drawing on expertise in strategy, branding, market research, visual identity, finance, tax and intellectual property, Brand Finance helps clients make the right decisions to maximise brand and business value and bridges the gap between marketing and finance.

Methodology

Definition of 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."

However, a brand makes a contribution to a company beyond that which can be sold to a third party. 'Brand Contribution' refers to the total economic benefit that a business derives from its brand, from volume and price premiums over generic products to cost savings over less well-branded competitors.

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.

Approach

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.

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 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 which equals the brand value.