Intangible value contribution to the ASX 100

Deloitte IP Advisory

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Background

Competitive advantage and business value result from the skilful development and deployment of differentiated assets. In the digital age the relative importance of asset categories has changed.

This study compares the contribution of tangible and **intangible assets** to the value of listed companies in Australia, the US and UK.

Our analysis is based on the 100 largest companies listed on each of the Australian Securities Exchange (ASX), the S&P (covering all US exchanges), the NASDAQ and FTSE (London Stock Exchange). We compared the **enterprise value** of each company within these indices to its balance sheet as at 30 June 2023 to determine the percentage of value contributed by tangible and intangible assets.

The allocation of the value of a business to its underlying assets is recognised for financial reporting when one company acquires another – the purchase price is allocated to the identifiable assets acquired and the residual value being attributed to goodwill, which is recorded as an asset.

In contrast, intangible assets that are internally generated – as are some of the world's most valuable brands and technologies – are for the most part excluded from balance sheets under accounting standards. As a result, balance sheets provide an incomplete view of the asset base of enterprises.

Identifiable intangible assets include brands, technology, data and contracts. In contrast, goodwill is not separable from a business and consists of items such as human capital, relationships and capabilities that are expected to create future assets.

Summary of findings

1 Intangible assets have become dominant drivers of value

Intangible assets contribute 57% of the value of the ASX 100 and around 89% of the NASDAQ (illustrated on **page 8**, along with the FTSE and S&P).

The economic importance of intangibles has been growing for several decades and is well recognised. The International Valuation Standards Council recently commented that: *"intangible assets have long been the engine for value creation. Despite their importance to the capital markets, only a small percentage are recognised on balance sheets."*[1]

2 Most intangible assets are not on balance sheets

Only a small portion of the 57% intangible value contribution to the ASX appears on company balance sheets.

Our analysis implies a total value of $1.46 Trillion for ASX 100 intangibles, of which $1.18 Trillion is **undisclosed value.**

3 Intangibles make a significant value contribution in most industries

Technology, data, brands and other intangibles have become important drivers of competitive advantage in most industries.

Within the ASX 100, intangibles contribute 75% or more of enterprise value in Healthcare, TMT, Consumer Goods and Industrials, and around half the value of the Financial Services and Energy & Resources.

[1] 'Time to get Tangible about Intangible Assets', International Valuation Standards Council, September 2021

Implications

The value contribution of specific types of **IP assets**, such as technology, brands and databases, varies by industry and between competing companies. The potential value of these assets makes them pivotal to corporate strategy, M&A, tax planning and risk management.

It is not surprising that at Deloitte's recent *Intangible Value Summit* directors and executives agreed that:

- intangibles should be on every board agenda
- executives should ensure that capabilities and systems are up to the challenge of optimising the value of intangible assets.

However, despite their value, most organisations currently have inferior management capabilities for intangibles than for physical and monetary assets. By 'management capabilities' we refer to the systems, know-how and culture that create, protect and optimise asset value.

The good news is that although intangible assets are complex, they can:

- be robustly assessed and valued
- be effectively managed through systems covering their capture, protection, enforcement, monetisation and tax compliance
- provide the foundation for differentiation and new sources of earnings.

"Where are my intangibles" is a question that one of the speakers at our Intangible Value Summit suggested boards and executives should ask themselves every morning. **On page 15** we expand this to a short self-assessment for your organisation's intangible asset governance.

Intangible value contribution:

Top 100 companies on the ASX, FTSE, S&P and NASDAQ

Tangible assets are no longer the dominant drivers of value.

Intangible assets contribute 57% of the value of the ASX 100.

Not surprisingly, the tech centric NASDAQ is most reliant on intangibles, which contribute 89% of enterprise value.

The S&P 100 – which is made up of the biggest US companies, whether listed on the NYSE or NASDAQ, is also heavily skewed towards intangible value. The FTSE 100 has a similar value contribution to the ASX from tangible assets.

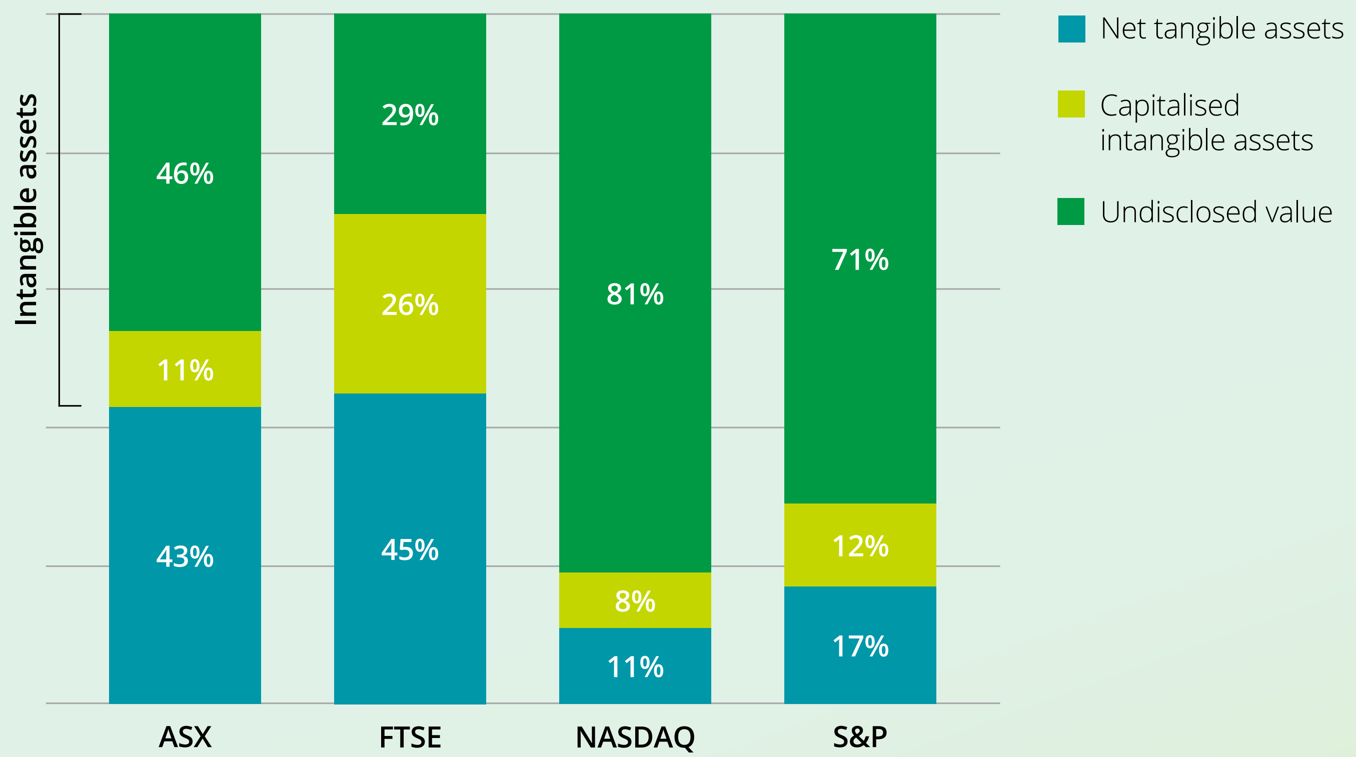
Most intangible assets are not on balance sheets.

Only 11% of the value of the ASX 100 is attributed to capitalised intangibles resulting in 46% of enterprise value being unexplained by balance sheets.

The FTSE 100 has the highest proportion of balance sheet intangibles, more than double that of the ASX.

Our analysis implies a total value of $1.46 Trillion for ASX 100 intangibles, of which $1.18 Trillion is undisclosed.

Figure 1: Intangible asset split: top 100 companies by index



Deloitte analysis of data from S&P Capital IQ for the 100 most valuable companies of each index, weighted by enterprise value (as at 30 June 2023).

Intangible value contribution:

ASX 100 by industry

Intangibles make a significant value contribution in most industries.

Intangibles contribute:

- 75% or more of value in the following industries: Healthcare, TMT, Consumer Goods and Industrials
- around half the value of the Financial Services and Energy & Resources[2] industries.

[2] A significant component of the undisclosed value in the Resources industry is mineral rights which is an intangible asset associated with a tangible resource.

The following public statements by business leaders reiterate that intangibles such as technology, data and brands have become important drivers of competitive advantage in a range of industries:

> ”We’re a tech company”
> **CEO, Rio Tinto**

> ”We're clearly a technology company”
> **CEO, Bank of America**

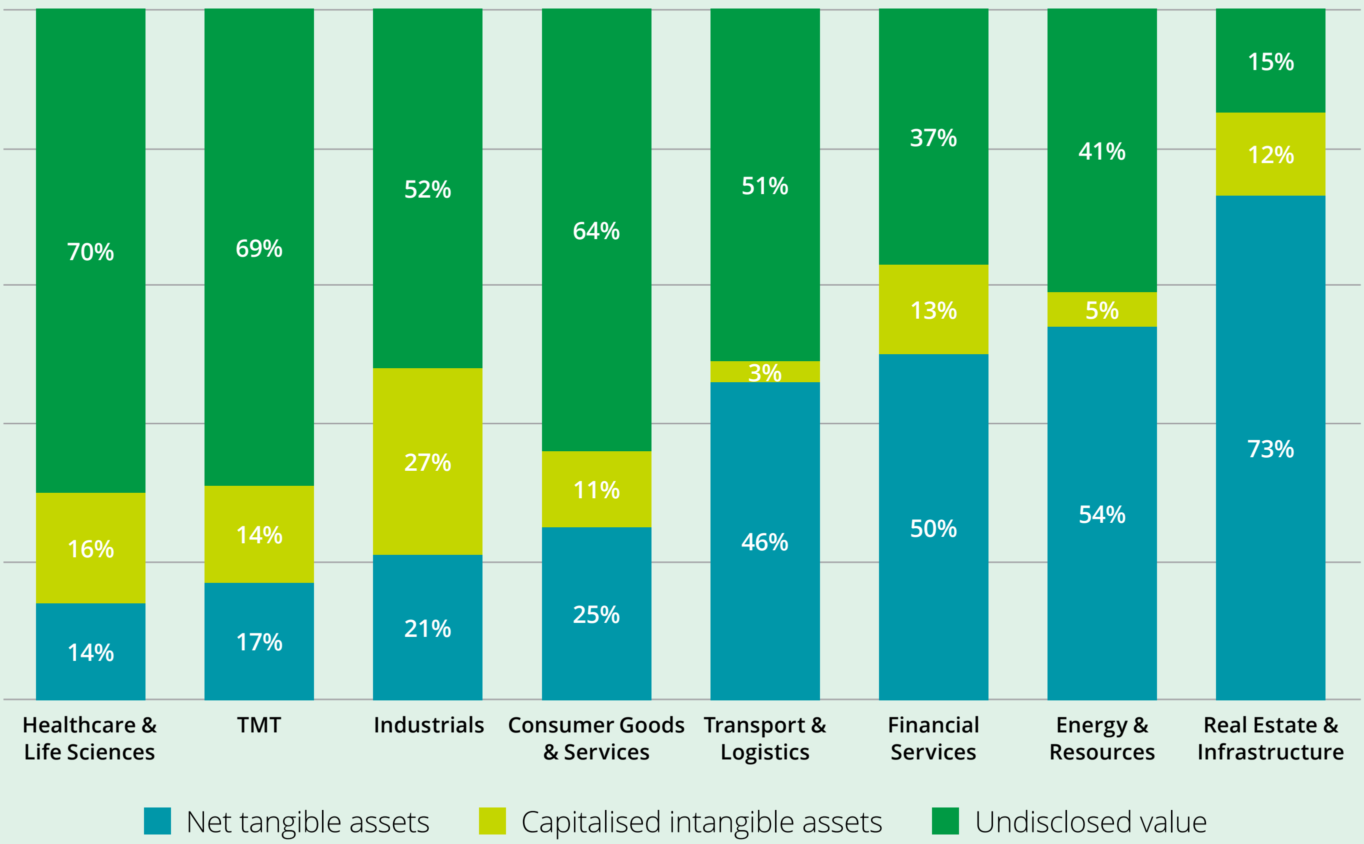
> ”Data will be the new air”
> **CEO, DBS Bank**

> ”Reputation plays a key role in how customers choose to engage with our business”
> **Chairman, Woolworths**

Articulating a commitment to IP assets is an important step in optimising intangible value. However, for organisations without an IP centric culture, it is harder to develop the capabilities and culture required to create, protect and monetise intangible assets.

Urgency is compounded by changes in the competitive landscape in most industries. For instance, big tech companies have patent portfolios relating to financial services that are 5 times larger than banks, and they are becoming more aggressive in IP enforcement. The implications for the strategy and future performance of banks requires a broader lens to be applied to competitive benchmarking.

Figure 2: Intangible asset split across Australia's 100 largest companies by industry



Deloitte analysis of data from S&P Capital IQ for the 100 most valuable companies on the ASX, weighted by enterprise value (as at 30 June 2023). Refer to Appendix 1 for industry classifications.

Implications for corporate strategy and risk management

Despite the materiality and complexity of intangibles, most organisations currently have inferior management capabilities for intangibles than for other assets.

Importance of intangibles to different stakeholders

Boards and executives

Effective governance of intangibles creates value by yielding new earnings and mitigating risk. Directors have the same duty of care towards intangible assets as to physical and monetary assets.

Tax directors

Intangibles are facing increasing scrutiny from tax authorities. There are requirements to identify intangibles with 'specificity' and document where their value is developed, enhanced, maintained, protected and exploited.

Deal makers

M&A effectiveness is enhanced by the ability to identify, evaluate and articulate the value of intangibles. Without a 360° assessment of core IP assets, insights may fall between traditional streams of due diligence.

Strategy, marketing and risk directors

To optimise the value contribution of intangibles (and to mitigate risk), management requires effective performance metrics and robust asset management systems.

Investor communications

Investors may under-value an enterprise if they are unaware of the quality of its intangible assets.

Despite the commercial importance of intangibles, most organisations currently do not have the systems, know-how and culture required to create, protect and optimise asset value.

The questions on the following page will help you gauge your organisation's governance of intangibles.

It is not surprising that at Deloitte's recent Intangible Value Summit directors and executives agreed that:

- intangibles should be on every board agenda
- executives should ensure that capabilities and systems are up to the challenge of optimising the value of intangible assets.

Characteristics of IP assets

IP assets can achieve rapid value growth due to their scalability and non-linear relationship between cost and value. However, without skilful management there is a risk of wasted investment, lost exclusivity and infringement of third-party IP.

The good news is that despite this complexity, IP assets can:

- be robustly assessed and valued
- be effectively managed through systems and procedures covering their capture, protection, enforcement, monetisation and tax compliance
- provide the foundation for differentiation and generate new earnings.

Governance self-assessment

- **Can you quantify** the contribution of your brands, technology, data and other intangibles to enterprise value?
- **Is there alignment** between your strategy for key intangibles and corporate strategy?
- **Do you track** the IP landscape, benchmark performance and track upside potential and value-at-risk?
- Do you have **adequate systems** and capabilities for capturing, managing and monetising intangible assets?
- Are intangible assets **properly evaluated** in M&A, joint ventures and tax planning?
- **Does internal reporting** enable board members to meet their duty of care regarding intangible assets?

Shaping the future:

Embracing the power of intangible assets

Deloitte's 360° IP Advisory

To inform the management and valuation of IP assets and businesses rich in intangibles, Deloitte has established a global IP Advisory team consisting of internationally recognised IP valuers, strategists, patent analysts, lawyers, IP tax advisers and commercialisation specialists. This integrated range of skills and IP tools provides a 360° perspective to help you capture, quantify and optimise IP value.

Events and issues triggering the need for robust intangible asset metrics

- IP governance concerns
- Pre and post M&A
- Corporate strategy risk management
- Tech & data strategy evaluation
- Brand / reputation management
- Tax planning and compliance
- Restructure / divestment
- IP portfolio management / operation
- JV / collaborations / licensing

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Appendices

Appendix 1: Terminology and methology

Terminology

Enterprise value	Represents the total value of a company, and is calculated as the market capitalisation of the company plus net debt and minority interests (sourced from Capital IQ).
Intangible assets	The combination of 'identifiable intangible assets' (as defined for financial reporting) and goodwill, where: • identifiable intangible assets includes brands, technology related intangibles, content, data and contracts • goodwill is not separable from a business and consists of items such as human capital, relationships and capabilities that are expected to create future assets.
Intellectual property rights (IP)	Specific rights associated with categories of IP that can be registered (e.g. patents and trade marks) or unregistered (e.g. copyright and trade secrets).
IP assets	A sub-set of intangible assets, referring to a bundle of complementary IP subsisting in technology (e.g. patents, trade secrets and copyright), brands, content and databases.
Net tangible assets	Represents the value of total balance assets, less capitalised intangible assets, and less liabilities (excluding long-term debt).
Undisclosed value	Represents the portion of enterprise value that is not attributable to net tangible assets or capitalised intangible assets.

Methodology

Constituents of the ASX 100, S&P 100, NASDAQ 100 and FTSE 100 are sourced from S&P Capital IQ as at 30 June 2023.

Key financial measures as at 30 June 2023 are also sourced from S&P Capital IQ, including:

- enterprise value; market capitalisation
- total assets; total liabilities; total equity
- capitalised identifiable intangible assets; capitalised goodwill; total capitalised intangible assets.

Undisclosed value is calculated as the difference between enterprise value and total assets less liabilities (excluding long-term debt), less capitalised intangibles as at 30 June 2023.

For the financial services industry, market capitalisation is used as the reference point instead of enterprise value.

Additionally for financial services companies, net tangible assets is calculated as the difference in the book value of equity and capitalised intangible assets, again due to reasons highlighted above.

Appendix 2: Industry classifications

Table 1: Industry classifications used for this study

Deloitte industry	Consumer Goods & Services	Energy & Resources	Financial Services	Real Estate & Infrastructure
S&P Capital IQ Industry	Automobiles Beverages Broadline Retail Consumer Staples Distribution and Retail Diversified Consumer Services Entertainment Food Products Hotels, Restaurants and Leisure Household Durables Household Products Leisure Products Passenger Airlines Personal Care Products Specialty Retail Textiles, Apparel and Luxury Goods	Chemicals Electric Utilities Energy Equipment and Services Gas Utilities Metals and Mining Multi-Utilities Oil, Gas and Consumable Fuels Water Utilities	Banks Capital Markets Consumer Finance Financial Services Insurance Professional Services	Diversified REITs Industrial REITs Office REITs Real Estate Management and Development Residential REITs Retail REITs Specialised REITs Transportation Infrastructure

Deloitte industry	Healthcare & Life Sciences	TMT	Industrials	Transport & Logistics
S&P Capital IQ Industry	Biotechnology Health Care Equipment and Supplies Health Care Providers and Services Health Care Technology Life Sciences Tools and Services Pharmaceuticals	Communications Equipment Diversified Telecommunication Services Electronic Equipment, Instruments and Components Interactive Media and Services IT Services Media Semiconductors and Semiconductor Equipment Software Technology Hardware, Storage and Peripherals Wireless Telecommunication Services	Automobile Components Building Products Commercial Services & Supplies Construction and Engineering Construction Materials Containers and Packaging Electrical Equipment Industrial Conglomerates Industrials Machinery Paper and Forest Products Trading Companies and Distributors	Aerospace and Defense Air Freight and Logistics Ground Transportation Marine Transportation

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