



American Reynolds – Historic All-Time High in Brand Acquisitions

White Paper

Dr. Christof Binder

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Historic All-Time High in Brand Acquisitions

Recently, on March 15th, British American Tobacco (BAT) filed their annual report for 2017, including the valuation of the assets purchased with their acquisition of Reynolds American on July 25th, 2017. With this report, accounting for brands experienced a historic moment with the reporting of a brand value of US\$ 93.6 billion acquired with **Reynolds American** by BAT. The portfolio of acquired brands includes Newport, Pall Mall, Camel, Natural American Spirits, Grizzly and Kodiak. This is a new all-time high which more than doubles the previous record high of **Kraft Foods** (2015, US\$ 41.3 billion).

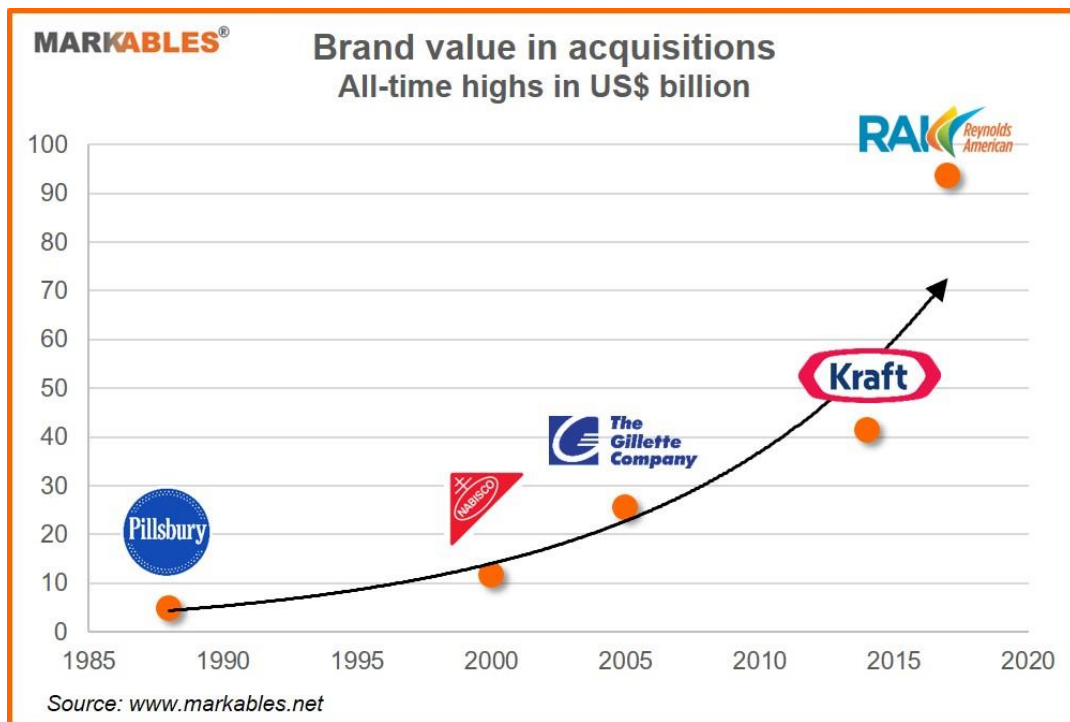
The brand value embedded the acquisition of Reynolds American is remarkable in three aspects:

1. It is the most valuable brand portfolio ever acquired. What is more,
2. the ratio brand value / brand revenues is amongst the highest ever reported.
And
3. the ratio brand value / enterprise value of 89% shows that there were hardly any other assets than brand within this acquisition.

The valuation and accounting of brands dates back to the mid-eighties when British and Australian companies like NewsCorp, Reckitt & Coleman, GrandMet and Ranks Hovis McDougall pioneered the valuation, auditing and reporting of some of their brands in their financial statements. According to accounting standards, all acquired brands have to be valued and reported separately since 2000 in the US and since 2004 in most other countries.

A first record was the brand value of US\$ 4.8 billion reported by Grand Met with their acquisition of **Pillsbury** in 1988. By 2000, the record figure had increased to US\$ 11.7

billion with the acquisition of **Nabisco** by Philip Morris. Five years later, in 2005, the acquisition of **Gillette** by Procter & Gamble marked another record high with a reported brand value of US\$ 25.6 billion. Exhibit 1 illustrates the all-time highs of brand values acquired in M&A.



Thereafter, the market for brand-centric mergers flattened out for a while. Between 2004 and 2014, the share of acquired brands in the total deal value declined steadily from an average 17% to 12% between 2004 and 2014, while customer relations increased from 8% of deal value to 18% during the same period. But 2014 seems to be a turning point in the appreciation of brands as strategic and financial assets.

10 of the 20 most valuable brand acquisitions reported since 2000 happened in the 4-year period between 2014 and 2017. Table 1 on the next page lists the 20 most expensive brands acquired since 2000. Finally, 2015 saw another all-time high with the acquisition of the brand portfolio of Kraft Foods, which was wiped out in 2017 by the acquisition of Reynolds American. One reason for this revival is certainly the low cost of capital. Another is the attractive tax benefits resulting from the tax deductibility of (often indefinite lived) brands at very stable and low-risk returns.

It is no surprise that the US dominates the ranking of the Top20 most valuable brands ever acquired. Most of the top positions in the Top20 list – 13 of 20 – are domiciled in the US, including the Top5. Sector wise, the list carries four cases in tobacco, three in beer, three in drugs, two in durable consumer goods, and one each in spirits, cars, restaurants and retail.

Some firms appear as repeat attenders over time:

- **Kraft** (back then part of Philip Morris) acquired Nabisco in 2000, Cadbury in 2010, and was acquired by Heinz / Berkshire Hathaway in 2015
- **Reynolds American** acquired Lorillard in 2015, and was acquired by BAT in 2017
- **Interbrew/InBev** acquired Anheuser-Busch in 2008, and SABMiller in 2016.

They would certainly not, had their previous acquisitions been underperforming. On the other side, such expensive acquisitions are often the basis for restructurings, be it for antitrust reasons (i.e. the takeover of SABMiller) or for accretive portfolio restructurings.

For now, the all-time high with Reynolds America seems to be out of reach and difficult to top. But nobody can tell for sure what corporate finance and investment banking will come up with in the next years. With some certainty we can predict that the Top20 list will get two or three new entrants year by year.

Table 1: Top20 Most Expensive Brands Acquired since 2000

Acquirer	Business	Brand(s)	Year	Brand value US\$ bn	Enterprise value US\$ bn	Revenues US\$ bn
British American Tobacco	Reynolds American	Newport, Pall Mall, Camel, Natural American Spirits, Grizzly, Kodiak	2017	93.6	105.4	12.5
Kraft Heinz Co	Kraft Foods	Kraft, Oscar Mayer, Philadelphia, ..	2015	41.3	61.6	18.2
Reynolds American	Lorillard	Newport, Kent, ...	2015	27.2	28.7	7.0
Procter & Gamble	Gillette	Gillette, Duracell, Oral B, Braun	2005	25.6	53.4	11.2
InBev	Anheuser-Busch	Budweiser, Michelob, Busch	2008	24.2	65.8	17.4
Volkswagen	Porsche	Porsche	2012	17.8	50.4	14.0
AB InBev	SABMiller	Castle, Carling, Aguila, Poker, Cristal, Pilsner, Carlton, ...	2016	15.4	95.2	12.2
Berkshire Hathaway / 3G	H.J. Heinz	Heinz, Quero, ..	2013	12.1	30.0	11.5
Philip Morris / Kraft	Nabisco	Oreo, Ritz, Nutter Butter, Planters, ..	2000	11.7	19.2	8.3
Kraft Foods	Cadbury	Cadbury, Trident, Hollywood, Halls, ..	2010	10.3	20.0	10.0
Pfizer	Wyeth	Wyeth, Efexor, Prevnar, Enbrel, Gold, Protonix, Zosyn, Torisel, ..	2009	10.2	79.8	23.3
Imperial Tobacco	Altadis	Gauloises, Gitanes, Fortuna, Montecristo, Dutch Masters, Cohiba, ..	2008	9.4	20.2	6.1
Molson	MillerCoors	Coors, Miller, Blue Moon, Keystone, Leinenkugel's, Hamm's, Icehouse, ...	2016	9.4	18.3	7.7
GlaxoSmithKline	Novartis OTC Consumer business	Voltaren, Excedrin, Otrivin,, Theraflu, Nicotinell, Lamisil, Fenistil, Maalox, ...	2015	9.2	9.6	2.8
Altria	US Smokeless Tobacco	Copenhagen, Skoal, Red Seal, Husky, ..	2009	9.1	11.6	2.0
Newell Rubbermaid	Jarden	First Essentials®, Lehigh®, Mapa®, Millefiori®, NUK®, Spontex®, Yankee Candle® Campingaz®, Coleman®, Fenwick®, K2®, Marmot®, PENN®, Rawlings®, Crock-Pot®, FoodSaver®, Holmes®, Mr. Coffee®, Oster®, Sunbeam®, ...	2016	8.6	19.9	9.7
Pernod Ricard	Allied Domecq	Ballantine's, Beefeater, Malibu, Kahlúa, Stolichnaya, Mumm, Hiram Walker, Dunkin'	2005	7.8	18.1	3.1
Burger King / 3G	Tim Horton's	Tim Horton's	2014	7.3	12.6	6.2
Bayer	Merck's consumer care business	Claritin, Coppertone, MiraLAX, Afrin, ..	2014	7.1	14.9	2.0
Walgreen	Alliance Boots	Boots, Alliance Healthcare	2014	7.1	30.5	33.5

Source: Financial Statements, MARKABLES database

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