

Reporting and valuing intangibles

The financial analyst perspective

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A background provided by EFFAS

- In 2008, based on the belief that it was « high time for the financial community to tackle intangibles », the European Federation of Financial Analysts Societies (EFFAS) published its « Principles for Effective Communication of Intellectual Capital »
- The aim was to promote a shared responsibility between companies, analysts and investors
- Benefits for companies :
 - optimize investment and improve resource allocation on intangible assets : harmonise with other management tools and help measure potential for future growth
 - improve communication on true strengths to stakeholders
- Benefits for analysts and investors :
 - better understand long term value creation process



EFFAS 10 principles for effective communication on IC

- Clear link to future value creation
- Transparency of methodology
- Standardisation
- Consistency over time
- Balanced trade-off between disclosure and privacy
- Alignment of interests between company and investors
- Prevention of information overflow
- Reliability and responsibility
- Risk assessment
- Effective disclosure placement and timing



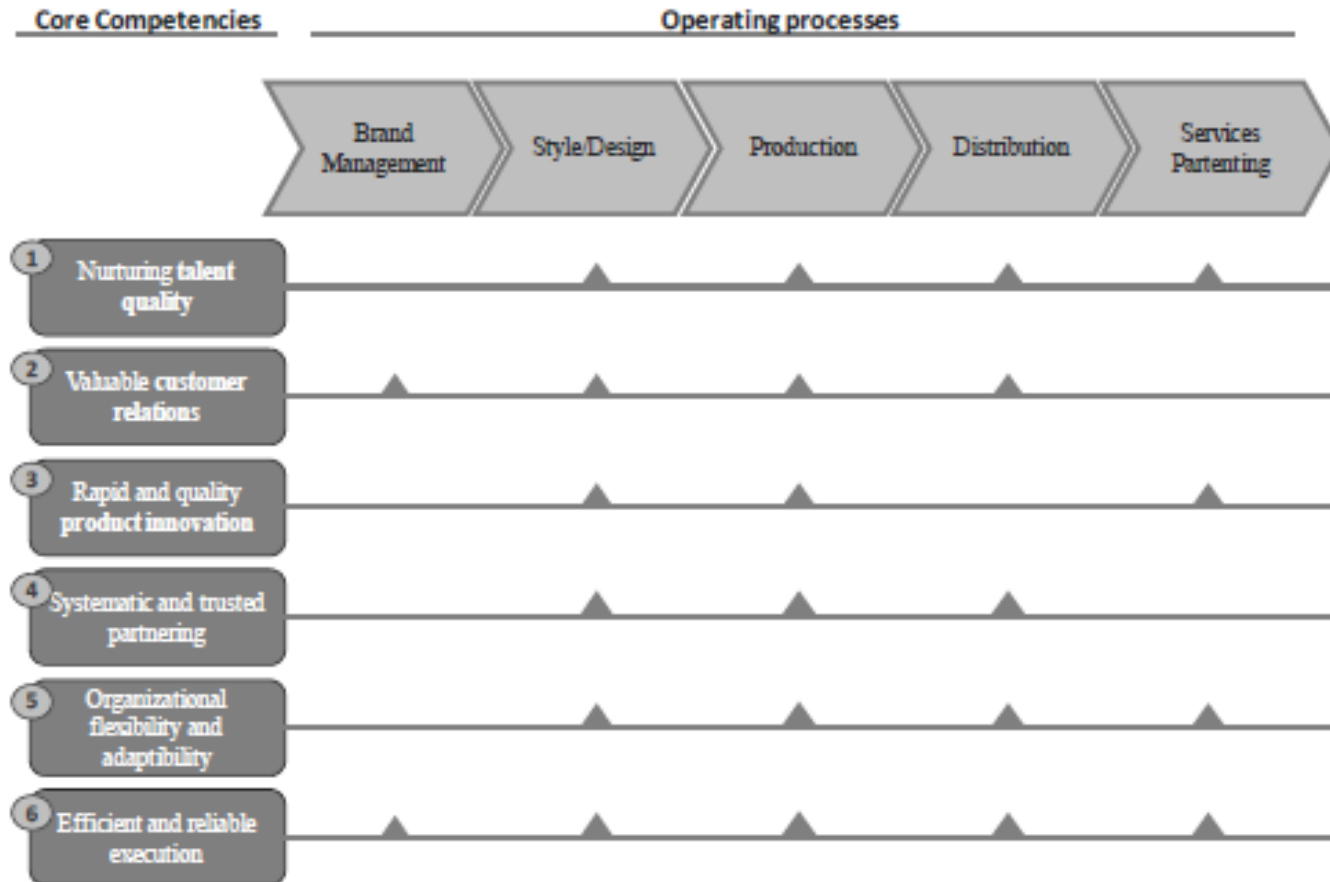
Sector specific approach carried on by EFFAS and WICI ¹

- 1 : analysis of the link between intangibles and value creation :
 - describe value chain for companies operating in a specific sector and identify industry specific IC-linked core competencies driving each step of the value chain
- 2 : Identify KPIs for each of the IC-linked core competencies
- 3 : In each of the IC asset classes (Human Capital, Relational Capital, Organisational Capital), these indicators are ranked by importance (« must have » / « nice to have ») and units of measurement are specified
- First results on Telecom Industry and Fashion and Luxury
- Work has started on retail and energy



¹ : WICI = World Intellectual Capital Initiative

Sector specific approach : Luxury and Fashion



Source : WICI / EFFAS



Sector specific approach : Luxury and Fashion

Core competencies	IC asset classes	Number of KPIs	Examples
Efficient and reliable execution	Human capital	4 «must have» 4 «nice to have»	Number of staff in boutique Average nb by 100 sqm
	Relational capital	7 «must have» 7 «nice to have»	Capex on DOS Direct costs per sqm
	Organisational capital	11 «must have» 13 «nice to have»	Number of models designed vs number in the collection Number of flaws found by the quality department

Source : WICI / EFFAS



What do analysts need, and what is going on

Analysts needs	Works in progress
Education	<ul style="list-style-type: none"> ➤ In France : SFAF willing to integrate IC in its training courses
Relevant and standardised information	<ul style="list-style-type: none"> ➤ In France : GTMI, Thésaurus Bercy ➤ Global : IIRC, IVSC, OECD
Emphasize the link between IC and financial valuation	<ul style="list-style-type: none"> ➤ Banks using IC as a collateral ➤ French chartered accountants disclosing guidelines for SMEs
Investors' interest	<ul style="list-style-type: none"> ➤ Fund managers starting to take IC into account ➤ Warsaw Stock Exchange
Companies' interest and willingness to disclose	<ul style="list-style-type: none"> ➤ See previous items ➤ Development of IC as a management tool
Popularity of the subject	<ul style="list-style-type: none"> ➤ Financial press becoming more aware and active

