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Press Release – For Immediate Release

$300 Billion at Stake as Plain Packaging Threatens Beverage Industry

- **Brand Finance has estimated the potential value loss to businesses at close to $300bn if plain packaging is extended to the beverage industry.**
- **The Coca-Cola Company and PepsiCo would each lose approximately $45bn or 25% of enterprise value.**
- **Alcoholic drinks producers like Heineken, AB InBev, and Pernod Ricard would see 100% of their brand portfolios exposed to the legislation.**

View the full Brand Finance Plain Packaging 2017 report here

Following the introduction of plain packaging for tobacco products in some countries and calls to extend the legislation to other sectors, Brand Finance has analysed the potential financial impact of such a policy on food and beverage brands in four categories: alcohol, confectionery, savoury snacks, and sugary drinks.

Eight major brand-owning companies are predicted to lose a total of $187 billion should plain packaging be mandated for other FMCG products, with alcohol and sugary drinks brands most vulnerable.

The Coca-Cola Company and PepsiCo are among those corporations with most value at risk; $47.3 and $43.0 billion respectively, equal to 24% and 27% of their total enterprise values.

Entire brand portfolios of companies specialising in alcoholic drinks, such as Heineken, AB InBev, and Pernod Ricard, would fall within the scope of the legislation, jeopardising future revenue streams.

An extrapolation of the results to all major alcohol and sugary drinks brands, points towards a potential loss of $293 billion for the beverage industry globally.

The estimates refer to the loss of value derived specifically from brands and do not account for further potential losses resulting from changes in price and volume of the products sold, or illicit trade. Therefore, the total damage to businesses affected is likely to be higher.

David Haigh, CEO of Brand Finance, commented:

To apply plain packaging in the food and drink sector would render some of the world's most iconic brands unrecognisable, changing the look of household cupboards and supermarket shelves forever, and result in astronomical losses for the holding companies.

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.

Background

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.

An increasing number of countries are introducing strict regulations on the marketing and advertising of food and drink products in an attempt to prevent obesity and lifestyle diseases. With calls for more intrusive measures growing, the prospect of further applications of plain packaging looks increasingly likely.

In 2015, the WHO-backed *Tobacco Atlas*, called for extending plain packaging to alcohol and some food and drink products. In 2016, Public Health England released a report calling for plain packaging to be considered for alcohol, a topic which was raised again only last month in medical journal, *The Lancet*. Also in the past month, Canada's Yukon became the first territory in the world to introduce sizeable health warning labels on all alcohol products, cautioning against the risk of cancer.

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Note to Editors

For full findings and methodology, please consult the Brand Finance Plain Packaging 2017 report.

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About Brand Finance

Brand Finance is the world's leading brand and business valuation consultancy, with offices in over 20 countries. We provide clarity to marketers, brand managers 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

Royalty Relief Approach

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 Strength Index

Brand Finance assesses the strength of a brand using a balanced scorecard of measures (including familiarity, preference, satisfaction, sustainability, governance, and margins) 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.

Determining the Royalty Rate

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.

Brand Contribution

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. 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.

Sample

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. 1,242 brands within these

companies' portfolios were analysed, some of which were judged unlikely to be affected (such as those operating in still water or juice).

Calculating the Implied Loss

907 brands in the affected categories were analysed with BSI scores based on the present reality 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.

Extrapolation to the Beverage Sector

Having identified alcohol and sugary drinks brands as most vulnerable to the legislation, we extrapolated the results to beverage brands valued by Brand Finance in 2017. 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 our database to over 1300 beverage brands whose parent companies have an enterprise value of more than $1 billion, to arrive at the estimated loss in the brand contribution value to the sector.