



# Fisher Funds

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### **Goodwill Hunting**

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Goodwill has proven to be anything but good for many companies over the past year. Goodwill is a term used to describe the value of a company's intangible assets.

When valuing a company, there are obvious assets – land, cash in the bank, equipment etc. These are known as tangible assets and can be reasonably easily valued.

But a company can also have intangible assets such as reputation, brand, exclusive rights to a product or service, and so on, that are harder to value. For example, how would you even start to put a value on the Disney brand, or the Porsche name?

In any market, value is determined by what a buyer is prepared to pay. Before the global financial crisis, companies were prepared to pay big prices for intangible assets, because of the future value that they expected to get from them. However, with asset values having fallen around the world, companies are now facing the prospect of having to write off the 'extra' value or goodwill, because they won't get that extra future value after all.

A New Zealand example is Fletcher Building who paid close to \$1 billion for Formica in 2007 and this year wrote off \$300 million, of which close to \$60 million was goodwill, leading some to say that the company overpaid in the first place. Companies around the world are facing the same issue. In the 2008 year, 1600 US companies wrote off a grand total of \$340 billion, or about one-third of all the goodwill recorded on their books.

These goodwill write-offs have overshadowed some otherwise good profit performances, and have led some analysts to question whether they will affect mergers and acquisitions in the future. If companies are concerned about paying too much for brands and other intangible assets, maybe they won't acquire businesses with the same enthusiasm as they used to?

It will be interesting to watch what happens with Cadbury, who are the subject of a \$10.2bn takeover offer by Kraft. Cadbury is a strong UK brand whereas Kraft is regarded as a global brand. It may turn out that Kraft will be prepared to pay more than what the Cadbury brand is worth, in order to get some of Cadbury's own brands such as Dairy Milk, Crème Egg and Trident Gum to add to its stable. That is, assuming that other brand companies like Nestle or Hershey's don't offer to pay more.

Intangible assets are amongst the most difficult assets to value because they are intangible. But they are important – a company is rarely worth just the value of its physical assets, and some intangibles such as brand can be worth enormous sums. According to research company Brandz, Google is the world's first \$100 billion brand, number one for the third year running.

The value of many global brands has increased in the last year, even though the value of many businesses has fallen, because brand has helped to sustain companies in hard times as customers seek out names that they are familiar with.

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