

## 6. Appendix

### 6.1 ANALYSIS OF COMPANIES

#### 6.1.1 ANNUAL REPORTS

- **Bayer's** report is very long, which makes me wonder whether there's a will to confuse the investors by overloading them with too much information. Bayer explains how the value chain of its company works, "The value added statement shows the direct financial value our business activities create for our stakeholders". Moreover, they add a number to this value added, hereby 15B€, divided between employees, reserves, stockholders, lenders and tax authorities, each bringing a certain amount to this total. On page 69 begins a more detailed description of their focus on innovation, with financial information on the company's R&D spending. On page 89, the focus is on the company's employees, explaining how they attract and retain skilled staff, but no figures are given on the amount spent. On page 110, they discuss customer relationships and their importance throughout the value chain. On page 134, a section is devoted to non-financial reporting policy, with digital data, but again, these are the figures that are presented in the balance sheet, and that is the amount companies have paid for these different assets, not the value they have for the company. On page 232, the report states that "Research costs cannot be capitalized. The conditions for capitalisation of development costs are closely defined: a key precondition for recognition of an intangible asset is that it is sufficiently certain that the development activity will generate future cash flows that will cover the associated development costs." (Bayer, 2017). The company declares that it uses the cost method to value its intangible assets. On page 262, the breakdown of intangible assets is given, with the fluctuation of their value within two years.
- **Celyad** provides a lot of information on the technology they develop, the risks and success on patients, as well as the studies and clinical trials they will conduct in the coming year. On page 34, Celyad describes its intellectual property portfolio, which consists of 4 types of patents. On page 37, Celyad explains the new talents working for them, from scientists to quality assurance and quality control staff. Without giving net value to its employees, the company declares that "The men and women of Celyad are dedicated to making the impossible possible for patients." (Celyad, 2017). In the

financial statements, a small section describes the intellectual property in which the company has invested and includes the amount of its future transactions, including that with Novartis. The only tangible information given on employees is their number. In the Organization and Values section, the company describes the skills of its team of talented employees. It also states that spending will continue to increase in the coming years, but does not provide information on the amount invested. They mention the additional training of staff for a new clinical trial, which would entail costs, but no amount is yet disclosed. They also mention that clinical trials are expensive and the results are unclear. Moreover, “The Company is dependent on patents, know-how, and proprietary technology, both its own and licensed from others.” In addition, they add that some countries have stricter regulations and laws on patents and trade secrets, and that it would be very costly to comply with them. Patent protection can be very expensive due to legal proceedings. They add that attacks on their reputation could also affect the company's market value. Celyad also underlines their dependence on their employees: the company has granted warrants to its employees. On page 107, the company has an entire section on intangible assets, divided into 3 categories: separately acquired intangible assets (patents, licenses, trademarks and software), intangible assets acquired in a business combination (goodwill, in-process research and development costs) and internally generated intangible assets (research and development costs). On page 116, a breakdown of companies' intangible assets is given, with the categories mentioned above.

- **Galapagos** has attached to its financial statements an annex containing a section on intangible assets, in which it provides details on how it will approach intangible assets in the report. In this particular appendix, they set out specific conditions for the recognition of intangible assets for that company. One of them is to be able to measure the asset reliably. Nevertheless, the intangible assets mentioned in these annexes are of the same type as those generally covered by most companies: R&D costs and their allocation to expenses or intangible assets. However, it still does not cover other intangible assets that could have added value for investors, such as the company's human capital. On the first pages of the annual report, a breakdown of the employees, by education, ages, etc. They give the company's annual R&D ambition. They explain their recruitment focus, being on talents. A large breakdown of the clinical trials in progress are given.

- **Lonza's** annual report includes 6 pages dedicated to investing in its people. From there, we can see that the company invests huge sums in the development of its employees, by offering them training, by being present at job fairs and universities. They divided this section into 3 main steps: Go, Stay and Grow in the company. They expressly say that they are investing in this employer brand. Although they describe their plan in detail, no information is provided on the expenditures incurred to implement it. A large breakdown of the pipeline, and their different products and technology is given. The annual report offers information regarding the synergies within the firm. In the innovation section, the firm mentions the development of breakthrough medicines and therapy. The very long report (343 pages) includes a long section over CSR and ESG measures taken by Lonza. A breakdown of what they include as an intangible asset, as well as the useful life of these assets. The report adds a section about the competitive advantage and mentions intangible assets: « will gain even more competitive advantages going forward because we excel at transferring knowledge, experience, technology and best-in-class practices across our businesses. »
- **Oxurion:** a significant proportion of their non-current assets consist of intangible assets, but they are not subdivided into sub-categories, which makes it more difficult to access information about them. As can be seen, here in 2017, these intangible assets represent more than €23,000,000, while the total current assets are €26,000,000. In the notes to the consolidated financial statements, it is specified that the valuation method will be fair value. A section on intangible assets is included later in these notes. As with the other annual reports I have reviewed, Oxurion provides accurate guidance on which intangible assets should be recognized. It also clarifies the presentation of other intangible assets such as research or patent costs. The information presented here relates only to the intangible assets shown on the balance sheet, which means that an exact value has been set for them. However, the focus is not on intangible assets that are more difficult to measure, such as the value of employees, beyond their simple value. The company mentions that it relies on internal and external (universities) R&D.

## 6.1.2 WEBSITES

### 6.1.2.1 Pharmaceutical sector

- **Bayer:** Since Bayer is a bigger company, and inevitably with more resources, its website is very complete. In the section on employees, Bayer places great emphasis on the knowledge, values and training of its employees, as attested by the following quotation “Bayer’s business success is based to a large extent on the knowledge and commitment of our employees” (Bayer, 2019). Most of the data is dedicated to ESG and CSR criteria. The firm has created a special program that allows retirees to share their expertise with current employees by becoming consultants. In the innovation section, it states that it invested EUR 5.2bn in research and development in 2018.
- **Celyad:** the science section is divided between *For non-scientists* and *For scientists*, offering different levels of detail in the description of the products Celyad makes. In the clinical trial section, the level of progress of the various clinical trials is presented, without giving more information about them. In the news section, the company's press releases allow the results of these tests to be shared. However, a large number of press releases are available, making it more difficult to find the right one. In addition, the vocabulary of these articles is intended for a rather scientific audience, potentially making the information more difficult for investors to work with (Celyad, n.d.).
- **Galapagos:** on the website, a review of the pipeline is available, showing each different product currently being developed and the level they are at. However, no more information is given than the number of studies on that product. However, when looking further in the website, it is possible to find information about studies from phase I to phase III. For some specific treatments, such as the Filgotinib, a more detailed use of all the different pathologies that this treatment could treat, and their progress, phase by phase (Galapagos, n.d.). No information is given about the searchers, the process or any other intangible assets.
- **Lonza:** the website is very complete, and includes an extremely detailed list of all their products, as well as an entire section dedicated to the searchers, a knowledge center explaining their products, their use, and a prove of their certification (Lonza, n.d.).
- **Oxurion:** the website shows the medical need behind the research, the pipeline, and a quick overview of the science team. However, this information isn’t very detailed and is more an overview of these different sections, offering little additional information to the investor (Oxurion, n.d.).

### 6.1.2.2 Technological sector

- **Facebook**, on its newsroom website, gives an overview of all the new apps and project launched by the company. However, it only gives the name and date of that launch but no further information is given. It highlights clearly what the company wants to improve on the platform but gives no indication to how the revenues are made. In one of Facebook latest article, they explain the importance of sharing data between different apps and uses the following sentences “After all, the ability to share your contacts with Venmo or Spotify, or move your digital profile en masse between services with tools like Download Your Information, has tremendous value”. Then, a new project in collaboration with Google, Microsoft, Twitter and Facebook about data transfer is introduced. Very little information is available. The only information available about intangible assets is the information required about the intangibles recorded on the balance sheet. The information regarding acquired intangibles is very complete and the value of each asset is divided, making it easier to read. The main subject discussed about intangibles is the impairment process and their useful life. Facebook has many different websites available, depending on the interest of the investor. For example, techprep.org is a website that gives a free introduction to computer programming. It includes an overview of what programming is as well as a list of the jobs available. Another page called facebookbrand refers to the Facebook as the brand assets, and sets rules in how it can be used. It also sets rules for the utilisation of the brand by advertisers or partners and developers. Facebook offers, on its Blueprint website, a catalog of online classes with many different subject, from understanding how to use ads on Facebook, to learning how to film a video. Facebook Business offers tools for professionals to have different insights on a person, depending on the way it acts on Facebook. The firm gives many statistics on the way its users act on their platform, depending on hat country they’re from. On that platform, Facebook shares the data it has collected on its users overtime. On its developers website, Facebook offers other opportunities for developers to expand their knowledge and their reach. On the website Facebook Research, the American company introduces all the different areas that are of interest for them, from artificial intelligence to data science and machine learning. This website gives the ability to read and download the latest publications available on these matters.

- **Microsoft** gives what brings economies of scale to its cloud business: larger datacenters with many applications and multi-tenancy locations that lower labor costs. It explains a great deal about artificial intelligence and its importance for Microsoft. They mention the investments made in the workplace and the transformation of data. The competition is intensively described. This report describes the services, not the way the data is used. The report explains the different research and development expenses, and mentions internal development. The company mentions that it seeks to attract talents all across the globe and it is the reason they have such different locations. Microsoft research, in collaboration with the top universities in the world help the company increase its input. A list of all the information is available in this report. On its website and its integrated annual report, Microsoft gives the major companies using its softwares. Then, it describes the new opportunities opening to Microsoft. The firm even states “the core currency of any business going forward will be the ability to reason over its data using artificial intelligence to drive competitive advantage”. Microsoft gives a global idea about all its products, services and new research programs. A complete ESG report is available for investors.
- **Alphabet:** Google has several different company website that are fairly difficult to access. The investor website states all the sources of revenues for Google, from apps and subscription fees to clicks on ads and views on Youtube engagement apps. Similarly to Facebook, Google has websites dedicated to research, artificial intelligence or to sustainability reports. The Think With Google website explains how to generate revenue from data. However, no information is given on the value created by these different segments of the company. Few information is given on the employees. Little emphasis is given on what brings value to the company.
- **Alibaba:** Alibaba’s annual report is, as for the other companies, very short. It describes the company’s activities and gives the financial information legally required but does not give any other information about the competition or the environment in which it operates. On the website, however, we can find market share the firm has in China. They have an entire website designated to ESG and sustainability. Alibaba claims that it explains in a clear and easy way how users data is collected and used.
- **Baidu:** Baidu’s annual report is 314 pages long. As for the other companies, it is listing all the activities at Baidu. Unlike the other firms, Baidu gives the useful life used for the impairment or amortization of purchased intangible assets. Very few

information is available on the English speaking part of the website. No information is available about ESG or sustainability.

## 6.2 QUESTIONNAIRE

### 6.2.1 *GAP BETWEEN MARKET VALUE AND BOOK VALUE*

1. In your opinion, how can the difference between the book value and the market value of a company be explained?
2. If you mentioned intangible assets in your previous answer, can you clarify which ones come to mind when you think about this value gap?
3. Which method do you use to value the share of a company?
4. When you carry out this valuation, do you take into account the value of intangible assets not disclosed in the financial reports?
5. If you answered yes to the previous question, how do you quantify these intangible assets?

### 6.2.2 *DISCLOSURE*

1. While we know financial and annual reports usually cover a fair amount of data about a company and its activities, do you think these companies are disclosing sufficient information about the gap between the market value and the book value?
2. In your opinion, are companies willing to disclose information about intangible assets?
3. Do you think an increased disclosure about intangible assets
  - a. Would be material for your valuation?
  - b. Would hurt the firm competition-wise?
  - c. Would confuse the investor if it isn't reported with a clear methodology?
  - d. Would be too expensive for companies? 10. What would be the costs for a firm to prepare these information? Would it be worth it, compared to the company's total value ?
4. Do you think there are irrelevant information shared in annual reports? If so, could you give an example?
5. Do you personally wish more information about intangible assets was available?
6. If you answered yes to the previous question, how do you think this information could be shared so it would be relevant and reliable?

7. Do you think that in order for the information to be relevant, it would be necessary for all companies in the same sector to be subject to the same reporting scheme?
8. While an analyst can afford to do further research on a company or meet with management, how can a simple investor have access to this information, if it is not clearly reported in financial reports?

### 6.2.3 SECTOR SPECIFIC QUESTIONS

#### 6.2.3.1 Pharmaceutical sector

*According to the GIFT (Global Intangible Finance Tracker) report 2017, 30.7% of the intangibles in the pharmaceutical sector are disclosed in financial statements.*

1. Can you think of specific intangible assets that are disclosed by companies in the pharmaceutical that they are not legally required to disclose?
2. Can you think of some intangible assets that are not disclosed in the pharmaceutical sector, and that would be material for your valuation?
3. What is the biggest intangible asset in the pharmaceutical sector?
  - a. Is it reported in annual report?
  - b. Is there a comparable basis available?
  - c. Is this information usually reliable? Is the disclosure of this intangible regulated?

#### 6.2.3.2 Technological sector

1. In your opinion, how do you explain the difference between the book value and the market value of a company?
2. In your opinion, do annual reports share enough information on this gap?
  - a. If so, what information are you referring to?
  - b. If not, do you believe they should/could disclose more about it?
  - c. Do you believe a higher disclosure on the difference between the book value and market value would be interesting for investors?
3. Do you think that the annual reports contain unnecessary information? If so, which ones? Why are they shared?

4. In your opinion, is the price-to-book ratio relevant for an investor? Does it provide relevant information on the company? Does its evolution reflect the evolution of the intangible capital within the company?
5. Do you think that disclosing more information about intangible assets not included in the balance sheet could be detrimental to the company? If you answered yes, can you elaborate on your answer?

### 6.3 TRANSCRIPTS

#### 6.3.1 DAVID EVANS – KEPLER CHEUVREUX, SENIOR EQUITY ANALYST

**Student :** In your opinion, how can the difference between the book value and the market value of a company be explained?

**David Evans:** Expectations of future earnings potential – can be very different from book values, especially in pharma! These can include internally generated R&D, brand value, if it is a customer-serving business, human capital, perception of management, and other not easily definable metrics like barriers to entry into a sub-sector, ability to create value out of investments, for example the Return on Invested Capital is higher than the Weighted Average Cost of Capital. Pharma is one of the sectors where market value is perhaps the most decoupled from book value.

**Student :** Can you think of intangible assets that would explain this large difference? Are they specific to the pharmaceutical sector?

**David Evans:** Intangible assets, when they are booked in our sector, on the Balance Sheet, should at that point in time generally or at least approximately reflect the future earnings potential or NPV of that particular asset. Intangible assets are generally booked only when acquired into the company. In pharma, products that come out of internal R&D usually don't have a value on the balance sheet. R&D is just expensed as it is spent. That may be different in other sectors though. So there is a big binary difference in BS accounting depending on whether the asset is developed internally, or licensed-in or acquired. The pharmaceutical companies often they refer to a patent, which should have a definitive lifetime in years. Brand value is somewhere in there too, for more Consumer Health businesses or diabetes. There is also some innate value to a 'good R&D unit' that has the potential to create value in the

future. That may include Roche, Novartis, AstraZeneca, Novo Nordisk ... these stocks get a premium. Not so much for GSK, Sanofi, Bayer to name some examples. Another important aspect that will bring value is commercial expertise, which is when the company is likely to successfully launch a new drug. I think the delta, in pharma at least, is more what is not booked on the balance sheet, which would be mostly internally generated innovation.

**Student :** How do you value a company? What method do you use?

**David Evans:** We use what is called a NPV sum of the parts. It's a mini DCF for each product or division that the company has. We model an approximation of discounted cashflows for the main products out to 2030 and then we add a terminal value.

**Student :** When you carry out this valuation, do you take into account the value of intangible assets not disclosed in the financial reports, as you said they were very valuable ?

**David Evans:** Yes certainly, we model sales for each drug. That is not usually driven by the value of intangible assets on the balance sheet, but perhaps for some recently acquired drugs we will certainly look at the balance sheet assets and see if that correlates with our NPV assessment. I think any others like brand value, management quality, R&D or commercial competence are extremely difficult to value usually

**Student :** How do you quantify these products' sales then?

**David Evans:** Very case by case! Depends on the drug, but we build a model (volumes, prices, uptake).

**Student :** Now I have some question about the disclosure practices of companies in the pharmaceutical sector. While we know financial and annual reports usually cover a fair amount of data about a company and its activities, do you think these companies are disclosing sufficient information about the gap between the market value and the book value?

**David Evans:** Hmm, not really but it would be very hard for them to value each asset for financial reporting purposes the way that we do. These companies are most likely going to share information on the intangible assets that they are legally required to quantify due to

financial reporting standards. I think I would be interested in knowing what 'commercial potential' / 'peak sales potential' the company thinks their assets have.

**Student :** Do you think it would be possible to make this information comparable between companies? Do you think it would hurt the companies competition-wise?

**David Evans:** Yes, it would be very hard to make that information comparable between different companies, but I don't think it would hurt the firms. Maybe just in some areas.

**Student :** Do you think the cost of doing so is worth it for companies? Wouldn't it be too much?

**David Evans:** I don't think that would be an issue for large companies.

**Student :** Do you think there are irrelevant information shared in annual reports? Can you give an example? Do you personally wish other information about intangible assets was available?

**David Evans:** In Pharma, I am less interested in some items like lease accounting, pension accounting, compensation reports although some groups of stakeholders I'm sure find them useful. And yes, I think in a broader sense it would be very helpful if management could at least give indications of their assessment of individual drugs' commercial potential. But then it would make our jobs slightly less interesting perhaps. One thing that could be done is within the intangible assets section get a more granular breakdown of what intangible value is attached to which drug or which asset, for the main ones.

**Student :** Do you think that in order for the information to be relevant, it would be necessary for all companies in the same sector to be subject to the same reporting scheme? Some companies have tried to create some but there is not general consensus to use one of the framework.

**David Evans:** Ideally yes, but not essential. Different companies already give different indications of long-term guidance or peak sales potentials for different drugs or areas, and those are all still useful.

**Student :** While an analyst can afford to do further research on a company or meet with management, how can a simple investor have access to this information, if it is not clearly reported in financial reports?

**David Evans:** Hmm. Well, it is judgement, building your own model, talking to sell-side analysts or reading the research, speaking to experts in the field, to assess the value of each asset. But there is a lot of matter of opinion involved.

**Student :** Do you think the disclosure is reliable once the intangible asset appears on the balance sheet?

**David Evans:** It is quite reliable at the time when the acquisition is done. After that, the process of testing intangible assets for write-downs is regulated, but any increase of intangible asset value is not, for example if good results are obtained.

### *6.3.2 FLORENT CESPEDES – SOCIÉTÉ GÉNÉRALE, SENIOR EQUITY ANALYST*

**Student :** In your opinion, how can the difference between the book value and the market value of a company be explained?

**Florent Cespedes :** It is very uncommon that book value of a company and market value are equal. Many factors could explained these differences such as the risk premium implied by market on the valuation on different assets and also the valuation of intangibles assets, notably following acquisitions.

**Student :** Can you explain what intangibles you're talking about?

**Florent Cespedes :** Valuation of patents, knowhow after an acquisition represent intangible assets. Also the delta between what is paid and what is not reevaluated between intangible & tangible assets is known as goodwill.

**Student :** Which method do you use at Société Générale to value the share of a company?

**Florent Cespedes :** We use the discounted cash flow, if these cash flows are quite predictable. We also use the net asset value and we do relative valuations. When we are

valuing a conglomerate, we will do a Sum of the Part. For more mature companies with a good visibility on dividends, we use the Gordon Shapiro model. On the Pharma side we use the average of the Sum Of The Part and a DCF.

**Student :** When you carry out this valuation, do you take into account the value of intangible assets not disclosed in the financial reports?

**Florent Cespedes :** No because good and intangible assets should be already there. If you think they are undervalued, then you can lower your equity risk premium used in your valuation.

**Student :** While we know financial and annual reports usually cover a fair amount of data about a company and its activities, do you think these companies are disclosing sufficient information about the gap between the market value and the book value?

**Florent Cespedes :** I think it's not relevant for the company to comment on that as they would always say that market value is underestimated the fair value of their company. Best would be to disclose the most information as possible on book value so that analysts & investors can have very detailed information to do an accurate analysis of what market value should be

**Student :** In your opinion, are companies willing to disclose information about intangible assets?

**Florent Cespedes :** ? Their valuation yes, what is operationally behind maybe not as it corresponds to company sensitive information, for competition reasons.

**Student :** Do you think an increased disclosure about intangible assets would be material for your valuation? Do you think it would hurt the firm competition-wise ?

**Florent Cespedes :** It could be depending on the difference between what is disclosed and what is not, however, I think the more companies disclose information the more it is risky to share its industrial secrets

**Student :** Do you think disclosing this information would be expensive for companies? What would be the costs for a firm to prepare these information? Would it be worth it, compared to the company's total value ?

**Florent Cespedes :** Once again it depends on what is disclosed but I don't think it should represent a lot of additional time and it could be worth it for company which have a lot of intangibles as it could an quite important part of the company total value, I am thinking here about tech companies for instance

**Student :** Do you think there are irrelevant information shared in annual reports? If so, could you give an example?

**Florent Cespedes :** I am not sure there are irrelevant information as the more detailed information the better it is for investors, although sometimes some detailed information are less necessarily interesting. of course the more the better, but sometimes when companies have different methodologies it is difficult to reconcile as the level of disclosure may be different. But it is true that investors would need a comparable base for this information. I do wish that more information was available about the position of the company compared to peers for example.

**Student :** While an analyst can afford to do further research on a company or meet with management, how can a simple investor have access to this information, if it is not clearly reported in financial reports?

**Florent Cespedes :** To me, it's makes sense that a financial analyst is able to do further research on a company and meet with management as he is a professional and need to have a deep insight on the co to write his analysis. For a retail investor its more difficult although most of the listed companies also have IRs for retailed investors. Lastly, I think management of the co needs to spend time with analysis & big shareholders, but it won't make sense for them to spend a lot of time with smaller investors as they need to manage the co and supervise operations rather than spending all their time to market their company.

*6.3.3 SANDRA VANDERSMISSEN – BNP PARIBAS FORTIS, SENIOR EQUITY SPECIALIST*

Didn't want me to record her.

#### 6.3.4 LUIS ALBERTO – BNP PARIBAS FORTIS, FINANCIAL REPORTING

**Student :** Selon vous, comment la différence entre la valeur comptable et la valeur de marché d'une entreprise peut-elle être expliquée ?

**Luis Alberto :** La valeur nette comptable est la valeur brute pour un actif spécifique, c'est à dire sa valeur globale au coût d'acquisition, minorée des amortissements comptables annuels. La valeur de marché, quant à elle, est le prix auquel vous pouvez actuellement vendre un actif sur le marché.

**Student :** Selon vous, le price-to-book ratio est-il pertinent à utiliser pour un investisseur ? Donne-t-il, au jour actuel, des informations pertinentes sur l'entreprise en question ? Son évolution reflète-t-elle du capital immatériel?

**Luis Alberto :** Le price-to-book ratio est un ratio qui nous aide à faire des comparaisons entre entreprises, du même secteur, ou pas. Les analyses peuvent pourtant être décevantes quand on utilise la valeur comptable, et donc ne toujours pas pertinentes pour les investisseurs, car cette valeur comptable ne représente qu'une partie de la valeur réelle de l'entreprise.

**Student :** Bien que les rapports annuels, sites web et communiqués de presse donnent une quantité importante d'informations sur les activités des entreprises, pensez-vous qu'il y ait des informations manquantes et qui seraient pertinentes pour les investisseurs ? Si oui, lesquelles?

**Luis Alberto :** Parfois ce n'est pas possible de donner des informations pertinentes pour les investisseurs car ces informations sont très difficiles à valoriser. Par exemple, comment valoriser la market share de l'entreprise? Comment valoriser une marque dans le marché ? Comment valoriser la compétence des équipes/colaborateurs ?

**Student :** Et pensez-vous qu'il y a des informations superflues dans ces informations financières ou non ?

**Luis Alberto :** Les informations sont généralement comptables ou réglementaires. L'objectif n'est pas de surcharger les rapports, bien au contraire, c'est de donner des plus amples infos sur les entreprises, à fin de permettre la transparence dans les marchés boursiers.

**Student :** Pensez-vous qu'il serait possible pour les entreprises ayant un haut pourcentage d'actifs immatériels d'évaluer ces actifs avec précision?

**Luis Alberto :** C'est difficile d'évaluer avec précision des actifs immatériels. Quand une entreprise est vendue, on peut faire des estimations plus précises que d'habitude, par exemple, quand Fortis a été vendue à BNP Paribas, on a valorisé la marque Fortis à hauteur de 50 millions d'euros.

**Student :** Si les investisseurs et analystes utilisent un modèle DCF, que considèrent-ils à la base de la génération de cash flows ? Le capital immatériel est-il pris en considération ?

**Luis Alberto :** Les modèles iront dépendre du type d'entreprise et de chaque secteur. De toute façon, les dépréciations des intangibles sont prises en compte dans le calcul des cash flows.

**Student:** Pensez-vous qu'une plus large divulgation de ces informations serait bénéfique aux investisseurs ?

**Luis Alberto :** Pas de soucis quant à la divulgation de ces informations, si elles existent. Mais la valeur comptable des entreprises est la réalité et donc la base de calcul pour les études ou analyses à faire

**Student :** Pensez-vous que la divulgation d'informations au sujet du capital immatériel pourrait porter préjudice à l'entreprise ? Si oui, à quel niveau ?

**Luis Alberto :** On peut surévaluer des bilans ou les états financiers des entreprises s'il n'y a pas de normes claires et transparentes sur la valorisation des intangibles.

**Student :** Si elles ne communiquent que très peu à propos de ce sujet, est-ce, pensez-vous qu'en dehors de la communication externe sur capital immatériel, les entreprises identifient,

en interne, ce capital immatériel ? Essaier-elles de le mesurer ? Y a-t-il un système de gestion mis en place ?

**Luis Alberto :** Dans les départements financiers des entreprises, la plus part des collaborateurs sont spécialisés surtout dans les actifs tangibles – les systèmes de gestion se basent surtout sur les tangibles. Les intangibles y sont aussi métrisés mais vachement moins que les tangibles.

### 6.3.5 KOEN DE LEUS – BNP PARIBAS FORTIS, CHIEF STRATEGIST OFFICER

**Student :** Nous allons essayer d'expliquer l'écart entre la valeur comptable et la valeur boursière d'une entreprise, même si il y a une différence de concept.

**Koen de Leus :** La comptabilité c'est le passé alors que la valeur boursière c'est le futur. La différence entre le price-to-book et le price-earnings ratio, c'est la croissance.

**Student :** Nous nous intéressons principalement au capital immatériel, mais effectivement le price-to-book fluctue, mais souvent lorsqu'on en parle aux entreprises, ils évoquent les fusions et acquisitions qu'ils ont eues. Mais lorsqu'on enlève tous ces facteurs externes tels que les M&A, on pourrait peut-être observer une évolution du price-to-book relative à l'évolution du capital immatériel.

**Koen de Leus :** Le price-to-book tient compte des actifs tangibles. Après si on regarde le price-to-book aujourd'hui, on constate probablement qu'il est beaucoup plus élevés car les actifs matériels sont de moins en moins présents. Donc c'est normal que la PB augmente. Le grand problème c'est que les actifs immatériels ne sont pas sur le bilan. Ils sont seulement inclus dans les coûts et les investisseurs ne savent donc pas ce que l'entreprise est en train de développer. Par exemple Wal-mart a beaucoup plus d'actifs matériels que Facebook et ça c'est un problème pour les investisseurs car avant, en ayant le bilan, tu pouvais déduire qu'une entreprise valait autant car elle avait telle ou telle usine alors que maintenant on ne voit plus rien sur le bilan.

**Student :** On analyse aussi la communication des entreprises au sujet de ce capital, et on remarque qu'il y en a peu. Quand on en parle aux entreprises, elles n'en ont pas tous la même

définition, ce qui les empêche de divulguer des informations au sujet de ces actifs. Que pensez-vous du niveau de communication des entreprises au sujet des actifs immatériels ?

**Koen de Leus :** Je ne suis pas analyste financier mais d'après ce que je lis, ils sont favorables au fait qu'il y ait une plus grande information communiquée. Le problème c'est, à quel sujet devraient-ils communiquer ? Pour eux c'est important que tout le monde ne soit pas au courant. C'est le dilemme. Tu vas valoriser une entreprise sans savoir ce qu'ils sont en train de faire. Pour moi, l'importance croissante de ces actifs immatériels, c'est que ça devient de plus en plus difficile pour les investisseurs de valoriser ces entreprises. Deuxièmement, avec les actifs immatériels, on va de plus en plus vers un monde où on est soit le champion soit un grand perdant qui est laissé avec rien. Si on investit dans des actifs immatériels, et ça marche, alors tu gagnes le Lotto, comme Uber. Si ça ne marche pas, c'est très difficile de vendre ces actifs sur le marché, c'est tout à fait différent de l'actif matériel pour lequel il y a un marché, comme pour une usine, ou une machine qui ne fonctionne pas, tu peux le vendre sur un marché. Il n'y a pas de marché pour aider ces actifs immatériels à être vendus. Et ça c'est le danger. Ça rend investisseur dans des entreprises avec beaucoup d'actifs immatériels beaucoup plus dangereux. C'est plus risqué. Naturellement, si ça marche, comme ce sont des actifs digitaux ou immatériel, il y a une grande scalabilité. Par exemple, Facebook, une fois développé, ou Uber une fois développé, ou même une marque telle que Coca Cola, il ne faut plus investir d'avantage, tu peux l'utiliser n'importe où. Je ne sais pas si ce niveau de risque sera résolu avec d'avantage d'information. Cela peut, pour l'investisseur, permettre de calculer un peu plus le risque mais ça n'améliorera pas grand-chose.

**Student :** Ces dernières années, il y a eu plein d'initiatives, comme la WICI, qui a développé des rapports intégrés, qui mélange des infos financières et extra financières. Ces entreprises communiquent surtout sur le développement durable mais peu sur le capital immatériel. Nous nous demandons donc, si on créait un framework pour que les analystes aient une base comparable, est-ce que ça serait réellement intéressant pour les investisseurs ? Dans des interviews précédentes, il m'a été dit que l'accent était plutôt mis sur les cashflows futurs dont la valeur découlerait des actifs immatériels et de leur utilisation.

**Koen de Leus :** Si tu as plus d'informations sur les actifs immatériels, tu as une meilleure vue sur les cashflows futurs.

**Student :** Est-ce que la finance comportementale peut entrer ici en jeu ? Si on voit une grande société pharmaceutique qui fait depuis des années des super produits qui fonctionnent très bien, par rapport à des entreprises qui auraient raté des essais cliniques à répétition, la personne que j'ai interviewée avait l'air de dire qu'elle investirait moins facilement dans ces entreprises là que dans d'autres. Si ils partagent bien leur information sur un effet en cours, j'aurai plus tendance à dire que ce produit sera successful.

**Koen de Leus :** Il y a 2 choses : si il y a de l'opérationnel excellence dans une entreprise, et pas dans une autre, oui c'est mieux de choisir la première, mais d'une autre part, ce qu'on remarque, c'est que les analystes regardent le passé et ont tendance à projeter le passé dans le futur. Normalement il ne faudrait pas. Peut-être juste avec l'opérationnel excellence. La malchance peut aussi entrer en jeu. Il s'agit alors d'un calcul de probabilité. Le pourcentage des entreprises qui fait une croissance de profits supérieur à la croissance moyenne sur 10 ans, le pourcentage est de 0,2%. Ce n'est pas tout à fait la même chose avec les actifs immatériels. En ce qui concerne ce qui devrait être partagé en plus, il est très difficile de le demander aux entreprises. Chez Uber, il faut voir combien de clics ils espèrent avoir ou d'autres mesures comme ça. Mais la technologie évolue tellement vite, une fois qu'on donnera ce qu'il faut partager, dans 2 ans ça sera tout à fait différent. Donc, plus on va vers un environnement boursier où les investisseurs individuels auront besoin de spécialistes qui parleront avec le management, et la valeur ajoutée des analystes viendra vraiment de la communication avec le management plutôt que l'analyse des bilans. Et ça rendra investir beaucoup plus difficile que maintenant pour les investisseurs individuels. Il y a un graphique montrant la croissance des general and research and development expenses, et qui montre aussi la croissance des actifs immatériels mis au bilan. En 1950, ça représentait 20% du turnover, maintenant c'est 32%. La corrélation entre le book value et les profits et le stock a diminué de 80 à 25%. L'importance des chiffres pour déterminer ce que fera un stock a descendu énormément.

**Student :** Maintenant il y a les frais de recherche & développement qui ne sont plus activables. En comptabilité, avant on pouvait activer les frais de R&D mais maintenant justement il y a une nouvelle règle comptable qui fait qu'on ne peut plus activer ces frais donc c'est encore un pas en arrière. On remarque donc que le bilan est de moins en moins utile, pertinent.

**Koen De Leus :** Oui voilà c'est tout à fait ça. C'est le grand problème et c'est également le cas aux Etats-Unis. Les investissements dans les actifs immatériels sont devenus supérieurs aux investissements en actifs matériels au milieu des années 90. Au UK, c'était en 2000/2005 et en Europe ce n'est pas encore le cas même si l'écart se réduit de plus en plus.

**Student :** Vous pensez que cette tendance va continuer comme aux USA et dépenser les investissements en matériels ?

**Koen De Leus :** Oui je pense que oui. Mais la seule chose à faire est d'avoir un changement des règles comptables qui doivent inclure de plus en plus des actifs immatériels mais c'est compliqué et c'est totalement contraire aux règles comptables d'aujourd'hui où il y a des amortissements. Si par exemple on regarde le « network effect », ça augmente et ça c'est quelque chose de bizarre. Et ça monte jusqu'au jour où le gouvernement dit que c'est fini avec les monopoles.

**Student :** Il y a aussi un problème de valorisation avec les actifs immatériels pour les mettre tels quel dans le bilan pour qu'après un auditeur signe en disant « oui je certifie ça » alors qu'en un coup ça peut perdre de la valeur contrairement à bâtiment, même si votre entreprise fait faillite, votre bâtiment vaudra toujours 1 millions.

**Koen De Leus :** Voilà mais ce n'est pas seulement ça. Il y a aussi l'entraînement des gens. Il y a également des organisations du style sygma 6 qui rendent les choses beaucoup plus efficaces mais ça c'est aussi il faut le valoriser et ça c'est aussi très difficile à valoriser. Au début, tu ne sais pas si ça va marcher ou non.

**Student :** Est-ce que vous pensez que les investisseurs seraient intéressés par avoir un peu plus d'informations sur les synergies que ça crée au sein de l'entreprise ? Comment ils l'ont mis en place ? Comment ils pensent que ça peut valoir pour ensuite pouvoir mettre une prime ?

**Koen De Leus :** Oui mais ils font ça naturellement lors des fusions et acquisitions. Mais oui ça serait bien d'avoir une estimation de la direction pour dire « oui on estime que si on installe ce mode de travail, on pourrait peut-être augmenter notre marge opérationnelle de 1

ou 2% » oui ce serait bien qu'ils disent cela. Naturellement pour eux c'est assez dangereux de dire mais rien dire je ne trouve pas que ce soit correct, ça ne marche pas non plus.

**Student** : Il y avait également la promesse de réussite au marché et que après si on déçoit le marché, on est puni plus fort que si on n'avait pas donné l'information au départ.

**Koen De Leus** : Oui mais on peut également sous-estimer les avantages et c'est ce que font beaucoup d'entreprises au moment où elles disent « probablement on va réaliser une croissance de x% l'année prochaine » . Ils disent 10% même si ils en pensent 15% afin de ne pas surestimer leurs profits. Je pense aussi que les investisseurs espèrent aussi que de plus en plus de directeurs, d'entreprises fassent de cette façon-ci , sous-estimer.

**Student** : Donc la seule solution aujourd'hui pour les investisseurs d'avoir des informations là-dessus c'est de directement aller dans l'entreprise et d'avoir une discussion avec le management ?

**Koen De Leus** : Oui mais également lors de l'assemblée générale et également passer par des analystes mais c'est également difficile pour les analystes de recevoir tous les contacts. D'une autre façon, je pense que c'est également une opportunité pour les analystes. Avant, ils avaient tout naturellement les bilans. Maintenant pour les analystes, ça peut être un avantage de pouvoir parler avec ces entreprises. Avant ils parlaient aussi avec ces entreprises mais ça ne servait pratiquement à rien car tout se trouvait dans le bilan. Aujourd'hui, c'est beaucoup plus sensible et donc ça donne beaucoup d'avantages d'aller parler des actifs immatériels avec l'entreprise parce qu'à ce moment-là , vous avez quelque chose de plus que les autres.

**Student** : Est-ce que les investisseurs avant d'investir dans l'entreprise vont réellement faire attention aux actifs immatériels de l'entreprise ou alors ils vont juste demander les chiffres prévisionnels de la société et les perspectives de croissance ? Est-ce qu'ils vont réellement se demander ce qu'il se cache derrière ces chiffres ? Je ne sais pas trop comment ça se passe lorsqu'une entreprise donne des chiffres à des investisseurs, est-ce qu'il y a des pièces justificatives derrière tout ça ? Est-ce qu'ils prouvent ces chiffres ?

**Koen De Leus** : Oui je pense qu'il y a des chiffres derrière tout ça. S'ils disent : « je pense qu'il va y avoir une croissance de 10% ». Pourquoi? Parce que premièrement on voit les

synergies, deuxièmement parce qu'on voit que le CA va augmenter... Normalement ils peuvent justifier tous ces chiffres. Mais pour l'instant, je pense que la manière de faire du business dans cette nouvelle économie avec des plateformes et tout ça, c'est tout à fait différent. Si tu ne regardes que le P&L, tu ne sais absolument ce qu'ils sont en train de faire. Si on regarde Uber avec ses nombreuses pertes, comment alors on peut croire qu'ils vont recevoir autant d'argent lors de leur entrée en bourse ? C'est parce qu'ils investissent beaucoup, parce qu'ils doivent capturer une part de marché suffisamment grande mais une fois qu'ils ont capturé cette part de marché suffisamment grande, ils n'ont plus d'investissement à faire et ne doivent plus investir sur leur database. Ainsi, chaque client additionnel ne coûte rien et c'est donc ce point de basculement qui est très difficile à déterminer mais si tu ne demandes pas et si tu regardes uniquement les chiffres, tu ne sauras jamais. Et ça c'était également le cas avec Facebook et Google, ils ont perdu des milliards et puis en un coup ils ont monté en flèche. Pour avoir une telle valorisation, il faut donc croire qu'ils vont capturer une part de marché énorme. Ce que Uber veut faire, il veut être le champion dans les taxis, les livraisons de nourriture,... Ce qui va y avoir, c'est qu'il va y avoir un grand leader et ensuite 1 ou 2 petits suiveurs mais ça je ne pense pas que ce soit le cas. Et pour justifier une telle valorisation actuelle de Uber, il faudrait que ce soit le cas or je n'y crois pas. L'entreprise Uber est donc pour moi survalorisée.

**Koen De Leus :** Dans cette économie de l'immatériel, si les gouvernements n'interviennent pas, je pense qu'il va y avoir dans chaque secteur un grand leader qui a 80% du marché comme google, Facebook, amazon et il va y avoir des autres qui seront beaucoup beaucoup plus petit. Mais je ne pense pas que ça va continuer comme ça car les gouvernements se rendent compte qu'à cause de ça, il y a de plus en plus d'injustice, d'inégalités. Je pense qu'ils vont intervenir et qu'il y aura de plus en plus de règlements, de règles dans le monde comptable.

#### *6.3.6 RUDY DE GROODT – BNP PARIBAS FORTIS, SENIOR EQUITY SPECIALIST*

**Student:** We would discuss intangible assets that aren't recorded in the balance sheet of companies.

**Rudy De Groodt:** I see, so, the name of a company, its clients, and in the tech companies, you will have a lot of intangible value of the company not in the balance sheet. It makes it

more difficult for the analysts to value the company, compared to a normal firm with tangible assets. Then you can easily do the maths, do the ratios of the company. It makes it easier for the analyst to evaluate the company. They take all those things on the P&L and the balance sheet in order to make a normal valuation. For other companies that are rich intellectually, it's difficult, because they are most of the time companies growing at 20-30-40% a year, they have very high multiples like P/E up to 70. And a lot of these companies don't have earnings yet but they have very high growth earnings potential but no earnings or sufficient earnings to say the valuation is sufficient. So why does these stocks trade at 7 times book value? A normal non-technological company is trading 1 time or below book value. Even if the intangibles are on the balance sheet, it can be a big part of the total actives on the balance sheet. Most of these brains company have very clever engineers but they are not on the balance sheet of course. They have also ecosystem, network systems, algorithms, artificial intelligence and a lot of expertise that aren't on the balance sheet. Even if it is on it, as they don't have a lot of plants and materials, they can be huge compared to the tangibles. But even for these companies, we can try to do a valuation. The most difficult thing is to put a value on something that is not on the balance sheet. But even on the balance sheet we can wonder: is it the true value? What about a house bought 100 years ago in the center of Brussels. I am a believer that everything should be on the balance sheet at a fair market value. That would be the IFRS 9, IFRS 16 that are going in that direction. If it's not on the balance sheet then you have to put yourself in the mind of a potential acquirer of that company and that would be the best exercise. The name Coca Cola and Apple have tremendous value and are not on the balance sheet. What's the real value then? You can be surprised that companies are being taken over at a premium of 150%, even 200%. If you look at the book value you see it's only a tenth of the takeover price. For example if I want to take over a company like Apple, it would be very useful to keep these clever minds in mine new company. If they have a large client lists, it would also be useful to take that client lists. In a normal takeover, companies pay a goodwill for the clients, the name of the company, the reputation, the good location. In the case of the digital companies, the valuation it will even be higher, because one of the great positives about these new worlds used to be that the big fish ate the small fish but in this new type of companies, the small fish can quickly become very big and eat the big fish. A firm can go bankrupt almost overnight because a start-up had a very good idea. It means that if you compare a normal takeover to the takeover of a digital company, all these intangibles not on the balance sheet will have to valued when the firm is acquired. That is the exercises analysts will have to make. If you are using traditional valuation method such as a DCF, you have to

give the growth rate in a long future but it's always very theoretical. The value of the assets is the net present value and the value of all future cashflows. If the growth is stable and if I make correct assumptions, I will get a decent DCF value at the end that you can compare to the current stock price. For technological companies it's very difficult to make these assumptions because the world is changing, they are changing very fast too. So if we want to use the normal valuation methods on that type of companies, we are going to try and condense the perpetual value into a 2 or 3 years DCF. It gives us the free cash flow yield. We put ourselves in the mind of the CFO of the company to see if it's the right financial structure, is it too much too little debt etc. The FCF yield represents the potential return for equity investors. It is a very condensed DCF model. For tech companies, we are normally taking the sustaining CAPEX. But for tech companies we are using all the CAPEX and cycles can be very short in this sector. We do a mark-up of the CAPEX, because if a tech company doesn't invest then it is gonna be eaten up by larger companies. Their sales are growing by 20-30% but they also have to invest a lot in CAPEX and R&D. It means that the FCF will be very low or even negative. It makes it very difficult to put a valuation. Using the CAPM you can also create a valuation for the company and then the price target of the company and therefore its market cap comes from that model. But if you are a software company and invest a lot and you might have a free cash flow yield de -1%. First you might think it's not interesting to get in as an equity investor. What we can do is to see what is the real value of that company. We should also take the worth of their softwares, econetwork, the growth potential etc. So you can correct your market cap by the value you're putting on the intangibles that aren't on the balance sheet. By doing so, you will say that based on the FCF yield, we have a price target that is not sufficient so we correct it. It's more like a sum of the parts. For the operational part you can try to make a DCF or a FCF yield but you should also correct it for the real value that's hidden into a company, and that is not easy. To do so, you can compare to peers or you can look to the potential sales or earnings that the company can deliver after a couple of years and after we've invested. You can put an estimated value on that kind of intangibles at the moment. Let's say they are not on the balance sheet but this can be very valued. For example if you take a look at Uber or other new takeovers, they have very new business models and trying to put a value on that kind of company, you can make a sum of the parts valuation and then you can compare it with the stock price level or the potential IPO price if the firm isn't quoted yet. These are the kind of exercises the analysts are trying to do. Looking two years forward is not that easy for this new type of companies. For them we have to take a longer term: five to ten years and then see what are the sales and earnings potential, what margins

they can obtain by doing so, after having made the biggest investments. In their first years after an IPO they will cash negative. Then you have to survive. If you can survive and you have enough finance capabilities and you can deliver your promises, then you will have real sales and earnings and then you can use a normal DCF. For an analyst, what is really important is to figure out what's not visible in the P&L and in the balance sheet. Normally what would be shown in the P&L would be a result of how you use your balance sheet. You don't have plants or trademarks just to have them on the balance sheet. They have to be there for a reason, to make money thanks to them. It's important that overtime they can be shown through the P&L. Even if they might not be there for a long time, you can add a value on these assets and this value will reflect later on the P&L. That means a lot of simulation exercises for the analysts.

**Student:** So where can we find this information needed for a simulation?

**Rudy De Groodt:** Normally you can't invest in a company if you don't know what their plans are, what their mission is, what they want to invest in. You can wonder what will be their total addressable market (TAM), what will be the potential, it's being based on a lot of assumptions.

**Student:** Does this company disclose this kind of information or is it your job to find this information?

**Rudy De Groodt:** For traditional companies, they disclose it. We have a lot of publications, my job is to see if the company is still on track with their long term strategic goals: if they want to grow 30% a year, are they doing it? Are they achieving the operating margins they are promising? So for an analyst it's very important to see if they're still on track because that matters a lot for the valuation. It means it can go up. Every quarter you will see if that company is still on track to achieve the promised potential. What we want to do with tech companies, we know they have a lot of brains, a lot of innovative projects and if you add these hidden value in the balance sheet, it will be translated into potential sales and earnings in the later years. So you could say okay for these assets it would be that kind of potential margins and valuation and you can discounted back, so we're coming back to the DCF model. You can simulate what the potential will be. For an investor or an analyst, he's not going to say that's the valuation today but they will be interested in a 12-months target price that they

base on what the company is doing and their assumptions. To put a decent valuation it's important to make very good assumptions that have to be realistic and often a bit too conservative because if the company increases the growth rate more than you expected than it's even better. Then you have potential upwards revision ability. One of the most difficult things is to put a value on the real intangibles.

**Student:** Would you be interested if the companies disclosed how much they think their innovative products are worth at the moment or do you think your valuation /DCF is more accurate than what they might do?

**Rudy De Groodt:** Normally they won't disclose that kind of things because it's asking to a CEO : what do you feel about a stock price? And they will almost always tell you it's too low. Internally the CEO and the management know what they are doing. They have 5 to 10 years forward guidance and plans. Even by basing ourselves on what they are saying, if they say they have a potential of 30-40%, they will disclose this kind of information of course because that is very useful for analysts and then you can make your own simulation. They will also present a bill if they can't obtain the expected targets. Of course there can be external factors that will impact the share price, like macroeconomic factors, or competitors with a better product or a new algorithm? But it's very difficult. There are clues, or you couldn't create a valuation.

**Student:** Do you think a company, even the traditional ones, disclose sufficient information about these hidden values or is it only during private meetings with analysts?

**Rudy De Groodt:** You never have enough information. And I'm always interested in more. But they also have internal plans that they don't disclose in details. If you ask them what they think their margins will be on a specific software activity, they can give a general number but they won't give a split. That is internal. Disclosure can be better, but it can always be.

**Student:** Is that for competition reasons?

**Rudy De Groodt:** Yes, indeed, because if another companies sees that they can make 30% EBITDA margins on that software, they might think it's interesting for them too and want to enter the market. So they will disclose the main path to obtaining their targets but won't give

the details. Most of the time they give enough information for analysts to have some very good clues about where the company is going. For example nowadays a lot of companies growing in the digital world are investing a lot in the cloud business, database related cloud etc.

**Student:** Do they disclose information about their hidden value?

**Rudy De Groodt:** To be honest these meetings are always useful and it's the task of the analysts. For example a business like one of the firm I analyse, they have sales, they have margins but they also have a lot of hidden value. If you simulate the potential within 5 or 10 years it could be an entirely new company. So if you ask the value of a business to the CEO, they can show you the growth path, they can't say exactly what they are going to do but they can see "if we hit all the targets internally, it could be a new firm". Some CEO say that they have hidden crown jewels. These might be put on the balance sheet at their fair market value but if it's hidden, so the task of the analyst is to get what could be done with these jewels and what could be their potential in different simulations. So disclosure, a CEO is not going to tell us "my stock price will be 150 euros in five years". But as an analyst, it is your task to simulate being based on the growth level they're giving, their targets in the long term if they have specific targets and what could be the potential stock price in that time? And if a CEO is saying "ok, we see a lot of opportunities into our business, it could also influence our sales". It is our job as an analyst to see the true value of this? Even if their EBITDA is negative, being based on what they communicated, what could be the potential of that company? There can be huge potential for this company in a couple of years even if they have negative EBITDA at the moment. That's not shown on the balance sheet. It is our task to see the value within a couple of years even it is hidden at the moment. Management, is in a lot of cases, well aware what will be the real potential of the company.

**Student:** Do you believe they disclose enough information about their awareness about their hidden value?

**Rudy De Groodt:** That depends from company to company. Some companies are very open. Otherwise they are not that open, but that's the job of an equity analyst or private equity investor.

**Student:** Do you think that Facebook, for example, knows the value of their algorithms, the name of the brand? Do you think that they measure it?

**Rudy De Groodt:** Yes, if you suppose that there will be a takeover attempt for Facebook. Let's suppose that Google will take over Facebook, Google will know what could be the potential of Facebook?

**Student:** What about if they don't get this information?

**Rudy De Groodt:** For me, as an equity investor, the easiest way to know about it is to do your own homework. Secondly, is to take a takeover attempt and then see what if the company accepts your takeover price and had the same idea as you. If they are aware that the company is that overpriced at the moment, they will be very glad to say "You can have the company at that kind of price". If they are very aware of what is hidden into the company, what will be the future potential, even if 30-40% premium, they will say "Oh no, no go away, you under valuing my company". So they know that.

**Student:** So for individual investors, how do they know?

**Rudy De Groodt:** That's a big problem. An analyst is someone who has to put a potential value, which is perhaps now hidden, within a couple of years being based on all information he has. That can be company-based information if they have a good disclosure, it can also what you will see in the sector, but it can also be your own simulation. So the better you do your homework, the better the disclosure of the company, the better you can have a specific value. Valuation is all information that is provided and all information that can be provided and that should be realistic to put to your model. By doing so, you can also take into account hidden value within a company because hidden value will come to the surface. So you need some triggers to unlock hidden value into a company. And that's also one of the aim of financial investor of equity investor analyst: they have to see what being valued at the moment, and what not being valued at the moment. So you need some triggers to unlock hidden value into a company. As an analyst, you always try to get more information about the company and as it is not on the balance sheet, it is the task of an analyst to try to value this kind of intangibles, hidden things but a framework like WICI would be great, indeed. The more you are willing to disclose, the more it will also help the valuation of your company.

But it can be detrimental due to competitive reasons. It's always the same when we ask company why they don't disclose this kind of information. They know it, they know it but they don't want to disclose it, otherwise competitors will take advantage of it and that's one of the main reason why they're not giving enough information. To be honest, if you would have a lot of hidden jams in your business, you can give some discloses of course, but you don't also want to attract potential bidders in your company. The more disclosure, the more potential you have to unlock this hidden value inside your company.

### *6.3.7 ANNICK MAAS – EXANE BNP PARIBAS, SENIOR EQUITY ANALYST*

**Student:** In your opinion, how do you explain the difference between the book value and the market value of a company?

**Annick Maas:** It can be due to momentary confidence loss by the market or vice versa, adjustments such as depreciations and amortization, etc

**Student :** In your opinion, do annual reports share enough information on this gap?

**Annick Maas:** That is very company specific – sometimes yes sometimes no. I think they could disclose more about it, and it might be interesting for investors to have this information.

**Student :** In your opinion, is the price-to-book ratio relevant for an investor?

**Annick Maas:** Personally I do not refer to it often and investors don't often ask about it. I agree sometimes it provides relevant information about the company.

**Student:** If there is a demand, why don't companies disclose more information about their intangible assets?

**Annick Maas:** It is very difficult to assess and I think it might be detrimental for the company in some cases.

6.4 FIGURES

	Consumer Goods	Extractives & Minerals Processing	Financials	Food & Beverage	Health Care	Infrastructure	Renewable Resources & Alternative Energy	Resource Transformation	Services	Technology & Communications	Transportation
<b>Dimension</b>	Click to expand										
<b>General Issue Category</b>	Click to expand										
Environment	GHG Emissions										
	Air Quality										
	Energy Management										
	Water & Wastewater Management										
	Waste & Hazardous Materials Management										
Social Capital	Ecological Impacts										
	Human Rights & Community Relations										
	Customer Privacy										
	Data Security										
	Access & Affordability										
Human Capital	Product Quality & Safety										
	Customer Welfare										
	Selling Practices & Product Labeling										
	Labor Practices										
	Employee Health & Safety										
Business Model & Innovation	Employee Engagement, Diversity & Inclusion										
	Product Design & Lifecycle Management										
	Business Model Resilience										
	Supply Chain Management										
	Materials Sourcing & Efficiency										
Leadership & Governance	Physical Impacts of Climate Change										
	Business Ethics										
	Competitive Behavior										
	Management of the Legal & Regulatory Environment										
	Critical Incident Risk Management										
Systemic Risk Management											

Table 13: Full Materiality map

		Financials						
Dimension	General Issue Category	Asset Management & Custody Activities	Commercial Banks	Consumer Finance	Insurance	Investment Banking & Brokerage	Mortgage Finance	Security & Commodity Exchanges
Environment	GHG Emissions							
	Air Quality							
	Energy Management							
	Water & Wastewater Management							
	Waste & Hazardous Materials Management							
	Ecological Impacts							
Social Capital	Human Rights & Community Relations							
	Customer Privacy							
	Data Security							
	Access & Affordability							
	Product Quality & Safety							
	Customer Welfare							
Human Capital	Selling Practices & Product Labeling							
	Labor Practices							
	Employee Health & Safety							
	Employee Engagement, Diversity & Inclusion							
	Product Design & Lifecycle Management							
	Business Model Resilience							
Business Model & Innovation	Supply Chain Management							
	Materials Sourcing & Efficiency							
	Physical Impacts of Climate Change							
	Business Ethics							
	Competitive Behavior							
	Management of the Legal & Regulatory Environment							
Leadership & Governance	Critical Incident Risk Management							
	Systemic Risk Management							

Table 14: Materiality Map for the financial sector

		Health Care					
Dimension	General Issue Category <sup>Ⓞ</sup>	Biotechnology & Pharmaceuticals	Drug Retailers	Health Care Delivery	Health Care Distributors	Managed Care	Medical Equipment & Supplies
Environment	GHG Emissions				■		
	Air Quality						
	Energy Management		■	■			
	Water & Wastewater Management						
	Waste & Hazardous Materials Management			■			
	Ecological Impacts						
Social Capital	Human Rights & Community Relations	■					
	Customer Privacy						
	Data Security		■	■		■	
	Access & Affordability	■		■		■	■
	Product Quality & Safety	■	■	■	■	■	■
	Customer Welfare	■	■	■	■	■	■
Human Capital	Selling Practices & Product Labeling	■		■			■
	Labor Practices						
	Employee Health & Safety			■			
Business Model & Innovation	Employee Engagement, Diversity & Inclusion	■		■			
	Product Design & Lifecycle Management				■		■
	Business Model Resilience						
	Supply Chain Management	■					■
Leadership & Governance	Materials Sourcing & Efficiency						
	Physical Impacts of Climate Change			■		■	
	Business Ethics	■		■	■		■
	Competitive Behavior						
	Management of the Legal & Regulatory Environment						
	Critical Incident Risk Management						
	Systemic Risk Management						

Table 15: Materiality Map for the health care sector