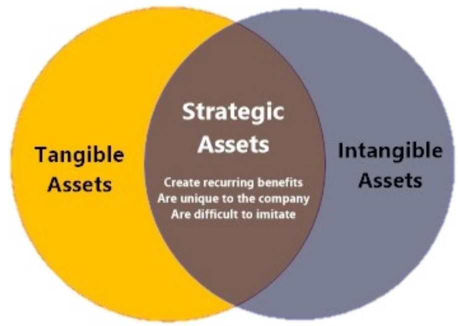
Enhance Your Company's Strategic Assets to Increase Value

What are Strategic Assets?

Strategic assets sit at the intersection of tangible and intangible assets and create recurring benefits, are unique, and difficult to imitate. Such strategic assets can include intellectual property, customer relationships, proprietary business processes and algorithms, novel revenue streams, and brand value.



Why focus on Strategic Assets?

The definition of strategic assets is related to the accounting term **goodwill**, which is an intangible asset that results from the acquisition of a company at a **premium value**. The premium is the amount an acquiring company pays for a target company in excess of the target company's book value. Strategic assets have historically been difficult to quantify, but are known to make a company more valuable.

Corporate buyers have been placing increased emphasis and value on strategic assets compared to tangible assets, like property, equipment, and manufacturing facilities. Corporate resources applied to building a robust set of strategic assets are increasingly providing a higher return on investment than those focused strictly on earnings growth.

High profile transactions such as **Facebook**'s acquisition of **WhatsApp**, **AT&T**'s purchase of **DirecTV**, and **Campari**'s acquisition of **Wild Turkey** all demonstrated the high percentage of purchase price allotted to goodwill due to the seller's strong set of strategic assets.

"Today, companies put far more money into non-physical assets, such as customer databases, than in building new factories. In 2014, companies invested the equivalent of 14% of the private sector's gross domestic product in intangible/strategic assets," according to research by Carol Corrado. "The investment in physical assets was about 10% of that sum, which is essentially the reverse of 40 years ago when 13% of the private sector GDP went to tangible/physical assets and only 9% to intangible/strategic assets."

There is currently more than $2.5 trillion in goodwill on corporations' balance sheets (Source: *TIME* magazine). Why? As corporate awareness of intangible asset value is increasing, fewer companies are pursuing acquisitions to add production facilities and other tangible assets. For example, when Microsoft bought LinkedIn, it was for almost exclusively for their intangible and strategic assets, such as its brand, website platform, user/customer data, and perhaps the management team and their connections (e.g., Reid Hoffman!).

How to determine which Strategic Assets to pursue?

Over the past few months, ***Gates and Company***, in conjunction with **Jahani & Associates**, have been working to determine if the strategic assets that help companies achieve premium valuations can be identified and developed. Knowing that the concept of strategic assets would not benefit every business, and would certainly vary sector-by-sector, the team began by reviewing M&A deals in the **tech sector**. Over 500 transactions that closed between 2010 and 2016 were analyzed to determine strategic asset characteristics and goodwill drivers.

Some of the tech M&A deals reviewed for this initiative included ….

- Google acquired Waze for $969 million and allocated $843 million to goodwill

- Yahoo! paid $990 million for Tumblr, with $750 million going toward goodwill, including $182 million for customer contracts and relationships

- Facebook's $17.2 billion acquisition of WhatApps had an astonishing $15.3 billion recorded as goodwill

- Microsoft acquired LinkedIn for $27 billion and allocated $16.7 billion of its purchase price to goodwill; and when it acquired Skype for $8.6 billion, $7.1 billion went to goodwill

In each of these examples, the target company's strategic assets (IP, customer relationships, brand, etc.) were valued significantly higher than their tangible/physical assets (plants, property, equipment, etc.). Results from the tech sector analysis indicated that companies with recognizable strengths in **social media**, **web advertising**, and **data analytics** consistently received valuations above market. Additionally, an active user/subscriber base was a driver in over 60% of the acquisitions.

Conclusions

Corporate leaders, business owners, and investors face a critical issue: in order to maximize value they must enhance the set of strategic assets in their company and/or portfolio of businesses. Thorough analysis of transactional data to identify strategic asset characteristics and goodwill drivers must be considered in conjunction with corporate core competencies, market dynamics, and economic trends to build out the most relevant value-enhancing strategic assets.

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About Gates and Company

With offices near Philadelphia and Munich, Germany, *Gates and Company* is an investment banking and management consulting firm dedicated to helping companies grow. With an impressive track record of helping numerous companies reach their goals, *Gates and Company* specializes in M&A, market research/analysis, growth strategy formulation, business plan development, product/venture launch, and financial advisory services.

Gates and Company's **Management Consulting** team has invested significant time and resources to refine and validate its methodology of determining strategic asset characteristics and goodwill drivers in the tech sector. Current efforts are underway in the Health IT sector. By reviewing market dynamics and hundreds of M&A deals on a sector-by-sector basis, *Gates and Company* offer these insights to its clients so they can better understand how to identify and develop an optimized set of strategic assets. *Gates and Company*'s **Investment Banking** team helps companies seeking liquidity with comprehensive M&A services to sell businesses or business units, including identifying and assessing those potential buyers most likely to be attracted to a company's current and developing set of strategic assets.

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