

# INVESTORS



## intangible capital: five things you should know

- 1 70% of the value of the average company is intangible** – This gap is seen in the difference between total corporate value and net book value of the average business. It is also seen in M&A situations where 70% is intangible and 47% ends up being booked as goodwill. This means that balance sheets are only 30% complete. For you, it means that you make investment decisions without an objective view of the future capacity or viability of a company.
- 2 This value did not appear magically, it is the result of decades of investment** – What is missing from discussions of intangibles and the words themselves (intangible and goodwill)—is an understanding of how this value was created. The driver has been the investments in knowledge (in the form of information technology, process and people) that have been made year after year in every corporation since the advent of the PC in the 1980's.
- 3 Intangibles distort all the financial data you see** – It's not just the balance sheet that is distorted. Investments in intangibles that are not capitalized end up passing through the income statement. This distorts the reporting of the true operating cost of an organization. No company really knows today its cost to operate versus its investment to build and maintain intangible capital capacity.
- 4 To get good data on intangibles, demand an inventory and a variety of measures** – Investors should ask companies to detail their intangibles: the core competencies of their people, their key strategic relationships and, most of all, the key processes they use to create value for their customers. Then ask where/how they are investing to build these intangibles. And finally, how can they demonstrate that they are performing up to plan?
- 5 Ultimately, future earnings projections are a triangulation of financial data and intangibles data** – Investors already understand the need to balance financial, quantitative and qualitative metrics. But you are not receiving the depth of information on intangibles that you need to make optimal decisions. Don't be satisfied with a 70% information gap.

**Of Special Interest:** Ch 1 (knowledge is the new oil), Ch 2 (intangibles are the new raw material), Part 3 (the new accounting)