

What Is All That Data Worth? --- A Lack of Standards for Valuing Information Confounds Accountants, Creates Blind Spot for Investors

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ABSTRACT

Corporate holdings of data and other "intangible assets," such as patents, trademarks and copyrights, could be worth more than \$8 trillion, according to Leonard Nakamura, an economist at the Federal Reserve Bank of Philadelphia. The Financial Accounting Standards Board, the nation's accounting authority, has struggled to update its rules for an economy increasingly driven by information and intellectual property.

FULL TEXT

What groceries you buy, what Facebook posts you "like" and how you use GPS in your car: Companies are building their entire businesses around the collection and sale of such data.

The problem is that no one really knows what all that information is worth. Data isn't a physical asset like a factory or cash, and there aren't any official guidelines for assessing its value.

"It's flummoxing that companies have better accounting for their office furniture than their information assets," said Douglas Laney, an analyst at technology research firm Gartner Inc. "You can't manage what you don't measure."

As more companies traffic in information and use big-data analytic tools to find ways to generate revenue, the lack of standards for valuing data leaves a widening gap in our understanding of the modern business world.

Corporate holdings of data and other "intangible assets," such as patents, trademarks and copyrights, could be worth more than \$8 trillion, according to Leonard Nakamura, an economist at the Federal Reserve Bank of Philadelphia. That's roughly equivalent to the gross domestic product of Germany, France and Italy combined.

These intangibles are becoming an evermore important part of the global economy. The value of patents, for example, has become a major driver of both mergers and lawsuits for technology giants like Google Inc., Apple Inc. and Samsung Electronics Co. But those assets don't appear on company financial statements.

"We want some kind of accounting information about it, so you have a better idea of how companies are investing for growth," said Mr. Nakamura.

The issue isn't confined to the tech industry. Supermarket operator Kroger Co. records what customers buy at its

sifts this data for trends and then, through a joint venture, sells the information to the vendors who stock its shelves with goods ranging from cereals to sodas.

Consumer-products makers like Procter & Gamble Co. and Nestle SA are willing to pay for those insights because it allows them to tailor their products and marketing to consumer preferences.

Mr. Laney and others estimate that Kroger rakes in \$100 million a year from data sales. But Kroger executives are mum on the subject.

Kroger does say that it follows generally accepted accounting principles, which prohibit companies from treating data as an asset or counting money spent collecting and analyzing the data as investments instead of costs.

The Financial Accounting Standards Board, the nation's accounting authority, has struggled to update its rules for an economy increasingly driven by information and intellectual property. FASB has debated the question of intangible assets twice between 2002 and 2007. Both times, complications convinced the agency to drop it from the agenda. Last month, however, members of the advisory council again advised the board to research intangibles, said agency spokeswoman Christine Klimek.

Among the issues: how to account for time employees spent gathering data -- as an expense or a capital investment?

Companies also would have to estimate the shelf-life of their data, figure out its future worth and track and report any changes in its value. Crunching those numbers would be relatively easy for a physical asset like a factory. But in the squishy world of intangibles, there's little precedent for such calculations.

"When those kinds of questions arise, they overwhelm the matter," said Dennis Beresford, who was FASB's chairman from 1987 to 1997.

The lack of consensus on how to measure data's value creates an especially big blind spot for investors in tech giants like Facebook Inc., eBay Inc. and Google, which rely on the data they collect for the bulk of their revenue.

"A lot of what is going on at the companies is not being reflected in public disclosures or the accounting," said Glen Kernick, a managing director at investment-banking and valuation advisory firm Duff & Phelps Corp.

Facebook, eBay and Google have combined assets minus combined debt of \$125 billion. But the combined value of shares is \$660 billion. The difference reflects the stock markets understanding that the companies prize assets, such as search algorithms, patents and enormous troves of information on their users and customers, don't show up on their balance sheets. That leads many investors to value them by other, more volatile benchmarks, such as cash flow or the economic outlook.

Many experts argue that investors don't need to know the specific value of intangible assets like data. They say a company's stock price reflects the market's appraisal of those assets.

"Data is worthless if you don't know how to use it to make money," said Laura Martin, an analyst with Needham & Co. Information on individual users loses value over time as they move or their tastes change, she added. That makes data a perishable commodity and more difficult to value at any given moment.

But relying on the collective wisdom of the market can be dangerous. Many investors lost their shirts in the dot-com bust of 2000, which followed a buying frenzy fueled by the widespread belief that traditional metrics for value and risk didn't matter in the "new economy."

One of the rare times that companies put a price tag on data is during corporate takeovers. In fact, the value of the data to be acquired in a deal is becoming an important consideration in mergers, said Bruce Den Uyl, managing director at consulting firm AlixPartners LLP.

Nielsen Holdings NV, which tracks what people watch on television and buy in stores, acquired radio-audience tracker Arbitron Inc. for \$1.3 billion in 2013. As part of that deal, Nielsen broke out the intangible assets it acquired on its balance sheet, including "customer-related intangibles" worth \$271 million.

That item included the value of long-term customer relationships as well as customer lists, but Nielsen didn't specify how much it paid for either.

Nielsen doesn't give a value for the data it has created on its own. But it assigned a value of \$1.98 billion of customer-related intangibles and \$4.82 billion of other intangibles it had acquired as of the end of the first quarter.

Nielsen declined to comment.

Mr. Den Uyl said that he values data based on how companies will use it to make money, and its expected life. He likened the process to solving a puzzle, in which he first values all the other acquired assets and then assigns some of what's left to data and goodwill.

A spate of hot patent auctions shows there is an active market for some intangibles, said Alex Poltorak, chairman and chief executive officer of General Patent Corp., which helps companies license and protect their patents.

Nortel Networks Corp. sold its technology patents for \$4.5 billion in 2011. That is more than the \$3.2 billion it got from the sale of its operating businesses after filing for bankruptcy protection in 2009.

That disconnect, Mr. Poltorak said, highlights how "the accounting profession has completely failed modern business in not being able to catch up to new forms of property."

Credit: By Vipal Monga

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