Appendix 2:
The three case studies

Case study 1

The sector and its main features

The company is medium-sized and operates in a global sector where brand strength, research, and product and process innovation are key. The customer management relationship, the reputation and image, the competencies of the employees, the organisational procedures, as well as the effectiveness of information systems are further significant features of the firms competing in this international business environment.

The company is listed on a stock market and has a value of EUR 195.8 million. The average multiplier of EBITDA for listed companies in the sector is 11 (P/E is equal to 27.5), whilst for the company examined it is equal to 9 (P/E is equal to 23.5).

Company financial statements and selected notes

Financial Statements for the fiscal year 2019 (in kEUR)

Summary Balance Sheet	2019	2018
Cash	3,200	2,600
Receivables	7,500	6,800
Inventory	3,120	4,350
Financial Investments	1,200	950
Property, Plant and Equipment	35,230	33,100
Intangible Assets	32,500	32,300
Total Assets	**82,750**	**80,100**
Trade payables	6,800	9,050
Pension liabilities	1,120	1,150
Long term debt	5,340	6,400
Shareholder Equity (including Net Income)	69,490	63,500
Total Liabilities and Shareholder Equity	**82,750**	**80,100**

Income Statement	2019	2019 %	2019
Revenues	90,625	100%	86,746
Cost of sales	(68,532)	-76%	(71,150)
Other expenses	(343)	0%	(415)
EBITDA	**21,750**	**24%**	**15,181**
Depreciation and amortisation	(7,828)	-9%	(7,780)
Impairment losses	(91)	0%	0
EBIT	**13,831**	**15%**	**7,401**
Interest expenses	(288)	0%	(248)
Taxes	(5,340)	-6%	(2,799)
Net income	**8,203**	**9%**	**4,354**

Accounting policies information 2019 (selection)

According to IAS 38, intangible assets are identifiable non-monetary assets without physical substance, controlled by the company and able to produce future economic benefits. All the intangibles reported have an operational nature, i.e., they are linked to, and employed in, the core business of the company.

Recognisable intangible assets are initially measured at cost or fair value.

The company's intangible assets of the Statement of financial position (Summary Balance Sheet), which equals EUR 32,500,000 include:

a) externally acquired brands of a carrying amount equal to EUR 20,250,000;

b) externally acquired patents amounting to EUR 10,270,000;

c) capitalised development expenditure (which have not yet led to patents) which amount to EUR 1.980 million (total annual amount of R&D expenditure is EUR 5 million; the expected time horizon of the impact of research output(s) is on average 5 years).

There is no goodwill.

All the above intangible assets are valued on amortised historical cost basis using the criteria set for tangible assets, and they are not revalued for financial reporting purposes.

Intangible assets with finite useful lives are amortised on a systematic basis over their useful life; the amount to be amortised and the recoverability of the carrying amount are determined in accordance with the IFRS criteria (IAS 38 and IAS 36).

Intangible assets with indefinite useful life (e.g., brands) are not amortised but tested for impairment at least once a year. Non-financial assets (tangible assets and intangible assets) are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts for those assets may not be recoverable.

The financial statements for the fiscal year 2019 and 2018 are audited by a leading audit firm.

Case study 2

The sector and its main features

The company is medium-sized and operates in a global sector where brand strength, research, and product and process innovation are key. The customer management relationship, the reputation and image, the competences of the employees, the organisational procedures, as well as the effectiveness of information systems are further significant features of the firms competing in this international business environment.

The company is listed on a stock market with a value of EUR 195.8 million. The average multiplier of EBITDA for listed companies of that sector is 11 (P/E is equal to 27.5), whilst for the company examined it is equal to 9 (P/E is equal to 23.5).

Financial statements and selected notes

[with internally generated brands, intellectual property and customer list that are capitalised at fair value, and R&D and related processes that are capitalised at cost]

Financial Statements for the fiscal year 2019 (in kEUR)

Summary Balance Sheet	2019	2018
Cash	3,200	2,600
Receivables	7,500	6,800
Inventory	3,120	4,350
Financial Investments	1,200	950
Property, Plant and Equipment	35,230	33,100
Intangible Assets	73,330	75,238
Total Assets	**123,580**	**123,038**
Trade payables	6,800	9,050
Pension liabilities	1,120	1,150
Long term debt	5,340	6,400
Shareholder Equity (including Net Income)	110,320	106,438
Total Liabilities and Shareholder Equity	**123,580**	**123,038**

Income Statement	2019	2019 %	2019
Revenues	90,625	100%	86,746
Cost of sales	(68,192)	-75%	(71,150)
Other expenses	(343)	0%	(415)
EBITDA	**22,090**	**24%**	**15,181**
Depreciation and amortisation	(8,048)	-3%	(8,780)
Impairment losses	(91)	0%	(85)
EBIT	**13,951**	**21%**	**6,316**
Interest expenses	(182)	0%	(248)
Taxes	(5,263)	-12%	(2,367)
Net income	**8,506**	**9%**	**3,701**

Accounting policies information 2019 (selection)

Following the Utopia GAAPs adopted by the company, intangible assets are identifiable non-monetary assets without physical substance, controlled by the company and able to produce future economic benefits. All the intangibles reported have an operational nature, i.e., they are linked to, and employed in, the core business of the company.

In accordance with those GAAPs, externally acquired intangibles are initially valued at cost or fair value, which corresponds to their purchase price.

Internally generated intangibles are recognised and valued on the basis of their fair value, that is determined as the cash flows expected from those assets discounted at the WACC of the company.

All intangible assets (of internal or external origin) with finite useful lives are amortised on a systematic basis over their useful life. All intangible assets (of internal or external origin) with indefinite useful lives are not amortised but tested for impairment at least once a year.

Non-financial assets (of tangible and intangible nature) are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts for those assets may not be recoverable.

Please note that financial statements include both intangible assets recognised according to IFRS (see letters a., b. and c. below) and intangible assets that would not be recognised in financial statements prepared according to IFRS, i.e., IAS 38 (see letters d., e., f. and g. below).

Specifically, the item "Intangible Assets" include the following:

a) externally acquired brands;

b) externally acquired patents;

c) capitalised development expenditure;

d) capitalised research expenditure;

e) internally generated brands;

f) internally generated customer list;

g) internally developed patents and know-how.

There is no goodwill.

The above intangible assets are valued as follows:

a) The carrying amount of the externally acquired brands equals EUR 20.250 million.

b) The carrying value of externally acquired patents amounts to EUR 10.270 million.

c) The amortised cost of capitalised Development expenditure (which have not yet led to patents) amounts to EUR 1.980 million. The total annual amount of R&D expenditure is about EUR 5 million; the expected time horizon of the impact of research outputs is on average 5 years.

d) The value of Research expenditure is based on the capitalised cost to be amortised over a 5-year period. The net amount of capitalised research expenditure in the Statement of financial position (Balance sheet) is equal to EUR 5.540 million. The amount of research expenditure capitalised for the current year, which is equal to EUR 950,000, corresponds to the personnel cost of the R&D department. The amortisation of capitalised research costs for the current year is equal to EUR 1,110,000. Note that research expenditure cannot be recognised on a balance sheet prepared according to IFRS (IAS 38).

e) The fair value of internally generated brands is based on the discounted future cash flows of EUR 16.590 million that is expected to be generated by them. The total cost incurred over the years for the development of internally generated brands is estimated to be equal to EUR 1,950,000. Note that internally generated brands cannot be recognised on a balance sheet prepared according to IFRS (IAS 38).

f) The fair value of customer list amounts to EUR 6.230 million. The total cost incurred over the years for the development of internally generated brands is estimated to be equal to EUR 1,340,000. Note that customer lists cannot be recognised on a balance sheet prepared according to IFRS (IAS 38).

g) The fair value of internally developed patents and know-how amounts to EUR 12.470 million. The total cost incurred over the years for the development of internally patents and know-how is estimated to be equal to EUR 3,990,000. Note that these types of assets cannot be recognised on a balance sheet prepared according to IFRS (IAS 38).

Note that the e), f), and g) valuations above are determined on the basis of expected discounted cash flows referring to those assets as forecast by the management. Expected cash flows are discounted by the WACC of the company that is equal to 5.4%, and which is consistent with the risk of the company and its debt-to-equity target. The projected cash flow numbers are derived from the 5-year financial plan elaborated by the management and validated by the company board. Both the expected cash flows and the WACC are audited by a primary audit firm according to the relevant auditing standards.

Internally developed intangible assets have been first recognised on the Balance sheet in 2017 (at their fair value). No new internally generated intangible assets have been capitalised in 2018 and 2019, with the exception of the research expenditure. No impairment of these assets has been carried out in 2018 and 2019.

Tangible assets are recognised using the cost model and stated at their purchase price or construction cost including any costs directly attributable to bringing the asset to the location and condition necessary for it. Depreciation of tangible assets begins when they are available for use, and is made on a systematic basis over their useful life, i.e. the period over which an asset is expected to be available for use by the company. They are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts for those assets may not be recoverable.

Inventories, including compulsory stock, are measured at the lower of purchase or production cost and net realisable value.

Pension liabilities are the net of the present value of defined benefit plan obligations and external plan assets.

There has been a distribution of dividends.

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Case study 3

The sector and its main features

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Corporate/Non-financial report 2019

(Traditional financial statements + KPIs and narratives on human, organisational and relational capitals)

Financial Statements for the fiscal year 2019 (in kEUR)

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Interest expenses	(288)	0%	(248)
Taxes	(5,340)	-6%	(2,799)
Net income	**8,203**	**9%**	**4,354**

Accounting policies information 2019 (selection)

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Intangible assets with indefinite useful life (e.g., brands) are not amortised but tested for impairment at least once a year. Non-financial assets (tangible assets and intangible assets) are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts for those assets may not be recoverable.

The financial statements for the fiscal year 2019 and 2018 are audited by a leading audit firm.

In 2019 company report, the following non-financial information on intangibles is also provided on a voluntary basis:

Company purpose: It is to “help the world run better and improve people’s lives by empowering our customers and employees to create a better economy, society, and environment for the world.”

Strategy and Planning: The company’s strategy can be illustrated using the following three key strategic pillars:

- High quality of delivered products and services to dynamically maintain the international competitive edge reached by the company;
- Strong innovation and research culture promoted through incentives and an agile development system open to collaborations with research centres, customers and territories;
- Flexible and clear organisational procedures achieved through IT systems and the empowerment of highly skilled and competent employees.

Business model: “The company’s business model is built to manage changing market demand and to capture new business opportunities through research and innovation. Customer focus and motivated employees are key to drive our business, create stakeholder value and to build a stronger company long term” (extract from company annual report).

Intangibles-related KPIs per category of intangible capital (drawn largely from the Generic KPIs suggested by WICI – **www.wici-global.com/kpis/**):

- **Human capital:**
  - No. of employees at the year-end: **419** (390 in 2018)
  - Average no. of employee training hours: **2,264** (5,544 in 2018)[1]
  - Competencies turnover: **70.21%** (85.31% in 2018)[2]
  - Degree of employee satisfaction: **6/10** (7/10 in 2018)[3]

- **Organisational capital:**
  - Internal organisational climate survey: **57% of employees are positively satisfied** (69% in 2018)[4]
  - Costs for the innovation/maintenance of IT systems per year: EUR **94,126** (EUR 108,176 in 2018)
  - No. of organisational development project proposals from employees: **30** (45 in 2018)
  - No. of organisational development project proposals from employees implemented: **25%** (35% in 2018)
  - Employee Retention rate: **80%** (87% in 2018)
  - New product ratio: **18%** (24% in 2018)[5]
  - Value added per employee: EUR **107,398** (113,065 in 2018)

- **Relationship capital:**
  - No. of active partnerships and joint ventures: **10** (15 in 2018)
  - Average no. of suppliers per product/service line: **9** (10 in 2018)
  - Customer satisfaction per product/service line: **6/10** (6.95/10 in 2018)
  - Reputation level resulting from independent external survey: **4.9/10** (5.8/10 in 2018)
  - Total no. of clients: **23** (31 in 2018)
  - Percentage of revenues from top 5 customers: **52%** (44% in 2018)

Risks and opportunities: The organisational risk appetite is aligned with the changes that occur in the external environment and communicated and managed throughout the organisation via the risk management system. In particular, the analysis of risks and opportunities is carried out by the management in such a way that, on the one hand, mitigation measures to prevent or reduce collateral effects are identified and, on the other, incentive actions to achieve the improvements are set up.

The key risks categories are: legal and compliance, human rights, employee development, product quality, innovation and research activity, customer relationships and loyalty, reputation, and Green House Gas (GHG) emissions and reductions.

[1] Amount of training hours on the number of employees (total and for HQ employees and sales' people).

[2] Calculated as the percentage of productive personnel capable of covering at least three tasks.

[3] Employee satisfaction survey's results.

[4] Organisational climate survey's results.

[5] Calculated as sales of products or services within 3 years from the beginning of their selling / total sales.

The Key Risk Indicators – KRIs provided in the report (and drawn from the Generic KPIs suggested by WICI – **www.wici-global.com/kpis**/) are the following:

1) Compensation claims in pending lawsuits

2) Diversification of risks (No. of main factories of suppliers of core products, or Herfindahl-Hirschman Index, showing the degree of decentralisation of the share of major products in relation to total sales)

3) Sale revenue concentration on main product/service lines.

4) Sale revenue concentration on top 5 customers

5) Number of suppliers per product/service line

6) Level of reputational risk

Stakeholder Engagement: The stakeholder engagement is mainly performed through employee surveys, customer satisfaction assessment, ongoing conversations with regulators and non-governmental organisations. The surveys are run by an external consultancy company. The Board is regularly updated on the key insights deriving from the stakeholder engagement exercises.