THE RELATIONSHIP BETWEEN INTANGIBLE ASSETS WITH
FINANCIAL PERFORMANCE OF PHARMACEUTICAL FIRMS

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ABSTRACT

The competitive advantage of Pharmaceutical industry determined by the firms' ability to generate new knowledge that can produce patents and new medicines turned into marketable products. This industry presents an asset-rich sample of company and high value of drugs. Furthermore, the industry has similar product life cycle, financial structure and operating expenses for the valuation of intangible asset. The imperfection reports of intangible assets of the Pharmaceutical firms create difficulties in future value creation. In order to makes a good investment decision and accurate cash flow forecasting, the largest Pharmaceutical firms voluntarily disclose drug product of sales revenue enabling calculation of future cash flow. The study aims to investigate the relationship between the financial performance indicators with the Intangible Assets of pharmaceutical firms globally. The period of research observation is over the past 10-year's period from 2007 to 2016. Furthermore, the 40 companies selected from the population of sample from Top 50 Global Pharmaceutical Companies by prescription sales and R&D spending in 2015 (in billion U.S dollars) sourced from The Statistics Portal. There are 10 companies excluded due to unavailable R&D Spending prescription and due to incomplete data from DataStream sources. Through this research, its help the investor in providing additional information about relationship between Intangible Assets (IA) with selected financial performance indicators which the Intangible Assets (IA) values has ability to measure the pharmaceutical companies' financial performance. The 5 selected financial performance indicators as well as for these research independent variables is Return on Asset (ROA), Return on Investment (ROI), Sales Growth (SG), Total Assets Turnover (TATO), and Free Cash Flow (FCF). For dependent variable, this study used Intangible Assets (IA) to value the company financial performance. Secondary data obtained from UiTM Databases as for all literatures review and DataStream collection in numeric form to test the hypothesis by using E-Views software. The data been analyzed by using descriptive test, correlation analysis, pooled ordinary least square (OLS) regression and lastly normality test to find out the relationship between the variables. The result shows that Return on Assets (ROA) has negative insignificant relationship with Intangible Assets (IA). Besides that, Return on Investment (ROI) and

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CHAPTER 1

INTRODUCTION

1.1 An overview of Intangible Asset in Pharmaceutical Industry

Recently in the knowledge era, the organization's ability to manage and prioritize intangible assets became vital for the survival of the company. The knowledge age leadership, by means of corresponding transformational effects on the economy and workplace with adaptation of modern management style to react on global competition that included the valuation of Intangible Assets in Financial Report, has replaced the industrial age management. In Industrial age management, only used accounting for Tangible Assets as figure of profit and loss and used main financial indicators in the balance sheets and financial report for the outcome of actions previously taken. The concentration on Tangible Assets in the industrial age has moved to Intangible Assets in the knowledge age. As a consequence, issues concerning intangible assets are now more widely researched and practiced (Chareonsuk & Chansa-ngavej, 2008).

According to Epstein and Mirza (2005), the intangible assets defined as non-financial assets without physical substance. This type of assets held in the production or supply of goods or services and might for rental to others, or for administrative purposes. The asset is identifiable and controlled by the enterprise because of past events, and from which future economic benefits expected to flow. There are a whole range of possible classes of intangibles, such as: brand names, mastheads and publishing titles, computer software, licenses and franchises, copyrights, patents and other industrial property rights, recipes, formulas, models, designs and prototypes, and intangible assets under development (Chareonsuk & Chansa-ngavej, 2008).

The definitions and terms of intangibles assets move toward in numerous. The terms of intangible assets can be differing for each perspective. For instances, the intangible assets considered by accounting researchers only consider are those assets recognized by traditional financial statements only, whereas researchers in other fields