

Goodwill Impairment Analysis



June, 2020




Goodwill Impairment Analysis

According to Ind AS 36, a company must conduct a goodwill impairment analysis annually or more frequently when a triggering event such as COVID-19 occurs

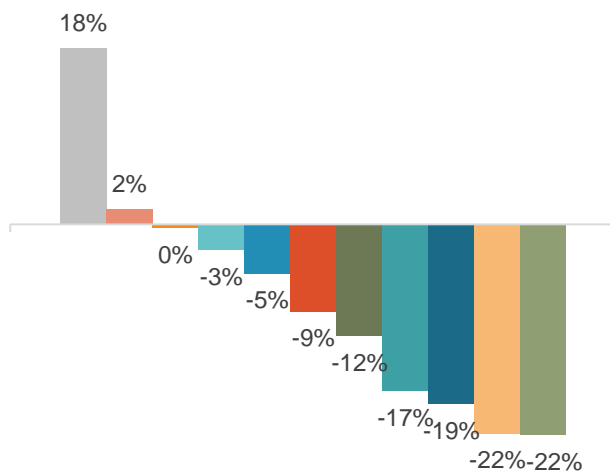


How do I determine if COVID-19 is a trigger event for my business?

While COVID-19 has affected the operations of most businesses across majority of sectors, each company needs to be holistically evaluated to determine the extent of applicability of a trigger event. Some industry criteria include:

-  Major decline in market capitalization
-  Severe impact on growth prospects
-  Shut down of operations/supply-chain
-  Increase in credit risk, as possibility of customer defaults

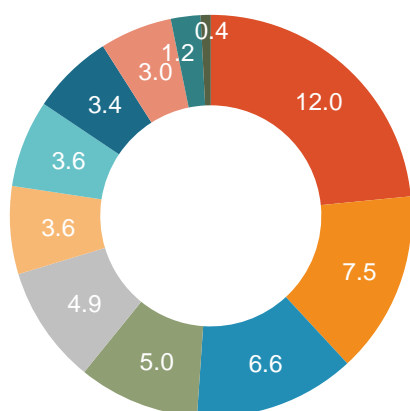
Average change in Market Cap from 31 Dec 2019 to 12 June 2020 for publicly listed companies by sector



Please refer to the legend below

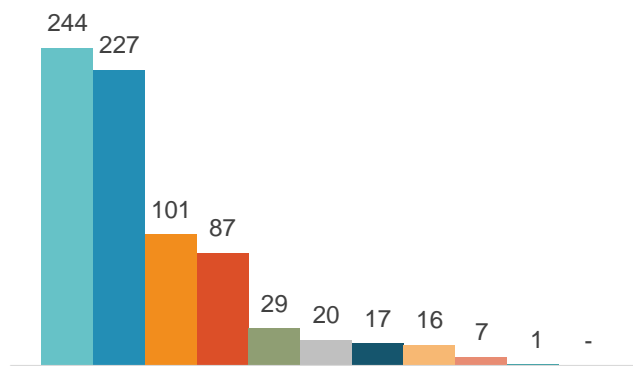
The latest Goodwill and impairment expenses reported for publicly listed companies indicate that firms are yet to record COVID-19's full impact on their goodwill

Last reported Goodwill balance by Sector (\$bn)



- Communication Services
- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Health Care
- Industrials
- Information Technology
- Materials
- Real Estate
- Utilities

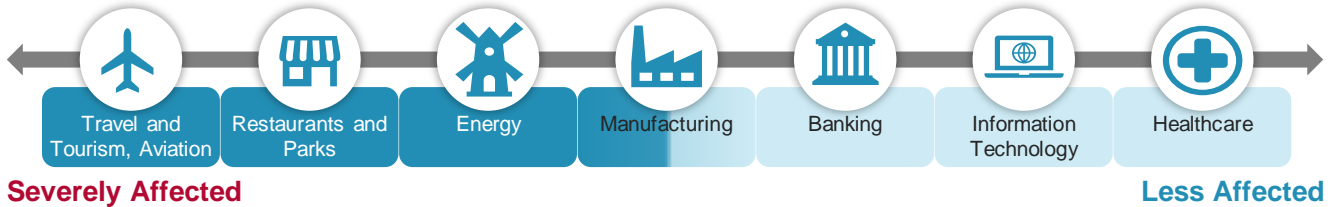
Latest Annual Goodwill Impairment by Sector (\$mn)



Data Source: CapIQ; Note: Data for publicly listed companies on NSEI and BSE

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Some industries that have been impacted by COVID-19



What does goodwill impairment testing involve?

- Conducting a valuation to determine the fair market value of a Cash Generating Unit (CGU)
- Assessing change in value of CGUs' tangible and intangible assets since the acquisition date or last impairment event
- Recording an impairment charge for the year in case the fair market value declines

What are the factors a Company needs to focus on during an impairment testing exercise?

- Conducting a scenario analysis to estimate the possible range of cashflow outcomes
- Analyzing the effect of the pandemic on each segment of a supply chain, from manufacturing to distribution
- Estimating financing requirements with respect to working capital and capital expenditure and incorporating the impact of high capital costs considering the current market scenario
- Revising the Company's growth estimates based on internal and external factors beyond the short term, including (but not limited to) supply disruptions, furloughs, and sale restrictions

Who are the process owners in a typical impairment testing exercise?

- Senior company management that takes decisions on the Company's revised outlook
- Auditors, legal advisors, and valuation firms that conduct impairment testing and provide independent opinions

How can we help you?

- Aranca has provided a range of independent valuation opinions on various financial reporting requirements for mid-market as well as large-cap companies across geographies and sectors. We understand the specifics of a goodwill impairment valuation analysis, from selection of appropriate discount rates to analysis of potential cashflow impacts and concluded values.

Please reach us if you have any questions



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