GOODWILL IMPAIRMENT SURVEY SUMMARY
SEPT/OCT 2019

The Financial Accounting Standards Board (FASB) recently opened an Invitation to Comment (ITC), soliciting feedback on whether and how to further simplify the accounting for goodwill and intangible assets for public companies. To better understand the needs and views of "users" of financial statements, VRC surveyed financial analysts, a group mainly comprised of CFA charterholders, who conduct fundamental analysis on public companies. (Although considered users, the survey excludes VRC valuation professionals.)

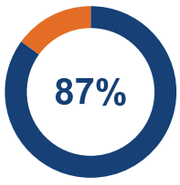
VRC believes that the user group is one of the most important stakeholder groups to be considered in evaluating the cost/benefit of the current goodwill impairment testing model. This group relies upon the information provided in financial statements to evaluate the risk profile, growth prospects, and the overall investment quality of public companies. It is reasonable to assume that the views of users closely align with the interests of shareholders.

VRC's user survey posed the following questions:

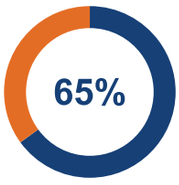
1. **When a public company announces a goodwill impairment charge, do you find the related information as it is currently reported on the financial statement to be informative?**
2. **Often before an impairment is taken, a public company communicates "early warning disclosures." How important is this disclosure information to your research and analysis?**
3. **Would you be in favor of switching from the current impairment-only model to a model where goodwill is amortized? If no, please explain why.**

USER SURVEY RESPONSES

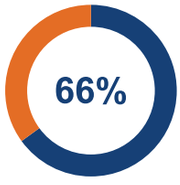
The key takeaway of this survey is that users appreciate the information provided in goodwill impairments; however, they want more details surrounding acquisitions, post-acquisition performance, and management's effectiveness in evaluating and pricing acquisitions:



Yes, current goodwill disclosures are important to research and analysis.



Yes, current impairment reporting on the financial statement is informative.



No, goodwill should not be amortized.

ADDITIONAL USER COMMENTS

The user group also provided some additional insights:

- Users are concerned about the growing differences between GAAP and non-GAAP earnings. Goodwill amortization would be an addition to the ever-increasing list of items included in non-GAAP measures.
- Users believe that amortizing goodwill may result in fewer impairments, thus masking the impact of poor managerial decision making.
- Amortization would be arbitrary, misleading, and not tied to economic reality.
- Users prefer more disclosures around goodwill, including the detail on the core causes of impairment. They believe that greater transparency leads to better capital allocation decisions.
- Goodwill impairments draw investor awareness and hold management accountable.

The responses to VRC's user survey are consistent with the belief that goodwill, one of the most significant assets on the balance sheet, is not a wasting asset; amortization of goodwill would be misleading and generally misaligned with the actual economic benefits associated with goodwill.