



# THE CURRENT STATE OF GOODWILL & IMPAIRMENTS

---

PJ Patel, CFA, Co-CEO | Valuation Research Corporation

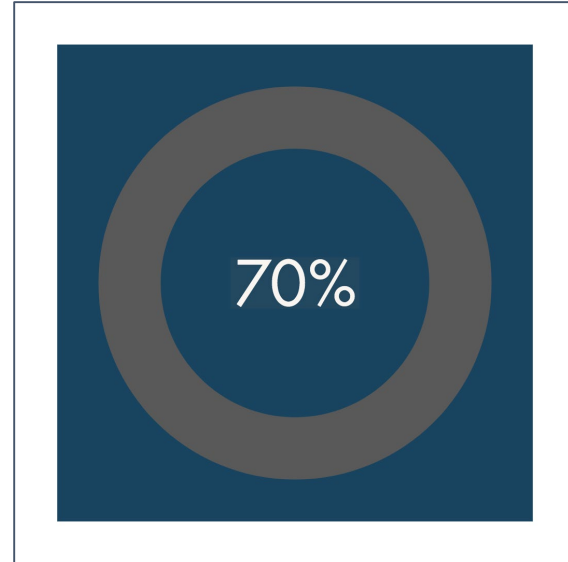
Pranav Ghai, CEO | Calcbench

# GOODWILL IS BIG

---



\$3T in goodwill on the balance sheet of S&P 500 companies



70% of Mergers fail to achieve desired returns\*

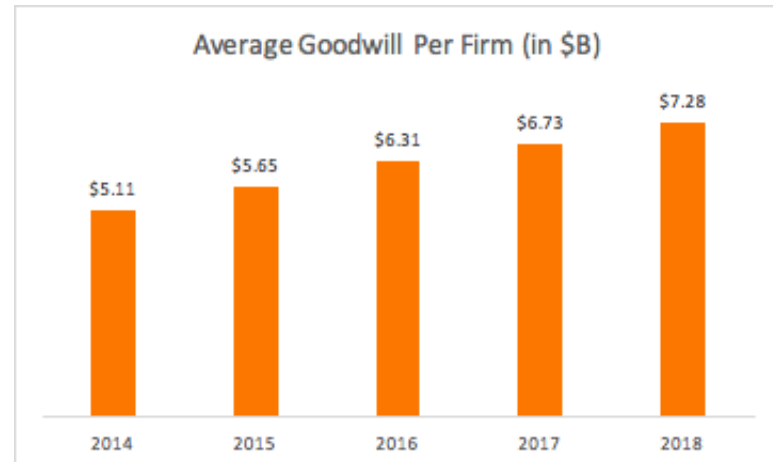
\*hbr.org/2011/03/the-big-idea-the-new-ma-playbook

# GOODWILL IS GROWING

---



S&P 500 company goodwill has risen 45 percent from 2014 to 2018



Average amount of goodwill per filer has risen 43 percent from 2014 to 2018

In addition, the ratio of goodwill to assets has increased across the S&P 500, and now sits at 8.77 percent compared to just above 7 percent in 2014.


## GOODWILL BY INDUSTRY

---

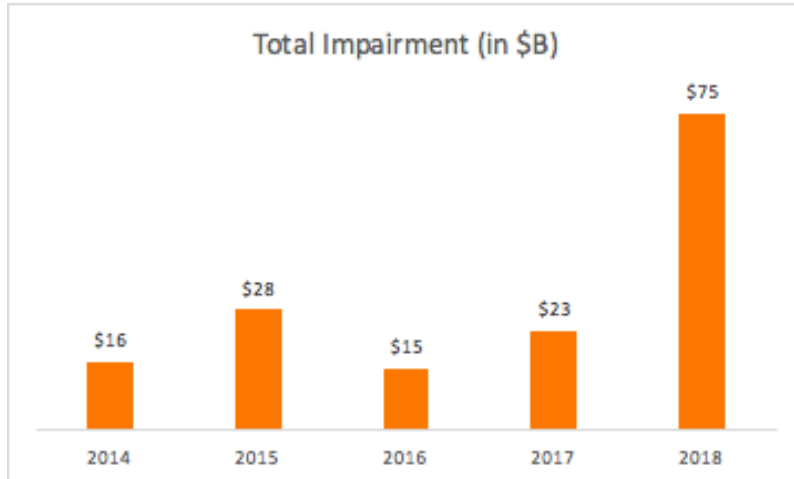
	Goodwill	Firms	Average Per Firm
Health Care	\$ 613,397,181,000	62	\$ 9,893,502,919
Financials	\$ 514,677,113,000	67	\$ 7,681,747,955
Information Technology	\$ 488,567,587,000	74	\$ 6,602,264,689
Industrials	\$ 418,862,695,000	70	\$ 5,983,752,786
Consumer Staples	\$ 369,237,588,000	33	\$ 11,189,017,818
Consumer Discretionary	\$ 289,804,425,000	76	\$ 3,813,216,118
Telecommunication Services	\$ 174,401,000,000	3	\$ 58,133,666,667
Energy	\$ 127,178,044,000	31	\$ 4,102,517,548
Utilities	\$ 65,812,438,000	28	\$ 2,350,444,214
Materials	\$ 62,688,909,000	24	\$ 2,612,037,875
Real Estate	\$ 34,584,774,000	32	\$ 1,080,774,188

From S&P 500 as of Sept. 27, 2019

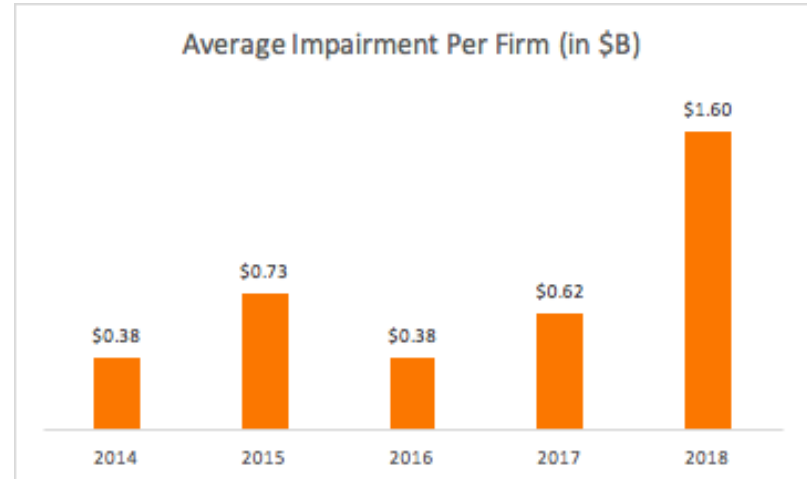
# PURCHASE PRICE ALLOCATION EXAMPLE (3M)

 <b>CALCBENCH</b>				Company Detail	Multi-Company	Disclosures	Analytics	Data	Breakouts	XBRL	Filer Portal
<b>Segments, Rollforwards &amp; Breakouts</b>											
Whole Universe: <input type="checkbox"/> <span>Choose Companies</span>		Individual Company: <input type="text" value="Company name or tick"/>		Period Type: Annual <input checked="" type="radio"/> Quarterly <input type="radio"/> ?				Date Range Type: <input type="text" value="All History"/>			
Looking at: 3M Co (MMM)											
Data Set: <input type="text" value="Business Combinations - Purchase Price Allocation"/>		Add Columns: <span>Metrics</span>		Fact Version: Revised <input checked="" type="radio"/> As Originally Reported <input type="radio"/> ?							
<span>Export</span>											
Entity	Target	Calendar Period	Business Combination								
	<input type="text" value="Filter"/>		<b>Purchase Price Allocation</b>								
3M Co (MMM)	Accounts receivable - Modal - - - Accounts - receivable	Q1-2019	\$77,000,000								
3M Co (MMM)	Other current assets - Modal - - - Other - current - assets	Q1-2019	\$16,000,000								
3M Co (MMM)	Property, plant and equipment - Modal - - - Property, - plant - and - equipment	Q1-2019	\$9,000,000								
3M Co (MMM)	Purchased finite-lived intangible assets - Related - Intangible - Assets - - - M - Modal - - - Pur...	Q1-2019	\$290,000,000								
3M Co (MMM)	Purchased finite-lived intangible assets - Modal - - - Other - Intangible - Assets - - - Purchase...	Q1-2019	\$160,000,000								
3M Co (MMM)	Purchased finite-lived intangible assets - Modal - - - Definite-lived - tradenames - - - Purchas...	Q1-2019	\$11,000,000								
3M Co (MMM)	Purchased goodwill - Modal - - - Purchased - goodwill	Q1-2019	\$580,000,000								
3M Co (MMM)	Other assets - Modal - - - Other - assets	Q1-2019	\$55,000,000								
3M Co (MMM)	Accounts payable and other liabilities - Modal - - - Accounts - payable - and - other - liabilities	Q1-2019	\$113,000,000								
3M Co (MMM)	Interest bearing debt - Modal - - - Interest - bearing - debt	Q1-2019	\$251,000,000								
3M Co (MMM)	Deferred tax asset/(liability) - Modal - - - Deferred - tax - asset/(liability)	Q1-2019	\$130,000,000								

# IMPAIRMENTS ARE GROWING



Impairments have nearly quadrupled from 2014 to 2018



Avg impairments HAVE quadrupled from 2014 to 2018

NOTE: ~40 firms per year have declared an impairment charge. While the number of firms is roughly steady, the amount of impairment has increased dramatically - that is the quadrupling effect. This is because of a single firm, GE, impairing assets in 2018.

# KRAFT-HEINZ EXAMPLE

<a href="#">Add Previous Period</a> <a href="#">Show All History</a> <a href="#">Compare Text</a> <a href="#">Remove Links</a>					
Period Ending: 12/29/2018   From: 10-K Filed On: 6/7/2019   Kraft Heinz Co (KHC)					
<b>Goodwill and Intangible Assets</b>					
<b>Goodwill and Intangible Assets</b>					
<b>Goodwill:</b> Changes in the carrying amount of goodwill, by segment, were (in millions):					
	United States	Canada	EMEA	Rest of World	Total
<b>Balance at December 30, 2017 (As Restated)</b>	\$ 33,701	\$ 5,246	\$ 3,238	\$ 2,640	\$ 44,825
Impairment losses	(4,104)	(1,947)	—	(957)	(7,008)
Reclassified to assets held for sale	—	(496)	—	(173)	(669)
Acquisitions	—	16	—	25	41
Translation adjustments and other	—	(381)	(164)	(141)	(686)
<b>Balance at December 29, 2018</b>	\$ 29,597	\$ 2,438	\$ 3,074	\$ 1,394	\$ 36,503

Goodwill at December 30, 2017 reflects the restatements described in Note 2, *Restatement of Previously Issued Consolidated Financial Statements*.

In the first quarter of 2018, we reorganized our segment structure to move our Middle East and Africa businesses from the Rest of World segment to the EMEA reportable segment. We have reflected this change in all historical periods presented. Accordingly, the segment goodwill balances at December 30, 2017 reflect an increase of \$179 million in EMEA and a corresponding decrease in Rest of World. This change did not have a material impact on our current or any prior period results. See Note 22, *Segment Reporting*, for additional information.

See Note 5, *Acquisitions and Divestitures*, for additional information related to our acquisitions in 2018, as well as assets held for sale at December 29, 2018 related to the Canada Natural Cheese Transaction and the Heinz India Transaction.

Our goodwill balance consists of 20 reporting units and had an aggregate carrying amount of \$36.5 billion as of December 29, 2018. We test our reporting units for impairment annually as of the first day of our second quarter, or more frequently if events or circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We performed our 2018 annual impairment test as of April 1, 2018. We utilized the discounted cash flow method under the income approach to estimate the fair value of our reporting units. As a result of our 2018 annual impairment test, we recognized a non-cash impairment loss of \$133 million in SG&A related to our Australia and New Zealand reporting unit within our Rest of World segment primarily due to anticipated and sustained margin declines in the region. The goodwill carrying amount of this reporting unit was \$509 million prior to its impairment.

# VISIT US ONLINE

---



[ValuationResearch.com](http://ValuationResearch.com) | [Calcbench.com](http://Calcbench.com)