

European Financial Reporting Advisory Group ■

Quantitative study on Goodwill and Impairment

EAA Annual Congress – panel discussion

Maastricht, 12 May 2016

The opinions expressed in this presentation are the author's own and do not reflect the views of EFRAG.

Index



I. Introduction

II. Data sample

III. Overall analysis

IV. Analysis by industry

V. Impairment losses

INTRODUCTION



- In 2014, a Research Group of EFRAG, the ASBJ and the IASB published a paper to discuss initial and subsequent accounting for goodwill.
- Respondents to the paper expressed mixed views, with some supporting the reintroduction of annual amortisation and others supporting the existing impairment-only model, with possible improvements or simplifications.
- Following the feedback, EFRAG is now conducting a quantitative analysis of goodwill in Europe with the objective to obtain evidence to better inform the conceptual debate around the accounting model for goodwill.

INTRODUCTION



- In this presentation, you will see the following 3 sets of data for the period between 2007 and 2014:
 - Overall analysis of trends in Goodwill, including ratios of Goodwill to:
 - Total Assets;
 - Net Assets; and
 - Market Capitalisation.
 - Disaggregation by industry
 - Trend of impairment losses, on an overall basis and by primary industry.

Key data

- From 2007 to 2014 Goodwill increased by 159 billion Euros
- Goodwill recognised by S&P Europe 350 companies declined in 2012 and 2013 and in 2014 it reached its highest level. The highest annual increases were in 2010 and 2014.
- Goodwill is very concentrated in 50 companies of the index (80%).
- On average, goodwill represents around 3.5% of total assets, but the ratio rises to around 17% when Financials sector is excluded.
- On average, goodwill represents around 33% of net assets and 23% of market capitalisation. Telecoms has the highest ratio across industries.
- The relative weigh of goodwill varies across industries. The Industries with the higher total amount of Goodwill per Company are Telecommunications, Consumer Staples and Healthcare.

Key data

- Impairment charges recognised by S&P Europe 350 companies were higher in 2008 and 2011, when financial markets were negative, and have since decreased.
- Goodwill impairment charges are very concentrated in 50 companies of the sample (90%).
- On average, annual impairment charges amount to 3% of the opening balance of goodwill.
- The intensity of impairment varies across industries. The industries with the higher ratio of impairment charges are Financials, Materials and Telecommunications.

DATA SAMPLE



- We used S&P Capital IQ database to get direct financial information on European listed companies. Our analysis focused on **S&P Europe 350** Index companies, for the time period between 2007 and 2014.
- **Goodwill changes (except for impairment)** could include acquisitions, disposals, effects of foreign exchange rates.
- After some adjustments, the adjustments, our sample ended up with 328 companies of a total market capitalisation of approximately 3 trillion Euros.
- This sample is not a *representative sample* and should not be used for *statistical inference*.

DATA SAMPLE BY INDUSTRY



- The following table shows the breakdown of the sample by industry:

Industry	Number of Companies
Financials	69
Industrials	64
Consumer Discretionary	52
Materials	34
Consumer Staples	30
Utilities	19
Healthcare	18
Energy	15
Telecommunication Services	14
Information Technology	13
TOTAL	328

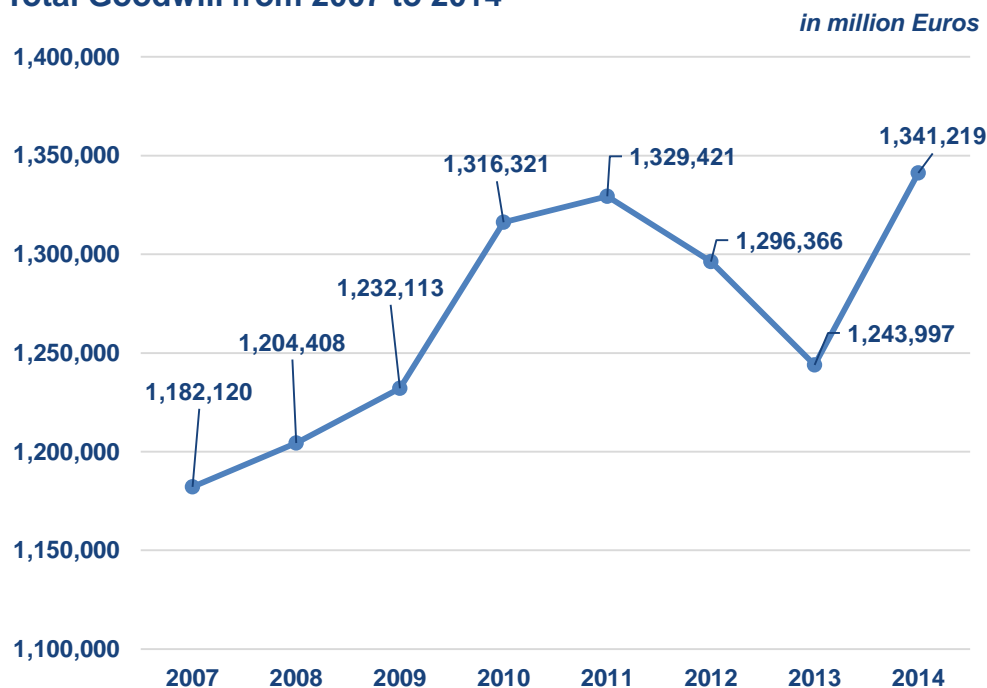
Overall analysis

A decorative horizontal bar at the bottom of the slide, composed of various colored rectangular segments in shades of blue, yellow, orange, purple, and pink, arranged in a slightly irregular, stepped pattern.

OVERALL ANALYSIS

The decline in goodwill in years 2012 and 2013 shows the effects from the euro sovereign debt crisis. European economies show some signs of recovery in 2014.

Total Goodwill from 2007 to 2014



From 2007 to 2014 **Goodwill** increased by 159 billion Euros.

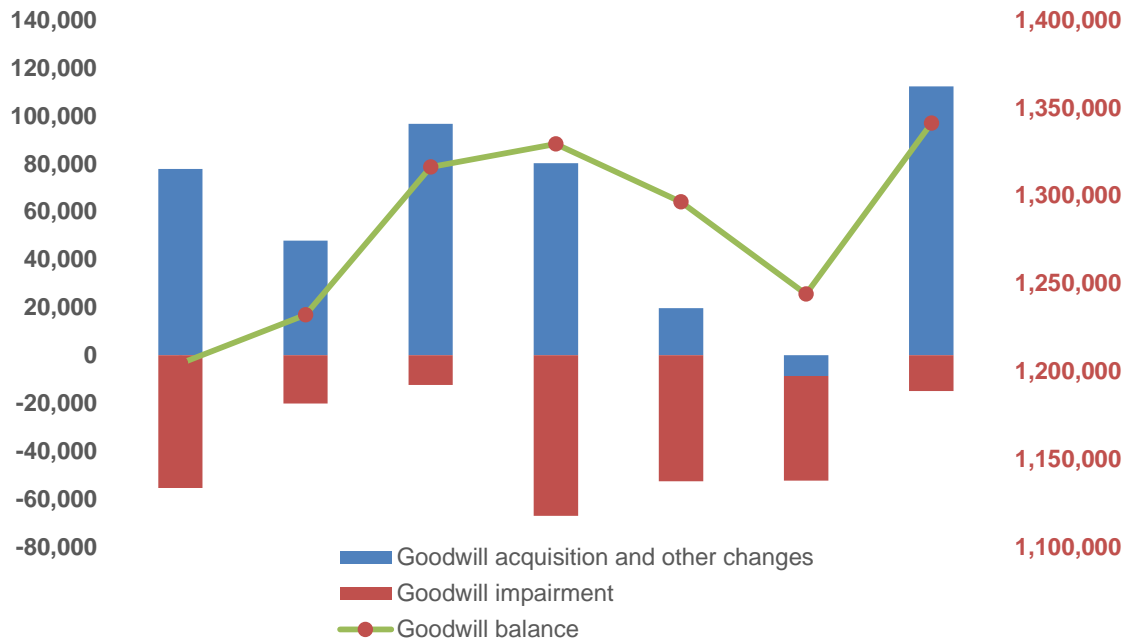
The total amount of Goodwill between 2007 and 2011 steadily increased from 1.18 trillion Euros to 1.33 trillion Euros. However, we can see a steep decrease in 2012 and 2013.

Subsequently, it started to increase and reached its highest level in 2014, amounting to 1.34 trillion Euros, showing recovery to values before the sovereign debt crisis.

OVERALL ANALYSIS



Goodwill changes from 2008 to 2014



The net decrease in 2012 and 2013 is due to less net additions and high impairment charges.

In 2014 there is a significant decrease of impairment and significant net additions. 80% of the net additions relate to 35 companies only.

OVERALL ANALYSIS



- As can be seen from the table below, the **percentage of companies that have recognised goodwill** has been increasing over time from approximately 88% to 93%.

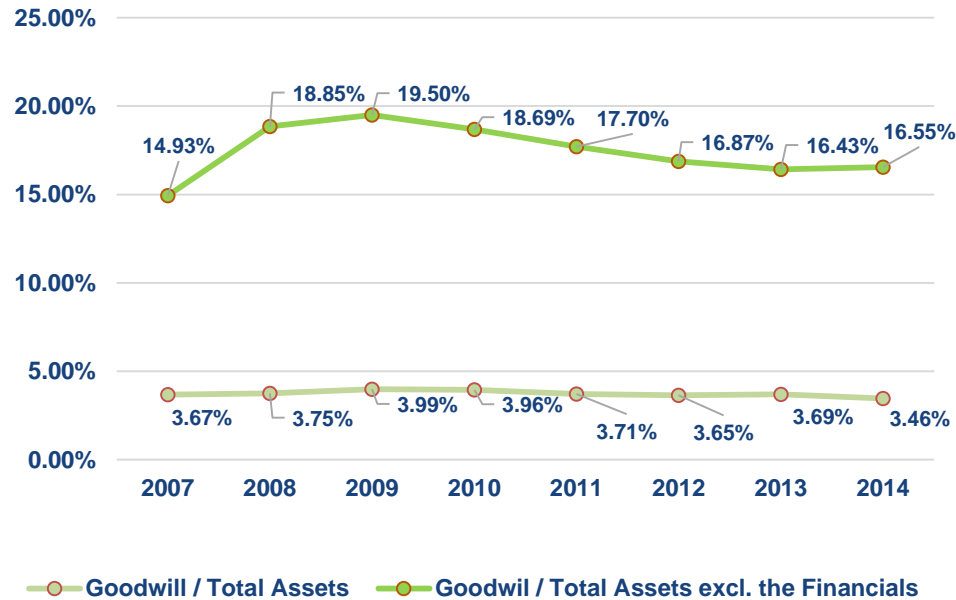
	2007	2008	2009	2010	2011	2012	2013	2014
Number of companies in the sample	328	328	328	328	328	328	328	328
Number of companies with Goodwill	289	291	290	297	299	295	300	306
% of companies with Goodwill	88%	89%	88%	91%	91%	90%	91%	93%

- On average, approximately 190 companies (58% of the total) have goodwill higher than 1 billion Euros and these companies amount, on average, approximately 96% of the total goodwill in all years under analysis.
- Goodwill is top heavy, with 60% of the balance concentrated in 50 companies only.
- A previous analysis of 6,690 European companies showed even a bigger concentration, with 50% of the goodwill recognised by only 50 companies.

OVERALL ANALYSIS

The ratio Goodwill to Total Assets averaged 3.5%. However, if we exclude Financials, the ratio is close to 17%.

Goodwill to Total Assets

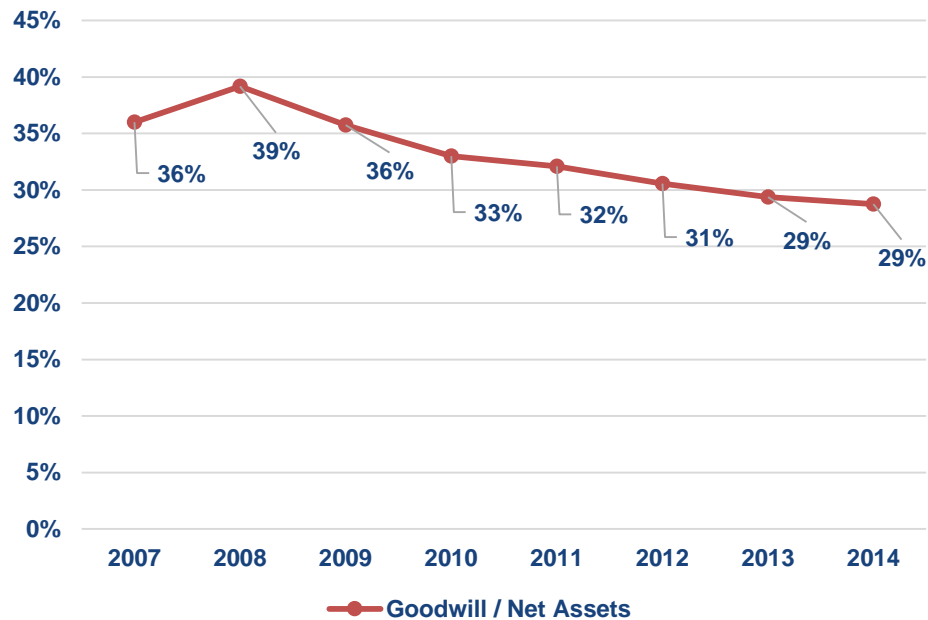


OVERALL ANALYSIS



The ratios of Goodwill to Net Assets is decreasing since 2008. Still, it is quite significant.

Goodwill to Net Assets

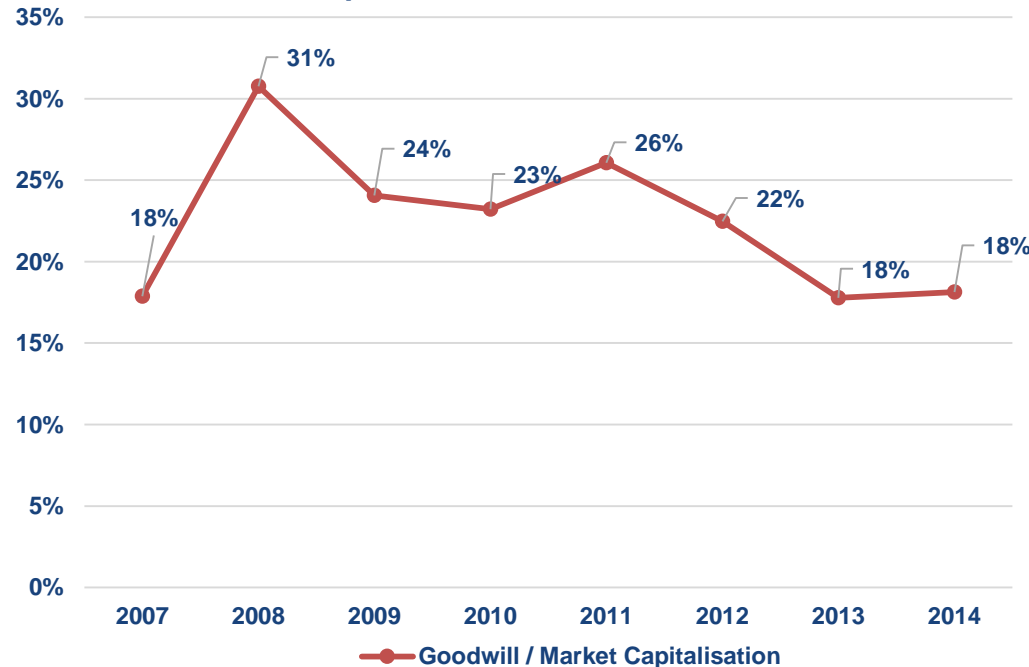


OVERALL ANALYSIS



The volatility of the ratios is mainly due to the volatility of Market Capitalisation. For example, Goodwill increased by 1.89% in 2008, while Market Capitalisation decreased by 40.80%, leading to a steep increase of the ratio.

Goodwill to Market Capitalisation





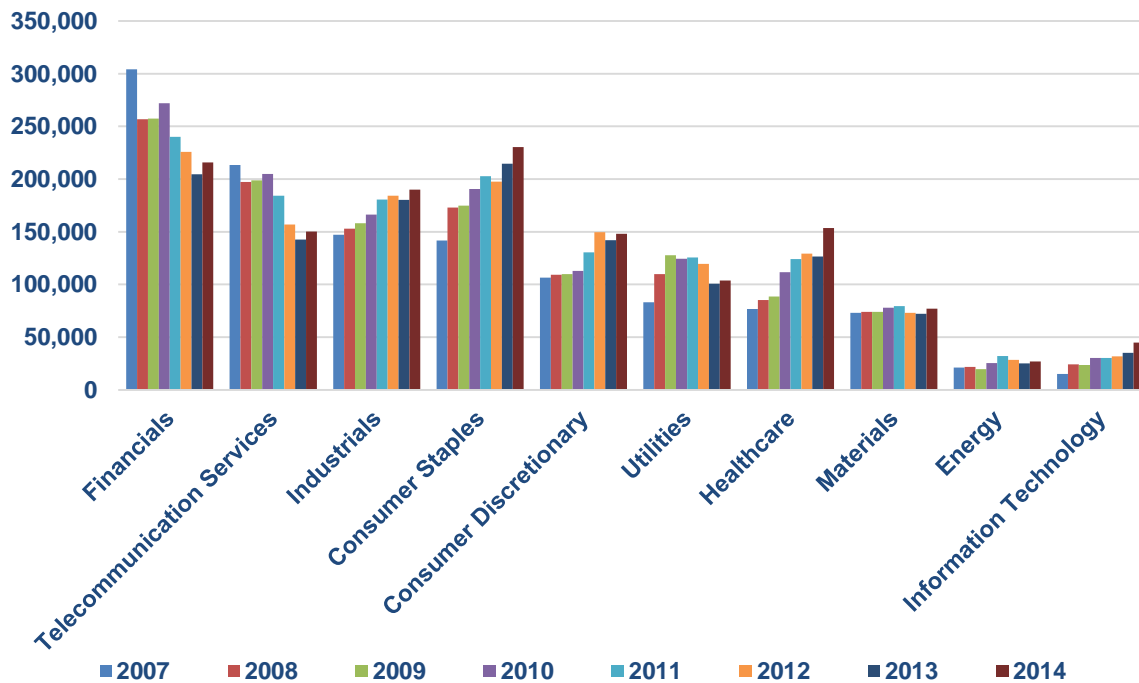
Analysis by industry

ANALYSIS BY INDUSTRY



Total goodwill by industry

million Euros



Amounts of **Goodwill** and evolution over time vary significantly across industries.

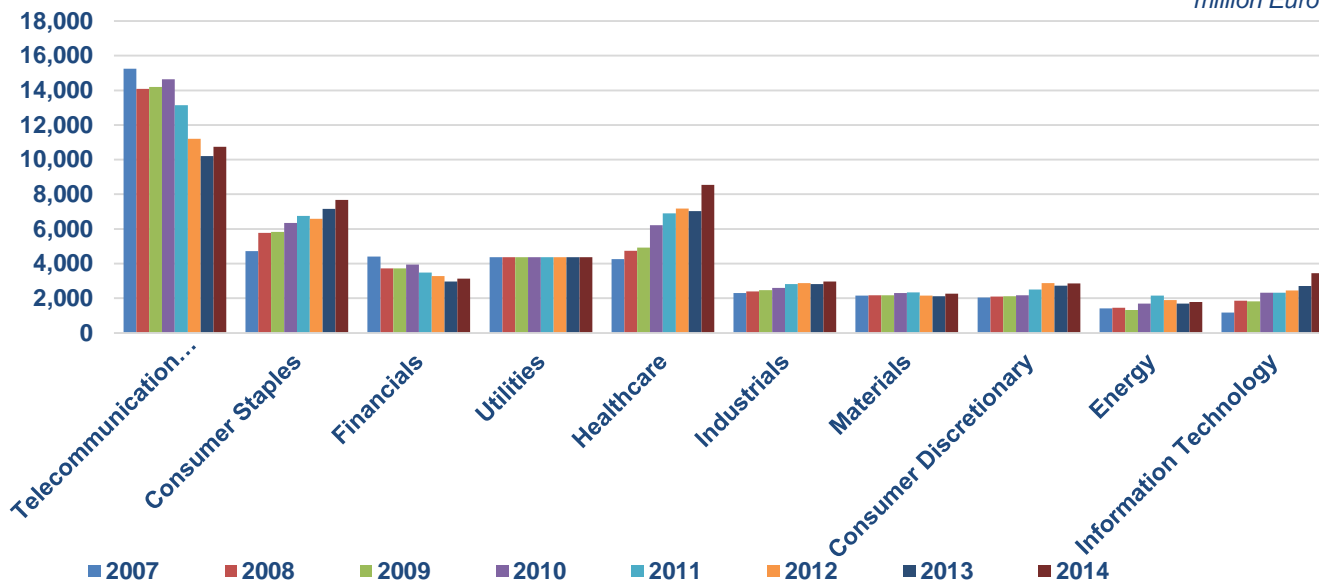
The total amount of Goodwill for Financials and Telecoms have been decreasing since 2007, while for all the other industries it has been increasing, even slightly for some.

ANALYSIS BY INDUSTRY



Average Goodwill per company by industry

million Euros

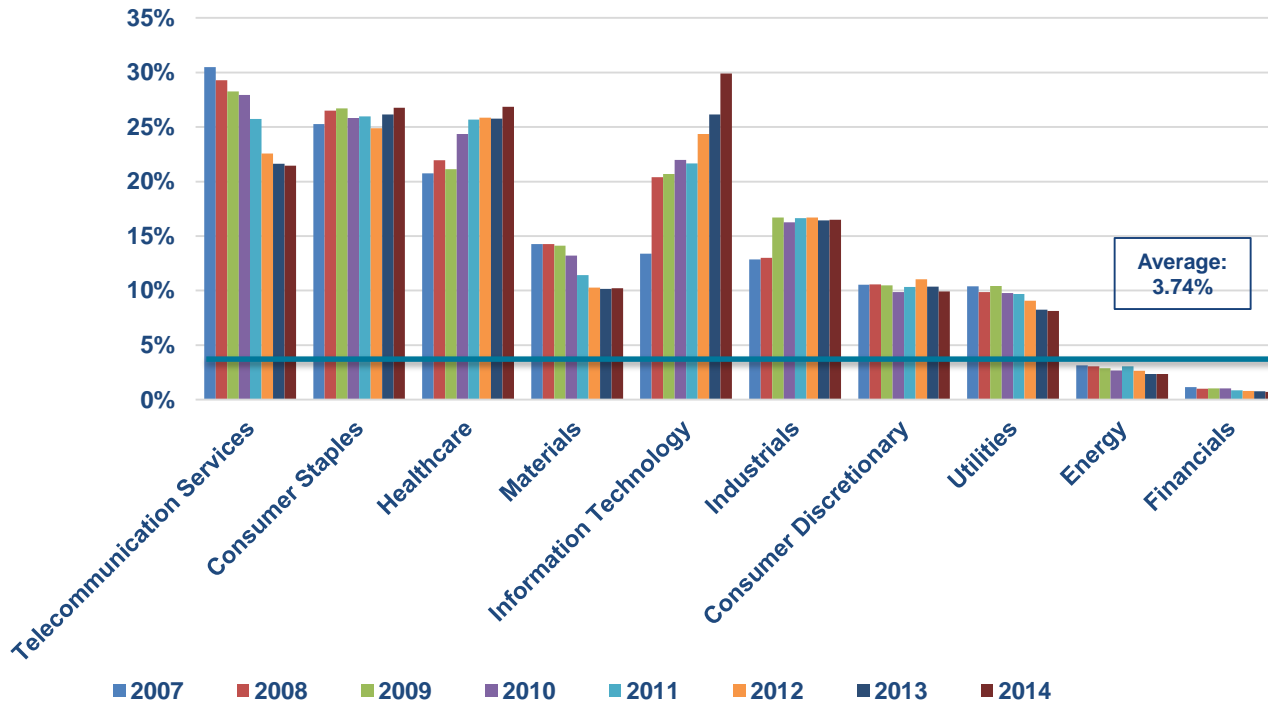


The previous analysis did not take into account the number of companies in each industry. In this chart we consider the average of **Goodwill per company** in each industry. The **top 3** are Telecommunications, Consumer Staples and Healthcare. Those with the **lower** average Goodwill per Company are Energy, Materials and Information Technology.

ANALYSIS BY INDUSTRY



Goodwill to Total Assets by industry

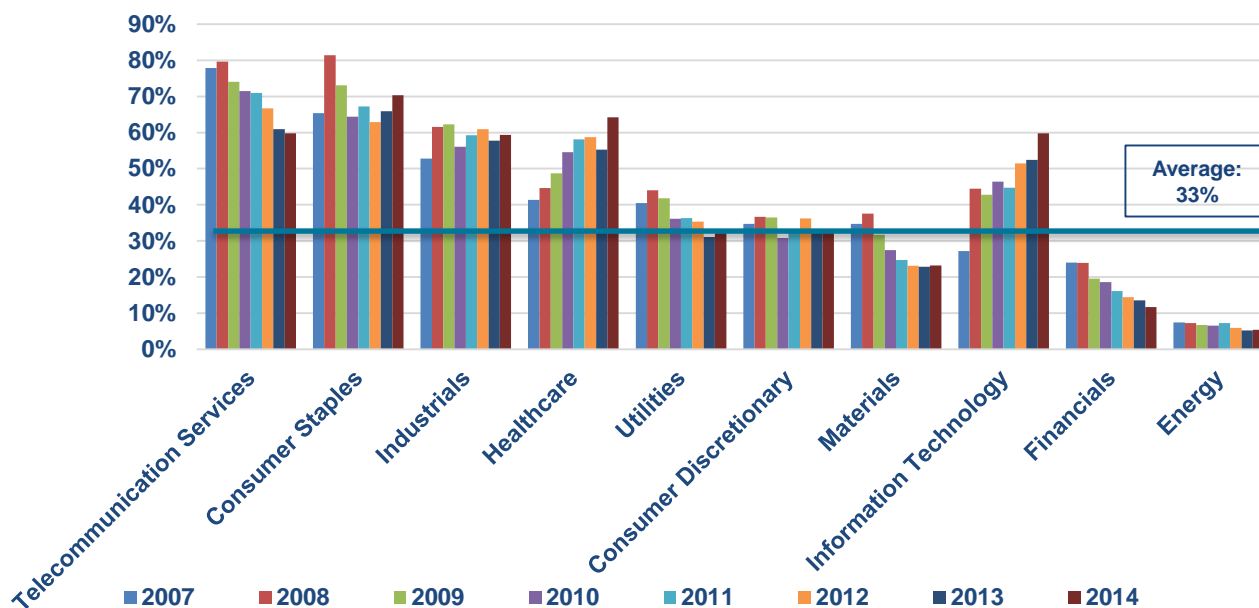


The ratio **Goodwill/Total assets** significantly varies across industries and the average ratio ranges from 1% to 26%.

ANALYSIS BY INDUSTRY



Goodwill to Net Assets by industry



The ratio **Goodwill/Net Assets** significantly varies across industries and over time. The average ratio ranges from 6% to 70%.

The three industries with the **higher** average ratio are Telecommunications, Consumer Staples and Industrials, while those with the **lower** are Energy, Financials and Materials.



Impairment charges

IMPAIRMENT CHARGES



The number of companies that recognised impairment charges between 2007 and 2014 was as follows:

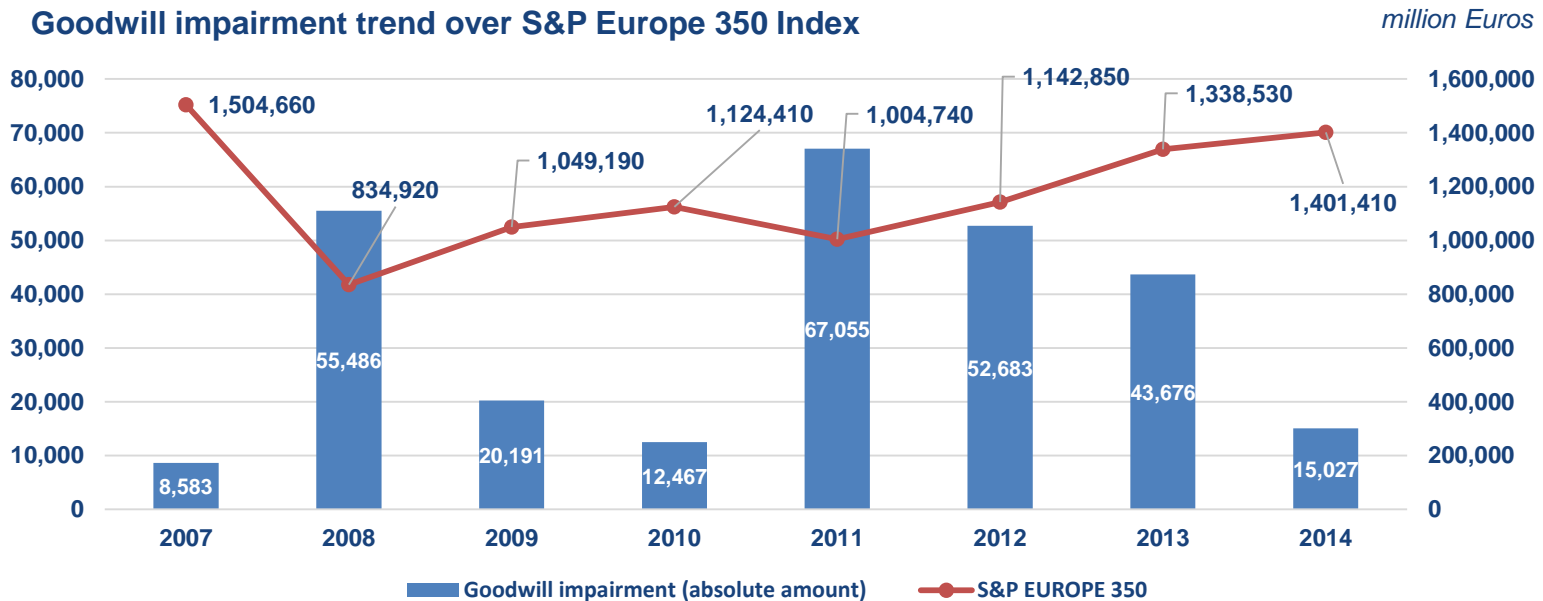
	2007	2008	2009	2010	2011	2012	2013	2014
Number of companies in sample	328	328	328	328	328	328	328	328
Number of companies with goodwill impairment	68	98	84	70	77	87	89	84
% of companies with goodwill impairment out of the total sample	21%	30%	26%	21%	23%	27%	27%	26%
Number of companies with goodwill	289	291	290	297	299	295	300	306
% of companies with goodwill impairment out of the companies with Goodwill	24%	34%	29%	24%	26%	29%	30%	27%

In each year, almost all impairment charges are recognised by 50 companies only. The percentage is only slightly lower when considering the larger population of 6,690 European companies.

IMPAIRMENT CHARGES



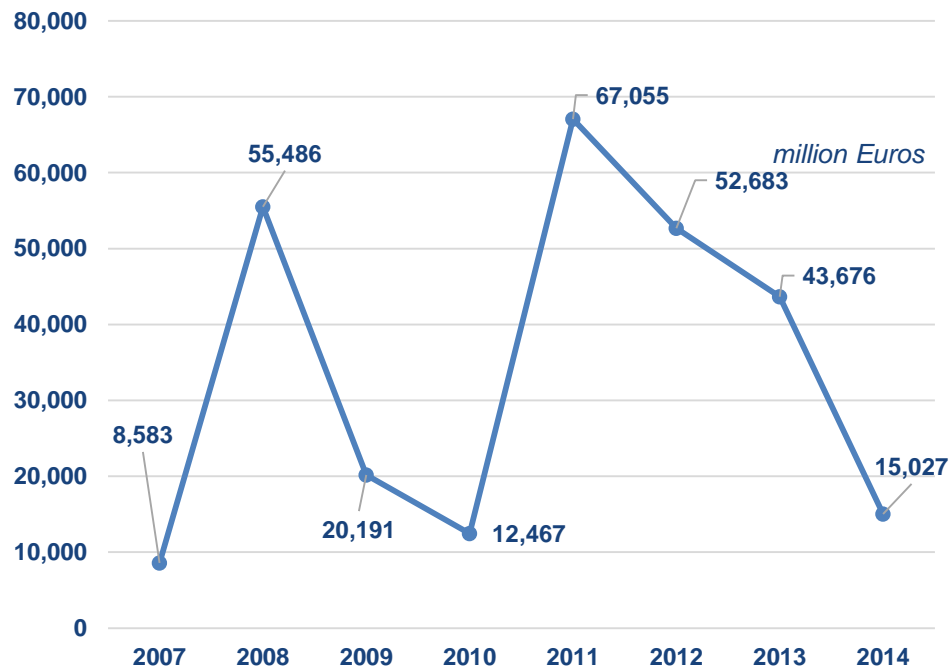
Impairments were higher when financial markets were negative and decreased when market were positive.



IMPAIRMENT CHARGES



Total goodwill impairment charges



The amount of impairments per year has changed over the years but the highest amounts of total impairment were recognised in 2011 (67 billion Euros) and 2008 (55 billion Euros), years in which the market capitalisation fell significantly.

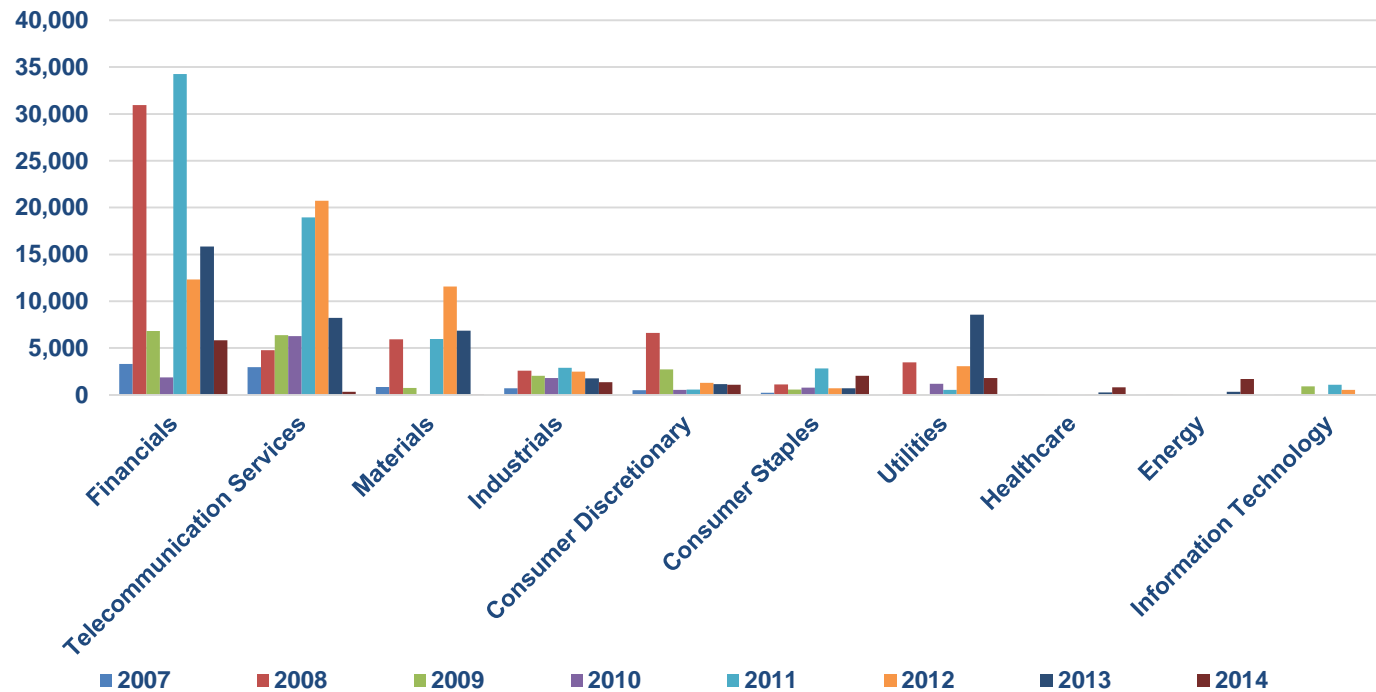
Since 2011 the total amount of impairments has been decreasing and in 2014, it has almost reached the levels of 2010.

IMPAIRMENT CHARGES



Impairment charges by industry

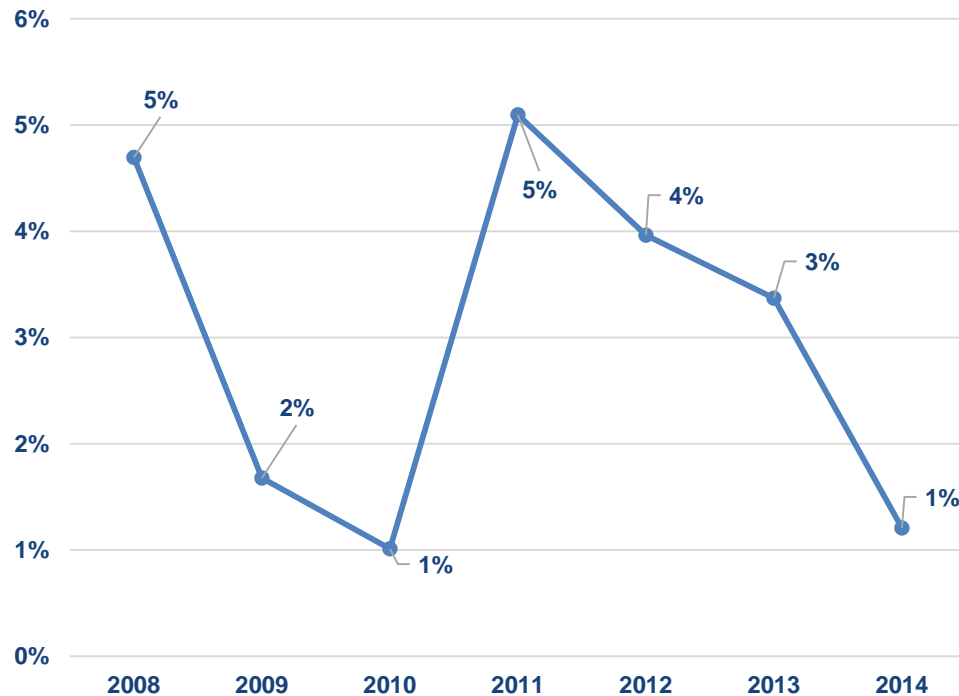
million Euros



IMPAIRMENT CHARGES



Goodwill impairment to opening goodwill

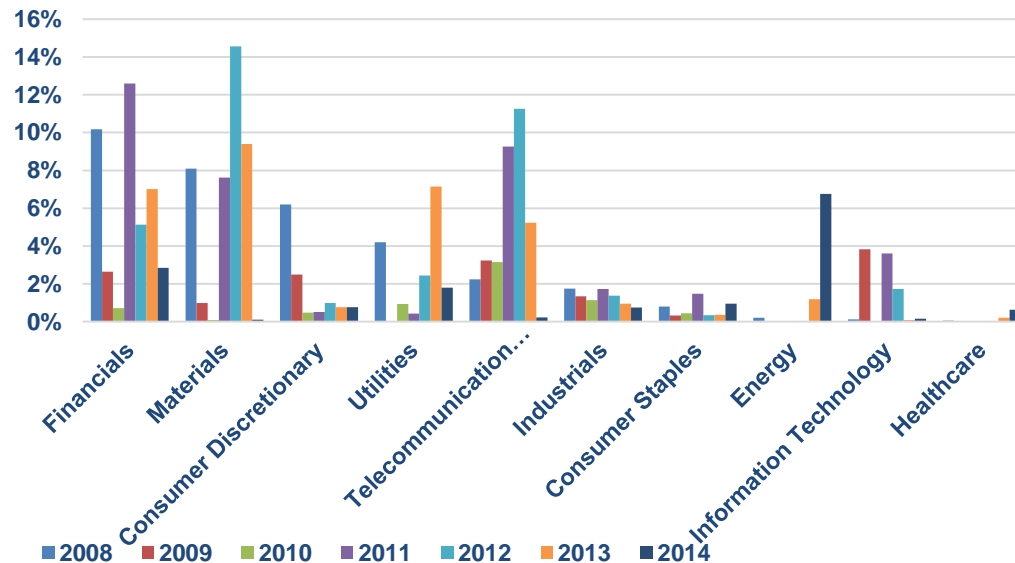


This ratio represents the percentage of Goodwill impaired in each year.

The ratio of impairment ranged between 1% (in 2010 and 2014) and 5% (in 2008 and 2011).

IMPAIRMENT CHARGES

Impairment charges to opening goodwill



It is worth noting that in 2008 impairment was concentrated in the financial industry and that in 2011 most of impairments came from financial and telecommunication industries.

Both in 2008 and 2011 the markets were negative.

The three industries which seem to impair **more** taking into account their total goodwill over the year from 2007 to 2014 are Financials, Materials and Telecommunication, and, while which seem to impair **less** are Healthcare, Consumer Staples and Energy.

Thank you for your attention!



And now ...
Questions?
... and answers...

<http://www.efrag.org/>



EFRAG receives financial support from the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The contents of this presentation is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.