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Experts advise companies to brace for goodwill impairment scrutiny

by Tammy Whitehouse

Companies should brace themselves for audit scrutiny around goodwill impairment charges as some experts predict the numbers are sure to rise over the course of 2016.

Calcbench, with their research tool powered by XBRL-gathered financial statement data, says goodwill impairments of $250 million each quarter are trending upward. Yahoo's massive $4.46 billion impairment charge with a net loss of $4.44 billion in its 2015 year-end report led Calcbench to wonder if other similarly huge impairments might be in the offing.

The firm's research identified a number of other companies posting quarterly goodwill impairments in the range of $250 million for five consecutive quarters, with 32 such companies identified in the third quarter of 2015. "The total number of impairments at greater than $250 million is trending up, from the mid-teens last year to more than 30 in the last quarter," says Calcbench co-founder Pranav Ghai.

Ghai

"How many will there be in the fourth quarter? We believe it will be more than 15 for sure."

Goodwill is a number that arises on corporate balance sheets as a result of acquisitions, representing the value in an acquisition that exceeds the fair value of its individual assets and liabilities. Investors and analysts scrutinize goodwill impairments as an indicator of whether the price paid for a particular acquisition holds up over time in the marketplace.

PwC is advising companies to look hard at goodwill impairments, as well as possible impairments among operating assets, as oil and gas prices persist in trending downward. "As a result of the stock market decline in the first quarter of 2016, companies may need to assess whether the decrease in their fair value represents a triggering event for assessing goodwill for impairment," PwC wrote recently in an alert to clients.

Merger and acquisition activity spiked in 2015, says Greg Franceschi, managing director at valuation and advisory firm Duff & Phelps, which produces a study of goodwill impairments annually. "As a result of record M&A levels, there's been very significant amounts of goodwill added to company balance sheets," he says.

Franceschi

While some may be advising companies to prepare for goodwill impairments in 2016, Franceschi believes it might be a bit early for such predictions. "A lot of acquisitions were fairly recent in 2015, so it may be a little early in 2016 to start to see any impact if those acquisitions were overpayments or are starting to not meet expectations put forth in the deal models," he says.

Volatility in the early part of 2016 is another consideration, Franceschi says. "Some days can swing rather dramatically," he says. "Impairments are supposed to be a permanent impairment, suggesting that the value is not recoverable. With the volatility, it's still early. It's not a foregone conclusion at this point that we will start to see impairments." ■

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