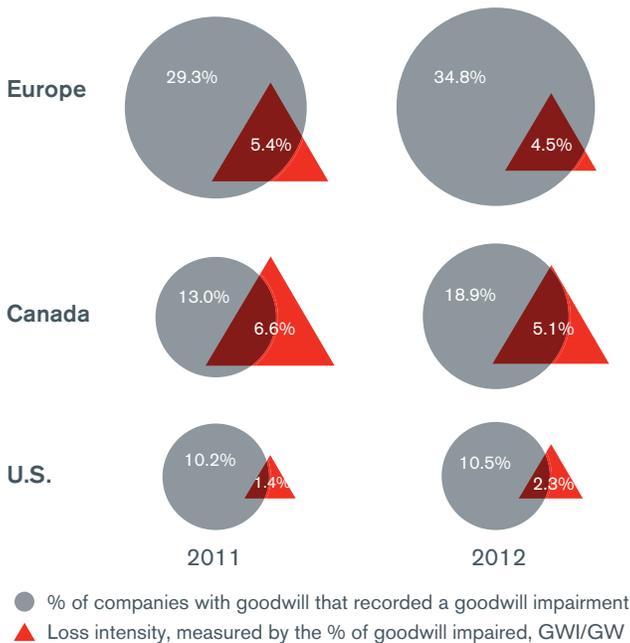




## Goodwill Impairment Around the World:

A comparison of Duff & Phelps' 2013 European, U.S. and Canadian Goodwill Impairment Studies

### Goodwill Impairment Comparison<sup>1</sup>



We observed a much higher level of goodwill impairment in 2011 and 2012 in Europe as compared to the U.S. and Canada. The factors that might explain this trend include, but are not limited to, the following:

- A more challenging economic environment in Europe as compared to the U.S. and Canada.
- The timing of the unfolding Euro sovereign debt crisis (starting in 2010, but escalating in 2011 and 2012) relative to the wave of U.S. impairments over the 2008-2009 global financial crisis. This led to U.S. companies impairing a significant portion of their aggregate goodwill balance a few years earlier than European companies.
- The requirement to use Fair Value in goodwill impairment testing under U.S. GAAP compared to the relatively wide acceptance of Value in Use under IFRS. This might have accelerated the recognition of goodwill impairments in the U.S. at the height of the financial crisis.
- Differences in the data sets used in the respective studies as it relates to the composition of companies and their propensity for acquisitions.

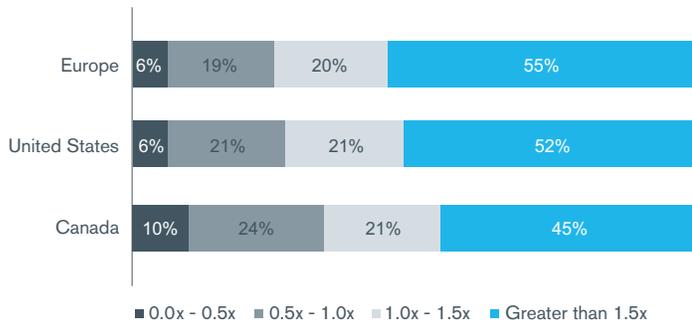
### Ranking by industry based on the 2012 amount of goodwill impairment in sample<sup>1</sup>

Europe	U.S.	Canada	
Telecomm. Services	Information Technology	Consumer Discretionary	Highest Amount of Impairment ↑ ↓ Lowest Amount of Impairment
Financials	Industrials	Materials	
Materials	Healthcare	Energy	
Utilities	Consumer Discretionary	Industrials	
Industrials	Materials	Financials	
Consumer Staples	Financials	Consumer Staples	
Information Technology	Energy	Telecomm. Services	
Energy	Utilities	Healthcare	
Consumer Discretionary	Consumer Staples	Information Technology	
Healthcare	Telecomm. Services	Utilities	

1. The data set for the 2013 Canadian and U.S. Studies included all publicly-listed companies in those countries that met the study criteria (616 and 5,184 companies, respectively). The data set for the 2013 European Study was the STOXX® Europe 600 Index (589 companies).

# Goodwill Impairment Around the World

## Median market-to-book ratio for all companies in sample, 2012<sup>1</sup>



A market-to-book ratio below 1.0 does not by default result in a goodwill impairment. Nevertheless, companies with a low market-to-book ratio tend to be at a greater risk of impairment.

Between a quarter and a third of companies in all three regions had market-to-book ratios below 1.0 at the end of 2012 (as displayed in the graph on the left). European and U.S. companies reporting goodwill impairments in 2012 had a median market-to-book ratio of 1.2, marking an improvement over prior years (these statistics can be found in the full studies).

## Comparison of 2013 Survey Results

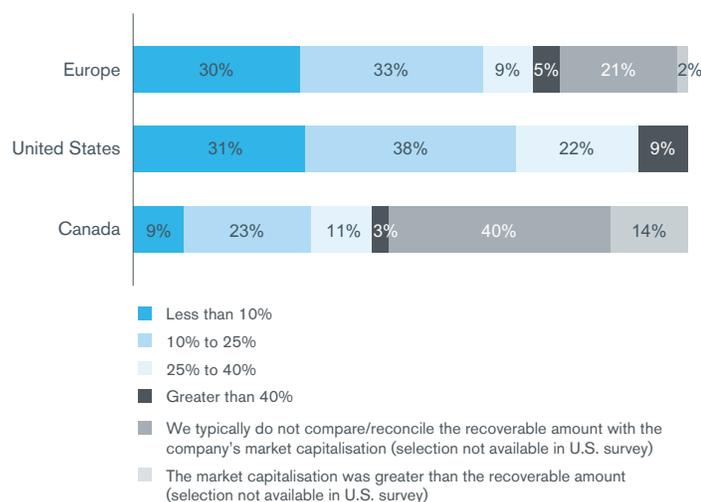
### Number of Goodwill Impairment Survey Respondents

Europe	Canada	U.S.
150	50*	110*

\*Included both public and private companies; comparisons here are limited to public company responses.

A greater proportion of European than Canadian survey respondents reconcile the net recoverable amount to market capitalization while also reporting lower control premiums, indicating that European respondents' recoverable amounts track market capitalization more closely. In the U.S., a market capitalization comparison is considered a best practice; however, best practices regarding the analysis and support of control premiums is just beginning to take hold, with the majority of U.S. survey respondents still relying on general market-based studies. Overall, a significant proportion of respondents across the European, U.S. and Canadian surveys are relying on a combination of qualitative and quantitative methods to support control premiums as part of a fair value-centric impairment test.

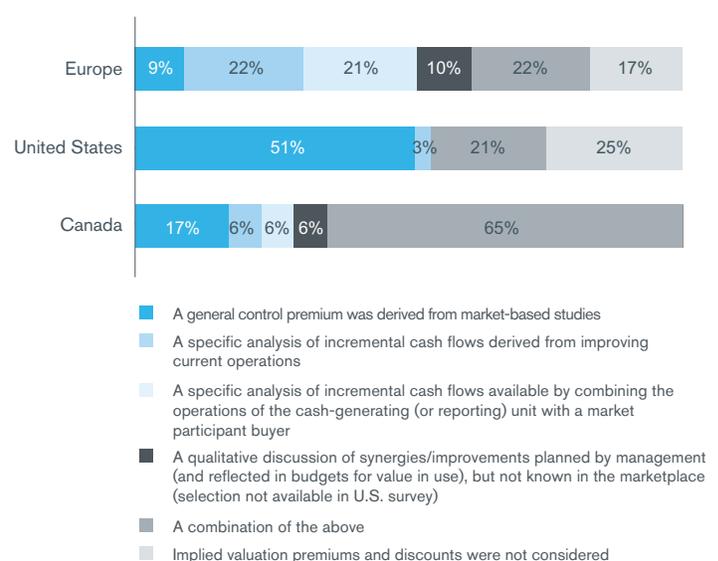
If you compared the aggregate recoverable amount (on a net asset basis) with your company's market capitalisation, what was the difference (e.g. the implied control premium) between them?\*



■ We typically do not compare/reconcile the recoverable amount with the company's market capitalisation (selection not available in U.S. survey)  
 ■ The market capitalisation was greater than the recoverable amount (selection not available in U.S. survey)

\*U.S. survey question: What was the assumed level of control premium above the entity's market capitalization?

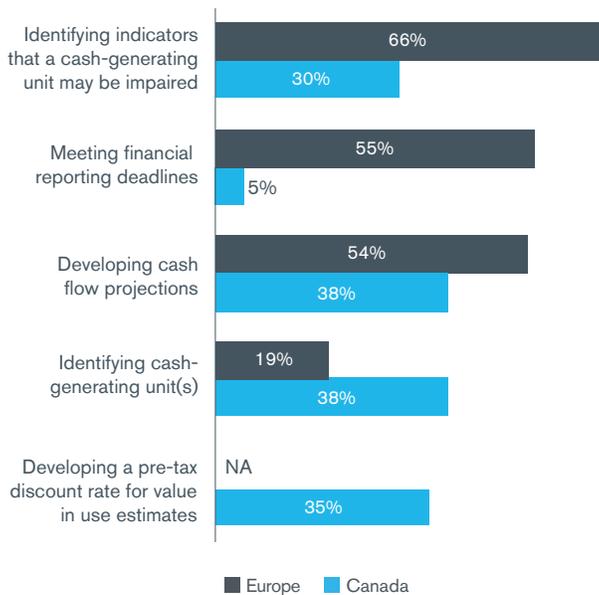
## What approach was used to support an implied control premium?



# Goodwill Impairment Around the World

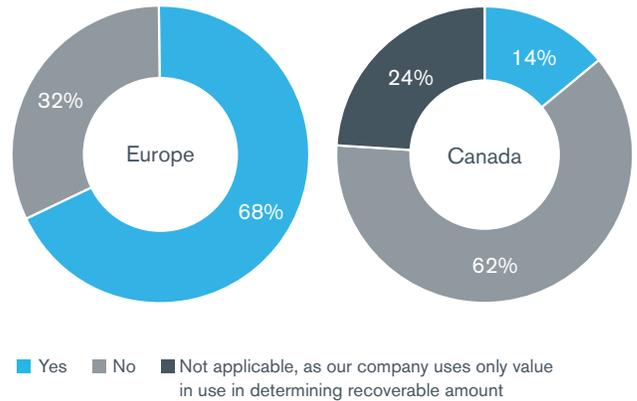
## IFRS Implementation Insight: Seasoned vs. New Adopters

In general, what is your most significant challenge related to goodwill impairment testing?

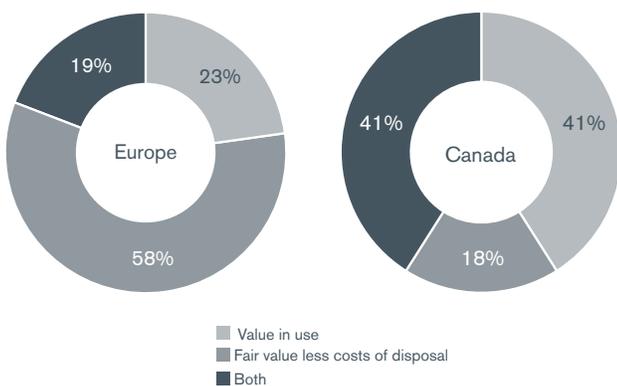


Respondents were allowed to select more than one response.

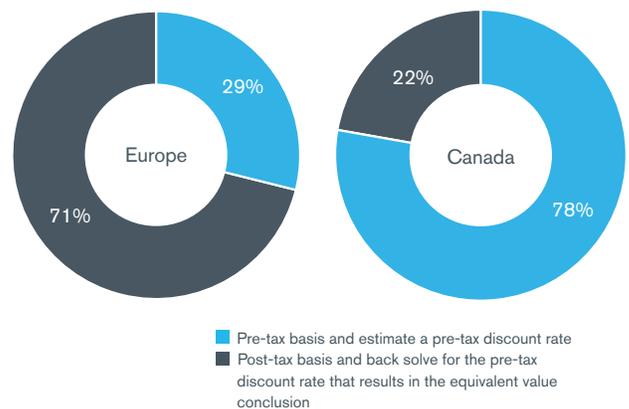
Do you expect your impairment testing process to change as a result of applying IFRS 13 to measure fair value less costs of disposal?



When determining the recoverable amount of a cash-generating unit, do you estimate value in use, fair value less costs of disposal or both?



When estimating value in use, do you perform the analysis on a pre-tax or post-tax basis?



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