



GOODWILL AND INDEFINITE-LIVED ASSET IMPAIRMENT

COVID-19'S IMPACT ON INDEFINITE-LIVED ASSETS

Given the current and continued impact of COVID-19 on the economy, public and private company earnings, and the marketability of certain asset classes, we expect that companies in compliance with US GAAP and IFRS will have a need to test their goodwill and indefinite-lived assets. Being well prepared and having the proper professional guidance is crucial to navigating the process.

THERE ARE NEW RULES FOR GOODWILL AND INDEFINITE-LIVED IMPAIRMENT TESTING UNDER US GAAP:

In January 2020, ASU 2017-04 simplified the test for goodwill and other indefinite-lived assets impairment. What was once a costly, multi-phased process can now be completed in one step. In the case of measuring goodwill impairment, the carrying value of the reporting unit is compared to the fair value of the reporting unit. If the carrying value exceeds fair value, then an impairment loss is recorded. In the case of other indefinite lived assets, such as a trade name, the carrying value of the asset, rather than the entire reporting unit, is compared to the fair value of the asset. If the carrying value exceeds fair value, then an impairment loss is recorded.

WHEN SHOULD GOODWILL AND INDEFINITE-LIVED ASSETS BE TESTED FOR IMPAIRMENT?

ASC 350 requires that goodwill and indefinite-lived assets be tested for impairment annually, or more frequently, if events and circumstances indicate that it is "more likely than not" that the reporting unit or asset is impaired. While some private companies have recently elected to amortize goodwill under the Private Company Council's (PCC) election, thereby negating the annual impairment test, the PCC election does not exempt these businesses from testing for impairment due to a triggering event.

WHAT ARE SOME EXAMPLES OF TRIGGERING EVENTS OR CHANGES IN CIRCUMSTANCES?

- Changes to the company's stock price and related market capitalization
- The company or its competitors have store closures, production slowdowns or shutdowns, including government-ordered shutdowns
- Public reports indicate a decline, or expected decline, in the performance in the company's market or industry
- Competitors have recently recognized an impairment loss
- Market multiples have declined
- The company or its competitors report workforce shortages due to government-imposed restrictions, or have implemented workforce reductions due to decreased demand for goods and/or services
- Earnings remain at a level below forecasted levels, indicating that goodwill may not be recoverable
- The company has experienced a loss in operating cash flow or a net loss in the current period
- Earnings remain at a level below forecasted levels, indicating that goodwill may not be recoverable
- The company expects to sell or dispose of a reporting unit or collection of assets

HOW CAN WE HELP?

When considering the process of goodwill and indefinite-lived asset impairment, the accredited and licensed valuation experts at B. Riley Advisory Services can help you navigate each aspect of the impairment testing process.

- We provide valuable third party corroboration to management's assumptions when identifying a trigger event or deciding if an impairment test is necessary.
- We address questions posed by company auditors regarding methodologies, consistency of approach to previous analyses, and reconciliation to market capitalization, which can save time and money in the review process.
- We provide properly structured and integrated reports and models that follow the Mandatory Performance Framework, which can be used for future tests and ongoing needs.
- B. Riley Advisory Services will leverage its experience for your benefit. Our professionals annually conduct well over a thousand valuations, involving analyses of assets and businesses valued at tens of billions of dollars.