



Quarterly Brief

Goodwill impairment in light of
COVID-19

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Dear Reader

The COVID-19 pandemic has placed an unprecedented burden on our global economy. Unlike other crises we have faced in the past decades, COVID-19 has caused fundamental disruptions in global supply chains and will have a lasting impact on consumer behavior. As we approach 2022, we may now begin to assess the impact these remarkable pressures have placed on businesses and their expectations for the future.

In this edition of the Quarterly Brief, we examine 2020/2021 and observe what has happened through the lens of goodwill impairment in Europe. We will attempt to compare recent developments with those of the past 15+ years, including prior major economic crises, to identify similarities at the sector level.

In this newsletter, we explore:

- What is the broader impact of COVID-19 on goodwill impairment?
- How do the levels of goodwill impairment compare to the 2008 global financial crisis and the 2012 European debt crisis?
- What has been observed at the sector level?

We look forward to discussing your questions regarding COVID-19's impact on goodwill impairment trends as we look ahead to 2022. As always, stay safe and healthy.

Yours faithfully



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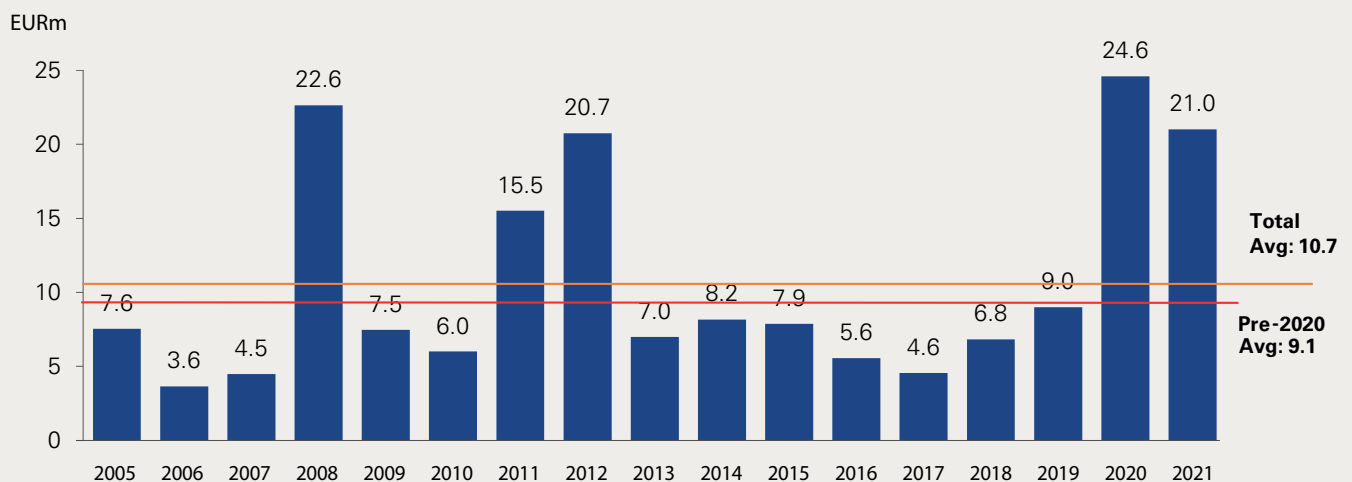
The big picture

In 2020/2021, businesses across the globe raced to reassess the economic viability of prior projections upon which acquisitions were made, purchase prices determined, and, consequently, goodwill reported on their balance sheets. Many companies have not simply revisited their cash flow forecasts and discount rates; they have acknowledged the need to carefully reassess company value and whether it has declined more significantly than under normal conditions and whether existing budgets and cash flow projections should be abandoned completely due to the impact of COVID-19.

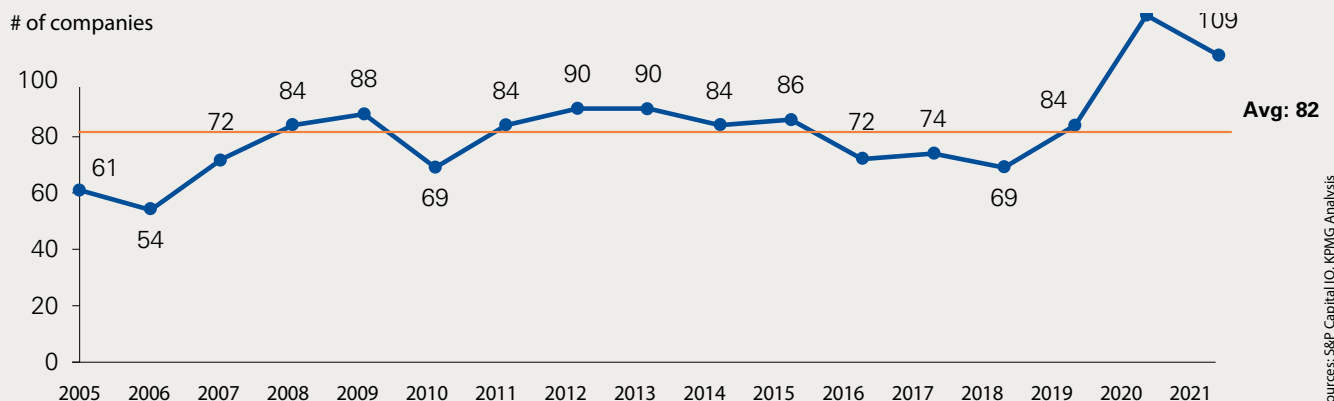
Overall, 2020 saw a historic increase in the number of companies who booked goodwill impairment. As shown in the figure below, 123 companies in the S&P 500 Europe index impaired goodwill, up 46.4% compared to 2019 (84 companies) and up 78.3% from the 69 who did so in 2018.

The impact is even more apparent when we look at the median amount of goodwill impairment booked. In Euro terms, the median amount of goodwill impairment over the past 15 years prior to 2020 was approximately EUR 9.1m, i.e. 63% lower than 2020. In addition, median goodwill impairment is up 173% in 2020 compared to the median of EUR 9.0m in 2019.

S&P 500 Europe – Median amount of goodwill impairment booked



Total number of companies who booked impairment



Sources: S&P Capital IQ, KPMG Analysis

Deeper and wider: comparison to 2008 financial crisis and European debt crisis of 2012

The number of companies who have experienced goodwill impairment during 2020/2021 is unrivaled, even dwarfing the level seen during the 2008 global financial crisis and the 2012 European debt crisis. Even more intriguing is the level at which goodwill impairment is spread across various sectors.

As shown on the right, the median amount of goodwill impairment across the 84 companies who booked impairment in the S&P 500 Europe index in 2008 was EUR 22.6m. In contrast, this figure was EUR 24.6m for the 123 companies who booked impairment in 2020. The year 2020 also surpassed the European debt crisis of 2012, which had a median goodwill impairment per company of EUR 20.7m for the 90 companies who booked goodwill impairment.

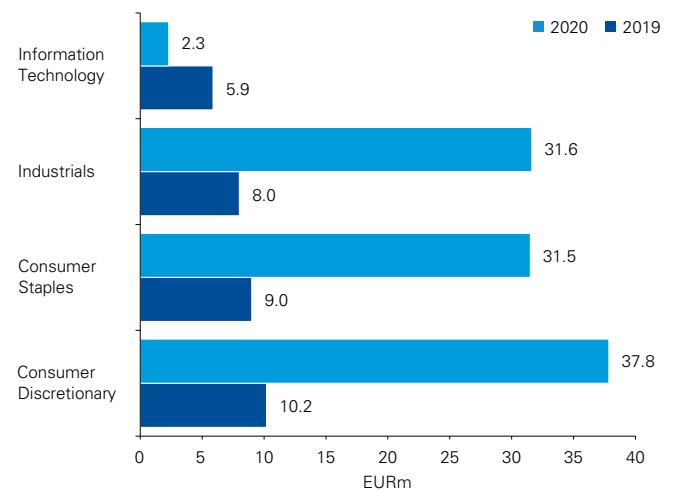
This comparison appears to reveal that COVID-19 has had a deeper and much wider impact on goodwill impairment than the two largest economic crises in the past 15 years.

Without a doubt, COVID-19 marks a monumental economic and social event with impacts on impairment across sectors. In the following, we explore whether some have been hit more severely than others.

Sector-level observations

Of the eleven sectors examined, eight experienced at least a 30% increase in the number of companies who booked goodwill impairment when compared to the prior 15-year average of each sector. The figure below displays the sectors exhibiting the largest increases (or decrease in the case of the IT sector) in median goodwill impairment booked between 2019 and 2020.

Median Goodwill Impairment – 2019 vs 2020



Source: S&P Capital IQ, KPMG Analysis

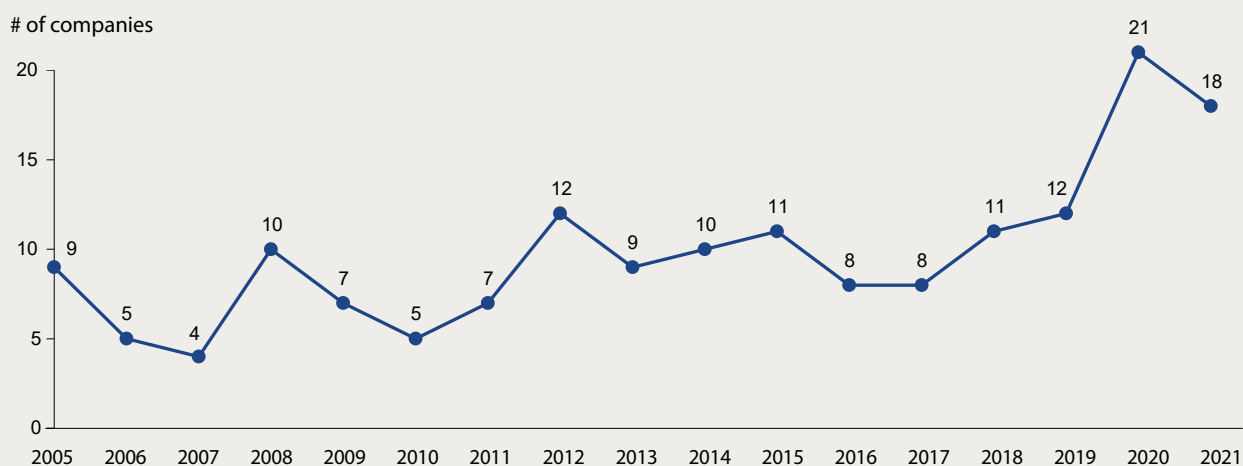


In the 12th edition of our Quarterly Brief, we noted that analysts generally expected the largest impacts of COVID-19 to be felt within the Consumer Discretionary sector and the least negative effects in the Information Technology sector. Based on our analysis of goodwill impairment, these expectations appear to align with the goodwill impairment bookings in 2020.

Consumer sectors heavily impaired

As shown below, Consumer Discretionary showed a large increase in the number of companies booking impairment in 2020 compared to historic averages, with 21 of 64 companies in the index booking impairment. This represents a 75% increase compared to the 12 companies reported in 2019.

Consumer Discretionary (Total: 64)

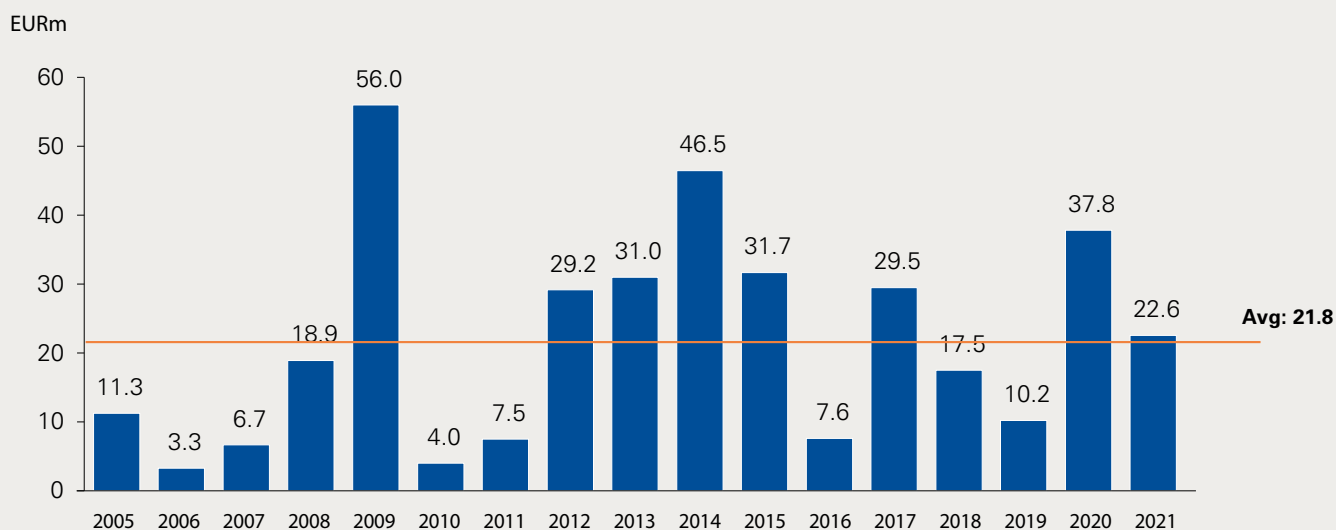


Source: S&P Capital IQ, KPMG Analysis

In Euro terms, the Consumer Discretionary sector recorded in 2020 a median goodwill impairment of EUR 37.8m, nearly four times that of 2019 and significantly higher than the historical annual average of EUR 21.8m. Compared to the record high of EUR 56.0m in 2009, i.e. in the wake of the

2008 financial crisis, average goodwill impairment was much lower in 2020. Interestingly, a significantly smaller number of companies were affected in 2008/2009 compared to 2020.

Consumer Discretionary



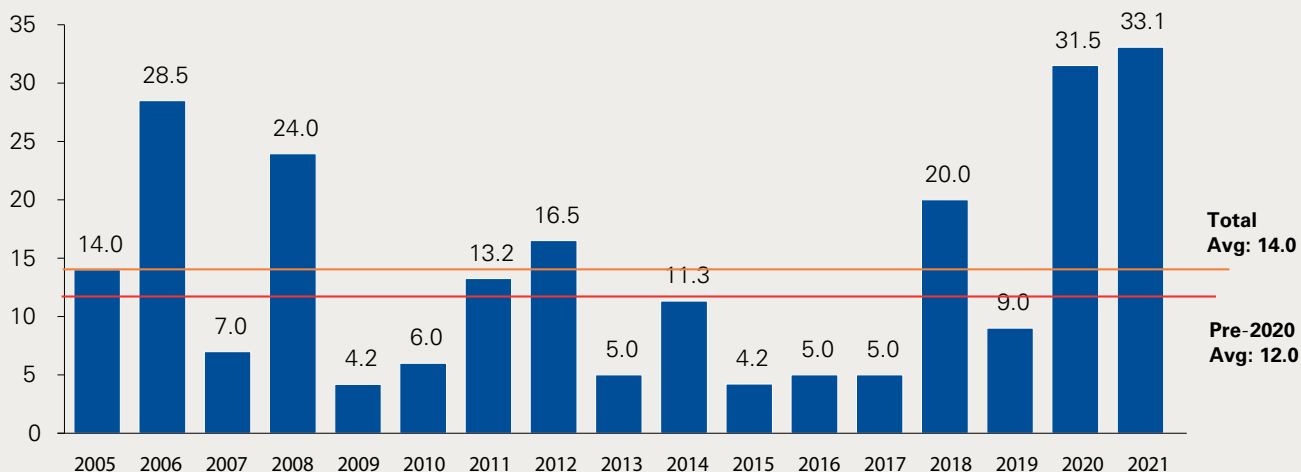
Source: S&P Capital IQ, KPMG Analysis

Consumer Staples also showed heavy impairment. As shown below, Consumer Staples saw a 250% increase in the median amount of goodwill impairment booked – from

EUR 9.0m in 2019 to EUR 31.5m in 2020. In 2021, this figure continued to increase, reaching EUR 33.1m at the time of this writing.

Consumer Staples

EURm



Source: S&P Capital IQ, KPMG Analysis

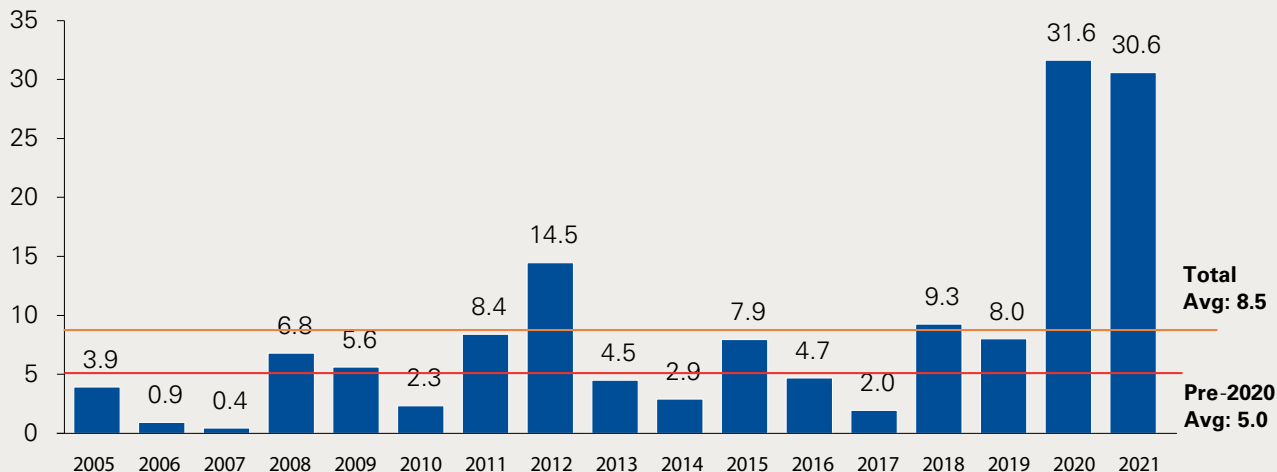
Industrials 478% above pre-2020 15-year average

As shown below, a massive increase in the amount of goodwill impairment in 2020 and 2021 is observed in the Industrials sector compared to the prior 15 years since 2005. At 26, the number of companies in the Industrials sector in the index who booked impairment was a "mere"

61.2% higher than the prior 15-year average of 16. However, in Euro terms, the median amount of goodwill impairment booked was EUR 31.6m, or 478% higher than the prior 15-year annual average of EUR 5.0m. Compared to the median goodwill impairment of EUR 8.0m in 2019, Industrials experienced a 295% increase.

Industrials

EURm



Source: S&P Capital IQ, KPMG Analysis

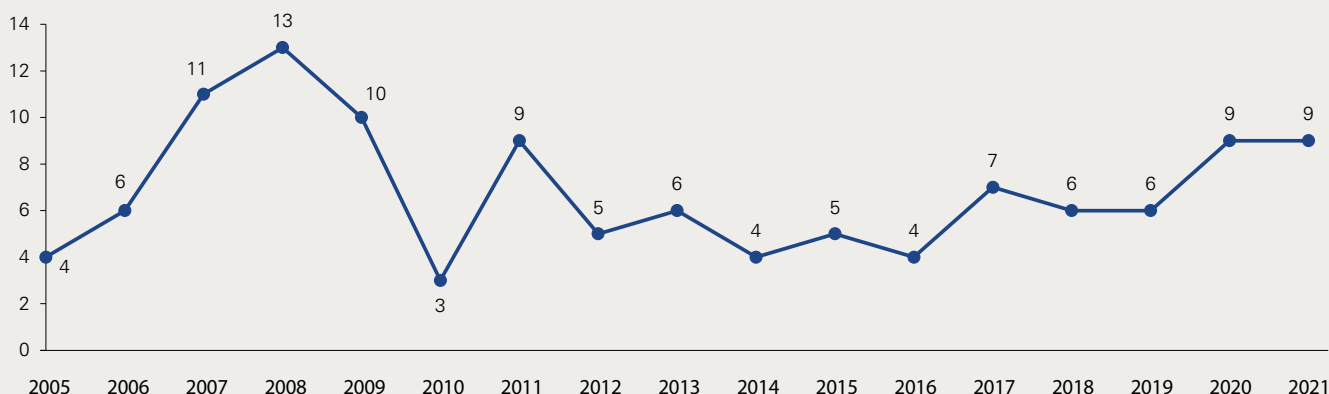
Impairment muted in Information Technology; below annual average since 2005

As shown below, Information Technology showed a minor increase in the number of companies booking goodwill

impairment in 2020. Out of the 50 companies in the sector, nine booked impairment in 2020, up from six in 2019. By comparison, in 2008 the number of companies who booked goodwill was even higher at 13 companies.

Information Technology (Total: 50)

of companies



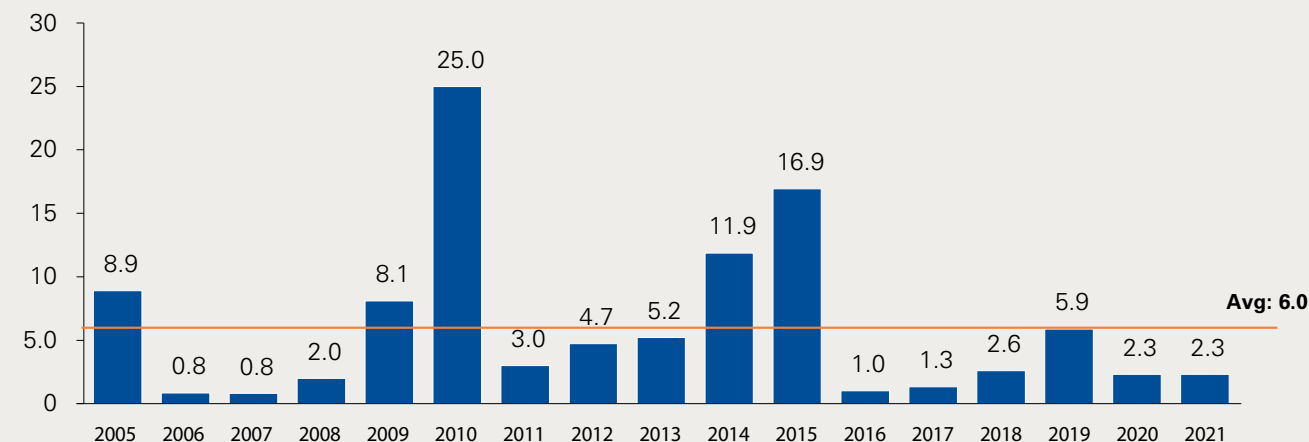
Source: S&P Capital IQ, KPMG Analysis

In Euro terms, the Information Technology sector showed a median goodwill impairment of only EUR 2.3m, well below than the average level of annual goodwill impairment in the

sector of EUR 6.0m since 2005 and much lower than the high of EUR 25.0m recorded in 2010. In fact, 2020 showed less goodwill impairment than in 2019, as shown below.

Information Technology

EURm



Source: S&P Capital IQ, KPMG Analysis

An expert view on the complexity of goodwill impairment

The analysis above demonstrates – as is so often the case in the COVID-19 pandemic – that trends can vary significantly by sector. This calls for a thorough, individual analysis of each situation. KPMG Valuation Services regularly assists companies of all sizes and sectors with impairment testing. Estimating fair value and/or value-in-use

requires significant informed judgment, even under normal circumstances. During these times of elevated uncertainty, enhanced consideration of individual facts and circumstances within our rapidly changing economic environment is required. KPMG's valuation specialists would be happy to talk and share our views with you and help you navigate through these issues.

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