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ACCOUNTING & AUDIT

Report Looks at Goodwill Impairments Throughout the COVID-19 Pandemic

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Total goodwill impairments recorded by U.S. public companies more than doubled in 2020, according to the *2021 U.S. Goodwill Impairment Study* (“2021 Study”) released today by the Valuation Advisory Services practice of [Kroll](#), the leading provider of data, technology and insights related to risk, governance and growth.

The 2021 Study was launched in 2009 to capture goodwill impairments recorded by U.S. companies and industries in the aftermath of the 2008–2009 global financial crisis. Now following another period of significant upheaval spurred by the COVID-19 global health crisis, the 2021 Study examines general and industry goodwill impairment trends from the 2020 calendar year for over 8,900 publicly traded companies incorporated in the U.S. The study also aggregates U.S. goodwill impairments for 2021 up to the time of its writing in February 2022, revealing the extraordinary pace at which many companies and industries recovered from the recession created by the COVID-19 outbreak.

Key general highlights of the 2021 Study include:

- Total goodwill impairments more than doubled between 2019 and 2020 (\$71.0 billion (bn) to \$142.5 bn), yet this amount still fell short of the \$188.4 bn level observed in 2008 at the onset of the global financial crisis.
- The number of goodwill impairment events also increased by 45% (318 in 2019 to 462 in 2020), but this figure was still below the 502 events observed in 2008.
- Average goodwill impairment per event rose to \$308 million (mn) in 2020, the second-highest level since the record in 2008 (\$375 mn).
- The swift actions from the Federal Reserve and the U.S. government, which provided unprecedented levels of monetary and fiscal support, fueled a rapid economic recovery, limiting the magnitude of goodwill impairments that otherwise would have been observed, particularly when compared to 2008 levels.

Key industry highlights of the 2021 Study include:

- Eight of the 10 industries analyzed saw goodwill impairment increase or remain at similar levels in 2020, with the exception of Consumer Staples and Healthcare.
- **Energy** goodwill impairment surged almost five-fold to an all-time high of \$41.7 bn, as plunging global oil demand and other events led to a collapse in oil prices.
- **Communication Services** registered a record number of impairments in 2020 and an aggregate impairment amount of \$27.5 bn, the highest level since 2007. Several companies continued to struggle with intense competition and changes in consumer preferences, further exacerbated by COVID-19 related issues, such as content creation delays and venue shutdowns.

- **Financial and Real Estate** goodwill impairment skyrocketed 43-fold to \$19.1 bn in 2020, its highest level since 2008, as shuttered properties squeezed real estate companies, while an increase in credit losses and further declines in interest rates (brought on by COVID-19 monetary policies) led to a compression in financial institutions' margins.

Carla Nunes, Managing Director in the Office of Professional Practice and a Kroll Institute Fellow, said:

“Robust and timely information about goodwill impairments of U.S. companies has never been more important to investors than it is today. U.S. companies faced an exceptionally high level of uncertainty created by COVID-19 and the ensuing economic crisis, which prompted significant changes to their earnings outlook and associated risk. The impairment levels recorded as a result of the pandemic demonstrate that the current goodwill impairment-only model captures the changes in business outlook, as intended by accounting standards.

We also know that unprecedented levels of fiscal and monetary support allowed many businesses to bounce back from the plunge in economic activity that followed the COVID-19 outbreak, with the S&P 500 index recovering dramatically from its low point in March 2020. Consistent with these trends, our preliminary data for 2021 points to a sharp reversal in goodwill impairment activity.”

Initial data for 2021 shows a marked improvement in the economic and business outlook. The study's early goodwill impairment figures indicate the top 10 events for 2021 only reached a combined \$5 bn, less than one-tenth of the top 10 amount of \$61.9 bn reported in the prior year. Early reporting suggests overall goodwill impairment reached only \$7 bn in 2021, the lowest level since 2006.* The preliminary data also indicates that 2021 M&A activity rebounded strongly, with the number of deals closing nearly matching the highest level in the study's history.**

Goodwill and impairment continue to be topics of interest to standard-setters and stakeholders. Both the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have current projects addressing goodwill and impairment. More developments in this area are expected in 2022.

The smooth functioning of global capital markets is predicated on the availability of financial reporting data that is timely, reliable and considered useful for investment-making decisions. Once again, this basic principle and the need for transparency are pushed to the forefront in a time of disruption. Information about goodwill

impairments and the success of past acquisitions contribute to that overall investment decision process. In 2022, investors may be focusing again on goodwill impairments as an important input into their analysis and decision-making. Geopolitical risks stemming from the Russia-Ukraine conflict are dampening global economic prospects, while inflationary pressures are leading the Federal Reserve and other major central banks to raise interest rates. A consequent increase in cost of capital and the potential deterioration in the global economic outlook may lead to another cycle of impairments.

Visit <https://www.kroll.com/gwistudies> to download the 2021 Study and those for prior years.

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