

# Does Coronavirus-based Market Volatility Indicate a Triggering Event for Potential Goodwill Impairment?



## Understanding Market Value vs. Book Value of Businesses

Even before the World Health Organization (WHO) announced that the Coronavirus had reached pandemic status, the world's stock markets have been roiled by high volatility causing breathtaking drops in market indices and individual company stock values. This market volatility has resulted in significant declines in market capitalization – one of many factors to consider in determining whether a triggering event for Goodwill Impairment has occurred for a company – and leads to concerns over whether a company should undergo testing for Goodwill Impairment.

**Figures 1\* and 2\*** highlight the significant increase during the past three months of the number of companies in the S&P 500 and Russell 3000 indices respectively that have had market capitalizations below their latest reported book values of equity.

However, share price volatility by itself is not necessarily a determinant; the facts and circumstances over time need to be considered, such as whether this is a temporary reduction in the stock price or more of a longer-term decline in value. Extreme, short-term volatility in the market does not necessarily trigger a Goodwill Impairment test or actual impairment.

**Figure 3\*** represents the drastic change in trends between the CBOE Volatility Index (VIX) and the S&P 500 Index as a result of the ongoing Coronavirus pandemic.

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Figure 1: Number of companies in the S&P 500 index with Market Capitalization below Book Value of Equity

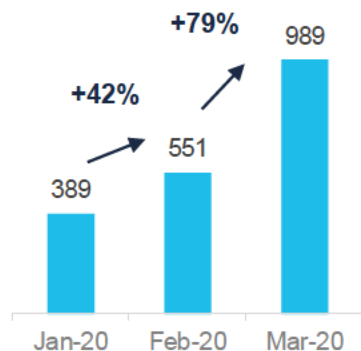


Figure 2: Number of companies in the Russell 3000 index with Market Capitalization below Book Value of Equity

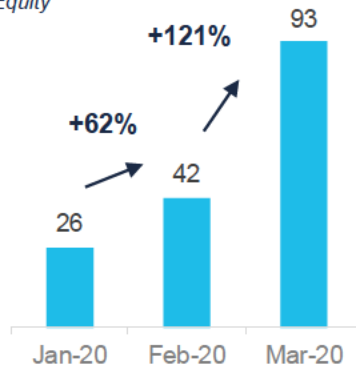
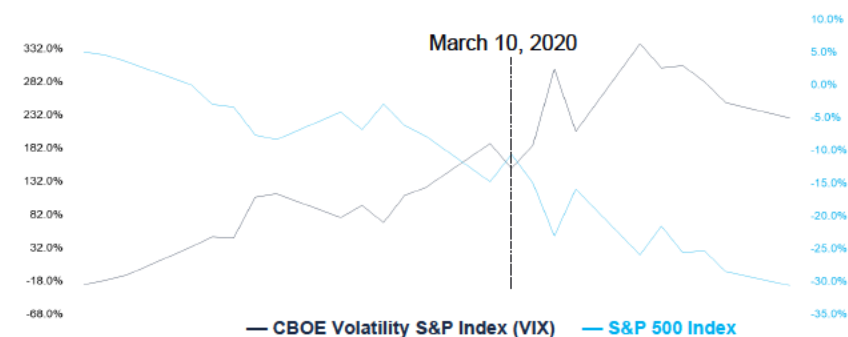


Figure 3: Daily % change of the VIX and S&P 500 Index (February 2020 – Present)



\* Source: S&P Global Market Intelligence

## Does Coronavirus-based Market Volatility Indicate a Triggering Event for Potential Goodwill Impairment?

There are many factors that may have changed over just the last few months that can affect a company's value. Some examples include:

- A company's projections may have changed – shifts in supply sources, changes in demand, loss of employees, and loss of customers among many others. Are these changes temporary or long-term?
- Market multiples are in many cases significantly lower. In some cases, revised guidance and/or forecasts for a company have not been released, and may not be factored in the current market price. Temporary reductions in income metrics may exaggerate multiples, while historic multiples may no longer be a valid way to measure value.
- Some industries are more vulnerable than others. This current downturn has hit a number of industries disproportionately hard, including transportation, hospitality, retail, restaurants, and many others – will these industries rebound as aggressively as others might?
- There may be changes that affect social and economic behavior. Will working from home and video conferencing become more generally accepted? If so, then the need for office space and business travel will be negatively impacted and, conversely, businesses that support remote offices will benefit.
- An increase in overall uncertainty may change company management's outlook, risk tolerance and other factors that can affect the value of the company going forward. A negative outlook can affect the value of a company and anticipated recoverability of associated goodwill for the business.

Further, if a Goodwill Impairment analysis is indicated, impairment tests of other assets should be performed prior to goodwill testing.

Assessment of whether a triggering event for Goodwill Impairment has occurred is a complex analysis that requires an assessment of many factors beyond just the current market price of a company or, in the case of a private company, the comparable public companies in that industry. Utilizing a knowledgeable, experienced Valuation expert is critical as a company works with its auditors to determine whether a triggering event has occurred, and evaluating the potential impairment of assets and goodwill.

**BRG has a unique combination of in-depth valuation, industry and economic knowledge and experience to help companies work through the market challenges of these times. We can assist in evaluating whether impairment triggers are indicated, provide valuations for long-lived assets and indefinite-lived intangibles, as well as goodwill. BRG provides strong documentation and support for impairment testing under ASC 350, Intangibles – Goodwill & Other, ASC 360 – 10, Impairment or Disposal of Long-lived Assets, and IAS 36: Impairment of Assets**

## BRG Corporate Finance

BRG's Corporate Finance group is a leader in providing multidisciplinary services to lenders, companies, investors, and attorneys through our core practice areas:

- Alternative Investment Advisory
- Bank Regulatory Services
- Business Transformation Services
- Capital Markets Services
- Litigation, Forensics, and Dispute Resolution Services
- Restructuring, Bankruptcy, and Creditor Rights
- Transaction Advisory
- Valuation Services

## BRG Valuation Services

Valuation is a core discipline at BRG. Our experienced team includes renowned valuation experts serving the corporate, fund manager, investor, and litigation communities. Our services include in-depth portfolio and asset level valuations, for complex securities, as well as opinions in support of transactions, reporting, and disputes. The BRG approach to valuation is unique: leveraging the deep knowledge base from our industry expert groups, we provide asset-specific input that greatly enhances our independent valuation.

Services offered include: Transaction Opinions, Private Funds Valuations, Tax and Financial Reporting, and Disputes/Expert Testimony.

## BRG Financial Reporting and Tax Services

We typically interact with the company's internal and outside audit teams throughout each engagement to discuss and agree upon the appropriate valuation methodologies in order to ensure efficiency and compliance with relevant standards. In addition, our valuation expertise can help companies navigate increasingly complex and evolving tax codes.

### Financial Reporting Services:

- Purchase price allocation (ASC 805, IFRS 3)
- Goodwill and asset impairment testing (ASC 350/360, IAS 36)
- Equity-based compensation (ASC 718, IFRS 2)
- Financial instruments valuation (ASC 825, IFRS 9, IAS 39)
- Fresh start accounting (ASC 852)

### Tax Reporting Services:

- Asset valuations ( § 338 and § 1060)
- Non-competes agreement valuations (IRC § 280G)
- Net operating loss limitations and built-in gains (IRC § 382)
- IRC 409A stock compensation valuation
- 861 interest expense allocation calculations
- Cancellation of Debt Income (IRC § 108)
- Taxable reorganizations ( § 368)
- Worthless stock deduction ( § 165)
- Transfer pricing (IRC § 482)
- C-Corp to S-Corp conversion ( § 1374)
- Cost segregation ( § 1245 and § 1250)
- Gift and estate tax
- Real and personal property tax valuation

## Our Professionals



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William "Wick" Smith has more than twenty-five years of corporate finance experience and specializes in transaction-related opinions and valuations related to comply with tax and financial reporting requirements. He has worked extensively with both public and private companies and across a range of industries, including healthcare, technology, food and beverage, manufacturing, telecommunications, business services, retail, manufacturing and distribution, agriculture, and many others.



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Chau Hoang specializes in financial modeling and valuation analysis for transaction advisory, corporate planning and strategy, financial reporting, and compliance purposes. She has provided solvency, fairness and other transaction-related opinions in connection with spinoffs, dividend recapitalizations, leveraged buyouts, foreign investments and mergers and acquisitions. Ms. Hoang's valuation experience also includes solvency analysis for fraudulent conveyance action, valuation of intangible assets for an allocation of purchase price, fair market value of investments for tax purposes and fair value of private equity investments for financial reporting.

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