

INCORPORELS ET GOODWILL DU CAC40 - ETAT DES LIEUX EN 2018

CONFERENCE IMA FRANCE - 27 MARS 2018

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PLAN

- Rappel (rapide) sur les principes en IFRS
- Parle t'on de montants significatifs par rapport à la valeur de marché des entreprises? Aux USA et en France...
- Evolution en masse de « l'avant-crise » (2006) à 2016 (échantillon du CAC 40)
- Le débat amortissement vs. Impairment - Résultats de la revue Post-Implementation d'IFRS 3; état des réflexions de l'IASB et de l'EFRAG

LES TROIS PRINCIPALES QUESTIONS QUI SE POSENT AU NORMALISATEUR COMPTABLE

- DETERMINATION DU GOODWILL : QUELS ACTIFS (INCORPORELS) FAUT-IL COMPTABILISER SEPAREMENT DU GOODWILL ?
- LE GOODWILL RESIDUEL ETANT CALCULE, FAUT-IL :
 - LE DEDUIRE DES CAPITAUX PROPRES CONSOLIDES ?
 - LE CONSERVER ET L'AMORTIR DE FACON SYSTEMATIQUE (ET SUR QUELLE DUREE) ?
 - LE CONSERVER SANS L'AMORTIR, MAIS EN PROCEDANT A DES TESTS D'IMPAIRMENT ?
- SI ON CHOISIT L'IMPAIRMENT, SELON QUELLES METHODES ?

IFRS'S - ORIGIN OF GOODWILL AND OTHER INTANGIBLE ASSETS IN THE ACCOUNTS (1)

- Business Combinations (M&A)
 - Recognition (at fair value) of the acquired identifiable tangible and intangible assets (including In Process R&D) and liabilities assumed
 - Goodwill is measured as a residual amount (fair value of consideration given minus the proportion acquired of the fair value of identifiable assets and liabilities).
 - Goodwill is allocated to an existing cash-generating unit CGU that is expected to benefit from the synergies of the combination
- Direct acquisition of intangible assets (e.g. concession rights, licenses, software, patents, trade marks and brands...)
 - Usually, intangibles are not revalued subsequently (FV option if there is an active market).

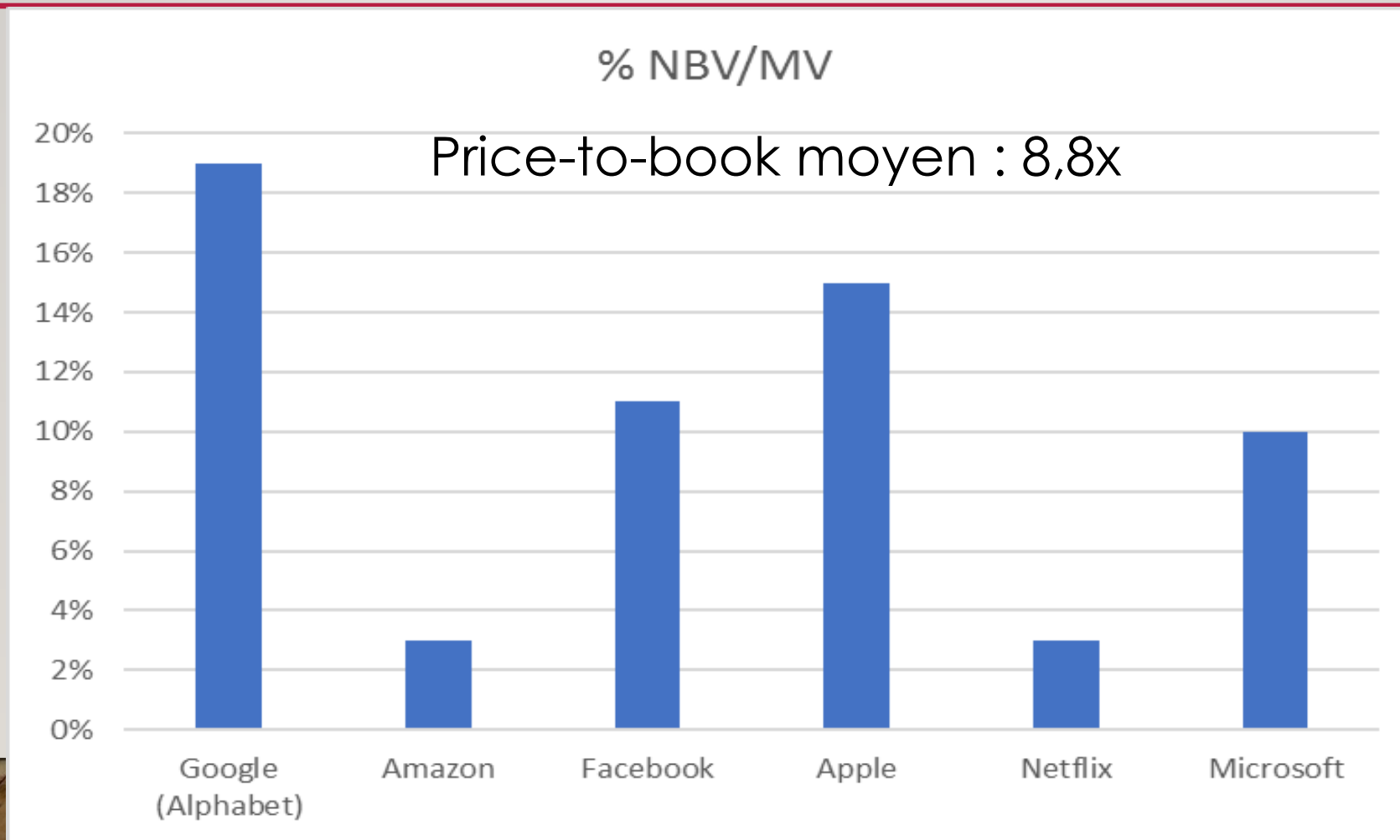
IFRS'S - ORIGIN OF GOODWILL AND OTHER INTANGIBLE ASSETS IN THE ACCOUNTS (2)

- Internal investment in intangible assets:
 - For the most part, such investments are expensed (IAS38 prohibits the capitalization of research expenses and restricts capitalization of development costs and allows software costs)
 - Depending on the entity's strategy for growth, its intangible resources will appear, or not, in the balance sheet

NB: I have not attempted to pull out data that distinguish by origin the intangible assets that are recognized in the balance sheet of the companies in the CAC 40 sample analysed hereafter.
- Financial market participants also assign an additional value to the entity (unrecognized goodwill) taking into account:
 - Market leadership, corporate image, quality of management, expected growth of results (free cash flows)
 - Specific situations (liquidity premiums, likelihood of being subject to a take over bid, etc.)
 - Hence, Price-to-book ratio is usually > 1

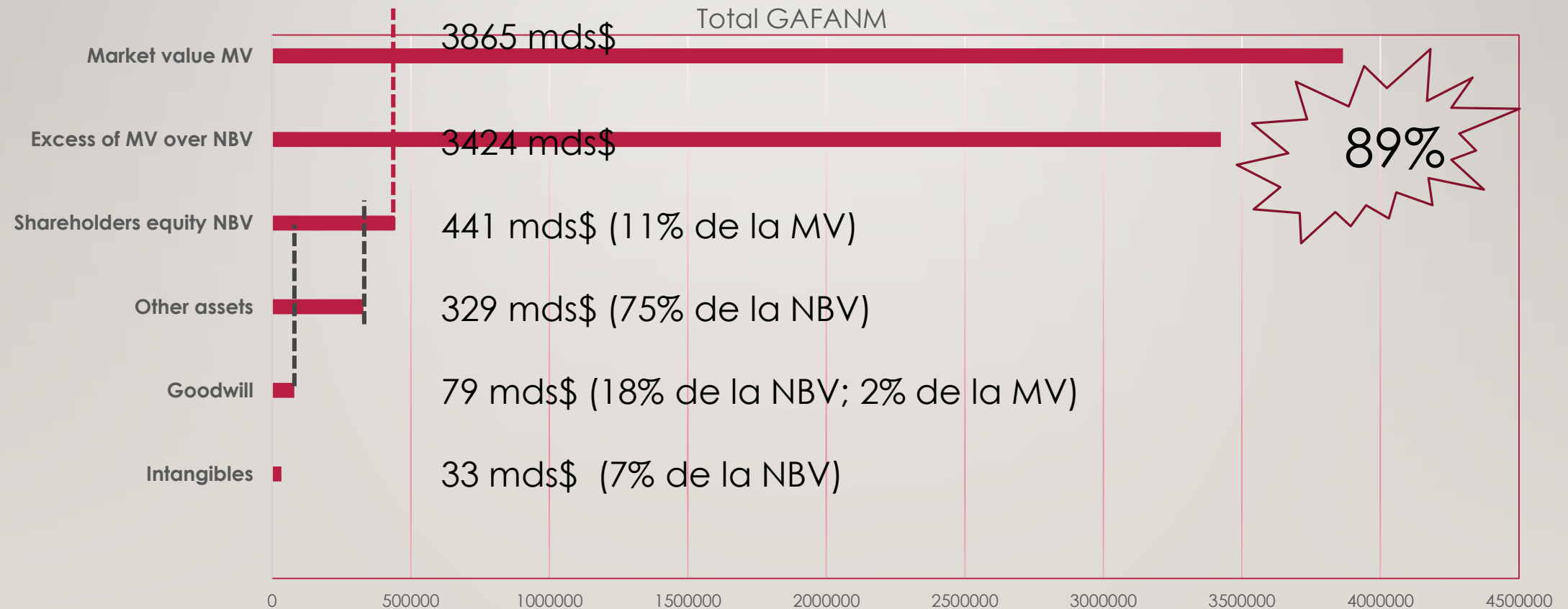
AUX USA, LA VALEUR NETTE COMPTABLE DES « GAFANM » NE SIGNIFIE PLUS GRAND-CHOSE...

(% DE LA VALEUR BOURSIERE MV CONSTITUEE PAR L'ACTIF NET COMPTABLE NBV)



Bilans fin 2017
ou juin 2017
US GAAP

LES INCORPORELS ET GOODWILL COMPTABILISES NE SONT PAS TRES SIGNIFICATIFS (CUMUL DES 6 GAFANM)



Seuls Microsoft et Facebook ont des goodwill significatifs

EN DEHORS DE L' ECONOMIE NUMERIQUE, LES GOODWILL ONT DES MONTANTS PLUS SIGNIFICATIFS

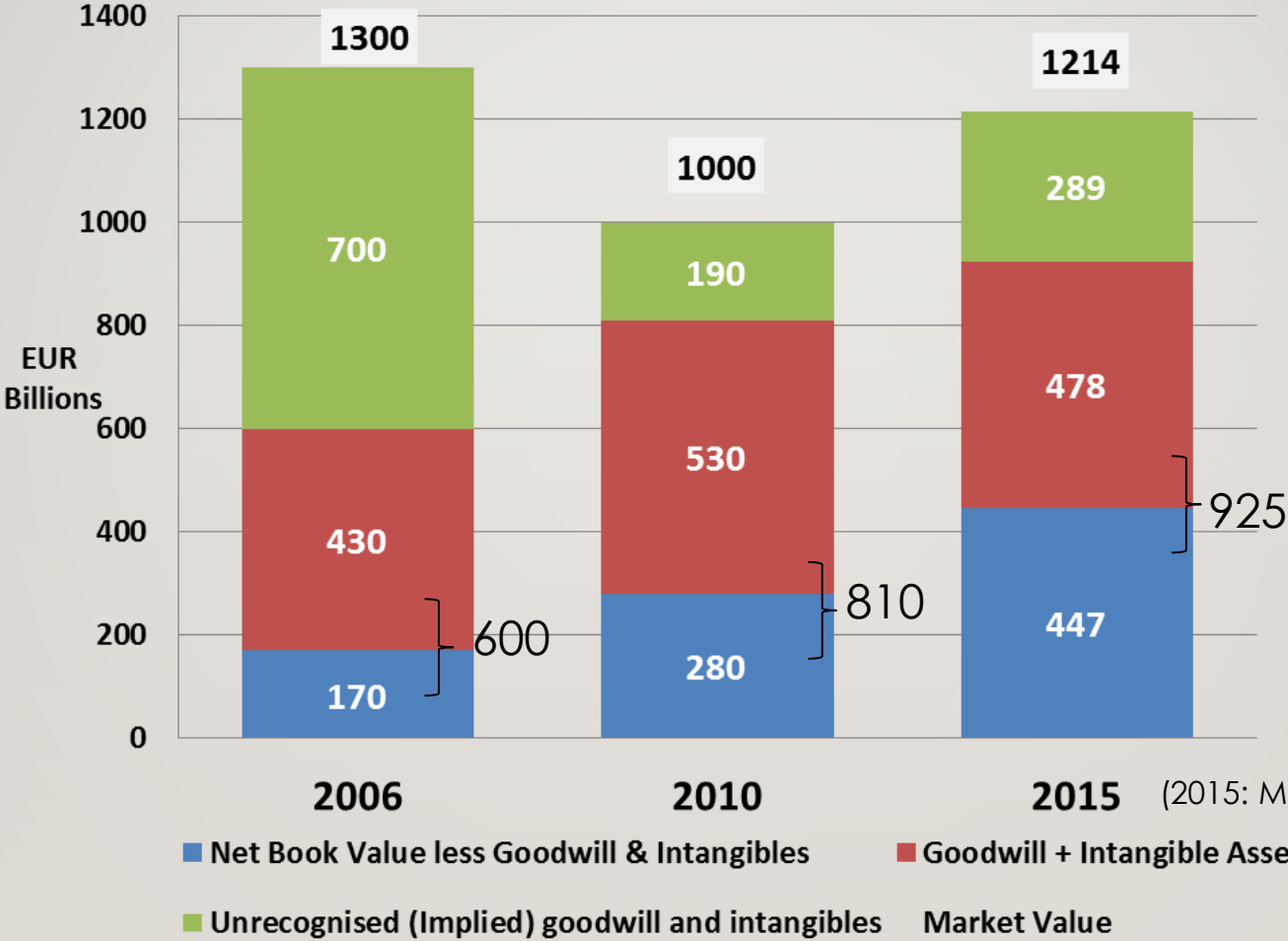
(ECHANTILLON ALEATOIRE DE 30 SOCIETES COTEES DANS L'INDICE RUSSELL 3000, HORS NASDAQ)

- Le ratio goodwill / total des actifs aux USA (hors NASDAQ) est compris entre 12,5% et 23,8% (en moyenne 18%) après impairments cumulés

(Extrapolation au niveau de la liste Russell 3000, avec un niveau de confiance de 95% ; article de Justin Polce « Ghastly Goodwill Accounts » – 9 Aout 2016)

FRANCE : DECOMPOSITION DE LA MARKET VALUE

CAC 40 Market Value and Components



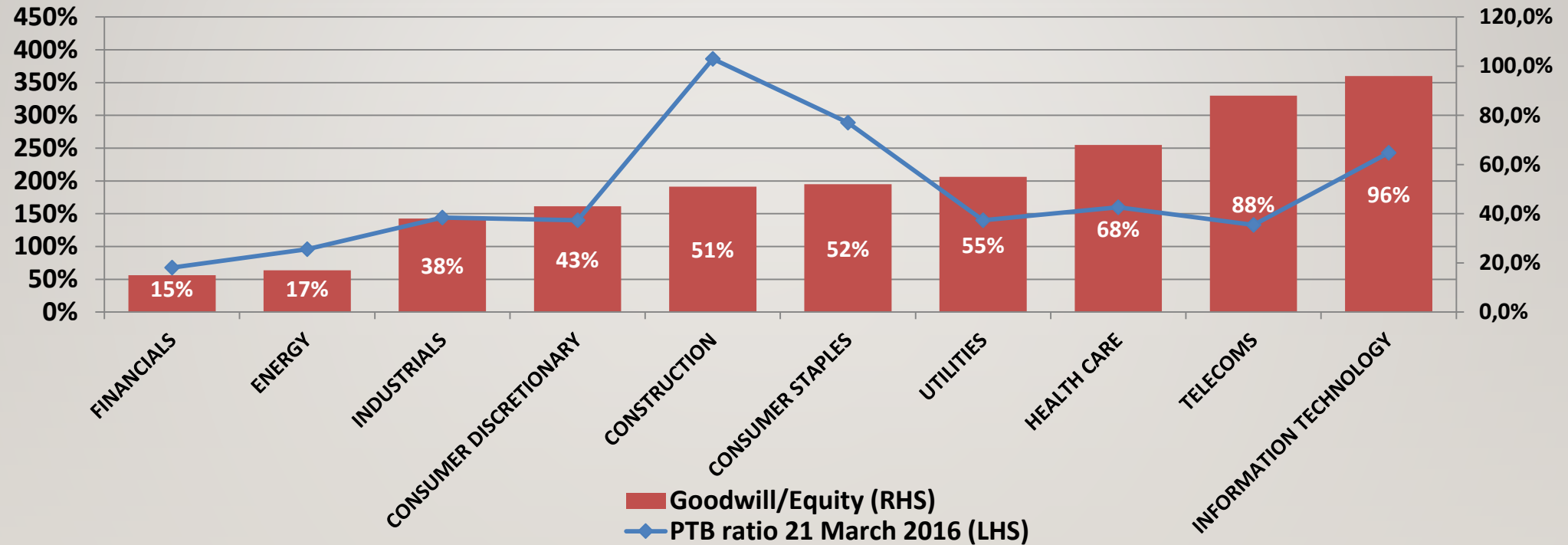
NB: These amounts include the financial institutions

(2015: MV as of 21st march 2016)

MARKET VALUE (PTB RATIO) ET GOODWILL COMPTABLE EN % DE LA NET BOOK VALUE (GW/E) PAR SECTEUR

PTB ratio
21/03/2016

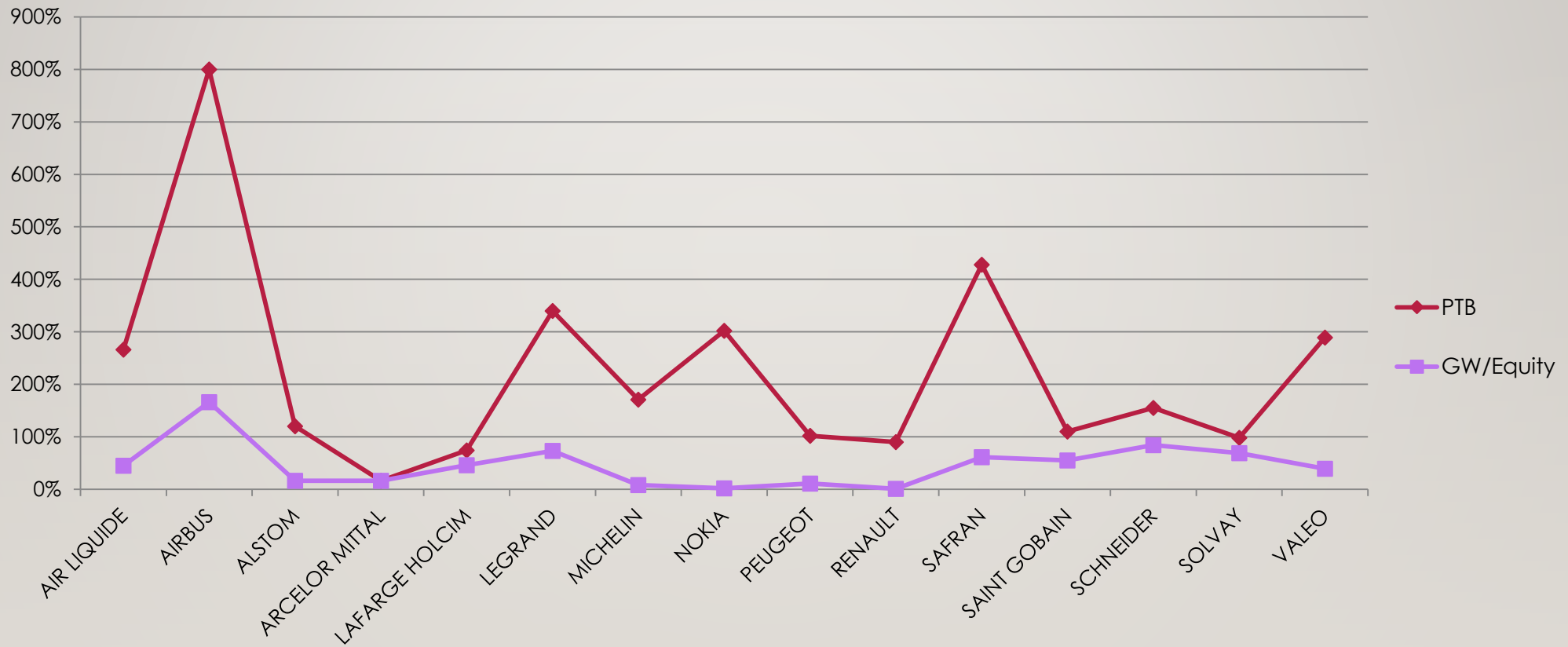
GW/E %
31/12/2015



Nota: three sectors include only one company (Telecoms, Health Care and Utilities) and each entity has specific history

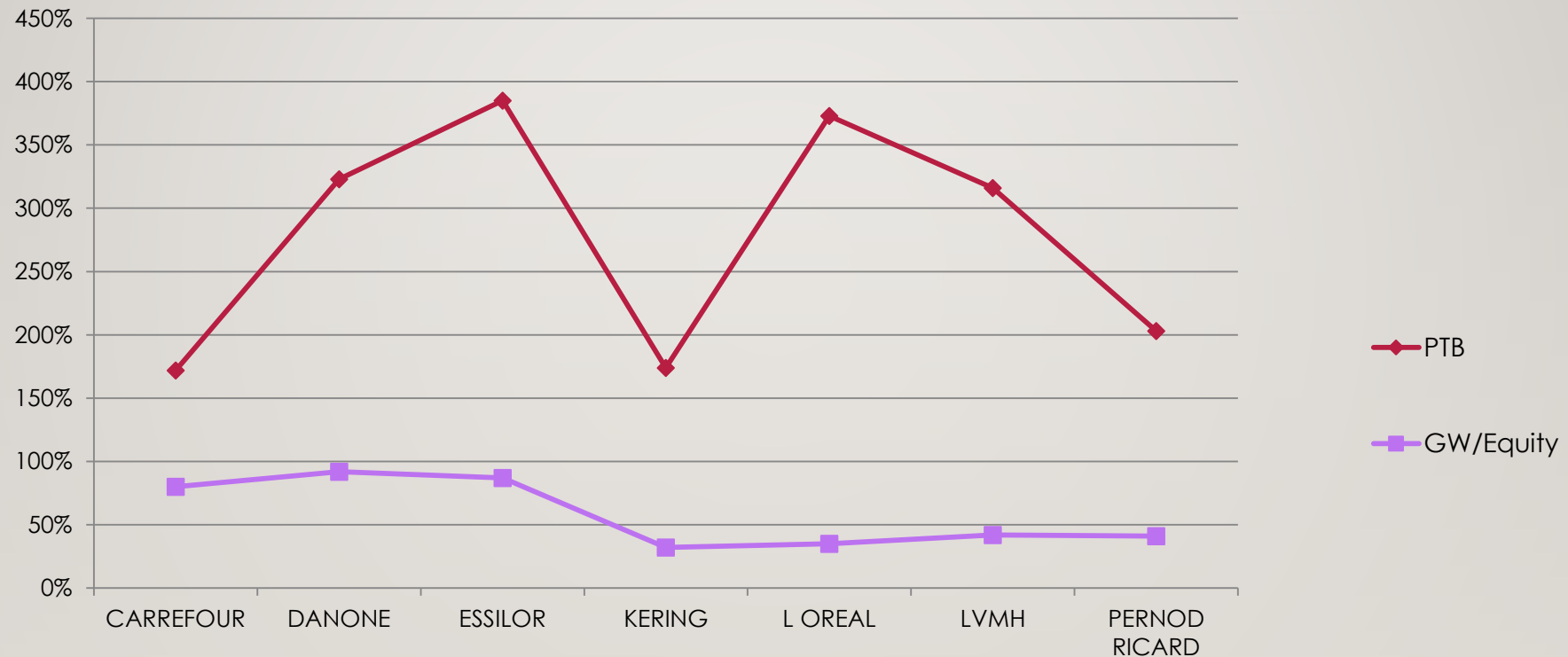
FOCUS – SECTEUR INDUSTRIES

PTB as of
21 March 2016

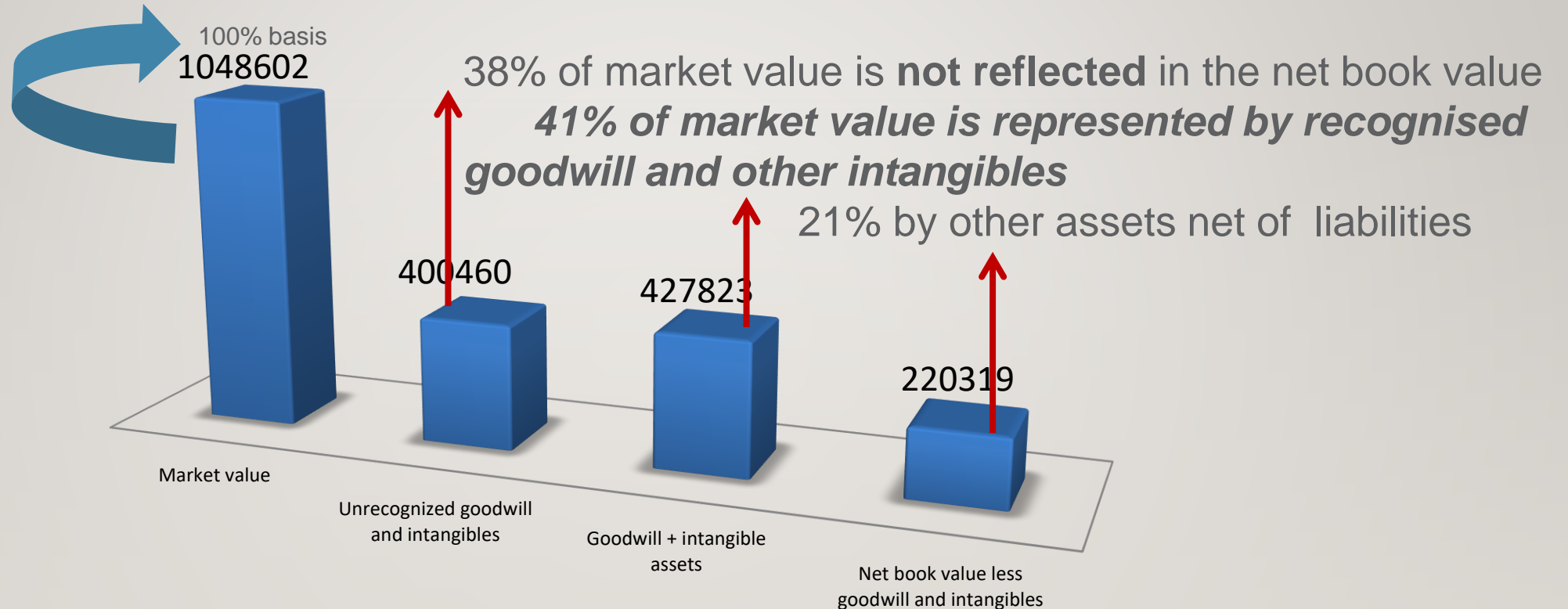


FOCUS – PRODUITS DE CONSOMMATION

PTB as of
21 March 2016



BREAKDOWN OF THE CAC40 MARKET VALUE EXCLUDING THE 4 FINANCIAL INSTITUTIONS(*) FROM THE SAMPLE (END OF 2015)

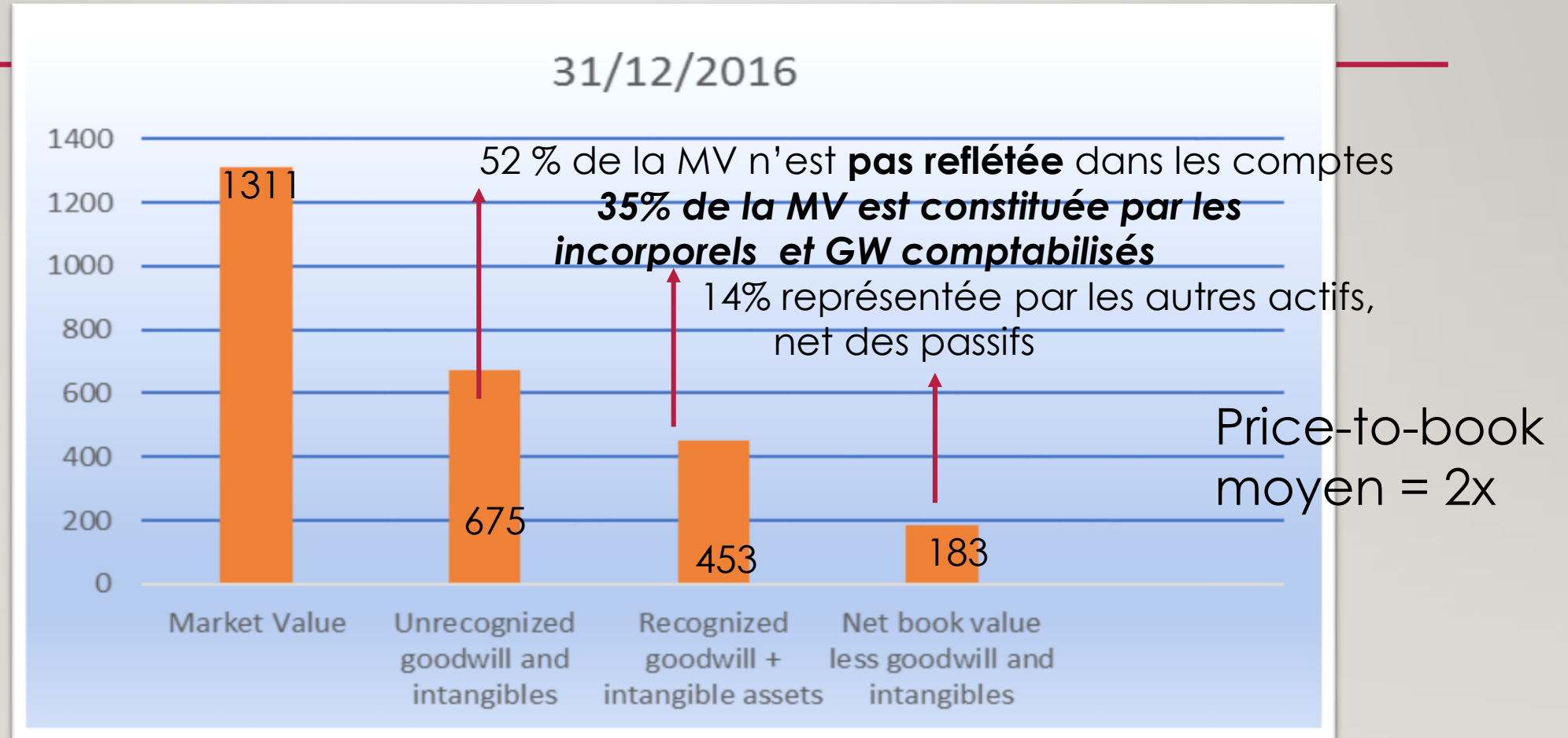


Amounts in M€; Market value as of 21/03/2016

(*) This analysis excludes AXA, BNP Paribas, Credit Agricole and Societe Generale from the CAC40 sample

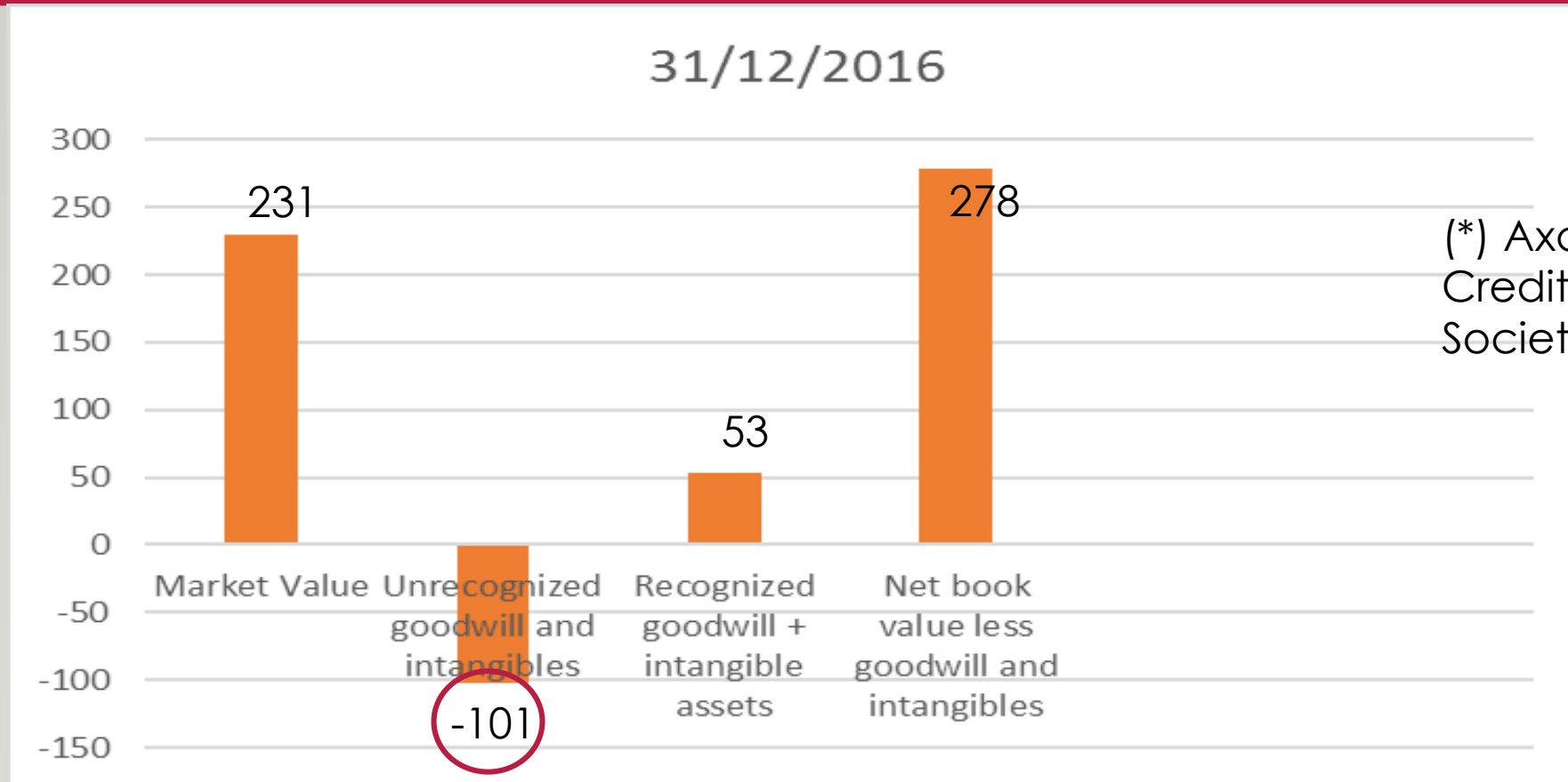
SITUATION ACTUELLE, HORS SECTEUR FINANCIER

(MARKET CAP AS OF JAN. 2018; EN MDS€)



SITUATION SPÉCIALE DU SECTEUR FINANCIER*

(AU 31/12/2016; MARKET CAP JANVIER 2018; MDSE€)



(*) Axa, BNP
Credit Agricole,
Societe Generale

IMPAIRMENTS DE GOODWILL COMPTABILISES ENTRE 2007 ET 2014

	Goodwill Impairment charge (mds€)
2007	4.6
2008	6.5
2009	4.7
2010	2.1
Total 2007-2010	17.9
<i>% du solde comptable fin 2006 (256€bn)</i>	7.0%
2011	9.1
2012	12.1
2013	10.6
2014	3.0
Total 2011- 2014	34.8
<i>% du solde comptable fin 2010</i>	10.4%
Total 2007-2014	52.7

CAC 40:

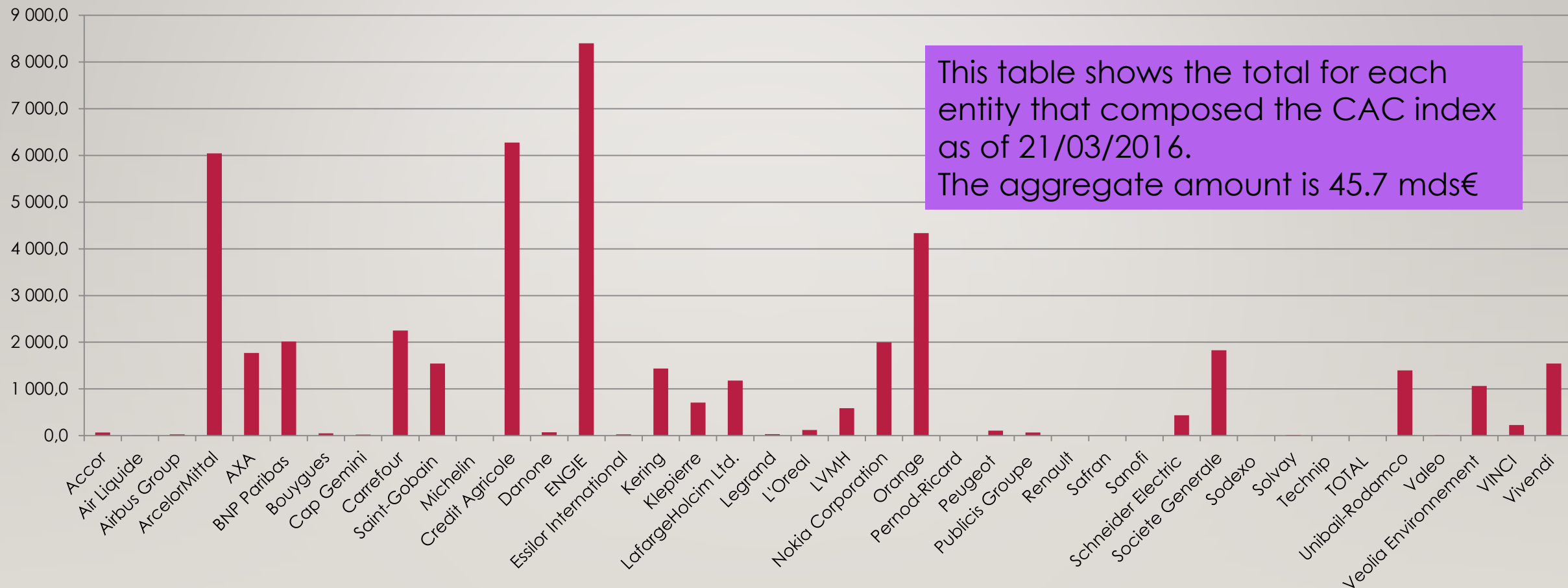
Le solde cumulé de GW existant au début de 2007 (256 mds€) a été déprécié de 52,7 mds€ en cumul entre 2007 et 2014.

Les impairments n'augmentent de façon significative qu'à partir de 2011 seulement. Puis, diminution très sensible à compter de 2014.

(Pendant la même période, 104 mds€ de "new" goodwill brut ont été enregistrés.)

CONCENTRATION FORTE DES IMPAIREMENTS SUR QUELQUES ENTITES

Impairment cumulé 2007-2015 (millions €)

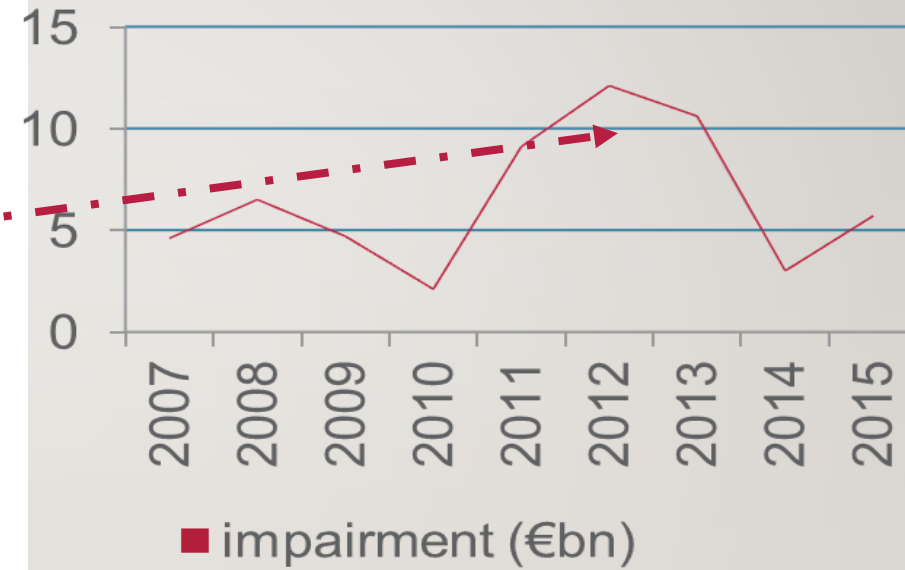
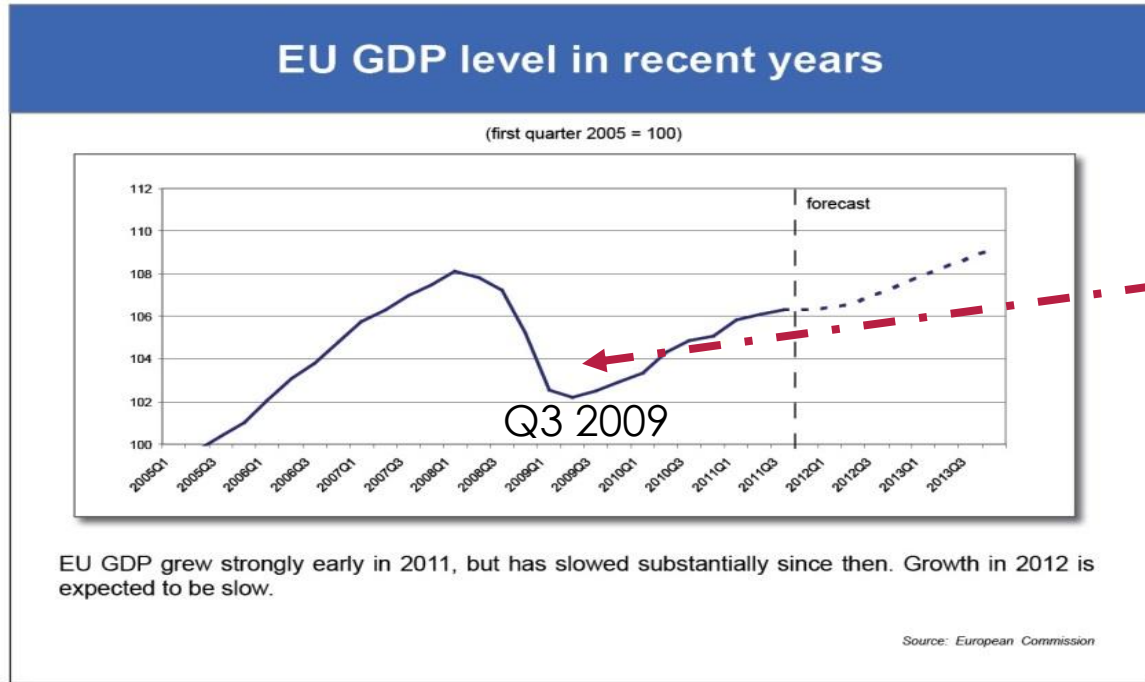


DEPRECIATIONS DE GOODWILL RECENTES PAR LE CAC40

(SOURCE: ETUDE PAR DUFF & PHELPS; 17/07/2017)

- 2015: 6,2 mds€ (x2 par rapport à 2014, mais attention aux effets de périmètre évolutif)
 - Concernait 17 sociétés sur 39 dans l'échantillon, avec forte concentration (77%) sur 3 sociétés: Engie, Lafarge, BNP-Paribas
 - 19 mds€ de new goodwill en 2015 (dont 10,6 résultant de la fusion Lafarge – Holcim)
- 2016: 5,4 mds€ (-13,4%, à périmètre constant de fin 2016)
 - Impairments concentrés essentiellement (84%) dans les secteurs Telecom, Media, Energie et Banques, et concernant un nombre limité de sociétés (18 sur 40)
 - Risques spécifiques liés aux évolutions technologiques, à la baisse persistante des prix de l'énergie et des matières premières, et aux taux d'intérêt bas
 - Le montant net cumulé de GW du CAC 40 a augmenté de 5% sur la période
 - Reflet d'une amélioration globale des perspectives économiques et d'un retour à l'offensive des sociétés françaises ?

RETARD DANS LA CONSTATATION DES PERTES? PAS EVIDENT AU NIVEAU MACRO-ECONOMIQUE...



Overall, there seems to be a one or two years lag between the fall in the EU GDP (2009-2010) and the peak of impairment charges (2011 to 2013). However, the CAC 40 companies do 41% of their business activities outside the EU (17% in Americas, 24% in Asia and rest of the world). The fall in GDP had diverse impacts and patterns of timing in the EU countries. A detailed review of goodwill and impairments by geographical area would be necessary before one could draw conclusions.

ANALYSE DES GOODWILL & AUTRES INCORPORELS INSCRITS AUX BILANS – CAC 39 (EN MDSE€)

	Goodwill	Actifs incorporels, net	Total
Secteur non financier (35 entités) (*)	285	168	453
Banques & assurances (4 entités)	45	8	53
Total CAC 39	330	176	506

(*) Exclut Technip-FMC en US GAAP

FOCUS SUR 12 « GROS PORTEURS DE GOODWILL »

(HORS SECTEUR BANQUE/ASSURANCE) (EN MDS€)

	Goodwill	Incorporels, net	Goodwill + incorporels
12 + gros	188	94 (**)	282
23 suivants	97	74	171
Total 35 sociétés (*)	285	168	453

Sociétés composant les 12 plus gros: Air Liquide, Danone, Engie, Lafarge-Holcim, LVMH, Orange, Sanofi, Saint Gobain, Schneider, Veolia, Vinci, Vivendi. (Soit 66% du total des goodwill et 56% des autres incorporels du CAC 35, pour 44% de la capitalisation)

(*) L'ensemble concerné exclut les 4 du secteur financier et Technip FMC (comptes en US GAAP, non encore disponibles)

(**) Les incorporels d'un montant brut 214 mds€ sont amortis ou deprecies à 56%, d'où un montant net de 94mds€

FOCUS SUR LES ACTIFS INCORPORELS (MONTANTS NETS, MDS€)

Société	Total Incorporels (94 mds€)	Brevets, licences (9,3 mds€)	Marques, enseignes (35,4 mds€)	Concessions (32,4 mds)	logiciels	R&D en cours	Autres
Vinci	27,1	0	0	26,7	0	0	0,4
Danone	4,1	0	3,8	0	0	0	0,3
Sanofi	10,9	0	9,1	0	0,4	1,4	0
Orange	14,6	6,4	3,2	0	3,8	0	1,1
Air Liquide	1,9	0	0	0	0	0,3	1,6
Schneider	4,5	0	2,3	0	0,1	1,3	0,8
Veolia	4,8	0,3	0	3,8	0,2	0,1	0,4
Engie	6,6	0	2,3	1,9	2,2	0	0,2
LVMH	13,3	0	12,2	0	0,4	0	0,7
Saint Gobain	2,7	0	2,1	0	0,2	0,2	0,1
Vivendi	2,4	2,1	0	0	0	0	0,3
Lafarge Holcim	0,9	0,5	0,4	0	0	0	0

IMPAIRMENT VS AMORTISSEMENT, QUEL EFFET?

- Si l'on retient une charge d'impairment moyenne de 7 mds€ /an, soit environ 2% de la valeur nette comptable du goodwill (cumulé CAC 39) à fin 2016 (330 mds€),
- On peut la comparer à une charge théorique annuelle d'amortissement de 33 mds€ (sur 10 ans) ou 16,5 mds€ (sur 20 ans)
- La différence est importante, mais que signifie t'elle ?

LE DEBAT AMORTISSEMENT / IMPAIRMENT

1/ SYNTHESE DE LA P.I.R. D'IFRS 3 PAR L'IASB

- A PIR is an opportunity to assess the effect of the new requirements on investors, preparers and auditors, considering: issues that were important or contentious during the development of the Standard; issues that come to the attention of the IASB after the publication of the Standard; and unexpected costs or implementation problems encountered.
- Timing of the review — after the new requirements have been applied internationally for 2 years, which is generally about 30 to 36 months after the effective date.
- Request for Information re IFRS 3 published on 30 January 2014 ; comment period ended on 30 May 2014 ; Feedback statement published June 2015

PIR IFRS 3: SYNTHÈSE

- Impairment of goodwill and indefinite-life intangible assets:
 - Investors have mixed views on the “impairment-only” approach for goodwill
 - Academic studies found some evidence of managerial discretion in amount and timing of impairment recognition, however other evidence suggests IFRS impairment model is operating effectively.
 - Many participants think the impairment test is complex, time-consuming and expensive and involves significant judgements.

PIR IFRS 3: SYNTHÈSE

- Separate recognition of intangible assets: investors have mixed views about the separate recognition of intangible assets from goodwill.
- Academic research indicates separate recognition of goodwill and identifiable intangible assets are value-relevant.
- Valuation of many intangible assets is challenging because they are unique and have no active market – especially challenging when not based on legally enforceable rights

PIR IFRS 3: SYNTHÈSE

- Fair value measurement of assets & liabilities acquired in a business combination:
 - Fair values at acquisition date provide useful information about how management spends the investors' money;
 - However, fair value does not facilitate comparison of trends between companies that grow organically and those that grow by acquisition.
 - Measuring fair value of contingent consideration is highly judgemental and difficult to validate
 - Measuring fair value of contingent liabilities is difficult because of the uncertainties involved.

PIR IFRS 3: SYNTHÈSE

- Application of the definition of a business:
- Many challenges in application – including the relevance of processes acquired, and the significance of processes missing from the acquiree, and the concept of ‘capable of being conducted as a business’.
- A separate accounting treatment for business combinations and asset acquisitions is conceptually justified only with respect to whether or not goodwill is recognised.

STUDY OF ACADEMIC LITERATURE REGARDING GOODWILL, INTANGIBLE ASSETS AND AMORTIZATION

Issue	Support for	Support for	Reasons against	Reasons against
Separate recognition of intangible assets from goodwill	Provides insight on why a company was purchased	Helps in understanding the components of the acquired entity	Limited (if any) utility to investors	Valuation is highly subjective and costly
Non amortization of goodwill	Assessing stewardship— whether acquisition was successful (confirmative value)	Showing if the acquirer expects future economic benefits from business combination	Assumptions used in impairment test are too optimistic and difficult to analyse	The market ignores the impairment test result (i.e. the impairment loss is already included in share price).

OUTCOME OF IFRS 3 PIR

Two research projects added to IASB's agenda:

- Financial reporting requirements for goodwill, on initial recognition and subsequently
 - Consider relationship between separately recognised intangible assets and goodwill.
 - Consider relationship between systematic amortisation and impairment testing—(i.e. difficulties in impairment testing).
 - Explore potential improvements to the impairment requirements for non-financial assets, including goodwill.
- Definition of a business: application challenges
 - Consider possibilities for clarifying the definition, including potential development of application guidance.
 - Consider how the accounting differences between business combinations and asset acquisitions could be reduced.

2/ LE DEBAT AMORTISSEMENT / IMPAIRMENT ETAT DES REFLEXIONS DE L'IASB (FEV. 2018)

Current stage:

- The Board has tentatively decided to consider ways of ensuring that impairment of goodwill is recognised in a timely fashion (via “headroom approach”). At the same time, simplifications are considered.
- The Board has tentatively decided not to consider reintroducing amortisation of goodwill, in absence of convincing evidence for changing the rules again.
- The Board is also exploring whether some identifiable intangible assets could be subsumed within goodwill.

ETAT DES REFLEXIONS DE L'IASB

Simplifications considered

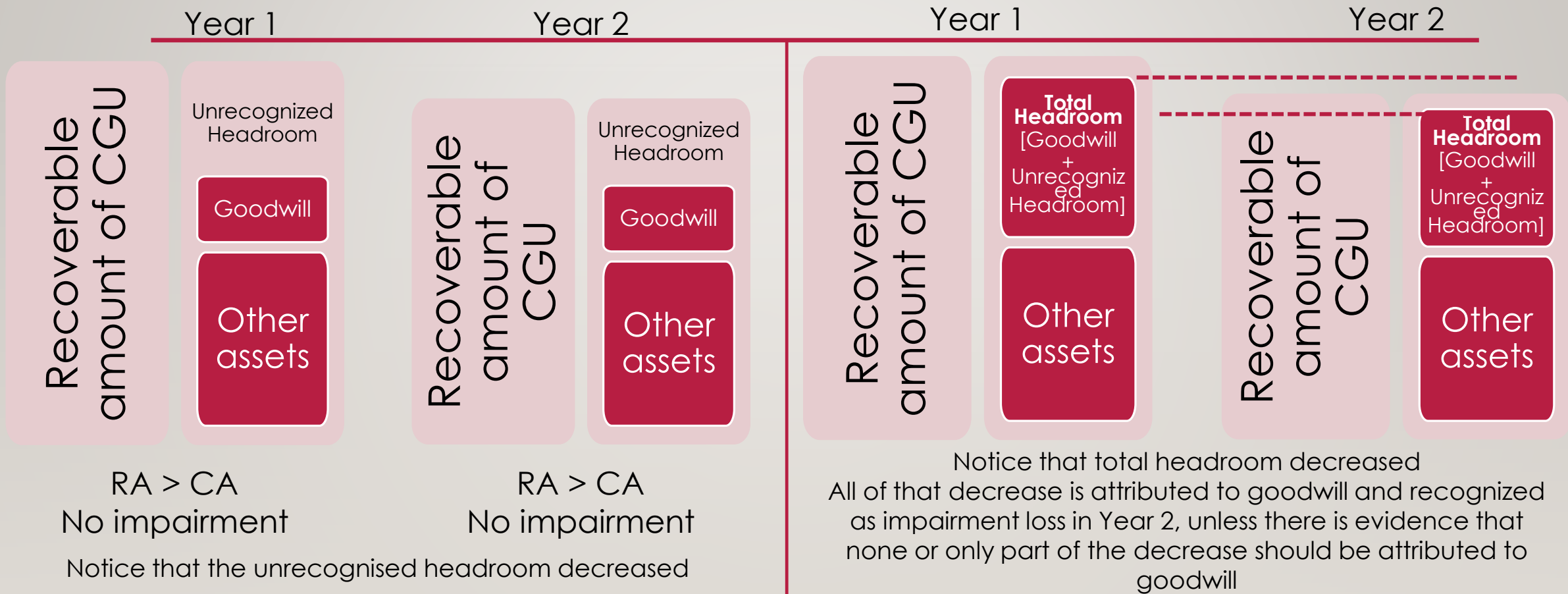
- The Board met on 25 January 2018 to discuss whether it can simplify the value in use calculation without making the impairment test in IAS 36 less robust. It tentatively decided to consider removing the requirement for an entity to exclude (from the value in use calculation) the cash flows resulting from a future restructuring or a future enhancement.
- The Board also tentatively decided to consider removing the explicit requirement to use pre-tax inputs to calculate value in use and to disclose the pre-tax discount rates used. Instead, an entity would be required to use internally consistent assumptions about cash flows and discount rates; and to disclose the discount rate(s) actually used.

ETAT DES REFLEXIONS DE L'IASB

Approche dite « Headroom » pour rendre l'impairment test plus rigoureux – Quel est le problème?

- Lors d'une acquisition, l'UGT acquise est habituellement incorporée à une UGT existante, qui peut bénéficier d'une « réserve de valeur d'usage » (« headroom ») au-delà des valeurs comptables;
- De ce fait, l'UGT acquise, incorporée à l'UGT d'accueil qui est l'entité pour laquelle on procède au test d'impairment, ne nécessitera une dépréciation qu'une fois « consommée » la réserve de valeur existante; ceci peut ne pas refléter correctement la situation économique de l'entité acquise « solo »;
- Il est donc envisagé de déterminer, lors de l'acquisition, la « headroom disponible », et de la suivre chaque année, après agrégation de l'acquisition. Toute diminution serait présumée nécessiter une dépréciation du goodwill de l'UGT acquise, même si la « headroom » reste positive. La présomption peut être écartée (sous réserve de disclosure adéquate).

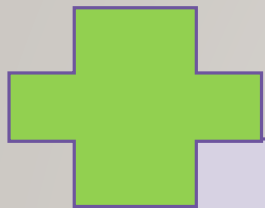
COMPARISON OF CURRENT IMPAIRMENT TEST WITH HEADROOM APPROACH



Current approach

Headroom approach

PROS AND CONS OF THE HEADROOM APPROACH



- Shielding effect of internally generated goodwill is removed
 - Entities would need to think carefully about factors affecting acquired goodwill
 - Management is discouraged from making over-optimistic projections of cash flows because any difficulty in maintaining the over-optimism year after year reduces the total headroom, potentially resulting in impairment of acquired goodwill
 - Recognition of impairments of goodwill may become more timely
 - Investors benefit from the disclosure of basis used for attributing decrease in total headroom
- Costs of applying the impairment testing model would increase because of the need for:
 - more precise measurement of recoverable amount in year in which unrecognized headroom is large; and
 - application of the rebuttable presumption

AVAILABILITY OF INFORMATION FOR APPLYING THE HEADROOM APPROACH

INFORMATION ALREADY AVAILABLE FROM THE CURRENT IMPAIRMENT TEST

- Recoverable amount of the CGU (theoretically!)
- Carrying amount of the CGU

ADDITIONAL INFORMATION REQUIRED FOR APPLYING THE HEADROOM APPROACH

- Pre-acquisition recoverable amount of a CGU to which goodwill is allocated for the first time
- Recoverable amount of a restructured CGU that includes goodwill
- Recoverable amount of a CGU immediately after any partial disposal

(The Board could consider not requiring calculation of these additional amounts (perhaps on cost-benefit grounds), in which case the headroom approach would not be available for the CGU in the reporting period in which the above events happen)

PROCHAINES ETAPES POUR L'IASB

- « Definition of a Business (amendment to IFRS3) » : ED publié en Juin 2016; amendement d'IFRS 3 publiable mi – 2018. Date d'effet 1/01/2020, application anticipée permise.
 - Clarifie la définition d'un « business » dans IFRS 3 (*an integrated set of activities must include...*)
 - Introduit un « screening test » optionnel pour identifier plus facilement si la transaction est un « asset deal » portant sur un groupe d'actifs, plutôt qu'une business combination (= y a-t'il concentration substantielle de la fair value de l'ensemble acquis sur un actif isolé ou un groupe d'actifs similaires ?)
 - En cas d'échec au test, l'entité doit alors examiner si les autres conditions d'une business combination sont remplies.
- « Goodwill and Impairment » : Discussion Paper ou Exposé-sondage mi-2018
- « Business Combinations under Common Control » : Discussion Paper mi-2019
 - Doit traiter les cas de figure spécifiquement exclus du champ d'IFRS3

3/ EFRAG – DISCUSSION PAPER ON GOODWILL IMPAIRMENT TESTS: FEEDBACK STATEMENT (14/03/2018)

- 2014: Short DP de ASBJ+OIC+EFRAG « Should goodwill still not be amortised? »
- EFRAG quantitative study: « What do we really know about goodwill impairment? »
- EFRAG exposed in 2017 for discussion potential amendments to impairment tests, with the objective of:
 - Reducing complexity and achieving a better balance costs / benefits
 - Making the application of IAS36 more effective, to mitigate risks of untimely recognition of impairment losses.
 - It did not address possible re-introduction of systematic amortisation, or recognition of intangibles

EFRAG PROPOSED « GOODWILL ACCRETION APPROACH » (OBJECTIVE AND PREMISES)

- Objective: to avoid that the value of purchased goodwill is protected from IAS36 impairment by the amount of goodwill internally generated after the acquisition
 - Premise: purchased goodwill may be impaired even if the overall value of goodwill has been maintained thanks to internally-generated goodwill
 - Difficult to directly measure internally-generated goodwill; so a proxy must be used
- ➔ Proxy : purchased goodwill must be replenished at least at a rate that is equal to the expected return on the initial investment

EFRAG PROPOSED GOODWILL ACCRETION APPROACH (METHOD)

- At each reporting date, entity determines for the purpose of the test an amount of « **goodwill accretion for the period / GAP** » : opening balance of goodwill x discount rate = GAP
- GAP is added to the carrying amount of the CGU for the purpose of the test
- Impairment test applied as before, but on the notional amount of CGU:
 - If negative difference arises, a loss is recognised (and deducted from goodwill for subsequent GAP calculation)
 - If no negative difference, GAP is carried forward and added to following year's GAP
 - Until goodwill is fully written off
- GAP Discount rate is updated at each year end to reflect current economic circumstances

FEEDBACK STATEMENT 14/03/2018

MAIN CONCERNS EXPRESSED BY RESPONDENTS

- Suggested improvements could increase complexity/cost, whereas constituents would like simplification and cost reductions for preparers and users
- Support for suggestions (similar to IASB's tentative decisions) to simplify calculation of cash flows for determination of value in use (VIU)
- Mixed views on EFRAG proposal to insert more guidance on allocation to existing CGUs (too much driven by anti-abuse concerns)
- Some support for introduction of a qualitative test « Step 0 » to reduce application costs when the likelihood of impairment is remote (instead of the annual calculation required in all cases by IAS36)
- Support for keeping VIU as the most appropriate method for calculation of recoverable amount
- Little support for the « Goodwill accretion approach », although some consider it theoretically sound

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