



# **BV511-WEB - An Overview of Impairment Testing (under ASC 350 and 360)**

Dan Callanan, ASA - Managing Director  
Rebecca McElwain, CPA - Director



# Our Presenters

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## Daniel P. Callanan, ASA Managing Director

Dan Callanan joined Prairie Capital Advisors in 2019. He is a seasoned valuation professional, having advised privately-held and publicly-traded companies on valuation and other financial matters for nearly 30 years. Dan has performed business valuation and financial advisory services for publicly-held and private companies for numerous purposes including financial reporting, employee stock ownership plans (ESOPs), fairness opinions, solvency opinions, buy/sell agreements and other corporate tax and restructuring related matters.



# Our Presenters

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## Rebecca McElwain, CPA Director

Rebecca McElwain joined Prairie Capital Advisors in 2020. She manages, executes and delivers fair value analyses and reports for privately-held and publicly-traded clients, including valuations for purchase price allocations, portfolio and fund valuations, equity-based compensation, and indefinite and long-lived intangible asset impairment testing. Rebecca works to ensure seamless communication with clients and trusted service providers.



# Agenda

- Review the foundation of impairment testing and GAAP guidance
- ASC 350/360 Overview
- Overview of the impact of COVID-19 on current capital market conditions
- Examining annual test vs. triggering event test dates
- Reconciling past impairment tests with recent internal performance and external market conditions

# About Prairie

## Serving *Middle – Market Companies*



### Company Facts



Founded in 1996



500+ Middle Market Transactions



Typical Client Revenues: \$10 - \$500 mil



8 Office Locations



50+ Professionals

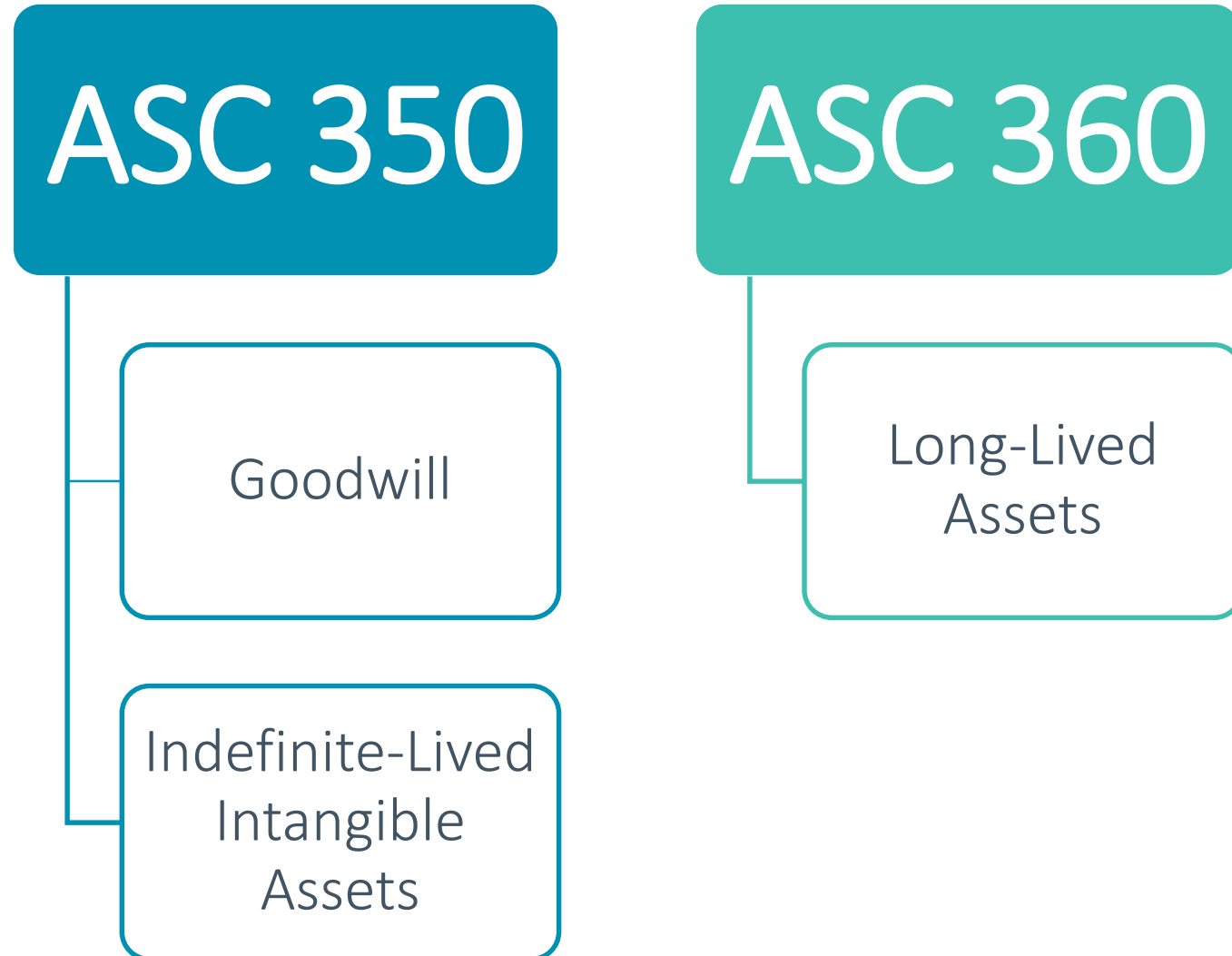


400+ Annual Corporate Valuations



Consistently ranks as a Top 10 Fairness Opinion Provider, as reported by *Thomson Reuters* and was named the 2020 USA Valuations & Fairness Opinions Advisor of the Year by *M&A Atlas*.

# Impairment Testing US GAAP



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# POLLING QUESTION #1

# Defining Goodwill



The favor or advantage that a business has acquired especially through its brands and its good reputation



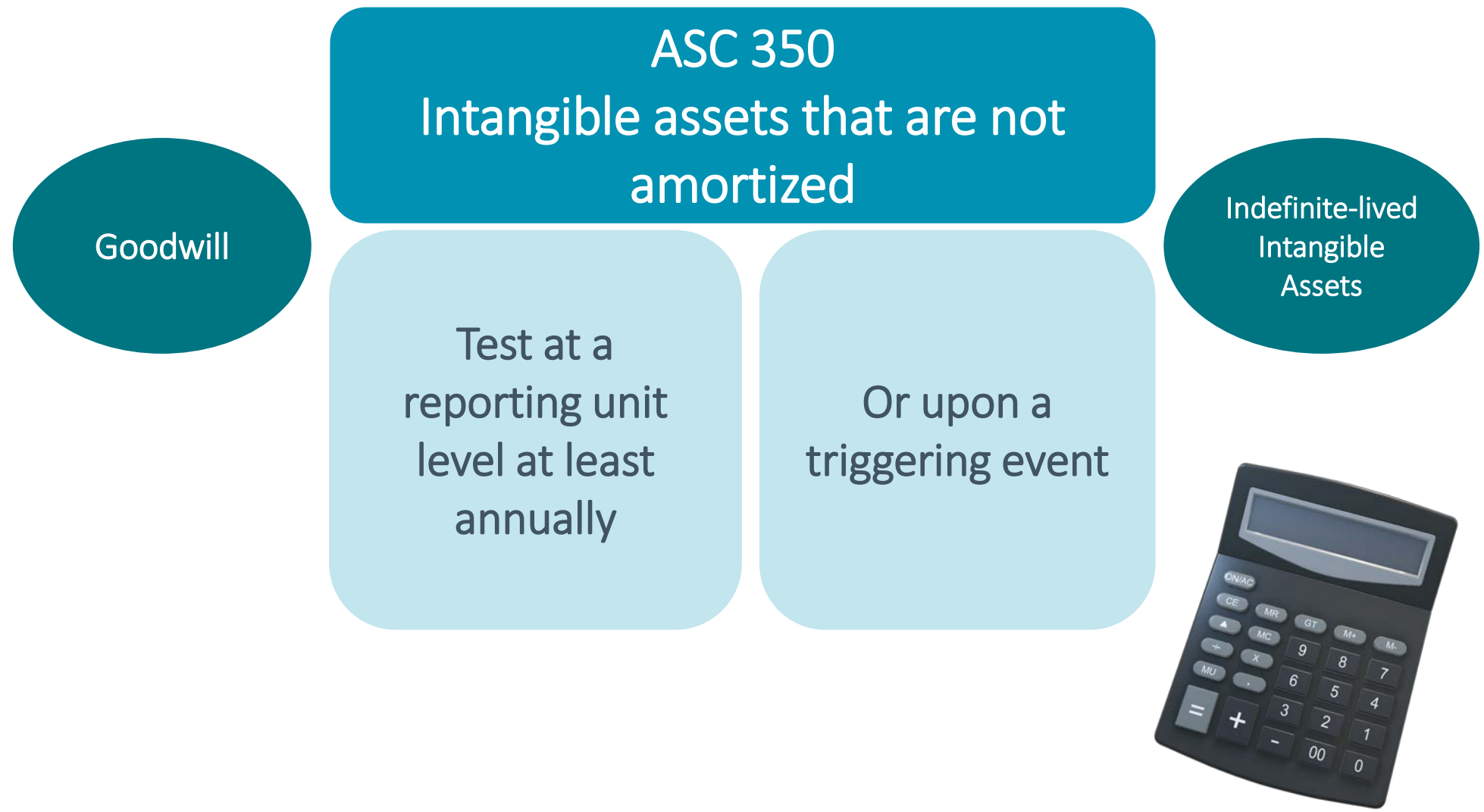
Regs. Sec. 1.197-2(b)(1) defines goodwill as "the value of a trade or business attributable to the expectancy of continued customer patronage," and that "[t]his expectancy may be due to the name or reputation of a trade or business or any other factor."



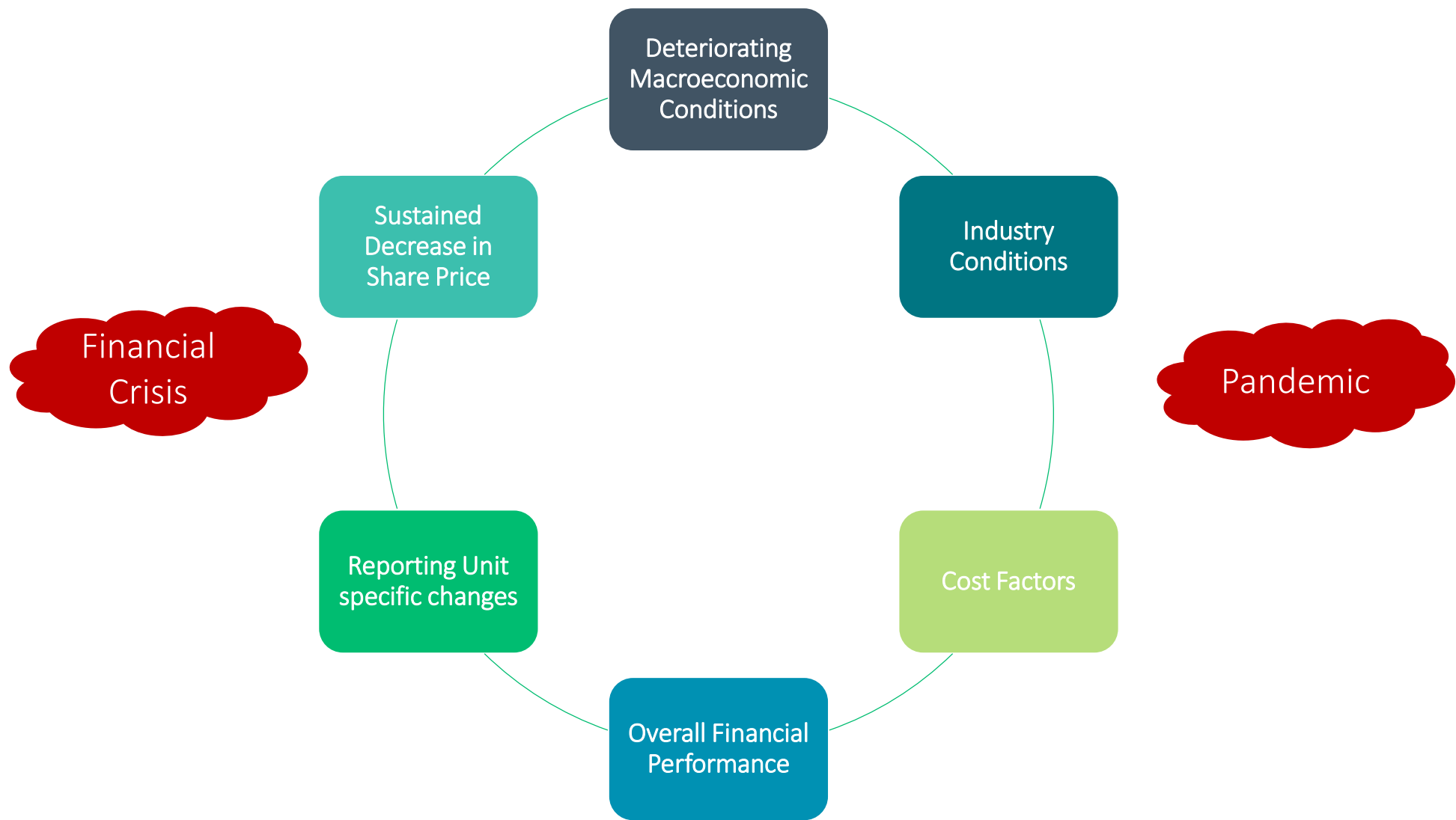
Accounting Standards Codification (ASC) Topic 350, Intangibles—Goodwill and Other, defines goodwill as “an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.”



# Accounting Standards Codification (ASC) Topic 350, Intangibles—Goodwill and Other



# ASC 350 Triggering Event Examples



# Standard of Value

- Fair Value defined under Accounting Standards Codification Topic 820: Fair Value Measurements and Disclosures (“ASC 820”)

“The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

- Assumes Highest and Best Use of Assets by Market Participant

1) in-use, if the asset would provide maximum value to market participants through its use in combination with other assets as a group, installed or otherwise configured for use;

Or

2) in-exchange, if the asset would provide maximum value to market participants on a standalone basis.

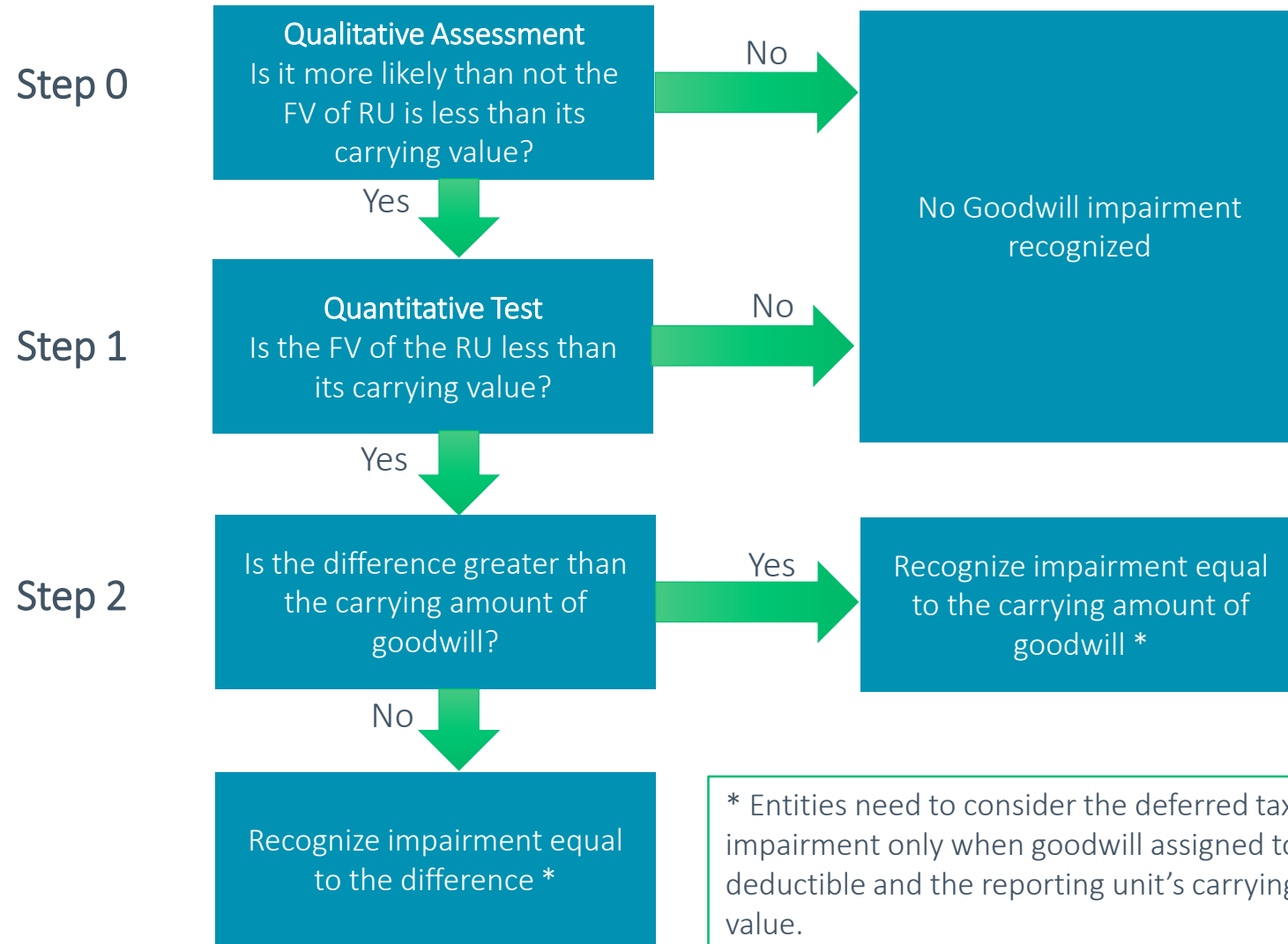
# Fair Value Rules

Market participant premise	Strategic buyers Financial buyers
	Assumptions used in the valuation must be based on Market-Participant assumptions <ul style="list-style-type: none"><li>• Cash flow and cost of capital assumptions</li><li>• Acquisition premiums on GPC method</li><li>• Buyer synergies</li></ul>
Principal market	Most advantageous market

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# POLLING QUESTION #2

# Goodwill Impairment Testing Steps



\* Entities need to consider the deferred tax effect of a goodwill impairment only when goodwill assigned to the reporting unit is tax deductible and the reporting unit's carrying value exceeds its fair value.

# ASC 350 Step 0 Qualitative Assessment

## Step 0 Qualitative Assessment

- A qualitative assessment to the goodwill impairment process is allowed as a precursor to the traditional two-step quantitative process.
  - An entity first assesses qualitative factors to determine whether there is more than a 50% likelihood that the fair value of a reporting unit is less than its carrying value.
  - The FASB outlines relevant circumstances to consider:
    - General macroeconomic conditions
    - Industry and market conditions
    - Changes in cost factors that have an effect on earnings and cash flows
    - Overall financial performance for both actual and expected performance
    - Entity- and reporting unit–specific events
    - Changes in share price, if applicable

# ASC 350 Step 0 Qualitative Assessment Example

	Unfavorable	Neutral	Favorable	Importance	Comments
<b>General macroeconomic conditions</b>					
General economic conditions	X			High	Deterioration in general economic conditions
Access to capital		X		Low	No current interruption on accessing capital
<b>Industry and market conditions</b>					
Change in stock price of guideline public companies	X			High	The median peer enterprise value has declined 39 percent since 12/31/19
Change in multiples from guideline public companies	X			High	The median peer Equity-to-book multiple has declined approximately 23 percent since 12/31/2019
Change in M&A pricing multiples for companies in industry		X		High	Transaction multiples have declined approximately 35 percent since 12/31/19
<b>Changes in cost factors that have a negative effect on earnings and cash flows</b>					
Change in raw materials, labor, or other costs		X		Mid	Costs are stable
<b>Overall financial performance for both actual and expected performance</b>					
Actual sales compared to prior period	X			High	Actual sales are 10 percent lower than prior year
Actual sales compared to forecast	X			High	Actual sales are 18 percent lower than forecast
Revenue growth compared to peers	X			Mid	The median peer revenue growth y-o-y was negative 5 percent
EBITDA margin compared to peers	X			Mid	The median peer EBITDA margin for FY was negative 2.6 percent compared to Company EBITDA margin negative 15 percent
<b>Negative entity- and reporting unit-specific events</b>					
Management and key personnel		X		Mid	
Customers	X			Mid	
Products		X		Mid	



# ASC 350 Step 0 Qualitative Assessment Example

## ABC Company

### Comparable Change Tables

\$ millions	Current 2020	Prior 2019	Change	Current 2020	Prior 2019	Change	Current 2020	Prior 2019	Change	Current 2020	Prior 2019	Change
<b>Valuation Change Table</b>	<b>Enterprise Value</b>			<b>Equity Value</b>			<b>Stock Price</b>			<b>Total Debt</b>		
1 National Oilwell Varco, Inc.	\$4,201	\$9,708	(56.7%)	\$3,518	\$8,180	(57.0%)	\$9.06	\$21.20	(57.3%)	\$2,093	\$2,769	(24.4%)
2 Forum Energy Technologies, Inc.	332	543	(38.8%)	61	171	(64.2%)	10.99	31.00	(64.5%)	291	401	(27.4%)
3 Cactus, Inc.	840	1,385	(39.3%)	912	1,363	(33.1%)	19.19	28.94	(33.7%)	6	13	(50.4%)
4 Oil States International, Inc.	276	1,055	(73.8%)	167	805	(79.3%)	2.73	13.30	(79.5%)	189	265	(28.7%)
5 Exterran Corporation	626	911	(31.3%)	138	437	(68.5%)	4.16	13.06	(68.1%)	517	496	4.2%
6 Halliburton Company	18,367	25,466	(27.9%)	10,652	16,547	(35.6%)	12.05	18.85	(36.1%)	9,827	10,473	(6.2%)
7 Baker Hughes Company	18,410	31,836	(42.2%)	9,115	15,077	(39.5%)	13.29	23.20	(42.7%)	7,689	7,007	9.7%
8 Schlumberger Limited	36,014	62,100	(42.0%)	21,660	47,305	(54.2%)	15.56	34.17	(54.5%)	17,763	16,673	6.5%
9 Nabors Industries Ltd.	3,497	4,288	(18.4%)	178	680	(73.8%)	24.44	93.50	(73.9%)	3,290	3,518	(6.5%)
<b>Median</b>	<b>\$3,497</b>	<b>\$4,288</b>	<b>(39.3%)</b>	<b>\$912</b>	<b>\$1,363</b>	<b>(57.0%)</b>			<b>(57.3%)</b>	<b>\$ 2,093</b>	<b>\$2,769</b>	<b>(6.5%)</b>

### Multiple Change Table

	<b>Projected EBITDA (x)</b>			<b>LTM EBITDA (x)</b>			<b>LTM Sales (x)</b>			<b>LTM Book Value</b>		
1 National Oilwell Varco, Inc.	11.2x	12.6x	-1.4x	n/a	70.3x	n/a	0.60x	1.13x	-0.5x	0.64x	1.02x	-0.37x
2 Forum Energy Technologies, Inc.	n/a	7.3x	n/a	n/a	13.6x	n/a	0.55x	0.53x	0.0x	0.14x	0.35x	-0.21x
3 Cactus, Inc.	8.1x	6.1x	2.0x	5.9x	6.1x	-0.1x	2.00x	2.21x	-0.2x	2.60x	4.36x	-1.76x
4 Oil States International, Inc.	13.4x	9.8x	3.6x	n/a	10.6x	n/a	0.37x	1.00x	-0.6x	0.22x	0.58x	-0.36x
5 Exterran Corporation	4.8x	4.4x	0.3x	3.8x	5.0x	-1.2x	0.54x	0.96x	-0.4x	0.42x	0.89x	-0.47x
6 Halliburton Company	8.1x	6.7x	1.4x	11.7x	6.9x	4.9x	1.12x	1.10x	0.0x	2.05x	1.70x	0.35x
7 Baker Hughes Company	8.8x	10.5x	-1.7x	7.3x	10.8x	-3.5x	0.85x	1.34x	-0.5x	0.79x	0.69x	0.10x
8 Schlumberger Limited	8.8x	9.3x	-0.5x	7.4x	9.5x	-2.1x	1.37x	1.89x	-0.5x	1.81x	1.98x	-0.16x
9 Nabors Industries Ltd.	6.3x	5.3x	1.0x	5.3x	5.3x	0.0x	1.45x	1.38x	0.1x	0.14x	0.30x	-0.16x
<b>Median</b>	<b>8.5x</b>	<b>7.3x</b>	<b>0.7x</b>	<b>6.6x</b>	<b>9.5x</b>	<b>-0.7x</b>	<b>0.85x</b>	<b>1.1x</b>	<b>-0.4x</b>	<b>0.64x</b>	<b>0.89x</b>	<b>-0.21x</b>

### Performance Change Table

	<b>LTM EBITDA</b>			<b>LTM EBITDA Margin</b>			<b>Projected EBITDA</b>			<b>Projected EBITDA Margin</b>		
1 National Oilwell Varco, Inc.	(\$33)	\$138	(123.9%)	(0.5%)	1.6%	(2.1%)	\$374	\$768	(51.3%)	6.1%	9.1%	(3.0%)
2 Forum Energy Technologies, Inc.	(48)	40	(220.5%)	(8.0%)	3.9%	(11.9%)	(30)	75	(139.4%)	-5.7%	7.4%	(13.1%)
3 Cactus, Inc.	141	228	(37.8%)	33.6%	36.2%	(2.6%)	104	228	(54.6%)	31.1%	35.6%	(4.5%)
4 Oil States International, Inc.	(1)	100	(101.1%)	(0.2%)	9.5%	(9.6%)	21	108	(80.8%)	3.2%	10.2%	(7.0%)
5 Exterran Corporation	165	182	(9.1%)	14.2%	19.1%	(4.9%)	132	206	(35.9%)	17.2%	15.2%	2.0%
6 Halliburton Company	1,566	3,714	(57.8%)	9.5%	16.0%	(6.5%)	2,263	3,773	(40.0%)	15.7%	16.2%	(0.5%)
7 Baker Hughes Company	2,530	2,941	(14.0%)	11.7%	12.4%	(0.6%)	2,081	3,030	(31.3%)	10.4%	12.5%	(2.1%)
8 Schlumberger Limited	4,899	6,561	(25.3%)	18.6%	20.0%	(1.3%)	4,097	6,701	(38.9%)	17.4%	20.1%	(2.7%)
9 Nabors Industries Ltd.	658	804	(18.1%)	27.4%	25.8%	1.5%	553	805	(31.3%)	25.8%	25.4%	0.3%
<b>Median</b>	<b>\$165</b>	<b>\$228</b>	<b>(37.8%)</b>	<b>11.7%</b>	<b>16.0%</b>	<b>(2.6%)</b>	<b>\$374</b>	<b>\$768</b>	<b>(40.0%)</b>	<b>15.7%</b>	<b>15.2%</b>	<b>(2.7%)</b>

# ASC 350 Step 0 Indefinite-Lived Intangible Assets

- A qualitative assessment may also be applied to indefinite-lived intangible assets.
- The qualitative factors applicable depend on the type of valuation methodology used for the subject intangible asset (e.g., relief-from-royalty approach, multi-period excess earnings, cost approach).
- It also important to assess whether there has been any change in the relevance of the subject intangible asset to the overall business.
  - A product recall could negatively impact the market share and thus the market royalty rate applicable to an indefinite-lived intangible asset, such as a trade name.

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# ASC 350 Quantitative Test

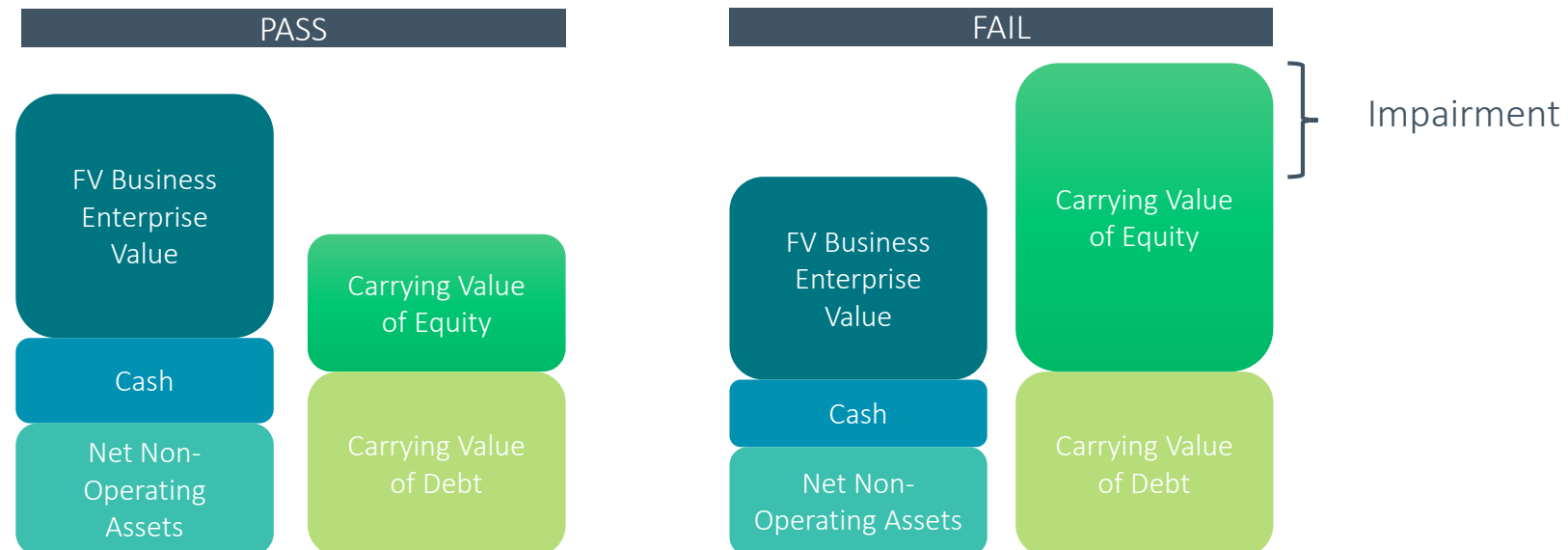
## Step 1 Quantitative Test

- If a company / reporting unit fails the Step 0 test, or decides to bypass Step 0, it must proceed with the Step 1 quantitative assessment of goodwill impairment.
- Methodologies for determining the fair value of a reporting unit:
  - Discounted cash flow
    - Market participant assumptions
  - Guideline public company multiples
    - Acquisition premium
  - M&A transaction multiples
  - Market capitalization reconciliation for public companies
    - Sum of the parts (reporting units) must equal the whole
    - Assess the implied Market Participant Acquisition Premium (MPAP)
      - The higher the acquisition premium used, the greater the level of documentation required to support the premium

# ASC 350 Quantitative Test

## Step 2 Measuring Impairment, If Any

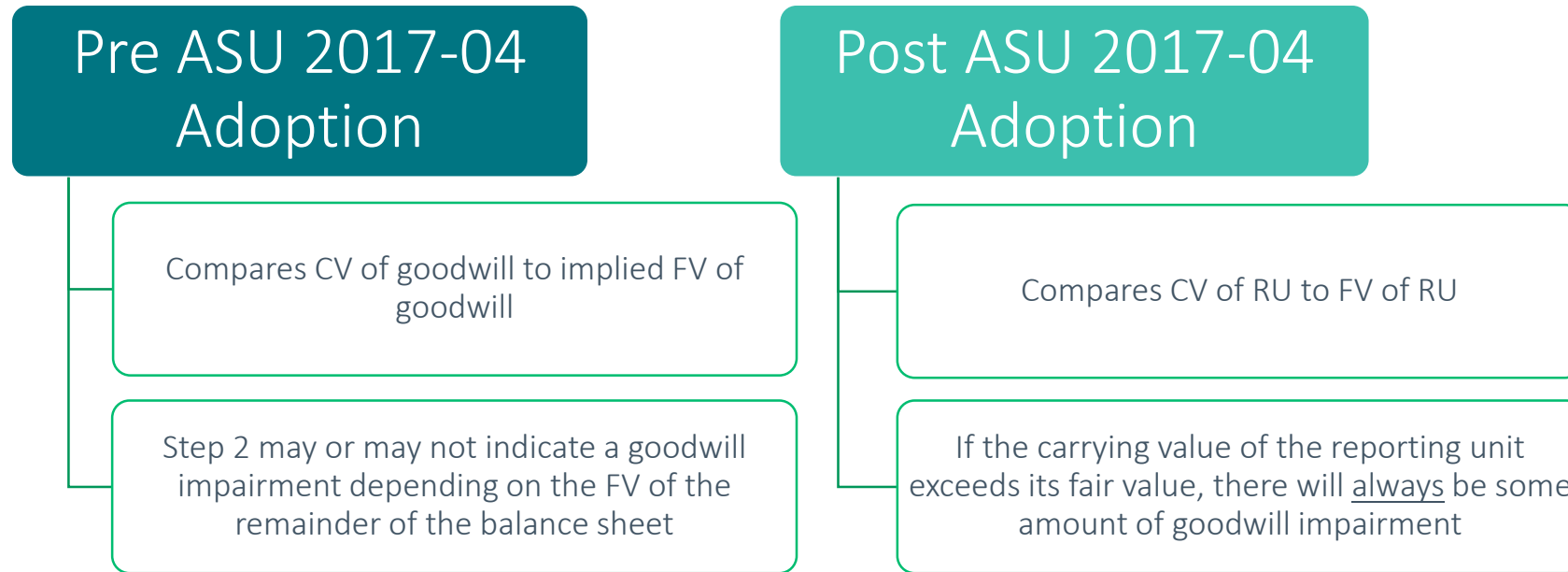
- The company compares the fair value of the reporting unit to its carrying amount from Step 1.
  - If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered impaired.
  - If the fair value is lower, the company must then calculate any goodwill impairment charge in Step 2.
    - An impairment loss reduces the recorded goodwill and is irreversible.



# ASC 350 New Guidance

## Step 2 New Guidance ASU 2017-04

- FASB issued ASU 2017-04 which simplifies the determination of goodwill impairment.



# ASC 350 New Guidance

## Step 2 New Guidance ASU 2017-04

- Effective dates for implementation:
  - For public business entities that are SEC filers, fiscal years beginning after December 15, 2019.
  - For public business entities that are not SEC filers, fiscal years beginning after December 15, 2020.
  - For all other entities, including not-for-profits, fiscal years beginning after December 15, 2021.
- Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The amendments in this Update are required for public business entities and other entities that have goodwill reported in their financial statements and have not elected the **private company alternative** for the subsequent measurement of goodwill.

# Big GAAP vs Little GAAP

- Private Company GAAP Alternatives
- In 2014, the Financial Accounting Standards Board (FASB), which governs GAAP, created a Private Company Council which has issued two alternatives that impact the accounting treatment of Goodwill and Other Intangible Assets for adopters.
  - *Amortization of goodwill* – Accounting Standards Update (ASU) 2014-02 laid out standards for private companies to account for goodwill.
  - *Business combinations* - ASU 2014-18 provides an amended set of standards to help private companies account for intangible assets when businesses are combined.

# Big GAAP vs Little GAAP

## Private Company Impairment Testing

- Alternatives for private company adopters

### ASU 2014-02 Amortization of Goodwill

1. Amortize goodwill on a straight-line basis over a maximum life of 10 years
2. Eliminates the annual impairment test requirement
  - Only test when a triggering event occurs
3. Companies test goodwill for impairment at either the entity level or the reporting-unit level



# Big GAAP vs Little GAAP

## Private Company Business Combination

- Alternatives for private company adopters

### ASU 2014-18 Business Combinations

- Include in goodwill:
  - customer-related intangible assets that are not capable of being sold or licensed separately from the rest of the business
  - noncompetition agreements
- Companies that adopt this alternative are also required to amortize goodwill under the PCC Alternative for Goodwill

# Big GAAP vs Little GAAP

## Making the Election

- The accounting alternatives provide relief to nonpublic entities by offering simplified accounting models, however:
  - If an eligible private company becomes a public business entity, or is acquired by a public entity, in the future, the company will need to retrospectively adjust its historical financial statements to remove the effect of applying the PCC alternatives for all prior periods presented.
    - This could prove to be a time consuming and costly exercise for a private company that becomes a public business entity.
- A private company always has the option to continue to follow existing (big) GAAP.

# FASB Projects Related to Goodwill

## Private Company and Not-For-Profits Only

- Goodwill – Triggering Event Assessment Alternative for Private Companies and Not-For-Profit Entities
- Stage
  - Exposure Draft
  - Next Steps:
    - 30 day expedited comment period
    - Redeliberation of draft
    - Final Standard

This applies to private companies and NFP that have goodwill that is tested for impairment in accordance with Subtopic 350-20 i.e. have not elected the **private company alternative** for the subsequent measurement of goodwill.

# FASB Projects Related to Goodwill

## Subsequent Accounting For Goodwill And Identifiable Intangible Assets Broadly For All Entities

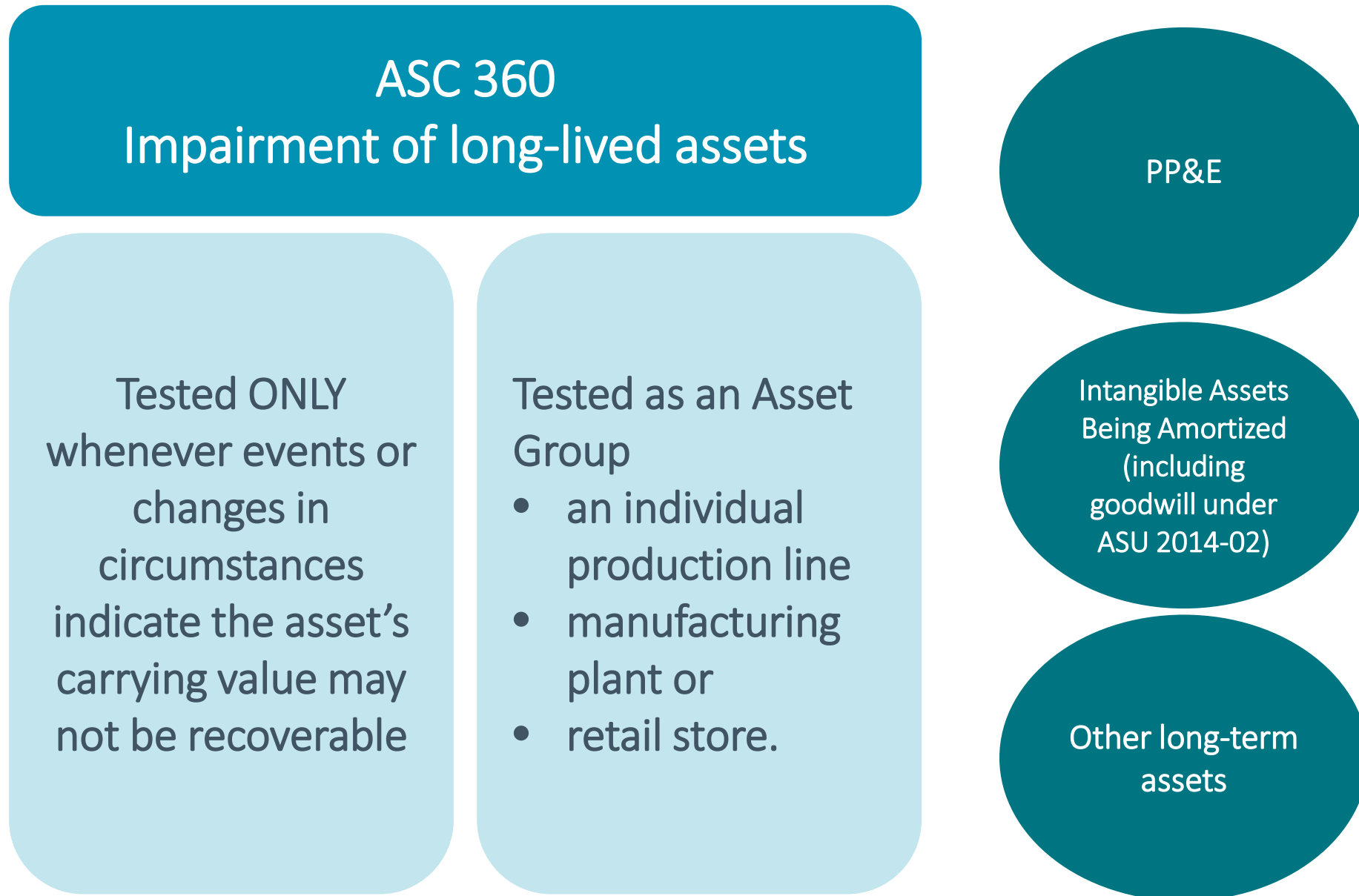
- Topics

- Whether to Change the Subsequent Accounting for Goodwill
- Modifying the Goodwill Impairment Test
- Whether to Add or Change Disclosures about Goodwill and Intangible Assets

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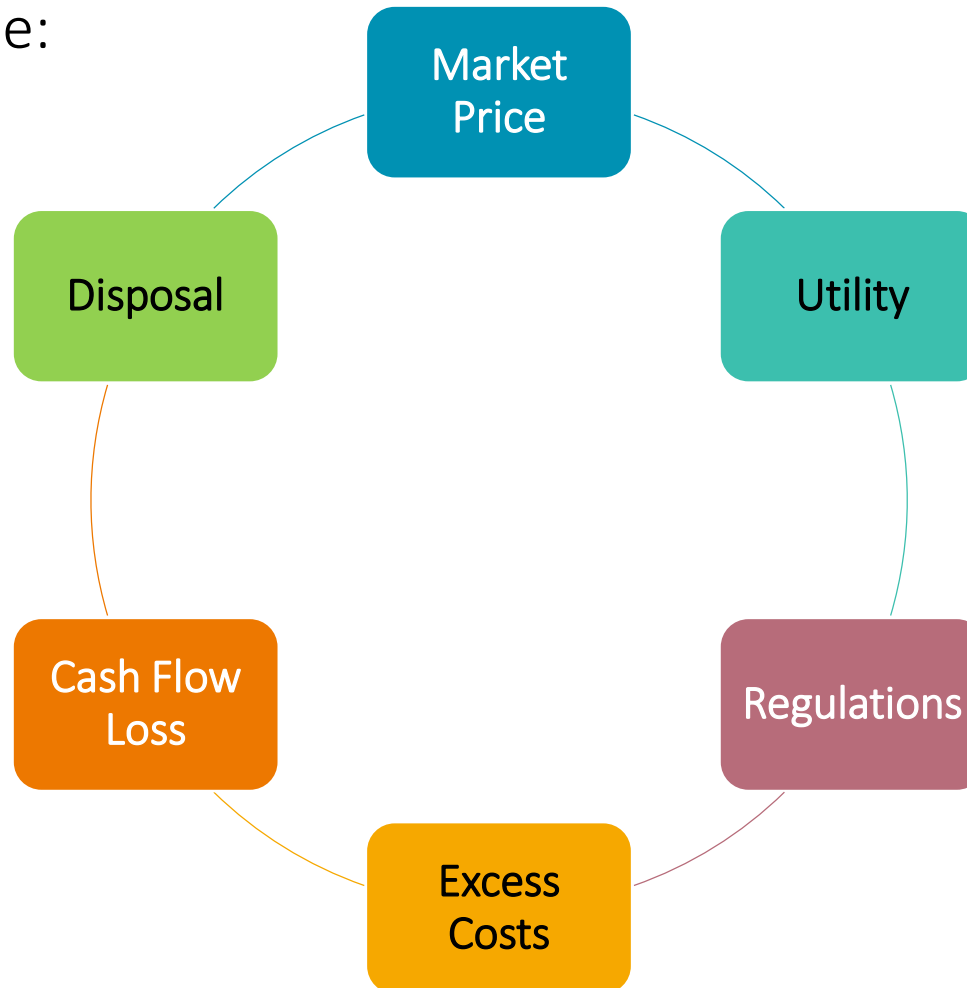
# POLLING QUESTION #3

# ASC Topic 360, Property, Plant and Equipment



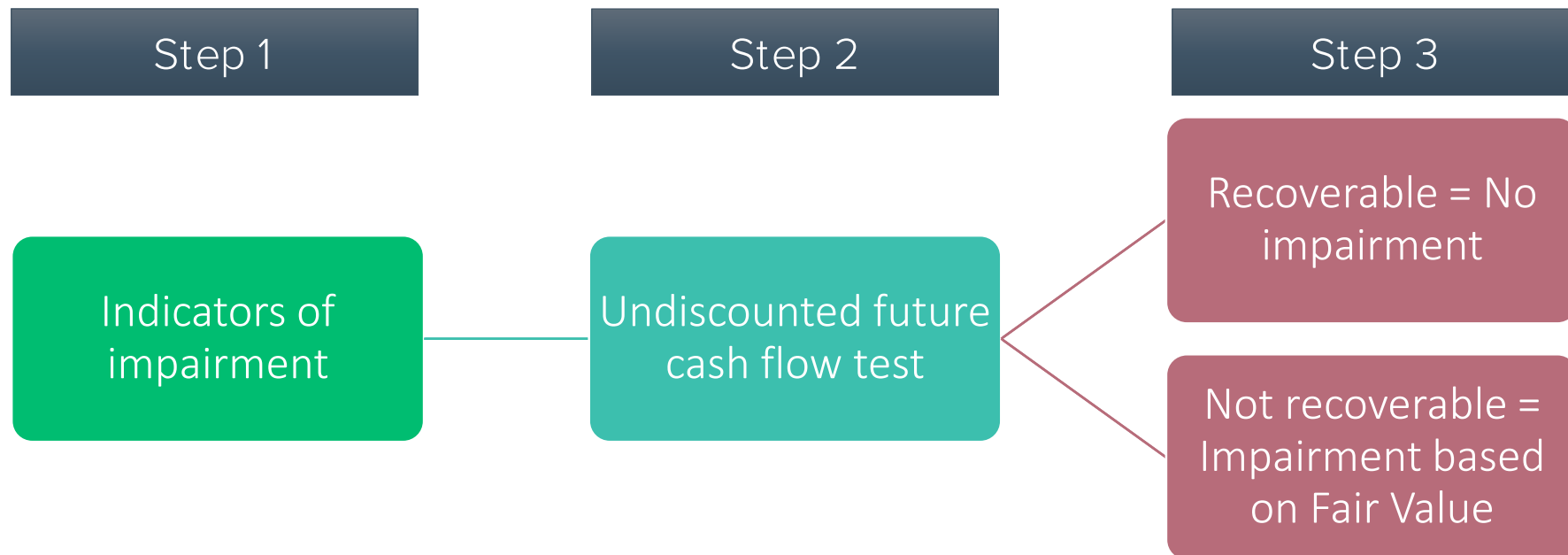
# ASC Topic 360, Property, Plant and Equipment

- Asset groups should be tested for impairment whenever events or changes in circumstances indicate the asset's carrying value may not be recoverable.
- Examples of such events include:



# ASC Topic 360, Property, Plant and Equipment

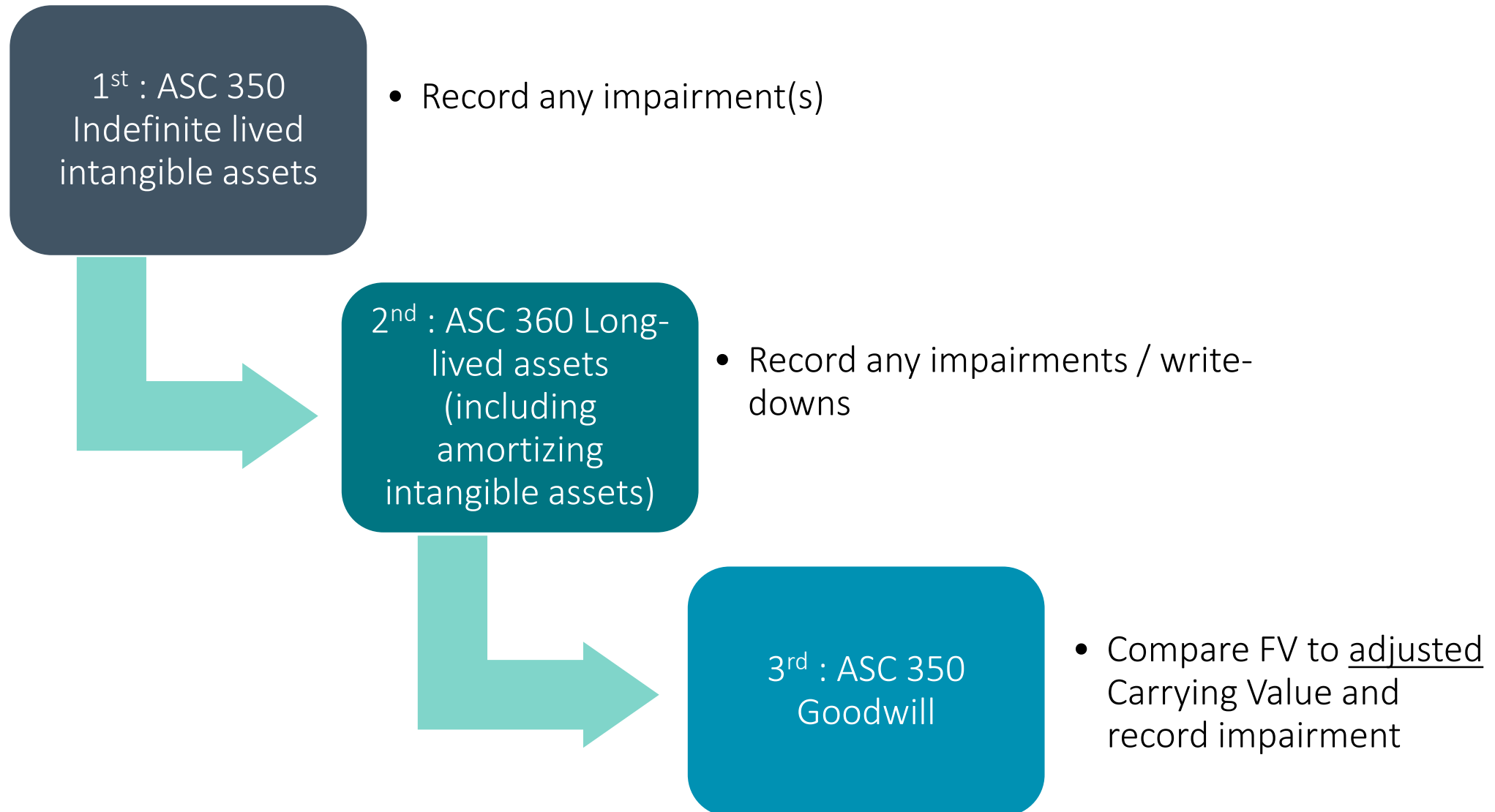
- Multi-step approach to impairment testing





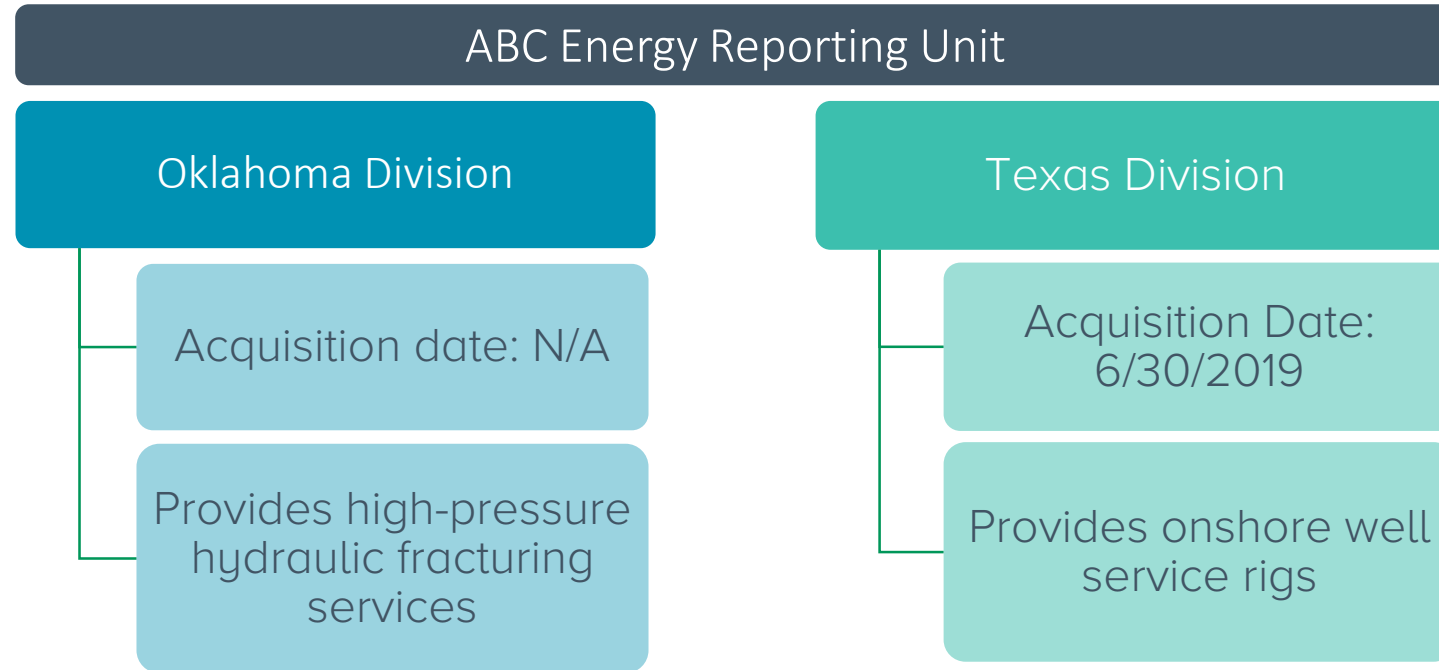
# Order of Impairment Testing

Testing goodwill and long-lived assets (held and used) at the same time because of a triggering event must follow a certain order.



# Case Study – Oil Field Equipment and Gas Service Company

## ABC Energy, Inc. (“ABC Energy”)



# Case Study – Oil Field Equipment and Gas Service Company

## ABC Energy

### Impairment Testing History

- Prior to June 30, 2019, the company did not have intangible assets or goodwill recorded on its books
- After acquiring the Texas Division, management determined a December 31, 20XX test date was appropriate
- Management performed the Step 0 test as of 12/31/2019
  - It was determined there was not more than a 50% likelihood that the fair value of ABC Energy, and the indefinite-lived Texas Division trade name, were less than their carrying values

## ABC Energy Reporting Unit

Balance Sheet as of:

Dec-31-2019

### ASSETS

Cash And Equivalents	15.7
Accounts Receivable	84.1
Inventory	4.2
Other Current Assets	0.2
<b>Total Current Assets</b>	<b>104.3</b>

Gross Property, Plant & Equipment	386.5
Accumulated Depreciation	(60.6)
<b>Net Property, Plant &amp; Equipment</b>	<b>325.9</b>

Goodwill	86.1
Other Intangibles	40.0
<b>Total Assets</b>	<b>556.3</b>

### LIABILITIES

Accounts Payable	51.0
Accrued Exp.	7.4
Short-term Borrowings	5.5
<b>Total Current Liabilities</b>	<b>64.0</b>

Long-Term Debt	146.0
<b>Total Liabilities</b>	<b>210.0</b>

<b>Total Equity</b>	<b>346.3</b>
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Total Liabilities And Equity

556.3

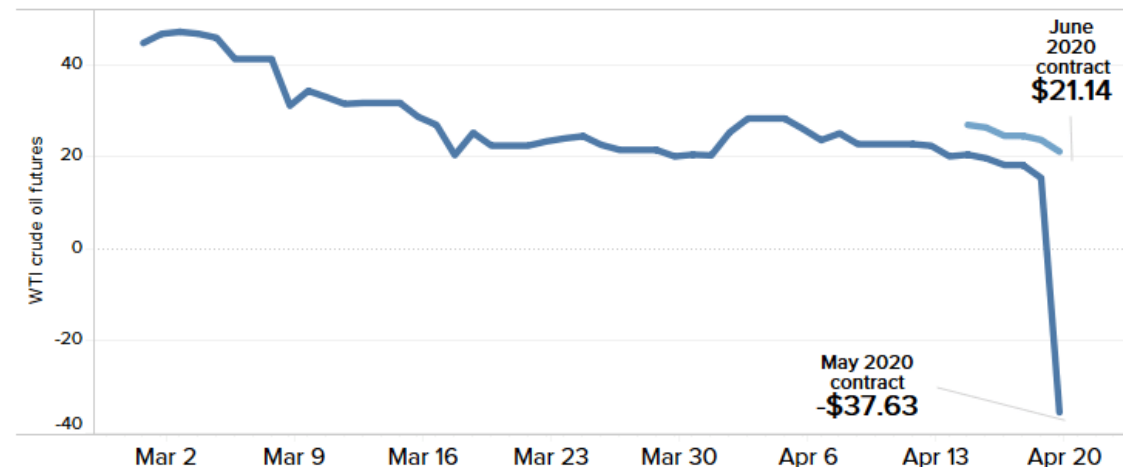
# Case Study – Oil Field Equipment and Gas Service Company

## ABC Energy

- Early March 2020, oil plunges 24% for worst day since 1991, and hits multi-year low after OPEC / Russia deal failure sparks price war
- Oil prices had already moved sharply lower in early 2020 as the coronavirus outbreak led to softer demand for crude
- April 20, 2020 the price of the main U.S. oil benchmark fell more than \$50 a barrel to end the day about \$30 below zero, the first time oil prices have ever turned negative

### Oil futures crash

Crude oil WTI futures, dollars per barrel



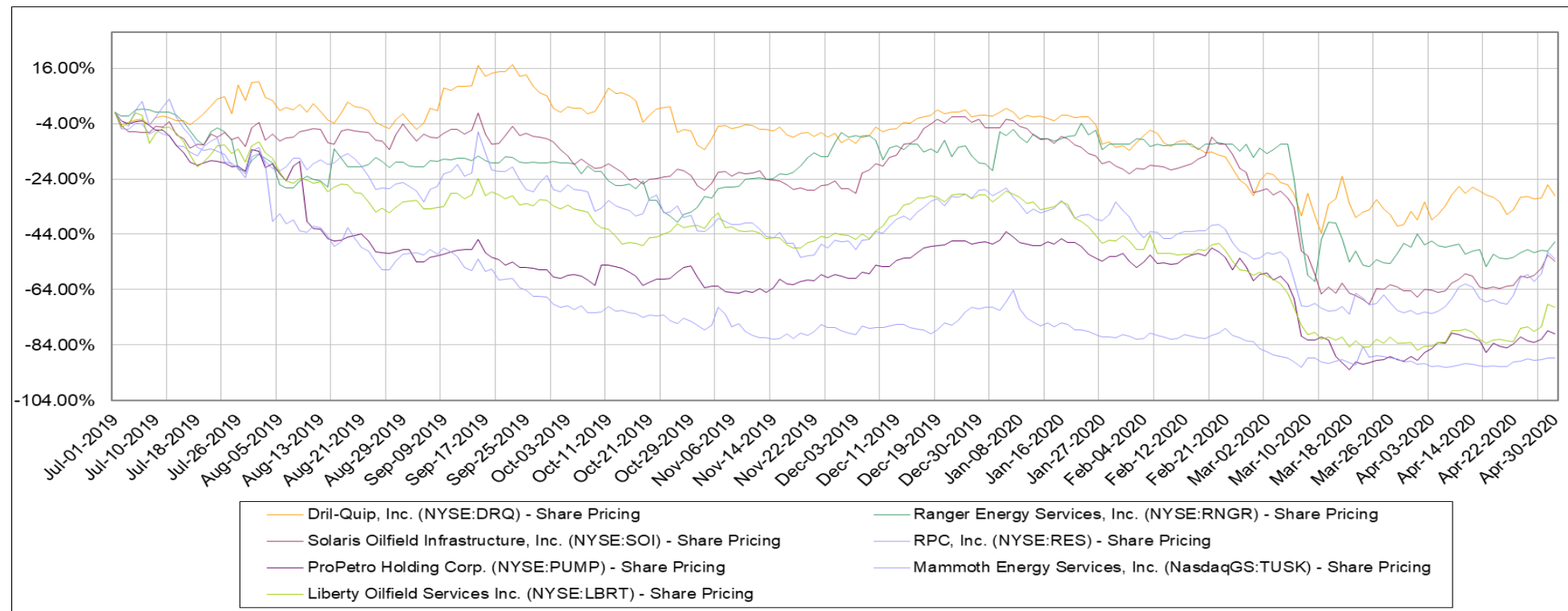
SOURCE: FactSet, CNBC data



# Case Study – Oil Field Equipment and Gas Service Company

## ABC Energy

- Management was aware the oil field equipment and gas service industry had started to experience per share price declines in recent months, which accelerated at the onset of the corona virus crisis
- Management observed the pricing of 7 guideline public companies used for benchmarking purposes (chart below) and noted per share price declines ranging from (-44%) to (-93%) since June 30, 2019



# Case Study – Oil Field Equipment and Gas Service Company

## ABC Energy

- A number of companies including Exxon, Chevron and ConocoPhillips have already announced production cuts, and additional cuts are expected.
- ABC Energy has experienced a significant decline in revenue and profitability as customers cease or slow down production, and one customer has declared bankruptcy.

Based on negative trends of the following financial factors, ABC Energy identified a triggering event and determined testing of its indefinite-lived trade name, goodwill, and recoverability of its fixed assets was necessary.

- General macroeconomic conditions
- Industry and market conditions
- Changes in cost factors that have an effect on earnings and cash flows
- Overall financial performance for both actual and expected performance
- Entity- and reporting unit–specific events

# Case Study – Oil Field Equipment and Gas Service Company

## ABC Energy

### 1<sup>st</sup> : ASC 350 Indefinite lived intangible assets

- ABC Energy had an indefinite lived trade name with a carrying value of \$20M.
- The fair value was determined to be \$5M.
- The company recorded an impairment charge of \$15M which reduced the carrying value of the trade name to \$5M and reduced the carrying value of equity by \$15M to \$331.3M.

Balance Sheet as of:	Mar-31-2019	Trade Name Impairment	Adjusted Mar-31-2019
ASSETS			
Cash And Equivalents	15.7		15.7
Accounts Receivable	84.1		84.1
Inventory	4.2		4.2
Other Current Assets	0.2		0.2
Total Current Assets	104.3		104.3
Gross Property, Plant & Equipment	386.5		386.5
Accumulated Depreciation	(60.6)		(60.6)
Net Property, Plant & Equipment	325.9		325.9
Goodwill	86.1		86.1
Other Intangibles	40.0	(15.0)	25.0
Total Assets	556.3		541.3
LIABILITIES			
Accounts Payable	51.0		51.0
Accrued Exp.	7.4		7.4
Short-term Borrowings	5.5		5.5
Total Current Liabilities	64.0		64.0
Long-Term Debt	146.0		146.0
Total Liabilities	210.0		210.0
Total Equity	346.3	(15.0)	331.3
Total Liabilities And Equity	556.3		541.3

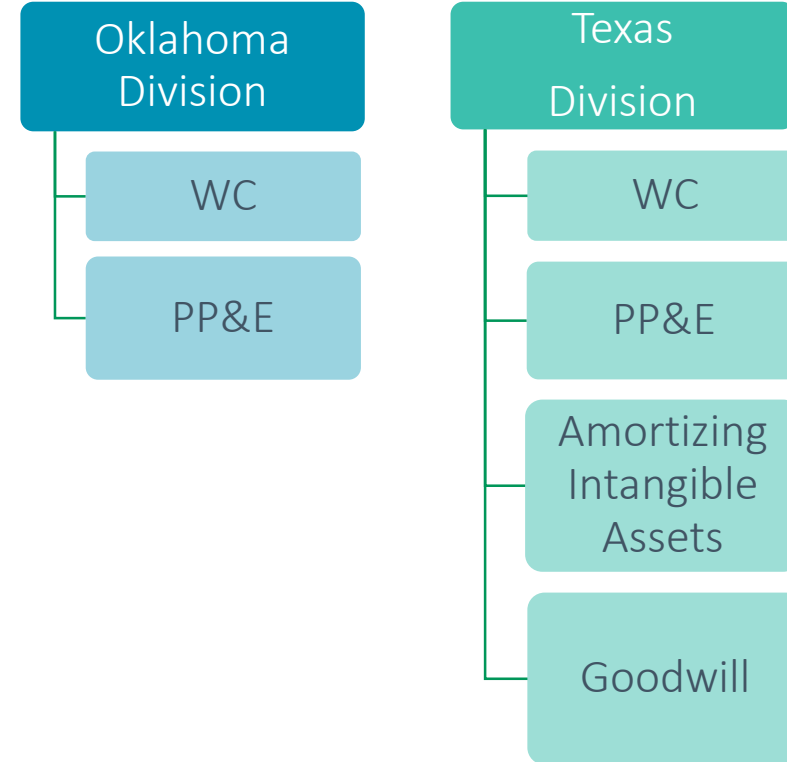
# Case Study – Oil Field Equipment and Gas Service Company

## ABC Energy

2<sup>nd</sup> : ASC 360 Long-lived assets  
(including amortizing intangible assets)

- ABC Energy determined the lowest level of cash flow could be identified as each of its operating locations.
- Based on a comparison of the total undiscounted future cash flows from the asset group to the carrying amount of the asset group, it was determined the carrying value of the assets was *recoverable*
- As such, it was not necessary to estimate the *fair value* of the PP&E or Amortizing Intangible Assets

ABC Energy Reporting Unit:  
Lowest Level of Cash Flow Asset Groupings





# Case Study – Oil Field Equipment and Gas Service Company

## ABC Energy

### 3<sup>rd</sup> : ASC 350 Goodwill

- Adjusted carrying value was calculated as:

NWC	\$ 30.2
Net PP&E	325.9
Goodwill	86.1
Other Intangibles	25.0
Total Carrying Value of BEV	<u>\$ 467.2</u>

- ABC Energy determined the fair value of the business enterprise of the company/ reporting unit was **\$417.2M**.
- A goodwill impairment charge of **\$50M** was recorded.

Balance Sheet as of:	Adjusted Mar-31-2020	Goodwill Impairment	Adjusted Mar-31-2020
ASSETS			
Cash And Equivalents	15.7		15.7
Accounts Receivable	84.1		84.1
Inventory	4.2		4.2
Other Current Assets	0.2		0.2
Total Current Assets	<u>104.3</u>		<u>104.3</u>
Gross Property, Plant & Equipment	386.5		386.5
Accumulated Depreciation	(60.6)		(60.6)
Net Property, Plant & Equipment	<u>325.9</u>		<u>325.9</u>
Goodwill	86.1	(50.0)	36.1
Other Intangibles	25.0		25.0
Total Assets	<u>541.3</u>		<u>491.3</u>
LIABILITIES			
Accounts Payable	51.0		51.0
Accrued Exp.	7.4		7.4
Short-term Borrowings	5.5		5.5
Total Current Liabilities	<u>64.0</u>		<u>64.0</u>
Long-Term Debt	146.0		146.0
Total Liabilities	<u>210.0</u>		<u>210.0</u>
Total Equity	331.3	(50.0)	281.3
Total Liabilities And Equity	<u>541.3</u>		<u>491.3</u>

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# POLLING QUESTION #4

# Overview on Economic Conditions

Labor markets and consumption

Fiscal stimulus

Vaccine

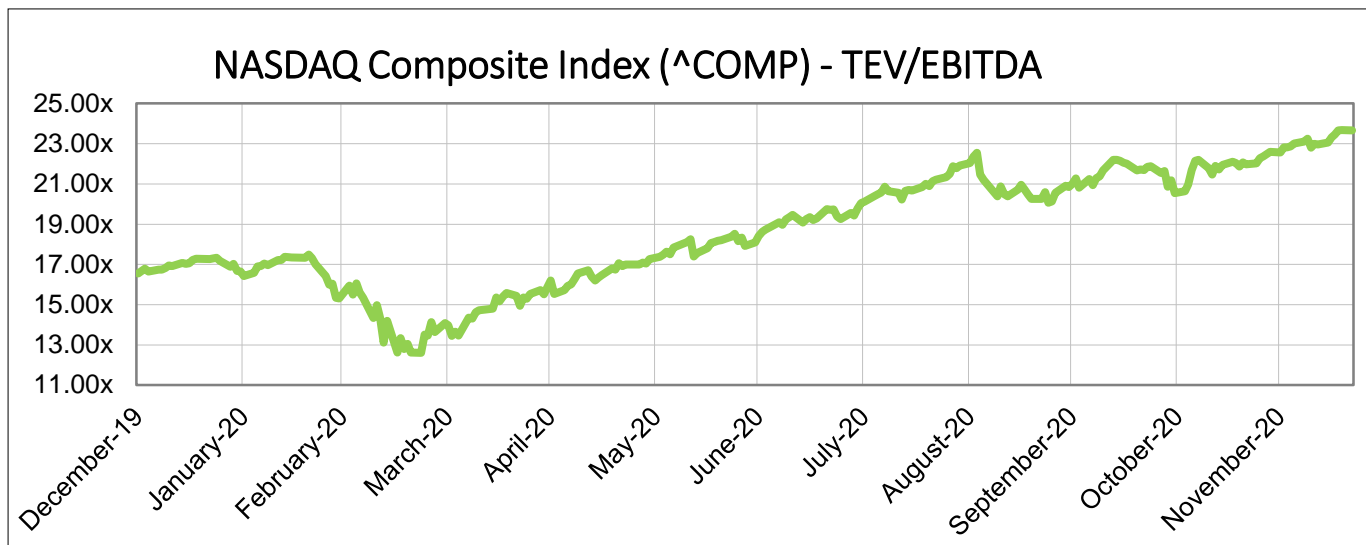
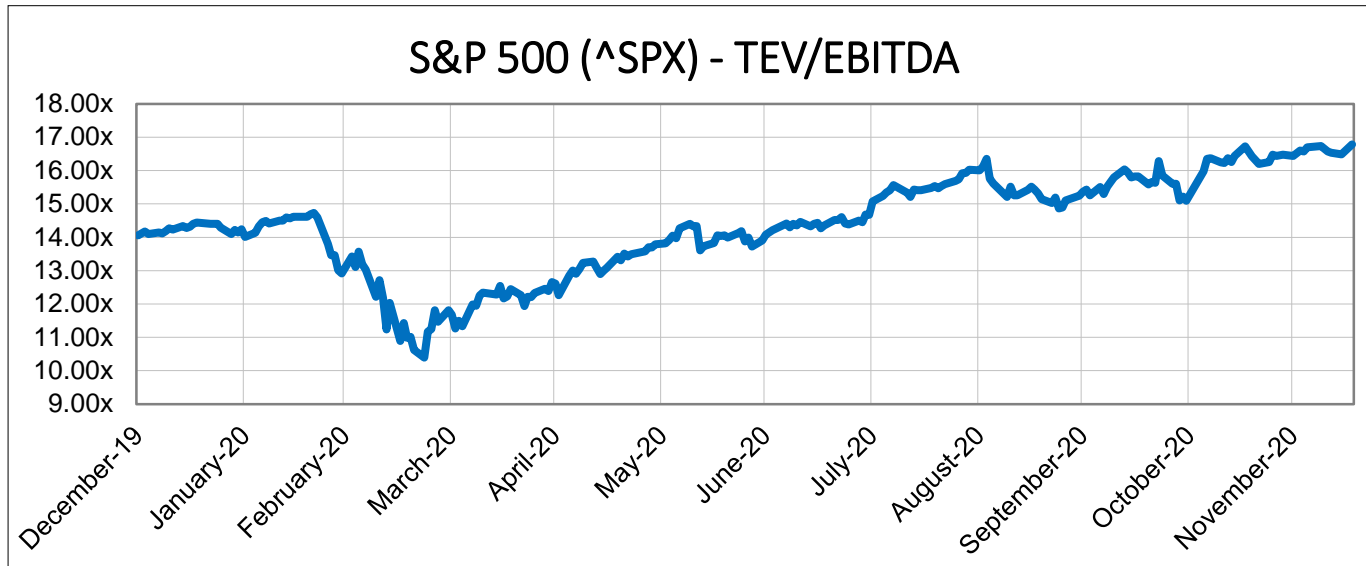


COVID-19 lockdowns

Double dip recession

# Overview of Capital Market Conditions

- Equity markets – GPC comps

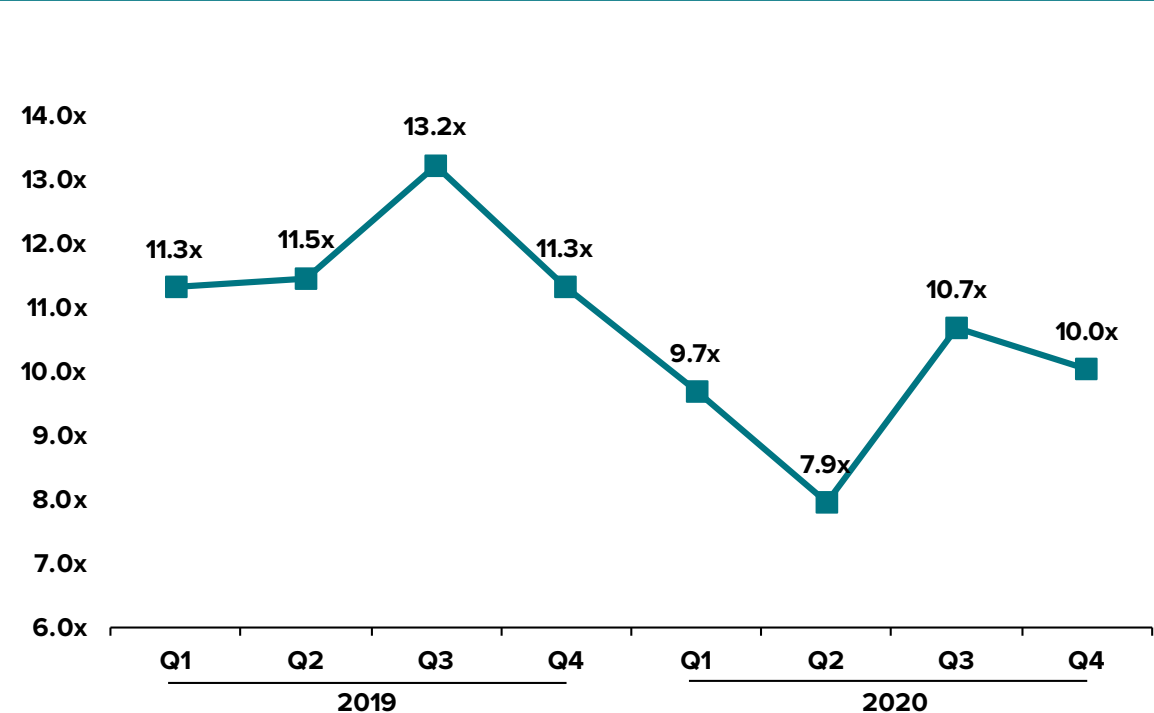


The average TEV/EBITDA multiple has increased compared to pre-pandemic levels

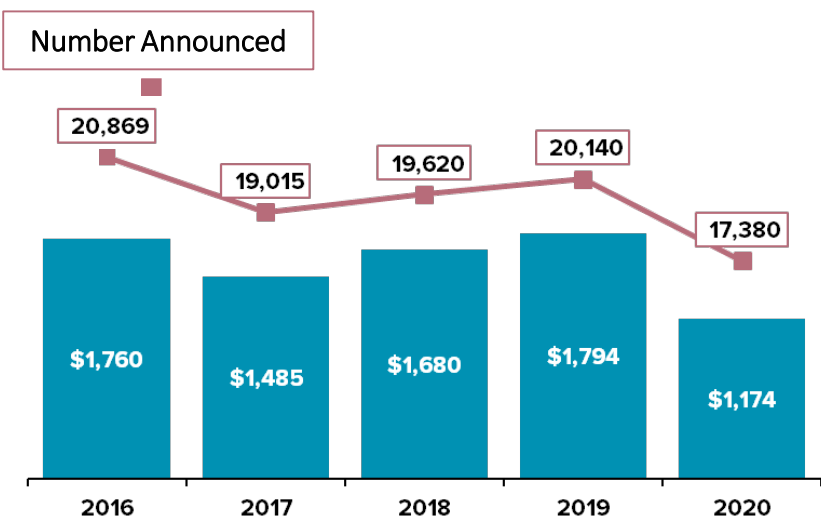
# Overview of Capital Market Conditions

- Pre-pandemic EBITDA multiples were at historic highs in the M&A market
- During pandemic we see deals “on-hold”; decline in deal volume; acquisitions as part of economic recovery and rebound plans

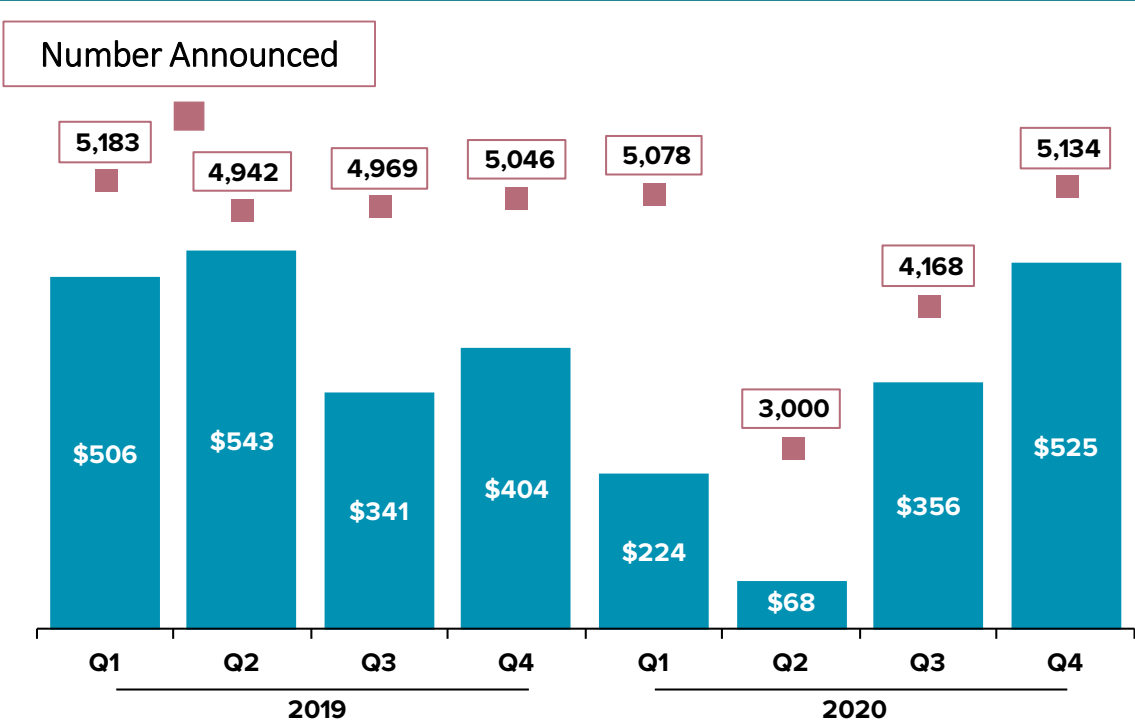
Median EV/EBITDA Multiples



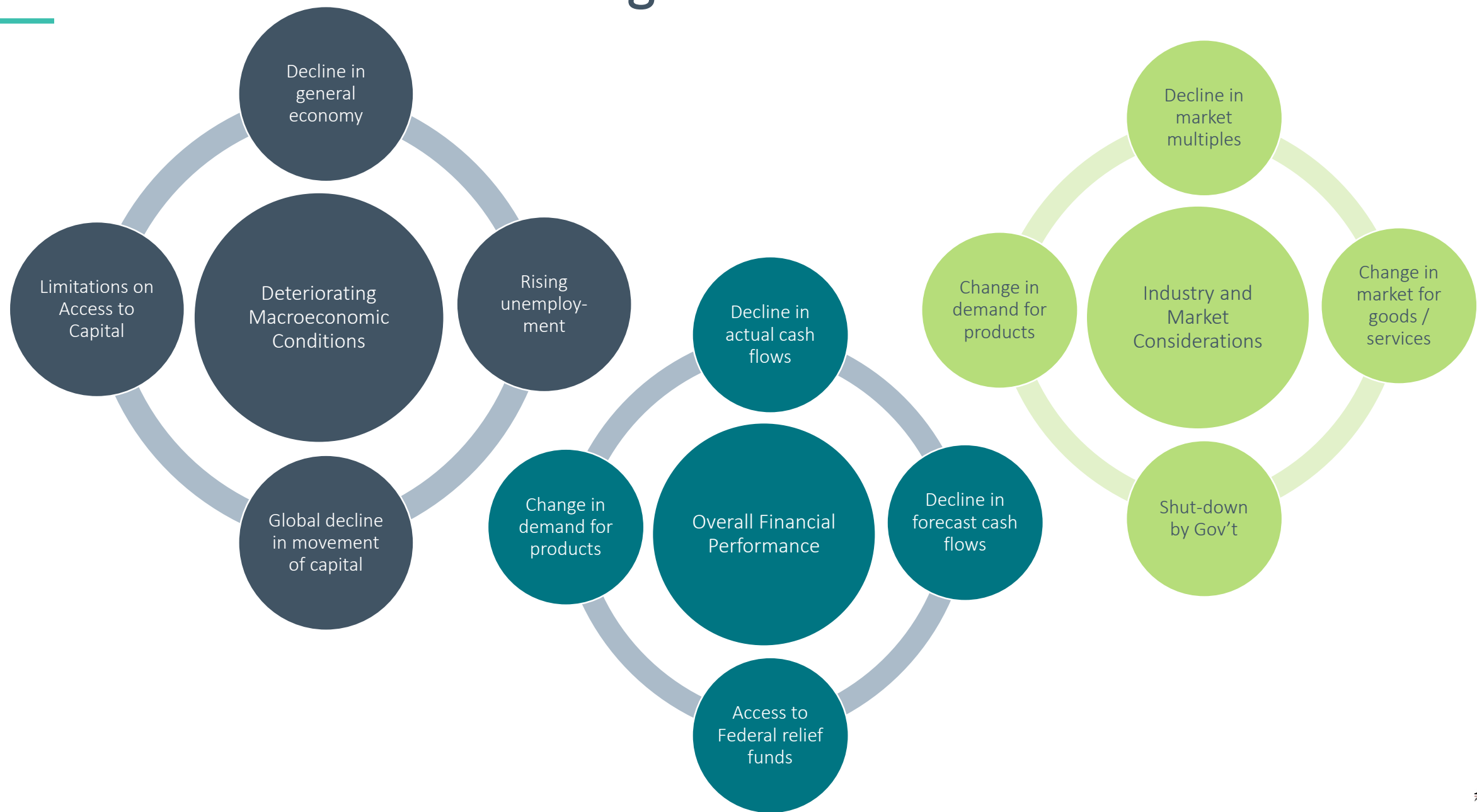
M&A Transaction Volume (\$ billions)



M&A Transaction Volume (\$ billions)



# Special Considerations During an Economic Downturn



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# POLLING QUESTION #5

# Special Considerations During an Economic Downturn

What's the severity of the impact

## COVID Proof Company

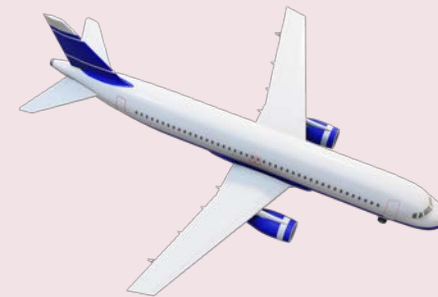
- Technology
  - eCommerce& delivery
  - Remote/flexible work support
  - Personal IT equipment
- Groceries and liquor stores
- Consumer Goods
- Cable and Internet

## Modest COVID Affect

- “Essential” businesses
- Healthcare
- Industrial products
- Construction

## Seriously Impacted Company

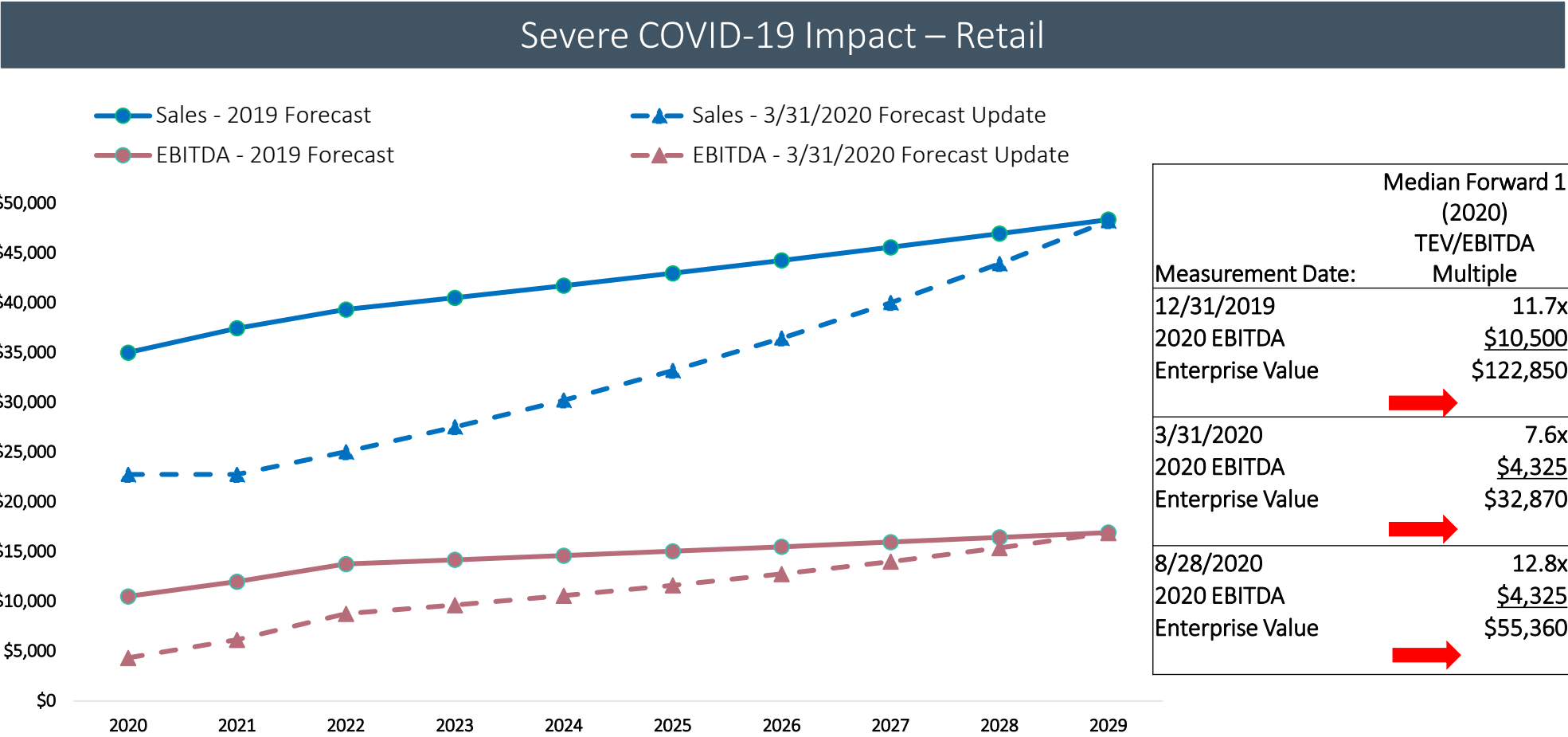
- Airlines
- Oil
- Restaurants
- Brick and Mortar Retail
- Hospitality





# Special Considerations During an Economic Downturn

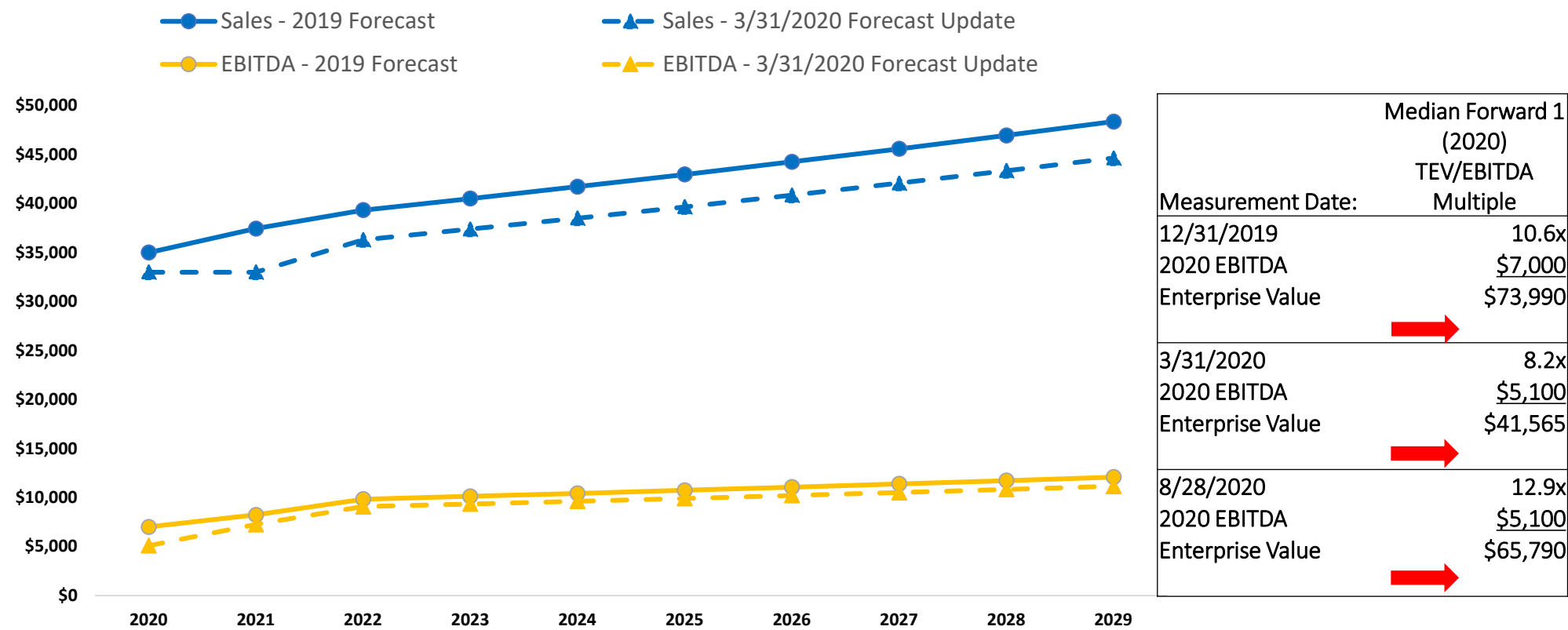
Reconciling past impairment tests to recent, internal performance and external market conditions



# Special Considerations During an Economic Downturn

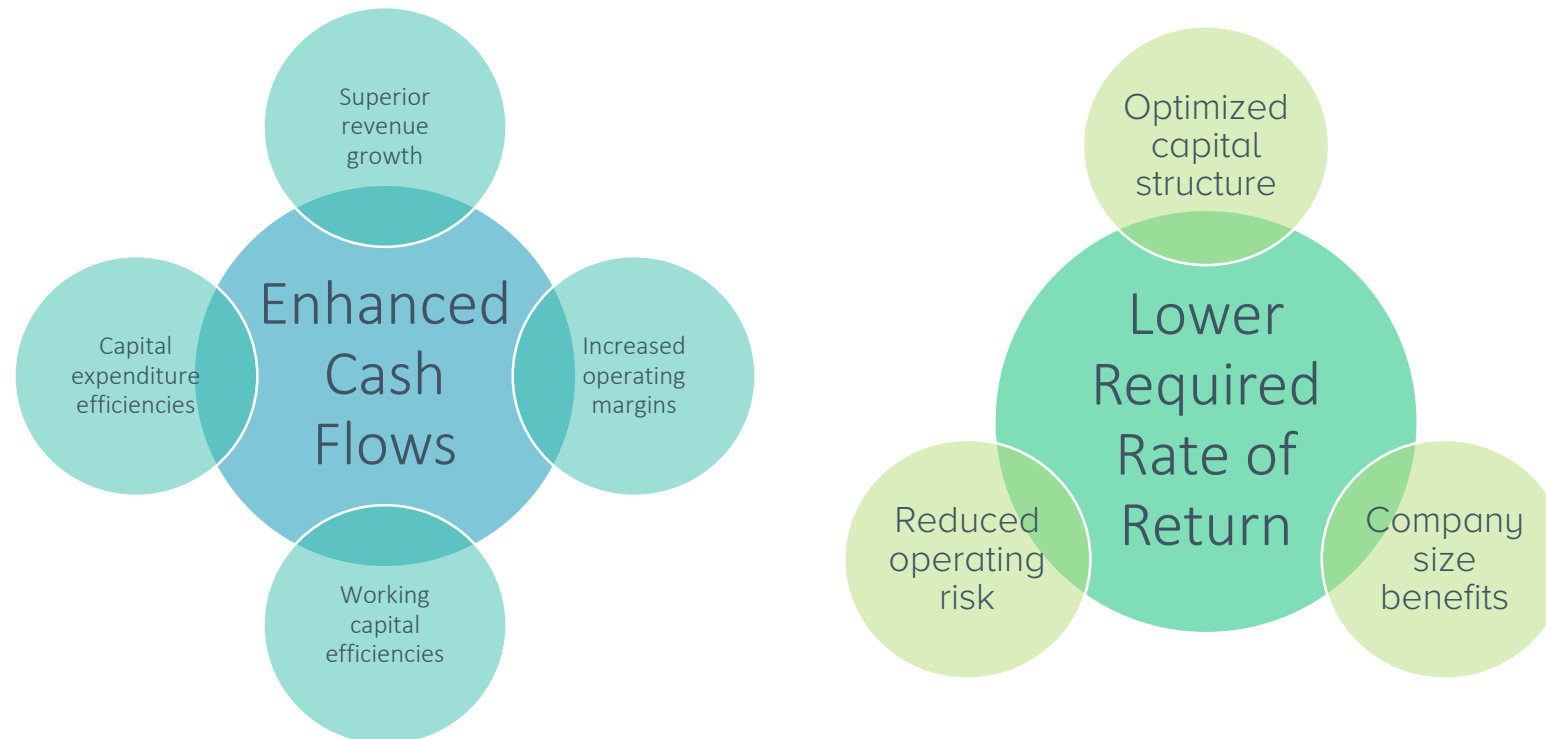
Reconciling past impairment tests to recent, internal performance and external market conditions

Modest COVID-19 Impact – Essential Communications Business



# Special Considerations During an Economic Downturn

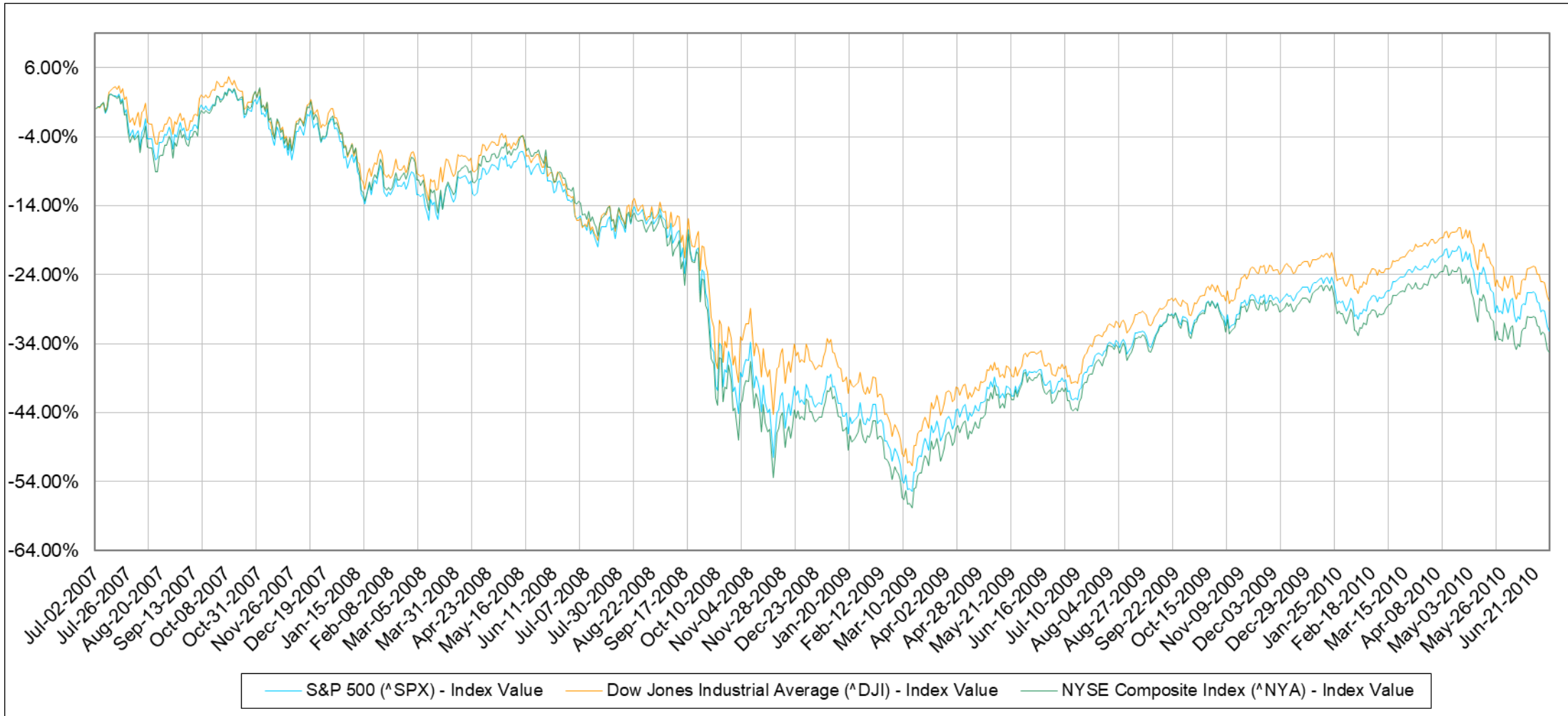
- Acquisition premiums
  - The Appraisal Foundation provides a framework to demonstrate the economic benefits that support Market Participant Acquisition Premiums



# Special Considerations During an Economic Downturn

## 2008 Financial Crisis

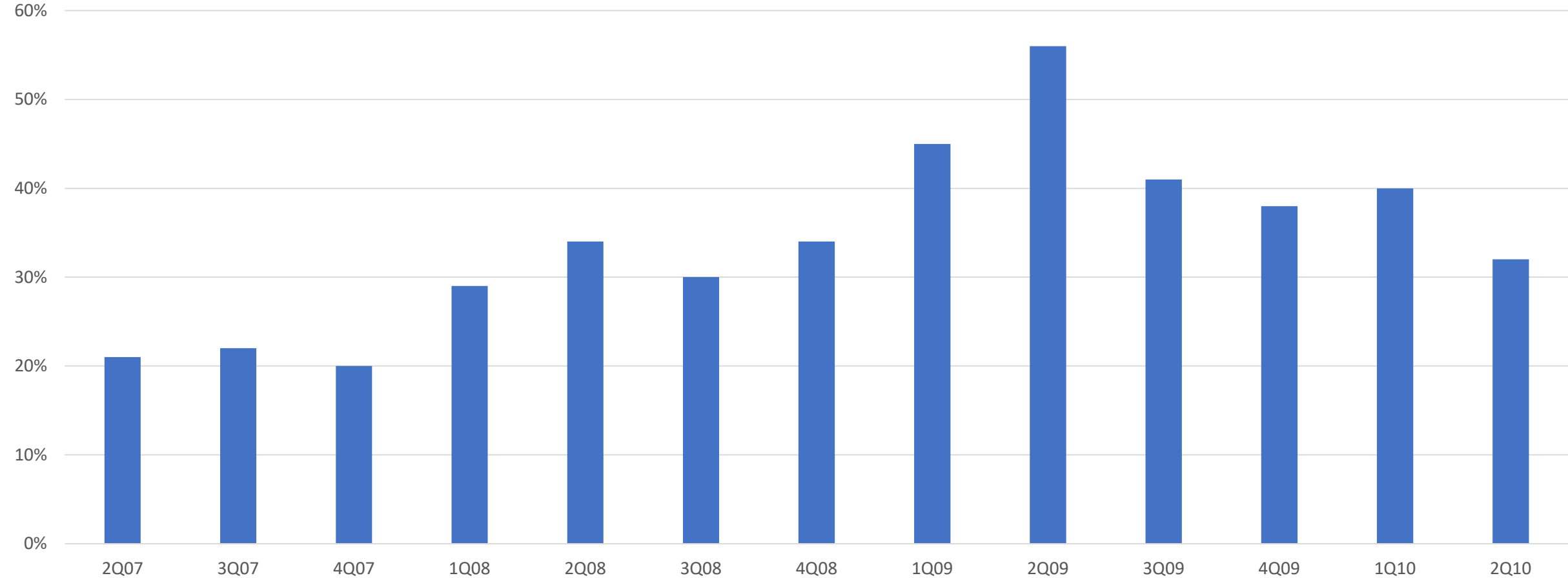
- Major indices trend 3Q 2007 through 2Q 2010



Source: CapitalIQ

# Special Considerations During an Economic Downturn

- 2008 Financial Crisis
- Trend in Control Premiums



	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10
3 Month Median	21%	22%	20%	29%	34%	30%	34%	45%	56%	41%	38%	40%	32%
Transactions	190	203	212	184	160	181	155	100	95	124	128	93	106

Source: MergerStat Control Premium Study 2<sup>nd</sup> Quarter 2010

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# POLLING QUESTION #6

# Audit Challenges

- Lack of support for market participant based assumptions
- Unsupported weightings of approaches
- Significant differences in value indications between methods
- Applying the same WACC to different reporting units
- High MPAP without company-specific support
- Inconsistencies between CY and PY impairment tests without support



# Checklist – Top Ten

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1. Prior year's Impairment Testing appraisal/documentation
2. Any appraisals of assets or equity for the past 36 months
3. Any market intelligence provided by prospective investors or investment bankers
4. Projections as of the Measurement Date (as well as past projections)
5. List any non-recurring income/expenses (highlighting specific COVID-19 related items) for the latest 12-month period
6. List of publicly-traded guideline companies or other companies that may be considered tracking stocks
7. Details or names of competitors that have been purchased in the past 36 months
8. Indications from investors of when the Company might be going to market
9. Evidence of above or below current market rents as compared to existing lease
10. Past indications of value for Fund reporting





## BV511-WEB - An Overview of Impairment Testing (under ASC 350 and 360)

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