

## What is Goodwill?

- **Goodwill happens when one company buys another**
- **Goodwill = Purchase Price – Book Value**
- **Book Value = Net asset value/Shares Outstanding**
- **Net asset value = Tangible assets – Liabilities**
- **Total Assets = Tangible + Intangible**

Tangible Assets	Intangible Assets
<p><b>Equipment</b> <b>Machinery</b> <b>Buildings</b> <b>Vehicles</b> <b>Stock</b> <b>Land</b> <b>Cash</b></p>	<p><b>Trademarks</b> <b>Franchises</b> <b>Copyrights</b> <b>Licenses</b> <b>Goodwill</b> <b>Patents</b> <b>Brands</b></p>
 <p><b>You Can Touch It</b></p>	 <p><b>You Can't Touch It</b></p>

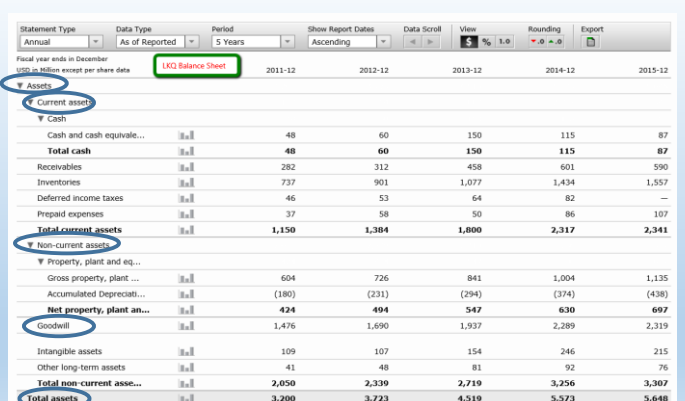
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## Goodwill Breakdown

A company will buy another in excess of its book value to get

- The company's brand name,
- Good company relations in the community,
- Solid customer base,
- Good customer relations,
- Good employee relations,
- Any patents or proprietary technology

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Statement Type: Annual | Data Type: As of Reported | Period: 5 Years | Show Report Dates: Ascending | Data Scroll: | View: % 1.0 | Rounding: | Export: |

Fiscal year ends in December  
USD in million except per share data

	2011-12	2012-12	2013-12	2014-12	2015-12
<b>Assets</b>					
<b>Current assets</b>					
Cash					
Cash and cash equiva...	48	60	150	115	87
<b>Total cash</b>	<b>48</b>	<b>60</b>	<b>150</b>	<b>115</b>	<b>87</b>
Receivables	282	312	458	601	590
Inventories	737	901	1,077	1,434	1,557
Deferred income taxes	46	53	64	82	—
Prepaid expenses	37	58	50	86	107
<b>Total current assets</b>	<b>1,150</b>	<b>1,384</b>	<b>1,800</b>	<b>2,317</b>	<b>2,341</b>
<b>Non-current assets</b>					
Property, plant and eq...					
Gross property, plant ...	604	726	841	1,004	1,135
Accumulated Depreciat...	(180)	(231)	(294)	(374)	(438)
<b>Net property, plant an...</b>	<b>424</b>	<b>494</b>	<b>547</b>	<b>630</b>	<b>697</b>
Goodwill	1,476	1,690	1,937	2,289	2,319
Intangible assets	109	107	154	246	215
Other long-term assets	41	48	81	92	76
<b>Total non-current asse...</b>	<b>2,050</b>	<b>2,339</b>	<b>2,719</b>	<b>3,256</b>	<b>3,307</b>
<b>Total assets</b>	<b>3,200</b>	<b>3,723</b>	<b>4,519</b>	<b>5,573</b>	<b>5,648</b>

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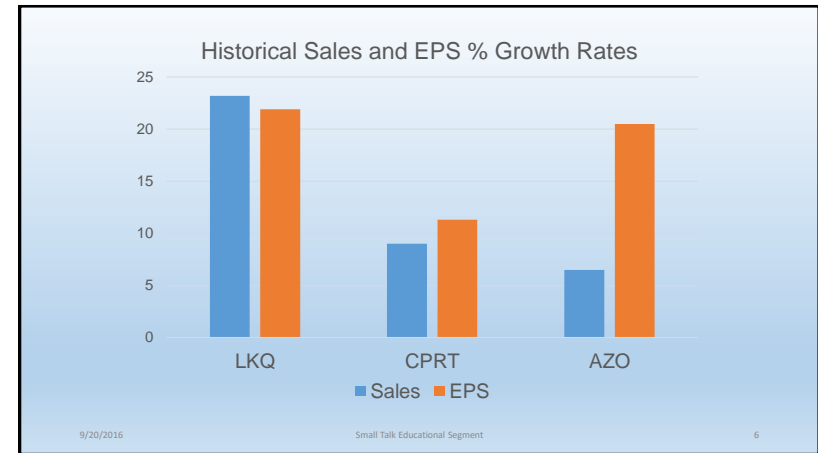
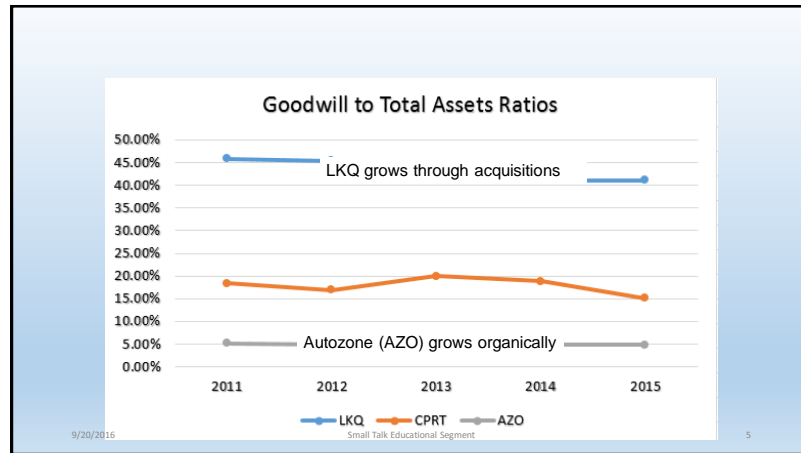
### Example of Goodwill: Company B buys Company A in a cash transaction

- If each share of Company A has a book value of \$150, and
- Company B paid \$250 for each share, then
- Company B paid \$100 in goodwill for each share.

### Example in Accounting

- When Company B prepares its balance sheet, it must account for the goodwill it paid for the purchase of Company A.
- In most cases, \$150 of each stock's purchase price will appear under "book value",
- while the remaining \$100 will appear as an intangible asset under "goodwill."
- Cash assets decrease by \$250
- Shareholder equity unchanged; Company B got "bigger", but did it get "better"?

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**Goodwill impairment** is a charge that companies record when

- goodwill's carrying value on financial statements
- exceeds its fair value.
- Goodwill impairment arises when there is deterioration in the capabilities of acquired assets to generate cash flows

**BREAKING DOWN 'Goodwill Impairment'**

- Goodwill impairment is an earnings charge that companies record on their income statements after
- they identify that there is persuasive evidence that the asset associated with the goodwill can no longer demonstrate financial results that were expected from it at the time of its purchase.
- A goodwill impairment which is recorded as an EXPENSE on the Income Statement.

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<http://www.investopedia.com/terms/g/goodwill.asp>

# Questions?



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