

# **Newly Recognised Goodwill and Intangibles under IFRS – An Empirical Investigation of Market Values and Analysts' Forecasts**

Discussion by

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# Context

- Goodwill often the **largest line item** in balance sheets
- Emerges from **M&A transactions**.
- But **least understood** “asset”

# Research questions

- Is goodwill as **value relevant** as **other intangibles**?
- Do **analysts** understand implications of goodwill?

# Main concern with the paper

**Recognition:**  
Is Goodwill an Asset?

## *A. Value Relevance*

- Aharony, Barniv, & Falk (EAR 2010)
- Al Jifri & Citron (EAR 2009)
- Amel-Zadeh, Faasse, Li & Meeks (Book chapter 2020)
- Cascino, Clatworthy, Garcia Osma, Gassen, Imam (2021)
- Comiskey, Clarke & Mulford (AH 2010)
- Elnahass & Doukakis (ABR 2019)
- Horton & Serafeim (RAST 2010)
- Lee (JAPP 2001)
- Wieland, Dawkins & Dugan (JBFA 2013)

**Crowded** area of research

Amir Amel-Zadeh, Martin  
Glaum & Thorsten Sellhorn

(EAR 2023)

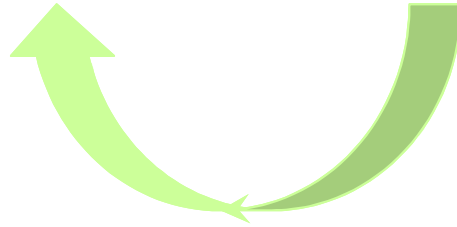
## E.g., one prior study

- “..identified intangible assets capitalized on European company balance sheets provide more value-relevant information for shareholders than unidentified intangible assets that have been transferred into goodwill, with the exception of Italian and Finnish investors.

Sahut, Boulerne, and Teulon, F. (2011), *Review of Accounting and Finance*.

# Research design

$$MV_{i,t+3m} = \beta_0 + \beta_1 \text{recGW}_{i,t} + \beta_2 \text{recIIA}_{i,t} \dots \dots \dots + \varepsilon_i$$



# Research design, problematic

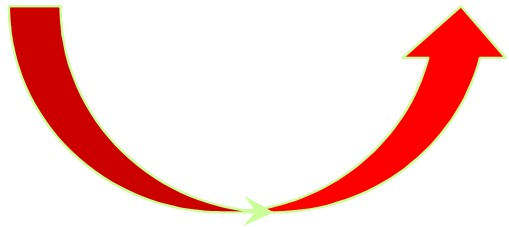
$$MV_{i,t+3m} = \beta_0 + \beta_1 \text{recGW}_{i,t} + \beta_2 \text{recIIA}_{i,t} \dots \dots \dots + \varepsilon_i$$



Should be changes, not levels  
“Event Study” design

# Reverse causality

$$MV_{i,t+3m} = \beta_0 + \beta_1 \text{recGW}_{i,t} + \beta_2 \text{recIIA}_{i,t} \dots \dots \dots + \varepsilon_i$$



Market values are sticky

**Overvaluation** => **Overpayment** => **Goodwill**



# Incomplete equation

## Change in MV

$$= \beta_0 + \beta_1 \text{recGW}_{i,t} + \beta_2 \text{recIIA}_{i,t} + \beta_3 \text{NewPP\&E}_{i,t} \dots\dots$$

..... +  $\epsilon_i$



Term must be included

# Purchase Price Allocation

**Error in** Tangible Assets

**+ Error in** Intangible Assets

**= Error in** Goodwill

# Disclosures **a promising area**

But, not just on goodwill;

- But on valuation of **all assets**
- Goodwill is merely **a residual**
- Examine, how other disclosures help evaluate goodwill.

# Disclosures a promising area

**Disclosures:**  
Do They Make M&A  
Transactions Transparent?

## *G. Disclosures*

- Andre, Dionysiou & Tsalavoutas (ApE 2018)
- Andreicovici, Jeny & Lui (EAR 2019)
- Chen, Keung & Lin (JCAE 2019)
- Florio, Lionzo & Corbella (JIAR 2018)
- Glaum, Schmidt, Street & Vogel (ABR 2013)
- Leitter, Koonce & White (2021)
- Mazzi, Andre, Dionysiou & Tsalavoutas (ABR 2017)
- Paugam & Ramond (JBFA 2015)
- Paugam, Astolfi & Ramond (JAPP 2015)
- Shalev (TAR 2009)

Yet again

A crowded area of research

Amir Amel-Zadeh, Martin  
Glaum & Thorsten Sellhorn

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# Analyst forecasts errors

$$\text{SDF}_{i,t+1} = \beta_0 + \beta_1 \text{recGW/recIA}_{i,t} + \beta_4 \text{dealsize}_{i,t} + \dots + \varepsilon_i$$

Why ratio?

# A better specification

$$\begin{aligned} \text{SDF}_{i,t+1} &= \beta_0 + \beta_1 \text{recGW/recIA}_{i,t} + \beta_4 \text{dealsize}_{i,t} + \\ &+ \beta_3 \text{recGW/recIA}_{i,t} \times \beta_4 \text{dealsize} \dots + \varepsilon_i \end{aligned}$$

↑  
Interaction

# Summary

- An important research question
- Improve research designs
- Draw **clear distinction** from prior studies