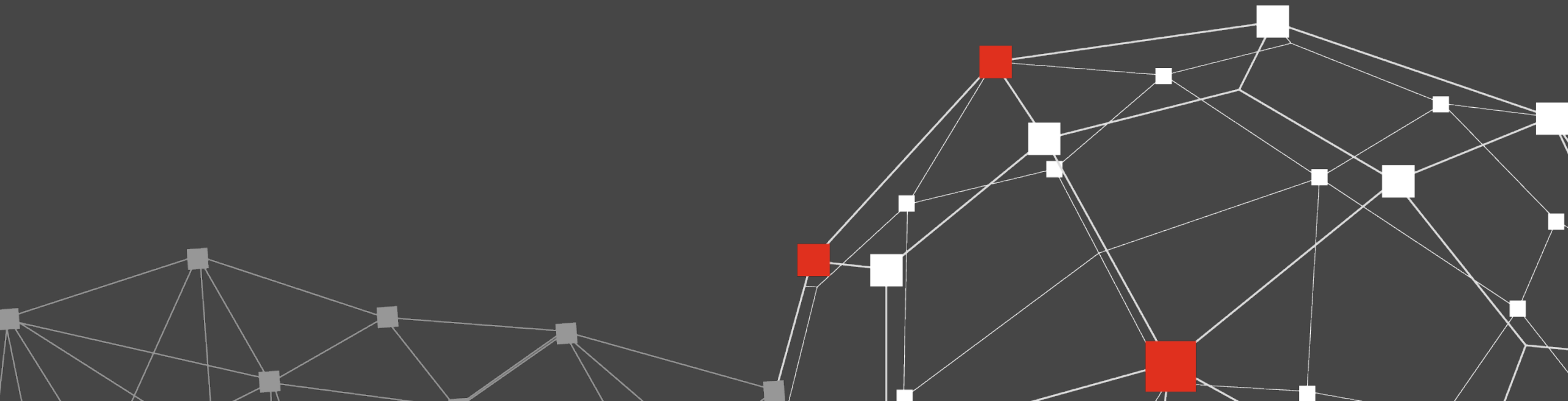


# Impact of COVID-19 on Impairment Testing



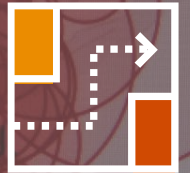
1

Why do you need impairment test now?



2

What do you need to do?



3

How PwC can help you?



# Why do you need impairment test now?

## COVID-19 as a triggering event, requiring impairment test

### If your company is facing with...



- > Changes in working environments, lost working time, sick leaves, disruptions in delivery of products/services
- > Decrease in the expected growth of the economy and industry where the reporting unit operates in



- > Disruption in revenue generation and cash collection
- > Limited ability to quickly optimize costs – especially in capital intensive industries



- > Disruption in supply chain, closure of stores and facilities
- > Changes in working capital management



- > Significant decline in the market capitalization of the company, particularly if it falls below the book value of net assets
- > Reduction in the ability and/or increase in the risk to generate expected cash flows

↑ Potential triggers for impairment testing under IAS 36, most relevant to the COVID-19 pandemic ↑

...there might be an indicator for performing impairment test, in accordance with IAS 36.

### What to do?

#### STEP 1

##### Assess the impact on CGU/asset

- Analyse internal and external sources of triggering events
- Compare actual results to budgeted



#### Triggering event confirmed?



Yes



No

#### STEP 2a

##### Plan impairment test

- Identify exceptions (previously large headroom and no events that could eliminate it)
- Apply correct test sequence – from bottom to top (from individual assets to group of CGUs)

#### STEP 2b

##### Document triggering event analysis

- Validate management's assessment
- Provide evidence for conclusions

#### STEP 3

##### Perform impairment test

- Align calculation of carrying and recoverable amounts (like for like)
- Comply with IAS 36 value in use and fair value less cost of disposal requirements
- Consider COVID-19 effects in projections

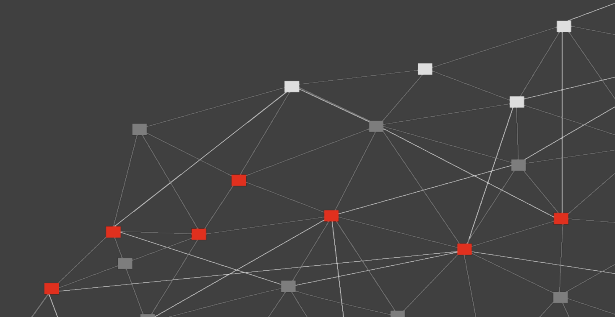
#### STEP 4

##### Record the results

- If recoverable amount > carrying amount – document headroom analysis
- If recoverable amount < carrying amount – record impairment (correct sequence of impairment!)

# What do you need to do?

## Key considerations



### Key post-COVID considerations for impairment testing



#### Choosing the right valuation approach: income or market?

- Market approach drawbacks in COVID-19 environment: a) market overreaction distorts multiples of publicly traded companies, b) limited number of post-COVID transactions and inapplicability of pre-COVID transaction multiples, c) harder to reflect the recovery path assumptions compared to income approach



#### Making assumptions

- Assumptions on recovery path (V-shape, U-shape etc.), most recent macroeconomic forecasts
- Analysis of industry impact and benchmarking with peers
- Assumptions on government support (tax incentives, direct subsidies etc.)



#### Preparing forecasts

- In-depth forecast of revenues, cost optimizations, one-off events, impact of changed working environment and new business processes to cash flows
- Adjustment of the discount rate in income approach (avoiding double-counting of risks included in the projection of cash flows)



#### Making appropriate adjustments

- Adjustments to working capital (lags in collection of receivables, departures from JIT inventory philosophy and higher safety stock, changes in payment terms to suppliers)
- Adjustments to CAPEX (estimating necessary CAPEX and exploring options to defer unessential investments)



#### Making appropriate disclosures in the financial statements

- Determining the information which needs to be disclosed to the users of financial statement
- Ensure compliance with requirements of IAS 36

### Procedure under IAS 36



Carrying Amount

vs.



Recoverable Amount



The higher of an asset's or CGU's or group of CGUs'



Fair Value less  
Costs to Sell

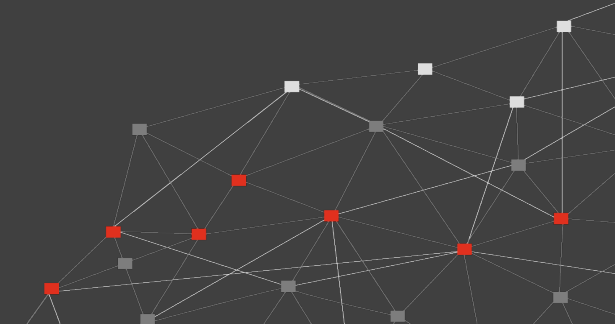
- Income, market or cost approach
- Including only synergies available to an average market participant
- Market financing structure
- Possible marketability discounts



Value in Use








- Income approach only
- Including all synergies
- Excluding enhancement CAPEX and its effect on cash flows
- Existing financing structure (D/E)
- Pre-tax cash flows
- Usually no lack of marketability discount

# How can PwC help you?

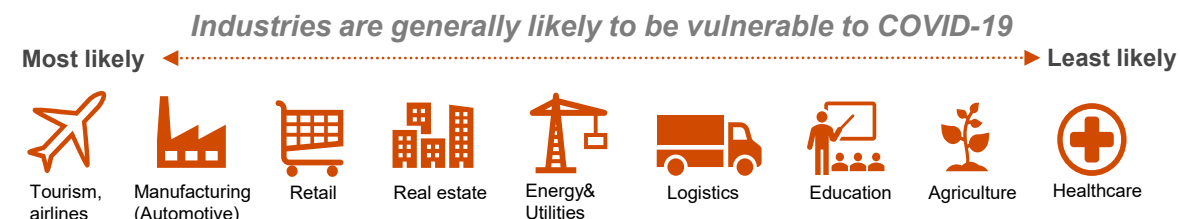


## Estimating impairment risks

Our valuation professionals can support you in a wide range of involvement to meet requirements from stakeholders (auditors, banks, owners etc) - from providing tailored trainings to your staff, assisting management to estimate potential risks, up to independent assessments of the potential impact of COVID-19 on the expected cash flows and discount rate and quantifying any impairment risks relating to assets.

	Analysis of triggering events and support in preparing evidence in case of low impact on the business due to COVID-19
	Assistance with estimating the potential impact of COVID-19 on your business, including industry benchmark analysis of KPIs
	Assistance in determining level (i.e. CGU) for impairment test and assistance in preparing projected cash flows & discount rate
	Performing sensitivity analysis and analysing alternative scenarios
	Appropriate disclosures in the financial statements in accordance with IAS 36
	Review of impairment tests developed internally
	Tailored trainings on impairment testing and financial modelling

## Global impact of COVID-19



- Rapid global spread of COVID-19 in 2020 and related government measures have affected the business and operations of many entities, and many business will continue to be affected.
- COVID-19 could affect both fair value less costs of disposal (FVLCD) to sell and its value in use (ViU).
- With such uncertainty as to when the dislocations will resolve, companies need to begin proactively assessing what this means for their value, and the value of their assets with impairment considerations being a focal point.
- With a focus on the accounting and valuation details, companies should assess the impact of the current business disruptions on assets and plan the appropriate action.
- The details often involve complex scenario planning as well as valuation and accounting challenges associated with an impairment, including how to best document the findings.



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