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

**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.

Research design

\[ MV_{i,t+3m} = \beta_0 + \beta_1 \text{recGW}_{i,t} + \beta_2 \text{recIIA}_{i,t} \ldots \ldots + \varepsilon_i \]
Research design, problematic

\[ \text{MV}_{i,t+3m} = \beta_0 + \beta_1 \text{recGW}_{i,t} + \beta_2 \text{recIIA}_{i,t} \ldots \ldots + \varepsilon_i \]

Should be changes, not levels
“Event Study” design
Reverse causality

\[ MV_{i,t+3} = \beta_0 + \beta_1 \text{recGW}_{i,t} + \beta_2 \text{recIIA}_{i,t} + \cdots + \varepsilon_i \]

Market values are sticky

Overvaluation \rightarrow Overpayment \rightarrow Goodwill
Incomplete equation

Change in MV

\[ \text{Change in MV} = \beta_0 + \beta_1 \text{recGW}_{i,t} + \beta_2 \text{recIIA}_{i,t} + \beta_3 \text{NewPP&E}_{i,t} + \ldots \ldots + \varepsilon_i \]

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

Yet again

A crowded area of research

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Analyst forecasts errors

$$SDF_{i,t+1} = \beta_0 + \beta_1 \frac{recGW}{recIA}_{i,t} + \beta_4 \text{dealsize}_{i,t} + \ldots + \varepsilon_i$$

Why ratio?
A better specification

\[ SDF_{i,t+1} = \beta_0 + \beta_1 \frac{recGW}{recIA}_{i,t} + \beta_4 dealsize_{i,t} + \]

\[ + \beta_3 \frac{recGW}{recIA}_{i,t} \times \beta_4 dealsize_{i,t} + \varepsilon_i \]
Summary

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