

Goodwill changes in the S&P 500.

XBRL Elements GoodwillAcquiredDuringPeriod, and GoodwillImpairmentLoss

The S&P 500 are an acquisitive group, with 66 companies buying up \$27 billion in goodwill in the latest 12 months. The size of the goodwill purchased ranged from a mere 563 thousand, all the way up to \$7 billion paid by Conagra Brands. Stock markets love a good takeover, and since most companies trade above book value, goodwill is created to describe the extra values obtained.

At the same time, the S&P 500 must annually look at the goodwill on their books and see if it still has value. If not, then they need to write down the value of goodwill with a goodwill impairment. Often companies will describe this as a 'non-cash item', completely forgetting that cash was paid for the goodwill. But I digress. In the latest 12 months 144 companies took impairments totaling \$19.8 billion off their goodwill. Most of this was not related to the Covid-19 market disruption, as the largest writedown, at \$6.5 billion occurred at the beginning of the 2019 year at Centurylink (CTL).

GICS Sector	Goodwill Acquired During Period	Goodwill Impairment Loss	Net Goodwill change
Communication Services	525,828,000	6,896,000,000	(6,370,172,000)
Consumer Discretionary	192,429,000	1,448,691,000	(1,256,262,000)
Consumer Staples	7,887,700,000	1,436,900,000	6,450,800,000
Energy	18,009,000	5,034,700,000	(5,016,691,000)
Financials	9,442,623,000	135,500,000	9,307,123,000
Health Care	1,180,900,000	1,921,892,000	(740,992,000)
Industrials	308,662,000	1,663,000,000	(1,354,338,000)
Information Technology	7,142,405,000	43,620,000	7,098,785,000
Materials	112,611,000	1,199,200,000	(1,086,589,000)
Real Estate	0	2,954,000	(2,954,000)
Utilities	171,000,000	48,000,000	123,000,000
Grand Total	26,982,167,000	19,830,457,000	7,151,710,000

For years ending between April 30, 2020 and May 1, 2019

By sector, the greatest growth of goodwill occurred in the Financials sector, with ten of the 66 companies adding goodwill, compared to only three recording writedowns. Half the goodwill growth came with Marsh & McLennan (MMC), growing goodwill by 5.1 billion. The lowest goodwill growth occurred in the real estate sector, where no goodwill was added.

Communication Services had the greatest loss of goodwill, dominated by the previously mentioned CenturyLink. Energy came in second, with a \$4.6 billion writedown at Occidental Petroleum.

In the current environment (as at May 28, 2020) it has become much more difficult to defend the existence of goodwill on any balance sheet. The purchased business must show that it would still attract a similar bid to what it paid at the time, and with markets down (dependent on sector) by as much as 25%, it may be difficult to see how to come up with a decent comparison. The current conditions have very few certainties, and so few industries can come up with any sort of safe prediction about the future. This means that expected cash flows will be lower, and even with a lower discounted cash flow rate it will still mean more writedowns.