“Goodwill’ Write-Offs Are an Earnings Killer. How to Spot Trouble Coming.” by Al Root, *Barron’s,* April 18, 2019

https://www.barrons.com/articles/goodwill-write-offs-51555531363?reflink=article_emailShare?mod=article_signInButton

Summary: Kraft-Heinz Stock’s 27% plummet on February 22nd had a key culprit behind it: a $7.3 billion dollar goodwill write-off. Many companies over this business cycle have been leveraging up the balance sheets with debt-fueled acquisitions, often at market premiums leaving hefty amounts of goodwill on many balance sheets. As of the end of 2018 S&P 500 companies had a total of $3.3 trillion goodwill sitting on balance sheets. Even the Goodwill to assets ratio is higher than it has been in the last 20 years at nearly 10% of total assets. Although Kraft’s Impairment caught Wall Street by surprise, it is sometimes possible to spot goodwill related trouble before it occurs. One of the keys to look out for is major acquisitions that are well above the fair market value of large companies. Another metric that is often an indicator of an issue is a rising Return on Assets (ROA) ratio that often indicates a buyer is trying to squeeze more profit out of an acquisition.

LS Comment: *Goodwill has the short-term effect of pumping up earnings of the acquiring companies. Expect more of these surprise write downs when business slows.*