3. Goodwill and other intangible assets

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| --- | --- |
| **OVERVIEW** | * An intangible asset that is an identifiable non‑monetary asset without physical substance should be recognized if it is probable that the related future economic benefits will flow to the Group, its cost can be measured reliably and it is controlled by the Group.
* Intangible assets should be recognized initially at fair value, which is generally represented by its cost at the time of acquisition.
* The measurement of the fair value of an intangible asset depends on whether it has been acquired separately, acquired as part of a business combination or was generated internally.
* Goodwill represents future economic benefits that cannot be identified individually and recognized separately and therefore should be measured as a residual. Goodwill is not amortized but is tested for impairment at least annually.
* The useful life of intangibles is finite or indefinite. An intangible asset has an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the company. An intangible asset with a finite useful life is amortized on a systematic basis over its useful life.
* The following costs cannot be capitalized as intangible assets: internally generated goodwill, research costs, costs to develop customer lists, start‑up costs, and expenditure incurred on training, advertising and promotional activities or on relocation or reorganization of part, or all, of an entity.
 |

3.1 Purpose and scope

This policy provides guidance and rules on accounting for **Goodwill and other intangible assets** for the purpose of preparing the financial statements for the Group according to International Financial Reporting Standards.

3.2 Definition

**Goodwill** represents future economic benefits arising from assets that are not capable of being identified individually and recognized separately. Goodwill arising in a business combination is measured initially as the excess of the cost of the business combination over the acquirer’s interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities recognized.

**An intangible asset** is an identifiable non‑monetary asset without physical substance. There is no requirement that the asset is held for a particular purpose (i.e., the asset need not be held for use in the production or supply of goods and services, for rental to others, or for administrative purposes).

**To meet the definition of an intangible asset, an item should:**

* Be “identifiable”;
* Be non‑monetary;
* Meet the definition of an asset (i.e., there must be control over the underlying resource, and the asset must provide expected future economic benefits); and

Lack physical substance.

These criteria should be applied to all intangible assets, whether acquired separately, acquired in a business combination or internally generated.

The principal categories of intangible assets for the Group are the following:

* Goodwill
* Tradenames
* Customer relationships

Leasehold rights

Computer software costs

**Ability to Identify**

In order for an intangible asset to be recognized it must be identifiable so that it clearly can be distinguished from goodwill. An item is identifiable (i.e., clearly distinguishable from goodwill) if:

* It is separable (i.e., is capable of being separated or divided from the Group and sold, transferred, licensed, rented or exchanged either individually or together with a related contract, asset or liability); or

Arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

Therefore, being separable is not a necessary condition for an item to be identifiable. If the item has legal rights, it can be an intangible asset.

**Non‑monetary**

Intangible assets are required to be non‑monetary since a monetary intangible would be a financial asset (see *Financial Instruments for definition of non-monetary assets*).

**Control**

In order to demonstrate control, the Group must have the power to obtain the future economic benefits arising from the item and be able to restrict the access of others to those benefits. The capacity of Samsonite to control the future economic benefits derived from intangible assets would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because the Company may be able to control the future economic benefits in some other way.

**Future economic benefits**

The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity.

3.3 Recognition and measurement

3.3.1 Initial recognition and measurement

An intangible asset that meets the following criteria should be recognized initially at cost:

* It is probable that future economic benefits that are attributable to the asset will flow to the Group; and

The cost of the asset can be measured reliably.

The cost of an asset comprises:

* its purchase price, including import duties and non‑refundable purchase taxes, after deducting trade discounts and rebates; and

any directly attributable costs of bringing the asset to working condition for its intended use. Professional fees incurred and costs of testing whether the asset is functioning properly are examples of a directly attributable cost.

The cost of an intangible asset acquired in a separate transaction is the cash paid or the fair value of any other consideration given.

**Items that must be expensed as incurred**

Expenditures associated with the following costs must be expensed as incurred regardless of whether the general criteria for recognition appear to be met:

* Internally generated goodwill;
* Internally generated assets such as trademarks and customer lists;
* Start‑up costs (establishment costs, pre‑opening costs…);
* Training activities;
* Advertising and promotional activities;

Expenditure on relocating or re‑organizing part, or all, of an entity.

Costs associated with websites developed for advertising or promotional purposes.

3.3.2 Subsequent expenditure

Expenditure incurred simply to restore or maintain the level of future economic benefits should be expensed as incurred.

All other subsequent expenditure on an intangible asset after its purchase or completion should be recognized as an expense when it is incurred, unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and the expenditure can be measured and attributed to the asset reliably. [IAS 38.60]

3.3.3 Subsequent measurement

Subsequent to initial recognition as an asset, an intangible asset is carried at cost less any accumulated amortization and any impairment losses.

3.3.4 Amortization and impairment

The ***Useful life*** of an intangible asset is the period over which an asset is expected to be available for use or the number of production or similar units expected to be obtained from the asset by Samsonite. The useful life of an intangible asset should be either finite or indefinite.

An intangible asset has an indefinite useful life when, based on an analysis of all the relevant factors (e.g., legal, regulatory, contractual), there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the company.

The useful life of an intangible asset determines whether it should be amortized and/or impaired. If the useful life is finite, the intangible asset should be amortized over its useful life and potentially tested for impairment when an indicator of impairment exists; if the useful life is indefinite, the intangible asset should be systematically tested for impairment purposes at each financial year‑end irrespective of whether there is an indication that the asset may be impaired.

3.3.4.1 Amortization

Amortization should normally be charged to the income statement on a straight‑line basis over the estimated useful lives of intangible assets unless such useful lives are indefinite. Annual amortization should reflect the pattern in which the asset’s economic benefits are consumed by the Group.

Useful life should be reviewed at least at each financial year‑end.

If expectations are significantly different from previous estimates, the amortization charge or the amortization method for the current and future periods should be adjusted. The change should be accounted for prospectively as a change in accounting estimate by adjusting amortization for current and future periods.

**The estimated useful lives are as follow:**

Useful lives to be used for intangible assets will be within the following ranges:

|  |  |
| --- | --- |
| **Types of intangible assets**  | **Useful lives**  |
| Goodwill  | Not amortized but tested for impairment  |
| Tradenames  | Not amortized but tested for impairment  |
| Customer relationships  | 10-20 years  |
| Leasehold rights  | Remaining Lease Term  |
| Computer software | 3 for all software; 5 for ERP systems |

**Commencement of amortization**

Amortization commences when the asset is available for use.

3.3.4.2 Impairment

Intangible assets with an indefinite useful life and intangible assets not yet available for use for which the recoverable amount must be measured annually should be tested for impairment purposes at each financial year‑end irrespective of whether there is an indication that the related assets may be impaired, as well as whenever there is any indication that they may be impaired.

Intangible assets with a finite useful life should be tested for impairment when an indication of impairment exists. In addition, the residual value and method of amortization of intangibles with finite lives needs to be reviewed at least at each annual reporting date.

Goodwill should be tested for impairment at least annually and at any point during the year when an indication of impairment exists.

Please refer to *Impairment* for description of impairment test.

3.4 Specific application guidance

The following topics will be analyzed in this section:

|  |  |  |
| --- | --- | --- |
| **Category**  | **Refer to section**  | **Recognition criteria for intangible assets**  |
| **Goodwill****“Negative goodwill”**  | 3.4.1  | Acquired in a business combination |
| **Tradename**  | 3.4.2 | Identifiably, rights to use trademark, future economic benefits  |
| **Customer relationships**  | 3.4.3 | Identifiably, future economic benefits  |
| **Leasehold rights**  | 3.4.4 | Identifiably, future economic benefits  |
| **Computer software** | 3.4.5 | Identifiably, future economic benefits |

In instances where the Group is involved in a business combination, all issues related to the accounting for the business combination and any related goodwill or other intangible assets will be addressed by a team designated by Management.

3.4.1 Goodwill

Goodwill arises upon acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

Goodwill may include an amount attributable to non-controlling interests if an entity elects to measure such interests at fair value at the date of acquisition in a business combination.

Goodwill is considered to have an indefinite life and is not amortized. Goodwill is tested for impairment at least annually at each financial year-end, and thus is measured at cost less impairment losses (see *Impairment*).

3.4.2 Trademarks

The Group has acquired trademarks that are determined to have an indefinite useful life and are not amortized, but instead are tested for impairment at least annually at each financial year-end.

3.4.3 Customer relationships

Customer relationships acquired by the Group are amortized in income or loss on a straight‑line basis over a 10-20 year period. New customer relationship intangibles should be discussed with Corporate Finance as to appropriate amortization period.

3.4.4 Leasehold rights

Leasehold rights acquired by the Group are amortized in income or loss on a straight‑line basis over the remaining lease term, or a weighted average life of the underlying leases. New leasehold rights should be discussed with Corporate Accounting as to appropriate amortization period.

3.4.5 Computer software

The Group capitalizes the costs of purchased software and costs to configure, install and test software. Computer software costs are amortized in income or loss on a straight-line basis over three years for all software and five years for ERP systems. Software assessment and evaluation, process reengineering, data conversion, training, maintenance and ongoing software support costs are expensed as incurred.

3.5 Retirements and disposals

When an operation to which goodwill relates is disposed of, goodwill allocated to that operation via cash-generating units (“CGUs”) is included in calculating the gain or loss on disposal. The amount of goodwill included in the carrying amount of the operation being disposed of is based on the relative values of the operation to be disposed of and the portion of the CGU that will be retained, unless the entity can demonstrate that another allocation method is preferable.

An item should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains and losses arising from the retirement or disposal of an asset should be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and should be recognized as income or expense in the income statement.

Gain or loss on disposal or retirements for one intangible asset should be recognized as income if it is a gain or as expense if it is a loss.

* 1. Cash Generating Units (CGUs)

For **Goodwill**, the Group combines CGUs at the regional segment level, which is the lowest level for which goodwill is monitored by management. Goodwill is evaluated based on the following four regions:

* North America
* Latin America
* Europe
* Asia

For **Intangible Assets (except for goodwill)** the Group has established the following CGUs:

|  |  |  |  |
| --- | --- | --- | --- |
| Cash-Generating Units Summary |  |  |  |
|  |   |   |   |   |
|  | *North America* | *Latin America* | *Europe* | *Asia* |
|   |  |  |  |   |
|   | 1. US Wholesale2. Canada3. US Retail stores | 1. Chile2. Mexico3. Mercosur | 1. Italy (2010 forward), Spain (2010 forward), Belgium, UK, France, Germany, Netherlands, Czech Republic, Austria, Hungary, Finland, Denmark, Norway, Slovakia, Sweden, Switzerland, Greece and Poland 2. Russia3. Turkey4. South Africa5. Italy (prior to 2010)6. Spain (prior to 2010) | 1. Korea2. India3. Japan4. Australia5. Vietnam6. Hong Kong7. China8. Taiwan9. Philippines10. Singapore11. Malaysia12. Thailand13. Middle East |

3.7 Disclosure

The following information should be disclosed, if material: (IAS38.118 and 38.122)

* whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;
* the amortization methods used for intangible assets with finite useful lives;
* the gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;
* the line item of the income statement in which any amortization of intangible assets is included;
* a reconciliation of the carrying amount at the beginning and end of the period showing:

‑ additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;

 - assets classified as held for sale or included in a disposal Company classified as held for sale in accordance with IFRS 5 and other disposals;

- retirements and other disposals;

‑ increases or decreases during the period resulting from revaluations and from impairment losses recognized or reversed directly in equity;

‑ impairment losses recognized in profit or loss during the period;

‑ impairment losses reversed in profit or loss during the period;

‑ any amortization recognized during the period;

‑ net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency; and

‑ other changes in the carrying amount during the period.

* for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, disclose the factor(s) that played a significant role in determining that the asset has an indefinite life;
* a description, the carrying amount and remaining amortization period of any individual intangible asset that is material to the financial statements;
* the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities; and

the amount of contractual commitments for the acquisition of intangible assets.

For goodwill, the following information should be disclosed:

* the gross amount and accumulated impairment losses at the beginning of the period;
* additional goodwill recognized during the period except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with IFRS 5;
* adjustments resulting from the subsequent recognition of deferred tax assets during the period;
* goodwill included in a disposal group classified as held for sale in accordance with IFRS 5 and goodwill derecognized during the period without having previously been included in a disposal group classified as held for sale;
* impairment losses recognized during the period;
* net exchange differences arising during the period;
* any other changes in the carrying amount during the period; and

the gross amount and accumulated impairment losses at the end of the period.

Disclose detailed information about the estimates used to measure recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives. [IAS 36.134-35] The Group has developed forms to assist with the completion of the financial statement footnote disclosures.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Goodwill** |  | **CustomerRelationships** |  | **Trade name** |  | **Intangible assets,other** |  | **Total** |
| **Cost** |  |  |  |  |  |  |  |  |  |  |
| Balance at January 1, 20XX |  |  |  |  |  |  |  |  |  |  |
| Additions through business combinations |  |  |  |  |  |  |  |  |  |  |
| Other additions |  |  |  |  |  |  |  |  |  |  |
| Effect of movement in foreign currency exchange rates |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 20XX |  |   |  |   |  |   |  |   |  |   |
|  |  |  |  |  |  |  |  |  |  |  |
| Balance at January 1, 20X1 |  |  |  |  |  |  |  |  |  |  |
| Additions through business combinations |  |  |  |  |  |  |  |  |  |  |
| Other additions |  |  |  |  |  |  |  |  |  |  |
| Disposals |  |  |  |  |  |  |  |  |  |  |
| Effect of movement in foreign currency exchange rates |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 20X1 |  |   |  |   |  |   |  |   |  |   |
|  |  |  |  |  |  |  |  |  |  |  |
| **Amortization and impairment losses** |  |  |  |  |  |  |  |  |  |  |
| Balance at January 1, 20XX |  |  |  |  |  |  |  |  |  |  |
| Amortization for the year |  |  |  |  |  |  |  |  |  |  |
| Impairment |  |  |  |  |  |  |  |  |  |  |
| Disposal |  |  |  |  |  |  |  |  |  |  |
| Effect of movement in foreign currency exchange rates |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 20XX |  |   |  |   |  |   |  |   |  |   |
|  |  |  |  |  |  |  |  |  |  |  |
| Balance at January 1, 20X1 |  |  |  |  |  |  |  |  |  |  |
| Amortization for the year |  |  |  |  |  |  |  |  |  |  |
| Impairment |  |  |  |  |  |  |  |  |  |  |
| Disposal |  |  |  |  |  |  |  |  |  |  |
| Effect of movement in foreign currency exchange rates |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 20X1 |  |   |  |   |  |   |  |   |  |   |
|  |  |  |  |  |  |  |  |  |  |  |
| **Carrying amounts** |  |  |  |  |  |  |  |  |  |  |
| At December 31, 20XX |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| At December 31, 20X1 |  |  |  |  |  |  |  |  |  |  |

Amortization of intangible assets is included in Distribution expense in the consolidated income statement.