



**CALCBENCH**

*Next Generation Financial Data Tools*

# Looking at Non-GAAP Adjustments

March 2021



**CALCBENCH**

*Next Generation Financial Data Tools*

*How are companies reporting non-GAAP net income in 2020 filings?*

*What are they disclosing?*

*What types of adjustments are they making?*

*Bonus content: Wait, these numbers may change!*



# CALCBENCH

*Next Generation Financial Data Tools*

## What we did

- Examined the 2020 earnings releases of S&P 500 firms that reported both GAAP and non-GAAP net income numbers.
- Measured the difference between net income (in dollar terms) for the 60 firms with largest difference where non-GAAP exceeded GAAP.
- Counted the total number of adjustments made to GAAP net income and classified them into 11 concepts.
- Studied the size of non-GAAP adjustments (in dollar terms) for each of those categories.



# CALCBENCH

*Next Generation Financial Data Tools*

## What we found

- Non-GAAP net income reported by our sample group exceeded GAAP net income by **\$132.3 billion**. This is more than double the total reported GAAP net income of \$130.7 billion.
- The sample group made more than 240 adjustments to GAAP net income.
- **Amortization of Intangibles** was the single biggest category of specified adjustments, accounting for 30 percent of all adjustments.
- The 'Other' category also had a significant set of adjustments in dollar terms.



# CALCBENCH

*Next Generation Financial Data Tools*

Category	Dollars Adjusted	Percent of Total
Litigation	\$6,067,968,000	4.6%
Amortization of Intangibles	\$40,073,881,000	30.3%
In process R&D	\$21,055,800,000	15.9%
Restructuring	\$13,647,698,000	10.3%
Impairment	\$18,976,824,000	14.3%
Stock Based Comp	\$6,430,486,000	4.9%
Tax Adjustments	(\$12,506,275,000)	-9.5%
Merger Acquisition / Divestiture	\$9,628,267,000	7.3%
Gain Loss investments	(\$504,081,000)	-0.4%
Other	\$29,468,231,000	22.3%
<b>Total</b>	<b>\$132,338,799,000</b>	<b>100.0%</b>



# CALCBENCH

*Next Generation Financial Data Tools*

## 'Other' Details

- 22 percent of non-GAAP adjustments did not fall into our standard categories and were categorized as 'Other.' We looked a little harder at those.
- As it turns out, three-fourths of the Other category is explained by four firms.
  - **AmerisourceBergen** and **AbbVie** both had “contingent considerations” of more than \$5 billion each.
  - **UPS** had an almost \$5 billion mark-to-market loss on its defined-benefit plan.
  - **Hess** has \$2.1 billion in exploration costs.



# CALCBENCH

Next Generation Financial Data Tools

## Example 1: Bristol Myers Squibb (Ticker: BMY) Adjustments in RED

Period Ending: 12/31/2020 | From: 8-K Filed On: 2/4/2021 | Bristol Myers Squibb Co (BMY) | 8-K: Results

BRISTOL-MYERS SQUIBB COMPANY  
RECONCILIATION OF CERTAIN GAAP LINE ITEMS TO CERTAIN NON-GAAP LINE ITEMS  
FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2020 AND 2019  
(Unaudited, dollars and shares in millions except per share data)

	Three Months Ended December 31, 2020			Twelve Months Ended December 31, 2020		
	GAAP <sup>(a)</sup>	Specified Items <sup>(a)(b)</sup>	Non-GAAP <sup>(a)</sup>	GAAP <sup>(a)</sup>	Specified Items <sup>(a)(b)</sup>	Non-GAAP <sup>(a)</sup>
Gross Profit	\$ 8,158	\$ 675	\$ 8,833	\$ 30,745	\$ 3,300	\$ 34,045
Marketing, selling and administrative	2,721	(241)	2,480	7,661	(279)	7,382
Research and development	3,750	(1,213)	2,537	11,143	(1,906)	9,237
IPRD charge - MyoKardia acquisition	11,438	(11,438)	—	11,438	(11,438)	—
Amortization of acquired intangible assets	2,526	(2,526)	—	9,688	(9,688)	—
Other (income)/expense, net	(1,826)	1,701	(125)	(2,314)	2,211	(103)
(Loss)/Earnings Before Income Taxes	(10,451)	14,392	3,941	(6,871)	24,400	17,529
(Benefit)/Provision for Income Taxes	(424)	1,034	610	2,124	614	2,738
Noncontrolling interest	—	—	—	20	—	20
Net (Loss)/Earnings Attributable to BMS used for Diluted EPS Calculation	\$ (10,027)	\$ 13,358	\$ 3,331	\$ (9,015)	\$ 23,786	\$ 14,771
Weighted-Average Common Shares Outstanding - Diluted	2,252	2,286	2,286	2,258	2,293	2,293
Diluted (Loss)/Earnings Per Share	\$ (4.45)	\$ 5.91	\$ 1.46	\$ (3.99)	\$ 10.43	\$ 6.44
Effective Tax Rate	4.1%	11.4%	15.5%	(30.9)%	46.5%	15.6%

- In process R&D adjustment of \$11.4B
- Amortization of Intangible Assets of \$9.7B





# CALCBENCH

Next Generation Financial Data Tools

## Example 2 : Broadcom (Ticker: AVGO) Adjustments in RED

Related Documents (8 - Ks, Proxys & Letters)	
Earnings Press Release	8-K: 12/10/2020
Guidance/Outlook	
Comment Letter Response (6/30/2020)	CORRESP: 6/30/2020
Comment Letter Response (6/30/2020)	CORRESP: 6/30/2020
SEC Comment Letter (6/30/2020)	UPLOAD: 6/30/2020
8-K: Other	8-K: 6/26/2020
8-K: Other	8-K: 6/3/2020
8-K: Entry into Agreement,Creation of 8-K: Obligation	8-K: 5/21/2020
8-K: Entry into Agreement,Creation of 8-K: Obligation Pt. 2	8-K: 5/21/2020
8-K: Other	8-K: 5/19/2020
8-K: Other Pt. 2	8-K: 5/19/2020
8-K: Entry into Agreement,Creation of 8-K: Obligation	8-K: 5/8/2020

	Fiscal Quarter Ended			Fiscal Year Ended	
	November 1, 2020	August 2, 2020	November 3, 2019	November 1, 2020	November 3, 2019
Benefit from income taxes on GAAP basis	\$ (187)	\$ (96)	\$ (100)	\$ (518)	\$ (510)
Non-GAAP tax reconciling adjustments	578	428	396	1,881	1,678
Provision for income taxes on non-GAAP basis	391	332	296	1,363	1,168
Net income on GAAP basis	\$ 1,324	\$ 688	\$ 847	\$ 2,960	\$ 2,724
Purchase accounting effect on inventory	—	—	—	11	—
Amortization of acquisition-related intangible assets	1,561	1,553	1,301	6,220	5,212
Stock-based compensation expense	449	465	544	1,976	2,185
Restructuring, impairment and disposal charges	40	67	47	233	813
Litigation settlements	—	21	—	63	—
Acquisition-related costs	63	67	72	411	275
Loss on debt extinguishment	16	55	26	169	54
Gain from lapse of indemnification	—	—	—	(116)	—
Gains on investments	(10)	(31)	(50)	(31)	(145)
Gain from sale of business	—	(23)	—	(23)	—
Non-GAAP tax reconciling adjustments	(578)	(428)	(396)	(1,881)	(1,678)
Discontinued operations, net of income taxes	—	1	—	1	12
Net income on non-GAAP basis	\$ 2,865	\$ 2,435	\$ 2,391	\$ 9,993	\$ 9,452

Total adjustment ~\$7B. Amortization of Intangibles is \$6B of total, with stock based compensation almost \$2B. Offset partially by tax adjustment of almost \$1.9B.





# CALCBENCH

*Next Generation Financial Data Tools*

## Example 3: Delta Air Lines (Ticker: DAL) Adjustments in RED

(in millions, except per share data)	Year Ended December 31, 2020		
	Pre-Tax Loss	Income Tax	Net Loss
GAAP	\$ (15,587)	\$ 3,202	\$ (12,385)
Less: Restructuring charges	8,219	(1,910)	6,309
Less: CARES Act grant recognition	(3,946)	917	(3,029)
Less: Impairments and equity method losses	2,172	(70)	2,102
Less: Pension settlement charges	36	(8)	28
Adjusted for:			
MTM adjustments and settlements on hedges	10	(2)	8
Equity investment MTM adjustments	(19)	4	(15)
MTM adjustments on investments	119	24	143
Non-GAAP	\$ (8,996)	\$ 2,156	\$ (6,839)

- Restructuring charge of \$6.3B



# CALCBENCH

*Next Generation Financial Data Tools*

## Bonus! Wait, the numbers can change....

So now we know the basics of non-GAAP reconciliations. It's also interesting to note that companies may revise originally reported non-GAAP numbers as a result of changing reconciling items.

Following is an example with **Pfizer**.



# CALCBENCH

## Next Generation Financial Data Tools

This is Pfizer's 2019 Non-GAAP reconciliation as reported in 2019:

Full-Year Ended December 31, 2019

	GAAP Reported <sup>(2)</sup>	Purchase Accounting Adjustments	Acquisition-Related Items <sup>(3)</sup>	Discontinued Operations	Certain Significant Items <sup>(4)</sup>	Non-GAAP Adjusted <sup>(5)</sup>
Revenues	\$ 51,750	\$ =	\$ =	\$ =	\$ =	\$ 51,750
Cost of sales <sup>(6), (7)</sup>	10,219	19	=	=	(208)	10,030
Selling, informational and administrative expenses <sup>(6), (7)</sup>	14,350	2	(2)	=	(309)	14,041
Research and development expenses <sup>(1), (6), (7)</sup>	8,650	4	=	=	(666)	7,988
Amortization of intangible assets <sup>(7)</sup>	4,610	(4,339)	=	=	=	271
Restructuring charges and certain acquisition-related costs	747	=	(183)	=	(565)	=
(Gain) on completion of Consumer Healthcare JV transaction <sup>(1)</sup>	(8,086)	=	=	=	8,086	=
Other (income)/deductions—net <sup>(8)</sup>	3,578	(21)	=	=	(3,858)	(300)
Income/(loss) from continuing operations before provision/(benefit) for taxes on income/(loss)	17,682	4,333	185	=	(2,481)	19,720
Provision/(benefit) for taxes on income/(loss)	1,384	848	59	=	667	2,958
Income/(loss) from continuing operations	16,298	3,485	126	=	(3,148)	16,762
Discontinued operations—net of tax	4	=	=	(4)	=	=
Net income attributable to noncontrolling interests	29	=	=	=	=	29
Net income/(loss) attributable to Pfizer Inc.	16,273	3,485	126	(4)	(3,148)	16,733
Earnings/(loss) per common share attributable to Pfizer Inc.—diluted	2.87	0.61	0.02	=	(0.55)	2.95



# CALCBENCH

*Next Generation Financial Data Tools*

This is Pfizer's 2019 Non-GAAP reconciliation as reported in 2020.

Notice a difference?

	Full-Year Ended December 31, 2019					
	GAAP Reported	Purchase Accounting Adjustments	Acquisition-Related Items <sup>(2)</sup>	Discontinued Operations <sup>(1)</sup>	Certain Significant Items <sup>(3)</sup>	Non-GAAP Adjusted <sup>(4)</sup>
Revenues	\$ 41,172	\$ —	\$ —	\$ —	\$ —	\$ 41,172
Cost of sales <sup>(5), (6)</sup>	8,251	19	—	—	(208)	8,062
Selling, informational and administrative expenses <sup>(5), (6)</sup>	12,750	2	(2)	—	(263)	12,488
Research and development expenses <sup>(5), (6)</sup>	8,394	4	—	—	(663)	7,736
Amortization of intangible assets <sup>(6)</sup>	4,462	(4,191)	—	—	—	271
Restructuring charges and certain acquisition-related costs	601	—	(183)	—	(418)	—
(Gain) on completion of Consumer Healthcare JV transaction <sup>(1)</sup>	(8,086)	—	—	—	8,086	—
Other (income)/deductions—net <sup>(7)</sup>	3,314	(21)	—	—	(3,563)	(270)
Income/(loss) from continuing operations before provision/(benefit) for taxes on income/(loss)	11,485	4,186	185	—	(2,971)	12,885
Provision/(benefit) for taxes on income/(loss)	618	823	59	—	539	2,039
Income/(loss) from continuing operations	10,867	3,363	126	—	(3,510)	10,846
Income from discontinued operations—net of tax <sup>(1)</sup>	5,435	—	—	(5,435)	—	—
Net income/(loss) attributable to noncontrolling interests	29	—	—	—	—	29
Net income/(loss) attributable to Pfizer Inc. common shareholders	16,273	3,363	126	(5,435)	(3,510)	10,817
Earnings/(loss) per common share attributable to Pfizer Inc. common shareholders—diluted	2.87	0.59	0.02	(0.96)	(0.62)	1.91



# CALCBENCH

## Next Generation Financial Data Tools

The GAAP numbers did not change, but the non-GAAP numbers did.

Non-GAAP EPS for 2019 **decreased** from \$2.95 to \$1.91.

From the 2020 10-K

Full-Year Ended December 31, 2019

	GAAP Reported	Purchase Accounting Adjustments	Acquisition-Related Items <sup>(2)</sup>	Discontinued Operations <sup>(1)</sup>	Certain Significant Items <sup>(3)</sup>	Non-GAAP Adjusted <sup>(4)</sup>
Revenues	\$ 41,172	\$ =	\$ =	\$ =	\$ =	\$ 41,172
Cost of sales <sup>(5), (6)</sup>	8,251	19	=	=	(208)	8,062
Selling, informational and administrative expenses <sup>(5), (6)</sup>	12,750	2	(2)	=	(263)	12,488
Research and development expenses <sup>(5), (6)</sup>	8,394	4	=	=	(663)	7,736
Amortization of intangible assets <sup>(6)</sup>	4,462	(4,191)	=	=	=	271
Restructuring charges and certain acquisition-related costs	601	=	(183)	=	(418)	=
(Gain) on completion of Consumer Healthcare JV transaction <sup>(1)</sup>	(8,086)	=	=	=	8,086	=
Other (income)/deductions—net <sup>(7)</sup>	3,314	(21)	=	=	(3,563)	(270)
Income/(loss) from continuing operations before provision/(benefit) for taxes on income/(loss)	11,485	4,186	185	=	(2,971)	12,885
Provision/(benefit) for taxes on income/(loss)	618	823	59	=	539	2,039
Income/(loss) from continuing operations	10,867	3,363	126	=	(3,510)	10,846
Income from discontinued operations—net of tax <sup>(1)</sup>	5,435	=	=	(5,435)	=	=
Net income/(loss) attributable to noncontrolling interests	29	=	=	=	=	29
Net income/(loss) attributable to Pfizer Inc. common shareholders	16,273	3,363	126	(5,435)	(3,510)	10,817
Earnings/(loss) per common share attributable to Pfizer Inc. common shareholders—diluted	2.87	0.59	0.02	(0.96)	(0.62)	1.91

Full-Year Ended December 31, 2019

	Discontinued Operations	Certain Significant Items <sup>(4)</sup>	Non-GAAP Adjusted <sup>(5)</sup>
Revenues	\$ =	\$ =	\$ 51,750
Cost of sales	=	(208)	10,030
Selling, informational and administrative expenses	=	=	14,041
Research and development expenses	=	(666)	7,988
Amortization of intangible assets	=	=	271
Restructuring charges and certain acquisition-related costs	=	(565)	=
(Gain) on completion of Consumer Healthcare JV transaction	=	=	8,086
Other (income)/deductions—net	(183)	=	(3,563)
Income/(loss) from continuing operations before provision/(benefit) for taxes on income/(loss)	=	8,086	=
Provision/(benefit) for taxes on income/(loss)	=	(3,858)	(300)
Income/(loss) from continuing operations	185	(2,481)	19,720
Income from discontinued operations—net of tax	59	667	2,958
Net income/(loss) attributable to noncontrolling interests	126	(3,148)	16,762
Net income/(loss) attributable to Pfizer Inc. common shareholders	=	(4)	=
Earnings/(loss) per common share attributable to Pfizer Inc. common shareholders—diluted	126	(4)	(3,148)

From the 2019 10-K

Earnings/(loss) per common share attributable to Pfizer Inc.—diluted

See end of tables for notes (1) through (9).

2.87

0.61

0.02

=

(0.55)

2.95



# CALCBENCH

*Next Generation Financial Data Tools*

## So what happened??

- Sometime in 2020, Pfizer re-categorized \$5.4 billion of net income in 2019 income from discontinued operations.
- Pfizer then excluded that income from the GAAP net income to arrive at its non-GAAP income.
- In 2020, when reporting the non-GAAP reconciliation for 2019, Pfizer excluded this income from discontinued operations, resulting in a reduction in EPS of \$0.96.
- Those with a keen eye would see that amounts changed in all categories, but the adjustment related to discontinued operations is the largest one.





# CALCBENCH

*Next Generation Financial Data Tools*

## Acknowledgements

The Calcbench team would like to credit Bates College's Sam Stoner, Class of 2021, for his work in collecting the data for this report. His dedication and efforts made all of this possible. A little about Sam here:



Sam Stoner is a senior at Bates College, graduating in May 2021. He is an economics major and mathematics minor, and enjoys performing quantitative research to learn new information. He recently completed his senior economics thesis on *The Effects of COVID-19 Lockdowns on Air Pollution*. While Sam is originally from New Canaan, CT, his time in Maine has turned him into an avid skier and fan of the outdoors.



