



CALCBENCH

Next Generation Financial Data Tools

Industry Study of Non-GAAP Reconciliations
In Collaboration with
Suffolk University's
Accounting Internship Class of 2023



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Industry Study of Non-GAAP Reconciliations

What we did

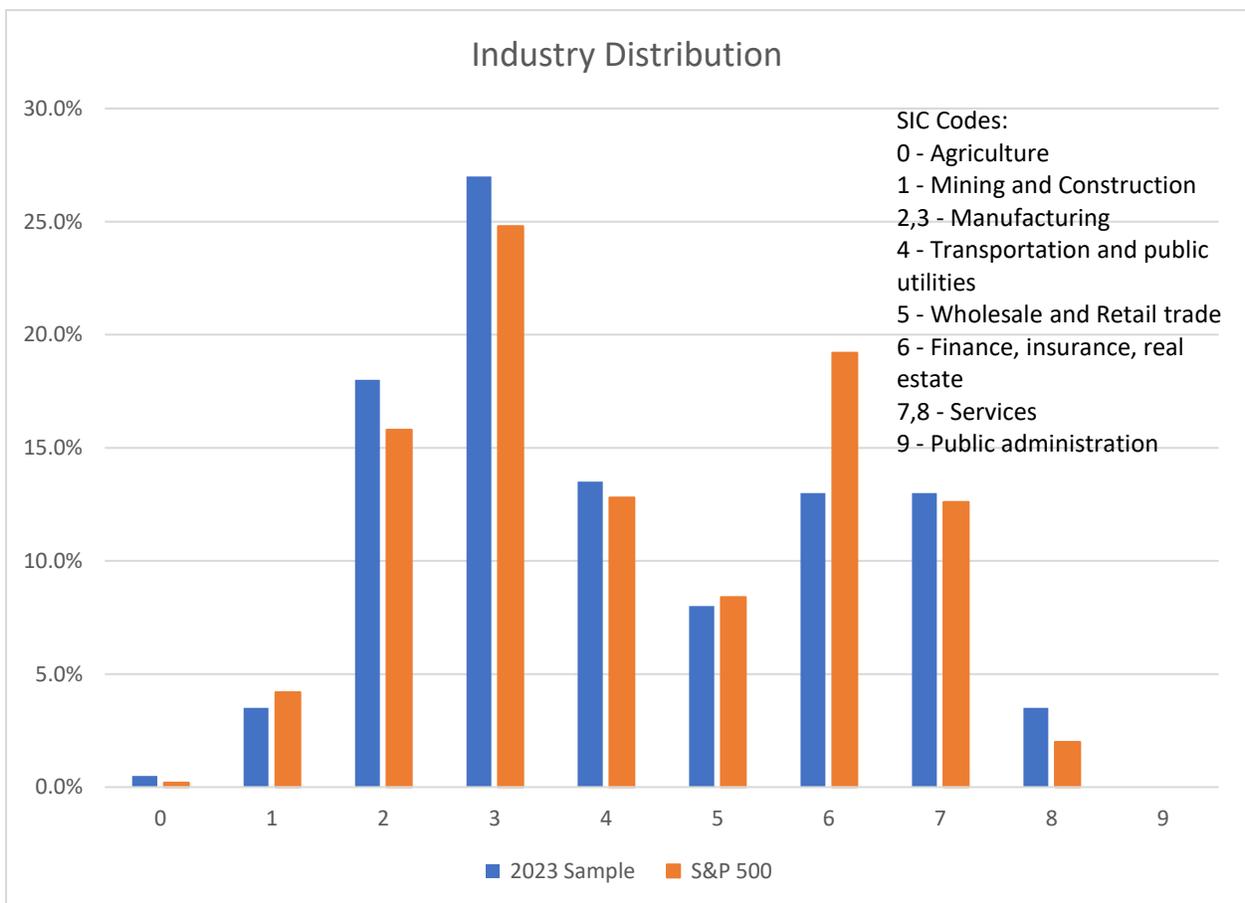
In a [prior study](#), we reported the results of examining companies reporting non-GAAP Net Income or non-GAAP Earnings Per Share (EPS). As part of that analysis, we examined the 2022 earnings releases for 200 companies randomly chosen from the S&P 500. We also examined the adjustments companies made to reconcile non-GAAP Net Income with GAAP Net Income and the different categories or types of adjustments companies made. In this report we enhance the prior study and examine the non-GAAP adjustments by industry. We look at the industries with most significant adjustment and the most notable categories of adjustments for each industry.

Key findings

- Adjustments vary greatly between industries in both their magnitude and the types of adjustments made
- Adjustments made by companies in Manufacturing (SIC 2) and Transportation and Public Utilities (SIC 4) account for about half of the total adjustments amount, although firms in these industries represent less than a third of the firms of our sample
- When examining adjustments as a percentage of GAAP Net Income, companies in Manufacturing (SIC 2) adjust, on average, about 4% of GAAP Net Income, whereas companies in Transportation and Public Utilities (SIC 4) adjust, on average, about 28% of GAAP Net Income
- Most companies adjust GAAP Net Income upwards (about 83% of companies). We observe a similar pattern across all industries
- The significance of an individual company's adjustments for the industry as a whole, varies greatly. For example, Fidelity National Information Services, Inc. represented 63% of all adjustments made by companies in Services (SIC 7), whereas, IBM's adjustments represented 13.7% made by companies in their industry (Manufacturing (SIC 3))
- The most significant category of adjustment differs between industries
 - The most significant category for Manufacturing (SIC 2) is Amortization of Intangibles (45.7% of total adjustments for this industry)
 - Impairments represent the largest category for Transportation and public utilities (SIC 4) (71% of total adjustments for this industry)
 - Litigation is the most significant category of adjustments for Wholesale and Retail trade (SIC 5), representing 61.4%
- When examining the most significant industry for each category, we observe the following:
 - Companies in Manufacturing (SIC 2 and SIC 3) are the ones that have the highest number of individual adjustments
 - Most impairment adjustments come from companies in Transportation and public utilities (SIC 4)
 - Most litigation adjustments come from companies in Wholesale and Retail trade (SIC 5)

Industry distribution

- Our 200 companies are distributed across different industries. The chart below shows the distribution of the companies in our sample and the entire S&P 500 population across one-digit SIC codes.
- The one-digit SIC codes correspond to the following industries:
 - 0 - Agriculture
 - 1 - Mining and Construction
 - 2, 3 - Manufacturing
 - 4 - Transportation and public utilities
 - 5 - Wholesale and Retail trade
 - 6 - Finance, insurance, real estate
 - 7, 8 - Services
 - 9 - Public administration
- As can be seen by the chart, our sample is distributed very similarly to the entire S&P 500 and thus is representative of the S&P 500.



Adjustments by industry

We next examine whether some industries tend to adjust more or less than others. We examine the total adjustments per industry as a percentage of total adjustments and compare that to the percentage of the industry distribution in our sample (i.e. how many companies from this industry appear in our sample out of the entire sample of 200 companies). See table below.

	0	1	2	3	4	5	6	7	8	9
Percentage of total Adjustments	0.33%	0.69%	26.60%	21.62%	23.88%	6.52%	4.48%	15.01%	0.87%	0%
Percentage of firms in sample	0.50%	3.50%	18.00%	27.00%	13.50%	8.00%	13.00%	13.00%	3.50%	0%

As presented in the table above, some industries tend to adjust more in total than their relative sample size, whereas other adjust less. Manufacturing (SIC 2) and Transportation and Public Utilities (SIC 4) seem to adjust more. Finance, Insurance, Real Estate (SIC 6) seem to adjust less than relative sample size. The smaller adjustment may be related to these being regulated industries.

We conduct a similar analysis to examine what industries tend to adjust their GAAP income more or less, but now, the comparison is to GAAP Net Income. This analysis (shown in the table below) reveals a different way to examine the adjustments.

	0	1	2	3	4	5	6	7	8	9
Sum of Adjustment (\$ B)	0.73	1.51	58.24	47.35	52.28	14.27	9.82	32.86	1.90	0
Sum of GAAP Net Income (\$ B)	3.47	65.09	1,465.13	718.71	186.69	166.85	603.94	121.31	48.02	0
	20.98%	2.32%	3.98%	6.59%	28.00%	8.56%	1.63%	27.09%	3.96%	0.00%

To contrast the results shown in both tables let's focus on adjustments made by SIC 2 (Manufacturing firms). These adjustments accounted for 26.6% of total adjustments made. This is significant, given that these firms accounted for only 18% of our sample. However, when compared to their GAAP Net Income, the adjustments made by these firms accounted for only 3.98% of their GAAP Net Income.

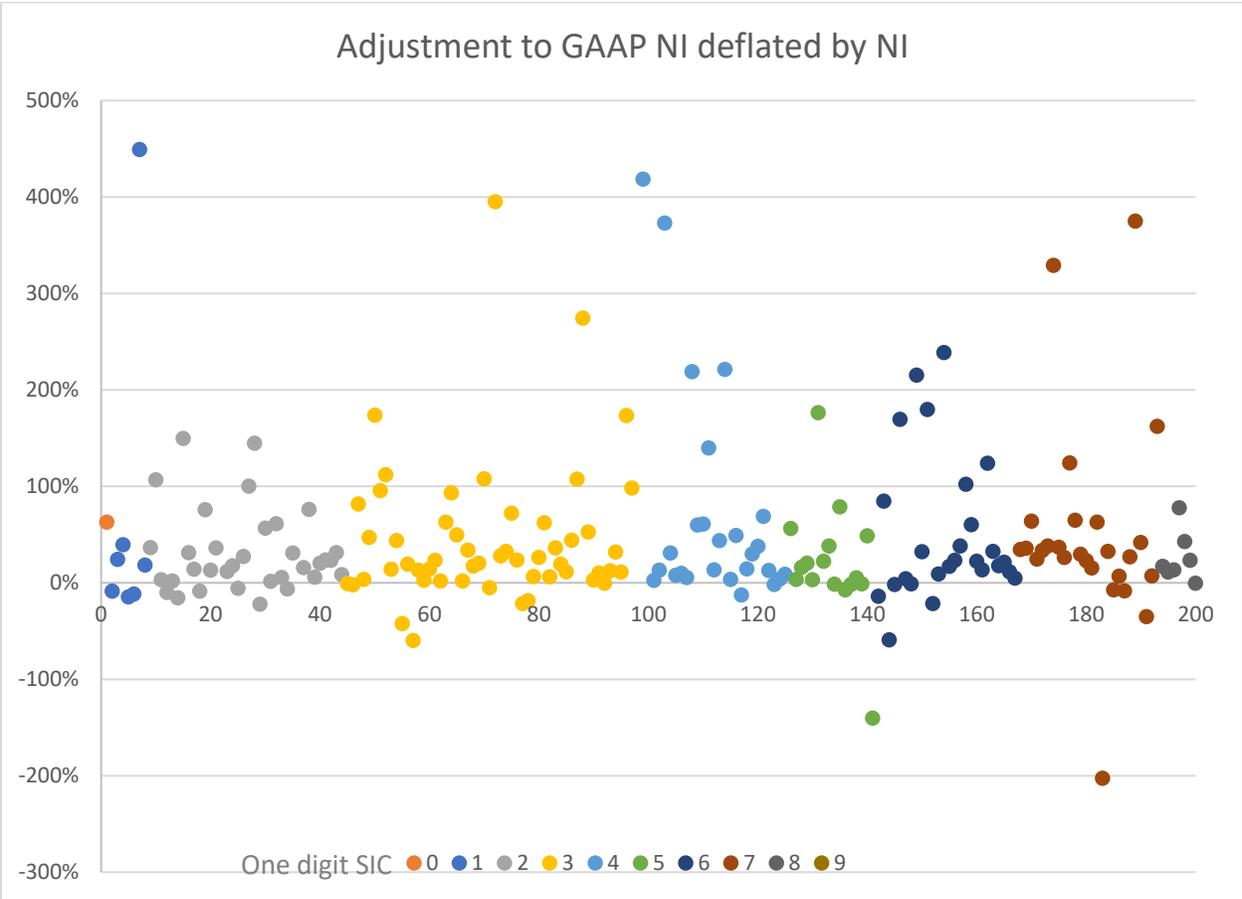
Another example is SIC 7 (Services firms). Adjustments made by these firms accounted for 15.01% of total adjustments made (similar to their representation in our sample of 13%). However, when compared to these firms' GAAP Net Income, the adjustments they made accounted for 27.09% of their GAAP Net Income.

The relatively small adjustments by companies in Finance, Insurance, Real Estate (SIC 6) could be a result of most companies in this industry being regulated, thus not allowing for as many adjustments to GAAP Net Income.

Positive or negative adjustment

In the [previous report](#), Calcbench studied the different categories or types of adjustments companies made and found that most firms (83%), adjust GAAP Net Income upwards. We extend that analysis by examining if we can identify different patterns of adjustments for different industries. The scatterplot shown below, shows total adjustments per company in our sample. As previously mentioned, most adjustments are positive (meaning GAAP Net Income is adjusted upwards). We grouped the companies by industry to examine the pattern for each industry.

The scatterplot below shows the range of adjustments as a percentage of GAAP net income. The majority of companies show adjustments of up to 50%, *although a third of companies show (positive) adjustments of more than 50% to GAAP net income, and 16.5% adjusted GAAP net income upwards more than 100%.*¹ The scatterplot does not reveal any substantial differences between industries. Most industries show companies with a large range of total adjustments to GAAP Net Income.



¹ Two companies in our sample are outside the range shown in the scatterplot. Constellation Brands, Inc. (STZ) had a decrease of 5,313% to GAAP Net Income and Alaska Air Group, Inc. (ALK) had an increase of 2,348% to GAAP Net Income.

Top firm by industry

We examine the companies with the largest adjustment for each industry (see table below).

One digit SIC code - Industry	Total adjustment	Percentage of industry total	Companies in sample
0 - Agriculture	\$ M		
Corteva, Inc.	729.00	100.0%	1
1 - Mining and Construction			
Newmont Corp /DE/	1,927.00	127.8% ²	7
2- Manufacturing			
Abbvie	12,644.94	21.7%	36
3- Manufacturing			
International Business Machines Corp	6,472.10	13.7%	54
4 - Transportation and public utilities			
AT&T Inc.	26,299.22	50.3%	27
5 - Wholesale and Retail trade			
CVS Health	7,350.00	51.5%	16
6 - Finance, insurance, real estate			
MetLife, Inc.	3,164.61	32.2%	26
7 - Services			
Fidelity National Information Services, Inc.	20,753.00	63.1%	26
8 - Services			
Iqvia Holdings Inc.	846.00	44.5%	7

As can be seen by the table above, the significance of individual companies varies significantly between industries. Some significance arises from very few companies in the industry within our sample (for example, Agriculture (SIC 0)), whereas in other cases, the company's adjustments indeed represent a large portion of the total adjustment amount for the industry (for example, Fidelity in Services (SIC 7)).

Major category per industry

A [previous report](#) by Calcbench documents the non-GAAP adjustment by category, or type of adjustment. Looking at the different industries and different categories of adjustments, we now enhance that report by analyzing how important are the different categories of adjustments for each industry.

The table below shows the different categories of adjustments as a percentage of total adjustment amounts for each industry.

² Other companies in the industry had negative adjustments to GAAP Net Income (reducing GAAP Net Income) hence the total for the industry ends up being less than the adjustment shown by Newmont Corp.

SIC Code Category of adjustment	0	1	2	3	4	5	6	7	8	Grand Total
Amortization of Intangibles	74.3%	9.0%	45.7%	28.4%	7.0%	16.0%	52.1%	21.8%	23.5%	27.1%
Stock Based Compensation	0.0%	0.0%	1.5%	23.5%	1.0%	0.5%	0.0%	22.4%	10.2%	9.2%
Restructuring	0.0%	55.4%	6.9%	2.7%	3.0%	13.9%	12.7%	0.6%	19.7%	5.2%
Merger Acquisition / Divestiture	0.0%	-1.8%	17.8%	17.8%	3.1%	-2.3%	11.9%	3.2%	43.2%	10.5%
Tax Adjustments	0.0%	-20.5%	-12.1%	-15.9%	-4.2%	-16.4%	-43.9%	-9.2%	-29.5%	-12.5%
Impairments	0.0%	113.2%	12.2%	20.1%	71.2%	1.4%	27.6%	54.0%	15.0%	34.9%
In process R&D	0.0%	0.0%	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%
Other	25.7%	-32.8%	11.7%	5.5%	12.6%	-4.6%	28.7%	-6.2%	14.5%	7.4%
Gain Loss investments incl. Pensions	0.0%	-23.8%	7.0%	11.6%	5.1%	30.1%	14.1%	11.4%	3.4%	9.8%
Litigation	0.0%	1.5%	7.6%	6.3%	1.3%	61.4%	-3.2%	2.1%	0.0%	7.9%
Grand Total	100.0%									

Some of the results shown in the table seem intuitive. For example, the most significant category for Manufacturing (SIC 2) is Amortization of Intangibles, representing the amortization of intangibles. SIC 2, includes pharma companies (SIC 2834) which likely have many intangible assets they amortize. Indeed 73% of the adjustments in that category come from companies with SIC 2834 (Pharma Prep.).

Looking at Transportation and public utilities (SIC 4), we see that impairments represent the largest category (with 71% of total adjustments for this industry). Most of the amount in that category (\$24B out of \$37B or 65%) is a single impairment adjustment posted by AT&T.³

Litigation being the most significant category for Wholesale and Retail trade (SIC 5) is a result of both CVS and Wal-Mart making significant Opioid litigation adjustments (\$8.6B in total). Amortization of Intangibles being the most significant category for Finance, Insurance, Real Estate (SIC 6) seems slightly less intuitive since one would not expect these companies to have many intangible assets. These adjustments come from a variety of firms and are not a result of few large adjustments.

Significant industry per category

In the previous section we focused on the most significant category of adjustments per industry. An alternative view, is to focus on the different categories of adjustments and see which industry is the one that contributes most to each category.

The table below shows the different industries as a percentage of total adjustment amounts for each category.

³ AT&T reports in their earning press release filed 1/25/2023: "Goodwill impairments of \$24.8 billion were associated with our Business Wireline, Consumer Wireline and Mexico reporting units and were driven by higher interest rates consistent with the macroeconomic environment, with secular declines also impacting Business Wireline growth rates."

SIC Code Category of adjustment	0	1	2	3	4	5	6	7	8	Grand Total
Amortization of Intangibles	0.9%	0.2%	44.8%	22.6%	6.1%	3.9%	8.6%	12.0%	0.8%	100.0%
Stock Based Compensation	0.0%	0.0%	4.3%	55.3%	2.5%	0.3%	0.0%	36.6%	1.0%	100.0%
Restructuring	0.0%	7.3%	34.9%	11.1%	13.6%	17.3%	10.8%	1.7%	3.3%	100.0%
Merger Acquisition / Divestiture	0.0%	-0.1%	44.8%	36.6%	7.0%	-1.4%	5.0%	4.5%	3.6%	100.0%
Tax Adjustments	0.0%	1.1%	25.8%	27.6%	8.1%	8.6%	15.7%	11.1%	2.0%	100.0%
Impairments	0.0%	2.2%	9.3%	12.4%	48.7%	0.3%	3.5%	23.2%	0.4%	100.0%
In process R&D	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Other	1.2%	-3.1%	42.3%	16.3%	41.0%	-4.1%	17.5%	-12.7%	1.7%	100.0%
Gain Loss investments incl. Pensions	0.0%	-1.7%	19.0%	25.7%	12.5%	20.1%	6.5%	17.6%	0.3%	100.0%
Litigation	0.0%	0.1%	25.6%	17.4%	3.9%	50.9%	-1.8%	3.9%	0.0%	100.0%
Grand Total	0.3%	0.7%	26.6%	21.6%	23.9%	6.5%	4.5%	15.0%	0.9%	100.0%

The table above shows that Stock Based Compensation adjustments were almost exclusively reported by companies in Manufacturing (SIC 3) and Services (SIC 7). Merger Acquisition or Divestiture adjustments were almost exclusively reported by Manufacturing firms (SIC 2 and SIC 3).

In addition, Manufacturing (SIC 2) ranks high in many categories. We had mentioned the AT&T impairment adjustment that is the likely cause of Transportation and Public Utilities (SIC 4) ranking at the top of the Impairments category.

What does it mean?

- Types of adjustments vary greatly between industries. Some categories are more common in some industries (e.g., amortization of intangibles for companies Manufacturing (SIC 2), Litigation in Wholesale and Retail trade (SIC 5))
- Some of the difference could be a result of business differences between companies in the different industries
 - Interestingly, although companies in Manufacturing (SIC 2) are the ones who adjust the most for amortization of intangibles, they are **not** the ones holding the most intangible assets (excluding goodwill). Companies in Manufacturing (SIC 2) hold about 24% of total intangibles assets (excluding goodwill) for the S&P 500, whereas companies in Transportation and Public Utilities (SIC 4) 31%
- The differences in adjustments between companies in different industries could represent common industry practices
- Based on the findings that most companies adjust GAAP Net Income upwards, and that the pattern exists in all industries, it would be appropriate to question the motives behind these adjustments

About this report

This report was prepared by Calcbench in collaboration with Suffolk University's Accounting Winternship Class of 2023, led by Associate Dean Tracey Riley and Professor Regina O'Neil. Students participating in the report include: Nicole Bartolomeo, Byron Deily, Boston Emmanuel, Leah Fabiano, Daniel Ferrara, Kate Kantzelis, Kathryn Krobot, Aron Librea, Michelle Nguyen, Thao Nguyen, April Nickerson, and Michelle Riley.