



**CALCBENCH**

*Next Generation Financial Data Tools*

**Industry Study of Non-GAAP Reconciliations**  
**In Collaboration with**  
**Suffolk University's**  
**Accounting Internship Class of 2024**



**SUFFOLK  
UNIVERSITY**  
SAWYER BUSINESS  
SCHOOL

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## Industry Study of Non-GAAP Reconciliations

### What we did

In a [recent study](#), we reported the results of companies reporting non-GAAP Net Income or non-GAAP Earnings Per Share (EPS). As part of that analysis, we examined the 2023 earnings releases for 260 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. We define our industry groups by using the first digit of the SIC Code that companies report.<sup>1</sup>

### Key findings

- Eighty-six percent of companies adjust GAAP Net Income upwards. We observe a similar pattern across all industries.
- Adjustments vary greatly between industries in both their magnitude and type.
- Adjustments made by companies in Manufacturing (SIC 2 and SIC 3) account for about 57% of the total amount, and firms in these industries represent 51% of the firms of our sample (Table 1: Percent Adjusted by SIC).
- When examining adjustments as a percentage of GAAP Net Income, companies in Manufacturing (SIC 2) adjust (upwards), on average, about 28% of GAAP Net Income, whereas companies in Wholesale and Retail trade (SIC 5) adjust (upwards), on average, about 55% of GAAP Net Income (Table 2: Dollars Adjusted by SIC)
- The significance of an individual company's adjustments for the industry as a whole, varies greatly. For example, Fidelity National Information Services, Inc. represented 48% of all adjustments made by companies in Services (SIC 7), whereas, adjustments made by MetLife, Inc. (SIC 6) represented 23% of all adjustments made by companies in their industry (Table 3: Largest Firms by SIC)
- The most significant category of adjustment differs between industries (Table 4)
  - The most significant category for Manufacturing (SIC 2) is Amortization of Intangibles (46.2% of total adjustments for this industry – likely because of pharma exposures)
  - Impairments represent the largest category for Transportation and public utilities (SIC 4) (45% of total adjustments for this industry)
  - Litigation is the most significant category of adjustments for Wholesale and Retail trade (SIC 5), representing 76.0%
- When examining the most significant industry for each category, we observe (Table 5):

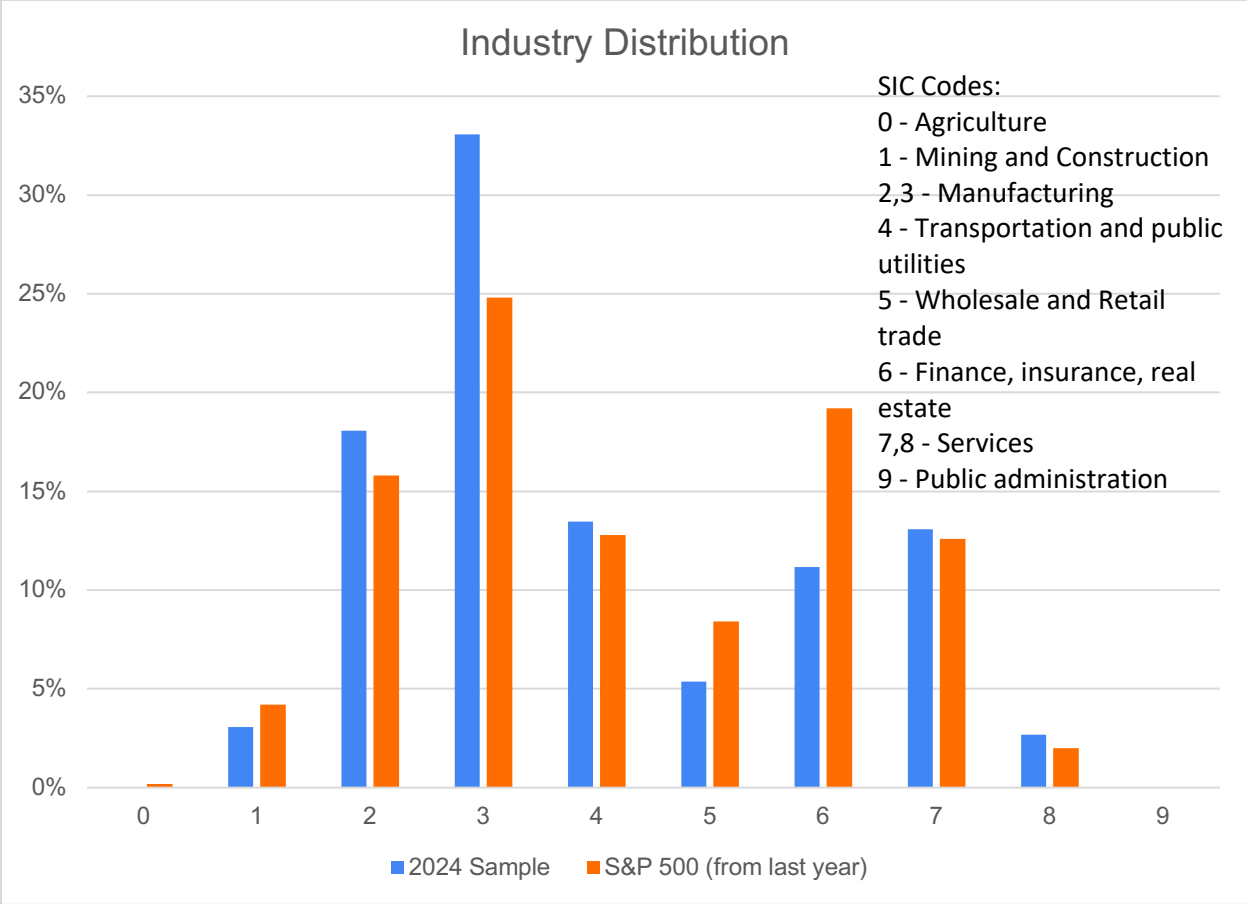
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<sup>1</sup> A pharmaceutical prep firm in SIC 2834 would fall in SIC 2, likewise, a Prepackaged software firm in SIC 7372 would fall into SIC 7.

- Most Stock Based Compensation adjustments come from companies in Manufacturing (SIC 3) and companies in Services (SIC 7).
- Most Impairment adjustments come from companies in Transportation and public utilities (SIC 4).
- Most Litigation adjustments come from companies in Manufacturing (SIC 3) and Wholesale and Retail trade (SIC 5).

### **Industry distribution**

- The 260 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
- Manufacturing firms (SIC 2 and 3) seem to be overrepresented suggesting that non-GAAP adjustments are more common in these industries compared to Finance, insurance, real estate (SIC 6), which is underrepresented.



**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 260 companies). See Table 1 below.

**Table 1: Percent Adjusted by SIC**

	0	1	2	3	4	5	6	7	8	9
<b>Percentage of total Adjustments</b>	0%	1.33%	26.94%	30.67%	12.11%	6.28%	9.86%	11.65%	1.15%	0%
<b>Percentage of firms in sample</b>	0%	3.08%	18.08%	33.08%	13.46%	5.38%	11.15%	13.08%	2.69%	0%

As presented in Table 1, some industries tend to adjust more frequently relative to their sample size, whereas others adjust less frequently. Manufacturing (SIC 2 and SIC 3) seem to adjust more frequently. Finance, insurance, real estate (SIC 6) seems to adjust less frequently relative to their sample size. The less frequent adjustments 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 (Table 2) reveals a different way to examine the adjustments.

**Table 2: Dollars Adjusted by SIC**

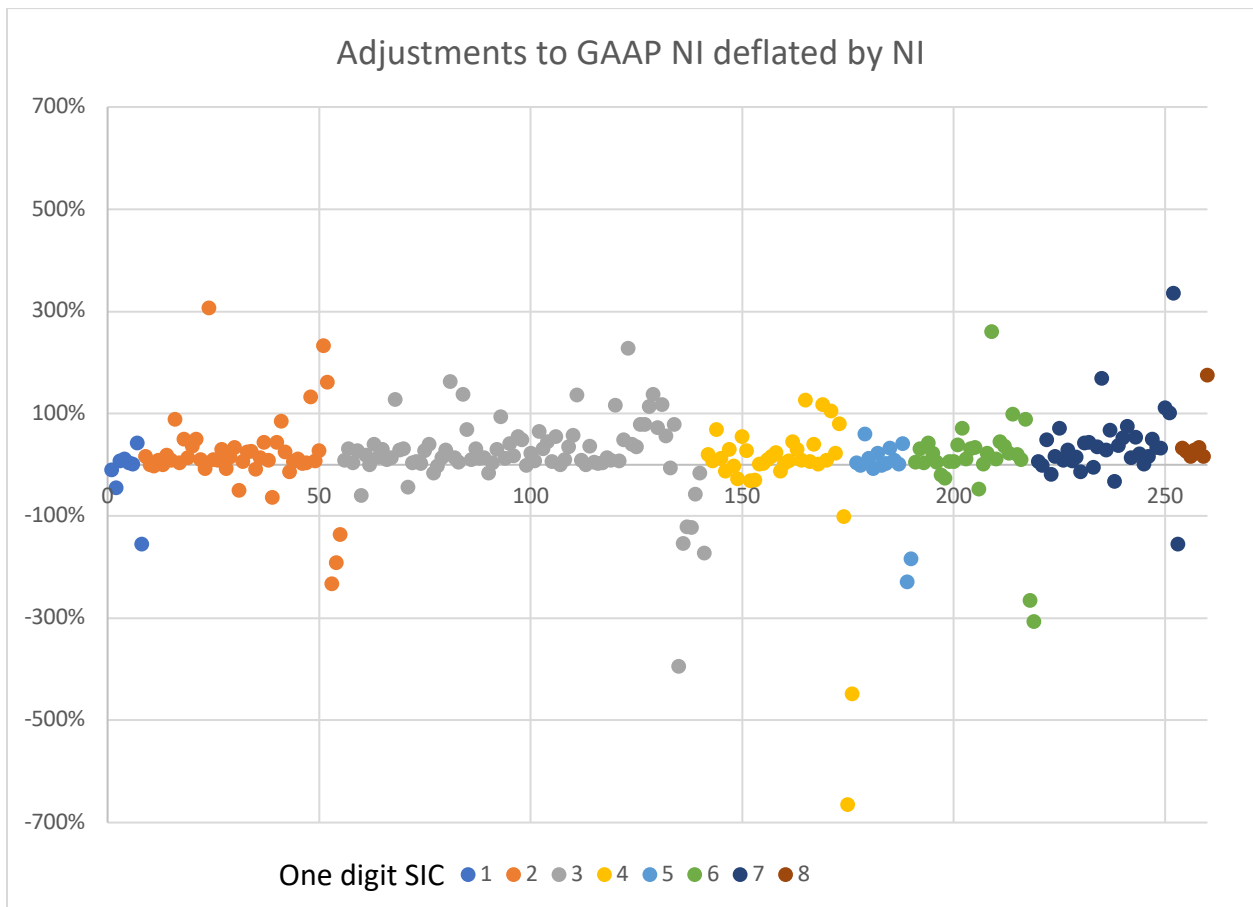
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
<b>Sum of Adjustment (\$ B)</b>	0	2.41	48.90	55.67	21.99	11.40	17.90	21.15	2.09	0
<b>Sum of GAAP Net Income (\$ B)</b>	0	15.83	173.42	172.52	101.11	20.75	91.90	46.20	5.60	0
	0.00%	15.22%	28.20%	32.27%	21.75%	54.94%	19.48%	45.79%	37.25%	0.00%

The table above shows the average adjustment to GAAP Net Income by industry. We can see SIC 5 (Wholesale and Retail trade) adjusts their GAAP Net Income, on average, by more than a half. Finance, insurance, real estate (SIC 6) adjusts less frequently (from the previous table) and adjust GAAP Net Income less. Again, consistent with this industry being regulated, thus not allowing for as many adjustments to GAAP Net Income. Services firms (SIC 7 and SIC 8), although they do not seem to adjust more frequently (from the previous table), make significant adjustments, on average, to the GAAP Net Income (45% and 37%, respectively).

### Positive or negative adjustment

We continue to extend our previous analysis by examining 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. About two thirds of companies show adjustments of up to 50%. About 18% of companies show (positive) adjustments of more than 50% to GAAP Net Income, and about 8% adjusted GAAP net income upwards more than 100%. 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.



## Top firm by industry

In Table 3, we examine the companies with the largest adjustment for each industry.

**Table 3: Largest Firm Adjustments by SIC**

One digit SIC code - Industry	Total adjustment	Percentage of industry total	Companies in sample
<b>1 - Mining and Construction</b>	<b>\$ M</b>		
Newmont Corp.	3,895.00	161.7%	8
<b>2- Manufacturing</b>			
AbbVie Inc.	14,906.00	30.5%	47
<b>3- Manufacturing</b>			
3M Co	12,117.10	21.8%	86
<b>4 - Transportation and public utilities</b>			
Verizon	8,211.45	37.3%	35
<b>5 - Wholesale and Retail trade</b>			
Walgreens Boots Alliance, Inc.	6,519.00	57.2%	14
<b>6 - Finance, insurance, real estate</b>			
MetLife, Inc.	4,159.77	23.2%	29
<b>7 - Services</b>			
Fidelity National Information Services, Inc.	10,309.00	48.7%	34
<b>8 - Services</b>			
Laboratory Corp of America Holdings	734.10	35.2%	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, Mining and Construction (SIC 1)), 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)).

It is interesting to note that in half the cases, the companies with the highest adjustment in their respective industry, had the largest adjustments in their industry last year as well (Newmont Corp., AbbVie Inc., MetLife, Inc., and Fidelity National Information Services, Inc.).

## 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.

Table 4 shows the different categories of adjustments as a percentage of total adjustment amounts for each industry.

**Table 4: Percent Adjustment by SIC**

SIC Code Category of adjustment	1	2	3	4	5	6	7	8	Grand Total
Amortization of Intangibles	12.25%	46.22%	31.64%	18.78%	5.94%	51.85%	21.77%	60.83%	33.32%
Stock Based Compensation	10.16%	2.15%	30.74%	2.44%	0.82%	-0.21%	33.32%	26.97%	14.66%
Restructuring	2.50%	9.03%	13.91%	8.31%	17.73%	18.33%	3.83%	17.52%	11.31%
Merger Acquisition / Divestiture	20.25%	25.14%	16.56%	-0.29%	13.40%	7.02%	6.17%	10.50%	14.46%
Tax Adjustments	-75.76%	-15.89%	-22.75%	1.82%	-24.27%	-37.12%	-21.19%	-36.31%	-20.11%
Impairments	82.72%	26.91%	7.88%	45.00%	25.68%	4.99%	34.63%	19.67%	22.58%
In process R&D	0.00%	0.45%	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.13%
Other	60.48%	6.26%	7.31%	28.86%	4.04%	18.31%	17.56%	1.49%	12.35%
Gain Loss investments incl. Pensions	-12.10%	-0.38%	-9.67%	-9.86%	-19.40%	35.61%	-0.02%	-3.33%	-2.17%
Litigation	-0.50%	0.10%	24.37%	4.93%	76.06%	1.21%	3.91%	2.66%	13.47%
<b>Grand Total</b>	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Some of the results shown in the table seem intuitive. For example, the most significant category for Manufacturing (SIC 2) is Amortization of Intangibles which includes things like Intellectual property, like patents, trademarks and copyrights .



## 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.

Table 5 shows the different industries as a percentage of total adjustment amounts for each category.

**Table 5: Percent Adjustment by Category**

SIC Code Category of adjustment	1	2	3	4	5	6	7	8	Grand Total
Amortization of Intangibles	0.49%	37.38%	29.13%	6.83%	1.12%	15.35%	7.62%	2.10%	100.00%
Stock Based Compensation	0.92%	3.95%	64.30%	2.01%	0.35%	-0.14%	26.49%	2.11%	100.00%
Restructuring	0.29%	21.51%	37.73%	8.91%	9.84%	15.98%	3.95%	1.78%	100.00%
Merger Acquisition / Divestiture	1.86%	46.85%	35.11%	-0.24%	5.82%	4.79%	4.97%	0.83%	100.00%
Tax Adjustments	5.00%	21.28%	34.69%	-1.10%	7.58%	18.20%	12.28%	2.08%	100.00%
Impairments	4.86%	32.11%	10.70%	24.14%	7.14%	2.18%	17.87%	1.00%	100.00%
In process R&D	0.00%	94.42%	5.58%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Other	6.50%	13.66%	18.14%	28.31%	2.06%	14.62%	16.57%	0.14%	100.00%
Gain Loss investments incl. Pensions	7.40%	4.71%	136.70%	55.03%	56.17%	161.86%	0.08%	1.77%	100.00%
Litigation	-0.05%	0.20%	55.47%	4.43%	35.45%	0.89%	3.38%	0.23%	100.00%
<b>Grand Total</b>	1.33%	26.94%	30.67%	12.11%	6.28%	9.86%	11.65%	1.15%	100.00%

The table above shows that Stock Based Compensation adjustments were almost exclusively reported by companies in Manufacturing (SIC 3) and Services (SIC 7). This is a result of some large adjustments made by Cisco Systems, Inc. (CSCO), Nvidia Corp. (NVDA), and Broadcom Inc. (AVGO) from SIC 3 and Intuit Inc. (INTU), and ServiceNow, Inc. (NOW) from SIC 7, totaling over \$11B. Merger Acquisition or Divestiture adjustments were almost exclusively reported by Manufacturing firms (SIC 2 and SIC 3).

In addition, we see that in process R&D were almost exclusively reported by companies in Manufacturing (SIC 2). This is actually a result of a single adjustment by Abbott Laboratories that adjusted their GAAP Net Income by \$222M.

### **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))
- 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 reasoning for these adjustments.

### **About this report**

This report was prepared by Calcbench in collaboration with Suffolk University's Accounting Winternship Class of 2024, led by Associate Dean Tracey Riley and Professor Regina O'Neil. Students participating in the report include: Alexis Aubin, Anem Haider, Daniela Betancur, Elianna Rodriguez, Gyselle Campos, Jack Branson, Jacob Dubin, Julani Perez, Kamila Lopes Cula Cardoso, Melinda Ngo, Michael Graham, Nicolas Nese, Sarah Phan, Trinh Le, and Yamil Muñoz Valdez.