



CALCBENCH

**Operating Lease Disclosures:
Analysis of new reporting standard
among S&P 500**

Background

ASC 842, Leases, is a new accounting standard that went into effect for publicly traded firms at the start of 2019.

- Firms must **report cost of operating leases on balance sheet**, listing those costs as liabilities;
- Must also **add a corresponding right-of-use (ROU) asset** on asset side of balance sheet. **This is the first time firms have reported ROU assets.**
- In theory, assets and liabilities should offset each other;
- In practice, **most companies have discrepancies** one way or the other;
- Some discrepancies are large in absolute terms (billions of dollars) or in relative terms (difference is +/- 50 percent of liabilities);
- Discrepancies can arise from timing differences (pre-payment of leases, for example); or changes in value of ROU assets.

What We Did

Calcbench reviewed operating lease disclosures reported by S&P 500 firms in Q1 2019.

- Examined all operating lease liabilities reported on balance sheet;
- Found matching disclosures for ROU assets;
- Compared the disclosures to find any discrepancies;
- Calculated the value of discrepancies...
 - in absolute dollars: ROU assets - liabilities
 - as a percentage of leasing liabilities: $(\text{assets} - \text{liabilities})/\text{liabilities}$.
- Ranked firms in order of discrepancies, largest to smallest.

What We Found: Summary

Calcbench reviewed leasing disclosures reported by S&P 500 firms in Q1 2019. Only 382 firms in the S&P 500 reported leasing costs and assets on the balance sheet at all.

	ROU Assets	Liabilities	Difference	As Pct.
In Total	\$475,236,044,000	\$495,847,160,000	(\$20,611,116,000)	-4.16%
Average	\$1,253,920,960	\$1,304,860,947	(\$50,939,987)	-3.90%
Median	\$434,000,000	\$446,000,000	(\$12,000,000)	-2.69%

70 firms where ROUs > liabilities.

291 firms where liabilities > ROUs

21 firms where both are equal

Largest Gaps, Absolute Terms

Company	Ticker	ROU Assets	Liabilities	Difference
Verizon Communications	VZ	\$23,105,000,000	\$21,968,000,000	\$1,137,000,000
Crown Castle International Corp	CCI	\$5,969,000,000	\$5,625,000,000	\$344,000,000
HCA Healthcare, Inc.	HCA	\$1,812,000,000	\$1,494,000,000	\$318,000,000
Wynn Resorts Ltd	WYNN	\$444,092,000	\$158,652,000	\$285,440,000
American Tower Corp /MA/	AMT	\$7,080,900,000	\$6,814,500,000	\$266,400,000
United Continental Holdings	UAL	\$5,065,000,000	\$5,784,000,000	(\$719,000,000)
Amazon.com	AMZN	\$20,132,000,000	\$20,881,000,000	(\$749,000,000)
Morgan Stanley	MS	\$3,886,000,000	\$4,653,000,000	(\$767,000,000)
Gap Inc.	GPS	\$5,732,000,000	\$6,526,000,000	(\$794,000,000)
AT&T* (*includes liabilities as disclosed in footnotes)	T	\$20,235,000,000	\$21,325,000,000	(\$1,090,000,000)

Largest Gaps, Relative Terms^{*}

^{*}Defined as (assets - liabilities)/liabilities

Company	Ticker	ROU Assets	Liabilities	Difference
Wynn Resorts Ltd	WYNN	\$444,092,000	\$158,652,000	179.92%
Ventas Inc	VTR	\$359,025,000	\$214,046,000	67.73%
Pinnacle West Capital Corp	PNW	\$193,897,000	\$119,139,000	62.75%
Mid America Apartment Communities	MAA	\$54,300,000	\$33,557,000	61.81%
Equity Residential	EQR	\$434,683,000	\$282,237,000	54.01%
Align Technology Inc.	ALGN	\$56,384,000	\$74,899,000	-24.72%
Aon	AON	\$993,000,000	\$1,330,000,000	-25.34%
Illumina Inc.	ILMN	\$574,000,000	\$770,000,000	-25.45%
Pultegroup Inc.	PHM	\$73,300,000	\$98,462,000	-25.56%
Hilton Worldwide Holdings	HLT	\$916,000,000	\$1,234,000,000	-25.77%

Ballooning Balance Sheets

In July 2018, Calcbench identified firms with largest leasing liabilities (then still reported *off* the balance sheet) and calculated the implied expansion of total liabilities once those leasing costs were reported *on* the balance sheet. The top 10 are below, tracking the actual increase in total liabilities, Q4 2018 to Q1 2019.

Company	Estd. Lease Liabilities Q2-2018 (in millions)	Implied Increase to Total Liabilities	Rptd. Lease Liabilities Q1-2019 (in millions)	Actual Increase in Total Liabilities
Five Star Senior Living	\$1,507.37	456%	\$1,455.13	526%
Potbelly Corp.	\$239.23	447%	\$245.78	478%
Chipotle Mexican Grille	\$2,433.83	357%	\$2,671.57	381%
Diversicare Healthcare Services	\$562.46	349%	\$384.30	334%
Francesca's Holdings Corp.	\$234.96	332%	\$265.43	388%
Five Below	\$752.23	317%	\$744.74	284%
MB Bancorp	\$360.39	308%	Not reported	—
Chuy's Holdings Inc.	\$222.99	269%	\$222.35	298%
Foot Locker	\$3,761.09	261%	\$3,303.00	329%
Vera Bradley	\$170.27	260%	\$140.26	259%

Points to Ponder...

Debt-to-equity ratios. Adding liabilities to the balance sheet could change a firm's debt-to-equity ratio substantially, possibly violating debt covenants with lenders if the firm has not talked with lenders first about the rule change.

Return on assets calculations. Likewise, a firm's return on assets calculation (net income \div total assets) will change solely because of the new standard, without any change in underlying business.

Impairments and earnings manipulation. A firm might impair ROU assets (say, leased in a shopping mall with declining customer traffic), and could even time impairments to manipulate earnings, since impairments would hit net income.

Calcbench will conduct further research on all these issues. Subscribers can use Calcbench now to do their own research on firms they follow.

How Calcbench Can Help

Balance sheet displays. Our [Company-in-Detail database](#) lets you see what a specific firm reports on its balance sheet, including comparables to prior years.

Standardized leasing metrics. Our [Multi-Company database](#) lets you search ‘operating lease right-of-use asset’ or ‘operating lease liability’ to see reported numbers for one or more firms.

Footnote disclosures. Our [Interactive Disclosure database](#) lets you search for any disclosures related to leases (usually listed as ‘Commitments and Contingencies’ or ‘Leasing’) or for specific text related to leasing operations as well.

Also see our [Analysis Guide for Operating, Finance, and Capital Lease Disclosures](#).

A grayscale photograph of a person sitting at a desk in an office, viewed from the side. They are looking at a computer monitor. The scene is dimly lit, with the primary light source being the computer screen. The person is wearing a light-colored shirt. The desk has a keyboard and mouse. In the background, there are office shelves and another person's silhouette.

Thank you, that's all!



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