

Mind the GAAP Gap

When Good Information Goes Bad

Webinar Presentation in partnership with:

NOVEMBER 11, 2020

DAN MAHONEY

Welcome!

Mind the GAAP Gap: When Good Information Goes Bad

Today's Speaker:

Dan Mahoney, CFA, CPA
Head of Industrials Research, CFRA



Dan Mahoney is the Head of Industrials Research for CFRA. He joined CFRA in 2003 as an analyst covering industrial companies. Prior to joining the company, Dan spent four years with Deloitte & Touche's audit and forensic accounting groups.

Dan holds an MBA from the University of Michigan and a BA in Economics and Accounting from the College of the Holy Cross. He previously served as a representative of the investor community on the Financial Accounting Standards Board's Financial Accounting Standards Advisory Council as well as on the International Accounting Standards Board's Capital Markets Advisory Committee.

Non-GAAP Metrics

Companies have historically provided investors with additional information to allow for a better perspective into the ongoing operating results of the company.

The most common adjustments we see in the S&P 500 include:

- Restructuring Expenses
- Impairment
- Amortization of Acquired Intangibles
- Acquisition/Integration Costs
- Stock-based Compensation
- Pension Expense/Income
- Debt Repayment Costs
- Tax items

Just How Common are the Adjustments?

The S&P 500 for FY15*, approximately:

- 67% had some type of adjustment
- 33% had restructuring adjustments
- 25% had impairments
- 20% added back acquired intangibles
- 17% had integration costs added back
- 10% added back stock-based compensation
- 5% had debt prepayment costs added back

*Based on CFRA collection of non-GAAP results.

Increased Regulatory Focus

- Presentation and disclosure of Non-GAAP metrics has gained increased attention from regulators and auditing profession
- Metrics presented in **earnings releases** and **MD&A** are not audited
 - Changes in how metrics are calculated are often not highlighted



The screenshot displays the SEC's website interface. At the top, the SEC logo and name are visible, along with a search bar for SEC documents. A navigation menu includes links for ABOUT, DIVISIONS, ENFORCEMENT, REGULATION, EDUCATION, FILINGS, and NEWS. The left sidebar highlights the 'CORPORATION FINANCE' section, with sub-links for About, Accounting and Financial Reporting Guidance, Compliance and Disclosure Interpretations, Filing Review Process, No-Action, Interpretive and Exemptive Letters, Statutes, Rules and Forms, and Contact Us. The main content area is titled 'Non-GAAP Financial Measures' and shows a last update of May 17, 2016. It explains that Compliance & Disclosure Interpretations ('C&DIs') provide interpretations of SEC rules and regulations regarding non-GAAP financial measures. Below this, a section titled 'QUESTIONS AND ANSWERS OF GENERAL APPLICABILITY' contains 'Section 100. General' and 'Question 100.01'. The question asks if certain adjustments, though not explicitly prohibited, can result in a non-GAAP measure that is misleading. The answer states that such adjustments may violate Rule 100(b) of Regulation G if they cause the presentation of the non-GAAP measure to be misleading, providing an example of a performance measure that excludes normal, recurring, cash operating expenses necessary for a registrant's business.

Increasing Regulatory Focus

Company Settles Charges Over Undisclosed Perks and Improper Use of Non-GAAP Measures

Washington D.C., Jan. 18, 2017

The Securities and Exchange Commission today announced that New York-based marketing company MDC Partners has agreed to pay a \$1.5 million penalty to settle charges that it failed to disclose certain perks enjoyed by its then-CEO and separately violated non-GAAP financial measure disclosure rules...

The SEC's order also finds **improper use of non-GAAP measures**, which are allowed under SEC rules to convey information to investors that a company believes is relevant and useful in understanding performance. But **non-GAAP measures must be accurate and must be reconciled to the appropriate GAAP measures so investors and analysts can compare them**. According to the SEC's order, MDC Partners presented a metric called "organic revenue growth" that represented the company's growth in revenue excluding the effects of two reconciling items: acquisitions and foreign exchange impacts. But from the second quarter of 2012 to year end 2013, **MDC Partners incorporated a third reconciling item into its calculation without informing investors of the change**, which resulted in higher "organic revenue growth" results. MDC Partners also **failed to give GAAP metrics equal or greater prominence to non-GAAP metrics in its earnings releases**.

"The reason these rules are in place is so investors can compare non-GAAP financial measures to those consistently defined under GAAP requirements," said G. Jeffrey Boujoukos, Director of the SEC's Philadelphia Regional Office. "The lack of equal or greater prominence for GAAP measures is a practice that we will continue to focus upon."

Increased Regulatory Focus - Examples

- **Catalent (CTLT)** was requested to recast their prior 3 year performance measures that used cash basis tax effect as opposed to the full income tax consequences for the adjustments as a result of a comment letter from the staff (C&DI 102.11).
- **Activision Blizzard, Inc. (ATVI)** was requested to not recognize deferred revenue and costs from their non-GAAP measure as they were creating an **individually tailored measurement** method recognition (C&DI 100.04).
- **Hexion:** per SEC₁ “**You disclose non-GAAP financial measures more prominently than directly comparable GAAP measures.** In this regard, we note your detailed discussion of net sales adjusted for the impact of dispositions and Segment EBITDA when adjusting for dispositions without discussion of their comparable GAAP measures. We also note that your reconciliation of Segment EBITDA to Net (Loss) Income in Schedule 4 should begin with the Net (loss) income. Please refer to Question 102.10 of the updated Non-GAAP Compliance and Disclosure Interpretations issued on May 17, 2016 and revise future filings accordingly;”

What Makes a Non-GAAP Adjustment Appropriate?

CFRA utilizes the following criteria in assessing the validity of non-GAAP adjustments:

- Provides value-added information
- Clarifies steady state business operations
- Presented and defined consistently across time
- Treats gains and losses equally
- Business model appropriate
- Includes details for outsiders to assess validity
- Well-labeled and defined

A low-angle, upward-looking photograph of several modern skyscrapers with glass and steel facades. The buildings converge towards the top of the frame, creating a sense of height and scale. The sky is a pale, overcast blue.

CFRA

**Part One:
Common Operating
Adjustments**

Restructuring Expenses

Adjustment	Expenses associated with corporate restructurings
Justification	One-time items associated with a change in the business
CFRA View	<ul style="list-style-type: none">▪ A very gray area▪ Supportive of greater detail but...▪ Typically one of the most opaque adjustments used – and overused▪ If you need to restructure every quarter, are you just in the wrong business?

Stock-Based Compensation (SBC) Expense

Adjustment	Expense added back to arrive at adjusted EPS, EBITDA, etc.
Justification	Non-cash, cost of options is reflected in dilution
CFRA View	<ul style="list-style-type: none">▪ SBC represents an economic cost and a choice of form▪ Some dilution is captured in GAAP statements, but GAAP typically underestimates actual dilution▪ If going from GAAP loss to non-GAAP income, are shares adjusted?▪ Analysts – if they add back SBC – should project forward issuance and use future price to more accurately forecast dilution

SBC Expenses

SPRD actually acknowledged a “**voluntary salary deduction exchange for shares program adopted in 2012.**” (per the 20-F) Share-based compensation is *excluded from non-GAAP earnings*:

	Twelve Months ended	
	December 31,	December 31,
	2011	2012
Net income	134,456	93,310
Adjustment for share-based compensation within: Cost of revenue	558	605
Research and development	11,681	19,315
Selling, general, and administrative	4,151	6,145
Net income (non-GAAP)*	150,846	119,375

- Shifting employee compensation from cash to stock provides a boost to non-GAAP earnings.

Pension Adjustments

Adjustment	Three separate types: Curtailment, Accounting Estimate Change, and Mark to Market
Justification	First is a one-time event, second reflects only management estimate change, and final is market movements not correlated to underlying business
CFRA View	<ul style="list-style-type: none">■ Curtailment is acceptable and good disclosure■ Accounting estimate change is valuable information but should not be used – typically only provided when it goes against company■ Mark to market is acceptable but may reduce comparability within a sector

Pension Adjustments: OshKosh Corp. (OSK)

OSK included \$1.8 million of net curtailment charges in H1'13 non-GAAP earnings but excluded \$4.1 of curtailment losses from H1'14 non-GAAP earnings. The Company told CFRA that they evaluate how to treat curtailments each fiscal year, then use that approach for the rest of the year.

	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Adjusted income from continuing operations, net of tax	\$69.0	\$85.9	\$123.9	\$142.6
Reduction of valuation allowance on net operating loss carryforward	12.1	-	12.1	-
Pension curtailment, net of tax	(2.6)	-	(2.6)	-
Debt extinguishment costs, net of tax	(7.0)	-	(7.0)	-
Tender offer and proxy contest costs, net of tax	-	-	-	(10.4)
Income from continuing operations, net of tax (GAAP)	<u>\$ 71.5</u>	<u>\$ 85.9</u>	<u>\$ 126.4</u>	<u>\$ 132.2</u>
Adjusted earnings per share from continuing operations-diluted (non-GAAP)	\$ 0.80	\$ 0.96	\$ 1.44	\$ 1.57
Reduction of valuation allowance on net operating loss carryforward	0.14	-	0.14	-
Pension curtailment, net of tax	(0.03)	-	(0.03)	-
Debt extinguishment costs, net of tax	(0.08)	-	(0.08)	-
Tender offer and proxy contest costs, net of tax	-	-	-	(0.11)
Earnings per share from continuing operations-diluted (GAAP)	<u>\$ 0.83</u>	<u>\$ 0.96</u>	<u>\$ 1.47</u>	<u>\$ 1.46</u>

Source: OshKosh Corp. Q2'14 8-K

Pension Adjustments: OshKosh Corp. (OSK)

The consistent yearly approach to pension adjustments didn't last long...

OSK had a \$4.6 million gain in 2Q14 offset by a \$4.1 million loss with only the loss excluded from non-GAAP results. The next quarter, a \$9.7 million gain was offset by a \$10.7 million loss – with both excluded

	Three Months Ended June 30	
	2014	2013
Adjusted income from continuing operations, net of tax (non-GAAP)	\$ 106	\$ 148
Reduction of valuation allowance on net operating loss carryforward	—	—
Contract pricing adjustment for OPEB costs, net of tax	(6.80)	—
OPEB curtailment gain, net of tax	6.2	—
Pension curtailment loss, net of tax	—	—
Debt extinguishment costs, net of tax	—	—
Tender offer and proxy contest costs, net of tax	—	—
Income from continuing operations, net of tax (GAAP)	\$ 105	\$ 148

	Three Months Ended March 31	
	2014	2013
Adjusted income from continuing operations, net of tax (non-GAAP)	\$ 69	\$ 85.9
Reduction of valuation allowance on net operating loss carryforward	12.1	—
Pension curtailment, net of tax	(2.6)	—
Debt extinguishment costs, net of tax	(7.0)	—
Tender offer and proxy contest costs, net of tax	—	—
Income from continuing operations, net of tax (GAAP)	\$ 72	\$ 85.9

Source: OshKosh Corp. Q2'14 8-K

Pension Adjustments – SEC Comment

Macquarie Infrastructure (MIC)

“We note from your response to prior comment 2 that you will add explanatory disclosure to state that the adjustment labeled “Other non-cash expense (income), net” includes “non-cash adjustments related to pension expense” and that the “non-cash pension expense primarily consists of non-cash interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses.” You further propose to state that “Any cash contribution to pension plans are not included in this non-cash adjustment, but rather are reflected as a reduction to Free Cash Flow.” In prior comment 2, **we noted that this non-GAAP adjustment should not be described as “non-cash” because pension obligations ultimately settle in cash.** Revise the labeling of this adjustment and your description so that this portion of the adjustment to pension expense is not identified as “non-cash.”

Inventory Write-Downs

Adjustment	Adding back one-time expenses associated with excess or obsolete inventory
Justification	Distorts steady state operating results
CFRA View	<ul style="list-style-type: none">■ May be acceptable in some circumstances■ What to watch for:<ul style="list-style-type: none">■ Declining inventory obsolescence expense prior to large write-down■ Excess purchases leading up to inventory write-down

Litigation Expenses

Adjustment	Add-back of one-time litigation expense
Justification	Distorts steady state earnings
CFRA View	<ul style="list-style-type: none">One-time litigation gains and losses should be backed outSome business models – such as multi-level marketing or financial services – are prone to litigation that should be viewed as recurringGains and losses both need to be backed out

Litigation Expenses: AECOM (ACM)

- In the December 2015 quarter, ACM made numerous adjustments to its earnings, yet did not exclude acquisition related project and legal matters, boosting non-GAAP EPS by \$0.07.
- From the December 2015 10-Q: “Net favorable adjustments from acquisition related project and legal matters resulted in \$19.7 million of income during the three months ended December 31, 2015 (\$15.4 million, net of noncontrolling interests).”

	Three Months Ended		
	Dec 31, 2014	Sep 30, 2015	Dec 31, 2015
Net (loss) income attributable to AECOM - per diluted share*	\$ (0.98)	\$ 0.01	\$ (0.13)
Per diluted share adjustments:			
Noncore operating losses	-	-	0.05
Acquisition and integration expenses	0.96	0.51	0.26
Amortization of intangible assets	0.79	0.70	0.48
Loss on disposal	-	-	0.26
Financing charges in interest expense	0.47	0.03	0.03
Tax effect of the above adjustments	(0.40)	(0.23)	(0.23)
Amortization of intangible assets included in NCI, net of tax	(0.04)	(0.07)	(0.04)
Adjusted net income attributable to AECOM - per diluted shares*	<u>\$ 0.80</u>	<u>\$ 0.95</u>	<u>\$ 0.68</u>

Source: AECOM 2015 Q1'15 8-K

Impairment Charges

Adjustment	Adding back impairment charges on a variety of tangible and intangible assets
Justification	Non-cash, one time in nature
CFRA View	<ul style="list-style-type: none">■ Impairment costs are a real economic cost, but...■ They typically represent either accumulated deterioration in the economic value of an asset or changes external to that asset■ CFRA generally backs these costs out of adjusted earnings

A low-angle, upward-looking photograph of several modern skyscrapers with glass and steel facades, reaching towards a bright, overcast sky. The perspective creates a sense of height and architectural grandeur.

CFRA

Part Two: Purchase Accounting

Acquisition or Merger Expenses

Adjustment	Expense associated with an acquisition or merger
Justification	Non-operational and one-time
CFRA View	<ul style="list-style-type: none">Acceptable to identify and adjust for these costs in most casesHowever, if business model involved frequent acquisitions and divestitures, CFRA would not adjustAlso think about time since acquisition and initial estimates

Regulatory View from the SEC on Acquisition or Merger Expenses

- **Barracuda Networks, Inc. (CUDA)** – SEC Comment: You also adjust adjusted EBITDA to exclude "acquisitions and other non-recurring charges". Item 10(e)(1)(ii)(B) of **Regulation S-K prohibits adjusting a non-GAAP financial performance measure to eliminate items identified as non-recurring when the nature of the charge or gain is such that it is reasonably likely to recur within two years or there was a similar charge or gain within the prior two years.** Given the nature of your adjustments for "acquisitions and other non-recurring charges" it appears they would be prohibited under this guidance. Please revise.
- **Allergan plc (AGN)** – SEC Comment: We note that you exclude restructuring program costs, **integration of acquisitions costs**, and legal settlement costs from your adjusted non-GAAP income measure. Please explain to us why these are not normal, recurring, cash operating expenses necessary to operate your business. See Question 100.01 of the updated Non-GAAP Compliance and Disclosure Interpretations issued on May 17, 2016. In your response, please tell us the significant components of each of the expenses for each of the last three years and the latest interim period with comparable amounts for the 2015 interim period.

Acquisition or Merger Expenses

How much time has to pass before it's just a normal expense?

Still incurring \$20 mil per quarter over two years later...

- On November 1, 2017, pursuant to the terms and conditions set forth in the Transaction Agreement entered into with E. I. du Pont de Nemours and Company ("DuPont"), we completed the acquisition of certain assets relating to DuPont's Crop Protection business and research and development ("R&D") organization...

(in Millions)	Three Months Ended March 31,	
	2020	2019
DuPont Crop Protection Business Acquisition		
Legal and professional fees ⁽¹⁾	\$ 13.0	\$ 16.5
Total Transaction-related charges	\$ 13.0	\$ 16.5
Restructuring charges		
DuPont Crop restructuring ⁽²⁾	\$ 7.0	\$ 3.9
Total DuPont Crop restructuring charges	\$ 7.0	\$ 3.9

Source: FMC Corp. March 31, 2020 10-Q filing.

Asset and Liability Step-Ups/Step-Downs

Adjustment	Remove the revenue and cost of goods sold effect of fair value adjustments made during acquisitions
Justification	Does not reflect underlying business economics
CFRA View	<ul style="list-style-type: none">▪ The fair value changes imposed by purchase accounting do distort the economics of the underlying business▪ CFRA recommends making these adjustments in almost all cases▪ Make sure benefits are treated the same as costs

Contingent Consideration

Adjustment	Remove gains and losses associated with re-estimation of contingent consideration in an acquisition
Justification	Does not reflect underlying business economics
CFRA View	<ul style="list-style-type: none">■ CFRA recommends making these adjustments in all cases■ Gains reflect underperformance of target; losses reflect outperformance

Contingent Consideration: OSI Systems (OSIS)

Watch what happens when these gains are not excluded:

\$m	Q1'16, 9/15	Q2'16, 12/15	Q3'16, 3/16	Q4'16, 6/16		FY'14	FY'15	FY'16
Contingent Consideration Revaluations	3.7	0.9	2.5	6.0		2.3	7.3	13.1
Adjusted Operating Income - Reported	15.7	11.9	17.8	15.0		94.1	101.9	60.4
Revaluations as a % of Adj. Operating Income	23.6%	7.6%	14.0%	40.1%		2.4%	7.2%	21.7%
EPS Impact of Revaluations	0.13	0.03	0.09	0.23		0.07	0.26	0.49
Non-GAAP EPS - Reported	0.53	0.40	0.64	0.55		3.13	3.53	2.11
Revaluations as a % of Non-GAAP EPS	24.7%	8.0%	14.4%	42.5%		2.3%	7.4%	23.2%

	Q1'16, 9/15	Q2'16, 12/15	Q3'16, 3/16	Q4'16, 6/16	Q1'17E, 9/16	Q2'17E, 12/16	Q3'17E, 3/17	Q4'17E, 6/17
Non-GAAP EPS Reported	0.53	0.40	0.64	0.55	0.36	0.59	0.79	0.90
YoY Growth					-32.1%	47.5%	23.4%	63.6%
Less: EPS Impact of Revaluation	(0.13)	(0.03)	(0.09)	(0.23)				
Non-GAAP EPS ex Revaluations	0.40	0.37	0.55	0.32	0.36	0.59	0.79	0.90
YoY Growth					-9.8%	60.3%	44.3%	184.8%

Source: CFRA, OSI Systems

Purchased Intangible Amortization

Adjustment

Strips out amortization of purchased intangibles

Justification

Intangibles that exist only because of fair value mark on acquisition

CFRA View

- CFRA does not generally support adding back purchased intangible amortization
- Reflects significant cash outlay for a developed asset and reflects that cost
- This is particularly true where business model reflects purchase of developed assets vs. internal development

Purchased Intangibles (& Everything Else Too) – Valeant (VRX)

A good summary of what we've discussed.....

	6 months ended June 30 2015	6 months ended June 30 2014
(In millions)		
Net income (Loss) attributable to Valeant Pharmaceuticals International, Inc.	20.7	103.2
Non-GAAP adjustments (a):		
Inventory step-up (b)	70.5	9.6
PP&E step-up/down ©	15.3	9.5
Stock-based compensation (d)	1.6	4.3
Acquisition-related contingent consideration (e)	18.8	10.8
In-process research and development impairments and other charges (f)	12.3	20.4
Other-income/expense (g)	183	-43.7
Restructuring, integration, acquisition-related and other costs (h)	217.7	277.8
Amortization and impairments of finite-lived intangible assets and other non-GAAP charges (i)	956.7	744.7
	1475.9	1033.4
Amortization of deferred financing costs, debt discounts and ASC 470-20 -FSP APB 14-1 interest (j)	111.2	23.4
Loss on extinguishment of debt	20	93.7
(Gain) loss on disposal of fixed assets and assets held for sale/impairment, net	0.5	0.8
Foreign exchange and other (k)	65.6	7.2
Tax (l)	12.5	-11.4
Total adjustments	1,685.7	1,147.1
Adjusted net income attributable to Valeant Pharmaceuticals International, Inc.	1706.4	1250.3
GAAP earnings (loss) per share - diluted	0.06	0.3
Cash earnings per share - diluted	4.92	3.66
Shares used in diluted per share calculation - GAAP earnings per share	347.1	341.4
Shares used in diluted per share calculation - Cash earnings per share	347.1	341.4

Source: Valeant Q4'16 8-K



**Part Three:
Other Adjustments
& Metrics**

Other Frequent Adjustments

- Tax items
- Gain/Losses on Asset Sales
- Fixed income - debt retirement/non-cash interest
- Derivatives
- Financial asset gains/losses – equity investments, etc.

Cash Flow

- Most common adjustments:
 - Cash restructuring/acquisition costs
 - Pension contributions
 - “One-time” or unusual capex
 - Sales of equipment/property
 - Environmental/legal payments (i.e. asbestos)
 - Securitization/Factoring
- Evaluate using same thought process as earnings items

KPIs

- Serve same purpose as non-GAAP figures, to present an alternative measure of performance
- Include same-store-sales, bookings, users, subscribers, etc.
- KPIs can be helpful, but they can also be used to deflect attention away from more problematic audited financial figures.

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades, reaching towards a bright, overcast sky. The perspective creates a sense of height and architectural scale.

CFRA

Part Four: What to Watch For

High Level, What to Watch For

- Persistent charges labeled “special”, “one-time”, etc.
- Inconsistent treatment of similar items
- Inconsistent treatment of gains and losses
- Changes in focus of management presentation
- Non-traditional or inconsistent definitions of metrics
- Divergence between Non-GAAP and GAAP

EBITDA and Capitalized Expenses

- Capitalized costs are depreciated and amortized
- Companies that use EBITDA have an incentive to capitalize expenses
- Understand which expenses a company has that could be capitalized
- Watch for unexplained increases in capex

EBITDA and Capitalized Expenses

- Under new revenue recognition standards, sales commissions are capitalized (ASC 606) rather than expensed (ASC 605)
- Margins substantially higher under new accounting

	As reported, ASC 605			Restated, ASC 606		
In mils. of USD, ex %	FY'15	FY'16	FY'17	FY'15	FY'16	FY'17
Sales and Marketing Difference	139.9	192.5	260.1	131.6 (8.3)	180.1 (12.4)	240.2 (19.8)
Revenue Difference	296.2	379.7	501.5	296.3 0.0	380.4 0.7	503.6 2.1
Sales & Marketing / Revenue Difference	47.2%	50.7%	51.9%	44.4% -2.8%	47.3% -3.3%	47.7% -4.2%
Non-GAAP Operating Margin Difference	-2.3%	1.9%	3.2%	0.5% 2.8%	5.4% 3.5%	7.5% 4.3%

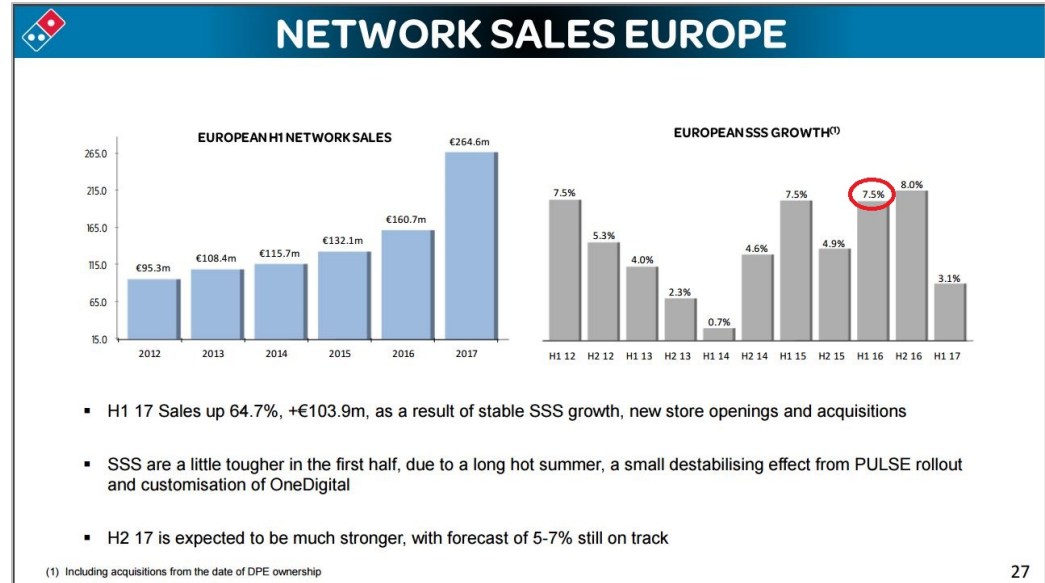
Source: CFRA, RingCentral Inc. SEC filings

Subtle Metric Changes: Pandora (PNDORA-DK)

- Same-store Sales are one of the key non-GAAP metrics for retail companies.
- Changed its like-for-like calculation twice in one year:
 - Pre-March 2016: LFL Sales-Out (i.e., sell-through at all concept stores, excluding ecommerce sales) for the US, UK, Germany, and Australia
 - Mar-Nov 2016: LFL Sales-Out (i.e., sell-through at all concept stores, excluding ecommerce sales) for Americas, EMEA, APAC, and World-wide – comparable data was provided for 1Q14-4Q15
 - Post-Nov 2016: LFL Sales-Out will include e-commerce sales for Americas, EMEA, APAC, and World-wide – no historical comparables provided

Inconsistent Presentation: Domino's Australia

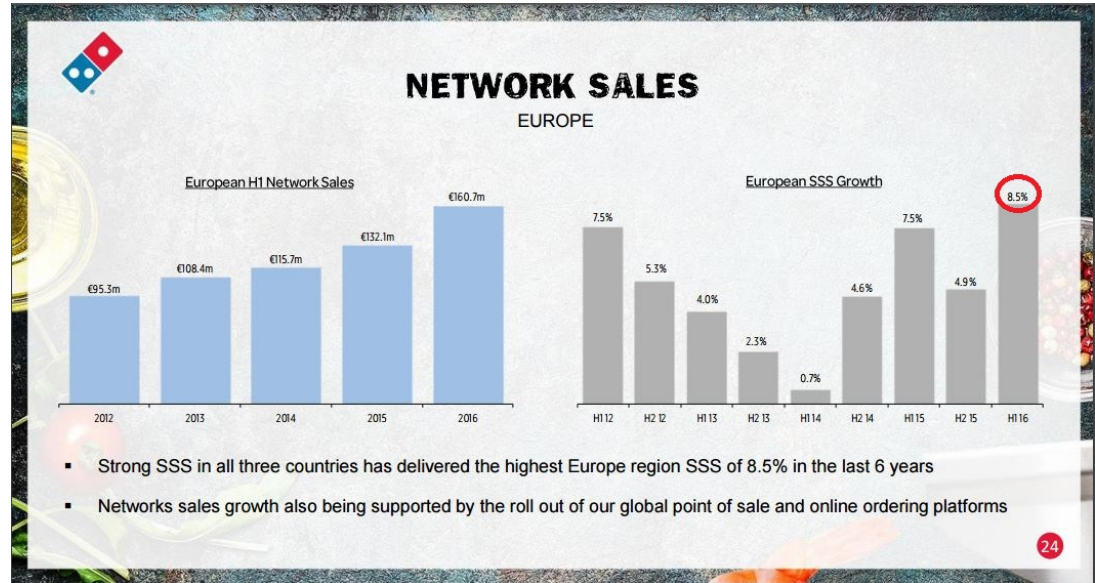
- In 2H16, Domino's Australia made an error in presenting 1H16 and 2H16 SSS Sales Growth, so they corrected the calculation error for 1H17 – but not 1H16 or 2H16, leaving the misstated figures in place



Source: Dominos FY17 - Half-Year Results

Inconsistent Presentation: Domino's Australia

- Here's the 1H16 Presentation – with the correct figure



Source: Dominos FY16 - Half-Year Results

Selectively Excluding Items for Non-GAAP EPS

Triumph Group, Inc. (TGI) excluded \$161.4 million and \$152.0 million of 747-8 program forward losses from its non-GAAP EPS in the March 2016 and December 2014 quarters, respectively.

Three Months Ended March 31, 2016

	<u>Pre-Tax</u>	<u>After-Tax</u>	<u>Diluted EPS</u>
Loss from Continuing Operations - GAAP	\$ (1,201,271)	\$ (1,079,702)	\$ (21.93)
Adjustments:			
Goodwill/Tradename impairment	645,161	596,054	12.08
Bombardier Global 7000/8000 program impairment	399,758	246,428	5.00
747-8 forward loss	161,400	99,494	2.02
Restructuring charges	75,596	46,601	0.94
Other inventory impairments	34,353	21,177	0.43
Legal settlements, net	(6,924)	(4,268)	(0.09)
Curtailment (gain) loss	(4,107)	(2,532)	(0.05)
Valuation allowance	-	142,093	2.88
Adjusted Income from continuing operations - non-GAAP	\$ 103,966	\$ 65,345	\$ 1.32

Source: Triumph Group Inc. Q1'16 8-K

Selectively Excluding Items for Non-GAAP EPS

However, in the September 2016 quarter, TGI reversed \$36.8 million of the previously recognized 747-8 program forward losses and did not exclude the gain from non-GAAP EPS or even mention it in its earnings release.

Three Months Ended September 30, 2016

	<u>Pre-Tax</u>		<u>After-Tax</u>		<u>Diluted EPS</u>
Income from Continuing Operations - GAAP	\$ 52,590	\$	34,807	\$	0.70
Adjustments:					
Loss on divestiture	4,774		4,774		0.10
Restructuring costs (non-cash)	3,740		2,581		0.05
Restructuring costs (cash)	10,462		7,219		0.15
Adjusted Income from continuing operations - non-GAAP	<u>\$ 71,566</u>	<u>\$</u>	<u>49,381</u>	<u>\$</u>	<u>1.00</u>

Source: Triumph Group Inc. Q3'16 8-K

Things That Probably Should be Backed Out (OMCL)

- In the fourth quarter of 2018, [OMCL] recorded out-of-period adjustments to correct errors originating in previous periods. **For the three months ended December 31, 2018, the adjustments increased income before provision for income taxes by \$3.7 million and net income by \$2.9 million.** Included in the out-of-period adjustments is a \$2.6 million decrease in selling, general, and administrative expenses to correct purchase price accounting and integration activity for businesses acquired prior to 2018, **and a \$1.1 million increase in revenues and decrease in deferred revenues to correct misstatements originating in the first nine months of 2018.** Management concluded the out-of-period adjustments are not material, individually or in the aggregate, to the three months ended December 31, 2018, or to any previously issued interim consolidated financial statements. (Emphasis added by CFRA)
 - Benefit to adjusted operating income was 10.8%
 - Benefit to operating margin was about 176 bps
 - Maybe this adjustment should have been given more airtime than a footnote in the 8-K stating that these adjustments occurred & were “not material to any previously issued financial statement”?

Source: CFRA, Omnicell, Company filings

Nielsen: Questionable Non-GAAP Adjustments & Calculations

NLSN used cash taxes paid to calculate non-GAAP EPS until Q4'16.

	Three Months Ended September 30, 2016 (Unaudited)	
	Total amounts	Per share amounts / impact (on a diluted basis)
(IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA)		
Net income	\$ 132	\$ 0.36
Provision for income taxes	82	0.23
Other non-operating income, net	(2)	(0.01)
Restructuring charges	29	0.08
Depreciation and amortization associated with acquisition-related tangible and intangible assets	53	0.16
Equity in net loss of affiliates	—	—
Cash paid for income taxes	(39)	(0.11)
Other items(a)	11	0.03
Adjusted net income	\$ 266	\$ 0.74
Weighted-average shares of common stock outstanding, basic	357,088,498	
Dilutive shares of common stock from stock compensation plans	3,486,309	
Weighted-average shares of common stock outstanding, diluted.	360,574,807	

Source: NLNS 8-K SEC filing (Q3'16 earnings press release) filed on October 25, 2016. Emphasis added by CFRA.

Nielsen: Questionable Non-GAAP Adjustments & Calculations, cont.

NLSN's FY'16 non-GAAP earnings would be an estimated 28% lower than reported using its effective tax rate and after tax effecting its non-GAAP adjustments.

NLSN	FY'15	FY'16
GAAP effective tax rate	39.9%	37.9%
Non-GAAP cash tax rate	14.0%	13.5%
Non-GAAP income as reported	975	1,008
Plus: cash taxes paid	159	157
(Less) GAAP provision for income taxes	(383)	(309)
(Less) Est. tax effect of non-GAAP adjustments	(69)	(132)
CFRA adj. NLSN non-GAAP income	682	724
Non-GAAP EPS as reported	\$ 2.63	\$ 2.78
CFRA adj. NLSN non-GAAP EPS	\$ 1.84	\$ 2.00
<i>% above / (below) reported</i>	<i>-30.0%</i>	<i>-27.9%</i>

Source: Company Reports, CFRA

Q&A

Thank you!

Mind the GAAP Gap: When Good Information Goes Bad

Dan Mahoney, CFA, CPA

Forensic Equity Analyst, Head of
Industrial Research, CFRA

Francesco Rezzi

Sales & Account Manager, CFRA
Francesco.rezzi@cfraresearch.com

For more information or for a
copy of today's presentation,
please contact us at
cservices@cfraresearch.com,
or visit our website at
www.cfraresearch.com.

For more information
+1 800.220.0502 | cservices@cfraresearch.com

Disclosures

The content of this Presentation and the opinions expressed herein are those of CFRA based upon publicly-available information that CFRA believes to be reliable but are subject to change without notice. This Presentation has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. While CFRA exercised due care in compiling this Presentation, CFRA AND ALL RELATED ENTITIES SPECIFICALLY DISCLAIM ALL WARRANTIES, EXPRESS OR IMPLIED, to the fullest extent permitted by law, regarding the accuracy, completeness, or usefulness of the information contained herein and assumes no liability with respect to the consequences of relying on this information for investment or other purposes. No content herein (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of CFRA. This Presentation shall not be used for any unlawful or unauthorized purposes. CFRA and its third-party providers, as well as its and their directors, officers, shareholders, employees or agents, do not guarantee the accuracy, completeness, timeliness or availability of this Presentation.

CFRA's primary financial data provider is S&P Global Market Intelligence. FOR RECIPIENT'S INTERNAL USE ONLY.

Certain information in this presentation is provided by S&P Global, Inc. and/or its affiliates and subsidiaries (collectively "S&P Global"). Such information is subject to the following disclaimers and notices: "Copyright © 2020, S&P Global Market Intelligence (and its affiliates as applicable). All rights reserved. Nothing contained herein is investment advice and a reference to a particular investment or security, a credit rating or any observation concerning a security or investment provided by S&P Global is not a recommendation to buy, sell or hold such investment or security or make any other investment decisions. This may contain information obtained from third parties, including ratings from credit ratings agencies. Reproduction and distribution of S&P Global's information and third party content in any form is prohibited except with the prior written permission of S&P Global or the related third party, as applicable. Neither S&P Global nor its third party providers guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such information or content. S&P GLOBAL AND ITS THIRD PARTY CONTENT PROVIDERS GIVE NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE AND ALL S&P INFORMATION IS PROVIDED ON AN AS-IS BASIS. S&P GLOBAL AND ITS THIRD PARTY CONTENT PROVIDERS SHALL NOT BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, EXEMPLARY, COMPENSATORY, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES, COSTS, EXPENSES, LEGAL FEES, OR LOSSES (INCLUDING LOST INCOME OR PROFITS AND OPPORTUNITY COSTS OR LOSSES CAUSED BY NEGLIGENCE) IN CONNECTION WITH ANY USE OF THEIR INFORMATION OR CONTENT, INCLUDING RATINGS. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes and should not be relied on as investment advice."

CFRA, CFRA Accounting Lens, CFRA Legal Edge, CFRA Score, and all other CFRA product names are the trademarks, registered trademarks, or service marks of CFRA or its affiliates in the United States and other jurisdictions. CFRA Score may be protected by U.S. Patent No. 7,974,894 and/or other patents. Copyright © 2020 CFRA. All rights reserved.



For more information
+1 800.220.0502 | cservices@cfraresearch.com

Disclosures, continued.

This Presentation is published and originally distributed by Accounting Research & Analytics, LLC d/b/a CFRA ("CFRA US"), with the following exceptions: In the UK/EU/EEA, it is published and originally distributed by CFRA UK Limited (company number 08456139 registered in England & Wales with its registered office address at New Derwent House, 69-73 Theobalds Road, London, WC1X 8TA, United Kingdom), which is regulated by the Financial Conduct Authority (No. 775151), and in Malaysia by CFRA MY Sdn Bhd having Company No. 683377-A and regulated by Securities Commission Malaysia, No. CMSL/A0181/2007 ("CFRA Malaysia"). CFRA Malaysia is a wholly-owned subsidiary of CFRA US. These parties and their subsidiaries maintain no responsibility for CFRA reports or materials redistributed by third parties such as brokers or financial advisors.

Past performance is not necessarily indicative of future results. This Presentation may contain forward-looking statements or forecasts; such forecasts are not a reliable indicator of future performance.

This Presentation is not intended to, and does not, constitute an offer or solicitation to buy and sell securities or engage in any investment activity. This Presentation is for informational purposes only. Recommendations in this Presentation are not made with respect to any particular investor or type of investor. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors and this material is not intended for any specific investor and does not take into account any investor's particular investment objectives, financial situations or needs. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

Additional information on a subject company may be available upon request.

The Global Industry Classification Standard (GICS®) was developed by and/or is the exclusive property of MSCI, Inc. and S&P Global Market Intelligence. GICS is a service mark of MSCI and S&P Global Market Intelligence and has been licensed for use by CFRA.

Copyright © 2020 CFRA. All rights reserved. CFRA and STARS are registered trademarks of CFRA.

