BLOG POST

The Devil in the Details

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If you are a long time reader of the PCM Report, you are familiar with the nuances of how earnings per share (EPS) can be reported, coupled with how these nuances can drive stock prices. Publicly traded U.S. companies report earnings using generally accepted accounting principles (GAAP). Some companies also report non-GAAP earnings. Non-GAAP earnings can give a more in depth picture of what is driving earnings, particularly in terms of operations. The issue with non-GAAP earnings is that they are not standardized, leaving wiggle room for companies to use non-GAAP earnings when they are beneficial to earnings reports. It takes a very well-trained, careful eye to determine the most accurate reflection of earnings, as analysts set out to determine the potential earnings have in driving a stock price up or down.

- Since 2016, 73% of companies in the Dow Jones Industrial Average have reported non-GAAP EPS (Factset).
- Since 2016, 75% of companies of companies in the DJIA reported non-GAAP EPS that exceeded GAAP EPS (Factset).
- Among DJIA constituents, Walt Disney Company led the delta between Non-GAAP EPS and GAAP EPS with a 148% difference.
- The top five companies showing the greatest difference between GAAP and non-GAAP EPS drops off with United Technologies at #5 with a 66.2% difference.

DJIA: Top Five Non-GAAP EPS > GAAP EPS for Q3 2019

COMPANY	TICKER	NON-GAAP EPS	GAAP EPS	DIFFERENCE (%)
Walt Disney Company	DIS	1.07	0.43	148.8%
Merck & Co., Inc.	MRK	1.51	0.74	104.1%
Dow, Inc.	DOW	0.91	0.45	102.2%
Walgreens Boots Alliance Inc	WBA	1.43	0.75	90.7%
United Technologies Corporation	UTX	2.21	1.33	66.2%

Source: Factset