Y-CG Research
Market note

October 2026

TOPICS
Non-GAAP
Earnings quality
Disclosure

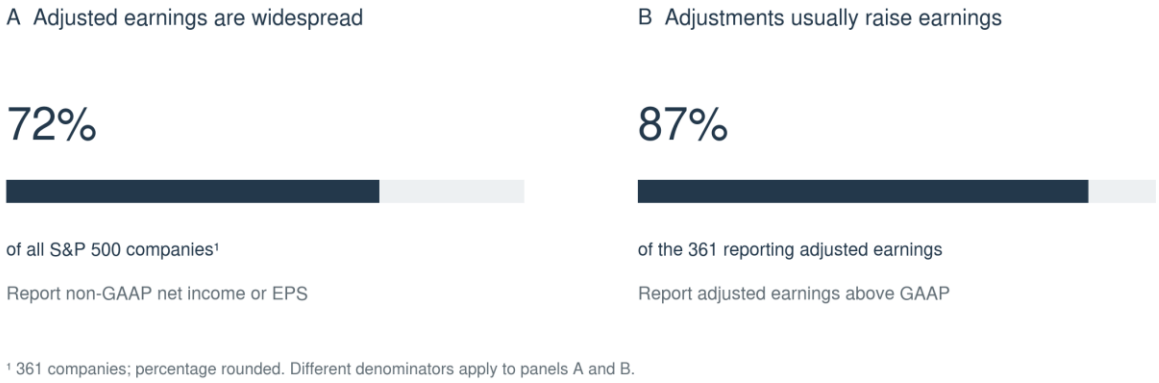
Gaps in GAAP

Behind adjusted earnings lies another story: what was excluded, and why it matters.

A July 2026 study found that 72% of S&P 500 companies reported adjusted net income or earnings per share. Most reported a higher adjusted figure. The resulting $271 billion gap puts management's choice of exclusions at the centre of how investors assess performance.[1]

The word "adjusted" has become a routine part of an earnings announcement. That does not make it a small qualification. It signals that management has changed the basis on which performance is being presented, and the difference can be material.

Exhibit 1 Adjusted earnings are the norm across the S&P 500



Based on Calcbench and Suffolk University, FY2025 earnings study published July 2026.[1] Percentages rounded; panel B is conditional on reporting adjusted net income or EPS.

A smaller gap remains a substantial gap

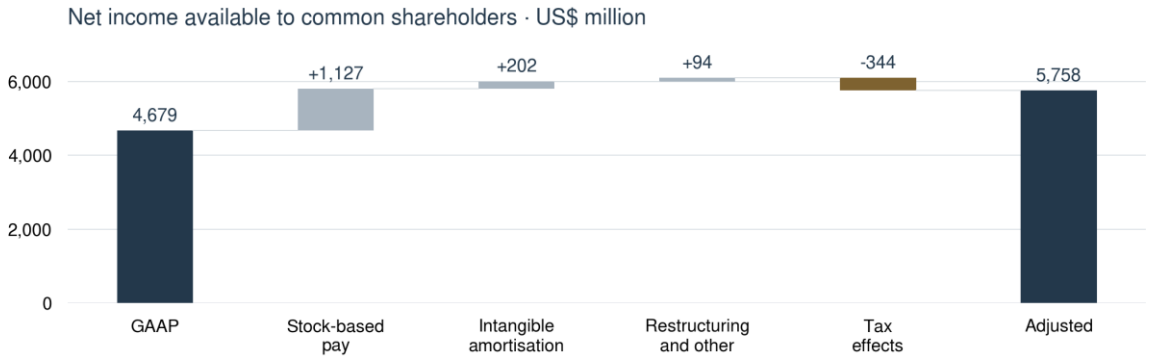
The earnings uplift was approximately 23%, compared with roughly 30% in FY2024. The gap narrowed, but adjusted reporting remained commonplace. These findings concern adjusted net income or EPS, rather than the use of every type of non-GAAP measure.[1]

The governance issue begins with the choice of exclusions. A reconciliation makes those choices visible; it does not settle whether they give a faithful account of performance. Investors still have to decide which costs belong in their assessment of the business.

What sits between the two numbers

Oracle's September 10 release provides a recent example. For the quarter ended August 31, adjusted income available to common shareholders exceeded GAAP income by $1.079 billion. The bridge below shows exactly how.[2]

Exhibit 2 Oracle adds $1.079 billion to quarterly earnings after tax



Based on Oracle, Q1 FY2027 reconciliation, p. 2 of the financial tables (PDF p. 6).[2] Tax effects reduce the uplift. Figures are company-reported; inclusion is not an allegation of improper reporting.

Stock-based pay is the largest add-back. It was $1.127 billion, almost unchanged from $1.124 billion a year earlier. Removing a non-cash expense does not remove the economic cost of compensating employees with equity. Amortisation and restructuring raise different questions about acquisition costs and whether supposedly exceptional expenses recur.

The comparison also cuts both ways: Oracle's adjusted EPS was higher, but grew 30%, versus 55% for GAAP EPS. A higher earnings level does not necessarily mean faster growth.[2]

Non-GAAP measures can clarify operating performance. Their usefulness depends on the exclusions, their consistency over time and the economic question being asked. Once adjusted earnings become routine, scrutiny of the adjustments should become routine too.

REFERENCES

[1] Calcbench. (2026, July 7). Special report: Non-GAAP adjustments in 2025. Study conducted with Suffolk University.

[2] Oracle Corporation. (2026, September 10). Q1 fiscal 2027 financial results. Reconciliation of selected GAAP measures to non-GAAP measures.

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