



**CALCBENCH**

# **Making Money While Losing Money: Firms With NOLs and Growing Pretax Income**

June 2020

# NOLs: Background

**Net operating losses (NOLs)** are operating losses from one fiscal year that firms are allowed to carry on the books and apply against profits in another fiscal year, to lower taxable income.

NOLs arise when (1) a firm incurs a loss through regular operations; or (2) one firm acquires another that is carrying NOLs on the books. And sometimes it takes some sleuthing to figure out why!

- NOLs can be carried forward and applied to taxable income from future years, which lowers the tax bill the company needs to pay in those latter years; or
- Thanks to the CARES Act of 2020, they also can be carried backward and applied to taxable income from prior years, resulting in a refund to the firm;
- NOLs are carried on the books cumulatively; the total changes annually as the firm records new NOLs or applies some of the total to a current year's taxable income.

# NOLs: Background

But can a firm record growing NOLs  
while also recording growth in pretax income?

**YES.**

# What We Did

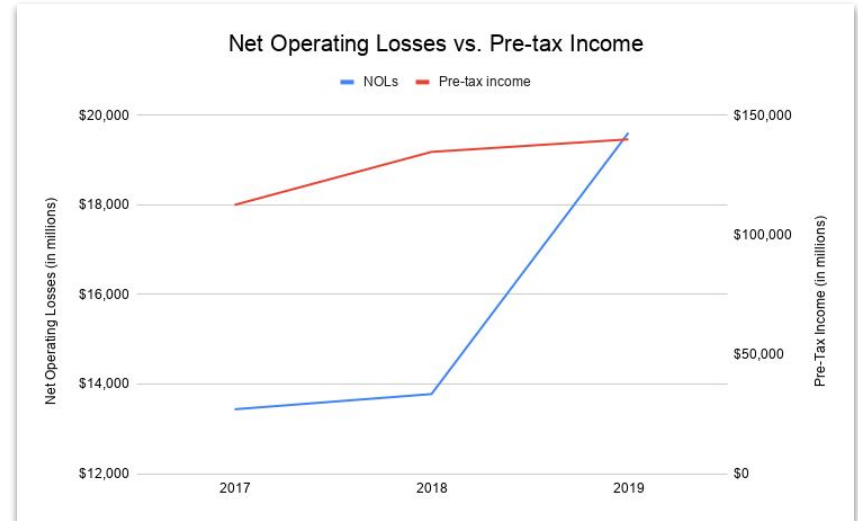
Calcbench screened non-financial firms in the S&P 500 to find companies that...

- Had NOLs that grew from fiscal 2017 through 2019; **and also**
- Reported positive pre-tax income during the same three years

## The Result: 28\* Firms Fitting the Profile

Combined, the firms' NOLs rose 45.9 percent from \$13.4 billion in 2017 to \$19.6 billion in 2019.

At the same time, pre-tax income rose 24.4 percent, from \$112.4 billion in 2017 to \$139.9 billion in 2019.



\* Financial firms excluded (i.e. SIC codes 6000 to 6999)

# Examples of NOL, Pretax Income Growth

Firm	Ticker	NOLs 2018	NOLs 2019	NOL Growth in 2019	Pretax Income 2019
Hanesbrands	HBI	\$38,528,000	\$39,058,000	\$530,000	\$679,727,000
Intuit	INTU	\$16,000,000	\$42,000,000	\$26,000,000	\$1,881,000,000
Edwards Lifesciences	EW	\$9,600,000	\$47,200,000	\$37,600,000	\$1,166,500,000
Google	GOOG	\$1,200,000,000	\$1,800,000,000	\$600,000,000	\$39,625,000,000
Facebook	FB	\$7,880,000,000	\$9,060,000,000	\$1,180,000,000	\$24,812,000,000
Intel Corp.	INTC	\$246,000,000	\$427,000,000	\$181,000,000	\$24,058,000,000
Yandex N.V.	YNDX	\$50,400,000	\$60,700,000	\$10,300,000	\$289,900,000
Global Payments	GPN	\$38,600,000	\$41,600,000	\$3,000,000	\$517,925,000
Honeywell International	HON	\$9,000,000	\$16,000,000	\$7,000,000	\$7,559,000,000
Ball Corp.	BLL	\$81,000,000	\$107,000,000	\$26,000,000	\$608,000,000

# Fiserv (Acquisition Example)

One example is **Fiserv** (\$FISV), which saw its net operating losses increase from \$27 million in 2018 to \$1.67 billion in 2019, even while the firm had pretax income in both years.

That increase in NOLs, in all likelihood, came almost entirely from Fiserv's acquisition of **First Data Corp.** (ticker:FDC) in July 2019, which had \$1.69 billion in NOLs on its books at year-end 2018. See Fig. 1, below.

So NOL growth can happen even while a firm is earning money, thanks to certain acquisition strategies.

Period Ending: 12/31/2018 | From: 10-K Filed On: 2/27/2019 | First Data Corp (FDC) | Income Taxes

The following table outlines the principal components of deferred tax items:

(in millions)	As of December 31,	
	2018	2017
Deferred tax assets related to:		
Reserves and other accrued expenses	\$ 139	\$ 66
Employee related liabilities	112	121
Deferred revenues	16	30
Net operating losses and tax credit carryforwards	1,693	2,281
U.S. foreign tax credits on undistributed earnings	48	39
Foreign exchange loss	2	—
Total deferred tax assets	2,010	2,537

# Facebook

In contrast, **Facebook** (\$FB) saw its NOLs grow from \$7.88 billion in 2018 to \$9.06 billion in 2019— **a rise of \$1.18 billion, or 15 percent.** At the same time, its pretax income in 2019 was \$24.8 billion.

Facebook had *no material acquisitions* in 2019, so how did this happen? **Facebook only offers narrative disclosure in the footnotes.** The math is unexplained — or is it?

Let's explore other possible sources for NOLs.

2018:

As of December 31, 2018, the U.S. federal and state net operating loss carryforwards were \$7.88 billion and \$2.22 billion, which will begin to expire in 2033 and 2032, respectively, if not utilized. We have federal tax credit carryforwards of \$290 million, which will begin to expire in 2033, if not utilized, and state tax credit carryforwards of \$1.91 billion, most of which do not expire.

Utilization of our net operating loss and tax credit carryforwards may be subject to substantial annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitations could result in the expiration of the net operating loss and tax credit carryforwards before their utilization. The events that may cause ownership changes include, but are not limited to, a cumulative stock ownership change of greater than 50% over a three-year period.

2019:

As of December 31, 2019, the U.S. federal and state net operating loss carryforwards were \$9.06 billion and \$2.37 billion, which will begin to expire in 2033 and 2027, respectively, if not utilized. We have federal tax credit carryforwards of \$357 million, which will begin to expire in 2029, if not utilized, and state tax credit carryforwards of \$2.28 billion, most of which do not expire.

Utilization of our net operating loss and tax credit carryforwards may be subject to substantial annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitations could result in the expiration of the net operating loss and tax credit carryforwards before their utilization. The events that may cause ownership changes include, but are not limited to, a cumulative stock ownership change of greater than 50% over a three-year period.

# Facebook - Maybe PP&E?

Look at Facebook's note on deferred tax liabilities. Those grew from \$1.6 billion in 2018 to \$4.3 billion in 2019. The increase was mostly driven by depreciation & amortization and right-of-use assets. See Fig. 2, below.

The depreciation & amortization are likely due to a spike in Property, Plant & Equipment; the ROU assets are due to new accounting rules. Both can have the effect of pushing taxable income down and leading to an NOL for tax reporting purposes, even if pretax income under GAAP remains high.

Those two items alone don't explain all the growth in net operating losses, but they **could** be contributors to it.

Fig. 2

Deferred tax liabilities:		
Depreciation and amortization	(2,387)	(1,401)
Right-of-use assets	(1,910)	—
Purchased intangible assets	=	(195)
Total deferred tax liabilities	(4,297)	(1,596)
Net deferred tax assets	\$ 1,156	\$ 1,207



# Facebook - Maybe Subsidiaries?

We also know Facebook [has 30 subsidiaries around the world](#), including six in Ireland, considered an offshore tax haven:

- Edge Network Services Ltd.
- Facebook International Operations Ltd.
- Facebook Ireland Holdings Unlimited
- Facebook Ireland Ltd.
- FCL Tech Ltd.
- Runways Information Services Ltd.

What are the revenues, pre-tax income, and net income for those subsidiaries? Facebook doesn't disclose. It only reports operating segments as seen in Fig. 3, below.

Entity	Segment	Geographical Segment - Revenue Y-2019	Geographical Segment - Long Lived Assets Y-2019
Facebook Inc (FB)	US & Canada	\$32,206,000,000	
Facebook Inc (FB)	Rest Of World	\$6,259,000,000	
Facebook Inc (FB)	Asia Pacific	\$15,406,000,000	
Facebook Inc (FB)	UNITED STATES	\$30,230,000,000	\$35,858,000,000
Facebook Inc (FB)	Europe	\$16,826,000,000	
Facebook Inc (FB)	Revenue	\$70,697,000,000	
Facebook Inc (FB)	Non-US		\$8,925,000,000
Facebook Inc (FB)	Long-lived assets		\$44,783,000,000

# Do Subsidiaries Play a Role?

27 of the 28 firms we identified had offshore subsidiaries; only **Yandex** (\$YNDX) did not. Most firms had multiple subsidiaries, including some that operated in known tax havens such as Ireland or the Cayman Islands. See table below

Calcbench is not sure how the structure of each parent company and its subsidiaries contributes to NOL growth.

Few companies report profit and loss operations from individual subsidiaries in such manner to make that analysis possible.

Company	Subsidiaries	Company	Subsidiaries
Cognizant Technologies	31	Facebook	6
Fiserv	27	Akamai	5
Hanesbrands	23	Flir Systems	4
Alliance Data Systems	12	Hewlett Packard Enterprise	2
Comcast Corp.	10	Broadcom	1
Autodesk	9	Global Payments	1
Bristol Myers Squibb	8	Google	1
Ball Corp.	6	Edwards Lifesciences	1
Honeywell International	6	<b>Total</b>	<b>153</b>

# Questions for Future Research

Calcbench is not a research firm itself; we just catalog the data and find interesting points that might be worth further study. And a few questions do come to mind about net operating losses that might be worth future research by enterprising analysts...

- **What factors seem to drive NOLs for firms?** For example, Facebook did expand its PPE and report substantial depreciation & amortization costs as deferred tax liabilities. Who else does that?
- **What types of NOLs are growing fastest, for which firms?** Companies can (and do) report operating loss carryforwards at the federal, state, and overseas levels.
- **Can other disclosures help shed light** on the difference between GAAP-reported net income and taxable income?
- **What else are we missing?** Let us know at [info@calcbench.com](mailto:info@calcbench.com).

# Ways Calcbench Can Help

**Standardized NOL metrics.** Our [Multi-Company database](#) lets you search ‘operating loss carryforwards’ for federal, foreign, and state or local taxes; plus carryforwards listed as deferred tax assets; and other related terms. All can be searched for one firm or for groups of firms in bulk.

**Standardized metrics on deferred tax assets and liabilities,** so you can examine disclosures and piece together your own picture of a company’s financial trends.

**Footnote disclosures.** Our [Interactive Disclosure database](#) lets you search for any disclosures related to net operating losses (often labeled in filings as ‘income taxes’) or for specific strings of text.

Our [guide to researching tax disclosures](#) generally, including our [template Excel Add-In](#) for tax disclosures.



Thank you, that's all!



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