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New Zealand Non-GAAP Earnings from 2006-2010: Composition, Determinants, Relevance and Emphasis

A thesis presented in partial fulfillment of the requirements for the degree of

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ABSTRACT

In recent years, there has been a growth in the reporting of Non-GAAP earnings (NGE) in New Zealand. NGE is disclosed by companies to report their “true profit” under the belief that GAAP earnings (GE) do not show a correct picture of their financial performance. This research documents an analysis of NGE with a sample of New Zealand stock exchange companies from 2006 to 2010. The analysis covers NGE disclosures in their annual reports, earnings announcements and media releases. The research examines (1) the composition of NGE, (2) the determinants of NGE, (3) the relevance of NGE, and (4) the effects of emphasis on NGE.

Overall, my results indicate that NGE is a mainstream voluntary reporting item in the New Zealand stock market, it is frequently larger than GE and is mostly used to paint a better picture of earnings. In particular, the negative association between annual returns and the gap between NGE and GE suggests that firms tend to paint a better picture using NGE when their market returns are lower. Emphasizing NGE in different documents seems to have different effects. The negative influence of annual report and earnings announcement emphases suggests that those relying more on these sources, for example the sophisticated investors, tend to view this practice negatively. However, investors relying on media, for example the naïve investors, tend to react positively.

Key words: Non-GAAP earnings (NGE), GAAP earnings (GE), emphasis on NGE in annual report, earnings announcement, media, market price, market volume
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