



Net Operating Profit After-Tax (NOPAT): Explanation & Examples

Net operating profit after-tax (NOPAT) is the unlevered, after-tax operating cash generated by a business. It represents the true, normal and recurring profitability of a business. GAAP earnings or, even worse, [non-GAAP earnings](#), are highly unreliable and are subject to misleading [management manipulation](#).

As the numerator in our return on invested capital ([ROIC](#)) calculation, NOPAT is a very important value, and we place a great deal of importance on getting it right.

We calculate NOPAT in two ways, from an operating and financing perspective. See Figure 1. Figure 1 shows the basic calculations. On page 2, we share the complete calculations for specific companies.

Figure 1: How To Calculate NOPAT

<i>Operating</i>	<i>Financing</i>
Operating Revenue	Net Income
– Operating Expenses	+ Adj. for Capitalized Expenses
– Hidden Items	Adjusted Net Income
EBIT	+ Increase in Equity Equivalents
+ Goodwill Amortization	– Other Income
EBITA	+ Other Expenses
+ Adj. for Capitalized Expenses	– Hidden Items
+ Income Equivalents	+ Interest Expense After Taxes
NOPBT	NOPAT
– Cash Operating Taxes	
NOPAT	

Sources: New Constructs, LLC and company filings

When we calculate NOPAT, we make [numerous adjustments](#) to close accounting loopholes and ensure apples-to-apples comparability across thousands of companies. A company shouldn't be able to hide from its mistakes, for instance, [hidden, unusual losses](#).

Figure 2 shows the companies with the most under/overstated GAAP earnings as compared to NOPAT.

Figure 2: Companies With Most Understated/Overstated Earnings

Ticker	Name	NOPAT	GAAP Net Income	Misleading Earnings
Most Understated Earnings				
APA	Apache Corp	(\$233)	(\$23,119)	\$22,885
CHK	Chesapeake Energy	\$205	(\$14,856)	\$15,061
DVN	Devon Energy	\$133	(\$14,459)	\$14,592
GE	General Electric	\$6,822	(\$6,144)	\$12,966
FCX	Freeport-McMoRan	\$24	(\$12,293)	\$12,263
Most Overstated Earnings				
GSK	GlaxoSmithKline	\$6,845	\$12,474	(\$5,628)
CVX	Chevron Corp	(\$1,508)	\$4,587	(\$6,095)
LYG	Lloyds Banking Group	(\$7,108)	\$2,239	(\$9,438)
NVS	Novartis AG	\$8,341	\$17,783	(\$9,441)
ETR	Entergy Corporation	(\$25,047)	(\$177)	(\$24,871)

Sources: New Constructs, LLC and company filings. Only includes companies with positive NOPAT

Per Figure 2, Entergy Corporation's NOPAT is \$24.8 billion less than its already negative GAAP earnings. Our NOPAT calculation for ETR [can be seen here](#). You can see that due to large losses from unconsolidated subsidiaries, Entergy's operating expenses were significantly higher than in previous years, which lead to the drastic decline in NOPAT from the prior year.

Novartis (NVS), Lloyds Banking Group (LYG), Chevron (CVX) and GlaxoSmithKline (GSK) also have significantly overstated GAAP net income after adjustments for [non-operating expenses](#), [expenses or income hidden in operating earnings](#), or [asset write downs](#) are made. [Here's the Adjustment Page from our model](#), which shows exactly how we adjust Chevron's GAAP Net Income to calculate NOPAT. We also show how to convert Total Assets to [Invested Capital](#).

On the other hand, Apache Corp's (APA) GAAP net income greatly understates its NOPAT. See our NOPAT calculation for APA each year [dating back to 1998 here](#). In 2015, Apache Corp had write-downs totaling over \$27 billion. Because asset write-downs are an unusual charge and distort recurring core profitability, we remove them from our NOPAT calculation. To ensure profitability metrics aren't distorted, our models capture the after-tax value of write-downs in [invested capital](#). Such large write-downs in 2015 may have kept Apache's NOPAT higher, but they drove down its return on invested capital (ROIC) from 4% in 2014 to -0.4% in 2015.

Chesapeake Energy (CHK), Devon Energy (DVN), General Electric (GE), and Freeport-McMoRan (FCX) each reported GAAP net income that understated the true recurring profits of their business operations as well. See the conversion of General Electric's GAAP net income to NOPAT [here](#).

Our models and calculations are 100% transparent because we want our clients to know how much work we do to ensure we give them the best earnings quality and valuation models in the business.

Disclosure: David Trainer and Kyle Guske II receive no compensation to write about any specific stock, sector, style, or theme.



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Our [stock rating methodology](#) instantly informs you of the quality of the business and the fairness of the stock's valuation. We do the diligence on earnings quality and valuation so you don't have to.

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1. Based on the complete set of financial information available.
2. Standard for all companies.
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