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Additional Information

Level 1 Regulation
Transparency Directive (TD) Directive 2004/109/EC

Level 3 Regulation
Guidelines on Alternative Performance Measures

Topic
Alternative Performance Measures (APM)

Historic Question Reference
[ESMA32-51-370 APM Q15]

Subject Matter
Definition and basis of calculation; Paragraph 20 of the APM Guidelines.

Question
How should an issuer define the APM measure “Organic growth”?

ESMA Answer

30-10-2017

Original language

[ESMA32-51-370 APM Q15]

Paragraph 20 of the APM Guidelines requires issuers to provide users with definitions of the APMs used and their components as well as the basis of calculation adopted, including div of any material hypotheses or assumptions used.

When providing a definition and disclosure on the basis of calculation of an APM indicating the “Organic Growth” of an issuer’s total revenues, the issuer shall present not only the total change in revenues that can be derived from the financial statements, but also the disaggregation of the other components that together with the change in revenue attributable to “Organic Growth”, add up to the total revenue change.

The following example illustrates this case:

- Revenue % change: 20%
- Currency impact[1]: 10%
- Perimeter impact: 5%
- Organic growth: 5%

To the extent that any components presented are not defined or specified in the applicable financial reporting framework, the issuer shall also explain their nature and provide the definition of each item.

Although the definition is entity-specific, in this example the explanation could be provided by presenting the following information:

- The Currency impact is calculated by translating the accounts for year N of subsidiaries having a functional currency different than the currency of the issuer with N-1 exchange rate;
- Perimeter impact: the impact of changes in the scope of consolidation is determined:
    - for the year N acquisitions, by deducting from total revenue, the amount of revenue generated during year N by the acquired entities;
    - for N-1 acquisitions, by deducting from total revenue, the amount of revenue generated over the months during which the acquired entities were not consolidated in N-1;
    - for N disposals, by adding to total revenue the amount of revenue generated by the divested entities in year N-1 over the months during which those entities were no longer consolidated in N;
    - for the N-1 disposals, by adding to revenue for the fiscal year the amount of revenue generated in the prior fiscal year by the divested entities.

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[1] In this example, the currency impact only relates to situations where the functional currency of the issuer differs from the functional currency of its subsidiaries. Please note that there may be variations to the definition of organic growth depending on each specific components (e.g. when the functional currency is Euro and sales in USD)