

GMT Research Accounting Screen



Short Name	Adidas Ag	Description:	Relevant GMT Research Reports (please go to our website and login):
GICS Ind Name	Textiles, Apparel & Luxury Goods	adidas AG manufactures sports shoes and sports equipment. The Company produces products that include footwear, sports apparel, and golf clubs and balls. adidas sells its products worldwide.	
GICS Industry	252,030		
Cntry of Dom	DE		
Most Recent Balance Sheet Period	2017 Y		
Ticker	ADS GY		
Latest Period	Y		
Current Fiscal Year	2017		
Well known auditor:	Kpmg		
Country of incorporation:	Country of incorporation (European Union) is same as domicile (European Union).		
Country of financials:	Currency of financials (Euro) is same as country of risk (European Union).		
Profit Manipulation		Latest financials complete	
Profit Manipulation: Beneish M-Score (See App 1)		Beneish M-Score of -2.57 in Y/FY17 suggests no profit manipulation.	
Cooking the Books: Montier's C-Score (App 2)		A C-Score of 0/6 implies strong financials and unlikely manipulating profit.	
Financial Position			
Strength of Financial Position: Piotroski F-Score (App 3)		An F-Score of 8/9 suggests are very strong and improving.	
Risk of Default: Altman Z-Score (App 4)		An Altman Z-Score of 5.88 is in the Safe Zone: Financially sound.	
Accounting Shenanigans			
Acquisition Accounting (App 5)	Global screen	No evidence of acquisition accounting.	
Window Dressing (App 6)		No evidence of window dressing.	
Fake Cash Fraud: Overly profitable (App 7)	Global screen	Scores 1/4 in Y/FY17. Minor Fraud Alert: 98% of frauds have these characteristics but so do 36% of all companies. Triggered Fake Cash Flow in last 5yrs?: None	
Excess Capital Raising (App 8)	Global screen	Net flows over 5yrs at 0% of Sales are normal.	
Debt Reconciliation (App 9)	Global screen	No material unreconcilable changes in debt in the last 5 years.	
Other Financial Items			
Number of Red Flags (Out of a possible 75)		Triggers 12 red flags in the last financial period which is normal.	
Cash Balance		Cash & STI of EUR1.8bn is within normal range.	
Restricted Cash		Restricted Cash of EURObn is within normal range.	
Receivables		Receivables of EUR2.3bn are equal to 11% of Sales which is in within normal range.	
Doubtful Debts		Delinquency at 0% of total receivables are within normal range.	
Payables		Large Payables of EUR4.7bn equal to 23% of Sales are in the 95%ile relative to peers, can be a sign of hidden debt.	
Inventory		Inventories of EUR3.7bn are equal to 17% of Sales which is within normal range.	
Profit Manipulation: Gross Working Capital		No evidence of profit/cash flow manipulation through working capital.	
Cash Extraction Fraud: Prepaid Expenses		Prepaid Expenses of EUR0.3bn, equal to 1.2% of Sales, raise the risk of illegal cash extraction.	
Capitalisation of Expenses		Capitalised expenses relative to pre-tax profits (3.7%) are within normal range.	
Affiliate Investments		There are no investments in associates.	
Auditing Costs		Auditing expenses of 0.8bp of sales are unusually low in the 4%ile relative to peers, suggesting a poor audit.	
Deferred Tax Assets		Large Deferred Tax Assets/Sales of 3% in the 82%ile relative to peers, might reflect losses at subsidiaries or of Acquisition Accounting.	
Deferred Tax Liabilities		Deferred Tax Liabilities/Sales of 5% are within normal range.	
Derivatives		Derivatives equal to 2% of equity within normal range.	
Other Large Curious Assets and/or Liabilities		Within normal range.	
Depn & Amort		Within normal range.	
Interest Cover		EBIT Interest Cover of 33.4x is within normal range.	
Leverage		Total Debt/Profit of 0.8x and assets to equity of 2.3x are within normal range.	
Related Party Fraud		No evidence of related party transactions.	
Other Tests:		New CFO. Other comprehensive income is -80% of income which is unusually high. Gross Margin volatility is unusually low at 2.8% in the 19%ile relative to peers which is sometimes a trait of frauds.	

Short-Seller's Report (for Asian companies only)

Summary of accounting risk for Y/FY17

- Profit manipulation	Low risk: Montier.
- Financial position	Strong: Piotroski.
- General accounting	Normal
- Shenanigans	No evidence

= Accounting risk: **Low**

This spreadsheet expires on 31st Mar 2018, in 82 days.

GMT Research Accounting Screen



Ratios		Global/Sector/ Country		Adidas Ag Ratios			Ratio Change		Peer Group Comparison Ratios				Percentiles and Red Flags			Red Flag Comment
		Y/FY17	Y/FY16	Y/FY14	-1yr Chg	-3yr Chg	20th %ile	50th %ile	80th %ile	No of Peers	Y/FY17	-1yr Chg	-3yr Chg			
Balance Sheet: Assets											(0-100%)	(+/-50%)	(+/-50%)			
Av Cash & Equiv./Sales (%)	GICS Industry	8.6	8.8	12.3	-0.2	-3.7	3.2	10.4	24.0	379	43%	+13%	+32%	Fallen over 3yrs.		
Unrestricted Cash/COGS (%)	GICS Industry	15.2	15.2	22.1	-0.0	-6.9	5.1	16.6	40.3	314	46%	+4%	+11%			
ST Investments/Sales FY (%)	GICS Industry	0.8	1.7	0.8	-0.9	+0.1	0.1	1.6	8.5	172	39%	-29%	+3%	ST Investments/Sales FY (%) present.		
Av. Trade & Notes Rec/Sales (%)	GICS Industry	10.6	11.0	12.9	-0.4	-2.3	7.2	12.1	20.0	356	40%	-17%	-34%			
Delinquent AR/AR (%)	Global	0.0	0.0	0.0	+0.0	+0.0	0.9	5.9	22.7	1,912	na	na	na			
Av. Inventory/Sales (%)	GICS Industry	17.4	19.5	17.4	-2.1	+0.0	13.0	19.6	29.8	375	39%	-28%	-8%			
Inventory Days	GICS Industry	129	127	124	+2	+6	62	103	187	314	63%	+1%	+0%			
Finished Goods/Inventory (%)	GICS Industry	70	69	71	+1.5	-1.5	33	60	89	417	59%	+9%	-27%			
Av. Other ST Assets/Sales (%)	GICS Industry	2.0	1.9	3.3	+0.1	-1.3	2.0	3.6	7.4	376	20%	+3%	-28%			
PPE/Sales (%)	GICS Industry	9.2	9.2	9.3	+0.0	-0.0	9.2	22.8	45.7	360	20%	+0%	-1%	PPE/Sales (%) low.		
Affiliate Inv/Equity (%)	Global	na	na	na	na	na	0.5	3.0	13.1	7,896	na	na	na			
LT Inv & Rec/Sales (%)	GICS Industry	2.1	1.2	0.7	+0.9	+1.3	0.2	1.5	10.0	249	55%	+29%	+18%			
Deferred Tax Assets/Sales FY (%)	GICS Industry	3.0	3.5	2.7	-0.5	+0.2	0.2	0.9	2.7	277	82%	-42%	+2%	Deferred Tax Assets/Sales FY (%) high.		
Prepaid Expenses/Sales (%)	GICS Industry	1.2	1.6	1.3	-0.4	-0.1	0.3	1.3	3.4	167	47%	-32%	-13%			
Prepaid Expenses/Inventory (%)	GICS Industry	7.1	8.3	7.7	-1.2	-0.6	1.2	3.7	10.7	99	68%	-29%	-12%			
Intangibles/Sales FY (%)	GICS Industry	12.6	15.4	13.0	-2.7	-0.4	0.1	1.0	9.2	316	83%	-47%	-31%	Intangibles/Sales FY (%) high.		
Av. Other LT Assets/Sales FY (%)	GICS Industry	0.1	0.1	0.1	-0.1	-0.0	0.4	1.8	5.8	332	8%	-19%	-17%			
Av. Assets/Sales (%)	GICS Industry	70	74	83	-3.9	-12.6	65.5	95.1	139.4	380	23%	-27%	-36%			
Balance Sheet: Liabilities and Equity																
Av. Payables (Trade, Bills, Accr/Sales (%)	GICS Industry	22.9	23.8	22.2	-1.0	+0.7	5.3	10.0	15.5	379	95%	-31%	+12%	Av. Payables (Trade, Bills, Accr/Sales (%) high.		
Trade Payable Days	GICS Industry	78	78	85	-0.2	-6.5	24.5	45.6	81.5	348	78%	-7%	-29%			
ST Debt/Total Debt (%)	Global	12	39	15	-27.4	-3.5	13.0	44.2	88.3	13,723	18%	-43%	-10%			
Av. Other ST Liabs/Sales (%)	GICS Industry	5.2	4.6	5.4	+0.6	-0.2	3.8	6.8	10.9	380	33%	+18%	-12%			
Av. Deferred Tax Liab/Sales FY (%)	GICS Industry	5.2	6.6	8.5	-1.3	-3.2	0.7	3.6	12.1	256	58%	-47%	-48%			
Av. Other LT Liabs/Sales (%)	GICS Industry	2.4	2.8	2.1	-0.4	+0.3	0.4	1.8	5.1	298	57%	-31%	+1%			
Preferred Equity/Equity (%)	Global	0.0	0.0	0.0	+0.0	+0.0	0.2	5.1	20.7	908	na	na	na			
Minority/Total Equity (%)	Global	-0.2	-0.3	-0.1	+0.0	-0.1	0.3	2.4	11.4	9,628	2%	+8%	-8%			
Assets/Equity (x)	GICS Industry	2.3	2.4	2.2	-0.1	+0.0	1.4	1.8	2.6	373	69%	-23%	+10%			
Balance Sheet: Other																
Av. GFA/D&A (yrs)	GICS Industry	7.5	8.6	6.5	-1.1	+1.0	8.4	14.3	22.8	371	15%	-32%	-16%			
Restricted Cash/Equity (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	0.1	0.3	5.9	60	na	na	na			
Cash Conversion Cycle (Days)	GICS Industry	90	89	86	1	4	70.6	110.2	186.0	312	35%	-7%	+6%			
Av. Gross Working Capital/Sales (%)	GICS Industry	61.7	62.5	64.6	-0.8	-2.9	40.4	53.6	72.2	379	65%	-17%	-25%			
Contingent Liab/Equity (%)	GICS Industry	122.8	126.2	122.9	-3.3	-0.1	2.0	13.6	59.2	253	92%	-23%	+5%	Contingent Liab/Equity (%) high.		
Pension Liabilities/Equity (%)	Global	4.6	5.5	5.1	-0.9	-0.4	0.7	2.8	10.0	7,570	62%	-31%	-16%			
Net Derivatives/Equity (%)	Global	2.3	4.4	4.1	-2.2	-1.8	-1.4	0.0	1.1	2,405	85%	-38%	-33%			
Return on Production Assets (%)	GICS Industry	38.4	29.5	23.4	+8.9	+15.0	4.5	14.9	33.7	382	83%	-41%	-41%	Return on Production Assets (%) high. Risen over 1yr. Risen over 3yrs.		
Non-Prod. Assets/COGS FY (%)	GICS Industry	81.6	85.4	-3.9	-3.9	+85.4	34.6	67.1	132.2	299	60%	+34%	-40%	Risen over 3yrs.		
Gross Debt/Profit (x)	GICS Industry	0.8	1.6	2.8	-0.8	-2.0	0.9	4.0	13.7	306	17%	-22%	-27%			
Income Statement																
Sales/Employee (US\$)	GICS Industry	421,344	352,243	359,350	+69,101	+61,993	56,779	148,854	359,649	286	83%	-44%	-39%	Sales/Employee (US\$) high. Risen over 1yr. Risen over 3yrs.		
Gross Margin (%)	GICS Industry	50.4	48.6	47.6	+2	+3	15	30	52	322	78%	-7%	-12%			
GM Volatility 5yrs (%)	GICS Industry	2.8					2.9	6.3	20.0	303	19%			GM Volatility 5yrs (%) low.		
Other Op Y/Op Y (%)	GICS Industry	12.0	25.2	27.2	-13.2	-15.2	1.8	6.4	20.7	119	69%	-42%	-42%			
D&A/Sales T12M (%)	GICS Industry	2.3	2.1	2.8	+0.2	-0.5	1.4	2.8	4.7	376	61%	-16%	+30%	Fallen over 3yrs.		
Operating Margin T12M (%)	GICS Industry	9.8	7.7	6.1	+2.0	+3.7	2.8	7.2	14.9	374	61%	-32%	-34%	Risen over 1yr. Risen over 3yrs.		
Non-Op Y/Op Y (%)	GICS Industry	1.1	1.5	2.3	-0.4	-1.2	2.9	10.4	36.5	329	8%	-10%	-14%			
FFI Int Rate less MLR (ppt)	Country	2.6	2.1	1.3	+0.5	+1.3	0.8	2.9	6.8	231	46%	+19%	+25%			
Cash Return less Policy Rate (ppt)	Country	-0.5	-0.8	-1.6	+0.2	+1.1	-2.5	-1.5	2.0	221	64%	+5%	+15%			
Affil Y/Op Y (%)	Global	0.0	0.0	0.0	+0.0	+0.0	0.3	2.2	11.9	6,391	na	na	na			
Eff Tax Rate (%)	Country	33.0	29.4	32.5	+3.6	+0.6	21.2	29.3	35.9	227	71%	+23%	+0%			
CF Tax/IS Tax (%)	GICS Industry	83.2	103.3	104.8	-20.1	-21.6	64.9	98.7	151.1	285	68%	+22%	+23%			
X Items/Op Y (%)	Global	12.3					0.8	6.2	37.4	1,297	62%			X Items/Op Y (%) high.		
Minority Int/Profit B4 MI (%)	Global	0.2	0.3	1.1	-0.1	-0.8	-0.1	1.8	12.8	8,362	31%	-5%	-14%			
Net Income Margin (%)	GICS Industry	5.2	5.3	3.4	-0.1	+1.8	1.3	4.7	11.2	383	47%	+1%	-24%			
Capitalised Int/PTP (%)	Global	na	na	na	na	na	0.0	0.0	0.0	13,642	na	na	na			
Cap of Intang. Assets/PTP (%)	Global	3.7	4.5	5.9	-0.8	-2.2	0.9	4.0	16.7	728	47%					
EBIT Interest Cover (x)	GICS Industry	33.4	21.3	14.2	+12.1	+19.1	1.7	7.4	41.1	351	23%	-36%	-35%			

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Ratios		Global/Sector/ Country	Adidas Ag Ratios			Ratio Change		Peer Group Comparison Ratios				Percentiles and Red Flags			Red Flag Comment
			Y/FY17	Y/FY16	Y/FY14	-1yr Chg	-3yr Chg	20th %ile	50th %ile	80th %ile	No of Peers	Y/FY17	-1yr Chg	-3yr Chg	
Cash Flow												(0-100%)	(+/-50%)	(+/-50%)	
CFO/Net Profit (x)	GICS Industry		1.5	1.3	1.5	+0.2	+0.1	0.3	1.1	2.2	1,697	33%	-4%	+5%	
Cash Interest Exp./CFO (%)	GICS Industry		3.9	3.4	8.2	+0.5	-4.3	0.2	4.8	25.8	271	46%	+9%	-19%	
Capex/Sales (%)	GICS Industry		3.2	3.0	3.4	+0.2	-0.2	1.4	3.2	7.2	371	49%	+6%	-7%	
Decrease Investments/Sales (%)	GICS Industry		0.0	0.0	0.3	+0.0	-0.3	0.0	0.5	4.8	141	na			
Other Investing Activities/Sales (%)	GICS Industry		0.5	0.1	0.2	+0.4	+0.3	0.1	1.1	4.4	292	34%			
Debt Repay/ST Debt -1FY (%)	Global		43	39	82	+4.7	-38.7	20.0	88.4	210.9	10,373	32%	+8%	-27%	
Free Cash Flow Margin (%)	GICS Industry		4.7	4.1	1.5	+0.6	+3.2	-4.2	2.4	8.7	377	37%	+0%	-14%	
FCF-Divs/Sales (%)	Global		2.8	2.4	-0.7	+0.4	+3.4	-7.2	0.9	6.8	10,563	38%	-1%	-15%	
No. of Mat. Capital Inc -5yrs	Global		0					0.0	0.0	1.0	9,451	na			
Other Fin. Activities/Sales (%)	GICS Industry		0.5	0.3	0.3	+0.2	+0.2	0.0	0.3	1.4	329	62%			
Corporate Governance												(0-100%)	(+/-50%)	(+/-50%)	
Auditing Exp/Sales (bp)	GICS Industry		0.8					2.5	6.3	13.2	179	4%			Auditing Exp/Sales (bp) low.
RPT Balances/Equity (%)	Global		0.0					0.3	1.9	11.0	1,434	na			
Number of Acq&Disp -5yrs	Global		2					0.0	3.0	5.0	12,251	46%			
Acq&Disp Con./Sales Av. -5yrs (%)	Global		0.5					0.2	1.4	6.9	12,251	30%			
Executive Comp/Sales (bp)	GICS Industry		9.6					7.4	22.6	73.1	84	25%			
Executive Comp/PTP (bp)	GICS Industry		101.0					67.6	188.6	669.0	84	28%			
CEO Tenure (yrs)	Global		1.6					1.4	4.5	10.8	5,466	22%			
CFO Tenure (yrs)	Global		0.7					1.1	3.3	8.3	716	10%			CFO Tenure (yrs) low.
Av. Executive Tenure (yrs)	Global		11.0					4.1	7.4	11.9	3,291	75%			
Av. Board Tenure (yrs)	Global		7.2					3.9	6.4	9.9	3,672	58%			

Source: GMT Research, Bloomberg

Summary of financials in Y/FY17

		Result: Scores within normal range. Number of red flags normal.	Explanation
Average Ratio Percentile Score (0 is good, 100 is bad)	47%	In Y/FY17, Adidas Ag recorded an average percentile score (0 is good, 100 is bad) of 47% across all 75 financial ratios listed below. This places it in a percentile of 37 relative to around 379 GICS industry peers globally, which is a moderate result.	Each of the 50 financial ratios listed below is percentile ranked relative to an appropriate peer group drawn from 16,000 companies globally between 2010 and 2015. In general, low percentile scores are good while high scores are poor. Red flags are mainly triggered when a company's ratio is above the 80th percentile; however, for certain ratios a red flag is triggered when it is below the 20th percentile. Red flags are highlighted below in red.
- Percentile vs Industry Peers (0% is good, 100% is bad)	37%	The company triggered a total of 12 red flags out of 75 placing it in a percentile of 51 relative to our sample of 16,000 companies globally, which is a moderate result.	
Number of Red Flags (Out of a possible 75)	12		
- Percentile vs Global Peers (0% is good, 100% is bad)	51%		

Summary of change in financials over 1 year

		Result: Few red flags.	Explanation
Number of Red Flags (Out of a possible 62)	3	Over the financial year prior to Y/FY17, Adidas Ag triggered a total of 3 red flags out of 62 placing it in a percentile of 10 relative to our sample of 16,000 companies globally, which is a very good result.	Red flags are normally triggered by a score between +30 and +50 which suggests an aggressively deteriorating financial ratio. These are highlighted in red below.
- Percentile vs Global Peers (0% is good, 100% is bad)	10%		

Summary of change in financials over 3 yrs

		Result: Number of red flags normal.	Explanation
Number of Red Flags (Out of a possible 62)	6	Over the 3 financial years prior to Y/FY17, Adidas Ag triggered a total of 6 red flags out of 62 placing it in a percentile of 43 relative to our sample of 16,000 companies globally, which is a moderate result.	Red flags are normally triggered by a score between +30 and +50 which suggests an aggressively deteriorating financial ratio. These are highlighted in red below.
- Percentile vs Global Peers (0% is good, 100% is bad)	43%		

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Appendices

Appendix 1: Beneish M-Score

	Calculation	FY13	FY14	FY15	FY16	FY17	Y/FY17	Index Calculation	Comments on latest period
Days Sales in Receivables Index	$+(0.92 \times 0.97)$	1.12	1.05	0.91	0.93	0.97	0.97	$(\text{Net Receivables}_t / \text{Sales}_t) / (\text{Net Receivables}_{t-1} / \text{Sales}_{t-1})$	Receivables of 39 days have fallen by 1 days YoY
Gross Margin Index	$+(0.528 \times 0.96)$	0.97	1.03	0.99	0.99	0.96	0.96	$[(\text{Sales}_{t-1} - \text{COGS}_{t-1}) / \text{Sales}_{t-1}] / [(\text{Sales}_t - \text{COGS}_t) / \text{Sales}_t]$	12m Trailing Gross Margin of 50.4% has improved by 1.8ppts YoY
Asset Quality Index	$+(0.404 \times 0.93)$	0.96	0.96	1.08	0.91	0.93	0.93	$[1 - (\text{Curr Ass}_t + \text{PP\&E}_t + \text{Sec}_t) / \text{Assets}_t] / [1 - ((\text{Curr Ass}_{t-1} + \text{PP\&E}_{t-1} + \text{Sec}_{t-1}) / \text{Assets}_{t-1})]$	Other LT Assets/Total Assets of 26.7% has fallen by 2.1ppts YoY
Sales Growth Index	$+(0.892 \times 1.10)$	0.95	1.02	1.16	1.14	1.10	1.10	$\text{Sales}_t / \text{Sales}_{t-1}$	12m Trailing Sales have risen 10% YoY
Depreciation Index	$+(0.115 \times 0.88)$	1.52	0.99	1.13	1.12	0.88	0.88	$(\text{Depr}_{t-1} / (\text{PP\&E}_{t-1} + \text{Depr}_{t-1})) / (\text{Depr}_t / (\text{PP\&E}_t + \text{Depr}_t))$	12m Trailing Depreciation/Sales of 19.5% has risen by 2.3ppts YoY
SG&A Index	$-(0.172 \times 1.02)$	1.01	0.99	1.00	1.01	1.02	1.02	$(\text{SG\&A Expense}_t / \text{Sales}_t) / (\text{SG\&A Expense}_{t-1} / \text{Sales}_{t-1})$	12m Trailing SG&A/Sales of 41.9% have fallen by 1ppts YoY
Total Accruals to Total Assets	$-+(4.679 \times 0.02)$	0.01	0.00	-0.03	-0.02	-0.02	-0.02	$\text{Profit from Continuing Ops}_t - \text{Cash Flows from Ops}_t / \text{Total Assets}_t$	Total Accruals (Net Profit less CFO)/Total Assets are -2%
Leverage Index	$-(0.327 \times 1.01)$	1.03	0.97	0.94	1.00	1.01	1.01	$[(\text{Curr Liab}_t + \text{Total LT Debt}_t) / \text{Total Ass}_t] / [(\text{Curr Liab}_{t-1} + \text{Total LT Debt}_{t-1}) / \text{Total Ass}_{t-1}]$	LT Debt + Current Liabilities/Total Assets of 50% have fallen by 0.7ppts YoY
Beneish M-Score for Y/FY17	-4.84 =	-2.33	-2.42	-2.48	-2.56	-2.57	-2.57	An M-Score of >-2.22 signals that the company is likely to be a manipulator	Beneish M-Score of -2.57 in Y/FY17 suggests no profit manipulation

Appendix 2: Montier C-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Profit	1	0	0	1	0	0	A growing divergence between Profit and Operating Cash Flow (1 point)	12m Trailing Accruals Margin of 2.7% has improved from 1.8% YoY
Receivables	1	1	0	0	0	0	Receivable Days are increasing (1 point)	Receivables of 38 days have fallen by 1 days YoY
Inventory	1	0	1	1	0	0	Inventory Days are increasing (1 point)	Inventory of 17 days has fallen by 2 days YoY
Other current assets	0	1	0	0	0	0	Other Current Assets to Sales are increasing (1 point)	Other Current Assets/Sales of 4.5% have fallen by 0.3ppts YoY
Depreciation	1	0	1	1	0	0	Depreciation relative to PPE jobs usfa bs	Depreciation of 7.5yrs has fallen by 1.1yrs YoY
Asset growth	0	0	0	1	0	0	High asset growth in excess of 10% (1 point)	Asset growth of -4% is below 10%
Montier's C-Score	4	2	2	4	0	0	Score 0-1 is good; 2-4 is average, 5-6 is bad	A C-Score of 0/6 implies strong financials and unlikely manipulating profit

Appendix 3: Piotroski F-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Net Income Score	1	1	1	1	1	1	Positive Return on Assets in the current year (1 point)	12m Trailing Return on Assets of 9.6%
Operating Cash Flow Score	1	1	1	1	1	1	Positive Operating Cash Flow in the current year (1 point)	12m Trailing CFO Margin of 7.9%
Return on Assets Score	1	0	1	1	1	1	Higher Return on Assets than previous year (1 point)	12m Trailing ROA has risen to 9.6% from 7% YoY
Quality of Earnings Score	0	1	1	1	1	1	Operating Cash Flow are greater than ROA (1 point)	12m Trailing CFO Margin of 7.9% is above Net Profit Margin of 6.7%
Long-Term Debt to Assets Score	1	0	1	1	1	1	Lower ratio of Long Term Debt than previous year (1 point)	LT Debt/Total Assets has fallen to 8% from 11% YoY
Current Ratio Score	0	1	0	0	1	1	Higher Current Ratio this year compared to the previous year (1 point)	Current Ratio has risen to 1.37x from 1.31x YoY
Shares Outstanding Score	1	1	1	0	0	0	No new shares were issued in the last year (1 point)	Increased number of shares by 1.2%
Gross Margin Score	1	0	1	1	1	1	A higher Gross Margin compared to the previous year (1 point)	12m Trailing Gross Margin of 50.4% has improved by 1.8ppts YoY
Asset Turnover Score	0	0	1	1	1	1	A high Asset Turnover ratio compared to the previous year (1 point)	Asset turnover has risen to 1.43x from 1.35x YoY
Piotroski F-Score	6	5	8	7	8	8	Score 0-1 weak and deteriorating; 8-9 strong and improving	An F-Score of 8/9 suggests are very strong and improving

Appendix 4: Altman Z-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Altman Z-Score for a manufacturing company	Comments
Solvency	0.32	0.26	0.25	0.21	0.24	0.24	Working Capital (Current Assets less Current Liabilities)/Tangible Assets	Ability to meet short term obligations
Cumulative profitability	0.79	0.70	0.67	0.65	0.75	0.75	Retained Earnings/Tangible Assets	Determines cumulative historic profitability
Profitability	0.44	0.30	0.34	0.41	0.58	0.58	EBIT/Tangible Assets	Measures earnings away from the effects of taxes and leverage
Market confidence	1.90	1.04	1.40	2.08	2.53	2.53	Market Capitalisation/Total Liabilities	Whether a firm's value able to cover liabilities
Efficiency	1.61	1.51	1.67	1.62	1.79	1.79	Sales/Tangible Assets	An asset turnover metric to measure efficiency
Leverage	na	na	na	na	na	na	Book Value of Equity/Total Liabilities	Leverage
Altman Z-Score for Y/FY17	5.06	3.81	4.34	4.98	5.88	5.88	Anything <1.81 for a manufacturer or <1.11 for other companies is problematic	Safe Zone: Financially sound

Appendix 5: Acquisition Accounting

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	Point Calculation	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Material acquisition?	1 point	0	0	0	0	0	0	An acquisition in excess of 5% of sales.	No recent acquisitions
Rise in intangible assets -1yr?	1 point	0	0	1	1	0	0	Either a rise in Intangible Assets over 1 year	na
Material intangibles on balance sheet?		1	1	1	1	1	1	Or Intangibles are >=50%ile relative to peers	Intangible Assets/Sales of 13% are in the 83%ile
Rise in deferred tax assets -1yr?	1 point	0	1	1	1	0	0	Either a rise in Deferred Tax Asset over 1 year	na
Large deferred tax assets		1	1	1	1	1	1	Or a large Deferred Tax Asset in the 80%ile relative to industry peers	DTA/Sales of 3% is in the 82%ile relative to industry peers
Acquisition Accounting		2	2	2	2	2	2	A score of 3 suggests possibility of acquisition accounting to inflate profits	No evidence of acquisition accounting.

GMT Research Accounting Screen



Appendix 6: Debt Window Dressing

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Has high debt repayment/ST debt?	0	0	0	0	0	0	Debt Repayment relative to the ST Debt one year prior is in excess of 130%	Debt Repayment/ST Debt -1FY of 0% is in the 1%ile relative to global peers
Has high effective interest rate?	0	0	0	0	0	0	Effective Interest Rate is in excess of the 80%ile relative to country peers	Effective Int Rate of 4.5% is in the 45%ile relative to country peers
Has moderate debt?	1	1	1	1	0	0	If Debt to Sales >15%ile of industry peers	Debt/Sales of 5% is in the 13%ile relative to industry peers
Window Dressing	1	1	1	1	0	0	A score of 3 suggests strong likelihood of window dressing	Unlikely to be debt window dressing

Appendix 6a: Investment Window Dressing

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
High level of investment repayment/sales?	0	0	0	0	0	0	If Invest Repay/Sales in excess of the 80%ile relative to industry peers	na
High inv. repay./investments -1FY?	0	0	0	0	0	0	If Invest Repay in excess of 100% of previous year's Investments	Investment Repayment/Investment -1FY of 0%
Window Dressing Investments	0	0	0	0	0	0	A score of 2 suggests a strong possibility of window dressing	Unlikely to be window dressing investments

Appendix 7: Fake Cash Flow

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	Point Calculation	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	
High operating margin	Critical criteria: 1	0	0	0	0	0	0	Operating Margin >80%ile relative to industry peers	A 12m Trailing Operating Margin of 10% is in the 61%ile
High return on production assets	point	0	0	0	0	1	1	Op Profit/(PPE + Inv) in the >80%ile relative to industry peers	A 12m Return on Production Assets of 38% is in the 83%ile
High level of non-production assets	1 point	0	0	0	0	0	0	(Total Assets-Production Assets)/(COGS or Sales) >80%ile versus peers	Non Production Assets/COGS (or Sales) of 82% is in the 60%ile
Build-up of non-production assets	1 point	0	0	0	0	0	0	Increase in Non Prod Assets rel to Sales or COGS >80%ile peers	Non Production Assets/COGS (or Sales) changed by -9% over 1 year
Low dividends and buybacks	1 point	0	0	0	0	0	0	Dividends and Buybacks are less than 30% profit	Dividends and buybacks of 35%
A relatively unknown auditor		0	0	0	0	0	0	Relatively obscure auditor	Well known auditor: Kpmg
Incorporation and Domicile		0	0	0	0	0	0	Different country of incorporation vrs domicile	Country of incorporation (European Union) is same as domicile (European Union).
Debt structure	1pt if >1	0	0	0	0	0	0	If Short Term Debt >75% Total Debt, or no debt at all	Short term debt is 12% of total debt
Sector		1	1	1	1	1	1	Operates in sector prone to fraud	Textiles, Apparel & Luxury Goods industry is prone to fraud.
Fake Cash Flow Fraud	Max 4pts	0	0	0	0	1	1	A score of 3 or 4 is problematic and requires further investigation	Minor Fraud Alert: 98% of frauds have these characteristics but so do 36% of all companies

Appendix 8: Excess Capital Raising

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(EURm)	FY13	FY14	FY15	FY16	FY17	FY13-17
Sales	+14,203	+14,534	+16,915	+19,291	+21,217	+86,160
- OPCF	+660	+718	+1,109	+1,370	+1,674	+5,531
- Capex	(469)	(543)	(507)	(646)	(750)	(2,915)
- Dividends (incl MI at subs)	(283)	(318)	(309)	(322)	(406)	(1,638)
- Buybacks	+0	(300)	(301)	(218)	(100)	(919)
- (Acquisitions)/disposals	+0	(6)	(50)	+0	+0	(56)
= Net internal cash generation	(92)	(449)	(58)	+184	+418	+3
Externally generated cash flows						
- Debt issuance, net	(156)	+500	(80)	+9	(275)	(2)
- Equity issuance	+0	+0	+0	+0	+13	+13
= Net external financing	(156)	+500	(80)	+9	(262)	+11
Net surplus/(deficit)	(248)	+51	(138)	+193	+156	+14
Net flows/Sales (%)	(2)	+0	(1)	+1	+1	0
Relative to Global Sector (%ile):						25%
Av. cash balance/sales (%)	13	12	10	9	9	
Relative to Global Sector (%ile)	59%	56%	48%	44%	43%	
Core cash required (10% of Sales):					185	
Surplus cash at year end (cash balance less core cash):					1,591	
Possible fake cash flow over past 5yrs (only if 5yr surplus is greater than zero):					14	
Possible fake cash/excess cash balance (%):					1	
Normal amounts of cash flow generated.						

Appendix 9: Debt Reconciliation (based on latest annual data)

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(EURm)	FY13	FY14	FY15	FY16	FY17	FY13-17
Balance sheet (BS) debt YE	1,487	1,334	1,872	1,829	1,618	1,154
Change in debt: BS	(153)	+538	(43)	(211)	(464)	(333)
Change in debt: Cash flow (CF)	(156)	500	(80)	9	(275)	(2)
Unrec chg BS and CF debt	+3	+38	+37	(220)	(189)	(331)
Unrec chg/total debt (%)	+0	+2	+2	(14)	(16)	(29)
Possible reason:	ok	ok	ok	ok	ok	
No material unreconcilable changes in debt in the last 5 years.						
Reasons:						
- Assets paid with debt (such as operating leases) is a non-cash item. Capex should be restated.						
- Proceeds raised from convertible bonds (CBs) are sometimes regarded as equity, not debt.						
- Large acquisitions can lead to difficulties in reconciling debt.						
- If no reason is found, further work is needed.						

Appendix 10: Ownership Type (latest Bloomberg data)

	(%)	Active Versus Passive	
Investment Advisor	67	Free Float (%)	97
Holding Company	15	No. Instit. Owners	690
Hedge Fund Manager	4	Institutional (%)	68
Other	4	- Passive Instit. (ETFs) (%)	16
Corporation	4	- Active Instit. (%)	51
Other	6		

Appendix 11: Insiders (latest Bloomberg data)

		Comment
Insider Shares O/S (%)	0.00	
Chg Insider Hldgs -6m (%)	0.00	Changes in insider holdings can be due to options, etc. as opposed to actively buying or selling
Number of Insider Shares Purchased (m)	+0.0	shares
Number of Insider Shares Sold (m)	+0.0	
Average Purchase Price of Insider Shares	179.76	Current share price is EUR203.7
Average Sell Price of Insider Shares	0.00	
Shares Outstanding (m)	204	
Insider Shares Traded -6m/Total Shares (%)	0.00	

Appendix 12: Comprehensive Income (latest Bloomberg data)

	(EURm)	Comment
Comprehensive Income	220	
Less:		
Net Income/Net Profit (Losses)	1,097	
<i>Other comprehensive income comprised of:</i>		
Foreign Currency Trans. Adj.	(524)	Other comprehensive income is -80% of income which is unusually high. Able to fully reconcile other comprehensive income.
Change In Fair Value of Derivatives	(375)	
Pension Related Adjustments	23	
na	na	
na	na	
na	na	
na	na	
Amount unable to reconcile:	(1)	