

# GMT Research Accounting Screen



Short Name	Nike Inc -CI B	Description:	Relevant GMT Research Reports (please go to our website and login):
GICS Ind Name	Textiles, Apparel & Luxury Goods	NIKE, Inc. designs, develops, and markets athletic footwear, apparel, equipment, and accessory products for men, women, and children. The Company sells its products worldwide to retail stores, through its own stores, subsidiaries, and distributors.	
GICS Industry	252,030		
Cntry of Dom	US		
Most Recent Balance Sheet Period	2018 Q3		
Ticker	NKE Us		
Latest Period	Q3		Short-Seller's Report (for Asian companies only)
Current Fiscal Year	2018		
Well known auditor:	Pricewaterhouse Coopers Llp		Summary of accounting risk for Q3/FY18
Country of incorporation:	Country of incorporation (United States) is same as domicile (United States).		- Profit manipulation Low risk: Montier.
Country of financials:	Currency of financials (US Dollar) is same as country of risk (United States).		- Financial position Normal
			- General accounting Normal
			- Shenanigans Evidence: Window dressing.
			= Accounting risk: Medium
Profit Manipulation		Latest financials complete	This spreadsheet expires on 31st Mar 2018, in 82 days.
Profit Manipulation: Beneish M-Score (See App 1)		Beneish M-Score of -2.35 in Q3/FY18 suggests no profit manipulation.	
Cooking the Books: Montier's C-Score (App 2)		A C-Score of 2/6 slightly better than average but watch out for: Rising receivables. Rising inventory.	
Financial Position			
Strength of Financial Position: Piotroski F-Score (App 3)		An F-Score of 4/9 suggests financials are slightly deteriorating owing to: ROA. OPCF less than Profit. Leverage. Current Ratio. Gross Margin.	
Risk of Default: Altman Z-Score (App 4)		An Altman Z-Score of 7.93 is in the Safe Zone: Financially sound.	
Accounting Shenanigans			
Acquisition Accounting (App 5)	Global screen	No evidence of acquisition accounting.	
Window Dressing (App 6)		Possible investment window dressing owing to a high investment churn. Further investigation needed.	
Fake Cash Fraud: Overly profitable (App 7)	Global screen	Scores 1/4 in Q3/FY18. 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 1% 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 14 red flags in the last financial period which is normal.	
Cash Balance		Cash & STI of USD4.8bn is within normal range.	
Restricted Cash		Restricted Cash of USD0bn is within normal range.	
Receivables		Receivables of USD3.8bn 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 USD5.8bn are within normal range.	
Inventory		Inventories of USD5.4bn are equal to 15% 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 USD1.4bn are large relative to sales (4.1%) and inventory (26.9%), raising the risk of illegal cash extraction fraud.	
Capitalisation of Expenses		Capitalised expenses relative to pre-tax profits (0%) are within normal range.	
Affiliate Investments		There are no investments in associates.	
Auditing Costs		Auditing expenses of 6.3bp of sales within normal range.	
Deferred Tax Assets		Deferred Tax Assets/Sales of 0% are within normal range.	
Deferred Tax Liabilities		Deferred Tax Liabilities/Sales of 0% are within normal range.	
Derivatives		Derivatives equal to 6% of equity within normal range.	
Other Large Curious Assets and/or Liabilities		Large Other LT Assets of USD2.5bn include Unspecified of USD2.5bn. Large Other LT Liabilities of USD2.9bn include Other Noncurrent Liabilities of USD3.5bn.	
Depn & Amort		Within normal range.	
Interest Cover		EBIT Interest Cover of 46.8x is within normal range.	
Leverage		Total Debt/Profit of 0.9x and assets to equity of 2.3x are within normal range.	
Related Party Fraud		No evidence of related party transactions.	
Other Tests:		Evidence of substantial losses at consolidated subsidiaries owing to high effective tax rate and rising deferred tax assets. No or new CFO. Gross Margin volatility is unusually low at 2.6% in the 17%ile relative to peers which is sometimes a trait of frauds.	

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Ratios		Global/Sector/ Country	Nike Inc -CI B Ratios			Ratio Change		Peer Group Comparison Ratios				Percentiles and Red Flags			Red Flag Comment
			Q3/FY18	Q3/FY17	Q3/FY15	-1yr Chg	-3yr Chg	20th %ile	50th %ile	80th %ile	No of Peers	Q3/FY18	-1yr Chg	-3yr Chg	
												(0-100%)	(+/-50%)	(+/-50%)	
Balance Sheet: Assets															
Av Cash & Equiv./Sales (%)	GICS Industry	15.5	16.6	17.2	-1.1	-1.7	3.2	10.4	24.0	379	64%	+26%	+23%		
Unrestricted Cash/COGS (%)	GICS Industry	18.4	21.6	18.4	-3.2	+0.0	5.1	16.6	40.3	314	53%	+7%	+6%		
ST Investments/Sales FY (%)	GICS Industry	3.1	6.1	5.8	-3.0	-2.8	0.1	1.6	8.5	172	62%	-40%	-38%	ST Investments/Sales FY (%) present.	
Av. Trade & Notes Rec/Sales (%)	GICS Industry	10.7	10.5	11.0	+0.2	-0.3	7.2	12.1	20.0	356	40%	+2%	-14%		
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	15.2	14.5	14.0	+0.7	+1.2	13.0	19.6	29.8	375	28%	+9%	+6%		
Inventory Days	GICS Industry	95	93	90	+1	+5	62	103	187	314	44%	-3%	-2%		
Finished Goods/Inventory (%)	GICS Industry	100	100	100	+0.0	+0.0	33	60	89	417	98%	-10%	-16%	Finished Goods/Inventory (%) high.	
Av. Other ST Assets/Sales (%)	GICS Industry	3.2	3.4	3.9	-0.3	-0.7	2.0	3.6	7.4	376	41%	-17%	-20%		
PPE/Sales (%)	GICS Industry	11.5	10.5	9.3	+1.0	+2.2	9.2	22.8	45.7	360	26%	+14%	+15%		
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	0.0	0.0	0.0	+0.0	+0.0	0.2	1.5	10.0	249	na	na	na		
Deferred Tax Assets/Sales FY (%)	GICS Industry	0.0	0.0	0.9	+0.0	-0.9	0.2	0.9	2.7	277	na	na	na		
Prepaid Expenses/Sales (%)	GICS Industry	4.1	4.0	6.5	+0.1	-2.4	0.3	1.3	3.4	167	84%	+12%	-45%	Prepaid Expenses/Sales (%) high.	
Prepaid Expenses/Inventory (%)	GICS Industry	26.9	27.6	46.6	-0.6	-19.6	1.2	3.7	10.7	99	92%	-23%	-48%	Prepaid Expenses/Inventory (%) high.	
Intangibles/Sales FY (%)	GICS Industry	1.2	1.2	1.2	-0.0	+0.0	0.1	1.0	9.2	316	52%	-2%	-4%		
Av. Other LT Assets/Sales FY (%)	GICS Industry	7.0	7.7	5.8	-0.7	+1.2	0.4	1.8	5.8	332	83%	-36%	+20%	Av. Other LT Assets/Sales FY (%) high.	
Av. Assets/Sales (%)	GICS Industry	65	65	63	-0.3	+1.4	65.5	95.1	139.4	380	18%	-12%	-9%		
Balance Sheet: Liabilities and Equity															
Av. Payables (Trade, Bills, Accr/Sales (%)	GICS Industry	15.4	14.6	14.8	+0.8	+0.6	5.3	10.0	15.5	379	79%	+22%	+11%		
Trade Payable Days	GICS Industry	35	35	36	-0.1	-0.8	24.5	45.6	81.5	348	35%	-6%	-11%		
ST Debt/Total Debt (%)	Global	0	1	14	-0.3	-13.0	13.0	44.2	88.3	13,723	2%	-6%	-26%		
Av. Other ST Liabs/Sales (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	3.8	6.8	10.9	380	na	na	na		
Av. Deferred Tax Liab/Sales FY (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	0.7	3.6	12.1	256	na	na	na		
Av. Other LT Liabs/Sales (%)	GICS Industry	8.1	4.8	4.2	+3.4	+3.9	0.4	1.8	5.1	298	87%	+41%	+42%	Av. Other LT Liabs/Sales (%) high. Risen over 1yr. Risen over 3yrs.	
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	0.0	0.0	0.0	+0.0	+0.0	0.3	2.4	11.4	9,628	na	na	na		
Assets/Equity (x)	GICS Industry	2.3	1.8	1.7	+0.5	+0.6	1.4	1.8	2.6	373	71%	+43%	+41%	Risen over 1yr. Risen over 3yrs.	
Balance Sheet: Other															
Av. GFA/D&A (yrs)	GICS Industry	na	na	10.5	na	na	8.4	14.3	22.8	371	na	na	na		
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	99	96	94	2	4	70.6	110.2	186.0	312	41%	-3%	+7%		
Av. Gross Working Capital/Sales (%)	GICS Industry	44.9	44.8	45.4	+0.0	-0.6	40.4	53.6	72.2	379	28%	-9%	-14%		
Contingent Liab/Equity (%)	GICS Industry	1.6	1.2	1.3	+0.4	+0.3	2.0	13.6	59.2	253	17%	+11%	+10%		
Pension Liabilities/Equity (%)	Global	0.0	0.0	0.0	+0.0	+0.0	0.7	2.8	10.0	7,570	na	na	na		
Net Derivatives/Equity (%)	Global	5.7	3.9	10.6	+1.9	-4.9	-1.4	0.0	1.1	2,405	91%	+34%	-41%	Risen over 1yr.	
Return on Production Assets (%)	GICS Industry	47.3	55.4	60.2	-8.2	-12.9	4.5	14.9	33.7	382	88%	+30%	+29%	Return on Production Assets (%) high. Fallen over 1yr.	
Non-Prod. Assets/COGS FY (%)	GICS Industry	64.8	72.6	-7.7	-7.7	+72.6	34.6	67.1	132.2	299	47%	+40%	-39%	Risen over 3yrs.	
Gross Debt/Profit (x)	GICS Industry	0.9	0.9	0.4	+0.1	+0.5	0.9	4.0	13.7	306	20%	+2%	+5%		
											(0-100%)	(+/-50%)	(+/-50%)		
Income Statement															
Sales/Employee (US\$)	GICS Industry	na	na	na	na	na	56,779	148,854	359,649	286	na	na	na		
Gross Margin (%)	GICS Industry	43.6	45.0	45.8	-1	-2	15	30	52	322	68%	+18%	+11%		
GM Volatility 5yrs (%)	GICS Industry	2.6					2.9	6.3	20.0	303	17%			GM Volatility 5yrs (%) low.	
Other Op Y/Op Y (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	1.8	6.4	20.7	119	na	na	na		
D&A/Sales T12M (%)	GICS Industry	2.1	2.0	2.0	+0.1	+0.1	1.4	2.8	4.7	376	65%	-2%	-3%		
Operating Margin T12M (%)	GICS Industry	12.3	13.6	13.6	-1.3	-1.3	2.8	7.2	14.9	374	71%	+18%	+9%		
Non-Op Y/Op Y (%)	GICS Industry	0.9	5.4	0.3	-4.5	+0.6	2.9	10.4	36.5	329	7%	-25%	-1%		
EFF Int Rate less MLR (ppt)	Country	1.6	2.7	2.1	-1.1	-0.5	3.5	5.2	7.7	1,652	3%	-30%	+9%	EFF Int Rate less MLR (ppt) low.	
Cash Return less Policy Rate (ppt)	Country	-0.5	-0.3	0.0	-0.3	-0.5	0.1	0.7	3.5	1,091	0%	-25%	-22%	Cash Return less Policy Rate (ppt) low.	
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	57.8	14.9	23.6	+42.9	+34.2	17.9	32.0	38.0	1,931	96%	+48%	+46%	Eff Tax Rate (%) high. Risen over 1yr. Risen over 3yrs.	
CF Tax/IS Tax (%)	GICS Industry	na	na	na	na	na	64.9	98.7	151.1	285	na	na	na		
X Items/Op Y (%)	Global	0.0					0.8	6.2	37.4	1,297	na				
Minority Int/Profit B4 MI (%)	Global	0.0	0.0	0.0	+0.0	+0.0	-0.1	1.8	12.8	8,362	na	na	na		
Net Income Margin (%)	GICS Industry	5.1	12.0	10.3	-6.9	-5.2	1.3	4.7	11.2	383	48%	+45%	+36%	Fallen over 1yr. Fallen over 3yrs.	
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	0.0	0.0	0.0	+0.0	+0.0	0.9	4.0	16.7	728	na				
EBIT Interest Cover (x)	GICS Industry	46.8	46.4	149.6	+0.4	-102.7	1.7	7.4	41.1	351	19%	-5%	+44%	Fallen over 3yrs.	

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Ratios		Global/Sector/ Country		Nike Inc -CI B Ratios			Ratio Change		Peer Group Comparison Ratios				Percentiles and Red Flags			Red Flag Comment	
		Q3/FY18	Q3/FY17	Q3/FY15	-1yr Chg	-3yr Chg	20th %ile	50th %ile	80th %ile	No of Peers	Q3/FY18	-1yr Chg	-3yr Chg				
Cash Flow															(0-100%)	(+/-50%)	(+/-50%)
CFO/Net Profit (x)	GICS Industry	2.0	1.0	1.5	+1.0	+0.5	0.3	1.1	2.2	1,697	24%	-27%	-10%	Decrease Investments/Sales (%) high.			
Cash Interest Exp./CFO (%)	GICS Industry	na	na	na	na	na	0.2	4.8	25.8	271	na	na	na				
Capex/Sales (%)	GICS Industry	3.0	3.0	3.1	-0.0	-0.1	1.4	3.2	7.2	371	46%	+1%	-3%				
Decrease Investments/Sales (%)	GICS Industry	13.9	12.8	14.4	+1.1	-0.5	0.0	0.5	4.8	141	86%						
Other Investing Activities/Sales (%)	GICS Industry	2.8	1.4	0.1	+1.4	+2.7	0.1	1.1	4.4	292	70%						
Debt Repay/ST Debt -1FY (%)	Global	83	871	25	-788.7	+58.2	20.0	88.4	210.9	10,373	47%	-46%	+28%				
Free Cash Flow Margin (%)	GICS Industry	7.1	9.2	12.3	-2.1	-5.2	-4.2	2.4	8.7	377	26%	+16%	+28%				
FCF-Divs/Sales (%)	Global	3.7	5.9	9.5	-2.3	-5.8	-7.2	0.9	6.8	10,563	33%	+17%	+29%				
No. of Mat. Capital Inc -5yrs	Global	0					0.0	0.0	1.0	9,451	na						
Other Fin. Activities/Sales (%)	GICS Industry	0.3	0.0	0.3	+0.3	+0.0	0.0	0.3	1.4	329	50%						
Corporate Governance															(0-100%)	(+/-50%)	(+/-50%)
Auditing Exp/Sales (bp)	GICS Industry	6.3					2.5	6.3	13.2	179	50%			CEO Tenure (yrs) high.			
RPT Balances/Equity (%)	Global	0.0					0.3	1.9	11.0	1,434	na						
Number of Acq&Disp -5yrs	Global	0					0.0	3.0	5.0	12,251	na						
Acq&Disp Con./Sales Av. -5yrs (%)	Global	0.0					0.2	1.4	6.9	12,251	na						
Executive Comp/Sales (bp)	GICS Industry	na					7.4	22.6	73.1	84	na						
Executive Comp/PTP (bp)	GICS Industry	na					67.6	188.6	669.0	84	na						
CEO Tenure (yrs)	Global	12.3					1.4	4.5	10.8	5,466	83%						
CFO Tenure (yrs)	Global	na					1.1	3.3	8.3	716	na						
Av. Executive Tenure (yrs)	Global	na					4.1	7.4	11.9	3,291	na						
Av. Board Tenure (yrs)	Global	10.0					3.9	6.4	9.9	3,672	80%				Av. Board Tenure (yrs) high.		

Source: GMT Research, Bloomberg

## Summary of financials in Q3/FY18

Average Ratio Percentile Score (0 is good, 100 is bad)	51%	Result: Scores within normal range. Number of red flags normal.	Explanation
- Percentile vs Industry Peers (0% is good, 100% is bad)	61%	In Q3/FY18, Nike Inc -CI B recorded an average percentile score (0 is good, 100 is bad) of 51% across all 75 financial ratios listed below. This places it in a percentile of 61 relative to around 379 GICS industry peers globally, which is a moderate result. The company triggered a total of 14 red flags out of 75 placing it in a percentile of 59 relative to our sample of 16,000 companies 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.
Number of Red Flags (Out of a possible 75)	14		
- Percentile vs Global Peers (0% is good, 100% is bad)	59%		

## Summary of change in financials over 1 year

Number of Red Flags (Out of a possible 62)	6	Result: Number of red flags normal.	Explanation
- Percentile vs Global Peers (0% is good, 100% is bad)	36%	Over the financial year prior to Q3/FY18, Nike Inc -CI B triggered a total of 6 red flags out of 62 placing it in a percentile of 36 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.

## Summary of change in financials over 3 yrs

Number of Red Flags (Out of a possible 62)	6	Result: Number of red flags normal.	Explanation
- Percentile vs Global Peers (0% is good, 100% is bad)	43%	Over the 3 financial years prior to Q3/FY18, Nike Inc -CI B 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.

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## Appendices

### Appendix 1: Beneish M-Score

	Calculation	FY13	FY14	FY15	FY16	FY17	Q3/FY18	Index Calculation	Comments on latest period
Days Sales in Receivables Index	$+(0.92 \times 1.02)$	0.92	0.93	0.94	0.92	0.99	1.02	$(\text{Net Receivables}_t / \text{Sales}_t) / (\text{Net Receivables}_{t-1} / \text{Sales}_{t-1})$	Receivables of 39 days have increased by 1 days YoY
Gross Margin Index	$+(0.528 \times 1.03)$	1.00	0.97	0.97	0.99	1.04	1.03	$[(\text{Sales}_{t-1} - \text{COGS}_{t-1}) / \text{Sales}_{t-1}] / [(\text{Sales}_t - \text{COGS}_t) / \text{Sales}_t]$	12m Trailing Gross Margin of 43.6% has deteriorated by 1.4ppts YoY
Asset Quality Index	$+(0.404 \times 0.94)$	0.78	1.33	1.25	0.95	1.04	0.94	$[1 - (\text{Curr Ass}_t + \text{PP\&E}_t + \text{Sec}_t) / \text{Assets}_t] / [1 - ((\text{Curr Ass}_{t-1} + \text{PP\&E}_{t-1} + \text{Sec}_{t-1}) / \text{Assets}_{t-1})]$	Other LT Assets/Total Assets of 12.9% has fallen by 0.8ppts YoY
Sales Growth Index	$+(0.892 \times 1.04)$	1.08	1.10	1.10	1.06	1.06	1.04	$\text{Sales}_t / \text{Sales}_{t-1}$	12m Trailing Sales have risen 4% YoY
Depreciation Index	$+(0.115 \times 1.05)$	0.93	0.98	0.92	1.08	1.04	1.05	$(\text{Depr}_{t-1} / (\text{PP\&E}_{t-1} + \text{Depr}_{t-1})) / (\text{Depr}_t / (\text{PP\&E}_t + \text{Depr}_t))$	12m Trailing Depreciation/Sales of 14.6% has fallen by 0.8ppts YoY
SG&A Index	$-(0.172 \times 1.00)$	0.99	0.98	0.98	1.00	1.05	1.00	$(\text{SG\&A Expense}_t / \text{Sales}_t) / (\text{SG\&A Expense}_{t-1} / \text{Sales}_{t-1})$	12m Trailing SG&A/Sales of 31.3% have fallen by 0.1ppts YoY
Total Accruals to Total Assets	$+(4.679 \times 0.01)$	-0.03	-0.02	-0.07	0.03	0.03	0.01	$\text{Profit from Continuing Ops}_t - \text{Cash Flows from Ops}_t / \text{Total Assets}_t$	Total Accruals (Net Profit less CFO)/Total Assets are 1%
Leverage Index	$-(0.327 \times 0.92)$	0.90	0.88	0.98	1.00	0.89	0.92	$[(\text{Curr Liab}_t + \text{Total LT Debt}_t) / \text{Total Ass}_t] / [(\text{Curr Liab}_{t-1} + \text{Total LT Debt}_{t-1}) / \text{Total Ass}_{t-1}]$	LT Debt + Current Liabilities/Total Assets of 41% have risen by 3.3ppts YoY
<b>Beneish M-Score for Q3/FY18</b>	<b>-4.84 =</b>	<b>-2.70</b>	<b>-2.37</b>	<b>-2.66</b>	<b>-2.37</b>	<b>-2.25</b>	<b>-2.35</b>	<b>An M-Score of &gt;-2.22 signals that the company is likely to be a manipulator</b>	<b>Beneish M-Score of -2.35 in Q3/FY18 suggests no profit manipulation</b>

### Appendix 2: Montier C-Score

	FY13	FY14	FY15	FY16	FY17	Q3/FY18	Point Calculation	Comments
Profit	0	1	0	1	0	0	A growing divergence between Profit and Operating Cash Flow (1 point)	12m Trailing Accruals Margin of 5% has improved from 0.2% YoY
Receivables	0	0	0	0	0	1	Receivable Days are increasing (1 point)	Receivables of 38 days have increased by 1 days YoY
Inventory	0	1	0	1	0	1	Inventory Days are increasing (1 point)	Inventory of 15 days has risen by 1 days YoY
Other current assets	0	0	1	1	0	0	Other Current Assets to Sales are increasing (1 point)	Other Current Assets/Sales of 4% have fallen by 1.3ppts YoY
Depreciation	0	0	0	0	1	na	Depreciation relative to PPE jobs usfa bs	na
Asset growth	1	0	1	0	0	0	High asset growth in excess of 10% (1 point)	Asset growth of -3% is below 10%
<b>Montier's C-Score</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>Score 0-1 is good; 2-4 is average, 5-6 is bad</b>	<b>A C-Score of 2/6 slightly better than average</b>

### Appendix 3: Piotroski F-Score

	FY13	FY14	FY15	FY16	FY17	Q3/FY18	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 16.7%
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 10.1%
Return on Assets Score	0	1	1	1	1	0	Higher Return on Assets than previous year (1 point)	12m Trailing ROA has fallen to 16.7% from 18.5% YoY
Quality of Earnings Score	1	1	1	0	0	0	Operating Cash Flow are greater than ROA (1 point)	12m Trailing CFO Margin of 10.6% is below Net Profit Margin of 12.3%
Long-Term Debt to Assets Score	0	1	1	0	0	0	Lower ratio of Long Term Debt than previous year (1 point)	LT Debt/Total Assets has risen to 15% from 15% YoY
Current Ratio Score	1	0	0	1	1	0	Higher Current Ratio this year compared to the previous year (1 point)	Current Ratio has fallen to 2.66x from 3.07x YoY
Shares Outstanding Score	1	1	1	1	1	1	No new shares were issued in the last year (1 point)	Decreased number of shares by -2%
Gross Margin Score	1	1	1	1	0	0	A higher Gross Margin compared to the previous year (1 point)	12m Trailing Gross Margin of 43.6% has deteriorated by 1.4ppts YoY
Asset Turnover Score	1	1	0	0	1	1	A high Asset Turnover ratio compared to the previous year (1 point)	Asset turnover has risen to 1.54x from 1.54x YoY
<b>Piotroski F-Score</b>	<b>7</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>4</b>	<b>Score 0-1 weak and deteriorating; 8-9 strong and improving</b>	<b>An F-Score of 4/9 suggests financials are slightly deteriorating</b>

### Appendix 4: Altman Z-Score

	FY13	FY14	FY15	FY16	FY17	Q3/FY18	Altman Z-Score for a manufacturing company	Comments
Solvency	0.74	0.64	0.52	0.55	0.56	0.52	Working Capital (Current Assets less Current Liabilities)/Tangible Assets	Ability to meet short term obligations
Cumulative profitability	0.46	0.38	0.31	0.28	0.24	0.07	Retained Earnings/Tangible Assets	Determines cumulative historic profitability
Profitability	0.62	0.67	0.65	0.71	0.69	0.65	EBIT/Tangible Assets	Measures earnings away from the effects of taxes and leverage
Market confidence	5.12	5.17	5.88	6.11	4.81	5.10	Market Capitalisation/Total Liabilities	Whether a firm's value able to cover liabilities
Efficiency	1.48	1.53	1.44	1.54	1.50	1.59	Sales/Tangible Assets	An asset turnover metric to measure efficiency
Leverage	na	na	na	na	na	na	Book Value of Equity/Total Liabilities	Leverage
<b>Altman Z-Score for Q3/FY18</b>	<b>8.42</b>	<b>8.38</b>	<b>8.81</b>	<b>9.19</b>	<b>7.80</b>	<b>7.93</b>	<b>Anything &lt;1.81 for a manufacturer or &lt;1.11 for other companies is problematic</b>	<b>Safe Zone: Financially sound</b>

### Appendix 5: Acquisition Accounting

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	Point Calculation	FY13	FY14	FY15	FY16	FY17	Q3/FY18	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	0	0	1	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 1% are in the 52%ile
Rise in deferred tax assets -1yr?	1 point	0	0	1	1	1	0	Either a rise in Deferred Tax Asset over 1 year	na
Large deferred tax assets		1	1	1	1	1	na	Or a large Deferred Tax Asset in the 80%ile relative to industry peers	na
<b>Acquisition Accounting</b>		<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>A score of 3 suggests possibility of acquisition accounting to inflate profits</b>	<b>No evidence of acquisition accounting.</b>

# GMT Research Accounting Screen



## Appendix 6: Debt Window Dressing

	FY13	FY14	FY15	FY16	FY17	Q3/FY18	Point Calculation	Comments
Has high debt repayment/ST debt?	0	0	0	0	1	0	Debt Repayment relative to the ST Debt one year prior is in excess of 130%	Debt Repayment/ST Debt -1FY of 83% is in the 47%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 2.4% is in the 0%ile relative to country peers
Has moderate debt?	0	0	0	0	1	1	If Debt to Sales >15%ile of industry peers	Debt/Sales of 10% is in the 24%ile relative to industry peers
<b>Window Dressing</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>A score of 3 suggests strong likelihood of window dressing</b>	<b>Unlikely to be debt window dressing</b>

## Appendix 6a: Investment Window Dressing

	FY13	FY14	FY15	FY16	FY17	Q3/FY18	Point Calculation	Comments
High level of investment repayment/sales?	1	1	1	1	1	1	If Invest Repay/Sales in excess of the 80%ile relative to industry peers	Inv. Repayment/Sales of 14% is in the 86%ile relative to industry peers
High inv. repay./investments -1FY?	1	1	1	1	1	1	If Invest Repay in excess of 100% of previous year's Investments	Investment Repayment/Investment -1FY of 229%
<b>Window Dressing Investments</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>A score of 2 suggests a strong possibility of window dressing</b>	<b>Possible investment window dressing</b>

## Appendix 7: Fake Cash Flow

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	Point Calculation	FY13	FY14	FY15	FY16	FY17	Q3/FY18	Point Calculation	
High operating margin	Critical criteria: 1 point	0	0	0	0	0	0	Operating Margin >80%ile relative in industry peers	A 12m Trailing Operating Margin of 12% is in the 71%ile
High return on production assets		1	1	1	1	1	1	Op Profit/(PPE + Inv) in the >80%ile relative to industry peers	A 12m Return on Production Assets of 47% is in the 88%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 65% is in the 47%ile
Build-up of non-production assets		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 -13% 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 123%
A relatively unknown auditor		0	0	0	0	0	0	Relatively obscure auditor	Well known auditor: Pricewaterhouse Coopers LLP
Incorporation and Domicile		0	0	0	0	0	0	Different country of incorporation vrs domicile	Country of incorporation (United States) is same as domicile (United States).
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 0% 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.
<b>Fake Cash Flow Fraud</b>	<b>Max 4pts</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>A score of 3 or 4 is problematic and requires further investigation</b>	<b>Minor Fraud Alert: 98% of frauds have these characteristics but so do 36% of all companies</b>

## Appendix 8: Excess Capital Raising

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(USDm)	FY13	FY14	FY15	FY16	FY17	FY13-17
Sales	+25,313	+27,799	+30,601	+32,376	+34,350	+150,439
- OPCF	+3,032	+3,013	+4,680	+3,096	+3,640	+17,461
- Capex	(584)	(877)	(960)	(1,133)	(1,092)	(4,646)
- Dividends (incl MI at subs)	(703)	(799)	(899)	(1,022)	(1,133)	(4,556)
- Buybacks	(1,674)	(2,628)	(2,534)	(3,238)	(3,223)	(13,297)
- (Acquisitions)/disposals	+786	+0	+0	+0	+0	+786
<b>= Net internal cash generation</b>	<b>+857</b>	<b>(1,291)</b>	<b>+287</b>	<b>(2,297)</b>	<b>(1,808)</b>	<b>(4,252)</b>
<b>Externally generated cash flows</b>						
- Debt issuance, net	+947	(2)	(89)	+801	+1,748	+3,405
- Equity issuance	+385	+515	+732	+788	+666	+3,086
<b>= Net external financing</b>	<b>+1,332</b>	<b>+513</b>	<b>+643</b>	<b>+1,589</b>	<b>+2,414</b>	<b>+6,491</b>
<b>Net surplus/(deficit)</b>	<b>+2,189</b>	<b>(778)</b>	<b>+930</b>	<b>(708)</b>	<b>+606</b>	<b>+2,239</b>
Net flows/Sales (%)	+9	(3)	+3	(2)	+2	1
Relative to Global Sector (%ile):						44%
Av. cash balance/sales (%)	19	20	18	18	17	
Relative to Global Sector (%ile)	73%	74%	70%	69%	67%	
Core cash required (10% of Sales):					643	
Surplus cash at year end (cash balance less core cash):					5,536	
Possible fake cash flow over past 5yrs (only if 5yr surplus is greater than zero):					2,239	
Possible fake cash/excess cash balance (%):					40	
<b>Normal amounts of cash flow generated.</b>						

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

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(USDm)	FY13	FY14	FY15	FY16	FY17	FY13-17
Balance sheet (BS) debt YE	385	1,365	1,373	1,260	2,038	3,802
Change in debt: BS	+980	+8	(113)	+778	+1,764	+3,417
Change in debt: Cash flow (CF)	947	(2)	(89)	801	1,748	+3,405
<b>Unrec chg BS and CF debt</b>	<b>+33</b>	<b>+10</b>	<b>(24)</b>	<b>(23)</b>	<b>+16</b>	<b>+12</b>
Unrec chg/total debt (%)	+2	+1	(2)	(1)	+0	0
Possible reason:	ok	ok	ok	ok	ok	
<b>No material unreconcilable changes in debt in the last 5 years.</b>						
<b>Reasons:</b>						
- 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	86	Free Float (%)	98
Pension Fund (ERISA)	4	No. Instit. Owners	2,171
Bank	2	Institutional (%)	105
Individual	2	- <b>Passive Instit. (ETFs) (%)</b>	<b>31</b>
Government	1	- <b>Active Instit. (%)</b>	<b>74</b>
Other	4		

## Appendix 11: Insiders (latest Bloomberg data)

		Comment
Insider Shares O/S (%)	0.27	
Chg Insider Hldgs -6m (%)	-0.04	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)	-1.1	
Average Purchase Price of Insider Shares	0.00	Current share price is USD67.55
Average Sell Price of Insider Shares	64.22	
Shares Outstanding (m)	1,619	
Insider Shares Traded -6m/Total Shares (%)	0.00	

## Appendix 12: Comprehensive Income (latest Bloomberg data)

	(USDm)	Comment
Comprehensive Income	(975)	
<b>Less:</b>		
Net Income/Net Profit (Losses)	(921)	
<b>Other comprehensive income comprised of:</b>		
na	na	Other comprehensive income is 6% of income which is within normal range. Able to reconcile
na	na	all but 6% of other comprehensive income which is within the normal range.
na	na	
na	na	
na	na	
na	na	
na	na	
Amount unable to reconcile:	(54)	