

# GMT Research Accounting Screen



Short Name	Skechers Usa-A	Description:	Relevant GMT Research Reports (please go to our website and login):
GICS Ind Name	Textiles, Apparel & Luxury Goods	Skechers U.S.A., Inc. designs and markets branded contemporary casual, active, rugged, and lifestyle footwear for men, women, and children. The Company sells its products to department stores and specialty retailers. Skechers also sells its products internationally through distributors and directly to consumers through its own retail stores.	
GICS Industry	252,030		
Cntry of Dom	US		
Most Recent Balance Sheet Period	2018 Q1		
Ticker	SKX US		
Latest Period	Y		Short-Seller's Report (for Asian companies only)
Current Fiscal Year	2017		
Well known auditor:	Bdo Usa LLP		Summary of accounting risk for Y/FY17
Numbe of auditors in past 5yrs:	1		- Profit manipulation Normal
Country of incorporation:	Country of incorporation (United States) is same as domicile (United States).		- Financial position Strong: Piotroski.
Country of financials:	Currency of financials (US Dollar) is same as country of risk (United States).		- General accounting Normal
			- Shenanigans No evidence
			= Accounting risk: Low
Profit Manipulation		Lastest financials for 31/03/2018 incomplete	This spreadsheet expires on 30th June 2018, in 66 days.
Profit Manipulation: Beneish M-Score (See App 1)		Beneish M-Score of -2.22 in Y/FY17 suggests no profit manipulation.	
Cooking the Books: Montier's C-Score (App 2)		A C-Score of 3/6 is average but watch out for: Deteriorating Accruals Margin. Rising inventory. High asset growth.	
Financial Position			
Strength of Financial Position: Piotroski F-Score (App 3)		An F-Score of 6/9 suggests financials are improving.	
Risk of Default: Altman Z-Score (App 4)		An Altman Z-Score of 7.87 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 0/4 in Y/FY17. 64% of companies score similarly and just 2.4% of frauds. Rest easy. Triggered Fake Cash Flow in last 5yrs?: None	
Excess Capital Raising (App 8)	Global screen	Net flows over 5yrs at 3% 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 11 red flags in the last financial period which is normal.	
Cash Balance		Cash & STI of USD0.7bn is within normal range.	
Restricted Cash		Restricted Cash of USD0bn is within normal range.	
Receivables		Receivables of USD0.4bn are equal to 9% of Sales which is in within normal range.	
Doubtful Debts		Delinquency at 0% of total receivables are within normal range.	
Payables		Large Payables of USD0.6bn are within normal range.	
Inventory		Inventories of USD0.9bn are equal to 21% 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 USD0.1bn, equal to 1.5% of Sales, raise the risk of illegal cash extraction.	
Capitalisation of Expenses		Capitalised expenses relative to pre-tax profits (0.1%) are within normal range.	
Affiliate Investments		There are no investments in associates.	
Auditing Costs		No information available	
Deferred Tax Assets		Deferred Tax Assets/Sales of 2% are within normal range.	
Deferred Tax Liabilities		Deferred Tax Liabilities/Sales of 2% are within normal range.	
Derivatives		Derivatives equal to 0% 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 57.3x is within normal range.	
Leverage		Total Debt/Profit of 0.3x and assets to equity of 1.4x are within normal range.	
Related Party Fraud		No evidence of related party transactions.	
Other Tests:		New CFO. Gross Margin volatility is unusually low at 0.5% in the 0%ile relative to peers which is sometimes a trait of frauds.	

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Ratios		Global/Sector/ Country	Skechers Usa-A 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	
(0-100%) (+/-50%) (+/-50%)															
Balance Sheet: Assets															
Av Cash & Equiv./Sales (%)	GICS Industry	17.5	17.2	17.6	+0.3	-0.2	3.2	10.4	24.0	379	69%	+0%	+9%		
Unrestricted Cash/COGS (%)	GICS Industry	33.1	37.3	35.7	-4.2	-2.6	5.1	16.6	40.3	314	74%	+9%	+8%		
ST Investments/Sales FY (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	0.1	1.6	8.5	172	na	na	na		
Av. Trade & Notes Rec/Sales (%)	GICS Industry	8.8	9.4	10.5	-0.6	-1.7	7.2	12.1	20.0	356	29%	-26%	-31%		
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	21.0	19.7	19.1	+1.3	+1.9	13.0	19.6	29.8	375	55%	+17%	+13%		
Inventory Days	GICS Industry	129	125	113	+4	+16	62	103	187	314	63%	+7%	+18%		
Finished Goods/Inventory (%)	GICS Industry	0	0	0	+0.0	+0.0	33	60	89	417	na	na	na		
Av. Other ST Assets/Sales (%)	GICS Industry	2.1	2.2	3.2	-0.2	-1.1	2.0	3.6	7.4	376	20%	-11%	-26%		
PPE/Sales (%)	GICS Industry	12.4	13.1	15.5	-0.6	-3.0	9.2	22.8	45.7	360	29%	-13%	-22%		
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	1.9	1.7	1.3	+0.1	+0.5	0.2	0.9	2.7	277	70%	+8%	+15%		
Prepaid Expenses/Sales (%)	GICS Industry	1.5	1.8	2.4	-0.3	-0.9	0.3	1.3	3.4	167	54%	-27%	-36%		
Prepaid Expenses/Inventory (%)	GICS Industry	7.2	8.9	12.6	-1.8	-5.4	1.2	3.7	10.7	99	68%	-33%	-42%		
Intangibles/Sales FY (%)	GICS Industry	0.0	0.0	0.0	+0.0	-0.0	0.1	1.0	9.2	316	na	na	na		
Av. Other LT Assets/Sales FY (%)	GICS Industry	1.4	1.1	0.3	+0.3	+1.1	0.4	1.8	5.8	332	44%	+15%	+19%		
Av. Assets/Sales (%)	GICS Industry	62	62	65	-0.6	-3.3	65.5	95.1	139.4	380	15%	-13%	-23%		
Balance Sheet: Liabilities and Equity															
Av. Payables (Trade, Bills, Accr/Sales (%)	GICS Industry	14.4	16.5	14.7	-2.1	-0.3	5.3	10.0	15.5	379	74%	-42%	-8%		
Trade Payable Days	GICS Industry	78	91	80	-12.5	-1.5	24.5	45.6	81.5	348	78%	-43%	-14%		
ST Debt/Total Debt (%)	GICS Industry	12	10	87	+1.6	-75.1	37.0	69.8	100.0	342	8%	+6%	-47%		
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	1.7	2.4	3.6	-0.7	-2.0	0.7	3.6	12.1	256	33%	-45%	-46%		
Av. Other LT Liabs/Sales (%)	GICS Industry	2.8	0.5	0.5	+2.4	+2.4	0.4	1.8	5.1	298	63%	+37%	+38%	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	6.1	4.9	5.2	+1.3	+0.9	0.3	2.4	11.4	9,628	68%	+36%	+22%	Risen over 1yr.	
Assets/Equity (x)	GICS Industry	1.4	1.4	1.5	-0.0	-0.1	1.4	1.8	2.6	373	22%	-3%	-9%		
Balance Sheet: Other															
Av. GFA/D&A (yrs)	GICS Industry	11.2	12.4	13.0	-1.2	-1.8	8.4	14.3	22.8	371	35%	-33%	-35%		
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	83	69	72	14	11	70.6	110.2	186.0	312	29%	+25%	+17%		
Av. Gross Working Capital/Sales (%)	GICS Industry	44.2	46.7	45.5	-2.5	-1.3	40.4	53.6	72.2	379	27%	-28%	-19%		
Contingent Liab/Equity (%)	GICS Industry	127.9	147.3	159.0	-19.4	-31.0	2.0	13.6	59.2	253	93%	-41%	-40%	Contingent Liab/Equity (%) high.	
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	0.0	0.0	0.0	+0.0	+0.0	-1.4	0.0	1.1	2,405	na	na	na		
Return on Production Assets (%)	GICS Industry	29.3	32.9	27.0	-3.6	+2.3	4.5	14.9	33.7	382	75%	+15%	-16%		
Non-Prod. Assets/COGS FY (%)	GICS Industry	58.0	52.7	5.3	+5.3	+52.7	34.6	67.1	132.2	299	42%	-3%	-34%	Risen over 3yrs.	
Gross Debt/Profit (x)	GICS Industry	0.3	0.3	0.8	-0.0	-0.6	0.9	4.0	13.7	306	8%	-3%	-16%		
Income Statement												(0-100%)	(+/-50%)	(+/-50%)	
Sales/Employee (US\$)	GICS Industry	570,433	890,828	807,595	-320,395	-237,163	56,779	148,854	359,649	286	89%	+49%	+47%	Sales/Employee (US\$) high. Fallen over 1yr. Fallen over 3yrs.	
Gross Margin (%)	GICS Industry	46.6	45.9	45.1	+1	+1	15	30	52	322	73%	+2%	-7%		
GM Volatility 5yrs (%)	GICS Industry	0.5					2.9	6.3	20.0	303	0%			GM Volatility 5yrs (%) low.	
Other Op Y/Op Y (%)	GICS Industry	4.4	3.7	4.4	+0.6	-0.0	1.8	6.4	20.7	119	39%	+1%	-11%		
D&A/Sales T12M (%)	GICS Industry	2.0	1.9	2.0	+0.1	-0.0	1.4	2.8	4.7	376	68%	-11%	+8%		
Operating Margin T12M (%)	GICS Industry	9.2	10.4	8.8	-1.2	+0.4	2.8	7.2	14.9	374	59%	+17%	-8%		
Non-Op Y/Op Y (%)	GICS Industry	2.1	1.3	2.5	+0.8	-0.4	2.9	10.4	36.5	329	14%	+2%	-9%		
FFI Int Rate less MLR (ppt)	Country	7.2	7.2	10.0	-0.0	-2.8	3.5	5.2	7.7	1,652	75%	+11%	-32%		
Cash Return less Policy Rate (ppt)	Country	-1.0	-0.4	0.1	-0.6	-1.1	0.1	0.7	3.5	1,091	0%	-33%	-32%	Cash Return less Policy Rate (ppt) low. Fallen over 1yr. Fallen over 3yrs.	
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	38.8	20.6	20.5	+18.2	+18.3	17.9	32.0	38.0	1,931	83%	+45%	+42%	Eff Tax Rate (%) high. Risen over 1yr. Risen over 3yrs.	
CF Tax/IS Tax (%)	GICS Industry	38.0	88.0	75.3	-50.1	-37.3	64.9	98.7	151.1	285	92%	+34%	+29%	CF Tax/IS Tax (%) low. Fallen over 1yr.	
X Items/Op Y (%)	Global	0.0					0.8	6.2	37.4	1,297	na				
Minority Int/Profit B4 MI (%)	Global	23.8	14.7	8.8	+9.1	+15.0	-0.1	1.8	12.8	8,362	88%	+41%	+41%	Minority Int/Profit B4 MI (%) high. Risen over 1yr. Risen over 3yrs.	
Net Income Margin (%)	GICS Industry	4.3	6.8	5.8	-2.5	-1.5	1.3	4.7	11.2	383	53%	+31%	+15%	Fallen over 1yr.	
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	0.1	0.0	0.0	+0.1	+0.1	0.9	4.0	16.7	728	1%				
EBIT Interest Cover (x)	GICS Industry	57.3	59.1	16.8	-1.8	+40.6	1.7	7.4	41.1	351	16%	+18%	-40%		

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Ratios		Global/Sector/ Country	Skechers Usa-A 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	0.9	1.5	1.2	-0.6	-0.3	0.3	1.1	2.2	1,697	63%	+24%	+17%	
Cash Interest Exp./CFO (%)		GICS Industry	4.0	1.6	6.6	+2.4	-2.6	0.2	4.8	25.8	271	47%	+19%	-15%	
Capex/Sales (%)		GICS Industry	3.3	3.4	2.4	-0.1	+0.9	1.4	3.2	7.2	371	50%	-3%	+19%	
Decrease Investments/Sales (%)		GICS Industry	0.0	0.0	0.0	+0.0	+0.0	0.0	0.5	4.8	141	6%			
Other Investing Activities/Sales (%)		GICS Industry	0.1	0.7	0.0	-0.7	+0.1	0.1	1.1	4.4	292	9%			
Debt Repay/ST Debt -1FY (%)		Global	23	100	99	-77.0	-76.6	20.0	88.4	210.9	10,373	21%	-35%	-34%	
Free Cash Flow Margin (%)		GICS Industry	0.6	6.8	4.5	-6.2	-3.9	-4.2	2.4	8.7	377	61%	+34%	+24%	Fallen over 1yr.
FCF-Divs/Sales (%)		Global	na	na	na	na	na	-7.2	0.9	6.8	10,563	na	na	na	
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	0.2	0.3	+0.2	+0.0	0.0	0.3	1.4	329	54%			
Corporate Governance												(0-100%)	(+/-50%)	(+/-50%)	
Auditing Exp/Sales (bp)		GICS Industry	na					2.5	6.3	13.2	179	na			
RPT Balances/Equity (%)		Global	0.0					0.3	1.9	11.0	1,434	na			
Number of Acq&Disp -5yrs		Global	1					0.0	3.0	5.0	12,251	36%			
Acq&Disp Con./Sales Av. -5yrs (%)		Global	0.1					0.2	1.4	6.9	12,251	13%			
Executive Comp/Sales (bp)		GICS Industry	50.5					7.4	22.6	73.1	84	72%			
Executive Comp/PTP (bp)		GICS Industry	547.0					67.6	188.6	669.0	84	75%			
CEO Tenure (yrs)		Global	24.6					1.4	4.5	10.8	5,466	96%			CEO Tenure (yrs) high.
CFO Tenure (yrs)		Global	0.2					1.1	3.3	8.3	716	1%			CFO Tenure (yrs) low.
Av. Executive Tenure (yrs)		Global	20.1					4.1	7.4	11.9	3,291	97%			Av. Executive Tenure (yrs) high.
Av. Board Tenure (yrs)		Global	17.0					3.9	6.4	9.9	3,672	97%			Av. Board Tenure (yrs) high.

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)	49%	In Y/FY17, Skechers Usa-A recorded an average percentile score (0 is good, 100 is bad) of 49% across all 75 financial ratios listed below. This places it in a percentile of 50 relative to around 379 GICS industry peers globally, which is a moderate result. The company triggered a total of 11 red flags out of 75 placing it in a percentile of 43 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.
- Percentile vs Industry Peers (0% is good, 100% is bad)	50%		
Number of Red Flags (Out of a possible 75)	11		
- Percentile vs Global Peers (0% is good, 100% is bad)	43%		

## Summary of change in financials over 1 year

		Result: Number of red flags normal.	Explanation
Number of Red Flags (Out of a possible 62)	9	Over the financial year prior to Y/FY17, Skechers Usa-A triggered a total of 9 red flags out of 62 placing it in a percentile of 61 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)	61%		

## 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, Skechers Usa-A 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	$+(0.92 \times 0.93)$	0.95	0.88	0.93	0.96	0.93	0.93	$(\text{Net Receivables}_t / \text{Sales}_t) / (\text{Net Receivables}_{t-1} / \text{Sales}_{t-1})$	Receivables of 32 days have fallen by 2 days YoY
Gross Margin Index	$+(0.528 \times 0.99)$	0.99	0.98	1.00	0.99	0.99	0.99	$[(\text{Sales}_{t-1} - \text{COGS}_{t-1}) / \text{Sales}_{t-1}] / [(\text{Sales}_t - \text{COGS}_t) / \text{Sales}_t]$	12m Trailing Gross Margin of 46.6% has improved by 0.7ppts YoY
Asset Quality Index	$+(0.404 \times 1.08)$	0.81	0.44	2.74	1.09	1.08	1.08	$[1 - (\text{Curr Ass}_t + \text{PP\&E}_t + \text{Sec}_t) / \text{Assets}_t] / [1 - ((\text{Curr Ass}_{t-1} + \text{PP\&E}_{t-1} + \text{Sec}_{t-1}) / \text{Assets}_{t-1})]$	Other LT Assets/Total Assets of 3.2% has increased by 0.3ppts YoY
Sales Growth Index	$+(0.892 \times 1.17)$	1.18	1.29	1.32	1.13	1.17	1.17	$\text{Sales}_t / \text{Sales}_{t-1}$	12m Trailing Sales have risen 17% YoY
Depreciation Index	$+(0.115 \times 0.89)$	0.98	0.93	1.06	0.92	0.89	0.89	$(\text{Depr}_{t-1} / (\text{PP\&E}_{t-1} + \text{Depr}_{t-1})) / (\text{Depr}_t / (\text{PP\&E}_t + \text{Depr}_t))$	12m Trailing Depreciation/Sales of 13.3% has risen by 1.5ppts YoY
SG&A Index	$-(0.172 \times 0.95)$	1.08	1.08	1.06	0.96	0.95	0.95	$(\text{SG\&A Expense}_t / \text{Sales}_t) / (\text{SG\&A Expense}_{t-1} / \text{Sales}_{t-1})$	12m Trailing SG&A/Sales of 37.8% have risen by 1.9ppts YoY
Total Accruals to Total Assets	$+(4.679 \times 0.04)$	-0.03	-0.01	0.00	-0.05	0.04	0.04	$\text{Profit from Continuing Ops}_t - \text{Cash Flows from Ops}_t / \text{Total Assets}_t$	Total Accruals (Net Profit less CFO)/Total Assets are 4%
Leverage Index	$-(0.327 \times 1.18)$	1.04	0.97	0.98	1.10	1.18	1.18	$[(\text{Curr Liab}_t + \text{Total LT Debt}_t) / \text{Total Ass}_t] / [(\text{Curr Liab}_{t-1} + \text{Total LT Debt}_{t-1}) / \text{Total Ass}_{t-1}]$	LT Debt + Current Liabilities/Total Assets of 24% have fallen by 4.3ppts YoY
<b>Beneish M-Score for Y/FY17</b>	<b>-4.84 =</b>	<b>-2.61</b>	<b>-2.65</b>	<b>-1.54</b>	<b>-2.63</b>	<b>-2.22</b>	<b>-2.22</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 -2.22 in Y/FY17 suggests no profit manipulation</b>

### Appendix 2: Montier C-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Profit	0	1	1	0	1	1	A growing divergence between Profit and Operating Cash Flow (1 point)	12m Trailing Accruals Margin of -0.5% has fallen from 3.3% YoY
Receivables	0	0	0	0	0	0	Receivable Days are increasing (1 point)	Receivables of 32 days have fallen by 2 days YoY
Inventory	0	0	1	0	1	1	Inventory Days are increasing (1 point)	Inventory of 21 days has risen by 1 days YoY
Other current assets	0	0	0	0	0	0	Other Current Assets to Sales are increasing (1 point)	Other Current Assets/Sales of 2.1% have fallen by 0.2ppts YoY
Depreciation	1	0	1	0	0	0	Depreciation relative to PPE jobs usfa bs	Depreciation of 11.2yrs has fallen by 1.2yrs YoY
Asset growth	0	1	1	1	1	1	High asset growth in excess of 10% (1 point)	Asset growth of 14% YoY is in excess of 10%
<b>Montier's C-Score</b>	<b>1</b>	<b>2</b>	<b>4</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>Score 0-1 is good; 2-4 is average, 5-6 is bad</b>	<b>A C-Score of 3/6 is average</b>

### 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 10.8%
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 3.8%
Return on Assets Score	1	1	1	0	0	0	Higher Return on Assets than previous year (1 point)	12m Trailing ROA has fallen to 10.8% from 11% YoY
Quality of Earnings Score	1	1	0	1	0	0	Operating Cash Flow are greater than ROA (1 point)	12m Trailing CFO Margin of 3.8% is below Net Profit Margin of 6.7%
Long-Term Debt to Assets Score	1	1	1	1	1	1	Lower ratio of Long Term Debt than previous year (1 point)	LT Debt/Total Assets has fallen to 3% from 3% YoY
Current Ratio Score	1	0	1	1	1	1	Higher Current Ratio this year compared to the previous year (1 point)	Current Ratio has risen to 3.52x from 2.94x YoY
Shares Outstanding Score	0	1	0	0	0	0	No new shares were issued in the last year (1 point)	Increased number of shares by 0.9%
Gross Margin Score	1	1	1	1	1	1	A higher Gross Margin compared to the previous year (1 point)	12m Trailing Gross Margin of 46.6% has improved by 0.7ppts YoY
Asset Turnover Score	1	1	1	0	1	1	A high Asset Turnover ratio compared to the previous year (1 point)	Asset turnover has risen to 1.62x from 1.61x YoY
<b>Piotroski F-Score</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>Score 0-1 weak and deteriorating; 8-9 strong and improving</b>	<b>An F-Score of 6/9 suggests financials are improving</b>

### Appendix 4: Altman Z-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Altman Z-Score for a manufacturing company	Comments
Solvency	1.29	0.86	0.57	0.60	0.66	0.66	Working Capital (Current Assets less Current Liabilities)/Tangible Assets	Ability to meet short term obligations
Cumulative profitability	0.59	0.62	0.66	0.71	0.71	0.71	Retained Earnings/Tangible Assets	Determines cumulative historic profitability
Profitability	0.22	0.41	0.57	0.51	0.46	0.46	EBIT/Tangible Assets	Measures earnings away from the effects of taxes and leverage
Market confidence	2.34	3.11	4.19	3.23	4.51	4.51	Market Capitalisation/Total Liabilities	Whether a firm's value able to cover liabilities
Efficiency	1.31	1.42	1.54	1.49	1.52	1.52	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 Y/FY17</b>	<b>5.76</b>	<b>6.42</b>	<b>7.54</b>	<b>6.54</b>	<b>7.87</b>	<b>7.87</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	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 material acquisitions (>5% sales)
Rise in intangible assets -1yr?	1 point	0	0	0	0	0	0	Either a rise in Intangible Assets over 1 year	na
Material intangibles on balance sheet?		0	0	na	na	na	na	Or Intangibles are >=50%ile relative to peers	na
Rise in deferred tax assets -1yr?	1 point	0	0	1	1	0	0	Either a rise in Deferred Tax Asset over 1 year	na
Large deferred tax assets		1	0	0	0	0	0	Or a large Deferred Tax Asset in the 80%ile relative to industry peers	DTA/Sales of 1.9% is in the 70%ile relative to industry peers
<b>Acquisition Accounting</b>		<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</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	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 23% is in the 21%ile relative to global peers
Has high effective interest rate?	1	1	1	1	1	1	Effective Interest Rate is in excess of the 80%ile relative to country peers	Effective Int Rate of 8.6% is in the 79%ile relative to country peers
Has moderate debt?	1	0	0	0	0	0	If Debt to Sales >15%ile of industry peers	Debt/Sales of 2% is in the 6%ile relative to industry peers
<b>Window Dressing</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</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	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	Inv. Repayment/Sales of 0% is in the 6%ile relative to industry peers
High inv. repay./investments -1FY?	0	0	1	1	1	1	If Invest Repay in excess of 100% of previous year's Investments	Investment Repayment/Investment -1FY of 1000%
<b>Window Dressing Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>A score of 2 suggests a strong possibility of window dressing</b>	<b>Unlikely to be window dressing investments</b>

## 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 point	0	0	0	0	0	0	Operating Margin >80%ile relative to industry peers	A 12m Trailing Operating Margin of 9% is in the 59%ile
High return on production assets		0	0	1	0	0	0	Op Profit/(PPE + Inv) in the >80%ile relative to industry peers	A 12m Return on Production Assets of 29% is in the 75%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 58% is in the 42%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 -3% over 1 year
Low dividends and buybacks	1 point	1	1	1	1	1	1	Dividends and Buybacks are less than 30% profit	Dividends and buybacks of 0%
A relatively unknown auditor		0	0	0	0	0	0	Relatively obscure auditor	Well known auditor: Bdo Usa 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	1	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.
<b>Fake Cash Flow Fraud</b>	<b>Max 4pts</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>A score of 3 or 4 is problematic and requires further investigation</b>	<b>64% of companies score similarly and just 2.4% of frauds</b>

## Appendix 8: Excess Capital Raising

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(USDm)	FY13	FY14	FY15	FY16	FY17	FY13-17
Sales	+1,846	+2,378	+3,147	+3,563	+4,164	+15,099
- OPCF	+99	+164	+232	+362	+159	+1,016
- Capex	(41)	(57)	(118)	(119)	(136)	(472)
- Dividends (incl MI at subs)	+0	+0	+0	+0	+0	+0
- Buybacks	+0	+0	+0	+0	+0	+0
- (Acquisitions)/disposals	+0	+0	+0	(23)	+0	(23)
<b>= Net internal cash generation</b>	<b>+58</b>	<b>+107</b>	<b>+114</b>	<b>+220</b>	<b>+23</b>	<b>+521</b>
<b>Externally generated cash flows</b>						
- Debt issuance, net	(14)	(10)	(34)	(10)	+6	(62)
- Equity issuance	+7	+5	+12	+10	+5	+40
<b>= Net external financing</b>	<b>(7)</b>	<b>(5)</b>	<b>(21)</b>	<b>+0</b>	<b>+11</b>	<b>(21)</b>
<b>Net surplus/(deficit)</b>	<b>+51</b>	<b>+102</b>	<b>+93</b>	<b>+220</b>	<b>+35</b>	<b>+500</b>
Net flows/Sales (%)	+3	+4	+3	+6	+1	3
Relative to Global Sector (%ile):						67%
Av. cash balance/sales (%)	19	18	15	17	17	
Relative to Global Sector (%ile)	72%	69%	64%	68%	69%	
Core cash required (10% of Sales):					77	
Surplus cash at year end (cash balance less core cash):					660	
Possible fake cash flow over past 5yrs (only if 5yr surplus is greater than zero):					500	
Possible fake cash/excess cash balance (%):					76	
<b>Normal amounts of cash flow generated.</b>						

## Appendix 9: Debt Reconciliation

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(USDm)	FY13	FY14	FY15	FY16	FY17	FY13-17
Balance sheet (BS) debt YE	129	118	85	75	81	
Change in debt: BS	(14)	(10)	(34)	(10)	+6	(62)
Change in debt: Cash flow (CF)	(14)	(10)	(34)	(10)	6	(62)
<b>Unrec chg BS and CF debt</b>	<b>+0</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>
Unrec chg/total debt (%)	+0	(0)	(0)	(0)	(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	83	Free Float (%)	97
Hedge Fund Manager	9	No. Instit. Owners	488
Pension Fund (ERISA)	3	Institutional (%)	125
Individual	2	- <b>Passive Instit. (ETFs) (%)</b>	<b>31</b>
Bank	1	- <b>Active Instit. (%)</b>	<b>94</b>
Other	2		

## Appendix 11: Insiders (latest Bloomberg data)

		Comment
Insider Shares O/S (%)	2.51	
Chg Insider Hldgs -6m (%)	10.19	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)	-0.9	
Average Purchase Price of Insider Shares	0.00	Current share price is USD29.21
Average Sell Price of Insider Shares	36.36	
Shares Outstanding (m)	156	
Insider Shares Traded -6m/Total Shares (%)	0.00	

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

	(USDm)	Comment
Comprehensive Income	191	
<b>Less:</b>		
Net Income/Net Profit (Losses)	179	
<b>Other comprehensive income comprised of:</b>		
na	na	Other comprehensive income is 7% of income which is within normal range. Able to reconcile all but 7% of other comprehensive income which is within the normal range.
na	na	
na	na	
na	na	
na	na	
na	na	
na	na	
Amount unable to reconcile:	12	