

Sector View

Consumer durables

	1 M	3 M	6 M	31/12/15
Consumer Gds	1.4%	-2.0%	4.8%	-4.5%
DJ Stoxx 600	2.6%	-4.6%	-1.8%	-7.0%

*Stoxx Sector Indices

Companies covered

ADIDAS GROUP	BUY	EUR104
Last Price	EUR101,35	Market Cap. EUR21,204m



NIKE Q3 2016 results: solid earnings performance despite revenues miss

Yesterday evening Nike reported Q3 2016 earnings (to end-February): sales increased 8% as reported and 14% FX-n to USD8bn, a bit shy of the CS at USD8.2bn. However, EPS increased 22% to 55¢ topping the market's estimates at 49¢ mainly driven by FX gains and a lower tax rate. Global futures orders (from March to July 2016) rose 17% FX-n (CS: ~16%) thanks to an impressive order backlog in Greater China (+36%) and ahead of a summer rich in major sporting events (Copa America, Euro Championship and Rio Olympics). The FY16 outlook is reiterated: revenue is expected to grow in the low teens rate.

ANALYSIS

- **Q3 revenue slightly below market expectations.** Global sales at the NIKE brand were up 9% on a reported basis and 15% FX-n to USD7.6bn. This performance was fuelled by a rebound in **North America**, ~48% of sales, where sales grew by 14% after 10% FX-n growth in Q2 thanks to double-digit growth in Footwear (+16%) and Apparel (+14%).
- Nike enjoyed a seventh successive quarter of double-digit growth in **Greater China** (~11% of sales) with +27% vs. +28% in Q2, while **Western Europe** (~20% of sales) maintained a similar pace of growth than in Q2 (+12%). Despite a tough macro environment, revenue in **Central & Eastern Europe** (~5% of sales) rose at an impressive rate (+29%), representing a fourth quarter of double-digit increase. Sales in **Emerging Markets** (~14% of sales) grew by 11% (vs. +11% in Q2).
- **Q3 FY16 EPS up 22% to 55¢ (CS: 49¢).** As announced during the Q2 earnings call, some excess inventory had to be cleared in North America but this headwind was offset by a favourable price-mix and distribution mix, hence the gross margin remained flat at 45.9% (vs. a 50bp contraction guided by Nike). Demanding creation increased 10% and overhead expenses were up 7%. The EBIT margin improved a slight 10bp to 14.2%, well above the CS expectations at 12.9%, and the group also benefited from a lower tax rate (16.3% vs. 24.4% the prior year).
- **Future orders from March to July 2016 up 17% FX-n vs. the CS forecast of +16%.** This slight beat was clearly driven by the very strong order backlog in **Greater China** (+36% vs. CS of 22%) whilst future orders in **Western Europe** (+23% vs. CS: +25%) and in **North America** (+10% vs. CS: 12%) were a bit shy of forecasts.
- **FY16 outlook reiterated.** In the conference call, management guided for Q4 reported revenue to grow at a mid single-digit rate (low teens FX-n) and the FY16 outlook remains unchanged.

FY16 & FY17 outlook:

EURm	FY16	FY17
Sales growth (FX-n)	Low teens	High single digit to low double-digit
Gross Margin	Expand by ~50bp	n/a
EPS growth (reported)	n/a	Low teens (heavily weighted toward H2)

Source: Company Data

READ-ACROSS TO ADIDAS GROUP

- This publication clearly confirms the very healthy trends of the global sporting goods market irrespective of the economic slowdown in some markets. In addition to innovation and increased participation (especially in running), the market will also benefit from three major sporting events this summer: Copa America (soccer, 4th June => 27th June), EURO Championship (10th June => 10th July) and Rio Olympics (5th August => 21st August).
- Earlier this month, **adidas Group** confirmed that momentum has remained strong since the beginning of the year (Q4: +12% o/w +16% for adidas brand). Management also declared that the order backlog for Q3 2016 was "solid". In 2016 the German group expects a double-digit growth rate in Western Europe, North America, Greater China and MEAA.

NEXT CATALYSTS

- adidas Group will report Q1 results on 4th May 2016.



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BUY ratings 64,4%

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