

Sector View

Consumer durables

	1 M	3 M	6 M	31/12/15
Consumer Gds	-5.7%	-2.5%	-6.8%	-7.3%
DJ Stoxx 600	-9.4%	-5.5%	-13.1%	-13.4%

*Stoxx Sector Indices

Companies covered

ADIDAS GROUP	BUY	EUR124
Last Price	EUR122,65	Market Cap. EUR25,660m



Nike: Soft Q4 and orders in North America

Yesterday evening Nike reported Q4 2016 earnings (ended May): sales increased 6% as reported and 9% FX-n to USD8.24bn, fairly in line with CS at USD8.28bn, while EPS came in at 49¢ slightly ahead of expectations (48¢). However, global futures orders (from Jun to Nov 2016) rose 11% FX-n or 1pp shy of the market estimates at 12% FX-n, highlighting an increasing competitive environment for Nike, especially in the U.S.

ANALYSIS

- Q4 revenue matched market expectations despite a soft quarter in the US.** Global sales at the NIKE brand were up 6% on a reported basis and 9% FX-n to USD7.7bn after +15% FX-n in Q3. This sequential slowdown was particularly significant in **North America** (~50% of Q4 sales) where sales remained stable following a 14% FX-n increase over Q3, which confirmed some analysts' fears pointing out fiercer competitive pressure from Under Armour and adidas (+31% FX-n in Q1 16). On the positive side, momentum remained strong in **Western Europe** (~17% of sales) with a 19% increase. The brand also posted double-digit growth in **Greater China** (~11% of sales) and in **Emerging Markets** (~13% of sales) with 23% FX-n and 12% FX-n respectively.
- Q4 FY16 EPS unchanged at 49¢ (CS: 48¢).** As announced during previous earnings calls, the brand was confronted with excess inventory that had to be cleared in North America. Moreover higher product costs also negatively impacted the gross margin which declined 30bp to 45.9% (CS: 46.8%). Thanks to a lower amount of demand creation spending as a % of sales (~10.5% vs. CS of ~11.3%), EBIT margin reached 13.1% (-50bp), topping the CS forecast at 12.4%.
- Future orders from June to November 2016 up 11% FX-n vs. CS of +12%.** This slight miss was clearly explained by a softer order backlog in **North America** (+6% FX-n vs. CS of 7.5%) and in **Western Europe** (+11% FX-n vs. CS of 16%), whilst the momentum should remain robust in **Greater China** with futures up 24% (vs. CS of ~25%).

READ-ACROSS TO ADIDAS GROUP

- Prior to yesterday's publication, the stock was down 15% ytd (vs. +36% for adidas) and we believe that this US sales and orders miss should be negatively welcomed by investors.
- In our opinion this negative publication should not affect adidas Group which is indeed regaining some traction in the US (Q1 2016: +31% FX-n) and in Western Europe (+25% FX-n) where it had lost market share vs. Nike over the recent years. Another illustration of this more favourable momentum: sales of the German group in its football category increased by 17% FX-n in 2015 and should reach at least EUR2.5bn this year (~+15% on a reported basis), but Nike's revenue in this sport has only rose 7% FX-n (to USD2.1bn) during FY16.

NEXT CATALYSTS

- adidas Group is due to report H1 2016 results on 4th August.

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Distribution of stock ratings

BUY ratings 57,1%

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SELL ratings 9,5%

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