Phil Oakley's Weekly Roundup

Exclusively for SharePad and ShareScope users

29 March 2018

Market Overview

No.	Name	Price	%chg 1w	%chg 1m	%chg 1y	1y high	1y low	Date 1y high	Date 1y low
1	FTSE 100	7058.27	▲1.52	▼-1.64	▼-4.28	7778.64	6888.69	12/1/18	26/3/18
2	FTSE 250	19463.9	▲0.361	▼-0.449	▲2.56	20932.6	18954.2	5/1/18	3/4/17
3	FTSE SmallCap	5589.72	▼-0.51	▼-2.59	▲3.4	6038.69	5397.64	15/1/18	4/4/17
4	FTSE AIM 100	5249.72	▼-1.49	▼-1.45	▲15.9	5550.39	4531.04	29/1/18	29/3/17
5	FTSE All-Share	3894.94	▲1.25	▼-1.48	▼-2.91	4268.89	3810.81	12/1/18	26/3/18
6	S&P 500	2605	▼-1.46	▼-2.71	▲10.3	2872.87	2328.95	26/1/18	13/4/17
7	Brent Oil Spot $	$68.89	▲0.029	▲7.31	▲31.4	$70.72	$44.785	24/1/18	21/6/17
8	Gold Spot $ per oz	$1324.55	▼-0.618	▲0.564	▲5.73	$1356.22	$1210.35	24/1/18	7/7/17
9	GBP/USD - US Dollar per British Pound	1.40448	▼-0.48	▲1.96	▲12.9	1.42661	1.23745	1/2/18	7/4/17
10	GBP/EUR - Euros per British Pound	1.1414	▼-0.314	▲1.68	▼-1.29	1.1972	1.0795	18/4/17	29/8/17

Top FTSE All-Share risers

No.	TIDM	Name	%chg 1w
1	CWD	Countrywide PLC	▲15.3
2	SHP	Shire PLC	▲15.2
3	SPO	Sportech PLC	▲14.2
4	MTC	Mothercare PLC	▲12.6
5	SCT	Softcat PLC	▲10.9
6	GSK	GlaxoSmithKline PLC	▲9.35
7	DFS	DFS Furniture PLC	▲8.66
8	CNA	Centrica PLC	▲8.38
9	PNN	Pennon Group PLC	▲8.36
10	DC.	Dixons Carphone PLC	▲8.34

Top FTSE All-Share fallers

No.	TIDM	Name	%chg 1w
1	IRV	Interserve PLC	▼-19.6
2	FXPO	Ferrexpo PLC	▼-10.7
3	AO.	AO World PLC	▼-9.76
4	ENQ	EnQuest PLC	▼-9.72
5	MGP	Medica Group PLC	▼-9.44
6	FOUR	4imprint Group PLC	▼-8.59
7	TPT	Topps Tiles PLC	▼-8.41
8	CLG	Clipper Logistics Group Ltd	▼-8.03
9	CNCT	Connect Group PLC	▼-7.73
10	NOG	Nostrum Oil & Gas PLC	▼-6.64

Prices as of 09:20 Thurs 29 March 2018

AG Barr (LSE:BAG)

Share price: 636p

Mkt Cap: £743m

EMS: 3,000

No of analysts: 6

AG Barr has proven itself to be a very steady and reliable business over the years. Underpinned by the strength of the iconic IRN BRU brand, the Scottish soft drinks company has been a good long-term investment – albeit a volatile one in recent times.

This company ticks a lot of boxes for me in terms of a quality business with long term investment potential:

- The business of making and selling soft drinks is easy to understand.
- Iconic brand in IRN BRU with lots of loyal customers and lots of repeat purchases combined with decent portfolio of own and licensed brands.
- Reasonably predictable profits and cash flows.
- Fairly high and stable profit margins and ROCE.
- A net cash funded balance sheet.
- Some growth.

The company's shares have recovered from the bashing they received when the government announced that a sugar tax would be introduced on soft drinks from April 2018. This threat looks to have almost disappeared given that 99% of the drinks portfolio will be exempt from the tax when it is introduced.

There has been a lot of talk in the media about how the new reduced sugar formula IRN BRU is not a hit with some of its fans but so far the company has not said that investors should be worried about this.

With the exception of Fevertree (LSE:FEVR), the UK soft drinks market has been a hard place to make more money from in recent years. There has been lots of promotional activity from the major soft drinks companies in an attempt to defend and grow their share of the market.

For the moment, hostilities seem to have ceased. The amount of promotional activity has been significantly reduced and some prices are being increased according to a recent survey by IRI Marketplace. This should be good news as far as industry profit margins are concerned.

Barr had a pretty decent 2017 from a business perspective. It grew its UK sales by 8.7% of which 7.7% came from volume as it continued to use promotions to drive sales. This compared favourably with the UK soft drinks market where sales increased by 2.9% and sales volumes increased by 0.5%. Barr increased its share of the market across all parts of the UK.

IRB BRU sales increased by 8% with its biggest ever year of sales. Rubicon (exotic soft drinks) grew sales by 5.5%, with Funkin (cocktail mixers) sales growing by 25%. Rockstar (energy drinks) which Barr makes and sells under licence had a good year but Snapple drinks struggled.

Sales growth has come at the expense of a slight reduction in operating margins from 16.8% to 16.2%, but this is still a very healthy level of profitability. This was due to the company deciding to invest in its brands in order to support future growth. Underlying operating profits increased by 4.6% to £45.1m.

Looking around the financial statements, I cannot find anything that should worry investors. Free cash flow was down from £36.2m to £31.3m due to a lower amount of cash flow coming in from payables after a very large inflow in 2016. However, after cash was spent on deferred payments for acquisitions, dividends and share buybacks, net cash still increased by £5.4m to £14.9m.

Barr (AG) PLC (BAG)

FORECASTS — £ millions unless stated

Year	2018		2019		2020	
Turnover	276.0	+7.3%	280.4	+1.6%	289.5	+3.2%
EBITDA	53.3	+23.5%	55.6	+4.2%	58.0	+4.4%
EBIT	44.6	+29.0%	46.2	+3.4%	48.3	+4.6%
Pre-tax profit	43.5	+28.5%	45.9	+5.4%	47.8	+4.1%
Post-tax profit	35.4	+38.7%	37.5	+5.9%	38.9	+3.7%
EPS (p)	30.1	+37.4%	33.3	+10.6%	34.6	+3.9%
Dividend (p)	14.8	+2.8%	16.2	+9.5%	16.8	+3.7%
CAPEX	15.0	+21.0%	12.5	-16.7%	12.3	-1.9%
Free cash flow	28.1	-22.5%	32.9	+17.3%	36.0	+9.3%
Net borrowing	-7.9	-16.6%	-13.5	+70.6%	-19.1	+41.3%

The tone of the outlook statement was very vague and more of a statement of the company's intentions to grow rather than giving any details on current trading. This suggests that the company is reasonably happy with current profit forecasts.

What I think is positive is the announcement of new agreements with new licensing partners. Barr has agreed to produce and sell San Benedetto sparkling soft drinks and Bundaberg craft soft drinks (it is best known for its ginger beer) in the UK. These are two decent brands which improve the quality of Barr's soft drinks portfolio in my opinion. This should help it win more business and grow its sales going forward.

For me, AG Barr is the kind of share that many people might think about buying and forgetting about given its proven ability to chug along year after year. At 636p, the shares trade on a one year forecast rolling PE of 18.5 times. That's not particularly cheap but it's not an unreasonable price to pay if Barr is capable of delivering modest but stable revenue and profits growth for the foreseeable future.

Churchill China (LSE:CHH)

Share price: 900p

Mkt Cap: £101m

EMS: 300

No of analysts: 1

Churchill China is one of the world's leading manufacturers of high quality ceramic tableware (things like plates, cups, trays, bowls and cookware). The vast majority of its sales – nearly 90% – are made to the hospitality industry with the remainder going into the retail and restaurant sectors.

In recent years, the company has seen significant growth from export markets which has resulted in most of its sales now coming from overseas. There is still a very sizeable business in the UK which accounted for 45% of total sales in 2017.

The company's shares have performed very strongly in recent years as its operating profits have trebled since 2012.

At first glance, Churchill China looks to be a very good quality business. Its profit margins are very respectable at 13.9% whilst return on capital employed (ROCE) is an impressive 18.4%.

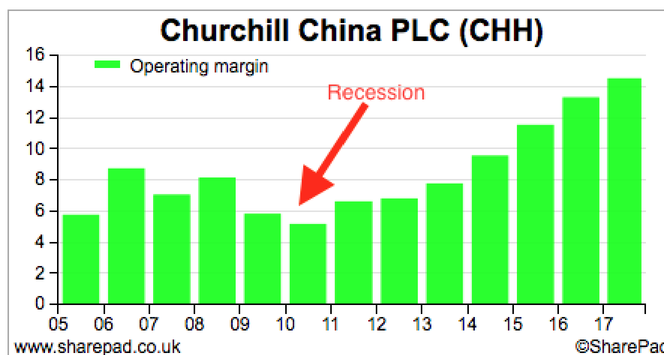
When I come across a business like this the first thing I do is look at the trend of profit margins and ROCE over a business cycle or at least ten years. I want to get a feeling as to whether a company's level of profitability is sustainable or cyclical.

My personal style of investing looks for companies that are reasonably resilient in recessions. I don't want to see profit margins and ROCE fall too much. That's not to say that you can't make money in cyclical stocks, but you have to be nimble and ride the cycle when it is rising and then hope you can get out before it turns.

I accept that my approach means that I miss out on many cyclical shares that can make fabulous gains when the going is good. Hopefully it also means that I protect my portfolio from big losses when cycles turn down.

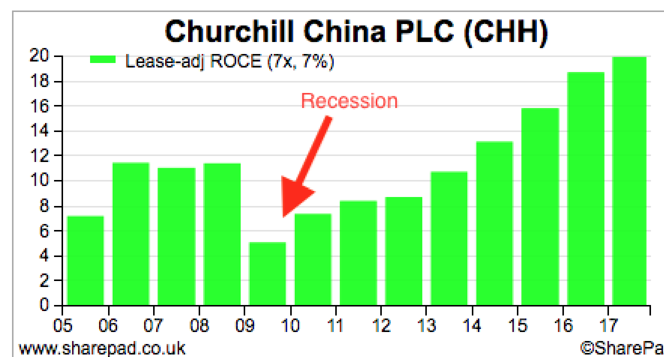
If I look at a chart of Churchill's margins and ROCE, it is clear that it has been a cyclical business in the past.

During the last economic downturn you can see a clear deterioration in profit margins and ROCE with a very strong recovery from 2012 onwards.



However, it is important to stress that just because a company saw a fall in profit margins and ROCE in a previous recession it doesn't mean that you should automatically dismiss it as a potential investment. Companies learn from recessions and good management teams will try to make a business more resilient if they can.

You can get a good insight into whether a company has changed or not by going back and reading the annual reports that were published during the last recession. If you can't find the report on the company's website then you will find it on the [Companies House](#) website which is a great resource for investors.



What I tend to do is go and look at the segmental analysis of sales and profits to see not only how they fared in the recession but also what the mix of the business was – how much each division was contributing the company as a whole.

I will also look to see if the sales mix has changed by geography since then. Most important of all, I will then read the management's commentary on the business as this can be very informative.

By looking at the 2007-10 period where profit margins and ROCE fell you can quickly pick up some interesting information.

	31 December 2007			
	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Revenue	28,576	18,354	–	46,930
Contribution to Group overheads	4,909	1,112	–	6,021
Group overheads			(2,791)	(2,791)
Exceptional items			798	798
Operating profit after exceptional items			(1,993)	4,028

We can see that both Hospitality and Retail saw a fall in sales between 2007 and 2008. The fall in profits was significant at Hospitality and was more than 25%. Profits from Retail actually increased as the company exited low margin, high volume contracts.

	31 December 2008			
	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Revenue	24,952	17,017	–	41,969
Contribution to Group overheads	3,668	1,709	–	5,377
Group overheads			(2,573)	(2,573)
Operating profit			(2,573)	2,804

2009 saw Hospitality sales and profits bounce back with Retail profits falling by 44%.

(a) Primary reporting format – business segments

The business is managed in two main business segments – Hospitality and Retail

	31 December 2010			
	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Revenue from external customers	27,398	16,348	-	43,746
Contribution to Group overheads excluding depreciation	4,914	1,060	(2,157)	3,817
Depreciation and amortisation	(859)	(305)	(366)	(1,530)
Operating profit	4,055	755	(2,523)	2,287
Share of results of associated company				162
Finance income				41
Finance cost				(176)
Profit before income tax				2,314

Hospitality was much more resilient than Retail

	31 December 2009			
	Hospitality £ 000	Retail £ 000	Unallocated £ 000	Group £ 000
Revenue from external customers	24,554	17,151	-	41,705
Contribution to Group overheads excluding depreciation	4 183	1 911	(2,410)	3 684
Depreciation and amortisation	(894)	(185)	(317)	(1,396)
Operating profit	3,289	1,726	(2 727)	2,288
Share of results of associated company				(18)
Finance income				119
Finance cost				(320)
Profit before income tax				2,069

From quickly reading the annual reports from the time, the company mentions the very competitive nature of the retail market and how customers can change suppliers at short notice. As a result, Churchill shifted its production and sales to higher quality and higher margin branded products.

In Hospitality, management made the comment that barriers to entry were much higher than in retail. Hospitality customers put much more emphasis on service, product quality and product performance.

The term 'barriers to entry" is one that most investors like to see associated with a business they own shares in. It means that the company has some way of protecting its sales and profits from

competition. Companies with sizeable barriers to entry are highly sought after and can make very good long-term investments if profits can hold up when times get tough.

Since the last recession, quite a lot has changed with Churchill. The company does not split out its segmental profits anymore – which is a shame – but there has been a significant shift in the business and geographic sales mix.

In 2009, 59% of total sales came from Hospitality. In 2017 the business accounted for 88.5% of total sales. In 2009, 68% of total sales came from the UK. In 2017, the figure was 45%.

Churchill is clearly a different business from a decade ago. It is more concentrated on higher quality revenue streams where it has a competitive edge and has significantly reduced its dependence on the UK. This is clearly a positive development in my view.

However, the business is still cyclical. It is also highly operationally geared. Its manufacturing facilities have lots of fixed costs and need to have high rates of capacity utilisation – they need to be making lots of ceramic products – and sales to keep profits and margins at their current high levels.

Take a look at the table below. This shows a very simple bit of analysis you can do with a business to give you a feel for how operationally geared it might be – how much profits change compared to the change in sales.

All you do is take the change in sales and operating profits from one year to the next. Then divide the change in profits by the change in sales to work out the incremental profit margin. If incremental margins are very high and higher than the underlying margin then this could be a sign of a business with very high operational gearing.

Churchill China (£m)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Turnover	45.9	46.9	42.0	41.7	43.7	42.3	41.4	43.2	44.5	46.8	51.1	53.5
Norm Operating profit	4.0	3.3	3.4	2.4	2.3	2.8	2.8	3.4	4.3	5.4	6.4	7.5
Op margin	**8.7%**	**7.1%**	**8.2%**	**5.8%**	**5.2%**	**6.6%**	**6.8%**	**7.8%**	**9.6%**	**11.5%**	**12.5%**	**13.9%**
Extra sales		1.0	-5.0	-0.3	2.0	-1.5	-0.9	1.7	1.4	2.3	4.3	2.4
Extra profits		-0.7	0.1	-1.0	-0.2	0.5	0.0	0.5	0.9	1.1	1.0	1.1
Inc op margin		**-70.4%**	**-2.3%**	**377.3%**	**-8.1%**	**-37.1%**	**-2.6%**	**31.0%**	**66.2%**	**49.6%**	**23.3%**	**43.7%**

Since 2012, you can see that Churchill's incremental operating margins have been very high which indicates high operational gearing. This is great when sales are rising but if they start falling it can see a significant impact on profitability which also tends to be reflected in a lower share price and sometimes a lower dividend paid.

At the moment, the company seems to be performing well. Revenues increased by 5% and operating profits by 17% in 2017. Hospitality sales increased by 8% and reached record levels. The performance in Europe was very good with revenues growing by more than 20% and helped by anti-dumping duties being placed on Chinese imports. The business also remains underpinned by good levels of replacement demand for its products.

The Retail business is not doing as well with sales falling in a weak UK market that is seeing fewer new restaurant openings. The well-publicised problems in the retail and restaurant sectors suggests that further reductions in sales for Churchill are very possible from this market.

In both its key markets, the decision to focus on producing and selling high quality products with good performance benefits seems to be working out well.

Strong growth in Europe and North America has put some pressure on Churchill's capacity to produce and deliver its products in recent years. This has obviously been good for the utilisation of its existing manufacturing capacity and profit margins but it seems as if selling more products to more markets has become more challenging.

These issues are being addressed by adding more manufacturing and logistics capacity. An expansion of a UK manufacturing site will also take place in 2018. This should be very helpful in terms of fulfilling more export orders but it will add more fixed cost and more operational gearing to the business.

Churchill China PLC (CHH)

FORECASTS — £ millions unless stated

Year	2018		2019		2020	
Turnover	54.9	+2.5%	57.3	+4.3%	59.5	+3.9%
EBITDA	9.7	+1.8%	10.3	+6.2%	10.8	+4.3%
EBIT	7.9	-0.1%	8.5	+7.6%	9.0	+5.2%
Pre-tax profit	8.2	+9.3%	8.8	+7.5%	9.2	+5.3%
Post-tax profit	-		-		-	
EPS (p)	59.7	+8.5%	64.6	+8.2%	68.4	+5.9%
Dividend (p)	26.1	+6.1%	28.1	+7.7%	29.5	+5.0%
CAPEX	-		-		-	
Free cash flow	-		-		-	
Net borrowing	-15.9	+26.7%	-16.2	+1.8%	-17.2	+6.1%

Churchill is clearly in very good health just now. Its financial position is strong with no balance sheet debts and a small and declining pension fund deficit. Conversion of operating profits into operating cash flow is good with free cash flow increasing by just under £1m in 2017 to £4.4m. Cash balances increased by just under £3m to £12.6m. A dividend increase of 16.6% to 24.6p per share reflects the company’s strong trading and financial position.

The outlook statement could best be described as mixed:

"We are pleased with the progress we made in 2017 both in terms of the reported performance for the year and, perhaps more importantly, in the progress we have made in support of the future development of Churchill. ***Additional margin has allowed us to make further investments across a number of areas which we believe will generate profitable growth.*** *We expect to generate a return from this expenditure in 2018 and beyond.* ***We do, however, recognise that there is a higher level of general uncertainty in a number of markets and we have reflected this within our strategic process.***

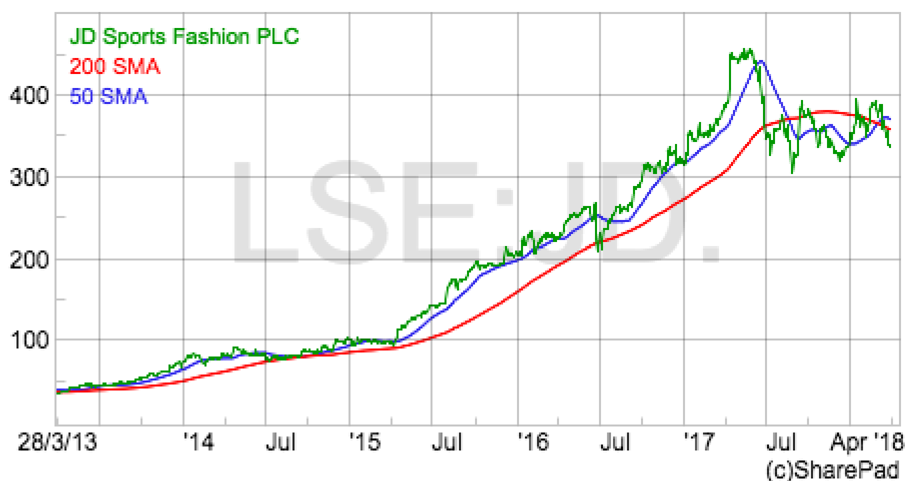
The focus of our strategy remains continued innovation to improve the value our products offer to our customers and investment across the business to allow us to extend the breadth of the markets we serve. We continue to develop new investment opportunities in support of our future aspirations. Our business has a good position in attractive markets, is well invested and has a strong financial base. ***Performance in the year to date has been good and we look forward to the coming year with confidence. "***

The company is using its higher profit margins to reinvest in new profitable projects which is a good sign. That said, the comments regarding uncertainty in a number of markets will unnerve some investors.

Analyst forecasts are thin on the ground with this company but expectations of revenue growth of 2.5% in 2018 seem to reflect the management's cautious outlook. Note the impact of operational gearing reflected in the forecasts with 2.5% top line growth expected to flow through to 8.5% growth in earnings per share.

At 900p, the shares trade on a one year rolling forecast PE of just under 15 times and offer a prospective dividend yield of 2.8%. Despite Churchill being a solid, well managed business this does not seem to be very compelling given its inherent cyclicality and operational gearing. It looks as if the good money has been made from this share for now.

JD Sports (LSE:JD)



Share price: 339p

Mkt Cap: £3.3bn

EMS: 5,000

No of analysts: 5

Large acquisitions have a very mixed track record in making the shareholders of the buying company better off. In far too many cases they actually end up being worse off. This is because the company doing the buying pays too much for the company it is acquiring and fails to make an acceptable return on the investments.

Things can also get complicated when the acquisition is funded with debt. A poor return on an expensive acquisition funded with debt has seen many a company come a cropper over the years.

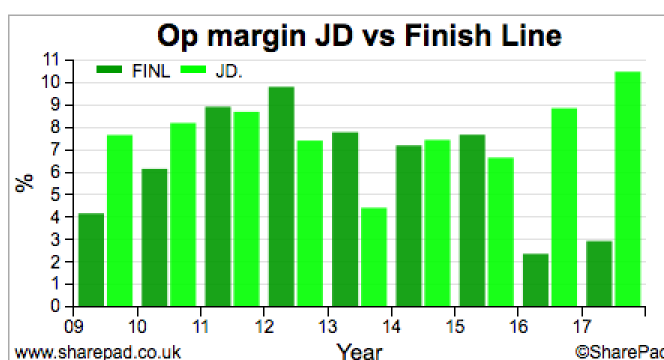
Shareholders in JD Sports will be hoping that this is not a fate that awaits them after the company announced this week that it was buying US-based trainer and sportswear company Finish Line (NASDAQ:FINL) for $558m. Finish Line has been seen as a takeover target for a while. JD Sports' big rival Sports Direct disclosed that it owned nearly 8% of the shares last summer.

I've decided to have a look at this deal and see if it makes sense for JD Sports' shareholders.

JD is getting its hands on a very similar company. Finish Line sells branded sports trainers and sports clothing across the United States. It has 556 stores and an established internet business. It also has 563 concessions in Macy's stores across the US.

In 2017, Finish Line had revenues of $1.82bn and operating profits of $54.2m. 93% of its revenues come from selling trainers with a large chunk of them Nike ones. Using an exchange rate of £1=$1.41, JD Sports is expected to have revenues of $4.33bn (£3.07bn) and operating profits of $424m (£301m) for the year ending January 2018. JD is clearly a much bigger business than Finish Line.

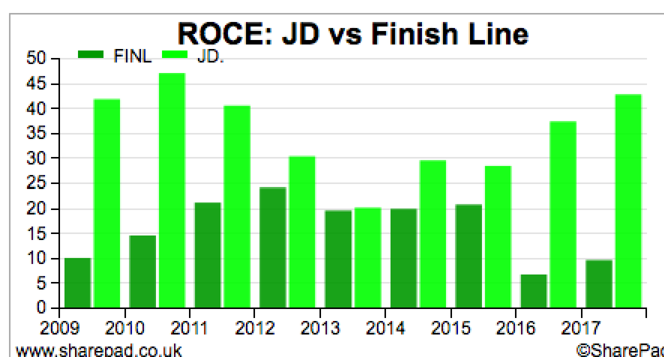
It is also much more profitable. Finish Line's profitability has been under pressure for the last couple of years. Its profit margins have fallen significantly and its share price had fallen from over $30 to less than $10.



The US footwear market has become increasingly promotional – Amazon has been very aggressive in this market - with selling prices being cut in order to try and win and defend market shares. This has come at the expense of decimating profit margins.

Big sportswear companies such as Nike have also been trying to cut out middlemen and make more direct sales to customers. Finish Line has closed more than 100 stores in recent years in an attempt to become more focused but it doesn't seem to have done it much good.

In stark contrast, JD's profit margins have been improving and are considerably higher.



If we look at ROCE – ignoring the impact of rented stores to get a cleaner comparison – then finish Line does not look a very attractive standalone business.

Looking at analysts' forecasts for Finish Line, profits are expected to fall again in 2018 and then not grow by much in 2019 and 2020. As well as giving JD exposure to the US market, it would seem that the only other reason for JD wanting to buy this business is that it thinks it has been badly run and it can turn it around. As recently as 2015, Finish Line was making $134m of operating profits. If JD could get Finish Line making that kind of money again then this takeover will look like a very smart move.

But does this deal stack up for JD Sports shareholders?

Finish Line Inc (The) (FINL)

FORECASTS — $ millions unless stated

Year	2018		2019		2020	
Turnover	1,853.1	+0.5%	1,806.9	-2.5%	1,775.4	-1.7%
EBITDA	91.4	-11.7%	87.0	-4.9%	89.5	+2.9%
EBIT	41.7		42.2	+1.3%	43.3	+2.5%
Pre-tax profit	41.9	-22.3%	41.6	-0.5%	26.3	-36.9%
Post-tax profit	27.5	-37.3%	29.4	+7.2%	32.2	+9.4%
EPS (¢)	67.6	-20.5%	73.9	+9.3%	88.5	+19.8%
Dividend (¢)	44.3	+5.5%	46.8	+5.6%	50.6	+8.1%
CAPEX	43.4	-41.9%	46.8	+7.7%	43.3	-7.5%
Free cash flow	59.1	-34.2%	47.9	-18.8%	55.7	+16.2%
Net borrowing	-121.6	+33.9%	-123.6	+1.6%	-161.2	+30.4%

I am going to take the SharePad consensus profit forecasts from 15 analysts for Finish Line and see what kind of multiple JD is paying for the business and what its return on investment would look like.

Finish Line $m	**2018**	**2019**	**2020**
Equity Paid (A)	558	558	558
Net cash acquired	-121.6	-123.6	-161.2
EV paid (B)	436.4	434.4	396.8
Op profit (F) = C	41.7	42.2	43.3
Post tax profit (F) = D	27.5	29.4	32.2
Multiples paid and returns			
PE (A/D)	20.3	19.0	17.3
Debt adjusted PE (B/D)	15.9	14.8	12.3
ROI = C/B	9.6%	9.7%	10.9%

By paying $558m for the equity of Finish Line, this equates to a PE of 20.3 times based on Finish Line's February 2018 expected profits. If cash balances are taken into account, the net cash adjusted PE falls to 15.9 times. At 337p per share, JD trades on a one year rolling forecast PE of 13.1 times and a 2018 net cash adjusted PE of 12.6 times.

JD is therefore paying a higher valuation for Finish Line - compared with the valuation of its own business - for a company that looks to be vastly inferior. Looking at the return on investment, this is expected to be less than 10% which is hardly anything to shout about.

Many acquisitions come with details of big costs savings to make the deal look better value. This deal has nothing material in that regard. That said, JD should be able to boost its buying power with suppliers.

The fact that the deal is going to be financed entirely with borrowed money might be a cause for concern but I'm not sure it is anything to be unduly worried about. Finish Line's balance sheet will take on $150m of debt which gives it an estimated net debt position of $28.4m after its cash balances are taken into account.

The remaining $408m (£289m at an exchange rate of £=$1.41) will eat up most of JD's expected net cash balance of £329.8m at the end of July 2018. If analyst forecasts turn out to be broadly right, then JD Sports should still have a net cash balance sheet after this deal.

JD Sports Fashion PLC (JD.)

Year	2018		2019		2020	
Turnover	3,075.8	+29.3%	3,427.8	+11.4%	3,754.8	+9.5%
EBITDA	369.7	+21.9%	401.7	+8.6%	437.4	+8.9%
EBIT	301.7	+25.2%	327.8	+8.7%	365.3	+11.4%
Pre-tax profit	301.3	+22.9%	327.9	+8.8%	358.6	+9.4%
Post-tax profit	230.0	+23.9%	249.0	+8.2%	277.6	+11.5%
EPS (p)	23.8	+24.8%	25.9	+8.8%	28.4	+9.7%
Dividend (p)	1.6	+18.5%	1.7	+6.3%	1.8	+5.9%
CAPEX	160.0	+97.4%	160.0	0.0%	160.0	0.0%
Free cash flow	143.9	-27.4%	164.3	+14.2%	194.9	+18.6%
Net borrowing	-329.8	+54.4%	-473.4	+43.5%	-652.3	+37.8%

That said, it will produce a small amount of interest expense – as the interest on borrowings will be more than the interest received on cash) which will introduce a small amount of financial gearing to JD's post tax profits but nothing that should worry anyone in my view.

I'm not convinced that this deal does a great deal for JD Sports and its shareholders. I'm sure it will try to improve the profits of Finish Line by closing stores and getting rid of underperforming concessions at Macy's. But this deal exposes JD to a brutally competitive US market which looks like a horrible place to be just now.

A large scale share buyback and/or a big special dividend may have been a better use of the company's cash pile. Time – as always – will tell.