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adidas with record sales and earnings in 2016

Major developments in FY 2016:

- **Sales reach € 19.3 billion, up 18% on a currency-neutral basis**
- **Operating margin improves 1.3pp to 7.7%**
- **Net income from continuing operations climbs 41% to € 1.019 billion**
- **Management to propose a dividend of € 2.00 per share**

Outlook 2017:

- **Currency-neutral sales to increase between 11% and 13%**
- **Operating margin to improve to a level between 8.3% and 8.5%**
- **Net income to increase between 18% and 20% to a level of up to € 1.225 billion**

“2016 was an exceptional year for adidas. We have improved the desirability of our brands and products around the globe. As a consequence, we were able to increase revenues strongly and achieve a record net income of more than € 1 billion for the first time in the history of our company. These results are proof positive that our strategy ‘Creating the New’ is paying off,” said adidas CEO Kasper Rorsted. “Building on our 2016 performance, our momentum continues and we will again achieve strong top- and bottom-line improvements in 2017.”

Financial Performance in 2016

Currency-neutral sales increase 18% in 2016

The company’s revenues increased 18% on a currency-neutral basis in 2016. In euro terms, revenues grew 14% to a new record level of € 19.291 billion (2015: € 16.915 billion). Currency-neutral revenues for the adidas brand increased 22%, driven by double-digit sales increases in Sport Performance as well as at adidas Originals and adidas neo. At the Reebok brand, currency-neutral sales were up 6% versus the prior year, reflecting double-digit sales increases in Classics as well as mid-single-digit growth in the training and running categories.



Double-digit revenue growth in nearly all market segments

Revenues in Western Europe increased 20% on a currency-neutral basis, driven by double-digit sales growth in all major countries. Currency-neutral sales in North America and Greater China increased 24% and 28%, respectively. Revenues in Russia/CIS grew 3% on a currency-neutral basis. In Latin America, revenues increased 16% on a currency-neutral basis, as all major countries grew at double-digit rates with the exception of Brazil, where sales increased at a low-single-digit rate. In Japan, sales were up 16% on a currency-neutral basis. Revenues in MEAA also grew 16% on a currency-neutral basis, reflecting double-digit growth in almost all of the region's countries. Revenues in Other Businesses were up 1% on a currency-neutral basis. Increases in Other centrally managed businesses and at Runtastic were largely offset by sales declines at CCM Hockey and TaylorMade-adidas Golf.

Operating margin excluding goodwill impairment increases 1.3 percentage points

In 2016, despite severe headwinds from negative currency effects, the company's gross margin increased 0.3 percentage points to 48.6% (2015: 48.3%), as a result of the positive effects from a significantly better pricing, product and channel mix as well as lower input costs. Other operating expenses were up 13% to € 8.263 billion (2015: € 7.289 billion), reflecting an increase in expenditure for point-of-sale and marketing investments as well as higher operating overhead expenditure. The latter primarily includes further investments to spur the company's strategic business plan 'Creating the New', accruals for bonus payments for employees due to the company's strong financial performance as well as restructuring costs at Reebok and TaylorMade. As a percentage of sales however, other operating expenses decreased 0.3 percentage points to 42.8% from 43.1% in 2015. This together with the non-recurring gains related to the early termination of the Chelsea F.C. contract and the divestiture of Mitchell & Ness resulted in a 36% increase in operating profit to € 1.491 billion in 2016 (2015: € 1.094 billion, excluding goodwill impairment losses). Consequently, the operating margin increased 1.3 percentage points to 7.7% (2015: 6.5%). Net income from continuing operations was up 41% to a new record level of € 1.019 billion versus € 720 million in 2015. Basic earnings per share from continuing and discontinued operations increased 53% to € 5.08 in 2016 (2015: € 3.32).



Average operating working capital as a percentage of sales decreases

Inventories increased 21% to € 3.763 billion at the end of December 2016 from € 3.113 billion in 2015. On a currency-neutral basis, inventories grew 19%, reflecting higher stock levels to support the company's top-line momentum. Operating working capital increased 11% to € 3.468 billion compared to € 3.138 billion in 2015. Average operating working capital as a percentage of sales from continuing operations decreased 0.3 percentage points to 20.2% (2015: 20.5%), reflecting the top-line growth during the last twelve months as well as the company's continued focus on tight working capital management.

Net borrowings decrease strongly to € 103 million

Net borrowings declined to € 103 million, compared to net borrowings of € 460 million in 2015. This development is mainly a result of first conversions of convertible bonds into adidas AG shares as well as an increase in cash generated from operating activities partly offset by the utilisation of cash for the purchase of fixed assets, the dividend payment and the continued repurchase of adidas AG shares.

Dividend proposal of € 2.00 per share

As a result of the strong operational performance in 2016, the company's robust financial position as well as Management's confidence in the long-term growth aspirations, the adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 2.00 per dividend-entitled share to shareholders at the Annual General Meeting (AGM) on May 11, 2017. This represents an increase of 25% compared to the prior year dividend (2015: € 1.60). The total payout of € 403 million (2015: € 320 million) reflects a payout ratio of 39.6% (2015: 47.9%, excluding goodwill impairment losses) of net income attributable to shareholders, which is within the target range of between 30% and 50% of net income attributable to shareholders as defined in the company's dividend policy.



Financial Performance in the Fourth Quarter of 2016

adidas currency-neutral sales increase 14% in the fourth quarter of 2016

During the fourth quarter, adidas continued to deliver a strong top- and bottom line performance. Revenues increased 14% on a currency-neutral basis. In euro terms, revenues grew 12% to € 4.687 billion (2015: € 4.167 billion). At the adidas brand, currency-neutral sales grew 18%, despite a tough comparison from the prior year related to the first sales of UEFA EURO 2016 related products. This development was driven by double-digit growth in the running category as well as at adidas Originals and adidas neo. In addition, high-single digit growth in the training category also contributed to the top-line improvement. Currency-neutral sales at the Reebok brand were up 3%, supported by high-single-digit sales increases in the training category and in Classics.

Double-digit growth in key market segments

From a market segment perspective, combined currency-neutral sales of the adidas and Reebok brands in the fourth quarter grew at double-digit rates in key market segments such as North America (+29%), Greater China (+25%), Latin America (+22%) and Western Europe (+12%). While double-digit increases in MEAA (+14%) also supported the strong top-line development, revenues in Russia/CIS (-5%) and Japan (-6%) were below the prior year level. Currency-neutral sales in Other Businesses declined 14% in the fourth quarter, reflecting declines at TaylorMade-adidas Golf and CCM Hockey.

Gross margin increases 1.6pp to 48.8% driven by positive mix effects

In the fourth quarter of 2016, the company's gross margin increased 1.6 percentage points to 48.8% (2015: 47.2%), as a more favourable pricing, product and channel mix as well as lower input costs more than offset the negative effects from currency headwinds. Other operating expenses as a percentage of sales increased 1.5 percentage points to 50.1% (2015: 48.6%), driven by higher operating overhead costs as a percentage of sales, also reflecting one-time costs associated with restructuring measures at Reebok. Operating profit improved to € 23 million (2015: operating loss of € 7 million, excluding goodwill impairment losses), translating into an operating margin of 0.5% (2015: negative operating margin of 0.2%). The company recorded a net loss from continuing operations of € 9 million in the fourth quarter (2015: € 17 million).



Basic earnings per share from continuing and discontinued operations were negative € 0.05 in 2016 (2015: negative € 0.14).

Outlook 2017

adidas expects ongoing strong top- and bottom-line expansion in 2017

For 2017, the company expects sales to increase at a rate between 11% and 13% on a currency-neutral basis. Currency-neutral combined revenues of the adidas and Reebok brands are expected to grow at double-digit rates in Western Europe, North America, Greater China and Russia/CIS, while currency-neutral sales in Latin America, Japan and MEAA are forecasted to improve at a high-single-digit rate each. Currency-neutral revenues of Other Businesses are expected to be below the prior year level, due to sales decreases at CCM Hockey. Currency-neutral sales at TaylorMade-adidas Golf are expected to grow at a mid-single-digit rate.

In 2017, the gross margin is forecasted to increase up to 0.5 percentage points to a level of up to 49.1% (2016: 48.6%). This, together with a forecasted decline in other operating expenses as a percentage of sales, is expected to drive an increase in operating profit of between 18% and 20%. As a result, the company's operating margin is expected to improve between 0.6 and 0.8 percentage points to a level between 8.3% and 8.5% (2016: 7.7%). Net income from continuing operations is projected to increase at a rate between 18% and 20% to a level between € 1.200 billion and € 1.225 billion (2016: € 1.019 billion).



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adidas AG Consolidated Income Statement (IFRS)

€ in millions	Fourth quarter 2016	Fourth quarter 2015	Change	Fourth quarter 2016 excl. goodwill impairment	Fourth quarter 2015 excl. goodwill impairment	Change
Net sales	4,687	4,167	12.5 %	4,687	4,167	12.5 %
Cost of sales	2,399	2,201	9.0 %	2,399	2,201	9.0 %
Gross profit	2,288	1,966	16.4 %	2,288	1,966	16.4 %
<i>(% of net sales)</i>	48.8%	47.2 %	1.6 pp	48.8%	47.2 %	1.6 pp
Royalty and commission income	24	29	(17.4%)	24	29	(17.4%)
Other operating income	58	22	168.2 %	58	22	168.2 %
Other operating expenses	2,346	2,024	15.9 %	2,346	2,024	15.9 %
<i>(% of net sales)</i>	50.1%	48.6 %	1.5 pp	50.1%	48.6 %	1.5 pp
Goodwill impairment losses	-	16	(100.0%)	-	-	-
Operating profit	23	(24)	n.a.	23	(7)	n.a.
<i>(% of net sales)</i>	0.5 %	(0.6%)	1.1 pp	0.5 %	(0.2%)	0.7 pp
Financial income	8	14	(42.1%)	8	14	(42.1%)
Financial expenses	39	16	144.9 %	39	16	144.9 %
Income before taxes	(8)	(26)	70.2 %	(8)	(9)	18.2 %
<i>(% of net sales)</i>	(0.2%)	(0.6%)	0.5 pp	(0.2%)	(0.2%)	0.1 pp
Income taxes	1	8	(82.2%)	1	8	(82.2%)
<i>(% of income before taxes)</i>	(18.9%)	(31.6%)	(12.7 pp)	(18.9%)	(86.8%)	(67.8 pp)
Net income from continuing operations	(9)	(34)	73.1 %	(9)	(17)	47.9 %
<i>(% of net sales)</i>	(0.2%)	(0.8%)	0.6 pp	(0.2%)	(0.4%)	0.2 pp
Losses from discontinued operations, net of taxes	(1)	(10)	(93.9%)	(1)	(10)	(93.9%)
Net income	(10)	(44)	77.7 %	(10)	(27)	64.4 %
<i>(% of net sales)</i>	(0.2%)	(1.0%)	0.8 pp	(0.2%)	(0.7%)	0.4 pp
Net income attributable to shareholders	(10)	(44)	77.3 %	(10)	(28)	63.9 %
<i>(% of net sales)</i>	(0.2%)	(1.1%)	0.8 pp	(0.2%)	(0.7%)	0.5 pp
Net income attributable to non-controlling interests	0	0	(31.5%)	0	0	(31.5%)
Basic earnings per share from continuing operations (in €)	(0.05)	(0.17)	72.6 %	(0.05)	(0.09)	47.5 %
Diluted earnings per share from continuing operations (in €)	(0.02)	(0.17)	86.4 %	(0.02)	(0.09)	74.0 %
Basic earnings per share from continuing and discontinued operations (in €)	(0.05)	(0.22)	77.3 %	(0.05)	(0.14)	63.9 %
Diluted earnings per share from continuing and discontinued operations (in €)	(0.03)	(0.22)	88.1 %	(0.03)	(0.14)	81.1 %

Net Sales

€ in millions	Fourth quarter 2016	Fourth quarter 2015	Change	Change (currency-neutral)
Western Europe	1,105	1,031	7.2 %	12.2 %
North America	969	744	30.3 %	28.7 %
Greater China	741	617	20.2 %	25.0 %
Russia/CIS	175	178	(1.7%)	(5.2%)
Latin America	471	415	13.7 %	22.1 %
Japan	271	257	5.3 %	(6.4%)
MEAA	618	543	13.8 %	13.6 %
Other Businesses	336	383	(12.3%)	(13.6%)
adidas brand	3,953	3,399	16.3 %	17.9 %
Reebok brand	462	456	1.5 %	2.5 %
TaylorMade-adidas Golf	199	224	(11.2%)	(12.5%)
CCM Hockey	66	85	(21.6%)	(22.2%)

Rounding differences may arise.



adidas AG Consolidated Income Statement (IFRS)

€ in millions	Full Year 2016	Full Year 2015	Change	Full Year 2016 excl. goodwill impairment	Full Year 2015 excl. goodwill impairment	Change
Net sales	19,291	16,915	14.0 %	19,291	16,915	14.0 %
Cost of sales	9,912	8,748	13.3 %	9,912	8,748	13.3 %
Gross profit	9,379	8,168	14.8 %	9,379	8,168	14.8 %
(% of net sales)	48.6%	48.3%	0.3 pp	48.6%	48.3%	0.3 pp
Royalty and commission income	109	119	(8.0%)	109	119	(8.0%)
Other operating income	266	96	175.2 %	266	96	175.2 %
Other operating expenses	8,263	7,289	13.4 %	8,263	7,289	13.4 %
(% of net sales)	42.8%	43.1%	(0.3 pp)	42.8%	43.1%	(0.3 pp)
Goodwill impairment losses	-	34	(100.0%)	-	-	-
Operating profit	1,491	1,059	40.7 %	1,491	1,094	36.3 %
(% of net sales)	7.7 %	6.3%	1.5 pp	7.7%	6.5%	1.3 pp
Financial income	28	46	(40.1%)	28	46	(40.1%)
Financial expenses	74	67	11.3 %	74	67	11.3 %
Income before taxes	1,444	1,039	39.0 %	1,444	1,073	34.6 %
(% of net sales)	7.5 %	6.1%	1.3 pp	7.5%	6.3%	1.1 pp
Income taxes	426	353	20.6 %	426	353	20.6 %
(% of income before taxes)	29.5 %	34.0%	(4.5 pp)	29.5%	32.9%	(3.4 pp)
Net income from continuing operations	1,019	686	48.5 %	1,019	720	41.5 %
(% of net sales)	5.3 %	4.1 %	1.2 pp	5.3%	4.3%	1.0 pp
Gains/(losses) from discontinued operations, net of tax	1	(46)	n.a.	1	(46)	n.a.
Net income	1,020	640	59.3 %	1,020	674	51.2 %
(% of net sales)	5.3 %	3.8 %	1.5 pp	5.3%	4.0%	1.3 pp
Net income attributable to shareholders	1,017	634	60.5 %	1,017	668	52.2 %
(% of net sales)	5.3 %	3.7 %	1.5 pp	5.3%	4.0%	1.3 pp
Net income attributable to non-controlling interests	2	6	(61.9%)	2	6	(61.9%)
Basic earnings per share from continuing operations (in €)	5.08	3.37	50.5 %	5.08	3.54	43.3 %
Diluted earnings per share from continuing operations (in €)	4.99	3.37	47.9 %	4.99	3.54	40.8 %
Basic earnings per share from continuing and discontinued operations (in €)	5.08	3.15	61.5 %	5.08	3.32	53.3 %
Diluted earnings per share from continuing and discontinued operations (in €)	4.99	3.15	58.7 %	4.99	3.32	50.6 %

Net Sales

€ in millions	Full Year 2016	Full Year 2015	Change	Change (currency-neutral)
Western Europe	5,291	4,539	16.6 %	19.7 %
North America	3,412	2,753	23.9 %	24.1 %
Greater China	3,010	2,469	21.9 %	27.5 %
Russia/CIS	679	739	(8.1%)	2.7 %
Latin America	1,731	1,783	(2.9%)	16.2 %
Japan	1,007	776	29.8 %	16.3 %
MEAA	2,685	2,388	12.4 %	16.3 %
Other Businesses	1,475	1,467	0.5 %	0.9 %
adidas brand	16,334	13,939	17.2 %	21.7 %
Reebok brand	1,770	1,751	1.1 %	5.7 %
TaylorMade-adidas Golf	892	902	(1.1%)	(0.8%)
CCM Hockey	271	317	(14.3%)	(13.3%)

Rounding differences may arise.



adidas AG Consolidated Statement of Financial Position (IFRS)

€ in millions	December 31, 2016	December 31, 2015	Change in %
Cash and cash equivalents	1,510	1,365	10.6
Short-term financial assets	5	5	2.5
Accounts receivable	2,200	2,049	7.4
Other current financial assets	729	367	98.7
Inventories	3,763	3,113	20.9
Income tax receivables	98	97	1.1
Other current assets	580	489	18.5
Assets classified as held for sale	-	12	(100.0)
Total current assets	8,886	7,497	18.5
Property, plant and equipment	1,915	1,638	16.9
Goodwill	1,412	1,392	1.4
Trademarks	1,680	1,628	3.2
Other intangible assets	167	188	(11.5)
Long-term financial assets	194	140	38.3
Other non-current financial assets	96	99	(2.6)
Deferred tax assets	732	637	14.9
Other non-current assets	94	124	(23.9)
Total non-current assets	6,290	5,846	7.6
Total assets	15,176	13,343	13.7
Short-term borrowings	636	366	73.7
Accounts payable	2,496	2,024	23.3
Other current financial liabilities	201	143	40.7
Income taxes	402	359	12.1
Other current provisions	573	456	25.6
Current accrued liabilities	2,023	1,684	20.1
Other current liabilities	434	331	31.1
Liabilities classified as held for sale	-	0	(100.0)
Total current liabilities	6,765	5,364	26.1
Long-term borrowings	982	1,463	(32.9)
Other non-current financial liabilities	22	18	23.6
Pensions and similar obligations	355	273	30.4
Deferred tax liabilities	387	368	5.2
Other non-current provisions	44	50	(11.1)
Non-current accrued liabilities	120	120	(0.2)
Other non-current liabilities	46	40	14.2
Total non-current liabilities	1,957	2,332	(16.1)
Share capital	201	200	0.6
Reserves	749	592	26.5
Retained earnings	5,521	4,874	13.3
Shareholders' equity	6,472	5,666	14.2
Non-controlling interests	(17)	(18)	4.0
Total equity	6,455	5,648	14.3
Total liabilities and equity	15,176	13,343	13.7
Additional balance sheet information			
Operating working capital	3,468	3,138	10.5
Working capital	2,121	2,133	(0.6)
Net borrowings	103	460	(77.6)
Financial leverage	1.6%	8.1%	(6.5 pp)

Rounding differences may arise.