

# Q3 2022 RESULTS

NOVEMBER 09, 2022

adidas



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# AGENDA

- 1 BUSINESS UPDATE
- 2 FINANCIAL UPDATE
- 3 OPERATIONAL UPDATE
- 4 OUTLOOK



# BUSINESS UPDATE

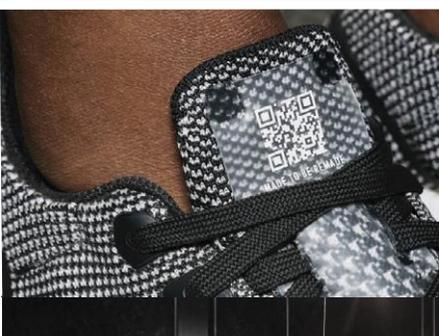


# CONSUMER HIGHLIGHTS



# STRATEGIC FOCUS AREAS

UNITED BY SUMMITS



IMPOSSIBLE IS NOTHING



adidas **CREDIBILITY**

**EXPERIENCE**

**SUSTAINABILITY**

# STRENGTHS & WEAKNESSES

## STRENGTHS

### CONTINUED DOUBLE-DIGIT TOP-LINE GROWTH EXCL. GREATER CHINA

Revenues up 12% excluding Greater China

### GROWTH ACCELERATING IN LATIN AMERICA AND ASIA-PACIFIC

Strong double-digit increase in both regions

### STRONG DOUBLE-DIGIT GROWTH IN PERFORMANCE

Driven by Football (+36%) and Running (+24%)

### DOUBLE-DIGIT E-COM GROWTH IN NAM, EMEA AND LAM

Reflecting strong sell-through of product

## WEAKNESSES

### WAR IN UKRAINE AND INFLATION WEIGH ON GROWTH IN EMEA

Strong performance in Europe and Emerging Markets

### INVENTORY MANAGEMENT MASKS UNDERLYING IMPROVEMENT IN CHINA

Own-retail revenues up 7% reflecting robust sell-out

### ONE-OFFS IMPACTING PROFITABILITY DEVELOPMENT

Net income down due to Russia/CIS exit, customs risks, legal dispute, cash pooling

### ELEVATED INVENTORY LEVELS IN THE MARKETPLACE

Promotional activity to intensify

# P&L AT A GLANCE

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## REVENUES INCREASE 4% CURRENCY-NEUTRAL

Up 11% in Euro terms to € 6,408 million

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## GROSS MARGIN DOWN 1.0PP TO 49.1%

Price increases overcompensated by increased supply chain costs, higher discounting and unfavorable market mix

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## OPERATING PROFIT OF € 564 MILLION

Reflecting operating margin of 8.8%

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## NET INCOME FROM CONTINUING OPERATIONS OF € 66 MILLION

Reflecting significant adverse impact from several one-offs

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# OUR STRATEGIC GROWTH **MARKETS**

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## GREATER CHINA

Own-retail revenues up 7%

**-27%**

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## NORTH AMERICA

Reflecting 10% growth in DTC

**+8%**

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## EMEA

Driven by strong double-digit DTC growth in both Europe and Emerging Markets

**+7%**

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# OUR STRATEGIC GROWTH CHANNELS

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## DOUBLE-DIGIT GROWTH IN DTC EXCLUDING RUSSIA/CIS

Supported by improving consumer experience across all touchpoints

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## E-COM UP STRONG DOUBLE-DIGITS IN ALL WESTERN MARKETS

Reflecting successful sell-through of product

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## ADICLUB EXPANDS GLOBALLY WITH NEW VALUE PROPOSITIONS

Additional go-lives excite our most valuable consumers

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DTC GROWTH

**+6%**

E-COM GROWTH

**+8%**



# OUR STRATEGIC GROWTH CATEGORIES

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## EXCEPTIONAL GROWTH IN FOOTBALL

Jersey launches fueling consumer excitement ahead of FIFA World Cup

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## EXCELLENT INCREASE IN RUNNING

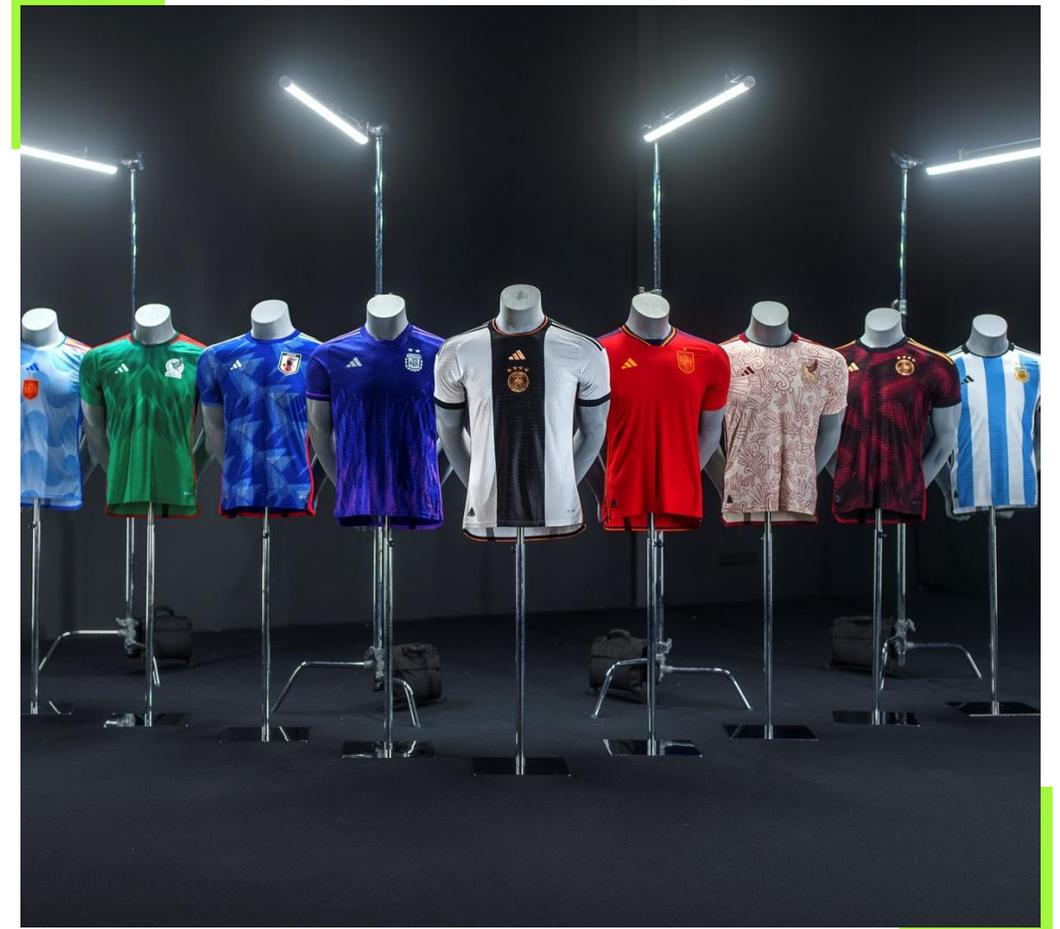
Latest iterations of successful franchises resonating extremely well

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## DOUBLE-DIGIT GROWTH IN BASKETBALL

Reflecting strong momentum of Forum franchise

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# FINANCIAL UPDATE



# STRONG GROWTH IN MARKETS EXCL. GREATER CHINA IN Q3

## NORTH AMERICA

**+8%**

VS. 2021

Operating margin: 18.8%  
(-1.5pp vs. 2021)

## EMEA

**+7%**

VS. 2021

Operating margin: 19.7%  
(-3.9pp vs. 2021)

## GREATER CHINA

**-27%**

VS. 2021

Operating margin: 22.7%  
(-3.8pp vs. 2021)

## ASIA-PACIFIC

**+15%**

VS. 2021

Operating margin: 23.2%  
(+5.7pp vs. 2021)

## LATIN AMERICA

**+51%**

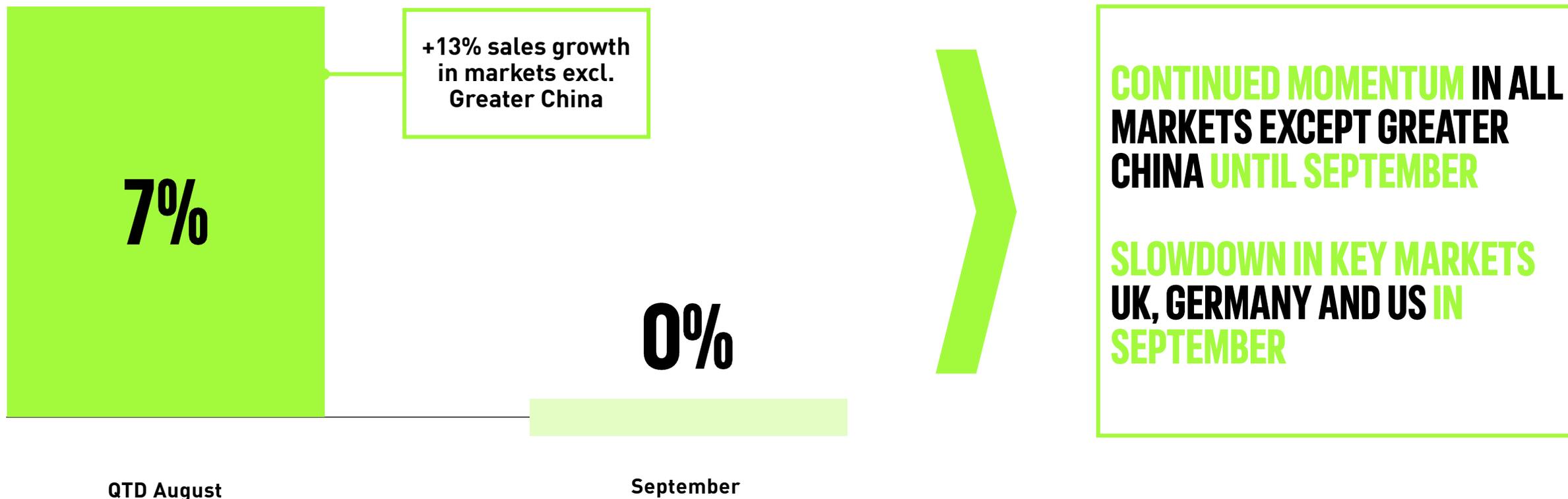
VS. 2021

Operating margin: 26.2%  
(+6.0pp vs. 2021)

**+12%**  
**SALES GROWTH  
IN MARKETS  
EXCL. CHINA**

# MONTHLY TOP-LINE GROWTH DEVELOPMENT IN Q3

## NET SALES DEVELOPMENT VS. PRIOR YEAR



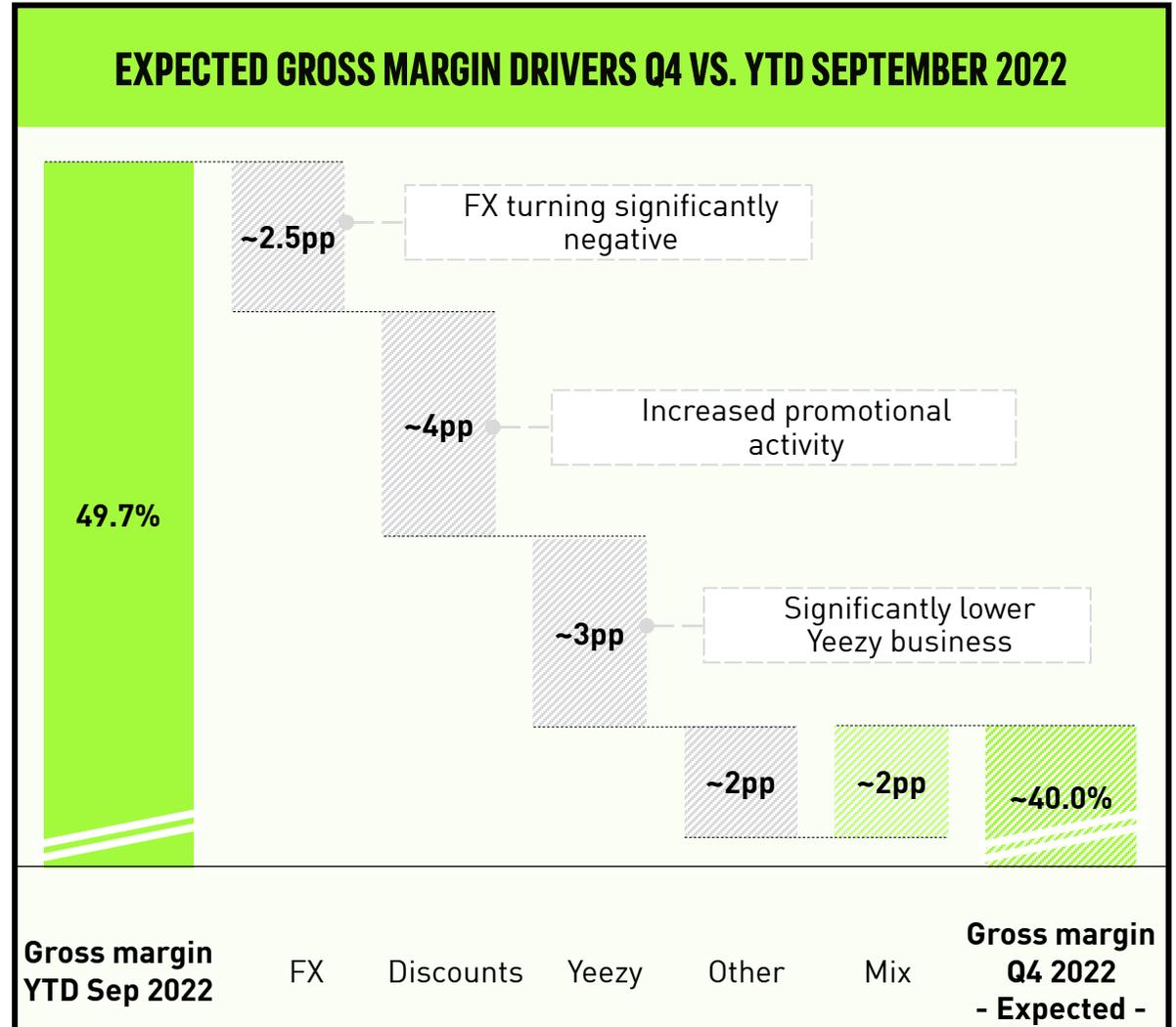
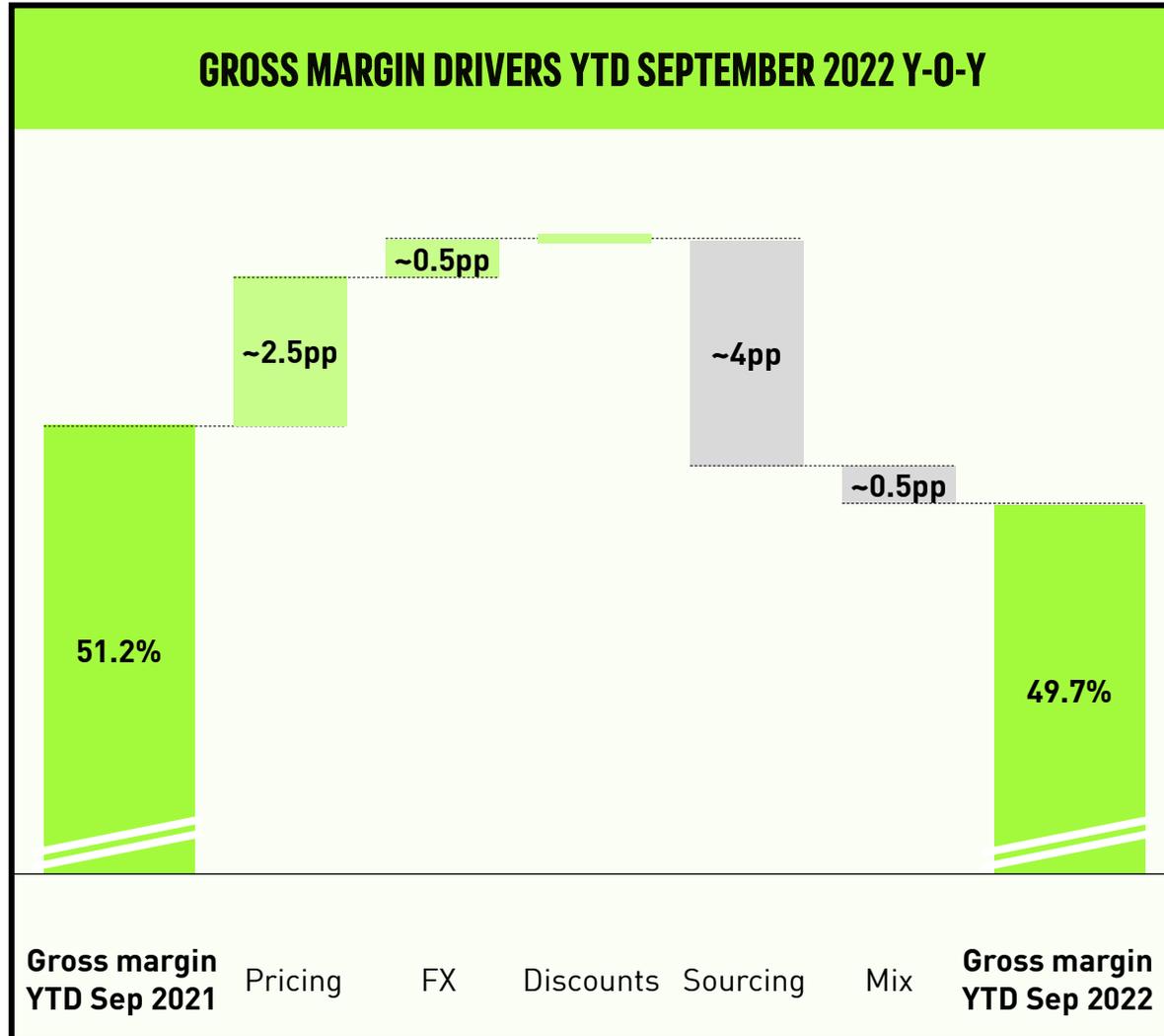
# Q3 2022 P&L OVERVIEW

€ IN MILLIONS	Q3 2022	Q3 2021	Y-O-Y	Q3 2022 EXCL. ONE-OFFS
<b>Net Sales</b>	<b>6,408</b>	<b>5,752</b>	<b>+11%</b>	
<b>Gross Margin</b>	<b>49.1%</b>	<b>50.1%</b>	<b>-1.0pp</b>	<b>Around 50%</b>
<b>Other Operating Expenses</b> (in % of sales)	<b>2,676</b> 41.8%	<b>2,237</b> 38.9%	<b>+20%</b> <b>+2.9pp</b>	
<b>Marketing and Point-of-Sale Expenses</b> (in % of sales)	<b>691</b> 10.8%	<b>674</b> 11.7%	<b>+2%</b> <b>-0.9pp</b>	
<b>Operating Overhead Expenses</b> (in % of sales)	<b>1,985</b> 31.0%	<b>1,562</b> 27.2%	<b>+27%</b> <b>+3.8pp</b>	
<b>Operating Profit</b>	<b>564</b>	<b>672</b>	<b>-16%</b>	<b>Around €800m</b>
<b>Operating Margin</b>	<b>8.8%</b>	<b>11.7%</b>	<b>-2.9pp</b>	<b>Around 12%</b>
<b>Financial Expenses</b>	<b>162</b>	<b>49</b>	<b>+229%</b>	
<b>Income Taxes</b>	<b>345</b>	<b>150</b>	<b>+130%</b>	<b>Includes both Russia one-offs as well as tax implications from Yeezy termination</b>
<b>Income Tax Rate</b> (in % of sales)	<b>84.1%</b>	<b>23.8%</b>	<b>+60.2pp</b>	
<b>Net Income</b> from continuing operations	<b>66</b>	<b>479</b>	<b>-86%</b>	<b>Around €350m</b>

# GROSS MARGIN DRIVERS H1 2022 AND Q3 2022

	H1 2022	Q3 2022
<b>GROSS MARGIN</b>	 <p>50.1% (-1.7pp)</p>	 <p>49.1% (-1.0pp)</p>
<b>SOURCING</b>	 <p>Strong increase in supply chain costs</p>	 <p>Strong increase in supply chain costs</p>
<b>MIX</b>	 <p>Significant sales decline in China and tough prior year e-com comps</p>	 <p>Significant sales decline in China amid continued focus on DTC</p>
<b>FX</b>	 <p>Slightly positive FX</p>	 <p>Favorable FX</p>
<b>PRICING</b>	 <p>Only selective price increases on DTC exclusives</p>	 <p>Broad-based price increases (mid-to high-single-digit rate)</p>
<b>DISCOUNTING</b>	 <p>Lower promotional activity</p>	 <p>Increased promotional activity</p>

# GROSS MARGIN DRIVERS YTD SEPTEMBER AND Q4 2022



# ONE-OFF COSTS

SEVERAL ONE-OFF COSTS IMPACTING THE COMPANY'S BOTTOM-LINE IN H2 2022



## RUSSIA

WIND-DOWN OF BUSINESS OPERATIONS IN RUSSIA



## CASH POOLING

ACCELERATED CASH POOLING IN HIGH INFLATIONARY COUNTRIES



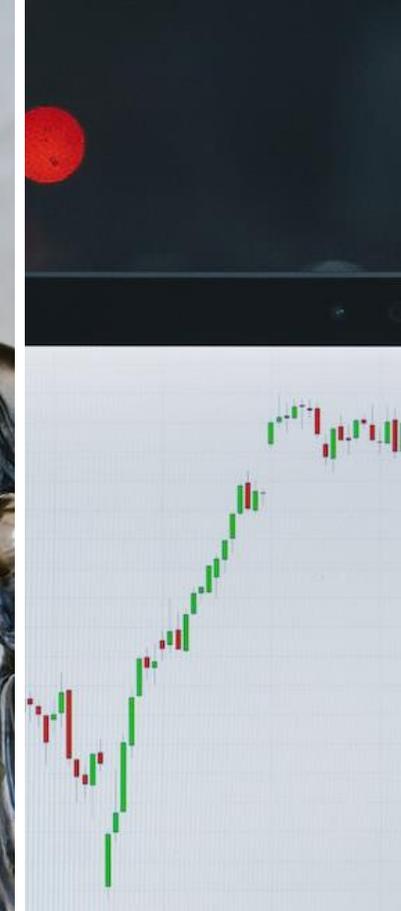
## CUSTOMS RISKS

HIGHER PROVISIONS FOR CUSTOMS-RELATED RISKS



## LEGAL DISPUTE

RECENTLY SETTLED LEGAL DISPUTE



## BIP

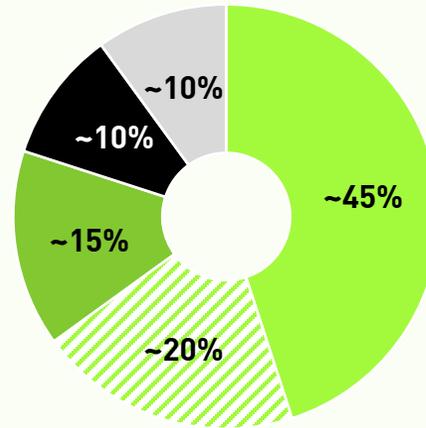
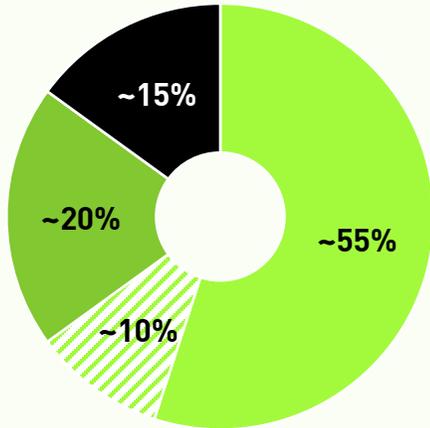
BUSINESS IMPROVEMENT PROGRAM TO SAFEGUARD PROFITABILITY IN 2023

# Q3 2022 ONE-OFFS DECOMPOSED

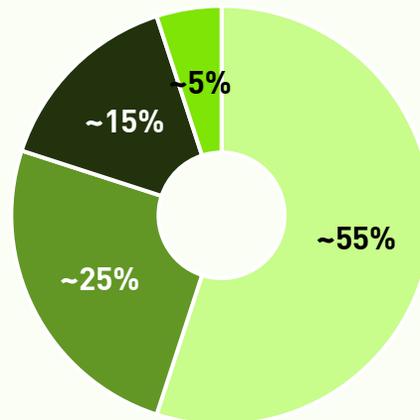
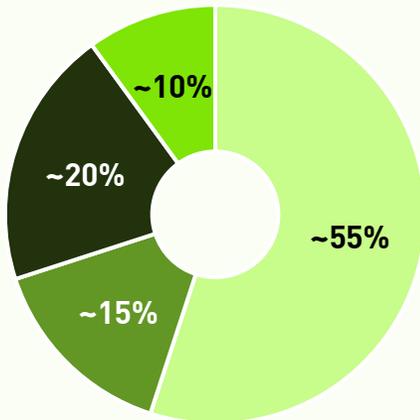
Q3 2022 (ALMOST €300M)

FY 2022 (AROUND €500M)

BY TYPE



BY P&L ITEM



# AVERAGE OPERATING WORKING CAPITAL

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## INVENTORIES UP 63% C.N. YEAR-ON-YEAR

Due to slowing consumer demand in major Western markets in September

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## RECEIVABLES UP 4% C.N. YEAR-ON-YEAR

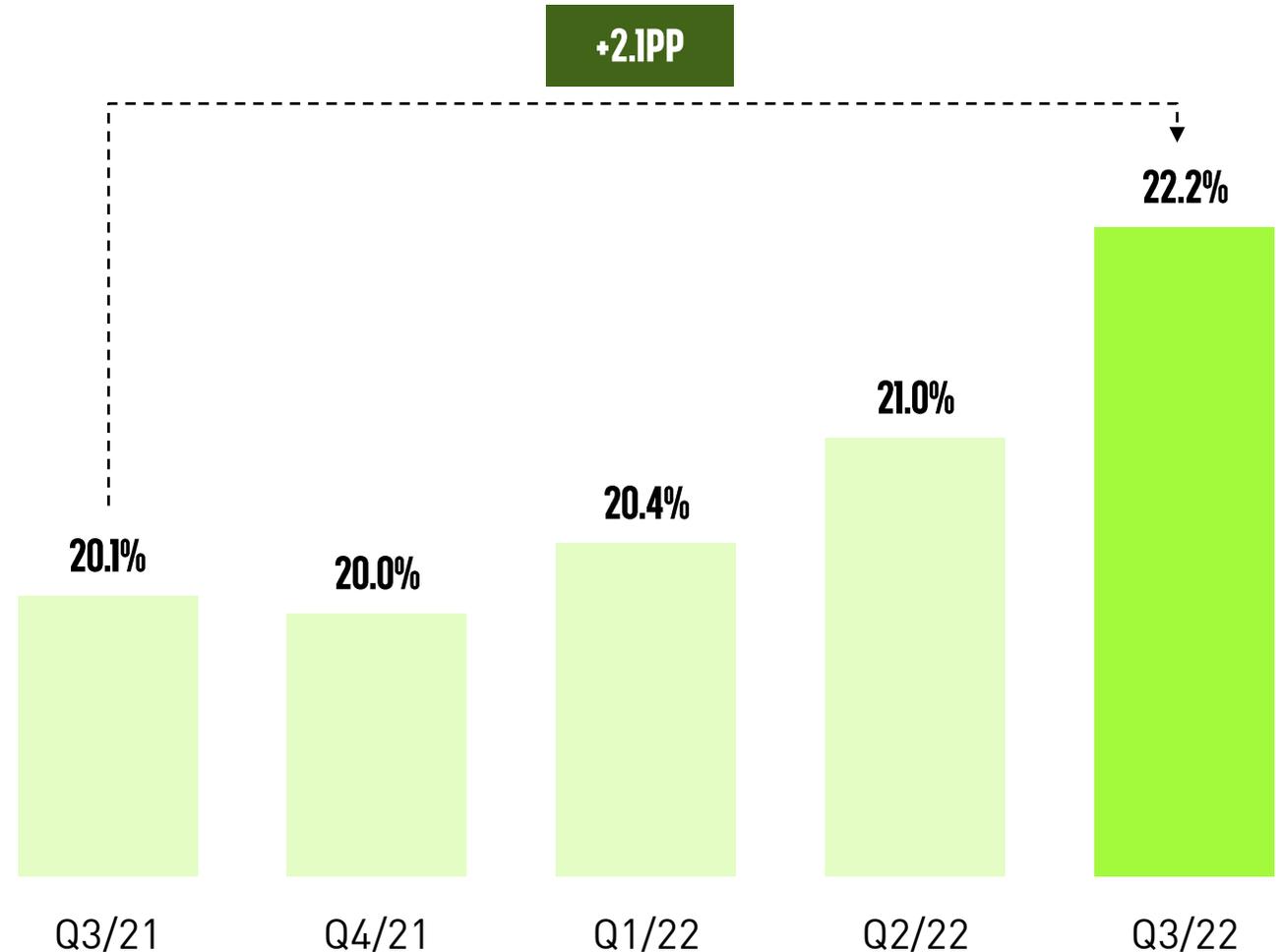
Reflecting strong net sales growth in Latin America and Emerging Markets

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## PAYABLES UP 67% C.N. YEAR-ON-YEAR

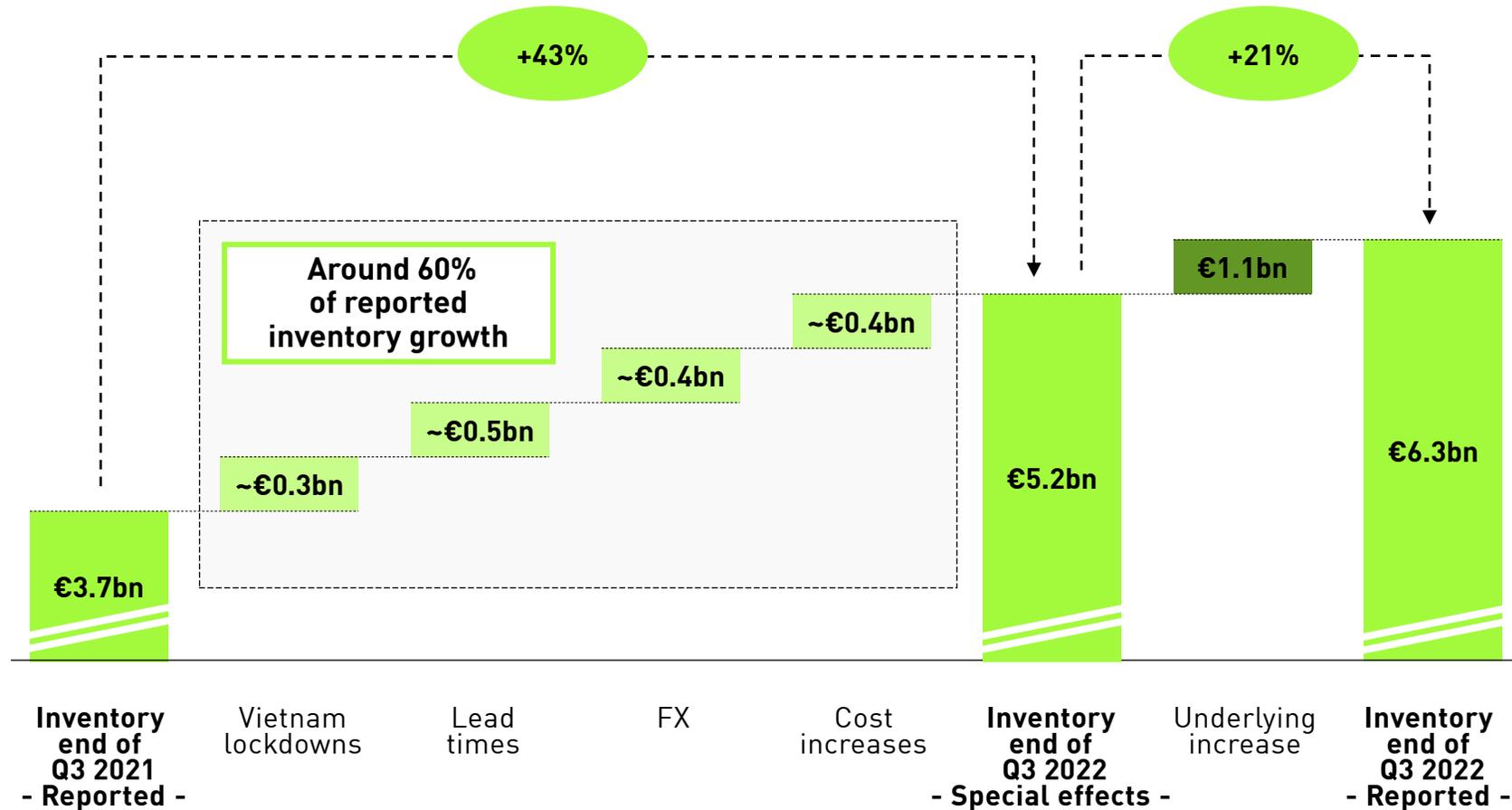
Driven by significantly higher sourcing volume and increased product costs

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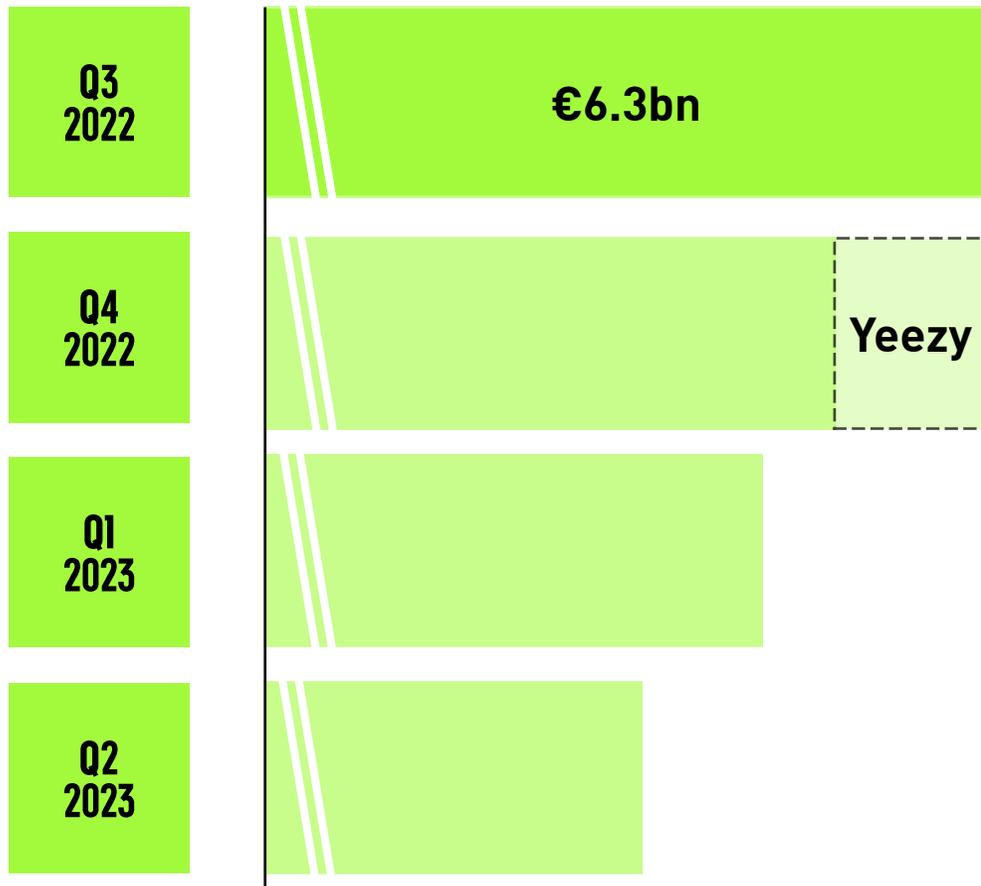
# Q3 INVENTORY LEVEL IMPACTED BY FOUR SPECIAL EFFECTS

## INVENTORY DEVELOPMENT Y-O-Y DECOMPOSED



# INVENTORY NORMALIZATION GOING FORWARD

## EXPECTED INVENTORY DEVELOPMENT AT QUARTER END



## FOCUSING ON NORTH AMERICA AND CORE EUROPE



**CLEARING EXCESS INVENTORY AGGRESSIVELY**



**SIGNIFICANTLY DECREASING OVERALL BUYING VOLUME**



**LOWERING PLANNED PURCHASES FOR FACTORY OUTLETS**



**TACTICALLY RE-PURPOSING EXISTING INVENTORY**

# OPERATIONAL UPDATE



# LEVERAGING CONTINUED MOMENTUM

1



**PERFORMANCE CATEGORIES**



2



**MARKET MOMENTUM**



3



**PHYSICAL EXPERIENCE**



4



**DIGITAL EXPERIENCE**



**DOUBLING DOWN ON CONTINUED MOMENTUM IN MAJORITY OF STRATEGIC FOCUS AREAS**

# 1 PERFORMANCE CATEGORIES

## YTD SEPTEMBER NET SALES GROWTH



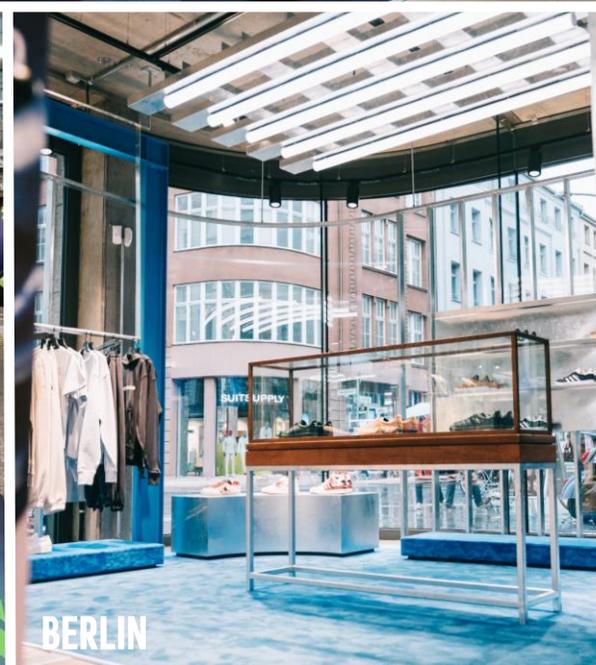
**NEW PRODUCT INTRODUCTIONS AHEAD OF MAJOR SPORTS EVENTS AND SCALING OF SUCCESSFUL FRANCHISES DRIVE STRONG GROWTH IN MAJOR PERFORMANCE CATEGORIES**

## 2 MARKET MOMENTUM

### YTD SEPTEMBER NET SALES GROWTH



# 3 PHYSICAL EXPERIENCE



# 4 DIGITAL EXPERIENCE



# ADDRESSING CHALLENGES **DECISIVELY**

1



**GREATER CHINA**

2



**YEEZY**

3



**COST HEADWINDS**

↶



**ONE-OFFS**

↶



**EXCESS INVENTORY**



**EXECUTING FOCUSED ACTION PLANS TO OVERCOME MARKET- AND COMPANY-SPECIFIC CHALLENGES**

# 1 GREATER CHINA

## MARKET-SPECIFIC CHALLENGES

- **Strict zero covid-19 policy remains in place** with comprehensive preventive measures across the marketplace
- **Daily new covid-19 cases surpassed 2,000 again in November** and resurgence appears to be broad-based
- **Restrictive measures have just ramped up in major cities** with several areas deemed high-risk
- **Offline traffic continues to be subdued** reflecting volatile situation and imminent risk of new lockdowns
- **Local lifestyle influencers are still hesitant to collaborate** with Western brands

## COMPANY-SPECIFIC CHALLENGES

- **Elevated inventory levels** given slower-than-expected recovery from market-specific challenges
- **High dependence on lifestyle influencers historically** and sudden loss of major combined followership last year
- **Limited portfolio of sports partners** given lack of focus historically
- **Investments in digital and membership** still need time to fully pay off
- **Ineffectiveness of marketing initiatives** with too many small campaigns
- **Inefficiencies in PoS landscape** with an undifferentiated retail footprint

# 1 GREATER CHINA

## MARKET-SPECIFIC CHALLENGES

## COMPANY-SPECIFIC CHALLENGES

### TURNAROUND PLAN

- **Reducing orders for upcoming seasons and executing inventory takebacks** to return to healthy inventory level
- **Leveraging factory outlets and upcoming online mega moments** to accelerate speed of inventory clearance
- **Connecting with the Chinese consumer differently** by increasing the leverage of our local creation center and marketing agency
- **Focusing marketing efforts toward social, communities, membership** and closer to the point of sale
- **Right-sizing China organization** to reflect current size of business and growth profile
- **Increasing focus on building our sports partners portfolio** while increasing grassroots marketing spend
- **Accelerating the scale-up of our own digital ecosystem** and rebranding our adiclub membership program
- **Re-assessing the quality of our retail fleet**, closing unprofitable stores and significantly reducing our footprint while continuing to invest into key cities and locations

2023

## 2 PARTNERSHIP WITH YE TERMINATED

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### **PARTNERSHIP WITH YE TERMINATED AS OF OCTOBER 25**

Immediately stopped production of Yeezy branded products and all payments to Ye and his companies

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### **SHORT-TERM NEGATIVE IMPACT EXPECTED FOR FY 2022**

Up to € 250 million net income impact in 2022 given high seasonality of Yeezy business

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### **ADIDAS IS THE SOLE OWNER OF ALL DESIGN RIGHTS**

Related to existing product as well as both previous and new colorways

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## 2 INCREMENTAL YEEZY BUSINESS AT A GLANCE

### DIRECT IMPLICATIONS

**Revenue shortfall of around € 500 million**  
vs. latest full year 2022 plan

**Net income shortfall of up to € 250 million**  
vs. latest full year 2022 plan

### TO BE CONSIDERED

**Full year business overstated**  
due to high seasonality of Yeezy  
business geared toward Q4

**Overall profitability overstated**  
as Yeezy P&L only includes  
directly related costs



### 2023 PLAN



**LEVERAGE EXISTING INVENTORY**

**AND**



**NO PAYMENT OF ROYALTIES AND  
MARKETING FEES (~ € 300 MILLION)**



**COMPENSATE VAST MAJORITY OF  
TOP- AND BOTTOM-LINE SHORTFALL**

# 3 COST HEADWINDS

**COST STRUCTURE EXPECTED TO BE IMPACTED BY SEVERAL HEADWINDS IN 2023**



## FX

**ADVERSE EFFECT FROM STRENGTHENING OF USD**



## FOB

**HIGHER RAW MATERIAL AND PRODUCT COSTS**



## FREIGHT RATES

**FREIGHT RATES STILL AT ELEVATED LEVELS**



## SALARIES

**SALARY ADJUSTMENTS TO COMPENSATE INFLATION**

# BIP CONSISTS OF EIGHT STRUCTURAL INITIATIVES

## HEADQUARTER



HQ OOH OPTIMIZATION

## BRANDS



MWB OPTIMIZATION

## MARKETS



RETAIL

PRICING

MARKETS OOH OPTIMIZATION

## GLOBAL OPERATIONS



FOB MITIGATION

IT

SUPPLY CHAIN MANAGEMENT

**BUSINESS IMPROVEMENT PROGRAM SAFEGUARDS PROFITABILITY IN 2023**  
**TOTAL POSITIVE IMPACT OF ~€700M ON NET INCOME LEVEL**

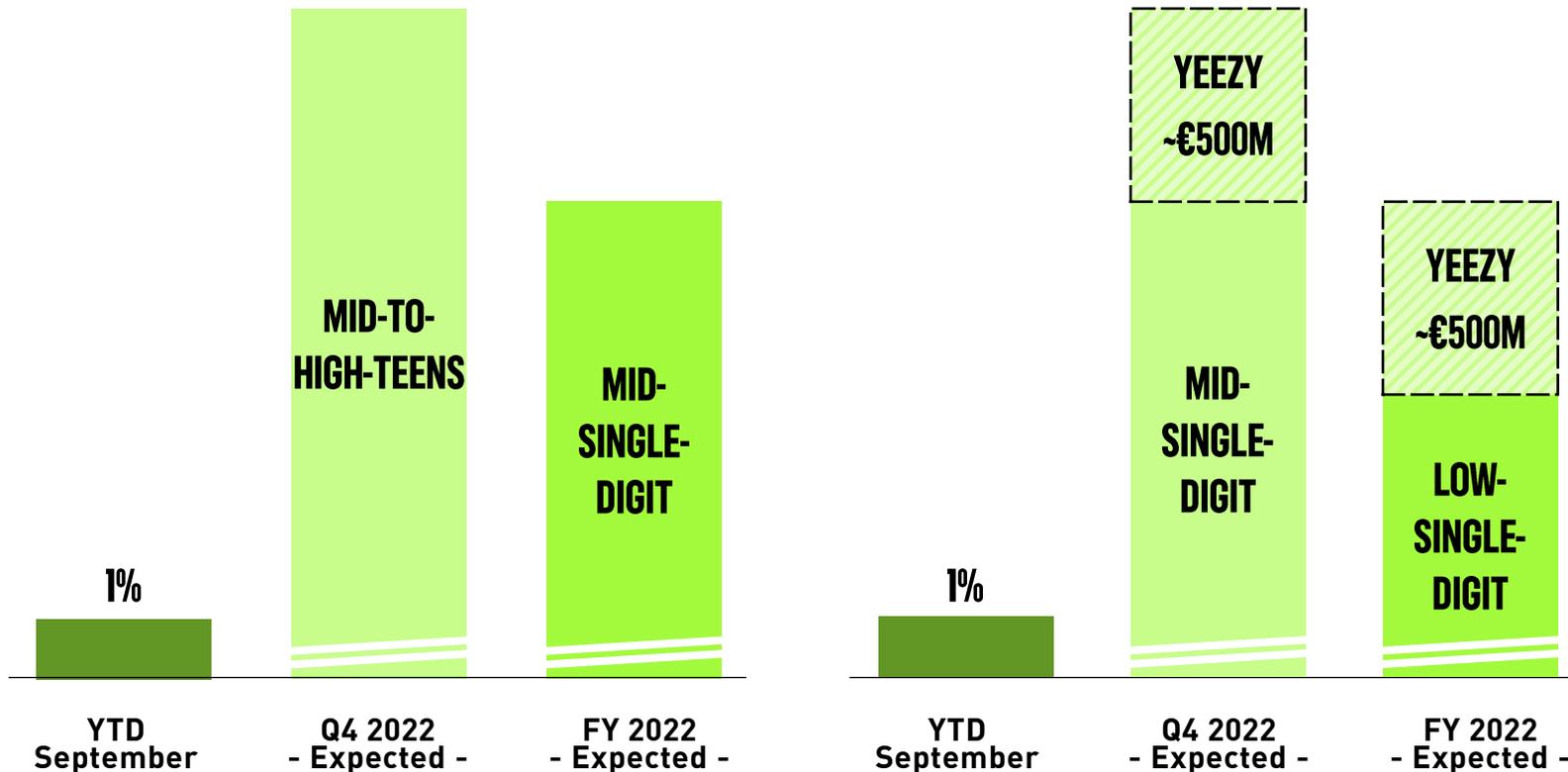
**OUTLOOK**



# TOP-LINE GROWTH PROFILE TOTAL COMPANY Q4 AND FY 2022

AS OF OCTOBER 20, 2022

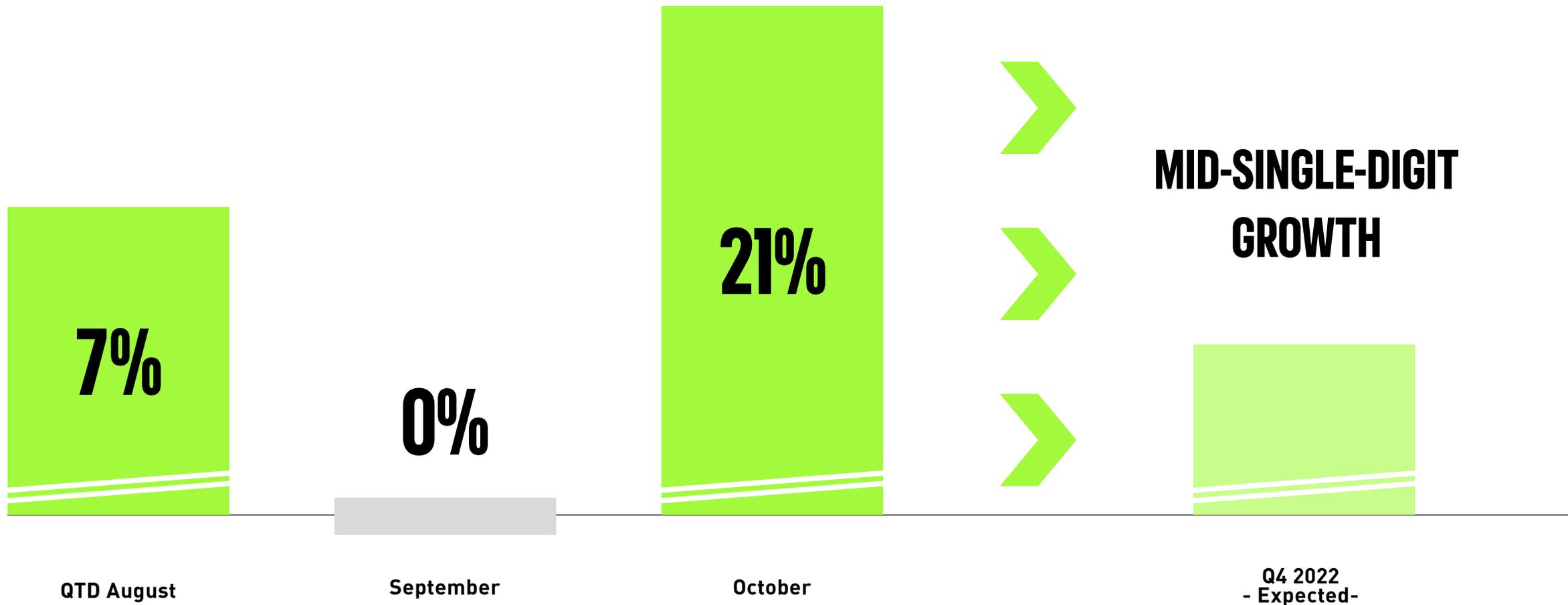
OUTLOOK



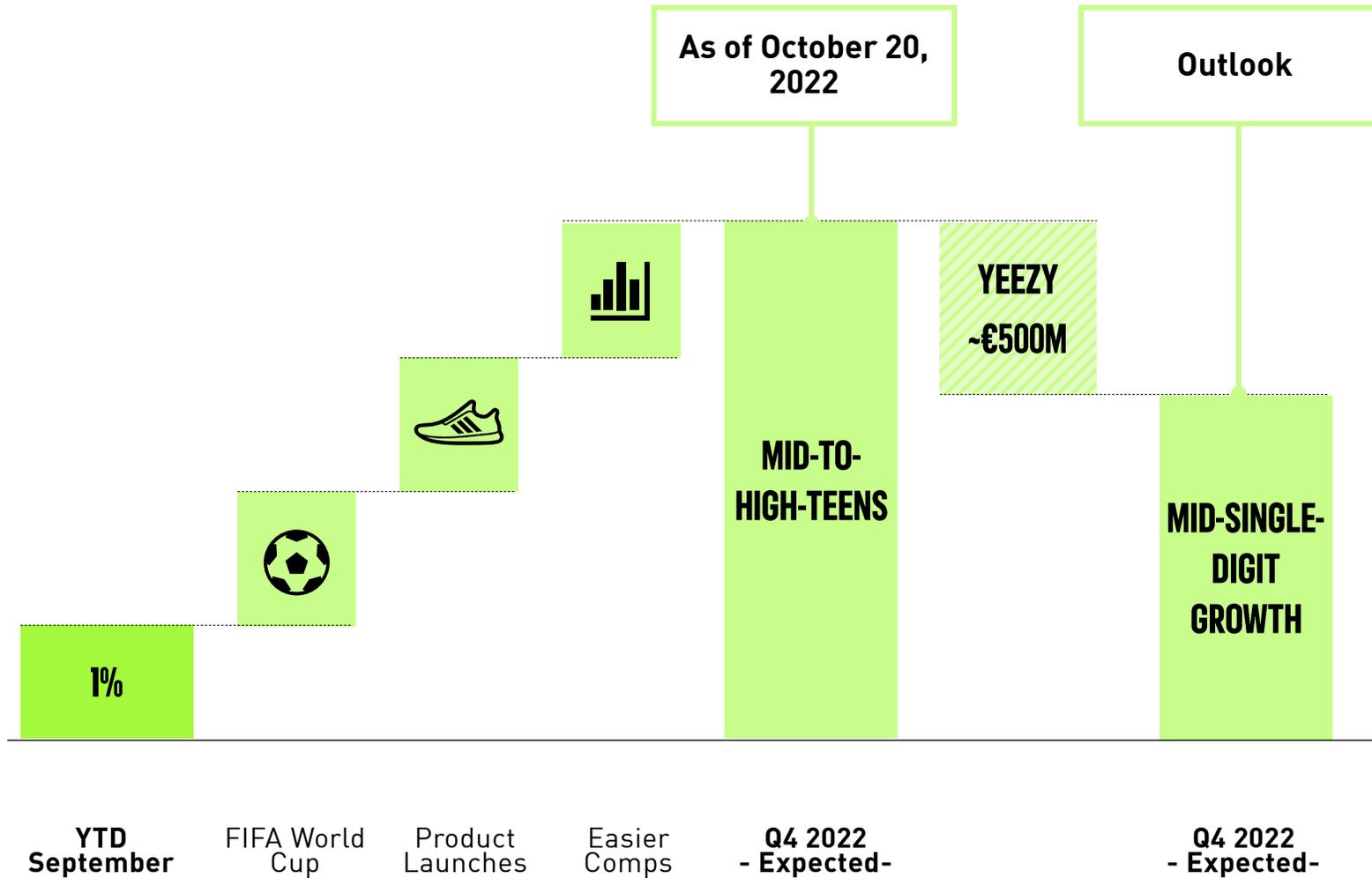
**TOP-LINE GROWTH EXPECTATION REDUCED TO INCORPORATE THE SHORTFALL OF YEEZY REVENUES IN Q4**

# MONTHLY TOP-LINE GROWTH PROFILE INTO Q4

## MONTHLY NET SALES DEVELOPMENT VS. PRIOR YEAR



# TOP-LINE GROWTH DRIVERS Q4



**FIFA WORLD CUP, KEY PRODUCT LAUNCHES AND EASIER COMPS EXPECTED TO DRIVE MID-SINGLE-DIGIT NET SALES GROWTH IN Q4**

# FIFA WORLD CUP 2022 LAUNCHES IN FULL SWING

**MARCH**



**OFFICIAL MATCH BALL  
- AL RIHLA**

**JULY | AUGUST | SEPTEMBER**



**FEDERATION HOME  
AND AWAY KITS**

**OCTOBER**



**FOOTWEAR PACK  
- AL RIHLA**

**DECEMBER**



TO BE RELEASED

**OFFICIAL SEMI AND FINAL  
MATCH BALL**

**CAPITALIZE ON CONSUMER EXCITEMENT TO MAXIMIZE GROWTH IN FOOTBALL**

# FIFA WORLD CUP 2022 CAMPAIGN



# LEVERAGE EVENT ACROSS KEY CATEGORIES

FOOTBALL ON PITCH

FOOTBALL PRE-GAME

TRAINING

LIFESTYLE

APPAREL



FOOTWEAR



USE UNIQUE EVENT BACKDROP TO **SHOWCASE THE BEST OF ADIDAS ACROSS SEVERAL KEY CATEGORIES**

# KEY EVENT-RELATED PRODUCT



# INTEGRATED OMNICHANNEL APPROACH

## POINT OF SALE



## DIGITAL



## MEMBERSHIP

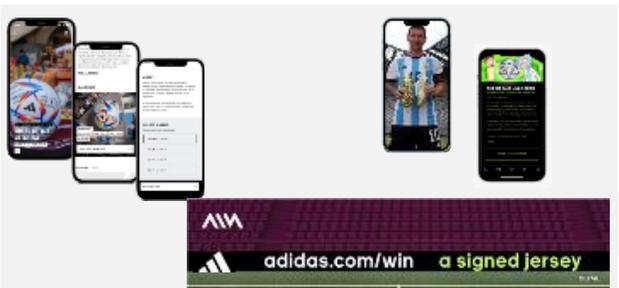
WINDOW



TRADING  
EXCELLENCE



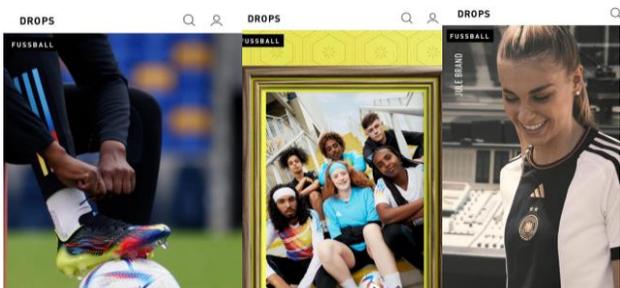
LEVERAGE PARTNER  
RIGHTS



IN STORE



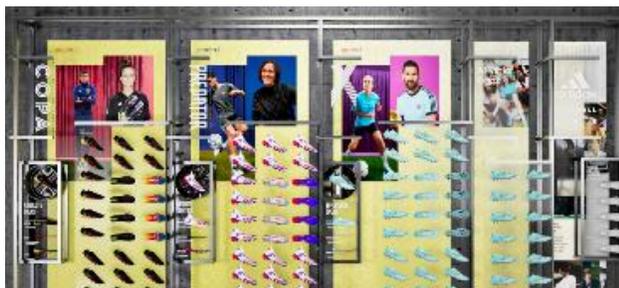
OPTIMIZED  
SHOPPING JOURNEY



CAMPAIGN  
EXTENSION



FOOTWEAR WALL



PLANNING ALIGNED  
TO HOLIDAY



HYPERLOCAL & ON THE  
GROUND INITIATIVES



# EXEMPLARY EMERGING MARKETS ACTIVATION PLAN



## CONNECTING STORIES

DRIVING CREDIBILITY IN SPORT AND LIFESTYLE



## HYPER LOCAL PRODUCT

COMPLEMENTING THE GLOBAL RANGE ACCORDING TO MARKET-SPECIFICS



## MARKETPLACE EVOLUTION

INCREASING AVAILABILITY VIA POP-UP STORES AND MALL TAKEOVERS



## EVENT HIGHLIGHTS

CELEBRATING KEY MOMENTS DURING THE EVENT WITH OUR CONSUMERS

**UNIQUE OPPORTUNITY TO ACCELERATE UNDERLYING MOMENTUM IN EMERGING MARKETS AND BEYOND**

# ADIDAS BASKETBALL



## AMBITION

Re-imagining and disrupting the category with a lifestyle-led strategy and holistic end-to-end product offer

## STRATEGY PILLARS

### LIFESTYLE-LED

Authenticating adidas Basketball from the street to the court

### JERRY LORENZO

Partnership bringing a new creative and strategic viewpoint to the category

### MARKETING STRATEGY

Focusing on Next Gen athletes, partners that are part of the culture that surrounds the game and global activations

# ADIDAS BASKETBALL INITIAL ACTIVATION PLAN

## 1 DON, TRAE & FORUM



Launching three key franchises with a direct link to the new adidas Basketball Creative Direction

## 2 ANTHEM FILM



Introducing our new vision for adidas Basketball through an iconic anthem film

## 3 ADIDAS BBALL COLLECTION 1



Launching the first collection of our elevated product offering across our brand architecture

## 4 FOG ATHLETICS PRESENTATION



Unveiling FOG Athletics product to tease a subsequent launch in 2023

## 5 FOG ATHLETICS LAUNCH



Launching FOG Athletics product with store takeovers and an elevated online experience

# RUNNING



# SPORTSWEAR



# FASHION PARTNERSHIPS



# ADICOLOR 70S



# ADJUSTED OUTLOOK BY MARKET FY 2022

	AS OF JULY 26, 2022	AS OF OCTOBER 20, 2022	OUTLOOK
<b>NET SALES<sup>1</sup></b>	Mid- to high-single-digit growth	Mid-single-digit growth	Low-single-digit growth
<b>Greater China</b>	Double-digit decline	Strong double-digit decline	<b>Strong double-digit decline</b>
<b>North America</b>	High-teens growth	High-teens growth	<b>Mid-teens growth</b>
<b>EMEA</b>	Low-teens growth	Low-teens growth	<b>High-single-digit growth</b>
<b>Latin America</b>	Growth between 30% and 40%	Growth between 30% and 40%	<b>Growth between 30% and 40%</b>
<b>Asia-Pacific</b>	High-single-digit growth	High-single-digit growth	<b>Mid-single-digit growth</b>
<b>DRIVERS</b>	<ul style="list-style-type: none"> <li>Headwinds related to a <b>slower recovery in China</b></li> <li>Potential <b>slowdown in other markets</b></li> </ul>	<ul style="list-style-type: none"> <li>Further deteriorating traffic trend in <b>Greater China</b></li> </ul>	<ul style="list-style-type: none"> <li>Termination of <b>Yeezy partnership</b></li> </ul>

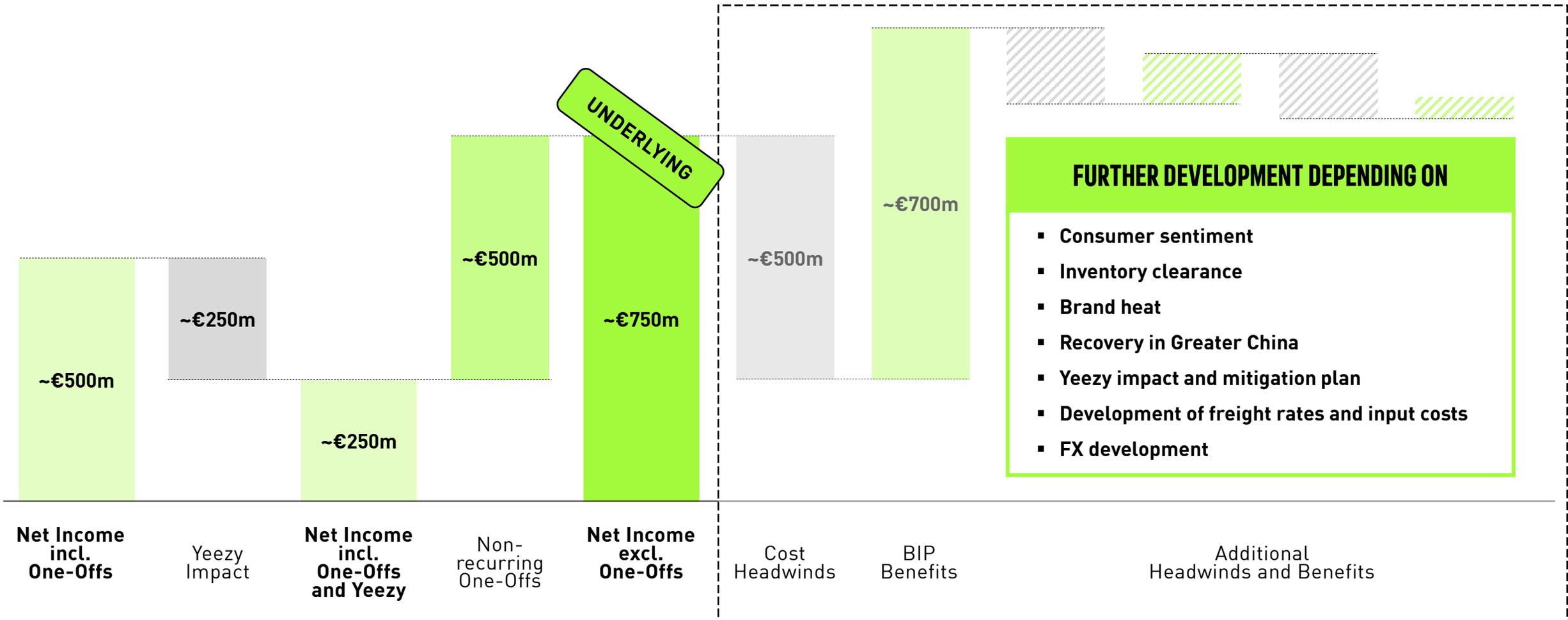
# ADJUSTED OUTLOOK **FY 2022**

	AS OF JULY 26, 2022	AS OF OCTOBER 20, 2022	OUTLOOK
<b>NET SALES<sup>1</sup></b>	Mid- to high-single-digit growth	Mid-single-digit growth	<b>Low-single-digit growth</b>
<b>GROSS MARGIN</b>	Around 49.0%	Around 47.5%	<b>Around 47.0%</b>
<b>OPERATING MARGIN</b>	Around 7.0%	Around 4.0%	<b>Around 2.5%</b>
<b>NET INCOME<sup>2</sup></b>	Around €1.3bn	Around €500m	<b>Around €250m</b>
<b>DRIVERS</b>	<ul style="list-style-type: none"> <li>Headwinds related to a <b>slower recovery in China</b></li> <li>Potential <b>slowdown in other markets</b></li> </ul>	<ul style="list-style-type: none"> <li>Further deteriorating traffic trend in <b>Greater China</b></li> <li>Higher <b>clearance activity to reduce inventory levels</b></li> <li><b>One-off costs</b> of around €500m on net income</li> </ul>	<ul style="list-style-type: none"> <li>Termination of <b>Yeezy partnership</b></li> </ul>

# NET INCOME DEVELOPMENT 2022/2023

## EXPECTED NET INCOME FY 2022

## NET INCOME DRIVERS FY 2023



# CEO TRANSITION

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## **BJØRN GULDEN APPOINTED AS MEMBER OF THE EXECUTIVE BOARD AND CEO**

Effective January 1, 2023

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## **KASPER RORSTED TO STEP DOWN AS CEO**

Upon expiry of November 11, 2022

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## **HARM OHLMEYER TO LEAD THE COMPANY IN THE INTERIM**

Until December 31, 2022

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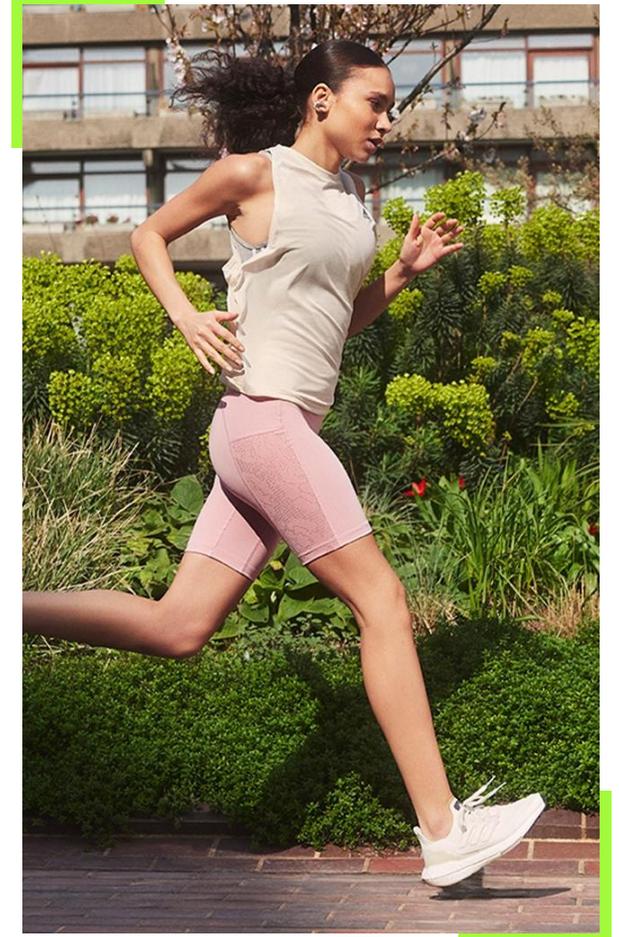
# SUMMARY

1 **LEVERAGING CONTINUED MOMENTUM TO DRIVE STRONG UNDERLYING GROWTH IN Q4**

2 **MAKING USE OF UPCOMING FIFA WORLD CUP TO CREATE EXCITEMENT AROUND PRODUCT AND BRAND**

3 **EXECUTING FOCUSED ACTION PLANS TO OVERCOME MARKET- AND COMPANY-SPECIFIC CHALLENGES**

4 **APPOINTMENT OF BJØRN GULDEN ENSURES SMOOTH AND TIMELY CEO TRANSITION**



# Q&A

