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Herzogenaurach, August 6, 2020

## **adidas nearly doubles e-com sales in challenging second quarter**

### **Major developments:**

- **Global coronavirus pandemic causes closure of over 70% of adidas' stores at high point**
- **DTC sales up slightly, driven by 93% currency-neutral e-com growth**
- **China revenues flat for the quarter, reflecting double-digit growth in May and June**
- **Overall revenues down 34% currency-neutral**
- **Operating loss of € 333 million includes around € 250 million coronavirus-related costs**
- **Cash position stable at € 2.0 billion as effective cash measures prevent outflows**
- **Business trends improve toward quarter-end and into Q3**
- **Q3 outlook implies operating profit improvement of around € 1.0 billion compared to Q2**

"The past quarter brought unprecedented challenges for our business as large parts of the world were in lockdown. I'm grateful for the relentless and agile efforts of our teams, which enabled us to take the right actions for our consumers, our partners and the company. We addressed the challenges and went after opportunities, as reflected in our e-com business nearly doubling in Q2," said adidas CEO Kasper Rorsted. "We are now seeing the light at the end of the tunnel as the normalization in the physical business continues, with the vast majority of our stores being operational again."

### **Currency-neutral revenues decrease 34% in Q2 2020 due to global coronavirus outbreak**

adidas recorded a material revenue decline in its physical distribution channels during the second quarter of 2020 as the global coronavirus pandemic caused a very large number of store closures as well as a pronounced traffic reduction within the parts of the store fleet that were reopened. At the same time, the company experienced exceptional growth in online sales, which accounted for more than one-third of its total business, through its own as well as partners' e-commerce platforms. Sales through the company's own e-commerce channel increased 93% during the quarter. In total, second quarter revenues decreased 34% in currency-neutral terms. While sales at brand adidas declined 33% in the second quarter, Reebok revenues were down 42%, reflecting the brand's higher exposure to the U.S. market. In euro terms, revenues decreased 35% to € 3.579 billion (2019: € 5.509 billion).

### **All markets significantly impacted by global coronavirus pandemic**

At the high point of the worldwide lockdown measures in April, almost all stores outside of Asia-Pacific or more than 70% of the company's global store fleet were closed. Starting in May, adidas began to execute its store reopening plan also outside of Asia-Pacific in accordance with the decisions taken by local authorities, resulting in 83% of stores being



operational at the end of June, albeit partly with reduced hours. While store traffic remains below prior year levels, the company registered an increase in conversion rates, as consumers that visit stores tend to have a clearer buying intent. During the lockdowns, adidas doubled down on e-commerce as the only fully operational channel through targeted consumer marketing, exclusive product launches and prioritized supply chain management. This strong focus was reflected in global e-commerce sales growth accelerating to a triple-digit rate in both April and May and remaining at an exceptional level even as stores reopened. While sales in Greater China were flat for the second quarter, reflecting double-digit growth in May and June, currency-neutral sales in Asia-Pacific were down 16% in the second quarter. The coronavirus pandemic weighed on the second quarter sales developments most severely in Latin America (-64%) and Emerging Markets (-60%), but also had a significant negative impact in Europe (-40%), North America (-38%) and Russia/CIS (-34%).

#### **Gross margin declines despite favorable channel and market mix**

The company's gross margin decreased 2.4 percentage points to 51.0% (2019: 53.5%) in the second quarter. While a more favorable channel and market mix as well as lower sourcing costs had a positive effect on gross margin, a less favorable pricing mix due to increased promotional activity as well as negative currency fluctuations weighed on the development in the quarter. In addition, an increase in inventory allowances had a negative impact on the gross profit development in a high double-digit-million euro amount.

#### **Operating result negative due to revenue shortfall and coronavirus-related charges**

Other operating expenses decreased 7% to € 2.189 billion (2019: € 2.346 billion) and, as a percentage of sales, increased 18.6 percentage points to 61.1% (2019: 42.6%). Marketing and point-of-sale expenses decreased 25% to € 560 million (2019: € 744 million), as adidas adopted a disciplined approach regarding its marketing activities in light of the coronavirus pandemic, while at the same time accelerating digital marketing investments to support its e-commerce business. As a percentage of sales, marketing and point-of-sale expenses were up 2.1 percentage points to 15.6% (2019: 13.5%). Operating overhead expenses increased 2% to € 1.628 billion (2019: € 1.602 billion) as an underlying decline was more than offset by increased logistics costs resulting from the exceptional e-commerce growth as well as coronavirus-related charges. The latter included higher bad debt allowances as well as an impairment of own-retail stores and the Reebok trademark. As a percentage of sales, operating overhead expenses increased 16.4 percentage points to 45.5% (2019: 29.1%). The company recorded an operating loss of € 333 million (2019: profit of € 643 million) during the quarter, resulting in a negative operating margin of 9.3% (2019: positive 11.7%). The operating profit development in the second quarter of 2020 was significantly impacted by several coronavirus-related charges. These mainly consisted of the increase in inventory and bad debt



allowances as well as the impairment of retail stores and the Reebok trademark, with a combined negative impact of around € 250 million.

### **Net loss from continuing operations amounting to € 306 million**

The company incurred a net loss from continuing operations of € 306 million (2019: income of € 462 million). As a result, basic earnings per share (EPS) from continuing operations were negative € 1.45 (2019: positive € 2.33).

### **Coronavirus pandemic weighs on adidas' first half year results**

In the first half of 2020, revenues decreased 26% on a currency-neutral basis and 27% in euro terms to € 8.332 billion (2019: € 11.392 billion). From a brand perspective, currency-neutral revenues for brand adidas decreased 26%, while Reebok revenues declined 27%. Gross margin was down 3.4 percentage points to 50.1% (2019: 53.5%). While a more favorable channel mix due to the exceptional e-commerce growth as well as lower sourcing costs had a positive effect on gross margin, a less favorable pricing mix due to increased promotional activity and negative currency fluctuations weighed on the development in the first half of 2020. In addition, an increase in inventory allowances as well as purchase order cancellation costs had a negative impact on the gross margin development. Other operating expenses declined 4% to € 4.494 billion (2019: € 4.663 billion) as a result of the company's decision to proactively reduce costs in light of the coronavirus pandemic. As a percentage of sales, other operating expenses increased 13.0 percentage points to 53.9% (2019: 40.9%). The company recorded an operating loss of € 268 million (2019: profit of € 1.518 billion), resulting in a negative operating margin of 3.2% (2019: positive 13.3%). The operating profit development in the first half of 2020 was significantly impacted by several coronavirus-related charges. These mainly consisted of product takebacks in Greater China, purchase order cancellations, the increase in inventory and bad debt allowances as well as the impairment of retail stores and the Reebok trademark, with a combined negative impact of around € 500 million. During the six-month period, adidas incurred a net loss from continuing operations of € 286 million (2019: income of € 1.093 billion). Basic as well as diluted EPS were negative € 1.33 (2019: positive € 5.50).

### **Operating working capital increases 10% on a currency-neutral basis**

Inventories increased 46% to € 5.213 billion versus the prior year level of € 3.579 billion (+49% currency-neutral) due to inevitably lower-than-expected product sell-through caused by the broad-based store closures. Compared to the level as at March 31, 2020, inventories increased 20%. The year-over-year increase in inventories was partly offset by a 33% decline in accounts receivable (-31% currency-neutral) and a 22% increase in accounts payable (+23% currency-neutral). As a result, operating working capital increased 6% to € 4.506 billion (June 30, 2019: € 4.248 billion) and was up 10% on a currency-neutral basis. Average



operating working capital as a percentage of sales increased 3.3 percentage points to 21.5% (June 30, 2019: 18.3%).

#### **Cash position of € 2.018 billion at quarter-end**

Cash and cash equivalents were down 18% to € 2.018 billion versus the prior year level of € 2.455 billion. The decline in cash generated from operating activities and the increase in operating working capital were partly offset by effective short-term cash measures and the utilization of existing credit lines. Compared to the end of the first quarter, cash and cash equivalents were largely stable (March 31, 2020: € 1.975 billion) as the short-term cash measures prevented outflows. Net debt amounted to € 792 million at June 30, 2020 (June 30, 2019: net cash of € 362 million). This represents a deterioration of € 222 million compared to the net debt position of € 570 million at the end of the first quarter.

#### **Top- and bottom-line development to improve sequentially in the third quarter**

The company's top line has continued to sequentially recover since the end of the second quarter, with global e-commerce revenues still growing at an exceptional double-digit rate and the global store opening rate standing at 92% as of today. At the same time, adidas' revenue development remains negatively impacted by ongoing disruptions to the retail landscape, particularly in parts of North America and Latin America, reduced opening hours as well as lower traffic due to social distancing guidelines in many markets. As a result, the company's top-line development in the third quarter of 2020 is predicted to improve materially compared to the second quarter, yet to remain below the prior year level. Specifically, third quarter revenues are forecast to be down at a mid- to high-single-digit rate compared to the prior year. The operating result is anticipated to turn into a profit of between € 600 million and € 700 million, reflecting an improvement of around € 1 billion compared to the loss generated during the second quarter. The anticipated sequential recovery in the third quarter assumes that the company's global store fleet will be operational throughout the quarter in the absence of any major lockdowns, with traffic in physical stores continuing to gradually improve.

#### **adidas not able to provide outlook for full year 2020 including coronavirus impact**

The company is still not able to provide a full-year outlook including the coronavirus impact due to the prevailing uncertainties around the further development of the coronavirus pandemic, the pace of business normalization in the reopened stores as well as the global macroeconomic environment.

Kasper Rorsted: "From everything we know today, our recovery will continue in Q3. Where we are open for business, be it in physical stores or in the digital space, consumer demand for our products is high. This is a solid foundation to build on as the long-term growth prospects for the industry have become even more promising."



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## adidas AG Condensed Consolidated Income Statement (IFRS)

€ in millions	Quarter ending June 30, 2020	Quarter ending June 30, 2019	Change
Net sales	3,579	5,509	(35.0%)
Cost of sales	1,753	2,564	(31.6%)
<b>Gross profit</b>	<b>1,826</b>	<b>2,945</b>	<b>(38.0%)</b>
<i>(% of net sales)</i>	51.0%	53.5%	(2.4pp)
Royalty and commission income	11	39	(71.2%)
Other operating income	18	5	266.9%
Other operating expenses	2,189	2,346	(6.7%)
<i>(% of net sales)</i>	61.1%	42.6%	18.6pp
Marketing and point-of-sale expenses	560	744	(24.8%)
<i>(% of net sales)</i>	15.6%	13.5%	2.1pp
Operating overhead expenses <sup>1</sup>	1,628	1,602	1.7%
<i>(% of net sales)</i>	45.5%	29.1%	16.4pp
<b>Operating (loss)/profit</b>	<b>(333)</b>	<b>643</b>	<b>n.a.</b>
<i>(% of net sales)</i>	(9.3%)	11.7%	(21.0pp)
Financial income	13	18	(31.2%)
Financial expenses	44	43	1.9%
<b>(Loss)/income before taxes</b>	<b>(364)</b>	<b>618</b>	<b>n.a.</b>
<i>(% of net sales)</i>	(10.2%)	11.2%	(21.4pp)
Income taxes	(58)	157	n.a.
<i>(% of (loss)/income before taxes)</i>	16.0%	25.4%	(9.3pp)
<b>Net (loss)/income from continuing operations</b>	<b>(306)</b>	<b>462</b>	<b>n.a.</b>
<i>(% of net sales)</i>	(8.5%)	8.4%	(16.9pp)
(Loss)/gain from discontinued operations, net of tax	(11)	70	n.a.
<b>Net (loss)/income</b>	<b>(317)</b>	<b>532</b>	<b>n.a.</b>
<i>(% of net sales)</i>	(8.8%)	9.7%	(18.5pp)
<b>Net (loss)/income attributable to shareholders</b>	<b>(295)</b>	<b>531</b>	<b>n.a.</b>
<i>(% of net sales)</i>	(8.2%)	9.6%	(17.9pp)
<b>Net (loss)/income attributable to non-controlling interests</b>	<b>(22)</b>	<b>0</b>	<b>n.a.</b>
<b>Basic earnings per share from continuing operations (in €)</b>	<b>(1.45)</b>	<b>2.33</b>	<b>n.a.</b>
<b>Diluted earnings per share from continuing operations (in €)</b>	<b>(1.45)</b>	<b>2.33</b>	<b>n.a.</b>
<b>Basic earnings per share from continuing and discontinued operations (in €)</b>	<b>(1.51)</b>	<b>2.68</b>	<b>n.a.</b>
<b>Diluted earnings per share from continuing and discontinued operations (in €)</b>	<b>(1.51)</b>	<b>2.68</b>	<b>n.a.</b>

### Net Sales

€ in millions	Quarter ending June 30, 2020	Quarter ending June 30, 2019	Change	Change (currency-neutral)
Europe	844	1,421	(40.7%)	(40.2%)
North America	763	1,213	(37.1%)	(38.2%)
Asia-Pacific	1,572	1,872	(16.0%)	(15.6%)
Russia/CIS	104	171	(39.2%)	(34.4%)
Latin America	114	403	(71.6%)	(63.9%)
Emerging Markets	108	281	(61.6%)	(60.0%)
Other Businesses	74	147	(49.5%)	(49.9%)
adidas	3,295	5,004	(34.2%)	(32.9%)
Reebok	228	406	(43.8%)	(42.3%)

<sup>1</sup> Aggregated distribution and selling expenses, general and administration expenses, sundry expenses and impairment losses (net) on accounts receivable and contract assets.

Rounding differences may arise.



## adidas AG Condensed Consolidated Income Statement (IFRS)

€ in millions	Half year ending June 30, 2020	Half year ending June 30, 2019	Change
Net sales	8,332	11,392	(26.9%)
Cost of sales	4,161	5,296	(21.4%)
<b>Gross profit</b>	<b>4,172</b>	<b>6,096</b>	<b>(31.6%)</b>
<i>(% of net sales)</i>	50.1%	53.5%	(3.4pp)
Royalty and commission income	34	74	(53.8%)
Other operating income	20	11	78.5%
Other operating expenses	4,494	4,663	(3.6%)
<i>(% of net sales)</i>	53.9%	40.9%	13.0pp
Marketing and point-of-sale expenses	1,264	1,448	(12.7%)
<i>(% of net sales)</i>	15.2%	12.7%	2.5pp
Operating overhead expenses <sup>1</sup>	3,230	3,215	0.4%
<i>(% of net sales)</i>	38.8%	28.2%	10.5pp
<b>Operating (loss)/profit</b>	<b>(268)</b>	<b>1,518</b>	<b>n.a.</b>
<i>(% of net sales)</i>	(3.2%)	13.3%	(16.5pp)
Financial income	17	27	(36.1%)
Financial expenses	87	78	10.4%
<b>(Loss)/income before taxes</b>	<b>(337)</b>	<b>1,467</b>	<b>n.a.</b>
<i>(% of net sales)</i>	(4.0%)	12.9%	(16.9pp)
Income taxes	(51)	374	n.a.
<i>(% of (loss)/income before taxes)</i>	15.1%	25.5%	(10.4pp)
<b>Net (loss)/income from continuing operations</b>	<b>(286)</b>	<b>1,093</b>	<b>n.a.</b>
<i>(% of net sales)</i>	(3.4%)	9.6%	(13.0pp)
(Loss)/gain from discontinued operations, net of tax	(5)	72	n.a.
<b>Net (loss)/income</b>	<b>(291)</b>	<b>1,164</b>	<b>n.a.</b>
<i>(% of net sales)</i>	(3.5%)	10.2%	(13.7pp)
<b>Net (loss)/income attributable to shareholders</b>	<b>(264)</b>	<b>1,163</b>	<b>n.a.</b>
<i>(% of net sales)</i>	(3.2%)	10.2%	(13.4pp)
<b>Net (loss)/income attributable to non-controlling interests</b>	<b>(27)</b>	<b>1</b>	<b>n.a.</b>
<b>Basic earnings per share from continuing operations (in €)</b>	<b>(1.33)</b>	<b>5.50</b>	<b>n.a.</b>
<b>Diluted earnings per share from continuing operations (in €)</b>	<b>(1.33)</b>	<b>5.50</b>	<b>n.a.</b>
<b>Basic earnings per share from continuing and discontinued operations (in €)</b>	<b>(1.35)</b>	<b>5.86</b>	<b>n.a.</b>
<b>Diluted earnings per share from continuing and discontinued operations (in €)</b>	<b>(1.35)</b>	<b>5.86</b>	<b>n.a.</b>

### Net Sales

€ in millions	Half year ending June 30, 2020	Half year ending June 30, 2019	Change	Change (currency-neutral)
Europe	2,270	2,972	(23.6%)	(23.4%)
North America	1,964	2,370	(17.1%)	(19.0%)
Asia-Pacific	2,756	4,011	(31.3%)	(31.3%)
Russia/CIS	258	307	(16.1%)	(13.9%)
Latin America	454	779	(41.7%)	(31.0%)
Emerging Markets	401	611	(34.3%)	(33.1%)
Other Businesses	230	342	(32.9%)	(33.5%)
<b>adidas</b>	<b>7,564</b>	<b>10,346</b>	<b>(26.9%)</b>	<b>(26.3%)</b>
Reebok	600	825	(27.3%)	(26.6%)

<sup>1</sup> Aggregated distribution and selling expenses, general and administration expenses, sundry expenses and impairment losses (net) on accounts receivable and contract assets.

Rounding differences may arise.



## adidas AG Consolidated Statement of Financial Position (IFRS)

€ in millions	June 30, 2020	June 30, 2019	Change in %
Cash and cash equivalents	2,018	2,455	(17.8)
Short-term financial assets	6	6	3.6
Accounts receivable	1,869	2,780	(32.8)
Other current financial assets	653	548	19.3
Inventories	5,213	3,579	45.6
Income tax receivables	121	71	71.5
Other current assets	1,051	795	32.3
<b>Total current assets</b>	<b>10,931</b>	<b>10,232</b>	<b>6.8</b>
Property, plant and equipment	2,293	2,146	6.8
Right-of-use assets	2,733	3,004	(9.0)
Goodwill	1,258	1,249	0.7
Trademarks	820	849	(3.3)
Other intangible assets	284	209	35.7
Long-term financial assets	351	348	0.8
Other non-current financial assets	340	409	(16.7)
Deferred tax assets	1,166	713	63.6
Other non-current assets	124	114	8.7
<b>Total non-current assets</b>	<b>9,369</b>	<b>9,041</b>	<b>3.6</b>
<b>Total assets</b>	<b>20,301</b>	<b>19,273</b>	<b>5.3</b>
Short-term borrowings	1,217	496	145.6
Accounts payable	2,575	2,111	22.0
Current lease liabilities	639	625	2.2
Other current financial liabilities	265	215	22.8
Income taxes	588	384	53.0
Other current provisions	1,373	1,236	11.1
Current accrued liabilities	1,933	2,225	(13.1)
Other current liabilities	547	480	13.8
<b>Total current liabilities</b>	<b>9,137</b>	<b>7,774</b>	<b>17.5</b>
Long-term borrowings	1,599	1,602	(0.2)
Non-current lease liabilities	2,374	2,523	(5.9)
Other non-current financial liabilities	46	72	(35.5)
Pensions and similar obligations	245	259	(5.5)
Deferred tax liabilities	224	250	(10.3)
Other non-current provisions	179	164	9.1
Non-current accrued liabilities	9	13	(33.4)
Other non-current liabilities	16	8	109.7
<b>Total non-current liabilities</b>	<b>4,693</b>	<b>4,892</b>	<b>(4.1)</b>
Share capital	195	198	(1.4)
Reserves	[2]	174	n.a.
Retained earnings	6,037	6,248	(3.4)
<b>Shareholders' equity</b>	<b>6,230</b>	<b>6,619</b>	<b>(5.9)</b>
Non-controlling interests	240	[11]	n.a.
<b>Total equity</b>	<b>6,471</b>	<b>6,608</b>	<b>(2.1)</b>
<b>Total liabilities and equity</b>	<b>20,301</b>	<b>19,273</b>	<b>5.3</b>
<b>Additional balance sheet information</b>			
Operating working capital	4,506	4,248	6.1
Working capital	1,794	2,458	(27.0)
[Net cash]/Net borrowings	[792]	362	n.a.
Financial leverage	12.7%	[5.5%]	18.2pp

Rounding differences may arise.