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# adidas Group operating margin to remain at least stable in 2016 as strong brand momentum and major efficiency improvements will compensate macroeconomic headwinds

**Herzogenaurach, Germany** – At an investor event today in Herzogenaurach, the adidas Group shared details on important drivers of its long-term operational development in general and the expected margin progression in 2016 in particular.

As the Group sources the vast majority of its products from more than 30 countries around the world, sourcing costs are constantly impacted by both global and local macroeconomic trends. Ongoing double-digit increases in labour costs in most emerging markets and higher material costs for cotton, nylon and EVA are currently putting upward pressure on future product costs. As a result, the Group expects a significant increase in its underlying sourcing expenses by 2020. To counterbalance this headwind, the company will continue to work on further increasing its production efficiencies by focusing on four levers: product and materials, supply base and allocation, level loading as well as productivity improvements.

As a globally operating company, the adidas Group is exposed to exchange rate fluctuations. This is a direct result of the Group's Asian-dominated sourcing activities, which are largely denominated in US dollars, while sales are denominated in other currencies to a large extent. As a consequence, hedging US dollars is an important part of the company's centralised currency management. The Group has established a hedging system on a rolling basis up to 24 months in advance, under which the vast majority of the anticipated seasonal purchasing volume is hedged approximately six months prior to the start of a season. As a result, the company has almost completed its anticipated hedging needs for 2016, expecting Group gross margin to be negatively affected by the unfavourable effects from a stronger US dollar against most major currencies.

In total, higher input costs and unfavourable foreign exchange effects are expected to significantly weigh on the Group's gross margin development in 2016. However, the company expects to be able to compensate the vast majority of those negative effects, thus limiting the projected gross margin reduction to between 50 and 100 basis points compared to the 2015 level. In addition to supply chain efficiencies, this will be achieved by significant price increases in several regions, adjusted trade terms with the company's retail partners, over-proportionate growth in higher-margin markets as well as a more favourable category, product and channel mix.

At the same time, the Group will benefit from the consequent execution of operational improvements achieved throughout the last few years and from leveraging its brand leadership re-organisation to become more consumer-centric which will improve the company's decision-making processes. In addition, the Group will continue to optimise the overall organisational set-up and focus on initiatives that drive further efficiency gains. As a result of these initiatives, management expects to continue to generate substantial operating overhead leverage in 2016. Simultaneously, the Group remains committed to its long-term marketing investment strategy aimed at sustainably increasing brand desirability and accelerating top-line growth over the next five years. For 2015 and 2016, the company therefore increased its marketing spend target range by one percentage point to a level of between 13% and 14% of sales from the previous corridor of 12% to 13% of sales. As a result, sales and marketing investments are expected to further increase in absolute terms next year and, as a percentage of sales, remain at around the 2015 level. Taking the expectations for both sales and marketing investments as well as operating overhead expenditures into account, the company projects a significant reduction of its operating expenses as a percentage of sales, which will at least compensate the projected gross margin decline. As a consequence, the Group's operating margin is expected to at least remain stable in 2016 compared to the 2015 level. In absolute terms, the Group's operating profit is forecasted to improve at a high-single-digit rate next year.

Robin Stalker, adidas Group CFO, commented: "We are well-prepared to cope with the cost pressure that the entire industry will be facing next year. On the one hand, our brands and products are enjoying strong momentum. On the other hand, we are optimising our processes throughout the Group and along the entire supply chain to drive further efficiency gains and we are continuing our structured hedging approach. We therefore have all the levers in our hand that will enable us to stay on our growth path in 2016 – and beyond."

The investor event can be followed live via webcast and is available for replay afterwards under www.adidas-Group.com/en/investors/investor-events/.

**About the adidas Group**

The adidas Group is a global leader in the sporting goods industry, offering a broad portfolio of footwear, apparel and hardware for sport and lifestyle around the core brands adidas, Reebok, TaylorMade and Reebok-CCM Hockey. Headquartered in Herzogenaurach/Germany, the Group employs more than 53,000 people across the globe and generated sales of € 14.5 billion in 2014.

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