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Herzogenaurach, August 3, 2023

adidas reports second quarter revenues flat versus the prior year; gross margin and operating profit better than expected

Major developments:

- **Currency-neutral revenues flat versus the prior-year level**
- **Top-line development reflects improved sell-out trends and conservative sell-in strategy**
- **Gross margin up 0.6pp to 50.9%; strong improvement compared to Q1 reflecting better sell-through and less discounting**
- **Operating profit of € 176 million includes extraordinary expenses of around € 160 million related to one-off costs, donations and accruals for future donations**
- **Inventory position improves substantially versus Q1 level to € 5.5 billion; now up only 1% year-over-year**

adidas CEO Bjørn Gulden:

"We are happy with the way the second quarter developed. The core adidas business was slightly better than we expected. Although we still have too much slow-moving inventory in the market, sell-through has been improving. We also saw gross margin in our core business improving strongly compared to the first quarter. The operating profit of € 176 million was substantially higher than our initial plans. The sale of the first part of the Yeezy inventory did of course help both our top and bottom line in the quarter.

The market is still very volatile, and we continue to see a lot of uncertainty for the rest of the year. As there is still a lot of inventory in the market, retailers are very cautious in their pre-orders.

We believe that when we start to see larger volumes of our hot sellers in the Terrace area like Samba and Gazelle hitting the markets, we will continue to see adidas brand heat improving. This will support the sell-through of all adidas products in the market.

Our story is the same as we said at the beginning of the year: We are using 2023 to clean inventories, work on future products, improve the way we work, build better partnerships, and lay the foundation for a better 2024 and a good and profitable adidas in 2025 and 2026. 2023 is not about trying to show short-term results.



We will continue to carefully sell off more of the existing Yeezy inventory. This is much better than destroying and writing off the inventory and allows us to make substantial donations to organizations like the Anti-Defamation League, the Philonise & Keeta Floyd Institute for Social Change and Robert Kraft's Foundation to Combat Antisemitism. And it is of course also helping both our cash flow and general financial strength."

Second quarter 2023

Currency-neutral revenues on prior-year level

In the second quarter of 2023, **currency-neutral revenues** were flat versus the prior-year level. The top-line development continued to be impacted by the company's conservative sell-in approach in order to reduce high inventory levels, particularly in North America and Greater China. At the same time, adidas second quarter revenues benefited from the first sale of some of its Yeezy inventory. The initial product drop in June generated revenues of around € 400 million in Q2, which is largely in line with the Yeezy sales generated in the prior year's quarter.

Footwear revenues grew 1% during the quarter, reflecting strong growth in football, basketball, tennis and US sports. **Apparel** sales declined 3% in the second quarter. As the apparel market continues to be particularly overstocked, the company continued its conservative sell-in strategy to improve sell-through and margins in the medium term. **Accessories** grew 8% during the quarter driven by growth in football.

Lifestyle revenues were down during the quarter despite extraordinary demand for the company's Samba, Gazelle and Campus franchises. While adidas slowly started to scale its offering for these product families during the second quarter, the total volume still only represents a small portion of the company's overall business. Sales in the adidas **Performance** categories continued to show positive momentum. This reflects strong demand for new product introductions such as the latest iterations of its Predator, X and Copa football boots, as well as jerseys for both the FIFA Women's World Cup 2023 and the company's unique portfolio of football teams ahead of the start of the European club season. In addition, the Adizero product family in running continued to gain a lot of attention around marathon races across the world, translating into higher demand. At the same time, the brand's Barricade tennis franchise grew strongly, leveraging the excitement around major tournaments.

In euro terms, the company's revenues declined 5% to € 5.343 billion in the second quarter (2022: € 5.596 billion).



Stronger sell-out trends and conservative sell-in

As a result of the company's initiatives to reduce high inventory levels, currency-neutral sales in **wholesale** declined 10% despite double-digit growth in Greater China and Latin America. At the same time, **direct-to-consumer (DTC)** revenues grew 16% versus the prior year. This development was driven by strong growth in both the company's **e-commerce** business (+14%) as well as **own retail** stores (+19%), reflecting continued strong sell-out trends across most regions. The outperformance of the company's DTC channel versus the wholesale business was also related to the first sale of the Yeezy inventory, which was done exclusively through adidas' own e-commerce channel.

Double-digit growth in Greater China and Latin America

Currency-neutral sales in **North America** declined 16% during the quarter. The region is particularly affected by elevated inventory levels in the market and – in response to this – the company's significantly reduced sell-in. Revenues in **Greater China** grew 16% in Q2, reflecting double-digit sell-out growth in both wholesale and own retail. Sales in **EMEA** were down slightly (-1%) despite double-digit DTC growth. While the company's initiatives to reduce inventory levels and discounting weighed on the overall top-line development in the region, adidas recorded significantly improving full-price trends during the quarter. Revenues in **Asia-Pacific** increased 7% during the quarter, driven by strong double-digit growth in DTC. **Latin America** continued to increase at a double-digit rate (+30%), reflecting strong growth in both wholesale and DTC.

Gross margin improves to 50.9%

The company's second quarter **gross margin** increased 0.6 percentage points to 50.9% (2022: 50.3%). This improvement was mainly driven by price increases the company has implemented as well as by an improved channel mix. At the same time, higher supply chain costs and unfavorable currency movements continued to strongly weigh on the gross margin development. While still adversely impacting the company's gross margin in the quarter, discounting levels significantly improved compared to the first quarter of the year.

Operating profit of € 176 million, resulting in an operating margin of 3.3%

Other operating expenses were up 3% to € 2.582 billion (2022: € 2.501 billion). As a percentage of sales, other operating expenses increased 3.6 percentage points to 48.3% (2022: 44.7%). **Marketing and point-of-sale expenses** decreased 7% to € 617 million (2022: € 663 million). As a percentage of sales, marketing and point-of-sale expenses slightly decreased by 0.3 percentage points to 11.5% (2022: 11.8%). **Operating overhead expenses** were up 7% to € 1.965 billion (2022: € 1.838 billion), reflecting higher logistics expenses. In addition, the company recorded one-off costs of around € 50 million related to the strategic review the company is currently conducting as well as donations and accruals for further



donations in an amount of around € 110 million. As a percentage of sales, operating overhead expenses increased 3.9 percentage points to 36.8% (2022: 32.8%). The company's **operating profit** amounted to € 176 million (2022: € 392 million) in the quarter. This amount includes the extraordinary expenses of in total around € 160 million reflecting the one-off costs related to the strategic review as well as the donations and accruals for further donations. The sale of the Yeezy product positively impacted adidas' operating profit by an incremental amount of around € 150 million in Q2. The **operating margin** reached 3.3% in the quarter (2022: 7.0%).

Net income from continuing operations of € 96 million

After taxes, the company's **net income from continuing operations** amounted to € 96 million (2022: € 360 million), while **basic EPS from continuing operations** decreased to € 0.48 (2022: € 1.88).

First half year

Currency-neutral revenues on prior-year level in the first half of 2023

In the first half of 2023, **currency-neutral revenues** were flat versus the prior-year period. In euro terms, revenues decreased 3% to € 10.617 billion in the first six months of 2023 (2022: € 10.897 billion). While sell-out trends improved throughout the period, the company continued with its conservative sell-in strategy. The discontinuation of the regular Yeezy business represented a drag of around € 400 million on the year-over-year comparison during the first half of the year. The first sale of some of the company's remaining Yeezy inventory positively impacted net sales in the amount of around € 400 million in the second quarter of 2023, which was largely in line with the prior year's quarter. At the same time, however, there were no Yeezy revenues in the first quarter of 2023, while the company had generated around € 400 million of Yeezy sales in Q1 2022. As a result, the company's Yeezy revenues reached around € 400 million in H1 2023 compared to a total of around € 800 million in the prior year period.

The company's **gross margin** declined 2.3 percentage points to 47.9% (2022: 50.1%) during the first half of the year. The development improved significantly between the first and the second quarter, partly driven by better sell-through and improving discounting levels. Higher supply chain costs, negative currency developments, higher inventory allowances, as well as the promotional activity weighed on the gross margin development during the six-month period. At the same time, price increases benefited the gross margin in H1. **Other operating expenses** increased 4% to € 4.949 billion (2022: € 4.759 billion) in the first half of the year. During this period, the company recorded one-off costs of around € 70 million related to the strategic review the company is currently conducting as well as donations and accruals for further donations in an amount of around € 110 million. As a percentage of sales, other



operating expenses were up 2.9 percentage points to 46.6% (2022: 43.7%). adidas generated an **operating profit** of € 236 million (2022: € 828 million) during the first six months of the year. The initial sale of the Yeezy product in Q2 positively impacted adidas' operating profit by an incremental amount of around € 150 million during the first half of the year. At the same time, the company's operating profit includes extraordinary expenses of in total around € 180 million reflecting the one-off costs related to the strategic review as well as the donations and accruals for further donations. The **operating margin** reached 2.2% (2022: 7.6%) in H1. **Net income from continuing operations** was € 73 million (2022: € 671 million). Basic and diluted earnings per share from continuing operations declined to € 0.29 (2022: € 3.47).

Inventories nearly at prior-year level, operating working capital increases

Inventories continued to improve substantially during the second quarter. Year-over-year, inventories were up only 1% to € 5.540 billion (2022: € 5.483 billion). On a currency-neutral basis, inventories grew 6% compared to the prior year. Inventory units were down 11% compared to the prior year, reflecting the strong progress the company has made in improving its inventory position. During the first six months of the year, the company's inventory level declined by more than € 400 million as a result of adidas' initiatives around inventory management, including significantly reducing buying volumes and tactically repurposing existing inventory. **Operating working capital** was up 14% to € 5.896 billion (2022: € 5.191 billion). On a currency-neutral basis, operating working capital grew 22%. Average operating working capital as a percentage of sales increased to 27.1% (2022: 21.0%). This development reflects a significant decrease of receivables as a result of the company's conservative sell-in approach as well as a strong double-digit decrease in payables due to lower sourcing volumes in line with the company's activities to reduce elevated inventory levels.

Adjusted net borrowings of € 6.039 billion

Adjusted net borrowings at June 30, 2023, amounted to € 6.039 billion (June 30, 2022: € 4.673 billion), representing a year-over-year increase of 29%. The decline in lease liabilities was more than offset by a significant increase in short- and long-term borrowings as well as a decrease in cash and cash equivalents.

Outlook

adidas expects revenues to decline at a mid-single-digit rate

On July 24, adidas had adjusted its full year financial guidance to reflect the positive impact of the first sale of some of its Yeezy inventory and a slightly better-than-expected development of the adidas business in the first half of the year. At the same time, macroeconomic challenges and geopolitical tensions persist. Elevated recession risks in North America and



Europe as well as uncertainty around the recovery in Greater China continue to exist. In addition, the company's revenue development will continue to be impacted by the initiatives to significantly reduce high inventory levels. As a result, adidas now expects **currency-neutral revenues** to decline at a mid-single-digit rate in 2023 (previously: decline at a high-single-digit rate).

Underlying operating profit anticipated to be around the break-even level

The company's **underlying operating profit** – excluding any one-offs related to Yeezy and the ongoing strategic review – is still anticipated to be around the break-even level. Including the positive impact from the first Yeezy drop of around € 150 million, the potential write-off of the remaining Yeezy inventory of now € 400 million (previously: € 500 million) and one-off costs related to the strategic review of up to € 200 million (unchanged), the company now expects to **report an operating loss** of € 450 million in 2023 (previously: loss of € 700 million).

On August 2, the company launched a second drop of Yeezy inventory. Throughout the month of August, adidas is making a range of existing products available through both its own e-commerce channel as well as the digital platforms of selected wholesale partners. If successful, this second drop would further improve the company's results. However, as the results of this drop are yet unknown, it is not accounted for in the company's current top- and bottom-line outlook for 2023.

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adidas AG Condensed Consolidated Income Statement (IFRS) € in millions

	Quarter ending June 30, 2023	Quarter ending June 30, 2022	Change
Net sales	5,343	5,596	(4.5%)
Cost of sales	2,625	2,781	(5.6%)
Gross profit	2,719	2,815	(3.4%)
(% of net sales)	50.9%	50.3%	0.6pp
Royalty and commission income	21	27	(21.6%)
Other operating income	18	51	(64.1%)
Other operating expenses	2,582	2,501	3.2%
(% of net sales)	48.3%	44.7%	3.6pp
Marketing and point-of-sale expenses	617	663	(6.9%)
(% of net sales)	11.5%	11.8%	(0.3pp)
Operating overhead expenses ¹	1,965	1,838	6.9%
(% of net sales)	36.8%	32.8%	3.9pp
Operating profit	176	392	(55.0%)
(% of net sales)	3.3%	7.0%	(3.7pp)
Financial income	19	16	20.0%
Financial expenses	71	107	(33.1%)
Income before taxes	123	300	(59.0%)
(% of net sales)	2.3%	5.4%	(3.1pp)
Income taxes	27	(60)	n.a.
(% of income before taxes)	21.9%	(20.0%)	n.a.
Net income from continuing operations	96	360	(73.3%)
(% of net sales)	1.8%	6.4%	(4.6pp)
Loss from discontinued operations, net of tax	(1)	(52)	(97.4%)
Net income	95	309	(69.3%)
(% of net sales)	1.8%	5.5%	(3.7pp)
Net income attributable to shareholders	84	294	(71.4%)
(% of net sales)	1.6%	5.3%	(3.7pp)
Net income attributable to non-controlling interests	11	15	(26.2%)
Basic earnings per share from continuing operations (in €)	0.48	1.88	(74.5%)
Diluted earnings per share from continuing operations (in €)	0.48	1.88	(74.5%)
Basic earnings per share from continuing and discontinued operations (in €)	0.47	1.60	(70.5%)
Diluted earnings per share from continuing and discontinued operations (in €)	0.47	1.60	(70.5%)

¹ 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.



Net Sales¹ € in millions

	Quarter ending June 30, 2023	Quarter ending June 30, 2022	Change	Change (currency-neutral)
EMEA	1,980	2,079	(4.8%)	(0.8%)
North America	1,399	1,707	(18.1%)	(16.4%)
Greater China	766	719	6.5%	16.4%
Asia-Pacific	550	550	0.1%	7.0%
Latin America	596	512	16.4%	29.8%
Other Businesses	36	29	26.6%	27.9%

¹ 2022 figures adjusted due to a shift between the Latin and North America segments.
Rounding differences may arise.



adidas AG Condensed Consolidated Income Statement (IFRS) € in millions

	Half year ending June 30, 2023	Half year ending June 30, 2022	Change
Net sales	10,617	10,897	(2.6%)
Cost of sales	5,535	5,435	1.9%
Gross profit	5,082	5,463	(7.0%)
(% of net sales)	47.9%	50.1%	(2.3pp)
Royalty and commission income	46	50	(7.8%)
Other operating income	57	74	(23.0%)
Other operating expenses	4,949	4,759	4.0%
(% of net sales)	46.6%	43.7%	2.9pp
Marketing and point-of-sale expenses	1,218	1,304	(6.6%)
(% of net sales)	11.5%	12.0%	(0.5pp)
Operating overhead expenses ¹	3,731	3,455	8.0%
(% of net sales)	35.1%	31.7%	3.4pp
Operating profit	236	828	(71.5%)
(% of net sales)	2.2%	7.6%	(5.4pp)
Financial income	30	24	26.8%
Financial expenses	111	140	(20.7%)
Income before taxes	155	711	(78.2%)
(% of net sales)	1.5%	6.5%	(5.1pp)
Income taxes	82	41	102.1%
(% of income before taxes)	53.1%	5.7%	47.4pp
Net income from continuing operations	73	671	(89.2%)
(% of net sales)	0.7%	6.2%	(5.5pp)
(Loss)/gain from discontinued operations, net of tax	(7)	128	n.a.
Net income	65	799	(91.8%)
(% of net sales)	0.6%	7.3%	(6.7pp)
Net income attributable to shareholders	45	776	(94.2%)
(% of net sales)	0.4%	7.1%	(6.7pp)
Net income attributable to non-controlling interests	20	23	(11.1%)
Basic earnings per share from continuing operations (in €)	0.29	3.47	(91.6%)
Diluted earnings per share from continuing operations (in €)	0.29	3.47	(91.6%)
Basic earnings per share from continuing and discontinued operations (in €)	0.25	4.16	(94.0%)
Diluted earnings per share from continuing and discontinued operations (in €)	0.25	4.16	(94.0%)

¹ 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.



Net Sales¹ € in millions

	Half year ending June 30, 2023	Half year ending June 30, 2022	Change	Change (currency-neutral)
EMEA	3,975	4,014	(1.0%)	1.6%
North America	2,575	3,111	(17.2%)	(17.9%)
Greater China	1,650	1,723	(4.2%)	1.0%
Asia-Pacific	1,117	1,056	5.8%	11.2%
Latin America	1,191	929	28.2%	38.6%
Other Businesses	81	65	25.2%	26.3%

¹ 2022 figures adjusted due to a shift between the Latin and North America segments.
Rounding differences may arise.



adidas AG Consolidated Statement of Financial Position (IFRS) € in millions

	June 30, 2023	June 30, 2022	Change
Cash and cash equivalents	993	1,578	(37.0%)
Accounts receivable	2,567	3,022	(15.1%)
Other current financial assets	795	1,311	(39.3%)
Inventories	5,540	5,483	1.0%
Income tax receivables	122	100	21.9%
Other current assets	1,134	1,334	(15.0%)
Total current assets	11,151	12,828	(13.1%)
Property, plant and equipment	2,148	2,346	(8.4%)
Right-of-use assets	2,350	2,732	(14.0%)
Goodwill	1,247	1,278	(2.4%)
Other intangible assets	436	418	4.5%
Long-term financial assets	309	298	3.7%
Other non-current financial assets	345	366	(5.7%)
Deferred tax assets	1,290	974	32.4%
Other non-current assets	62	84	(26.3%)
Total non-current assets	8,186	8,496	(3.6%)
Total assets	19,338	21,324	(9.3%)
Short-term borrowings	915	313	192.6%
Accounts payable	2,210	3,314	(33.3%)
Current lease liabilities	572	608	(5.9%)
Other current financial liabilities	337	496	(32.2%)
Income taxes	343	448	(23.5%)
Other current provisions	1,379	1,338	3.0%
Current accrued liabilities	2,445	2,579	(5.2%)
Other current liabilities	525	506	3.9%
Total current liabilities	8,726	9,602	(9.1%)
Long-term borrowings	2,938	2,459	19.5%
Non-current lease liabilities	2,110	2,401	(12.1%)
Other non-current financial liabilities	13	53	(76.0%)
Pensions and similar obligations	121	108	11.9%
Deferred tax liabilities	138	155	(11.0%)
Other non-current provisions	119	108	9.8%
Non-current accrued liabilities	4	8	(53.5%)
Other non-current liabilities	7	9	(23.8%)
Total non-current liabilities	5,450	5,301	2.8%
Share capital	179	183	(2.2%)
Reserves	350	758	(53.9%)
Retained earnings	4,262	5,092	(16.3%)
Shareholders' equity	4,790	6,032	(20.6%)
Non-controlling interests	372	388	(4.1%)
Total equity	5,162	6,420	(19.6%)
Total liabilities and equity	19,338	21,324	(9.3%)

Rounding differences may arise.



Additional Balance Sheet Information € in millions

	June 30, 2023	June 30, 2022	Change
Operating working capital	5,896	5,191	13.6%
Working capital	2,425	3,226	(24.8%)
Adjusted net borrowings ¹	6,039	4,673	29.2%
Financial leverage ²	126.1%	77.5%	48.6pp

¹ Adjusted net borrowings = short-term borrowings + long-term borrowings + current and non-current lease liabilities + pensions and similar obligations + factoring – accessible cash and cash equivalents.

² Based on shareholders' equity.
Rounding differences may arise.