

Q3 2022 RESULTS

NOVEMBER 09, 2022

adidas



AGENDA

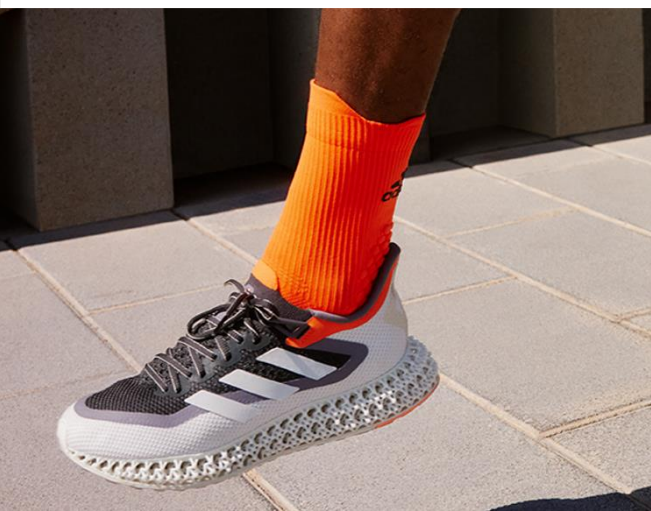
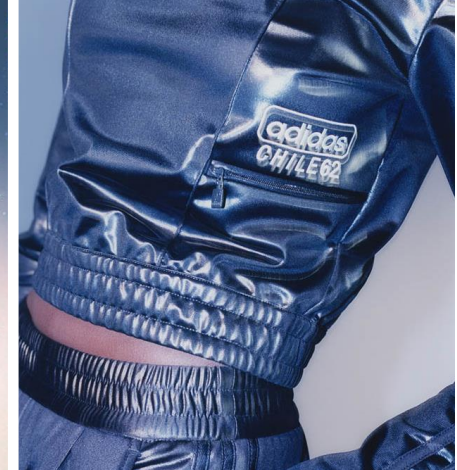
- 1 BUSINESS UPDATE
- 2 FINANCIAL UPDATE
- 3 OPERATIONAL UPDATE
- 4 OUTLOOK



BUSINESS UPDATE



CONSUMER HIGHLIGHTS



STRATEGIC FOCUS AREAS



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

REVENUES INCREASE 4% CURRENCY-NEUTRAL

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

GROSS MARGIN DOWN 1.0PP TO 49.1%

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

OPERATING PROFIT OF € 564 MILLION

Reflecting operating margin of 8.8%

NET INCOME FROM CONTINUING OPERATIONS OF € 66 MILLION

Reflecting significant adverse impact from several one-offs



OUR STRATEGIC GROWTH **MARKETS**

GREATER CHINA

Own-retail revenues up 7%

-27%

NORTH AMERICA

Reflecting 10% growth in DTC

+8%

EMEA

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

+7%



OUR STRATEGIC GROWTH CHANNELS

DOUBLE-DIGIT GROWTH IN DTC EXCLUDING RUSSIA/CIS

Supported by improving consumer experience across all touchpoints

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

Reflecting successful sell-through of product

ADICLUB EXPANDS GLOBALLY WITH NEW VALUE PROPOSITIONS

Additional go-lives excite our most valuable consumers

DTC GROWTH

+6%

E-COM GROWTH

+8%



OUR STRATEGIC GROWTH CATEGORIES

EXCEPTIONAL GROWTH IN FOOTBALL

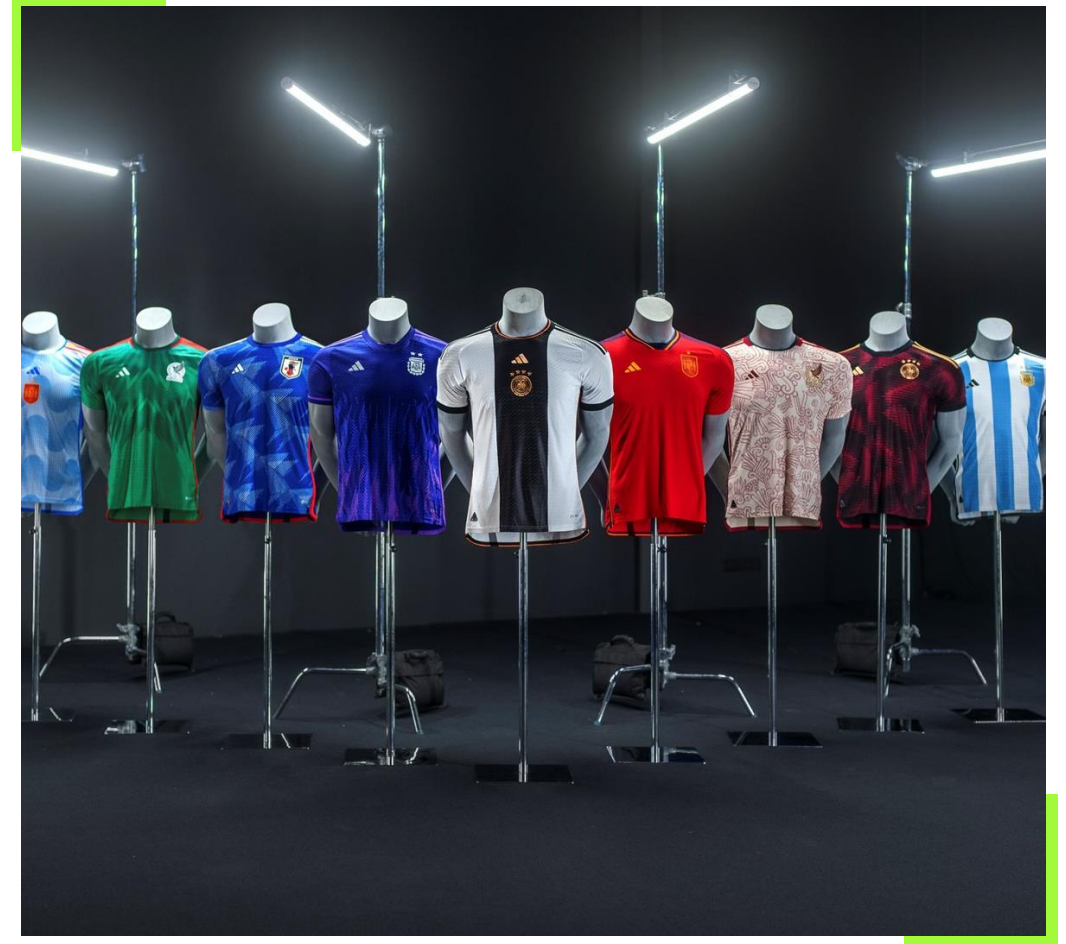
Jersey launches fueling consumer excitement ahead of FIFA World Cup

EXCELLENT INCREASE IN RUNNING

Latest iterations of successful franchises resonating extremely well

DOUBLE-DIGIT GROWTH IN BASKETBALL

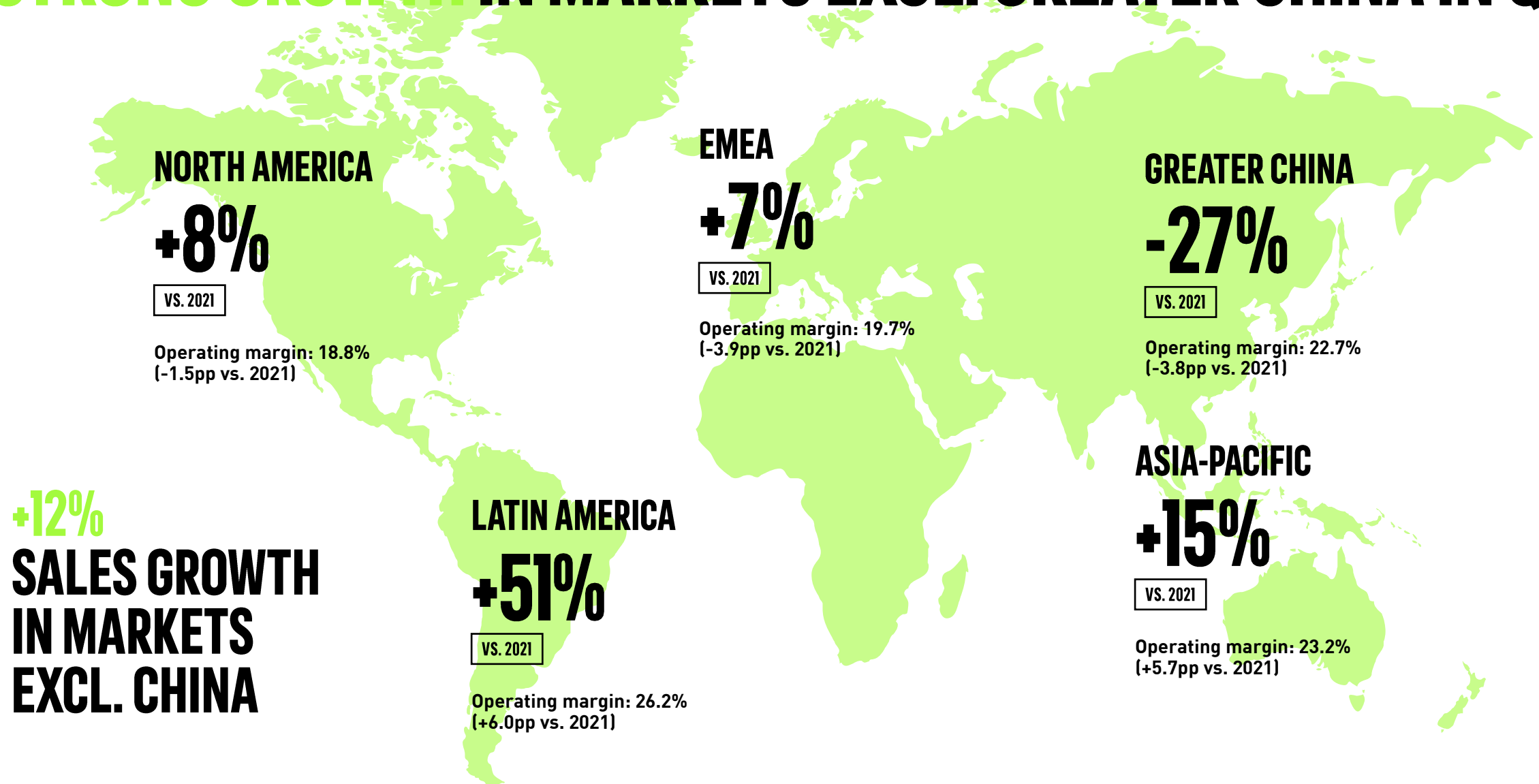
Reflecting strong momentum of Forum franchise



FINANCIAL UPDATE

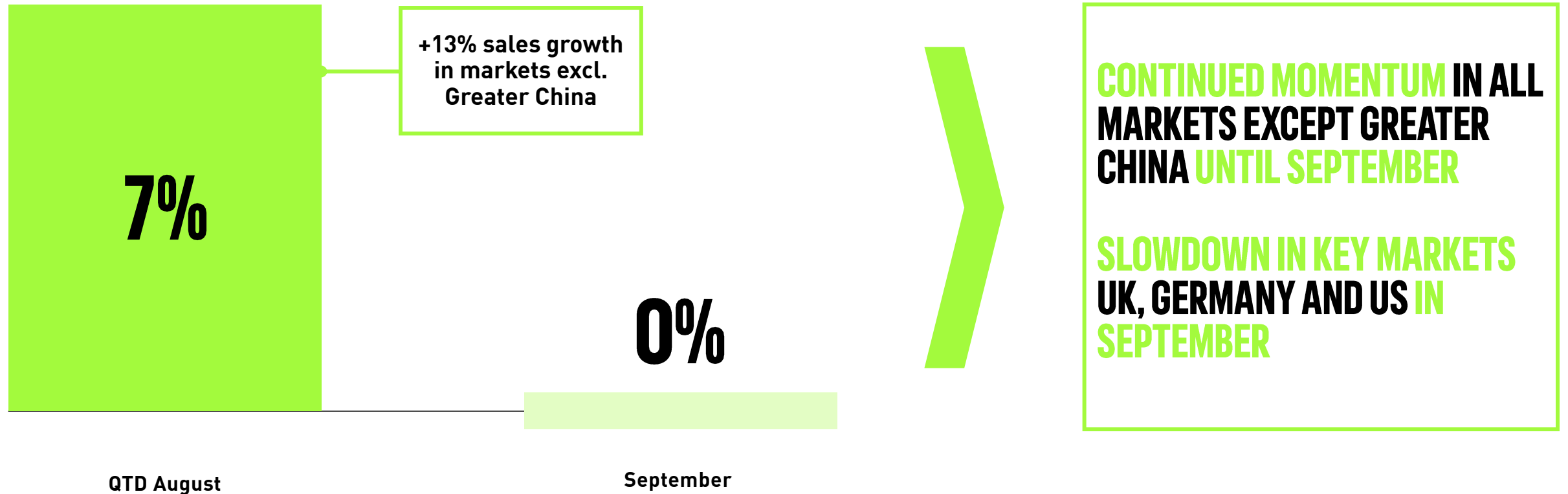


STRONG GROWTH IN MARKETS EXCL. GREATER CHINA IN Q3



MONTHLY TOP-LINE GROWTH DEVELOPMENT IN Q3

NET SALES DEVELOPMENT VS. PRIOR YEAR



Q3 2022 P&L OVERVIEW

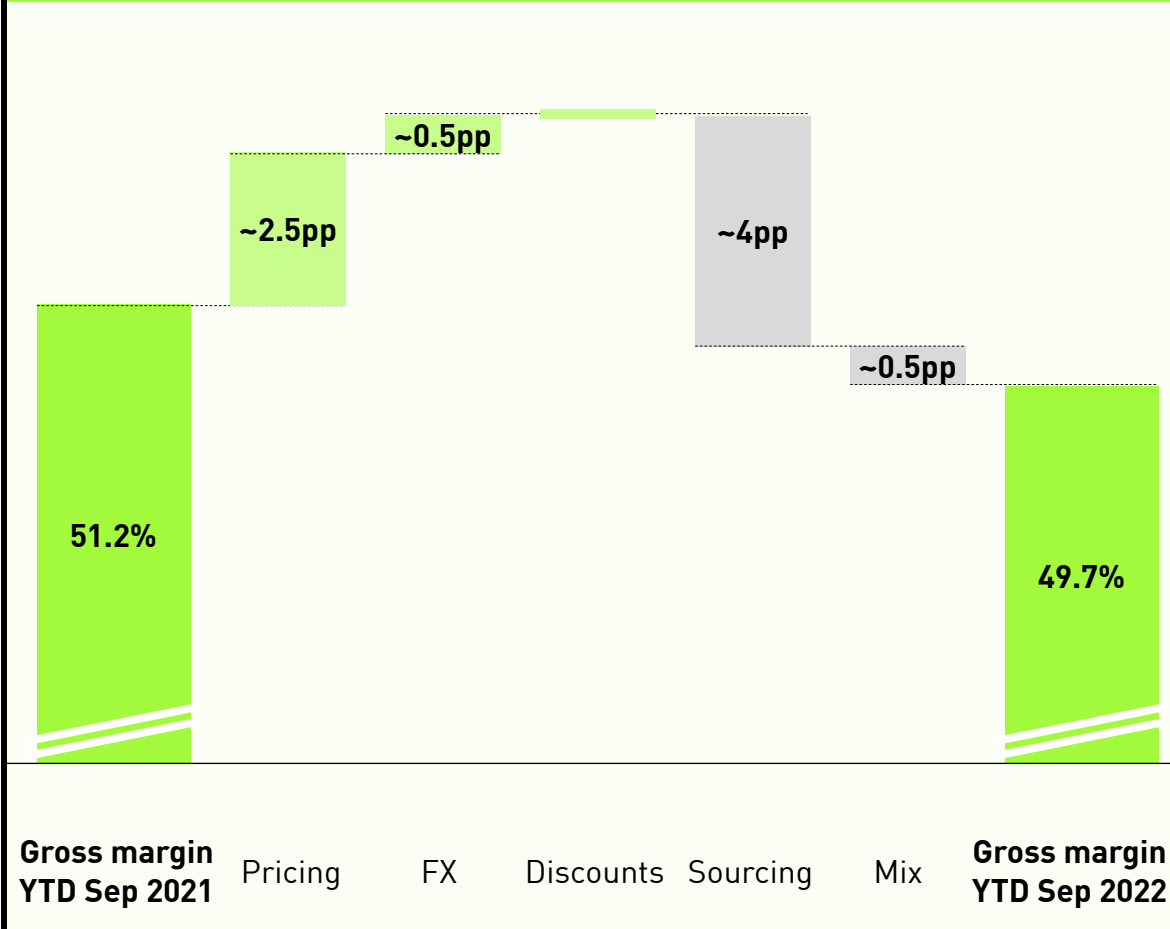
€ IN MILLIONS	Q3 2022	Q3 2021	Y-O-Y	Q3 2022 EXCL. ONE-OFFS
Net Sales	6,408	5,752	+11%	
Gross Margin	49.1%	50.1%	-1.0pp	● — Around 50%
Other Operating Expenses (in % of sales)	2,676 41.8%	2,237 38.9%	+20% +2.9pp	
Marketing and Point-of-Sale Expenses (in % of sales)	691 10.8%	674 11.7%	+2% -0.9pp	
Operating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

GROSS MARGIN DRIVERS H1 2022 AND Q3 2022

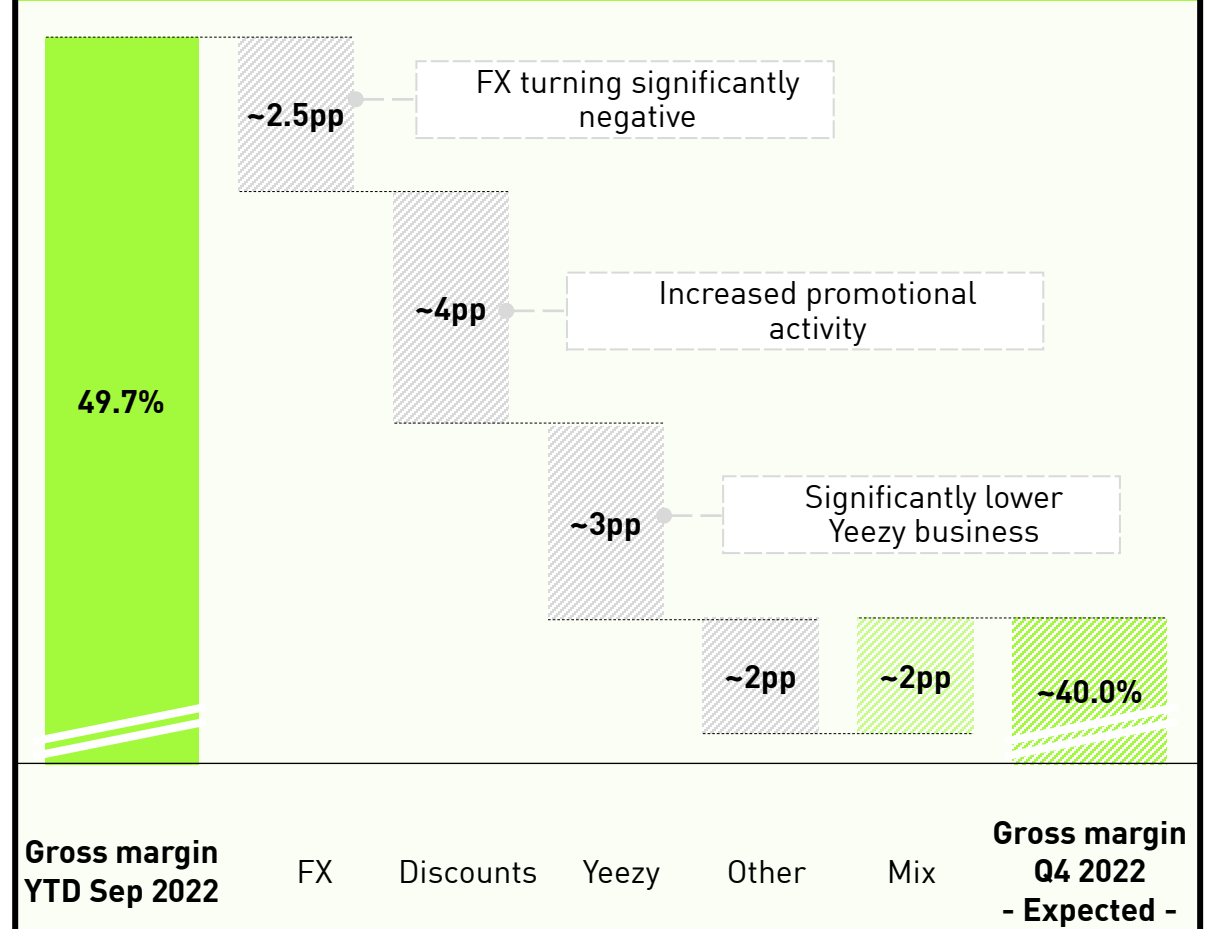
	H1 2022		Q3 2022	
GROSS MARGIN		50.1% (-1.7pp)		49.1% (-1.0pp)
SOURCING		Strong increase in supply chain costs		Strong increase in supply chain costs
MIX		Significant sales decline in China and tough prior year e-com comps		Significant sales decline in China amid continued focus on DTC
FX		Slightly positive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

GROSS MARGIN DRIVERS YTD SEPTEMBER AND Q4 2022

GROSS MARGIN DRIVERS YTD SEPTEMBER 2022 Y-O-Y



EXPECTED GROSS MARGIN DRIVERS Q4 VS. YTD SEPTEMBER 2022



ONE-OFF COSTS

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



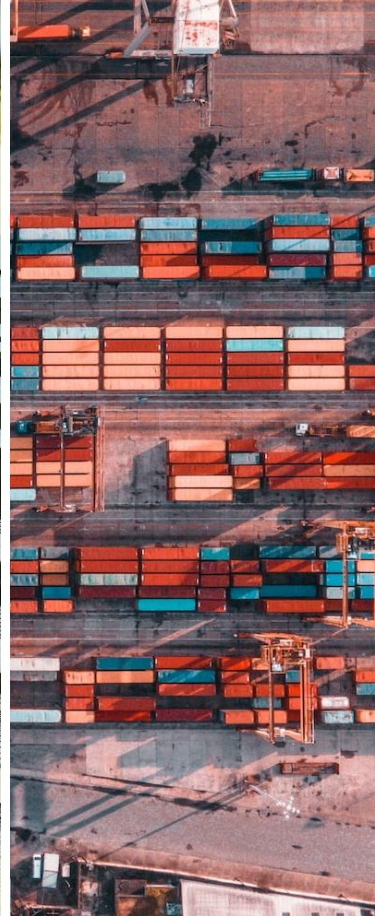
RUSSIA

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

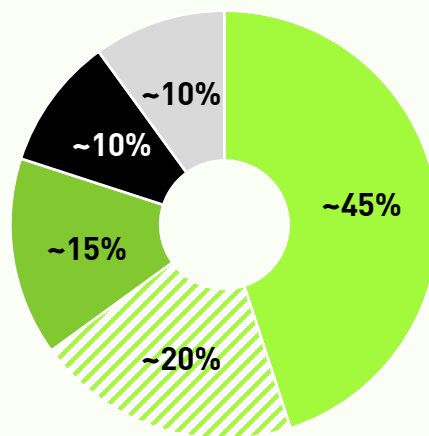
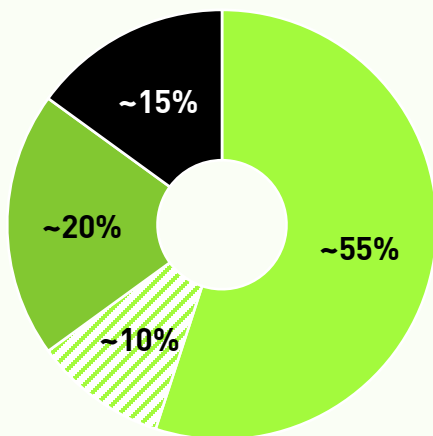
BUSINESS IMPROVEMENT PROGRAM TO SAFEGUARD PROFITABILITY IN 2023

Q3 2022 ONE-OFFS DECOMPOSED

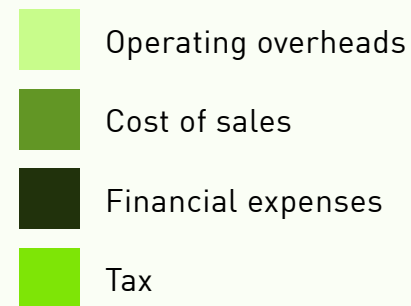
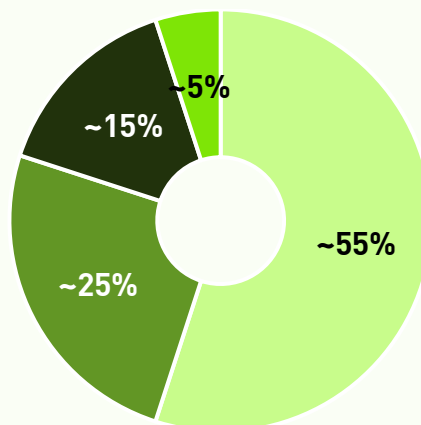
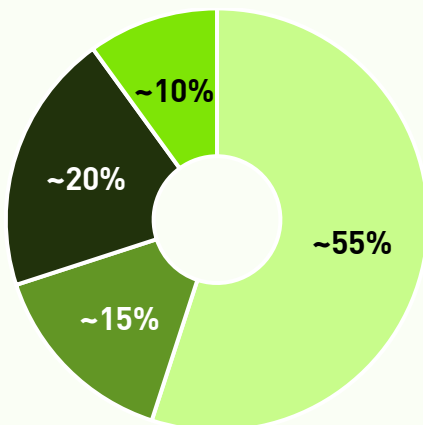
Q3 2022 (ALMOST €300M)

FY 2022 (AROUND €500M)

BY TYPE



BY P&L ITEM



AVERAGE OPERATING WORKING CAPITAL

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

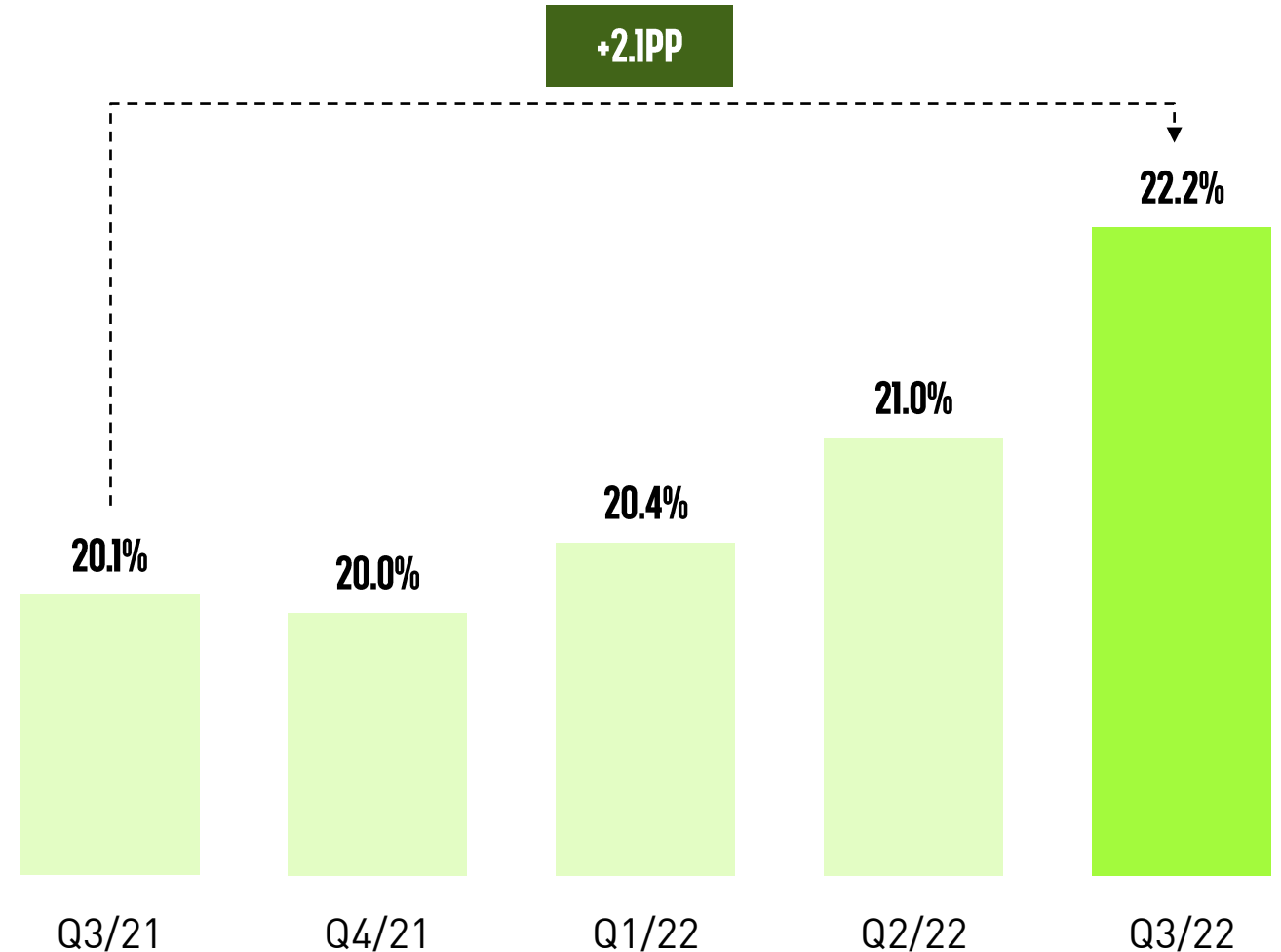
Due to slowing consumer demand in major Western markets in September

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

Reflecting strong net sales growth in Latin America and Emerging Markets

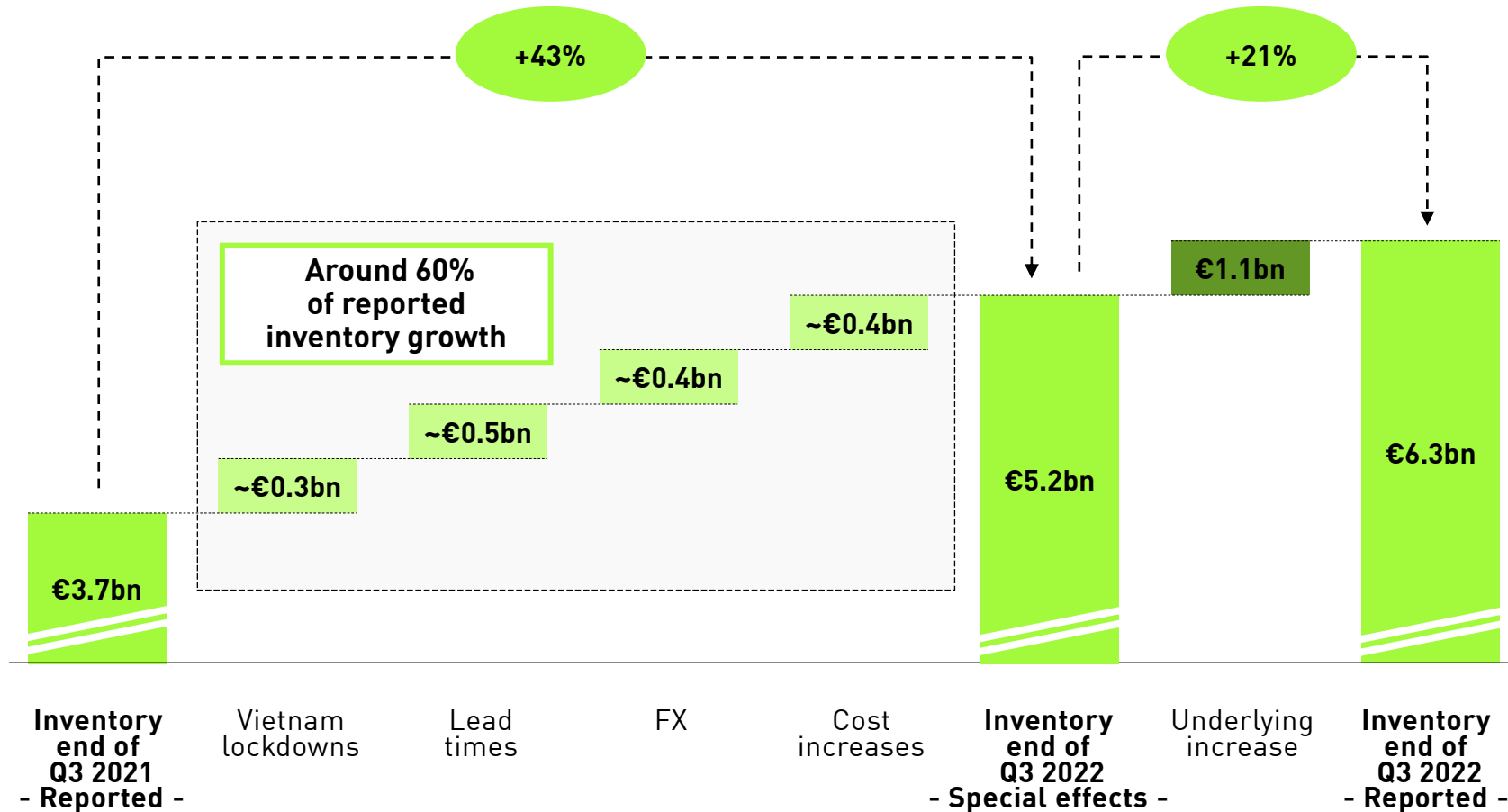
PAYABLES UP 67% C.N. YEAR-ON-YEAR

Driven by significantly higher sourcing volume and increased product costs



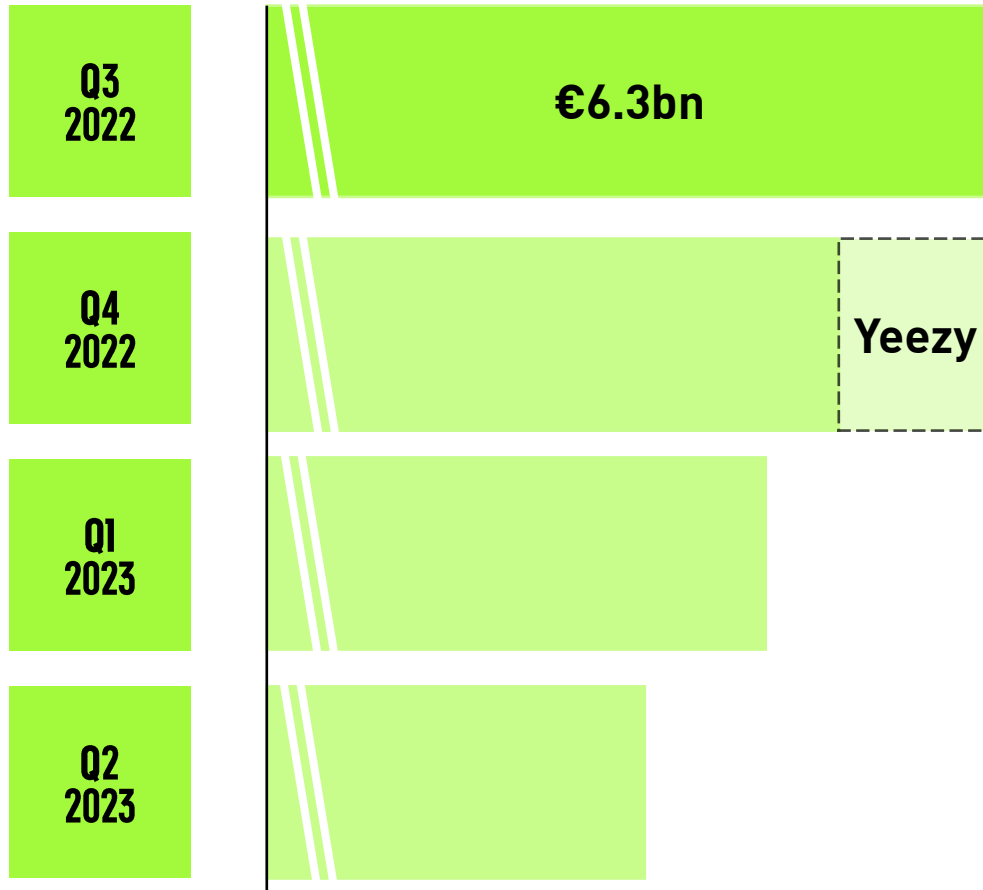
Q3 INVENTORY LEVEL IMPACTED BY FOUR SPECIAL EFFECTS

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



+30%

FOOTBALL



+16%

RUNNING



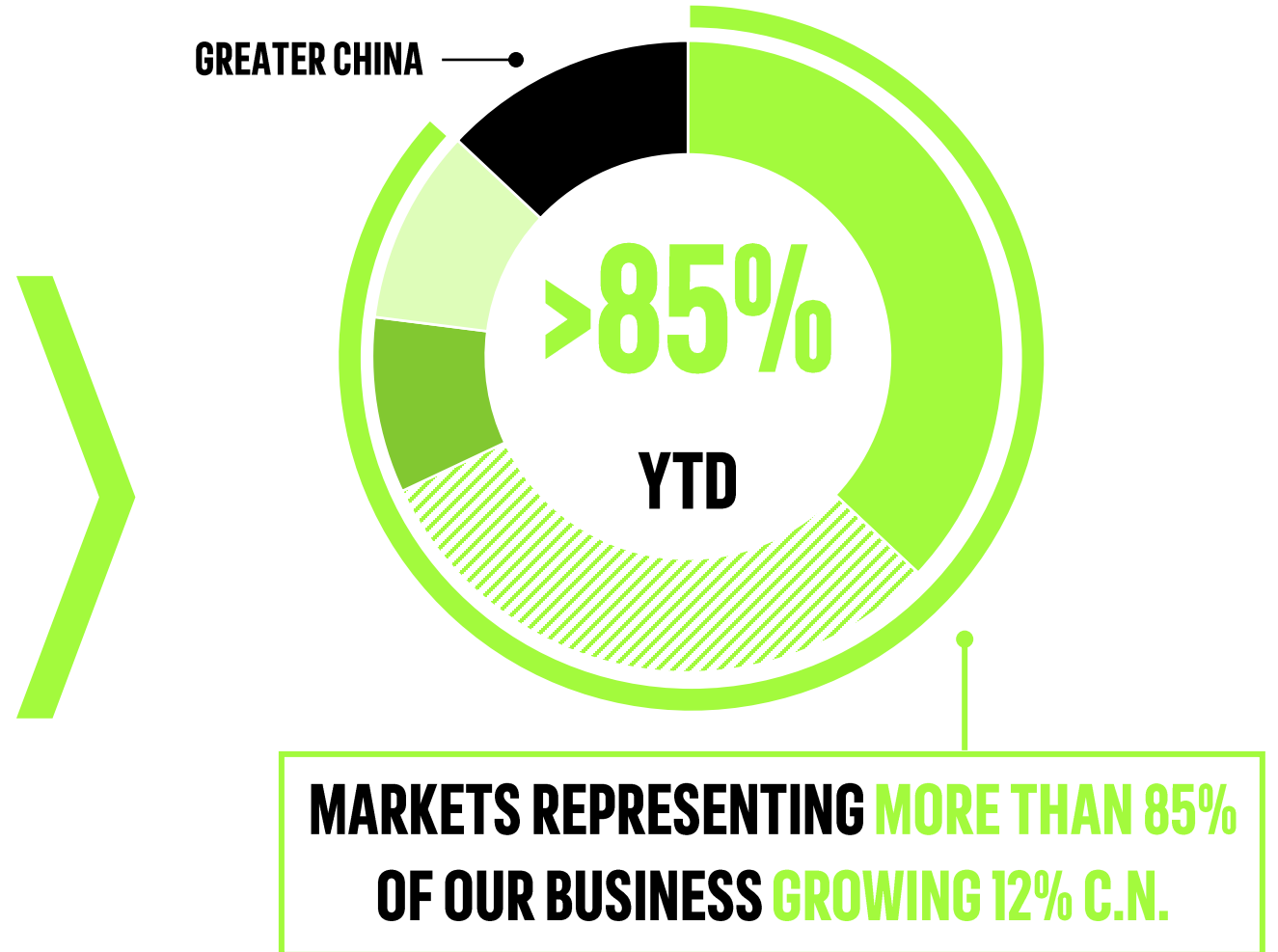
+28%

US SPORTS

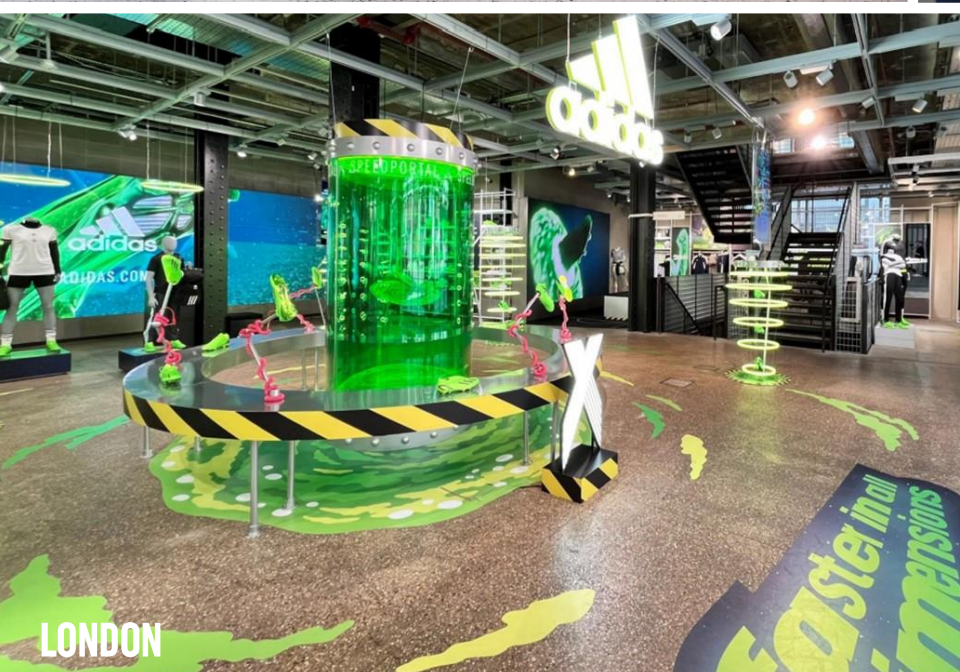
NEW PRODUCT INTRODUCTIONS AHEAD OF MAJOR SPORTS EVENTS AND SCALING OF SUCCESSFUL FRANCHISES DRIVE STRONG GROWTH IN MAJOR PERFORMANCE CATEGORIES

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

PARTNERSHIP WITH YE TERMINATED AS OF OCTOBER 25

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

SHORT-TERM NEGATIVE IMPACT EXPECTED FOR FY 2022

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

ADIDAS IS THE SOLE OWNER OF ALL DESIGN RIGHTS

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



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

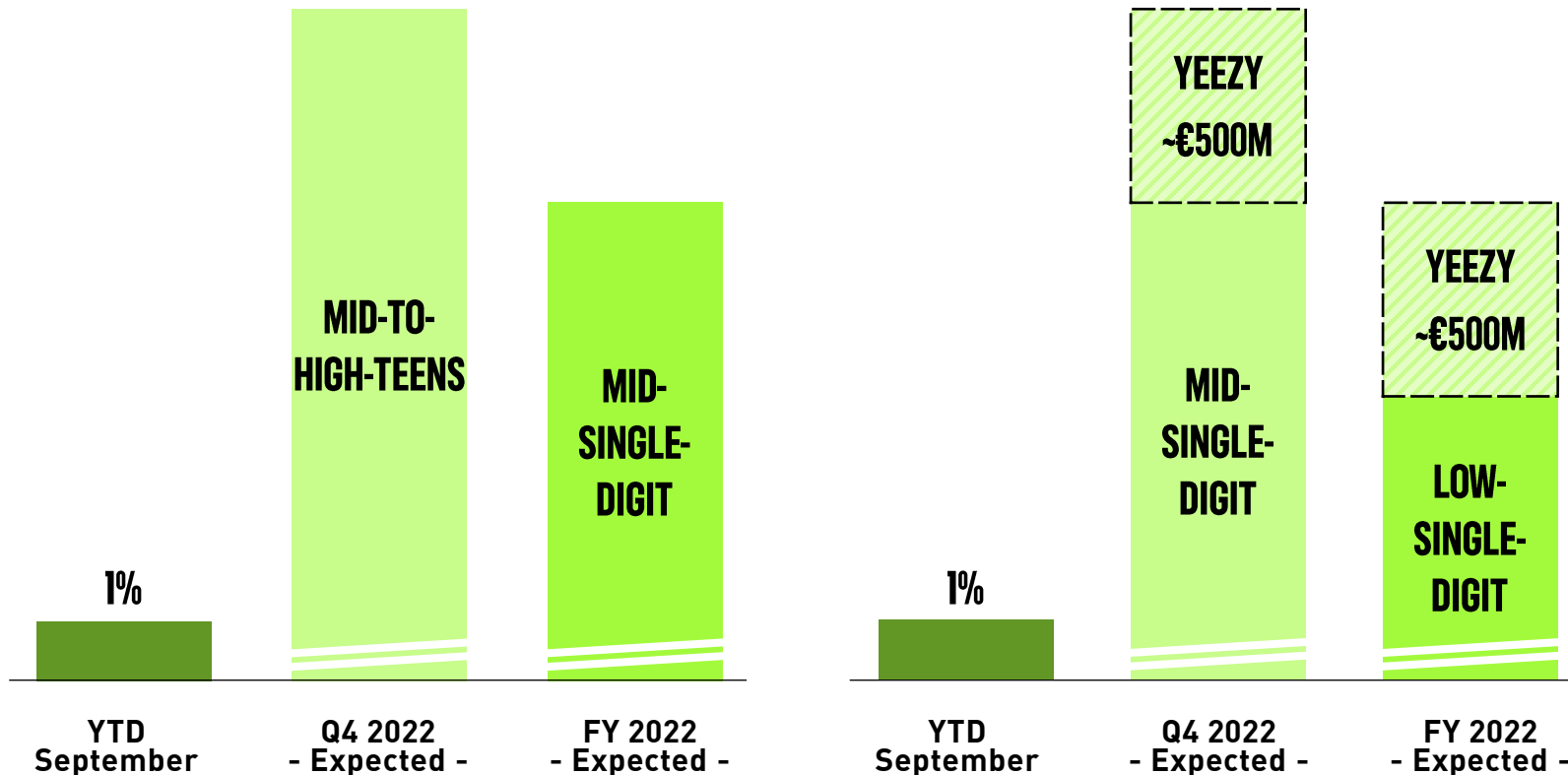
OUTLOOK



TOP-LINE GROWTH PROFILE TOTAL COMPANY Q4 AND FY 2022

AS OF OCTOBER 20, 2022

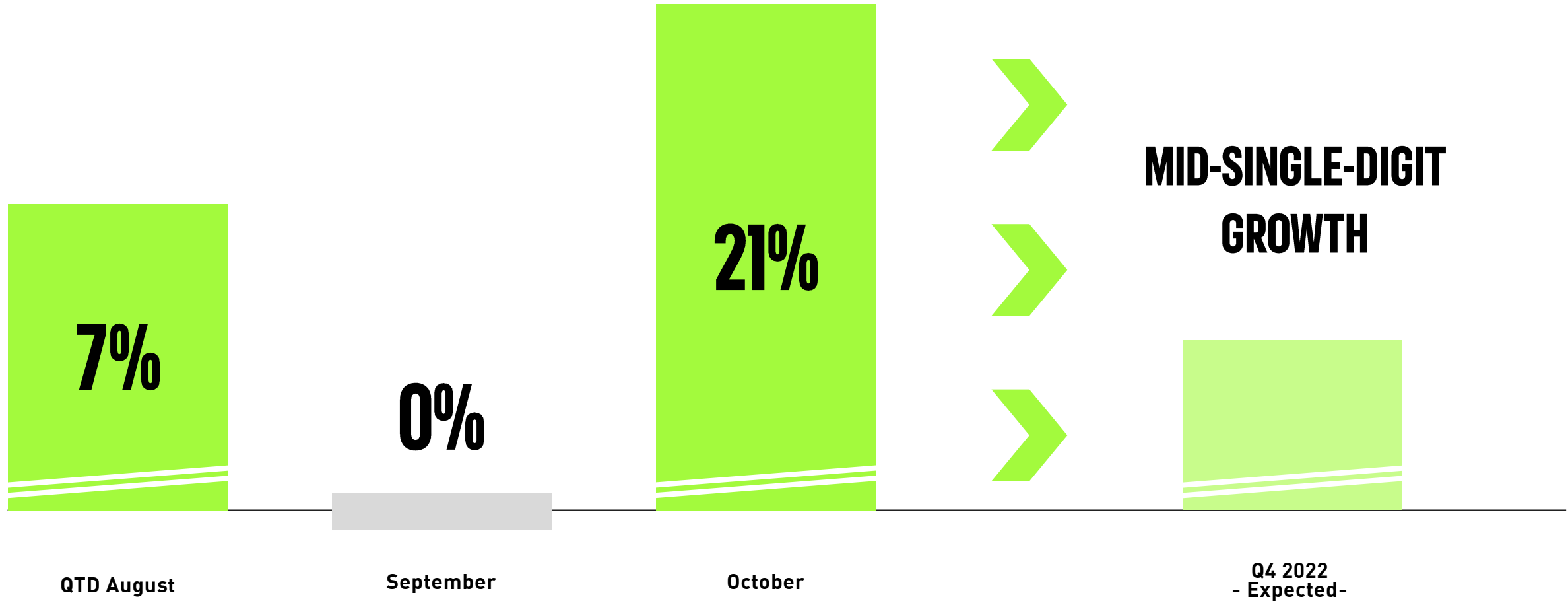
OUTLOOK



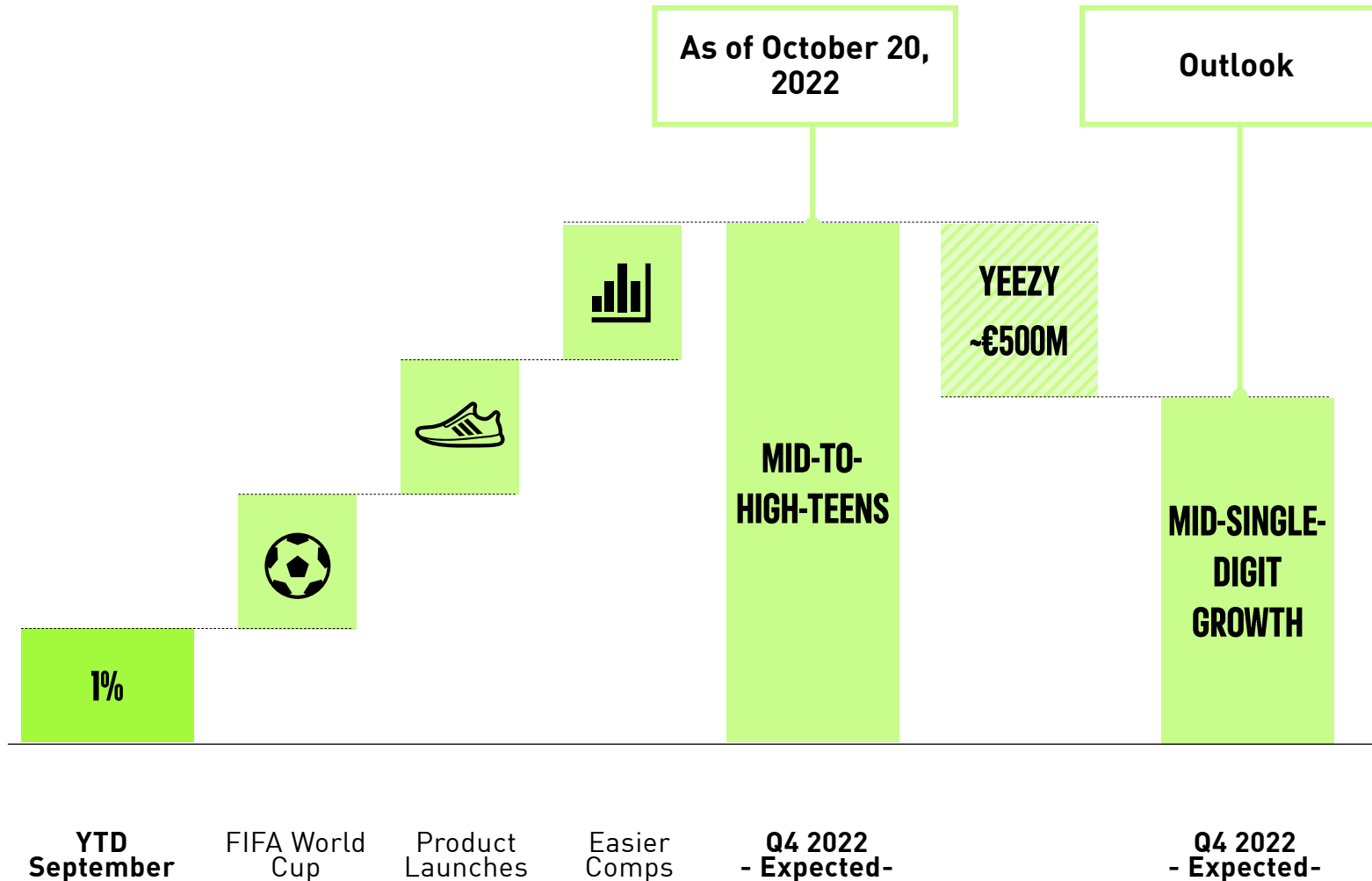
TOP-LINE GROWTH EXPECTATION REDUCED TO INCORPORATE THE SHORTFALL OF YEEZY REVENUES IN Q4

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

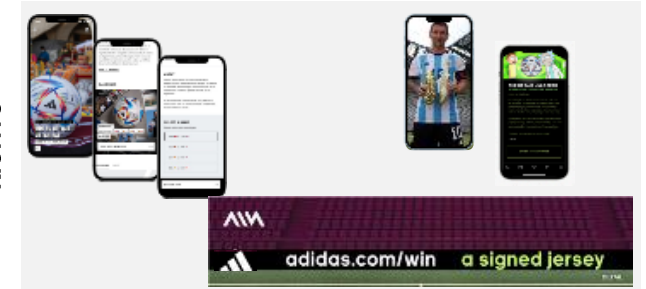
WINDOW



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

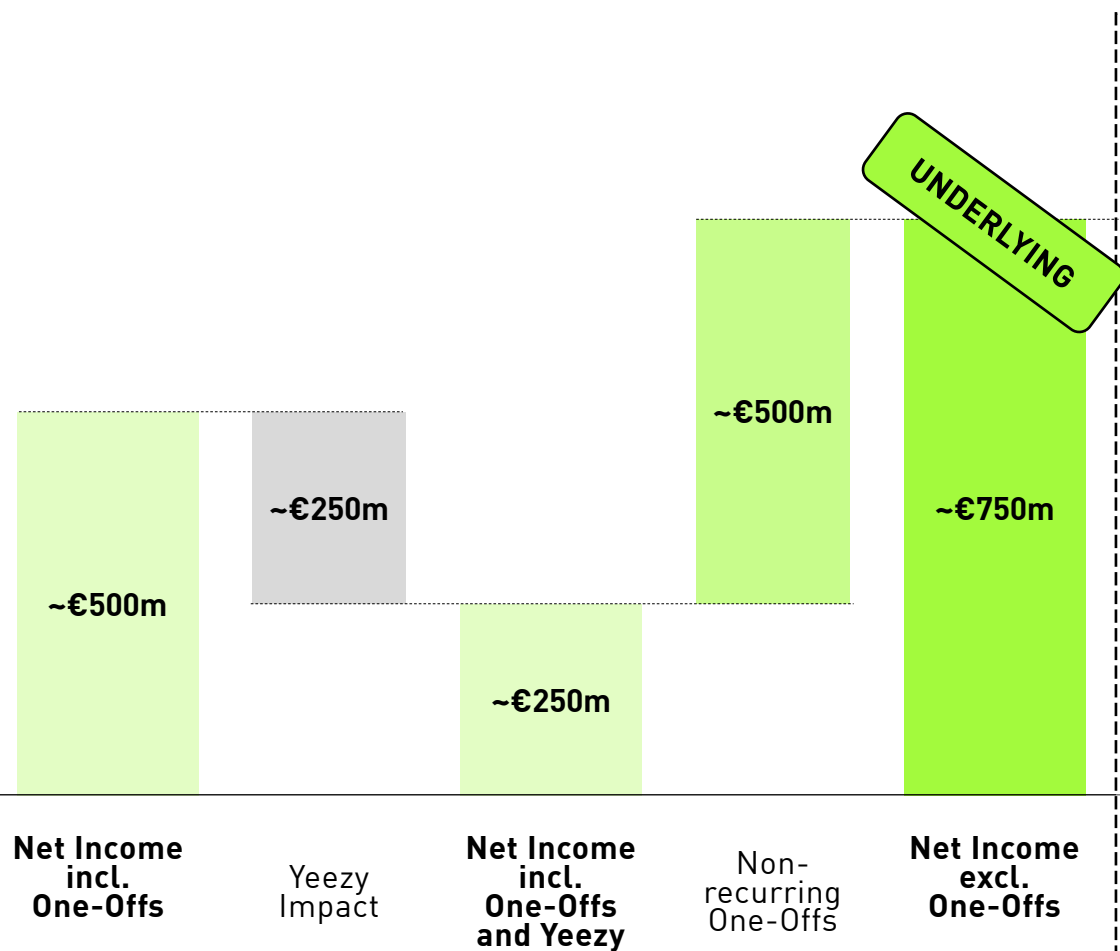
	AS OF JULY 26, 2022	AS OF OCTOBER 20, 2022	OUTLOOK
NET SALES¹	Mid- to high-single-digit growth	Mid-single-digit growth	Low-single-digit growth
Greater China	Double-digit decline	Strong double-digit decline	Strong double-digit decline
North America	High-teens growth	High-teens growth	Mid-teens growth
EMEA	Low-teens growth	Low-teens growth	High-single-digit growth
Latin America	Growth between 30% and 40%	Growth between 30% and 40%	Growth between 30% and 40%
Asia-Pacific	High-single-digit growth	High-single-digit growth	Mid-single-digit growth
DRIVERS	<ul style="list-style-type: none"> Headwinds related to a slower recovery in China Potential slowdown in other markets 	<ul style="list-style-type: none"> Further deteriorating traffic trend in Greater China 	<ul style="list-style-type: none"> Termination of Yeezy partnership

ADJUSTED OUTLOOK **FY 2022**

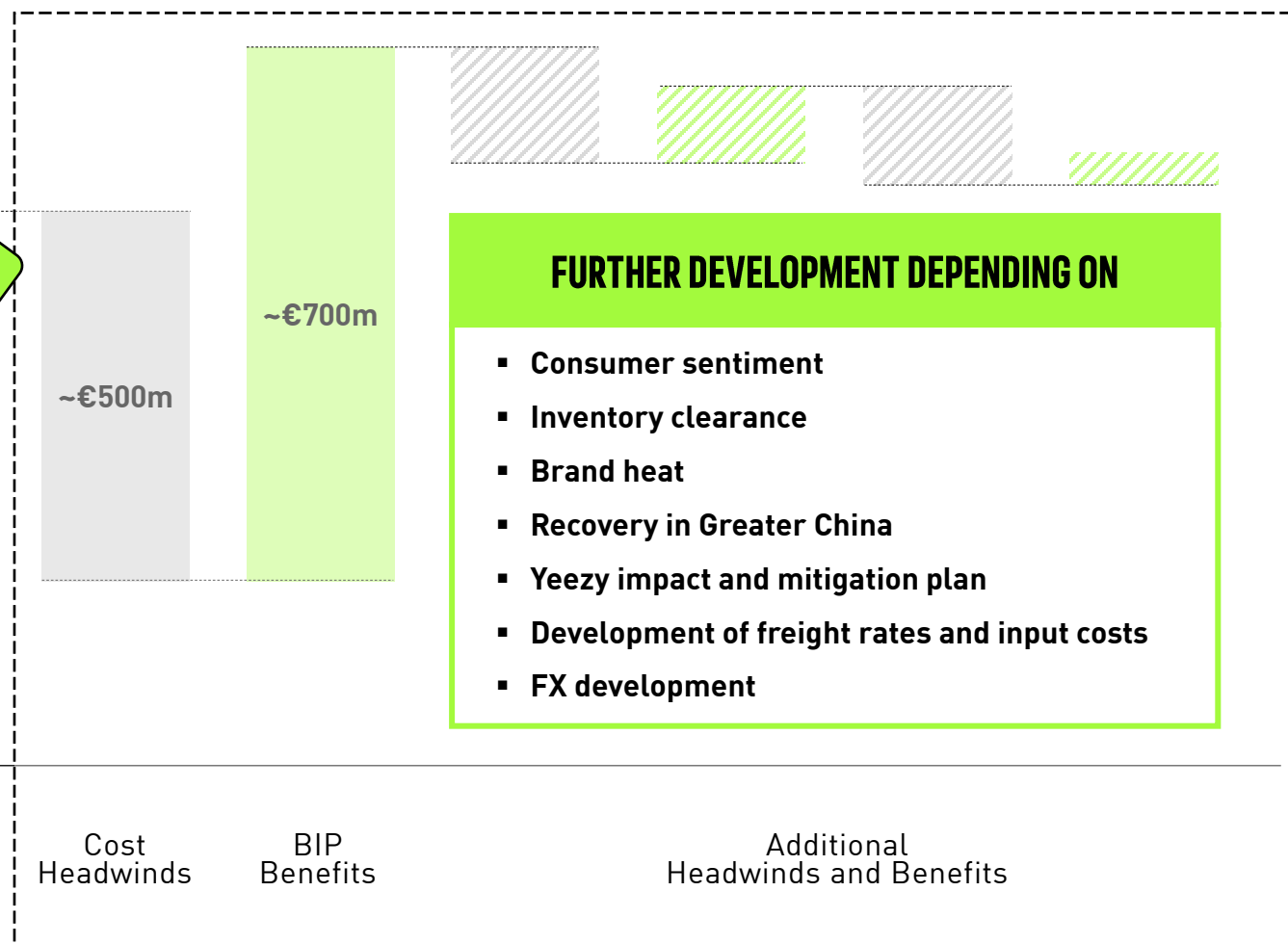
	AS OF JULY 26, 2022	AS OF OCTOBER 20, 2022	OUTLOOK
NET SALES¹	Mid- to high-single-digit growth	Mid-single-digit growth	Low-single-digit growth
GROSS MARGIN	Around 49.0%	Around 47.5%	Around 47.0%
OPERATING MARGIN	Around 7.0%	Around 4.0%	Around 2.5%
NET INCOME²	Around €1.3bn	Around €500m	Around €250m
DRIVERS	<ul style="list-style-type: none"> ▪ Headwinds related to a slower recovery in China ▪ Potential slowdown in other markets 	<ul style="list-style-type: none"> ▪ Further deteriorating traffic trend in Greater China ▪ Higher clearance activity to reduce inventory levels ▪ One-off costs of around €500m on net income 	<ul style="list-style-type: none"> ▪ Termination of Yeezy partnership

NET INCOME DEVELOPMENT 2022/2023

EXPECTED NET INCOME FY 2022



NET INCOME DRIVERS FY 2023



CEO TRANSITION

BJØRN GULDEN APPOINTED AS MEMBER OF THE EXECUTIVE BOARD AND CEO

Effective January 1, 2023

KASPER RORSTED TO STEP DOWN AS CEO

Upon expiry of November 11, 2022

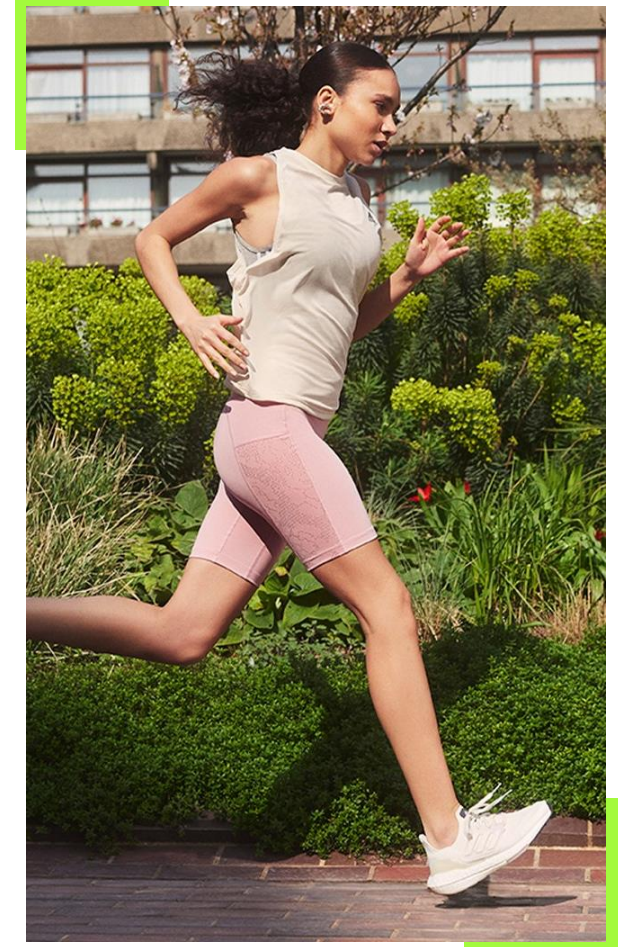
HARM OHLMEYER TO LEAD THE COMPANY IN THE INTERIM

Until December 31, 2022



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

