

# Q1 2020 RESULTS

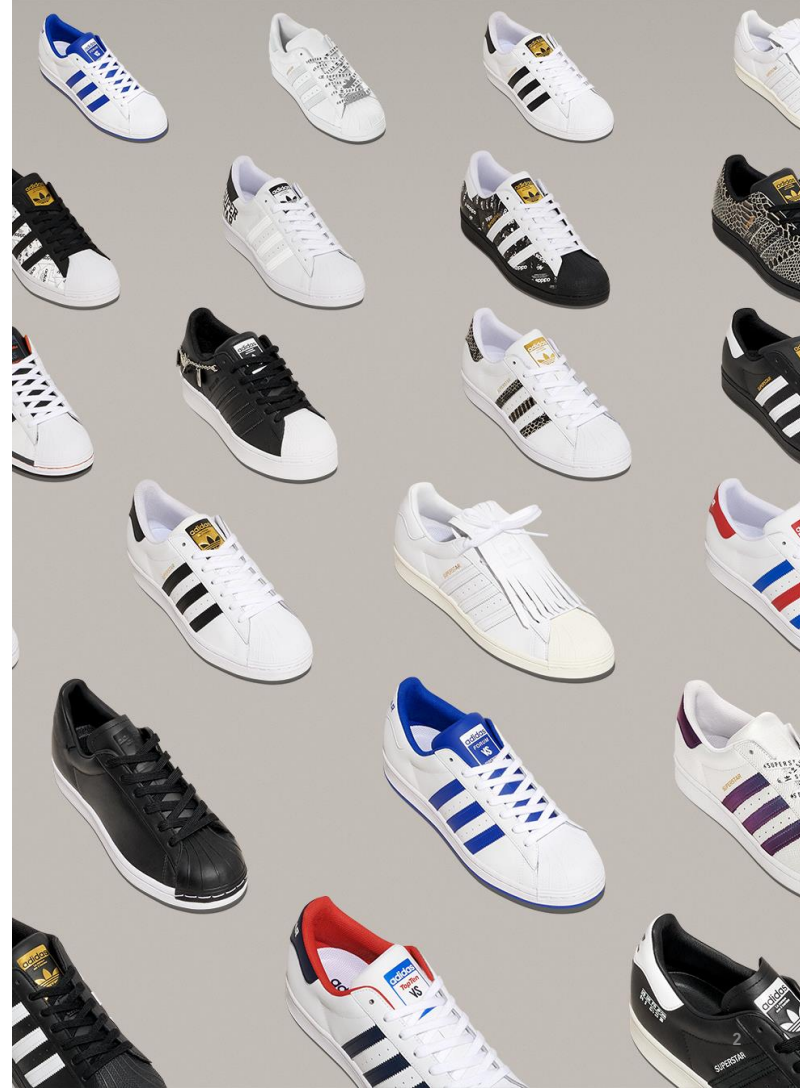
Herzogenaurach,  
April 27, 2020



adidas

# AGENDA

- 01 INTRODUCTION
- 02 BUSINESS UPDATE
- 03 FINANCIAL UPDATE
- 04 OPERATIONAL UPDATE
- 05 OUTLOOK



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# INTRODUCTION



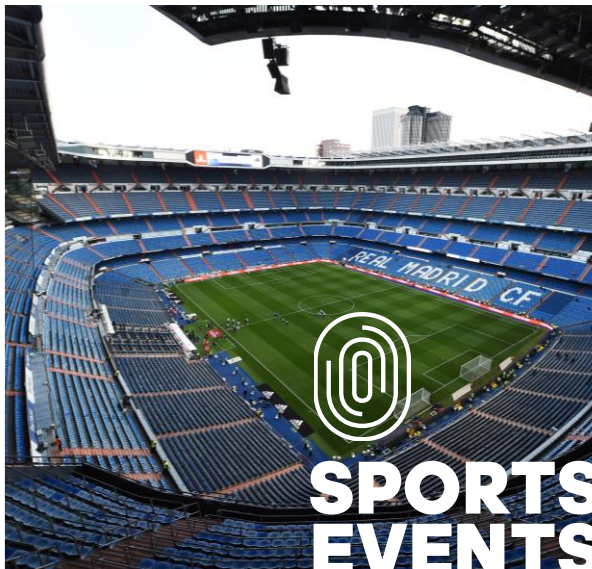


## UNPRECEDENTED TIMES

AROUND THE GLOBE, IN SPORTS AND FOR ADIDAS



**Almost all countries around the world impacted by the coronavirus outbreak**



**Global and local sports events of all kinds canceled or postponed**



**Standstill for 60% of our business as only e-com and stores in a few countries open**

## **PROTECTING OUR PEOPLE AND PARTNERS** REMAINS OUR TOP PRIORITY

### **HEALTH AND SAFETY**

Providing workplace flexibility, protective gear and health support to enable all employees to work in a safe environment and to stay healthy – responsible 'return to work' plans being developed

### **FINANCIAL VIABILITY**

Ensuring business continuity and financial security for our employees (e.g. short-time working) – supporting our retail staff during store closures and our DC staff during e-com peak periods

### **SUPPLY CHAIN RESPONSIBILITY**

Supporting our supply chain partners and their workers through best-practice sharing – additional engagement with the UN and local governments



## **SUPPORTING THE GLOBAL COMMUNITY**

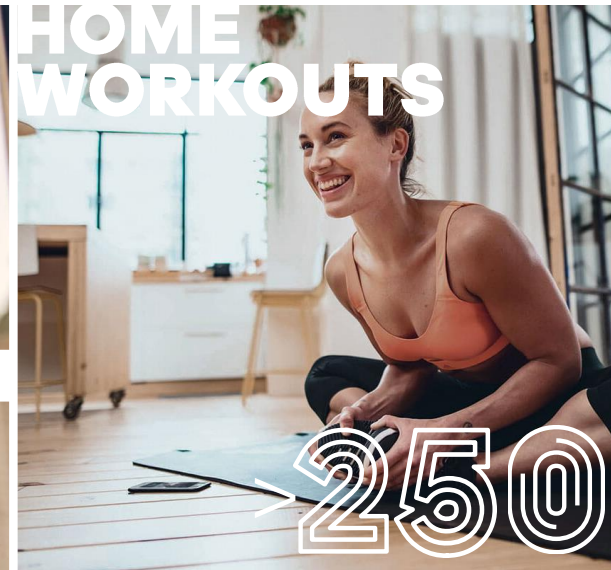
STANDING TOGETHER IN DIFFICULT TIMES



**Together with Carbon we are producing  
18,000 face shields per week for  
healthcare professionals**



**We are donating financial resources,  
protective gear and product to WHO, China  
Youth Foundation and other organizations**



**Hundreds of thousands of athletes are using  
250+ free videos, workouts and training  
plans in our adidas by Runtastic apps**

## SHORT-TERM PRIORITIES FOR OUR COMPANY

### FOCUS ON CASH

#### Increase inflows



- **Push e-com**
- **Prioritize China** and other open markets
- **Intensify credit collection** efforts

#### Reduce outflows



- **Trade payables:** proactive adjustment of order book
- **OPEX:** cut discretionary spend, reduce management compensation, make use of short-time working, cancel marketing activities
- **CAPEX:** stop retail expansion/remodeling, IT projects

#### Additional financing



- Draw committed and uncommitted **credit lines**
- **Repatriate cash** from foreign entities
- **Bridge financing** through KfW syndicated loan





## **LONG-TERM IMPLICATIONS FOR THE INDUSTRY**

STRUCTURAL TRENDS SUPPORTING FUTURE GROWTH ACCELERATED

### **HEALTH AND SPORTS EVEN MORE IMPORTANT TO CONSUMERS**

Consumers developing an increased appreciation of well-being and physical exercising

### **BRAND STRENGTH MATTERS MORE THAN EVER**

Strong, global brands best-placed to benefit from a scenario of potential market consolidation

### **FAST-FORWARD OF DIGITAL TRANSFORMATION**

Social distancing is driving faster change in behavior toward digital tools and channels





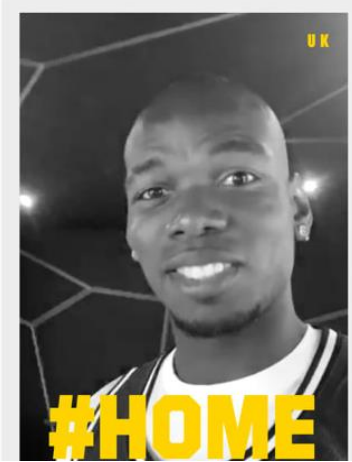
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**BUSINESS UPDATE**



## CONSUMER HIGHLIGHTS

LEVERAGING MULTIPLE DIMENSIONS OF INNOVATION



# STRENGTHS & WEAKNESSES

Q1 2020



## OFF TO A GOOD START BEFORE CORONAVIRUS STRUCK

Currency-neutral sales up 8% during first two months excl. APAC



## EFFECTIVE SET OF ACTIONS TO KEEP OUR PEOPLE SAFE

>40,000 employees in scope of closures and flexible ways of working



## FAST SHIFT OF RESOURCES TOWARD DIGITAL

Doubling down on e-commerce and social media channels



## SUFFICIENT FINANCIAL FLEXIBILITY

Decisive measures and access to additional liquidity



## RAPID GLOBAL OUTBREAK OF CORONAVIRUS

Temporary standstill for 60% of our business as most stores are closed



## HEADWIND FROM EXPOSURE TO GREATER CHINA

As the region had been most severely impacted in the first quarter



## ELEVATED INVENTORY LEVELS

Due to store closures around the globe and inventory takebacks in China



## PROFITABILITY MATERIALLY BELOW PRIOR YEAR

Operating profit declined over 90% in the first quarter



## P&L AT A GLANCE

Q1 2020

### **REVENUES DECREASE 19% CURRENCY-NEUTRAL**

Also 19% in euro terms to € 4.753 billion

### **GROSS MARGIN DOWN 4.2PP TO 49.3%**

Due to declines in most markets

### **OPERATING MARGIN DOWN 13.5PP TO 1.4%**

Reflecting operating deleverage due to revenue shortfall

### **NET INCOME FROM CONTINUING OPERATIONS DECREASES 97%**

To € 20 million

### **BASIC EPS FROM CONTINUING OPERATIONS DOWN 96%**

To € 0.13



## STRATEGIC GROWTH AREAS

Q1 2020

### ADIDAS NORTH AMERICA

Double-digit growth until end of February

+1%

### GREATER CHINA

Recovery only starting to materialize in March

-58%

### E-COMMERCE

55% increase in March

+35%

Currency-neutral.



## ADIDAS AND REEBOK BRAND PERFORMANCE

MORE PRONOUNCED NET SALES DECLINE FOR BRAND ADIDAS REFLECTING HIGHER CHINA EXPOSURE



-20%

### ADIDAS REVENUES DOWN 20%

Sport Performance decreases 20%  
Sport Inspired declines 16%



-12%

### REEBOK REVENUES DOWN 12%

Sport decreases 13%  
Classics declines 10%



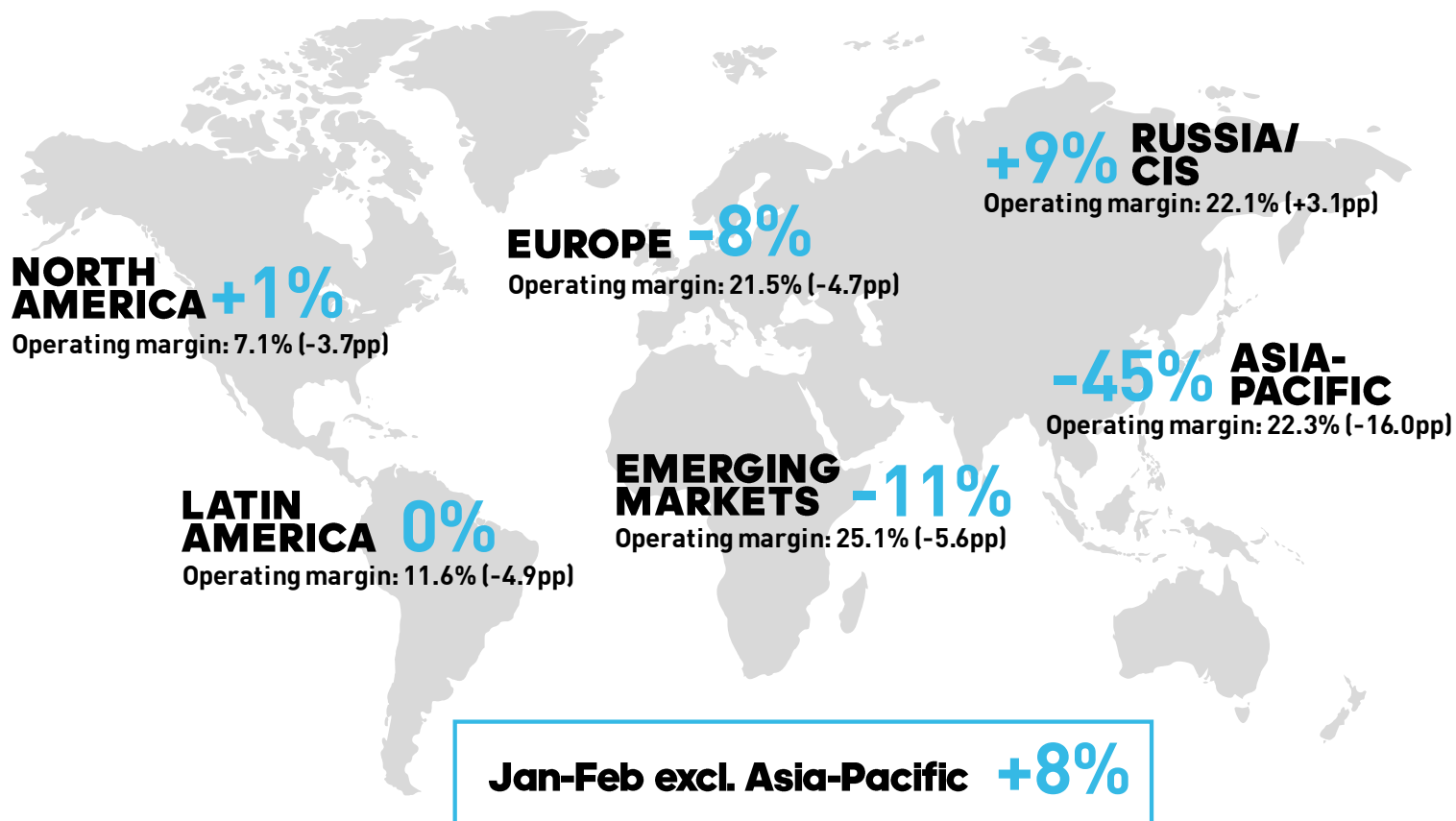


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**FINANCIAL UPDATE**

## REVENUE GROWTH BY MARKET SEGMENT

CORONAVIRUS SPREADING GLOBALLY IN THE COURSE OF Q1



## P&L OVERVIEW

### Q1 RESULTS REFLECTING MATERIAL NEGATIVE CORONAVIRUS IMPACT

(€ in millions)	Q1 2020	Q1 2019	Y-O-Y
<b>NET SALES</b>	<b>4,753</b>	5,883	<b>-19%</b>
<b>GROSS MARGIN</b>	<b>49.3%</b>	53.6%	<b>-4.2pp</b>
<b>OTHER OPERATING EXPENSES</b>	<b>2,305</b>	2,317	<b>-1%</b>
<i>(in % of sales)</i>	<b>48.5%</b>	39.4%	<b>+9.1pp</b>
<b>MARKETING AND POINT-OF-SALE EXPENSES</b>	<b>704</b>	703	<b>+0%</b>
<i>(in % of sales)</i>	<b>14.8%</b>	12.0%	<b>+2.9pp</b>
<b>OPERATING OVERHEAD EXPENSES</b>	<b>1,601</b>	1,614	<b>-1%</b>
<i>(in % of sales)</i>	<b>33.7%</b>	27.4%	<b>+6.3pp</b>
<b>OPERATING PROFIT</b>	<b>65</b>	875	<b>-93%</b>
<b>OPERATING MARGIN</b>	<b>1.4%</b>	14.9%	<b>-13.5pp</b>
<b>NET INCOME</b> from continuing operations	<b>20</b>	631	<b>-97%</b>
<b>BASIC EPS</b> from continuing operations (€)	<b>0.13</b>	3.17	<b>-96%</b>

Including **negative impact of ~€ 250 million** from product takebacks in Greater China, purchase order cancellations and higher bad debt allowances



## NET DEBT AND EQUITY POSITION

EQUITY RATIO AT 32.1%

### Net debt

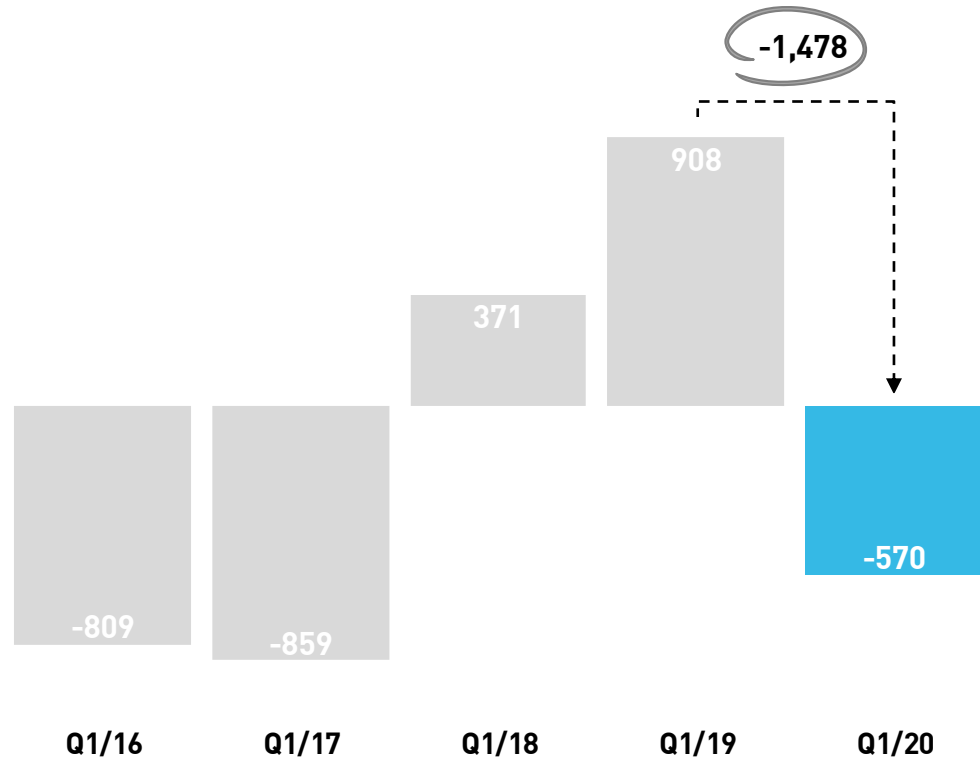
At € 570 million

### Equity position

Decrease of € 270 million year-on-year

### Equity ratio

Down 3.9pp year-on-year



## AVERAGE OPERATING WORKING CAPITAL

### SIGNIFICANT INCREASE IN INVENTORIES

#### **Inventories up 36% c.n.**

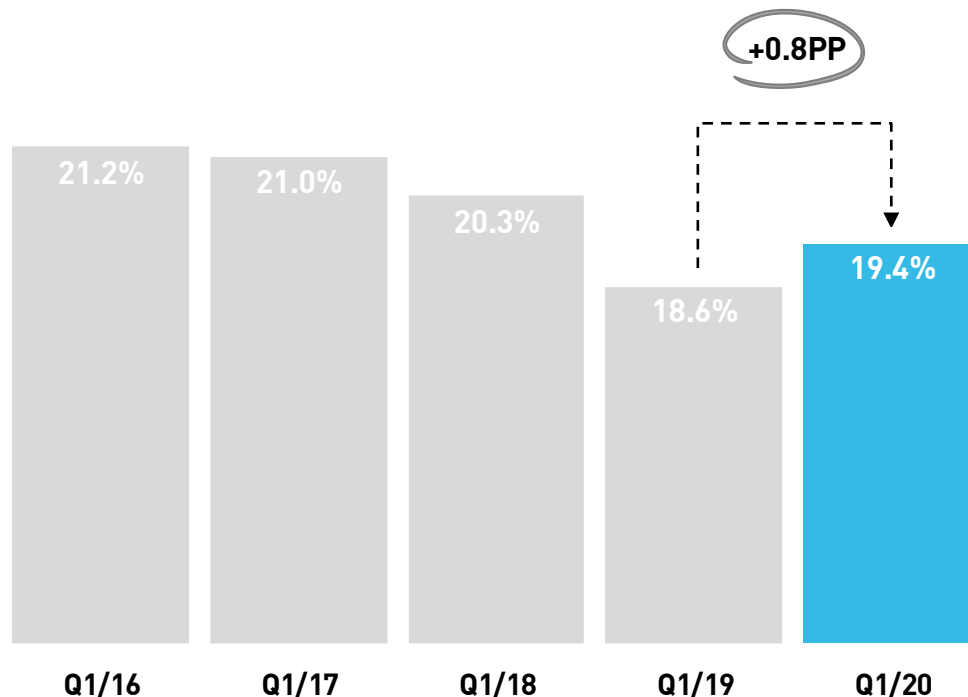
Due to broad-based store closures

#### **Receivables down 5% c.n.**

Partly driven by lower shipments toward quarter-end

#### **Payables up 25% c.n.**

Reflecting measures to manage cash outflows





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**OPERATIONAL UPDATE**

## MANAGEMENT PRIORITIES IN UNPRECEDENTED TIMES

### STRIKING THE BALANCE BETWEEN SHORT- AND LONG-TERM

#### **Protecting people and community**

Health and safety remains top priority

#### **Making use of operational flexibility**

'CTN' a strong foundation to build upon

#### **Sufficient financial flexibility**

Decisive measures and access to additional liquidity

#### **Going after digital opportunities**

E-com more important than ever before

#### **Learnings from China**

China first major market on road to recovery





## ADJUSTING COST BASE TO PROTECT CASH AND PROFITS

### MAKING USE OF OPERATIONAL FLEXIBILITY

#### **Scope to partially adjust cost base in response to lower top line**

Thanks to foundation built through ONE adidas initiatives within 'CTN'

#### **Case-by-case decisions in order to not jeopardize future prospects**

Focus so far on tactical measures in terms of both OOH and MWB

#### **Making use of flexibility in OPEX based on current visibility**

Semi-flexible expenses could be tackled in addition if circumstances require



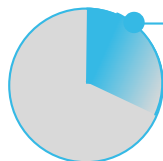
## FOCUS ON TACTICAL OPEX MEASURES TO NOT JEOPARDIZE FUTURE PROSPECTS

### MAKING USE OF OPERATIONAL FLEXIBILITY

FY 2019

2020 Flexibility

**OOH**      **€ 6.8bn**



fixed

Personnel, depreciation, rent and IT

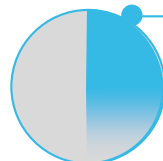
semi-flexible

E-com and warehouse infrastructure

flexible

Logistics, travel & expenses and IT projects

**MWB**      **€ 3.0bn**



fixed

Sports marketing contracts and Jan-Feb spending

semi-flexible

E-com and digital brand campaigns

flexible

Variable contract components and physical events

*Illustrative.*

*OOH – Operating overhead expenses.*

*MWB (Marketing Working Budget) – Marketing and point-of-sale expenses.*

## PLAN IN PLACE TO ARRIVE AT HEALTHY INVENTORY LEVEL

MAKING USE OF OPERATIONAL FLEXIBILITY

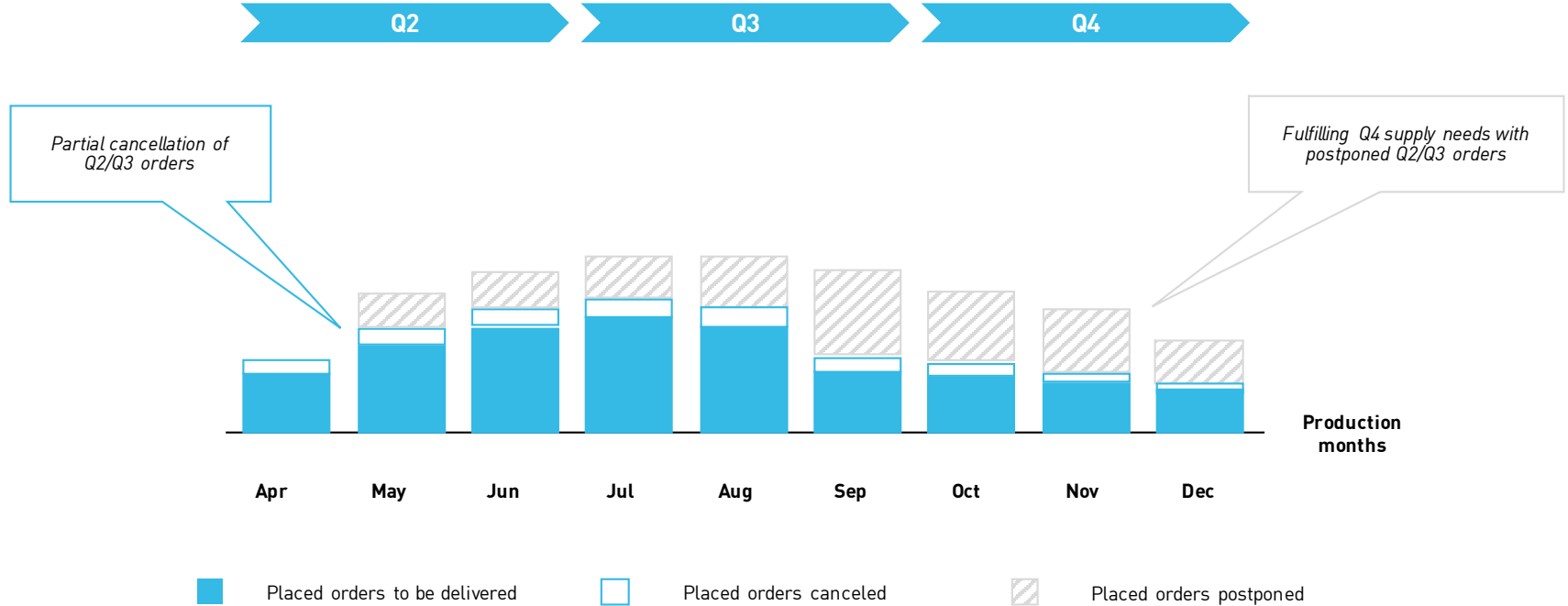
**1 Proactive order management to align deliveries with lower demand**

**2 Repurpose and liquidate existing inventories**



## PROACTIVE ORDER MANAGEMENT TO ALIGN DELIVERIES WITH LOWER DEMAND

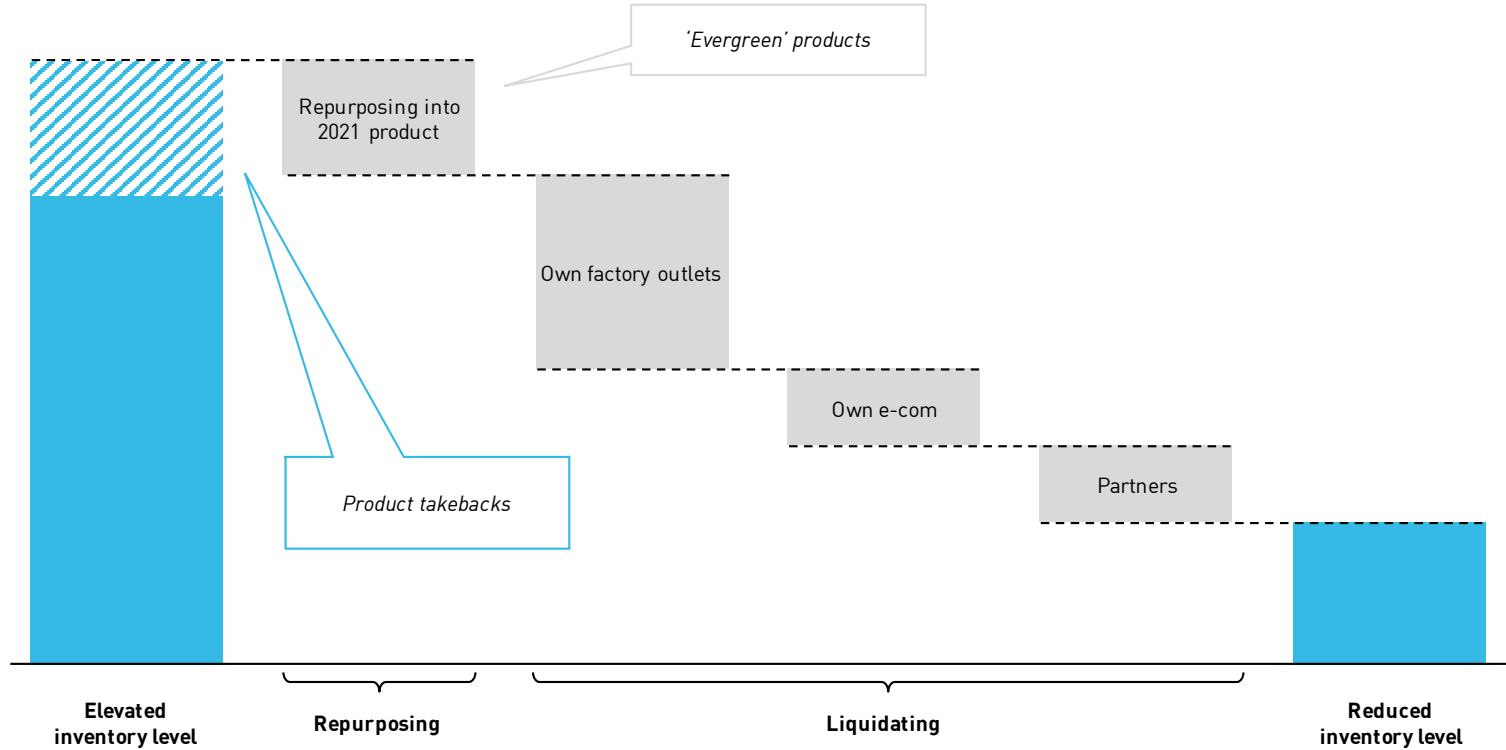
MAKING USE OF OPERATIONAL FLEXIBILITY IN CLOSE PARTNERSHIP WITH OUR SUPPLIERS





## REPURPOSE AND LIQUIDATE EXISTING INVENTORIES

### MAKING USE OF OPERATIONAL FLEXIBILITY



## DECISIVE MEASURES AND ACCESS TO ADDITIONAL LIQUIDITY

### SUFFICIENT FINANCIAL FLEXIBILITY

#### **Decisive action taken to manage liquidity position**

Suspension of dividend/buyback and reduction of management compensation

#### **Using existing cash buffer and tapping unused credit facilities**

As situation poses a liquidity challenge even for healthy companies

#### **Additional € 3.0 billion revolving loan to bridge unprecedented situation**

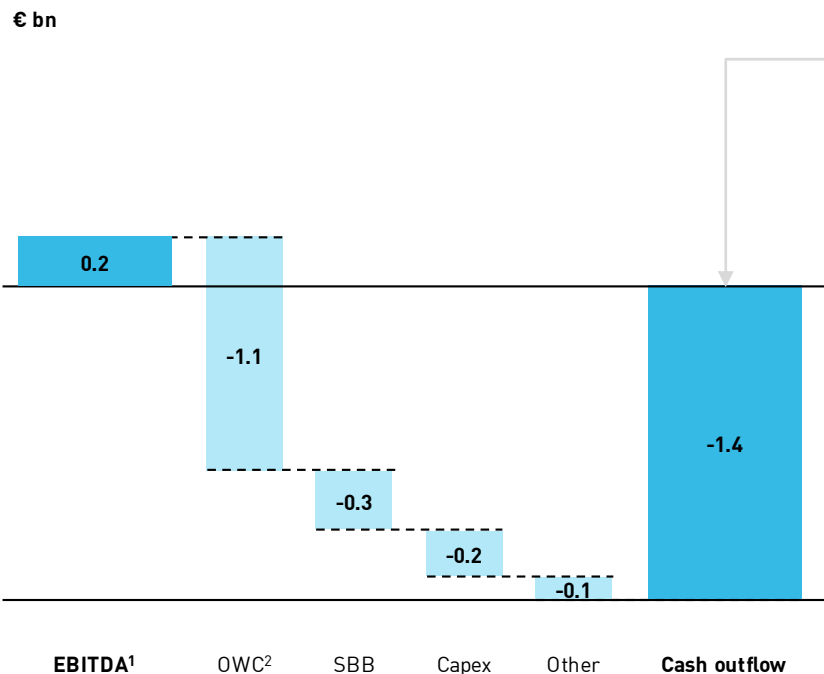
Syndicate of KfW and partner banks with interest/fees at market conditions



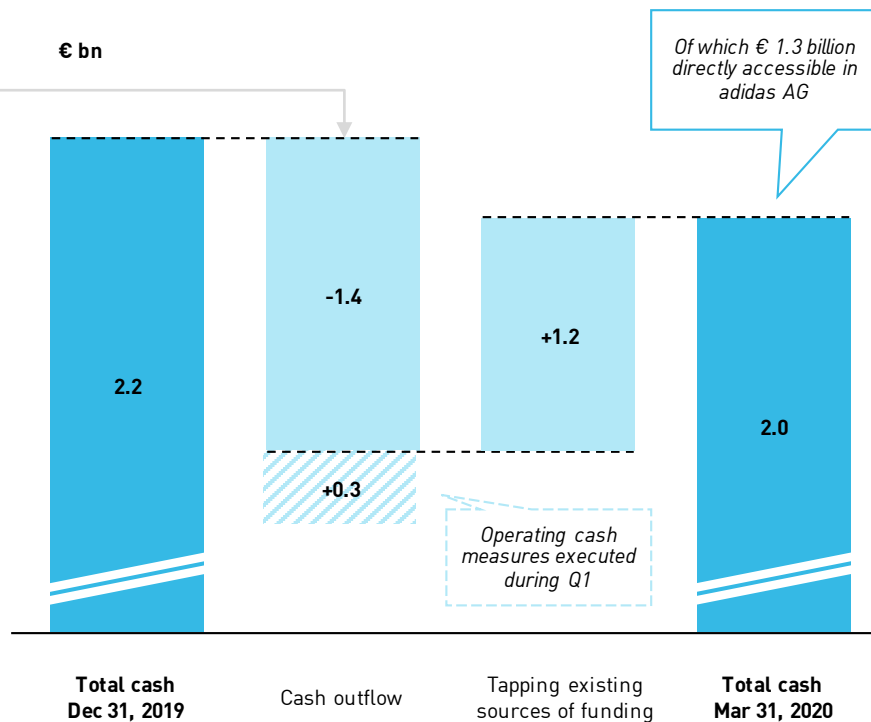
# CASH OUTFLOW IN Q1 LARGELY OFFSET BY CASH MEASURES AND USE OF CREDIT FACILITIES

## SUFFICIENT FINANCIAL FLEXIBILITY

### Q1 CASH OUTFLOW DECOMPOSED



### Q1 CASH DEVELOPMENT

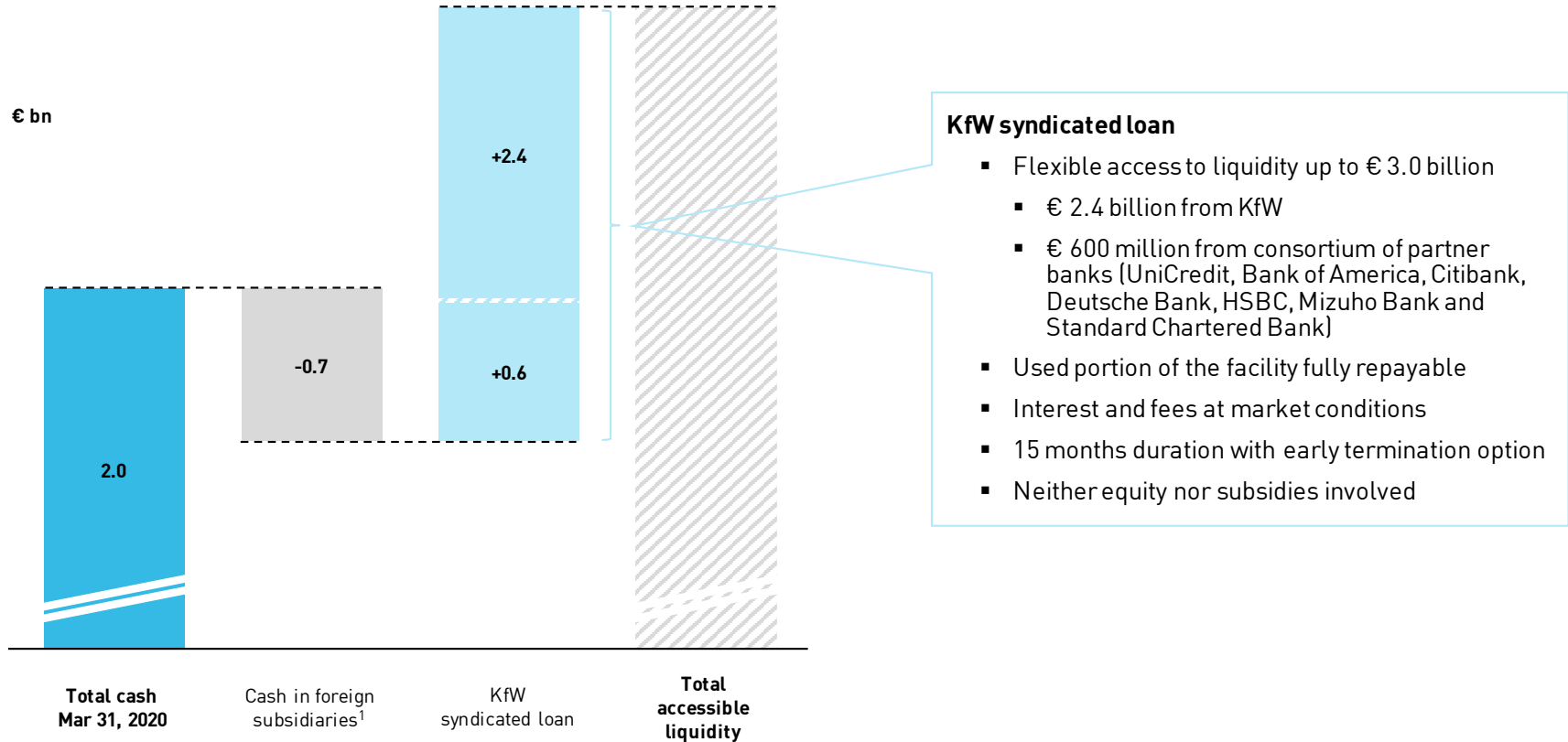


<sup>1</sup>Excluding lease payments.

<sup>2</sup>Including other assets and other liabilities.

# TOTAL ACCESSIBLE LIQUIDITY DECOMPOSED

## SUFFICIENT FINANCIAL FLEXIBILITY



<sup>1</sup>As of March 31, 2020.



## E-COM MORE IMPORTANT THAN EVER BEFORE

### GOING AFTER DIGITAL OPPORTUNITIES

#### **Raising 2020 e-com target to more than € 4 billion**

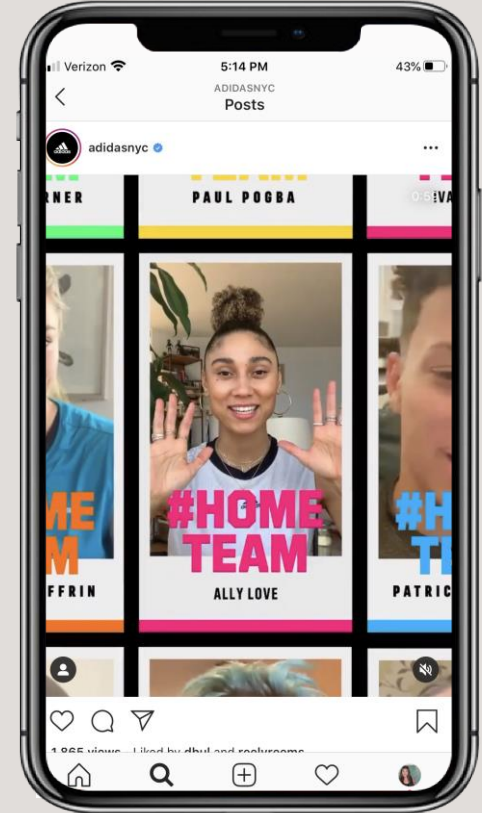
Reallocation of resources into digital to support new ambition

#### **Driving brand awareness and digital sales**

Through consumer-facing campaigns and well-received product launches

#### **E-com always open for business**

Risk mitigation in place to minimize impact of potential disruptions



## RAISING 2020 E-COMMERCE TARGET GOING AFTER DIGITAL OPPORTUNITIES

### > DRIVING NET SALES TO MORE THAN € 4 BILLION <



#### Product

- Reallocate existing inventory
- Prioritize e-com within supply chain
- Launch plan for product pull-forwards and rapid creation

#### Storytelling

- Make big commercial moments even bigger
- Shift marketing investments to digital channels
- Establish task force to hunt and identify traffic and sales opportunities

#### Capabilities

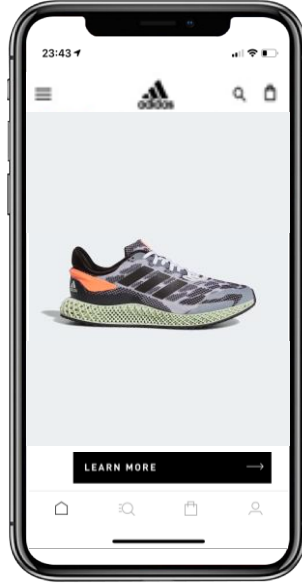
- Reprioritize focus areas within wider digital priorities
- Shift resources to drive online conversion
- Accelerate app and hype drop initiatives

## DRIVING BRAND AWARENESS AND DIGITAL SALES

### GOING AFTER DIGITAL OPPORTUNITIES



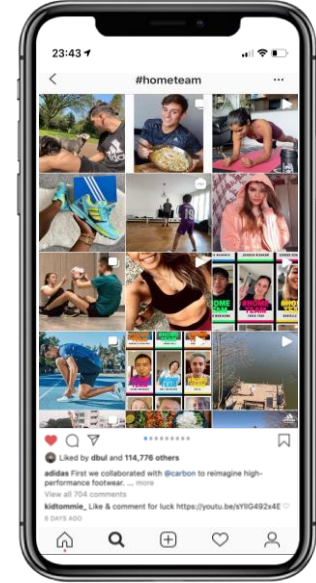
Yeezy releases with  
100% sell-through



Fully digital execution of high-  
profile launches



Keeping our communities  
active, engaged and connected



Leveraging our asset base with  
global #hometeam activation

## CHINA FIRST MAJOR MARKET ON ROAD TO RECOVERY

### LEARNINGS FROM CHINA

#### **Retail business recovering since stores reopened at beginning of March**

Traffic and conversion trends normalizing over time rather than instantly

#### **E-com business also impacted during February but recovered much quicker**

Driven by aggressive doubling-down on digital channels

#### **Successful strategy to revitalize retail after end of confinement period**

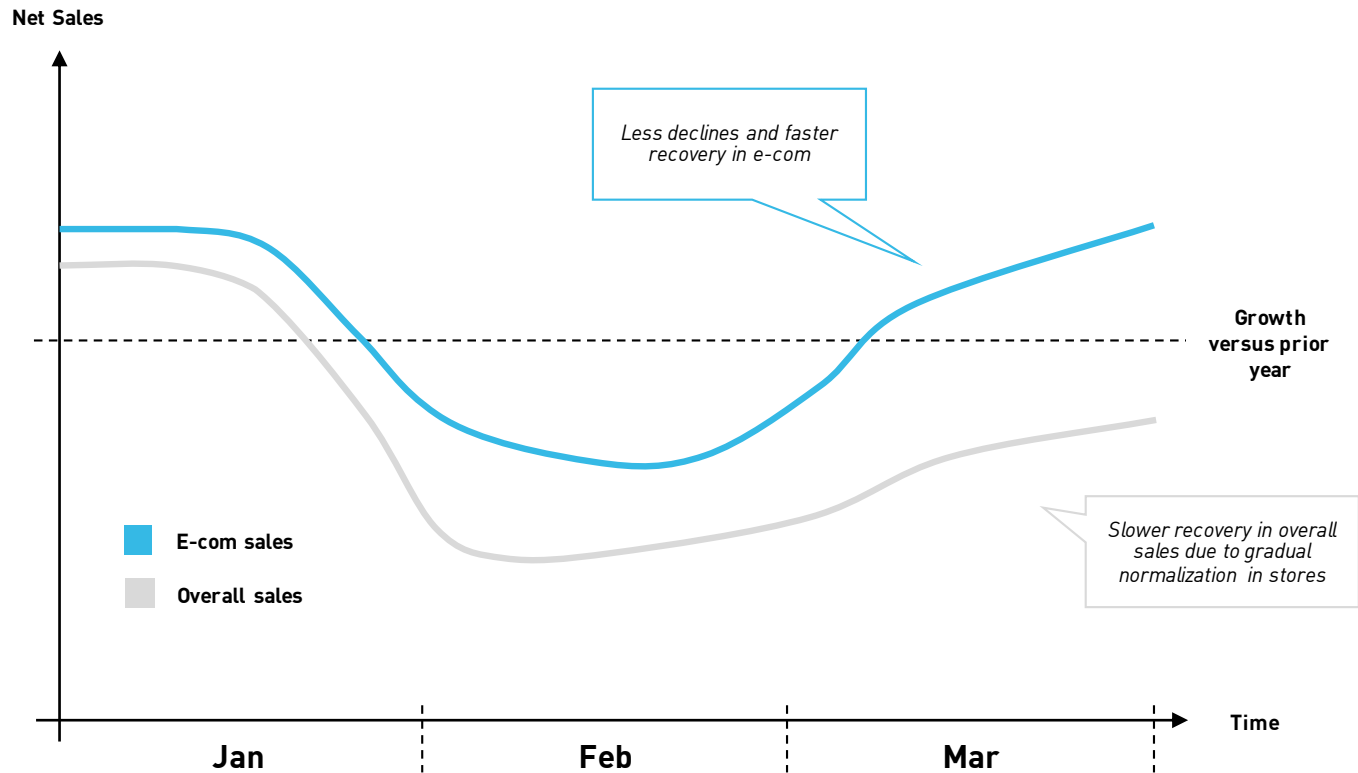
Brand moments and campaigns to drive traffic and conversion





## REBOUND OF GROWTH AFTER SHARP DECLINE IN FEBRUARY

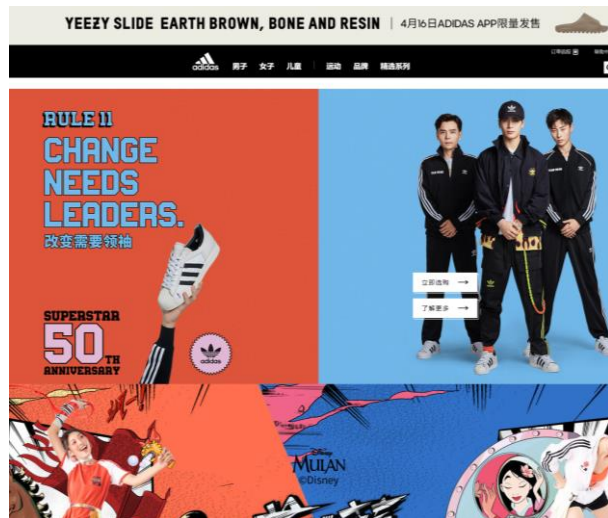
### LEARNINGS FROM CHINA



# PROVEN RECIPE TO STAY ENGAGED WITH CONSUMERS AND RESTART BUSINESS

## LEARNINGS FROM CHINA

Doubling down on digital channels



First brand to serve consumers via livestream at Tmall Super Brand Day for enhanced digital shopping experience

Staying engaged with consumers



Created brand moment to celebrate the end of the confinement period and gradual return to normal life

Revitalizing retail as stores reopen



Executed 'Share your Stripes' campaign to drive consumers back to our stores

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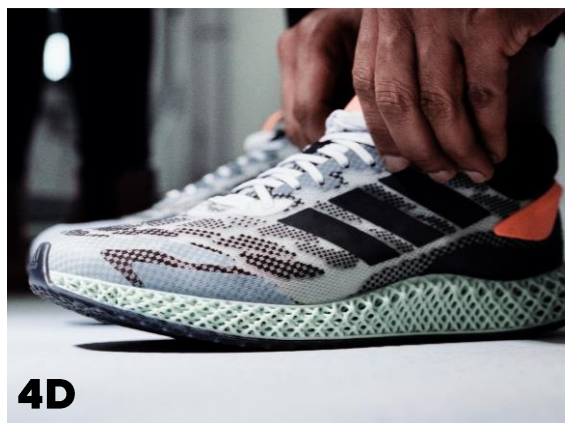
OUTLOOK





## PRODUCT ENGINE CONTINUES TO RUN

LEVERAGING MULTIPLE DIMENSIONS OF INNOVATION



## CONTINUED EXECUTION

### NAVIGATING TOWARD LONG-TERM SUCCESS

#### Managing the storm

- Ensuring **health & safety** of our people
- Making use of **operational flexibility**
- Sufficient **financial flexibility**
- Going after **digital opportunities**

#### Coming out of the storm

- Understanding changing **preferences and shopping behaviors**
- **Ramp-up of locations** (stores, offices, warehouses)
- Resource and inventory **(re)allocation**
- Refocus on **long-term strategy execution**

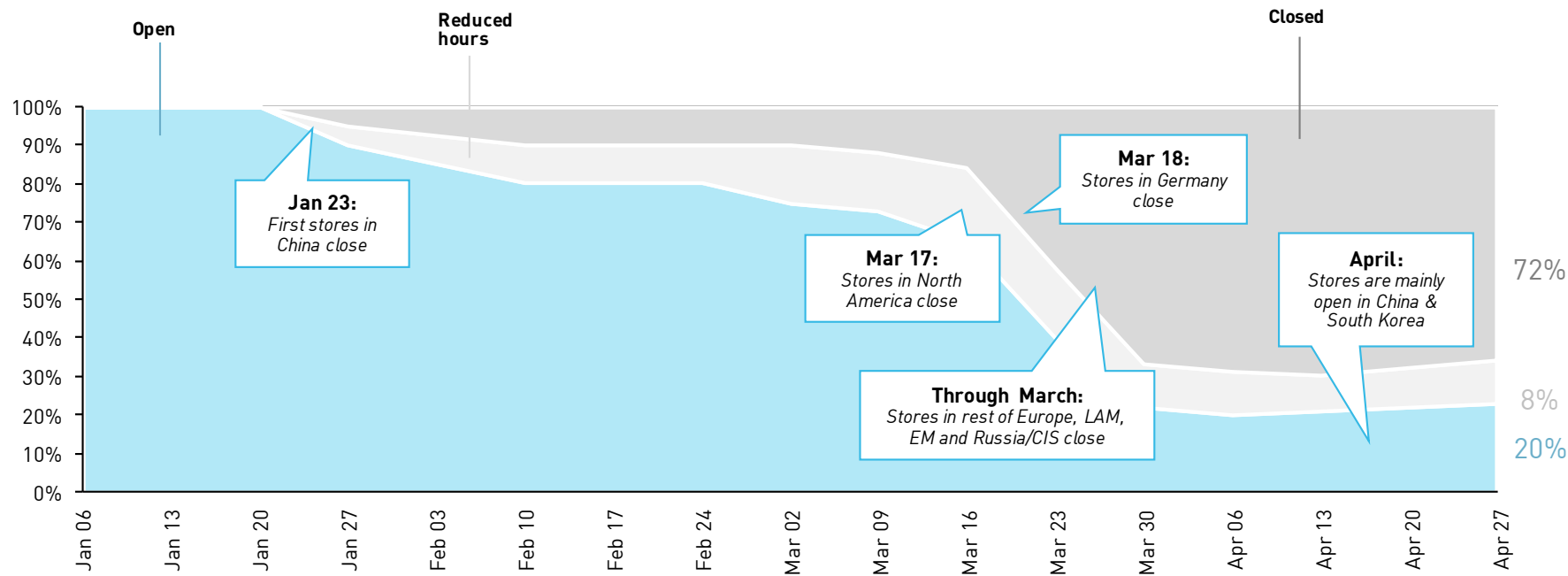
#### Managing 'the new normal'

- Global recession and economic **uncertainty**
- **Health and sports** even more important
- **Brand strength matters** more than ever
- Fast-forward of **digital transformation**









## MORE THAN 70% OF OWN RETAIL STORES CURRENTLY CLOSED

### STORES OPEN IN ONLY A FEW COUNTRIES



## ASSESSMENT OF CORONAVIRUS IMPACT IN THE SECOND QUARTER

ONGOING STORE CLOSURES EXPECTED TO LEAD TO NEGATIVE OPERATING RESULT IN Q2

	Q1 2020	Q2 2020 Trend (vs. Q1)
<b>Net sales</b>	-19%	
North America	+1%	
Asia-Pacific	-45%	
Europe	-8%	
E-commerce	+35%	
<b>Operating result</b>	-93%	



### Q2 2020 Outlook:

Net sales: down more than 40%  
Operating result: negative

## MANAGING THROUGH 2020

UNCERTAINTIES ON FULL-YEAR IMPACT REMAIN

### WHAT WE KNOW

### WHAT WE DON'T KNOW

**Q1  
2020**

- Coronavirus impacting mainly Greater China, Japan, South Korea
- Rest of the world hit in March
- Net sales -19%, operating profit -93%

**Q2  
2020**

- Sequential recovery in Greater China, South Korea
- Store closures in almost all other countries
- Net sales expected to be down more than 40% and operating result to be negative

**Remainder of 2020**

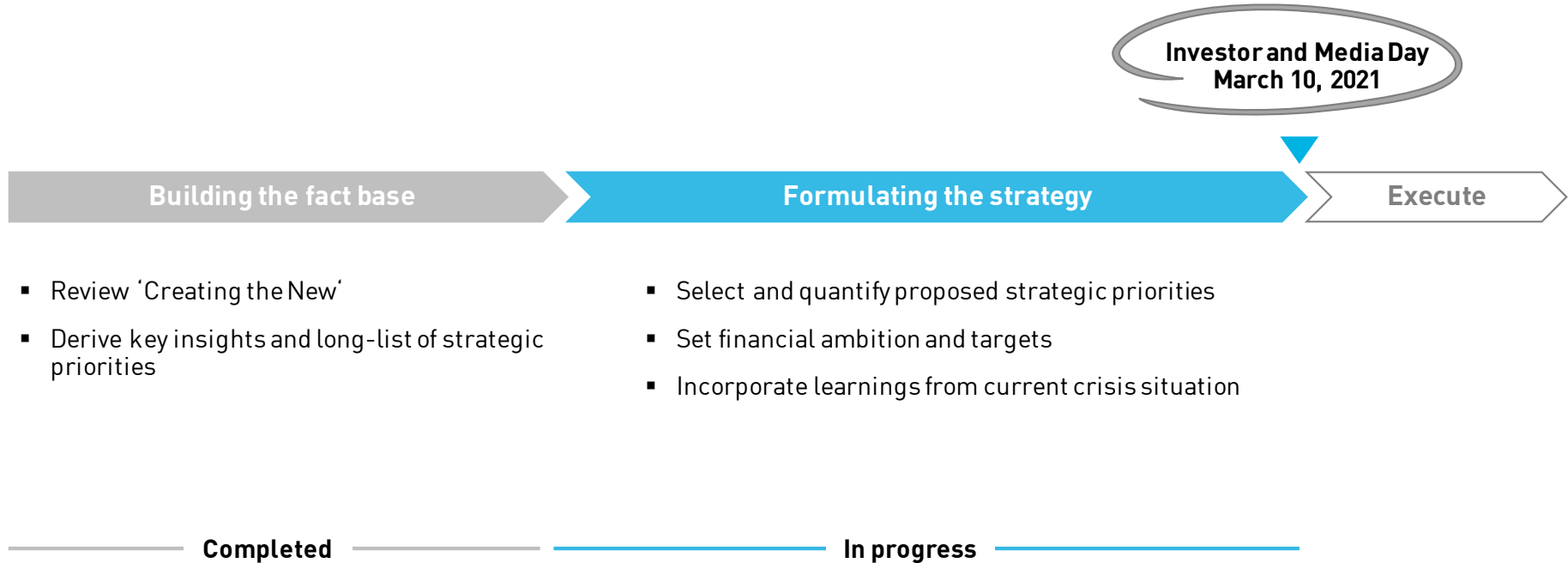
- Speed of recovery in Greater China with the risk of setbacks
- Duration of closures in North America, Europe and other parts of the world
- State of the global economy and consumer sentiment through the year
- Risk of industry-wide clearance and discounting activities



**FY 2020 Outlook:**

Not quantifiable

## NEW DATE FOR INVESTOR AND MEDIA DAY SET FOR MARCH 2021




## SUMMARY

- 1 **Navigating the company through unprecedented times**
- 2 **Using operational flexibility, sufficient financial flexibility**
- 3 **Doubling down on digital channels and tools**
- 4 **Structural industry trends being amplified and accelerated**
- 5 **Enabling long-term success by preparing for 'the new normal'**





A woman with short dark hair is crouching on a blue running track. She is wearing a purple short-sleeved shirt, patterned leggings with black stripes down the sides, and white sneakers. She is holding a basketball with both hands in front of her. The track has white lane lines and yellow directional arrows. In the background, there is a green grassy field and a small grey rectangular object on the track's edge. The scene is brightly lit, casting a long shadow of the woman onto the track.

**Q&A**