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Herzogenaurach, November 7, 2018

adidas delivers strong third quarter results Full-year outlook increased

Major developments in Q3 2018:

- **Revenues grow 8% currency-neutral and 3% in euro terms**
- **Gross margin increases 1.4pp to 51.8%**
- **Operating margin improves 1.3pp to 15.3%**
- **Net income from continuing operations grows 19% to € 656 million**
- **Basic EPS from continuing operations up 21% to € 3.26**

"We delivered high-quality growth again in Q3. The top-line expansion was driven by double-digit increases across our strategic growth areas North America, Greater China and e-commerce. At the same time, we achieved strong profitability improvements despite a significant increase in marketing investments and severe currency headwinds. With these results, we are confident to reach a higher-than-expected profitability level in 2018 and remain firmly on track to achieve our long-term targets until 2020," said adidas CEO Kasper Rorsted.

Currency-neutral revenues increase 8% in Q3 2018

In the third quarter, currency-neutral revenues grew 8%. Revenues at the adidas brand increased 10%, driven by double-digit growth in Sport Inspired as well as high-single-digit growth in Sport Performance, the latter driven by continued double-digit growth in Training and Running. Revenues at the Reebok brand decreased 5% as double-digit growth in Classics was more than offset by declines in Training and Running. From a channel perspective, the company's top line was largely driven by excellent double-digit growth in direct-to-consumer revenues with strong support from e-commerce, where revenues grew 76% in the quarter. In euro terms, the company's revenues were up 3% in the third quarter to € 5.873 billion (2017: € 5.677 billion).

Adverse impact on reported revenues from hyperinflation accounting in Argentina

The company's top-line development in the third quarter was impacted by the first-time application of hyperinflation accounting to its Argentinian business, which represented 2% of global sales in 2017. IAS 29 requires that hyperinflation accounting be applied retrospectively from the start of the relevant reporting period, namely from January 1, 2018. As a result, reported revenues were negatively impacted by a high-double-digit million euro amount. At the same time, hyperinflation accounting had a slightly positive impact on currency-neutral revenue growth.



Double-digit growth in North America and Asia-Pacific

From a market segment perspective, the top-line expansion in the third quarter was driven by ongoing strength in the company's strategic growth regions: the combined sales of the adidas and Reebok brands continued to expand at strong double-digit rates in both North America (+16%) and Asia-Pacific (+15%), the latter driven by Greater China (+26%). Revenues in Russia/CIS increased 7% as the positive impact from World Cup-related sales still offset the significant amount of store closures during the past twelve months. While revenues in Latin America were flat, sales in Emerging Markets decreased by 2%. Revenues in Western Europe, in line with expectations, declined 1% during the quarter.

Gross margin up 1.4 percentage points to 51.8%

The company's gross margin increased 1.4 percentage points to 51.8% (2017: 50.4%). This development was driven by an improved pricing, channel and category mix, reflecting the company's focus on the quality of its top-line growth, as well as lower sourcing costs. These improvements more than offset severe negative currency effects. Royalty and commission income grew to € 37 million (2017: € 29 million) while other operating income increased to € 39 million (2017: € 33 million). Other operating expenses rose 4% to € 2.220 billion (2017: € 2.129 billion). As a percentage of sales, other operating expenses were up 0.3 percentage points to 37.8% (2017: 37.5%). This increase was driven by significantly higher marketing expenditure, which grew 7% in the quarter, reflecting overproportionate investments into the company's brands and the sell-through of its products. As a percentage of sales, marketing expenditure increased 0.4 percentage points to 12.2% (2017: 11.7%). In addition, operating overhead costs increased 3% as the company continues to invest into further improving the scalability of its business. As a percentage of sales, however, operating overheads declined 0.2 percentage points to 25.6% (2017: 25.8%).

Operating margin increases 1.3 percentage points to 15.3%

The company's operating profit increased 13% to a level of € 901 million (2017: € 795 million) resulting in an operating margin improvement of 1.3 percentage points to a level of 15.3% (2017: 14.0%). Net income from continuing operations was up 19% to € 656 million (2017: € 549 million). Consequently, basic earnings per share from continuing operations reached € 3.26, an increase of 21% year-over-year (2017: € 2.70). The average number of shares used in the calculation of EPS declined to 200,653,842 as a result of the company's share buyback program, which was partly offset by share conversions in relation to the convertible bond.

adidas with strong top- and bottom-line growth in the first nine months of 2018

In the first nine months of 2018, revenues increased 9% on a currency-neutral basis. In euro terms, revenues grew 3% to € 16.682 billion (2017: € 16.162 billion). From a brand perspective, currency-neutral revenues for brand adidas grew 11%, while Reebok revenues



declined 4%. The gross margin improved 1.7 percentage points to 51.7% (2017: 50.1%), reflecting the positive effects from an improved pricing and channel mix, which more than offset negative currency effects. Royalty and commission income increased to € 96 million (2017: € 86 million) while other operating income rose to € 165 million (2017: € 85 million) due to the release of prior-year operational provisions and litigation gains during the first half of the year. Other operating expenses were up 5% to € 6.652 billion (2017: € 6.323 billion). This increase was mainly driven by higher marketing expenditures, which increased 11%. The company's operating profit grew 16% to € 2.239 billion (2017: € 1.938 billion), representing an operating margin of 13.4% (2017: 12.0%), an increase of 1.4 percentage points compared to the prior year. Net income from continuing operations grew 19% to € 1.616 billion (2017: € 1.358 billion), resulting in a 19% increase in basic earnings per share from continuing operations to € 7.97 (2017: € 6.71).

Average operating working capital as a percentage of sales decreases

Inventories declined 7% to € 3.216 billion (2017: € 3.441 billion). On a currency-neutral basis, inventories decreased 4%. Operating working capital decreased 4% to € 4.324 billion (2017: € 4.502 billion) at the end of September 2018. On a currency-neutral basis, operating working capital remained at prior year level. Average operating working capital as a percentage of sales decreased 0.6 percentage points to 19.7% (2017: 20.3%), reflecting the strong top-line development during the last twelve months as well as the company's continued focus on tight working capital management.

Net cash position of € 535 million

Net cash at September 30, 2018 amounted to € 535 million, representing an improvement of € 880 million compared to net borrowings of € 345 million in the prior year. This development was driven by a decrease in short-term borrowings as well as an increase in the company's cash position, mainly related to the strong generation of cash from operating activities.

adidas increases outlook for full year 2018

Due to the strong financial performance in the first nine months of 2018, adidas has increased its profitability outlook for the year and specified the targeted range for its top-line growth. The company now projects currency-neutral revenues in 2018 to grow between 8% and 9%, at the lower end of the communicated range (previously: around 10%), due to lower-than-initially-expected growth in Western Europe. At the same time, adidas now forecasts net income from continuing operations to reach between € 1.660 billion and € 1.720 billion, reflecting an increase of between 16% and 20% compared to the prior-year level of € 1.430 billion (previously: increase of between 13% and 17% to between € 1.615 billion and € 1.675 billion). The company's gross margin is now projected to increase up to 1.0 percentage points to a level of up to 51.4% (previously: to increase up to 0.3 percentage points to up to



50.7%). Gross margin will benefit from the positive effects of a more favorable pricing, channel and regional mix. These improvements will be partly offset by the negative impact from unfavorable currency movements. The operating margin is expected to improve by around 1.0 percentage points to a level around 10.8% (previously: to increase between 0.5 and 0.7 percentage points to between 10.3% and 10.5%). Basic EPS from continuing operations is forecast to increase at a rate between 15% and 19% (previously: increase of between 12% and 16%) compared to the prior-year level of € 7.05, excluding the negative one-time tax impact in 2017, not taking into account any decrease in the number of shares outstanding due to the company's share buyback program.

Contacts:

Media Relations

Jan Runau
Chief Corporate Communication Officer
Tel.: +49 (0) 9132 84-3830

Claudia Lange
Senior Director Media Relations
Tel.: +49 (0) 9132 84-2338

Investor Relations

Sebastian Steffen
Senior Vice President Investor Relations
Tel.: +49 (0) 9132 84-4401

Adrian Rott
Director Investor Relations
Tel.: +49 (0) 9132 84-74843

For more information, please visit www.adidas-Group.com



adidas AG Consolidated Income Statement (IFRS)

€ in millions	Third quarter 2018	Third quarter 2017	Change
Net sales	5,873	5,677	3.5 %
Cost of sales	2,829	2,814	0.5 %
Gross profit	3,044	2,864	6.3 %
<i>(% of net sales)</i>	51.8%	50.4%	1.4 pp
Royalty and commission income	37	29	30.5 %
Other operating income	39	33	18.3 %
Other operating expenses	2,220	2,129	4.3 %
<i>(% of net sales)</i>	37.8%	37.5%	0.3 pp
Operating profit	901	795	13.2 %
<i>(% of net sales)</i>	15.3%	14.0%	1.3 pp
Financial income	13	7	93.2 %
Financial expenses	7	35	(80.3%)
Income before taxes	907	767	18.2 %
<i>(% of net sales)</i>	15.4%	13.5%	1.9 pp
Income taxes	251	219	14.9 %
<i>(% of income before taxes)</i>	27.7%	28.5%	(0.8pp)
Net income from continuing operations	656	549	19.5 %
<i>(% of net sales)</i>	11.2%	9.7%	1.5 pp
Gains/(losses) from discontinued operations, net of tax	3	(22)	n.a.
Net income	659	527	25.1 %
<i>(% of net sales)</i>	11.2%	9.3%	1.9 pp
Net income attributable to shareholders	658	526	25.1 %
<i>(% of net sales)</i>	11.2%	9.3%	1.9 pp
Net income attributable to non-controlling interests	1	1	27.2 %
Basic earnings per share from continuing operations (in €)	3.26	2.70	20.7 %
Diluted earnings per share from continuing operations (in €)	3.26	2.68	21.4 %
Basic earnings per share from continuing and discontinued operations (in €)	3.28	2.59	26.4 %
Diluted earnings per share from continuing and discontinued operations (in €)	3.27	2.57	27.1 %

Net Sales

€ in millions	Third quarter 2018	Third quarter 2017	Change	Change (currency-neutral)
Western Europe	1,645	1,671	(1.5%)	(1.3%)
North America	1,269	1,099	15.5 %	16.5 %
Asia-Pacific	1,894	1,664	13.8 %	15.2 %
Latin America	340	502	(32.2%)	(0.4%)
Emerging Markets	329	376	(12.6%)	(2.4%)
Russia/CIS	166	173	(4.3%)	6.5 %
Other Businesses	230	192	19.8 %	20.0 %
adidas brand	5,343	5,091	4.9 %	9.8 %
Reebok brand	436	485	(10.1%)	(4.7%)

Rounding differences may arise.



adidas AG Consolidated Income Statement (IFRS)

€ in millions	Nine months 2018	Nine months 2017	Change
Net sales	16,682	16,162	3.2%
Cost of sales	8,051	8,071	(0.3%)
Gross profit	8,631	8,090	6.7%
<i>(% of net sales)</i>	51.7%	50.1%	1.7pp
Royalty and commission income	96	86	11.3%
Other operating income	165	85	93.9%
Other operating expenses	6,652	6,323	5.2%
<i>(% of net sales)</i>	39.9%	39.1%	0.8pp
Operating profit	2,239	1,938	15.5%
<i>(% of net sales)</i>	13.4%	12.0%	1.4pp
Financial income	35	35	(0.5%)
Financial expenses	30	75	(59.5%)
Income before taxes	2,244	1,899	18.2%
<i>(% of net sales)</i>	13.5%	11.7%	1.7pp
Income taxes	628	541	16.1%
<i>(% of income before taxes)</i>	28.0%	28.5%	(0.5pp)
Net income from continuing operations	1,616	1,358	19.0%
<i>(% of net sales)</i>	9.7%	8.4%	1.3pp
Losses from discontinued operations, net of tax	19	217	(91.1%)
Net income	1,597	1,141	40.0%
<i>(% of net sales)</i>	9.6%	7.1%	2.5pp
Net income attributable to shareholders	1,594	1,139	40.0%
<i>(% of net sales)</i>	9.6%	7.0%	2.5pp
Net income attributable to non-controlling interests	3	2	34.9%
Basic earnings per share from continuing operations (in €)	7.97	6.71	18.8%
Diluted earnings per share from continuing operations (in €)	7.95	6.65	19.7%
Basic earnings per share from continuing and discontinued operations (in €)	7.87	5.63	39.7%
Diluted earnings per share from continuing and discontinued operations (in €)	7.86	5.58	40.7%

Net Sales

€ in millions	Nine months 2018	Nine months 2017	Change	Change (currency-neutral)
Western Europe	4,668	4,640	0.6%	1.1%
North America	3,392	3,100	9.4%	17.6%
Asia-Pacific	5,476	4,904	11.7%	16.3%
Latin America	1,187	1,397	(15.0%)	8.5%
Emerging Markets	888	1,020	(12.9%)	(2.4%)
Russia/CIS	463	514	(10.0%)	1.9%
Other Businesses	608	587	3.7%	7.2%
adidas brand	15,115	14,431	4.7%	11.0%
Reebok brand	1,264	1,409	(10.3%)	(3.6%)

Rounding differences may arise.



adidas AG Consolidated Statement of Financial Position (IFRS)

€ in millions	September 30, 2018	September 30, 2017 ^{1,2}	Change in %	December 31, 2017 ^{1,2}	January 1, 2017 ^{1,2}
Cash and cash equivalents	2,209	1,343	64.5	1,598	1,510
Short-term financial assets	5	5	(1.8)	5	5
Accounts receivable	3,037	2,808	8.2	2,315	2,200
Other current financial assets	530	414	27.9	393	729
Inventories	3,216	3,441	(6.5)	3,692	3,763
Income tax receivables	57	108	(46.8)	71	98
Other current assets	762	562	35.5	498	580
Assets classified as held for sale	-	376	n.a	72	-
Total current assets	9,817	9,057	8.4	8,645	8,886
Property, plant and equipment	2,115	1,883	12.3	2,000	1,915
Goodwill	1,239	1,228	0.9	1,220	1,412
Trademarks	834	839	(0.5)	806	1,108
Other intangible assets	171	132	29.4	154	167
Long-term financial assets	278	220	26.6	236	194
Other non-current financial assets	323	160	101.7	219	96
Deferred tax assets	656	719	(8.7)	630	732
Other non-current assets	107	122	(11.8)	108	94
Total non-current assets	5,725	5,304	7.9	5,374	5,718
Total assets	15,541	14,361	8.2	14,019	14,604
Short-term borrowings	62	711	(91.3)	137	636
Accounts payable	1,929	1,747	10.4	1,975	2,496
Other current financial liabilities	187	345	(46.0)	362	201
Income taxes	547	529	3.5	424	402
Other current provisions	1,107	593	86.6	741	573
Current accrued liabilities	2,201	2,030	8.4	2,180	2,023
Other current liabilities	488	445	9.5	473	434
Liabilities classified as held for sale	-	152	n.a	-	-
Total current liabilities	6,521	6,552	(0.5)	6,291	6,765
Long-term borrowings	1,617	983	64.5	983	982
Other non-current financial liabilities	129	19	569.4	22	22
Pensions and similar obligations	295	333	(11.3)	298	355
Deferred tax liabilities	285	242	18.1	190	289
Other non-current provisions	123	46	166.4	80	44
Non-current accrued liabilities	15	109	(86.1)	85	120
Other non-current liabilities	66	46	43.2	53	46
Total non-current liabilities	2,530	1,778	42.3	1,711	1,859
Share capital	200	203	(1.2)	204	201
Reserves	117	14	759.0	(29)	743
Retained earnings	6,185	5,829	6.1	5,858	5,053
Shareholders' equity	6,502	6,046	7.5	6,032	5,997
Non-controlling interests	(12)	(15)	24.1	(15)	(17)
Total equity	6,490	6,030	7.6	6,017	5,980
Total liabilities and equity	15,541	14,361	8.2	14,019	14,604
Additional balance sheet information					
Operating working capital	4,324	4,502	(4.0)	4,033	3,468
Working capital	3,296	2,505	31.6	2,354	2,121
Net Cash/(Net borrowings)	535	(345)	n.a	484	(103)
Financial leverage	(8.2%)	5.7%	(13.9pp)	(8.0%)	1.7%

¹ Restated according to IAS 8, see Note 03 in the First Half Year 2018 Report.

² Restated according to IFRS 9 / cost of hedging, see Note 01, 02 and 03 in the First Half Year 2018 Report.

Rounding differences may arise.