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adidas records successful start into 2019 Full-year outlook confirmed

Major developments in Q1 2019:

- **Revenues grow 4% currency-neutral and 6% in euro terms**
- **Gross margin increases 2.5pp to 53.6%**
- **Operating margin improves 1.4pp to 14.9%**
- **Net income from continuing operations grows 16%**
- **Basic EPS from continuing operations rises 19%**

“We had a successful start to the year, delivering double-digit sales increases in our strategic growth areas Greater China and e-commerce as well as another strong profitability improvement,” said adidas CEO Kasper Rorsted. “We confirm our full-year outlook and remain confident about the top-line acceleration in the second half of the year. 2019 will be an important milestone toward achieving our 2020 targets.”

Currency-neutral revenues increase 4% in Q1 2019

In the first quarter, currency-neutral revenues grew 4%. This development was driven by 5% growth at brand adidas, reflecting increases in both Sport Inspired and Sport Performance. The latter was driven by high-single-digit growth in the training and running categories, partially offset by tough comparisons in football due to the non-recurrence of last year’s World Cup related revenues. Currency-neutral Reebok sales were down 6%, despite growth in Classics. From a channel perspective, the company’s top-line increase was largely driven by double-digit improvements in direct-to-consumer revenues with particularly strong support from e-commerce, where sales grew 40% in the quarter. In euro terms, the company’s revenues grew 6% in the first quarter to € 5.883 billion (2018: € 5.548 billion).

Growth in most market segments

From a market segment perspective, the top-line expansion in the first quarter was driven by sales increases in most market segments: The combined currency-neutral sales of the adidas and Reebok brands expanded at double-digit rates in Russia/CIS (+22%), Asia-Pacific (+12%) – driven by overproportionate growth in Greater China (+16%) – and Emerging Markets (+10%). While revenues in North America increased 3% driven by a 5% increase at brand adidas, sales in Latin America were down 3%. Revenues in Europe, in line with expectations, also declined 3% during the quarter.



Operating margin improves 1.4 percentage points to 14.9%

The company's gross margin increased 2.5 percentage points to 53.6% (2018: 51.1%). This expansion was driven by lower sourcing costs, favorable currency developments as well as a better product and channel mix. Other operating expenses were up 9% to € 2.317 billion (2018: € 2.127 billion). As a percentage of sales, other operating expenses increased 1.0 percentage points to 39.4% (2018: 38.3%). Marketing and point-of-sale expenses remained stable at € 703 million (2018: € 706 million), as the company remains committed to investing into its brands and the sell-through of its products. As a percentage of sales, marketing and point-of-sale expenses were down 0.8 percentage points to 12.0% (2018: 12.7%). Operating overhead expenses increased 14% to € 1.614 billion (2018: € 1.422 billion), due to further investments into the company's scalability as well as higher costs related to the strong growth in the company's direct-to-consumer business. As a percentage of sales, operating overhead expenses increased 1.8 percentage points to 27.4% (2018: 25.6%). The company's operating profit grew 17% to a level of € 875 million (2018: € 746 million), representing an operating margin increase of 1.4 percentage points to 14.9% (2018: 13.4%). This development was mainly driven by the gross margin expansion, which more than offset the investment-led increase in other operating expenses.

Net income from continuing operations grows 16%

The company's net income from continuing operations increased 16% to € 631 million (2018: € 542 million). This includes a negative impact from the adoption of IFRS 16 of € 7 million, reducing year-over-year net income growth by approximately 2 percentage points. Basic EPS from continuing operations reached € 3.17 including the IFRS impact, an increase of 19% year-over-year (2018: € 2.65).

Average operating working capital as a percentage of sales decreases

Inventories increased 2% to € 3.285 billion (2018: € 3.224 billion). On a currency-neutral basis, inventories were also up 2%. Operating working capital decreased 4% to € 4.309 billion (2018: € 4.488 billion). On a currency-neutral basis, operating working capital was down 5%. Average operating working capital as a percentage of sales decreased 1.7 percentage points to 18.6% (2018: 20.3%), reflecting a double-digit increase in payables. This development was a direct result of the adidas non-trade procurement initiative, which has led to improved payment terms with the company's vendors.

Net cash position of € 908 million

Net cash at March 31, 2019 amounted to € 908 million (March 31, 2018: net cash of € 371 million), representing a year-over-year increase of € 537 million. This development was driven by the increase in cash generated from operating activities, partly offset by the



utilization of cash for the purchase of fixed assets, the dividend payout as well as the repurchase of adidas AG shares.

adidas confirms outlook for FY 2019

For 2019, the company continues to expect sales to increase at a rate of between 5% and 8% on a currency-neutral basis. As announced in March, adidas is experiencing a strong increase in demand for mid-priced apparel, which the company is not able to immediately cover in full due to supply chain shortages. Consequently, adidas continues to expect sales growth of between 3% and 4% in the first half of 2019, followed by a sequential acceleration during the second half of the year. The company's gross margin is forecast to increase to a level of around 52.0% (2018: 51.8%). The operating margin is expected to increase between 0.5 percentage points and 0.7 percentage points to a level between 11.3% and 11.5% (2018: 10.8%). This, together with continued top-line growth, is expected to once again drive a double-digit-rate improvement of the company's bottom line: Net income from continuing operations is projected to increase to a level between € 1.880 billion and € 1.950 billion, reflecting an increase of between 10% and 14% compared to the prior year level of € 1.709 billion.¹

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¹ Excluding the impact from the application of the new reporting standard IFRS 16. Based on lease contracts as of January 1, 2019, the change in recognition of lease obligations under the new reporting standard is projected to have a negative impact of around € 35 million on the company's net income from continuing operations. Including this accounting effect, net income from continuing operations is currently expected to increase to a level between € 1.845 billion and € 1.915 billion. This equals a year-on-year increase of between 8% and 12% compared to the prior year level of € 1.709 billion.



adidas AG Condensed Consolidated Income Statement (IFRS)¹

€ in millions	Quarter ending Mar. 31, 2019	Quarter ending Mar. 31, 2018	Change
Net sales	5,883	5,548	6.1%
Cost of sales	2,732	2,713	0.7%
Gross profit	3,151	2,835	11.2%
<i>[% of net sales]</i>	53.6%	51.1%	2.5pp
Royalty and commission income	35	26	30.9%
Other operating income	6	12	(48.0%)
Other operating expenses	2,317	2,127	8.9%
<i>[% of net sales]</i>	39.4%	38.3%	1.0pp
Marketing and point-of-sale expenses	703	706	(0.3%)
<i>[% of net sales]</i>	12.0%	12.7%	(0.8pp)
Operating overhead expenses ²	1,614	1,422	13.5%
<i>[% of net sales]</i>	27.4%	25.6%	1.8pp
Operating profit	875	746	17.3%
<i>[% of net sales]</i>	14.9%	13.4%	1.4pp
Financial income	8	19	(56.3%)
Financial expenses	35	16	117.4%
Income before taxes	848	749	13.2%
<i>[% of net sales]</i>	14.4%	13.5%	0.9pp
Income taxes	217	208	4.6%
<i>[% of income before taxes]</i>	25.6%	27.7%	(2.1pp)
Net income from continuing operations	631	542	16.5%
<i>[% of net sales]</i>	10.7%	9.8%	1.0pp
Gains/(losses) from discontinued operations, net of tax	2	(1)	n.a.
Net income	633	540	17.1%
<i>[% of net sales]</i>	10.8%	9.7%	1.0pp
Net income attributable to shareholders	632	540	17.1%
<i>[% of net sales]</i>	10.7%	9.7%	1.0pp
Net income attributable to non-controlling interests	1	1	17.6%
Basic earnings per share from continuing operations (in €)	3.17	2.65	19.5%
Diluted earnings per share from continuing operations (in €)	3.17	2.65	19.7%
Basic earnings per share from continuing and discontinued operations (in €)	3.18	2.65	20.1%
Diluted earnings per share from continuing and discontinued operations (in €)	3.18	2.64	20.3%

Net Sales

€ in millions	Quarter ending Mar. 31, 2019	Quarter ending Mar. 31, 2018	Change	Change (currency-neutral)
Europe	1,551	1,603	(3.3%)	(3.2%)
North America	1,157	1,040	11.2%	3.3%
Asia-Pacific	2,139	1,856	15.2%	11.7%
Russia/CIS	136	119	14.5%	21.6%
Latin America	376	430	(12.7%)	(3.4%)
Emerging Markets	330	308	7.0%	10.3%
Other Businesses	195	190	2.7%	(0.3%)
adidas	5,343	5,000	6.8%	5.3%
Reebok	420	440	(4.7%)	(5.7%)

¹ First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

² 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.



adidas AG Consolidated Statement of Financial Position (IFRS)¹

€ in millions	March 31, 2019	March 31, 2018 ²	Change in %	December 31, 2018
Cash and cash equivalents	2,584	1,575	64.1	2,629
Short-term financial assets	5	5	1.8	6
Accounts receivable	3,044	2,837	7.3	2,418
Other current financial assets	574	375	53.2	542
Inventories	3,285	3,224	1.9	3,445
Income tax receivables	51	59	(14.9)	48
Other current assets	805	763	5.5	725
Total current assets	10,349	8,839	17.1	9,813
Property, plant and equipment ³	5,147	1,967	161.7	2,237
Goodwill	1,258	1,206	4.3	1,245
Trademarks	859	785	9.5	844
Other intangible assets	205	155	32.1	196
Long-term financial assets	327	279	17.1	276
Other non-current financial assets	316	240	31.5	256
Deferred tax assets	718	737	(2.6)	651
Other non-current assets	90	109	(17.8)	94
Total non-current assets	8,919	5,478	62.8	5,799
Total assets	19,268	14,317	34.6	15,612
Short-term borrowings	76	226	(66.5)	66
Accounts payable	2,021	1,573	28.5	2,300
Other current financial liabilities ³	774	396	95.4	186
Income taxes	414	547	(24.4)	268
Other current provisions	1,272	988	28.8	1,232
Current accrued liabilities	2,293	1,929	18.9	2,305
Other current liabilities	569	554	2.6	477
Total current liabilities	7,419	6,213	19.4	6,834
Long-term borrowings	1,606	984	63.3	1,609
Other non-current financial liabilities ³	2,612	25	10,381.5	103
Pensions and similar obligations	253	297	(14.7)	246
Deferred tax liabilities	261	222	17.3	241
Other non-current provisions	167	91	84.6	128
Non-current accrued liabilities	20	36	(42.7)	19
Other non-current liabilities	10	56	(81.2)	68
Total non-current liabilities	4,930	1,710	188.4	2,414
Share capital	198	204	(2.6)	199
Reserves	206	(143)	n.a.	123
Retained earnings	6,527	6,346	2.8	6,054
Shareholders' equity	6,931	6,407	8.2	6,377
Non-controlling interests	(12)	(13)	9.6	(13)
Total equity	6,919	6,394	8.2	6,364
Total liabilities and equity	19,268	14,317	34.6	15,612
Additional balance sheet information				
Operating working capital	4,309	4,488	(4.0)	3,563
Working capital	2,930	2,626	11.6	2,979
Net cash	908	371	145.0	959
Financial leverage	(13.1%)	(5.8%)	(7.3pp)	(15.0%)

¹ First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

² Adjusted according to IAS 8, see Note 03 in the Annual Report 2018.

³ 2019 includes balances of right-of-use assets / lease liabilities related to IFRS 16 implementation, each in the amount of € 3 billion.

Rounding differences may arise.