adidas GROUP

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AD-HOC: adidas AG updates financial outlook following recent developments in Russia/CIS and continued weakness in the golf market, and announces strategic measures to secure and drive growth

Herzogenaurach – Following a meeting of the Executive Board of adidas AG, the Board announced important strategic decisions that have been taken to secure and drive growth and profitability as well as addressing recent developments. As these decisions will impact the Group's financial results, Management is also updating its financial outlook. Management now expects a mid- to high-single-digit currency-neutral sales increase for the full year 2014 and net income attributable to shareholders to be at a level of around € 650 million. In addition, Management postpones the delivery of its Route 2015 targets.

For the second quarter, the Group's top-line momentum materially improved as expected. Sales increased 10% on a currency-neutral basis, driven by 14% growth at adidas and 9% growth at Reebok, while sales at TaylorMade-adidas Golf declined 18%. Currency effects continued to play a significantly negative role, impacting top-line results by over 7 percentage points in the quarter. As a result, sales in euro terms increased 2% to € 3.465 billion. Operating profit in the second quarter was € 220 million. Net income attributable to shareholders for the quarter was € 144 million. Currency translation, less favourable hedging rates, higher marketing spend for the 2014 FIFA World Cup™ as well as a significantly lower contribution from TaylorMade-adidas Golf offset the otherwise strong underlying growth from adidas and Reebok in most major categories and markets.

Taking into account the strong top-line improvements at brand adidas and Reebok as well as recent developments in Russia/CIS and in the golf market, the following strategic decisions have been taken, which will impact the Group's financial development in the second half of 2014 and in 2015:

- Firstly, poor retail sentiment and the slow liquidation of old inventory in the golf category across the globe will lead to a significantly more challenging top-line and margin development for TaylorMade-adidas Golf than originally expected in the second half of 2014. To ensure the successful execution of our strategy to drive long-term margin improvements in the golf category, we will take further measures to reduce inventory in the marketplace in the second half of 2014. In addition, we will also begin a restructuring programme at TaylorMade-adidas Golf to align the organisation's overhead to match lower expectations for the golf industry's development.

- Secondly, the recent trend change in the Russian rouble as well as increasing risks to consumer sentiment and consumer spending from current tensions in the region point to higher risks to the short-term profitability contribution from Russia/CIS. As a result, Management has decided to significantly reduce its store opening plan in the market for 2014 and 2015, and to further increase the number of store closures. These steps are aimed to reduce risk and protect profit as well as to drive a faster implementation of new inventory management principles for that market. Nevertheless, Management remains very encouraged by increasing brand momentum for both adidas and Reebok as a result of local marketing investments as well as improving store operations.

- Thirdly, following the strong performance at the 2014 FIFA World Cup™, and improving momentum at brand adidas and Reebok, Management has decided to step up marketing and point-of-sale investments over the next 18 months to secure and drive faster growth rates and market share gains, particularly in the developed markets such as North America and Western Europe. This is underpinned by a strong product pipeline in key performance categories as we further leverage our award-winning Boost™ technology as well as new product and collaboration initiatives in lifestyle.

- Finally, to drive faster decision making and more effective and efficient consumer-focused strategies and execution in the marketplace, Management has completed an in-depth review of the Global Brands and Global Sales structures under the direction of recently appointed Executive Board members Eric Liedtke and Roland Auschel. This new organisational structure will take effect on August 1, 2014.

Taking these developments and initiatives into account, Management now expects a mid- to high-single-digit currency-neutral sales increase (previously: high-single-digit increase) for the full year 2014 and net income attributable to shareholders to be at a level of around € 650 million (previously: € 830 million to € 930 million). In addition, given that there has been little relief in the currency markets, the significantly lower contribution projected from TaylorMade-adidas Golf as well as higher investments in marketing, the Group's Route 2015 targets are no longer achievable in the timeframe. This will be discussed in further detail as part of the adidas Group's half year financial results on August 7, 2014.

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