adidas-Salomon

Reebok Transaction and
First Half Year Results 2005 Financial Results Presentation
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Herbert Hainer, Robin Stalker

<u>Herbert Hainer, CEO and Chairman of adidas-Salomon</u>

Good morning, ladies and gentlemen.

adidas has always been a performance brand – that is our heritage.

Today – with the announcement of the Reebok acquisition -- we've made sure that our performance in the future will be even more exciting and successful than it has been so far. And in looking forward, I am excited to welcome our new Reebok colleagues.

With Reebok, adidas-Salomon acquires a powerful and complementary portfolio of brands. Together, we will be even faster, more creative, and better able to provide more choices to satisfy consumer needs.

I would now like to introduce Paul Fireman – Reebok's CEO. He is in the U.S. so we've patched him in via telephone. Good morning Paul!

We have a lot to cover today. I am going to give you a picture of the new adidas Group's strengths, highlight Reebok's position, and then talk about how we intend to create value going forward.

Robin will then walk you through the financial aspects of the transaction.

adidas of course has been a powerful brand for a long time. But our ambitions were always to expand our brand and product appeal to consumers on a world stage. When we looked at how best to achieve this, combining the strengths of adidas and Reebok was clearly our first choice.

The acquisition of Reebok is a significant step forward in the execution of our Group strategy. With aggregate pro forma sales for 2004 of 8.9 billion euro, we significantly strengthen our global platform.

Furthermore, we achieve a stronger and more balanced sales profile across regions, with 46% in Europe, 35% in North America, and the rest predominantly in Asia.

In particular, North America is one example where I know that together we can expand and expedite our success.

We see a lot of benefits in combining these two powerful companies. They both have strong identities and heritage, yet they complement each other very well.

adidas is all about performance. With our roots in European soccer, our identity comes directly from the sporting field. We serve athletes who are breaking barriers, taking risks, and striving to achieve things that have never been done before. "Impossible is Nothing" tells the adidas story.

Reebok's brand identity is just as competitive, but with a clear focus on American sports. As an aspirational, global sports performance and lifestyle brand, Reebok's mission is to enroll global youth through sports, music, and technology. Individual style is brought to the front. "I Am What I Am" defines Reebok's identity.

The key to this winning combination is that each of the adidas and Reebok brands says something special to distinct consumer groups. And we have no intention of changing this.

Together, we can benefit from the know-how and relationships that these two successful brands have built with our core customers.

Together, we will be able to reach out to more consumers and product segments.
This slide brings home the breadth and depth of our combined product offerings.

Reebok adds leading positions in important team sports like baseball, American football, basketball and hockey. adidas's proven strengths are mainly in soccer and in individual sports such as running, tennis, and golf where Reebok's presence is less defined.

With this acquisition our offerings clearly span the full spectrum of sports segments.   Consumers will now be able to stay within our brands in selecting products that answer all of their needs.   We are clearly covering all parts of the playing field.

It is hard to conceive of a more spectacular grouping of sporting leagues, teams, athletes and events than you see here.

In every month, on every continent, in every country our products will be showcased. We have leading athletes and teams in the most popular sports – David Beckham, Tracy McGrady, Yao Ming, Real Madrid, Liverpool, Notre Dame – and our presence within the top sport leagues is equally impressive – be it soccer, baseball, American football or hockey.

Add the Olympics and the soccer World Cup to all this and you see that this line-up could not be replicated by any single company today.

We will be offering $59.00 in cash for every Reebok share, for a total transaction value of euro 3,114 million.

We are confident that this transaction will add value for consumer and shareholders. We have identified significant cost synergies as well as revenue opportunities stemming from an even more complete coverage of consumer groups around the globe.

Reebok shareholders' approval and the support of Reebok is fundamental to this transaction. Reebok's board has recommended this offer, and Paul and his wife Phyllis' shareholding of around 17% of the outstanding shares will be voted in favor of the deal.

Over the years, we've long admired Reebok and its management – they have built a great brand portfolio and a great business. Let's take a closer look.

Acquiring Reebok is truly a once-in-a-lifetime opportunity:
-They are well positioned in North America;
-They have a great portfolio of brands;
-They have a proven ability to capture and commercialize the latest trends;

-They have unique, long-term relationships with major sport leagues in North America;
-And last, but not least, they are delivering strong operating and financial performance.

As you can see, approximately 58% of Reebok sales are from the North American market.

North America is where you have to be – it is the largest single market in excess of $52 billion, representing over 50% of the world market. By and large, trends that develop in North America tend to have enormous impact on consumer preferences around the world. This is why adidas has been spending so much time and energy on North America over the past several years.

When I look at the relative strengths of the two companies in this region, I can see the enormous potential in working together in many areas.

All of you know Reebok, but let's take a look at the lineup in depth. At the core is the Reebok brand, which has been leading the way in redefining sport footwear and apparel categories in the past several years. Reebok is very much in touch with the latest fashion and technology trends, and their performance and classic offerings reflect this.

RBK is Reebok's more edgy, and more street-inspired brand with products appealing to younger, fashion conscious consumers. Those of you who are dressed casually today can thank Rockport in part. Rockport is an important player in the casual shoe area, uniting style and functionality. Reebok is also a leader in the hockey segment, and has a solid presence in golf apparel.

Reebok, Reebok Classic and RBK sales account for approximately 85% of the company's revenue.

The fusion of sport, entertainment, and technology is a fact in the consumer world today. Sport footwear and apparel companies have been acting on this for quite some time with products that bring together some or all of these features.

adidas is good at this. And so is Reebok. Think about aerobic exercise, a sport trend that was outside the traditional competitive sport categories and one that Reebok has nurtured and developed. Other examples are licensed apparel, which they revitalized almost single-handedly in North America over the past 5 years. Or more recently, the fusion of music and fashion into cutting-edge G-Unit shoes from 50-Cent, the S. Carter line from Jay-Z, and their recently announced cooperation with Nelly.

We think that the speed and focus with which Reebok is able to spot these trends and grab consumer interest is a particular competitive edge that we want to employ more broadly across all categories of the new adidas Group.

Keying off of its strong presence in North America, Reebok has built relationships with sports leagues that are the best in the industry. Reebok's NFL, NBA, NHL and Major League Baseball licenses have been spectacular successes – the leagues and teams themselves have become sport and style icons. Reebok's skills in managing and extending the product range in this area are factors that adidas can utilize in the future.

The quality of Reebok's skills and products, which we've just discussed, has shown through in its financial performance.

Strong top line sales momentum – 10% year-on-year sales growth – coupled with a solid improvement in the operating margin. This tight organization can deliver sales expansion and operating leverage. This fits extremely well with the adidas Group's approach.

As we talked through this acquisition with Reebok, we have identified many areas of opportunities for the two companies combined.

We've grouped these key areas on this slide: Four relate to enhancing revenues and two to improving our cost structure.

If you compare the sales and category profiles of adidas and Reebok, there are places where both companies can gain ground quickly.

We see an opportunity to capitalize on Reebok's proven North American strength to help spur adidas' progress in that market. Reebok's American market know-how – product positioning, sales and marketing, management, and more - will speed up our progress in North America.   Of course, adidas has a strong North American presence already, but with this transaction adidas' sales in North America will more than double to over $3.9 billion.

In Europe and in Asia, adidas has relatively stronger positions. We know these regions very well, and I believe we can help to drive Reebok's brands forward – in particular their licensed apparel, RBK, and performance offerings.

Two more examples:
1) In branded apparel, adidas' leadership can be put to use in helping Reebok to quickly expand its profile in this category, and,

2) In licensed apparel, Reebok's experience and skills can now be employed to get the most out of adidas' collegiate license assets.

By bringing the brands together we also improve our ability to appeal to new and exciting consumer and demographic groups.

Our broader range of products gives us additional insight into where consumers are moving – and gives us an edge in how we prioritize our efforts in getting the most out of the product offer and categories we compete in. This will enable us to move more rapidly to uncover new and unmet needs in the market and to move quickly to fill these.

I already talked about the merging of sport, music, and technology. Another area is in products for women athletes, where adidas has begun to increase our focus, and where Reebok is already very strong.

It is important that I repeat that each of these brands will retain their own identity.

adidas is a technology-driven company. We are constantly innovating – adidas_1, ClimaCool, a cubed, just to mention a few. Reebok as well has delivered its own impressive innovations such as The Pump and DMX.

Together the two companies will be investing more than 130 million euros per year in R&D. With this combined expertise spread onto a broader and deeper product portfolio, we can continually roll-out products that improve performance, and that are exciting and imaginative. Those are values that can strengthen all of our brands going forward.

Whether it is the Olympics or the NBA or the World Cup – managing events, team, and license assets takes skill and imagination. adidas is particularly strong in creating excitement around global sporting events like the European soccer championships – Reebok, on the other hand is stronger on team and league assets in North America. Combined, Reebok and adidas have deep knowledge of what it takes to make these assets work best. By exchanging ideas and sharing skills, we can make these assets produce even greater value.

Both companies have complementary know-how and understanding of the different retail channels around the world.

By sharing this know-how and best practice the new group will be able to support and merchandise its products more effectively across channels.

For example, Reebok will benefit from adidas' relationships with specialized sporting goods retailers, while adidas will benefit from Reebok's presence in the lifestyle and department store channel.

Both Reebok and adidas have made great strides in making their organizations work more efficiently. Both have seen improvements in margins and operating performance.

This combination allows us to exploit economies of scale and seek even more in these areas through best operating practices. The key focus areas are sales, marketing, distribution, shared services, information technology, and global operations.

Added size means that we can seize opportunities all across our infrastructure. The chart on the left outlines where these potential synergies savings are identified with roughly 40% coming from sales, marketing and distribution, 40% from shared services and it and 20% from global operations.

We expect roughly 125 million euro in annual cost savings and operating improvements. More important are the new revenue opportunities stemming from the geographic, skills, product and marketing cross strengths I've been talking about.

We have defined the structures and management roles to insure we deliver on the promise of this deal.

This is a truly unique opportunity for both Reebok and adidas.

Robin Stalker, CFO

This is a very important day in the history of both Reebok and adidas. I want to quickly run through the recent financial highlights of both companies, talk about the combined group and then conclude with some metrics and information about the proposed transaction.

Let me start by telling you a little about Reebok's recent financial performance.

Reebok delivered strong results in the Half Year ended June 30. Top line sales growth increased 10%; with gross margins moving up from 39.6% to 40.4%.

Operating profit followed, growing 9.4% to $126 million in the first half of 2005.

This transaction takes center stage today, but what is also impressive are the numbers adidas posted for the first half of 2005.

In our first half, we grew sales from continuing operations by 11% on a currency neutral basis – or 10% in euro terms sales – to 3.2 billion euro, with double-digit growth rates in all regions except Europe where sales were stable. Our gross margin increased 50 basis points to 48.5%m thanks to increased own-retail sales and improving product mix. The operating margin for the group continued to improve, moving from 9.7% to a record 11.2%, helped in part by changes to IFRS accounting rules for goodwill amortization and royalty and commission income, but also due to lower marketing expenditures and confined cost discipline. As a result, net income from continuing operations grew to 225 million euro, up 39%, and net income from continuing and discontinued operations increased 48%. Backlogs continued to accelerate, up 9% on a currency neutral basis, with growth coming from all regions. These are great numbers.

When you look at these two companies together on a pro forma aggregate basis you can see that we move right to the front of the athletic footwear and apparel categories.

-Sales for 2004 of roughly 8.9 billion euro

-Gross profit of more than 4 billion euro

-Operating profit of 820 million euro

These figures give us a lot of financing flexibility and considerable strength looking ahead.

We have spoken about the benefits we see in this transaction. The primary focus is on higher revenue opportunities: Appealing to new segments, expanded geographies, and better cross-brand coordination.

On the savings side, we expect the 125 million euro in synergies to be realized by fiscal end 2008. These will be phased in over the three years after closing with larger effect each year.

We have always given you targets and progress reports about the P&L items which are most critical to our business. We think it is important to continue to do so. In the first three years following closure of this deal, we see annual currency neutral sales growth in the mid to high single digits as an achievable goal, with gross margins of between 46% and 48%. Operating margins ought to be greater than 11% by year 3, with net income growing in the double-digit range each year.

We are paying $59.00 in cash per Reebok share, for all the outstanding shares. This represents a 34.2% premium to the closing price yesterday. The transaction value is approximately 3.1 billion euro including the assumption of net cash of 69 million euro.

Looking at the transaction value, we are paying 1 time and 11.7 times latest twelve month sales and EBITDA, respectively.

Including the expected annual cost synergies, we are buying the company at a 7.9 long-term EBITDA multiple.

The transaction will be accretive to adidas earnings in the first full year after closing, and it will generate returns in excess of our cost of capital in the third full year after closing.

Financing for the transaction will be through a combination of debt and equity with the objective of maintaining a strong investment grade profile.

We anticipate closing in the first half of 2006 after receiving the necessary regulatory approvals in the United States, the EU, and other jurisdictions and also after Reebok shareholders hold a special meeting to approve the transaction.

Herbert Hainer, CEO

This transaction changes adidas' future – we have multiplied many times the opportunities to succeed.   We expand our brand offerings, we attract new consumers, and we strengthen our position globally and in sports categories. The adidas and Reebok brands will stand on their own, but the skills and knowledge built by these organizations over the years will be available to both. I am eager to get started working together with my colleagues - existing and new – because there is much to gain and not a moment to lose.

Now we would like to take your question.