

**adidas Group Investor Day 2015
Q&A session / Part 2: North America and Western Europe
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**adidas Group participants:
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Julian Easthope – Barclays

Coming back to the question in terms of your marketing,- you basically got out of the marketing of basketball and the NFL in the US I just wondered whether you're going to change your approach to doing big marketing campaigns on things like the FIFA World Cup and the Olympics and actually go more towards the individual sports star, whether that's what you exactly said: something that's happening in the US that you'd actually roll out globally? Thanks.

Eric Liedtke

From a marketing standpoint, it goes back to that one slide I presented earlier. We have four clear priorities. The first one is to give people a reason to believe in our brand. So we have to shout loud and proud on some of the sports campaigns that we're talking about just from an advertising standpoint, and Mark talked about that from our 'Take-it' today and get people to know that we're the best sports brand in the world. We haven't really done that before. We've talked about, hey, we do sports and we do fashion. We bring it all together and you can – and that's kind of the approach we had in the past. Now, we're relentlessly building sports credentials with the sporting kit. When it comes to sponsorship, I think then we have to look at – we've always weighted the pros and the cons - to how we value each one of those things. So we don't take any decision lightly, but you have to look at how it's going to help us sell our brand, how it's going to help us focus on our key franchises we talked about, and make a decision based on that. It is that simple. That's how we got to the NBA decision. That's how we evaluate every decision.

Herbert Hainer

Exactly right. And then as I said this morning, we have analyzed what has been doing very well in our 'Route 2015' plan and what hasn't worked so far. And then I looked at the American situation and we had the NBA, which didn't pay out as we wanted to have. It has helped us to sell licensed shirts, but it hasn't helped us to sell any footwear and to get the connection to the player and to the kit. I think it's completely different to the FIFA World Cup. This is by far the biggest sport event in the world. And you have seen in 2014, on the one hand, what kind of success this has given to us in terms of exposure; but on the other hand, also the commercial success. We sold over 14 million balls and over 7 million jerseys, etc. There is an immediate return on investment, but also the exposure which we get around the world. But as Eric said, we're looking. We are putting everything on the table and looking what is working, what is the value which we get and then we decide yes or no.

NO NAME

North America's a very big priority for the Group now and for the next three years, at least with these investments going into marketing. How can the Group expect to balance the level of investment going into North America? Is it a case that you revisit this when you get to 2017? Is it the case that there is a target market share you're trying to reach overall? Is it the case that it's about a growth run rate? How do you frame that in context to the group? How much investments are you putting into North America? Thank you.

Eric Liedtke

First of all, I guess it starts from reflecting on what we've done in the past and what's been working and what hasn't been working. And one of the key things is that we haven't been investing enough in America to date. So, as we look at turning the corner, it's not a perfect science as far as when we start to see things happen. What we need to do is we need to be omnipresent as a sports brand because we know in our research today as our guide is what comes back to the consumer, that we are not up in the conversation where we'd like to be, from a brand momentum perspective in the US. So, what we do is we track brand momentum, net promoter score and purchase intent, and those are things we track on a daily or weekly, monthly basis. So, we evaluate how we're penetrating that market from a consumer standpoint because it comes down to the consumer. We compare that to sell-through and see whether when we're starting to hit the right level or not. But we don't know the right level right now. We know we need to invest more and when we start to find that level, we can start to back off, which is what our hope is in 2017/2018 in that area.

Christian Schwenkenbecher – Hauck & Aufhäuser

I do have two questions basically relating to the big industry trends or general mega trends that you outlined. The first one is on individualization, I would just be interested to what extent are you willing to give also your retail partners individualization in terms of store format. So would you be willing to give once you launch and iterate the stores, and given the Neighborhood and HomeCourt concepts also to retail partners? That would be question number one. And number two on the female values, what would you say would be your key product or concept with regard to womenswear and are you confident with the achievement that you're seeing so far bringing that sort of concept forward? Thank you.

Eric Liedtke

So the first question, I would say that we absolutely want to talk about controlled space. And it's not about owned space, it's about controlled space which means it does cross over from our own retail to franchise even to wholesale shop-in-shops. Controlled space then allows us to tell our brand story the way we want to. So we love the creativity we're bringing with the Neighborhood store, with the HomeCourt store or the NEO format or even the women's boutique in the future where we can start to have a certain footprint, and we want to bring that to life in a wholesale partner whether that would be a JD Sports or whether it would be Dick's Sporting Goods. I think we definitely want to start to drive our look and feel into those retailers more frequently than we have in the past. And that's, again, one of the reasons we put Michael Stanier and his team into the brand so that we could express that more holistically about how we not just show up from fixtures and fittings and the communications, but how the product package is going, as Roland talked about earlier.

Herbert Hainer

Just in addition to that, individualization does not mean that every retailer can have his own store and his own furniture because we want to showcase a brand in the same holistic way around the world, but we can make different formats. We can carve out the basketball corner, we can carve out the football corner, but it all has to be within the corporate identity and the design framework of our storefront.

Eric Liedtke

There needs to be clear guard rails for consistency. And now, in the women's space, I think we've got a clear focus on who we're talking about and what we're doing from a brand standpoint and how that works with the business units. I think the key will be how we can accelerate our business there. And like I said, we want to outgrow our men's business. We want to outgrow the overall business in womens. So, we definitely have room for improvement, and we are full speed ahead on making that happen organizationally in product and marketing.

Christopher Semenuk – TIAA-CREF

This is a question for Mark. You said during your presentation that there were a lot of things that the US organization hasn't done well enough, and as a consumer of adidas products in the US, it seems like it couldn't get much worse. And it leads me to think that the whole engagement, whatever Eric does at the marketing-end and then whatever effort he puts into product are for naught. If your account executives were satisfied with how you fronted your product at wholesale and retail, which I have to wonder if they have ever gone into the stores in the last couple of years. It feels like it must actually present a case of a lot of low-hanging fruit in the US and I'm wondering if you could shed some light on the level of change that you've put in place within the organization underneath you. And either in terms of account representatives that deal at the big account level or representatives that deal at the retailer level, the fundamental disregard for customer engagement in the US is nothing short of shocking.

Mark King

So, I'd say a few things. I think some of the way we show up in the US is representative of the sell-through of products. So, as products don't sell through, we lose shelf space. We end up with not desirable space. Secondly, I think about 18 months ago, we put the two sales organizations, Reebok and adidas, together, thinking that we could use one to leverage – to sell-in in a stronger way. It didn't really work very well. So, we've taken the sales force since the beginning of the year so that we have a dedicated sales force against Reebok and a dedicated sales force against the adidas brand. The third thing is I don't think we had enough money to go in because it's very, very expensive with the retail customers to really put the right facing on even just a small store. So, it was probably a little bit of lack of money. And then I do think there was just a lack of intensity around making it look as good as it could look. So, we've gone through a lot of work with Roland's team. We had a big workshop on how do we manage customers better, how do we do strategic planning better. That workshop just actually happened. Eric's team came over under Michael Stanier. We need to provide more tools to be able to go out there. But to your point, it's pretty widespread, right? So that's why we just have two important customers, that we're going to start with, the biggest sporting goods, which is Dick's, and the most important mall customer, which is Foot Locker and try to redo that. But I'd say it's a number one priority to show up better because it's not something we're proud of.

Jürgen Kolb – Kepler Cheuvreux

Two questions also from my side. First, Mark, you mentioned that, obviously, in the US, you have resilience of different sports, lacrosse, field hockey or whatever. I'm not quite sure if adidas has already a full range of products in that category, which brings us back to the fact that I think one of you mentioned that you want to reduce the number of models by 25%. Is that then again offset by going deeper into new categories like lacrosse? So do you need an extension of product ranges, first of all? And then secondly, Gil, in your presentation, I read something about productivity and profitability. I did not see anything in your presentation on that, given that you put more money into marketing, maybe extension of models. How should we think about profitability in the US? Are you willing to maybe go down in the first two years, negative territory maybe, and then have the big turnaround there? Thanks.

Mark King

I'll let Robin go with the profitability one. I have heard that one before, so I'll go with that. I would say this, one of the initiatives we have going on right now with Tim Janaway is what sports, not only in America, but in any country, authenticate the brand, because we'd like to be in every sport on the training aspect of it, what they wear when they train. But I'm not sure we're going to get into every category in terms of the equipment side of it. But I do think it's important. All these athletes run. They all wear hoodies. They all wear training gear. And so we can definitely participate that way. One of the reasons some of these big universities prefer us over some of our competitors – there's really only two that a university can deal with, the logical one and then us – because we're the only ones that have the breadth of products and the expertise to service all these athletes. So, they call it American sports and then Olympic sports. I think we definitely have to look at which ones and then really do those well, and we're in that process right now.

Herbert Hainer

Profitability, as you know, we do not yet report profitability for the individual regions, but Robin can give you definitely a little more flavor to get an idea what he's doing there.

Stephanie D'Ath – Bank of America Merrill Lynch

Coming back to the US. You said, your intention was to increase the market share from 3.5% to 15%. How long do you think that's going to take? And then your comments on Dick's rolling out 400 doors, how many are you in for the moment, and is that like an exclusive agreement, or could they do the same for competitors because obviously you need to grow the market to achieve your market share ambition.

Mark King

I think right now the major opportunity for market share, the major opportunity for growth and the major opportunity for women's and to touch the most consumers is running. We also have

incredible technology in running. I do think we have to focus more on these middle price points, \$70 to \$120, which is under way right now. Adrian Leek is doing incredible work around that space. So I expect running to really start to take off in the next years. For Dick's, it's really interesting. We've had kind of a rocky relationship with them over the years - in terms of the commercialisation of our products. Last fall, they made a major commitment to us in a few areas, one is soccer. They want us to be the dominant soccer brand in their stores. So, this fall, we'll be rolling out 400. There's about 10 just massive areas and then there is about 200 dominating areas and another 200 where we have really significant space. But we will be the major soccer brand with Dick's. And we'll launch products there and also do some core advertisement in the fall. We then asked for the authenticating sports to be represented in a much better way. So, football, baseball, basketball, softball, volleyball, those sports. So we're now looking at how to roll that out in the fall. Today, currently, we have around 100, what we call pads, where we can work with. What we would really like is to have those pads in 400 doors. And it's pure science. We have to have so much dollars per square foot sell-through, which increased significantly in the last six months. And as those ratios go up, we're going to see more. But our goal, by 2020, would be to be as many doors as our competitors, but that's a long-term commitment with them, but they're very, very committed to building that with us.

Stephanie D'Ath – Bank of America Merrill Lynch
What's the gap currently versus competitors?

Mark King

They would have 400 doors with those pads and we would have 100.

Antoine Belge – HSBC

Two questions, one on the US and one on Western Europe. In the US, in the past, it was all about Nike and you. Now, there are also other players taking market share from you, especially Under Armour. So, is it fighting against them? Is it part of a single strategy, or do you have actually different strategies, targeting market share gains from different competitors and notably Under Armour? And the second on Europe. You mentioned Western Europe as your home, and I think Nike has big targets to make it a little bit less your home. And do you expect that with the currency headwinds that now Nike is facing, that it will be more difficult for them to grow market share, or do you think that you will continue to see a lot of pressure?

Mark King

Of course, we look at who the competitors are and what they're doing, but I don't think we build a strategy around blocking them. I think we're focused right now on the US athlete, the US consumer. We've got tremendous assets. I don't think we've been very good story tellers, embellishing what we do, connecting with athletes. And I think if we do our job, market shares and growth would take care of itself. Regardless, there's always going to be competitors, and if it's not this one, it's that one. So, I think we really need to have a really, really tight focus on the consumer and the athlete, what are we going to do and execute and be consistent over the next five-year period.

Herbert Hainer

Coming to your second question on Western Europe and the foreign exchange influence, obviously, which we experienced last year, to a certain extent, the strong US dollar is now hitting Nike to a certain extent, but we don't know what they would spend and what their plans are for Europe. But we definitely can tell you what our plans are and not only in Europe but around the world. As I said this morning, this is a head-to-head race everywhere in the world outside of America where the distance is bigger, but in the rest of the world, we are all fighting or we both fight for the number one spot. Especially in the last six months, we have made extremely good progress in Western Europe. I think, in Germany, we have had the highest sales ever in our history. But Gil, you can tell a bit more about what has happened.

Gil Steyaert

Yes. The exchange rate will be what it is. I think, clearly, the starting base for us is refocusing on what matters and where it matters the most. We have clearly now aligned our organisation to brand leadership and creating a new foundation to actually be more focused and be more aggressive. Clearly, we have battlefields where they have come in more aggressively over the last years. And I've explained that in my presentation. I think, today, we have the momentum and we are taking back some momentum that we've lost, clearly. And it's not momentum which is in one product, it's momentum that we are now seeing across many markets and certainly in those key categories that matter again where we need to lead. So the battle is on, let's put it that way. Home is home and will remain home.

Antoine Belge – HSBC

Can I have a follow-up, maybe on the US because I remember five years ago when you announced the plan, I think one of the criticisms from investors about you aiming at gaining market share in the US was increasing the profitability, and I see that there are not really any sports which you are withdrawing from or scaling down. So, how can you be sure that you can

fund those categories which you are focused on without actually capitulating on one or two categories?

Herbert Hainer

When you say you don't see any sport we are scaling down, we have just taken the decision not to renew the NBA contract, as you might have heard. But you have to bear in mind, we have shown you the growth numbers today in terms of revenues. And if we spend 13% around that, then we have in absolute terms year-over-year more money, which we can reinvest into driving the desirability of the brand. And obviously, I hope it came through during the whole day that we are focused much more on what we think drives brand desirability and drives winning the hearts and minds of our consumer, and this is where we spend our money and where we focus our money.

Mark King

One of the things we've done with our go-to-market strategy across all these product categories is that we'll spend less go-to-market on some of these categories and more on running and more on soccer and more on Originals. So, we definitely have downsized the investment. Let's say I'm going to market with tennis, as an example, to really focus on the things that will drive desirability and revenue.

Eric Liedtke

It's about focusing on pure products. It's not about categories. It's about really going after these franchises. So, if we say it's a ZX FLUX or we say it's Energy Boost, or we say it's Damian Lillard's signature shoe. Those three signature franchises will be invested in. It's not about the categories they are representing or their width. It's about driving those single silhouettes I talked about earlier.

Stephan Seip – Hammer Partners

Hi. One question about Europe. You mentioned a double-digit order increase in order backlog for the current year. Can you elaborate a bit what's behind it in terms of countries? Is it kind of a rebound of the peripheral countries or what's behind that number?

Gil Steyaert

As I just mentioned, it's spread across countries, across the board, and it's positive in a sense that we anniversary a World Cup here. And as I mentioned, some of our key categories are

participating in that. We see strong business momentum in football, as well as in Originals, and some of the other categories. So, it's widespread growth at this stage.

Simon Irwin – Credit Suisse

Mark, you were quoted in the US press, that you want to go from 40 athletes being sponsored in the US to 500. You talked about, 21 draft picks you'd recently signed. Can you give us a bit more flesh as to whether this is a target or an aspiration, some idea of how much it cost? And then just a little more broadly from that, what was the thinking about deciding you needed to be big in three major sports rather than saying, well, we can perhaps get baseball on this and absolutely make sure that we know US football, for example.

Mark King

First of all, I would say it's definitely an aspiration. We don't have a piece of paper that says that many. But let's take baseball for example. I remember arguing with Eric about baseball and we have just signed probably 40 Major League Baseball players. The issue is, we now have about 60 Major League Baseball players, and there's 3,000 in the United States. So, 60 is not very many. Secondly, it's not very expensive at all in baseball. Most of it is just equipment, and most of these contracts, even if you have to pay a player is very, very small dollars. Some of the bigger players are obviously more, but we're going after count and visibility on the field of play. Football again, there's about 1,800 NFL football players. So, if we were to get to 200 over the next five years, it's still a small percentage of those. And again, most of those players are small dollars. It's equipment. It's service. It's using them in activations and things like that. So, our idea is not to sign a bunch of high-priced icons in these sports. It's when you go to games, whether it's a football, baseball or basketball game. We'd like to go from 70 NBA players to 140. Those aren't expensive players. But when you go to a game, you see adidas on the feet – on the feet of players. So, in terms of total investment, I don't exactly know what it is, but it's not as expensive as it seems.

Eric Liedtke

And, Mark, if I can add, on the right players, the creators. So, it's about getting those specific players and what they represent on the playing field. It's not just about getting every offensive lineman or just size and distance. We want to have the right guys that people will follow and aspire to be.

Simon Irwin – Credit Suisse

And then just following up, given that obviously one of your more recent large competitors came up effectively through one sport, what was the argument in your case for going to three major sports, cross running and women, etc. rather than something a bit more targeted on individual sports?

Mark King

I think it's the aspiration of our brand, which is to be the best sports brand in the world, and I don't think you can do it with one.

Eugenia Parissi – TIAA-CREF

I wanted to understand a little bit what are the biggest opportunities for driving efficiencies through your respective regional P&Ls? And maybe one more for Mark, do you think that acquiring big data companies can be disruptive?

Gil Steyaert

I mentioned obviously we've significantly changed our organisation, from a five-market organisation to one organisation. And clearly, we have seen and we've worked hard to make efficiency savings as we do that. So that is leveraging future growth into a cost base which is more effective and more efficient, point one. Point two, I mentioned one range. And as we do one range in Europe, we have decreased our range across entire Europe by a bit more than 25%. But actually we've increased the number of articles deployed locally simply because we have one range instead of five, so the overlap is much bigger. So, you understand therefore the efficiency you can drive from working capital and from warehousing capacities. So clearly making five into one creates a number of leaders of productivity for us.

Eric Liedtke

From a digital sports standpoint, I presented a little bit earlier about all the data we have and we're collecting from our wearables. But I think, more importantly, the data is important but the consumer is the one who generates the data. So it's how you get that and I think that's what we're referring to. So, it's about getting the loyalty of those consumers in those larger communities. So, we currently have 135 million. We want to deepen that relationship to get to 250 million in the next two years. And that then gives us the opportunity to harness and deepen that relationship and basically turn them into consumers of the brand, not just fans of the brand, and that goes back to the same final brand momentum, promoter score, purchase intent I spoke about earlier. We talked about acquiring different places. We're always open to acquisitions that can provide us a benefit to get more data or more communities that have access to us. We're

just taking a choice and looking at the right ones, and we're constantly fielding opportunities and looking at new opportunities to do that. It's just a matter of finding the right fit for what we're trying to achieve as well.

Sebastian Steffen

Let's see if we have a question from the webcast.

Christian Stöhr

So, on a more big-picture level, when you look at your peers in terms of marketing and brand-building processes, what have they done better than you in recent years?

Herbert Hainer

Well, I guess we have spoken already a lot about that. This is brand desirability, etc. And once again, let's put it into perspective. Yes, we have lost brand desirability in some markets in the last 12 months, but the adidas brand was still growing 11% in the last 12 months. We have seen, especially in the fourth quarter where we didn't have any related World Cup product, that we have been growing globally by another 11% and in Western Europe even 13%. So there is definitely brand momentum there, and this is continuing to grow. I think the biggest change which we have made is our consumer-led organization, and this enables us now to really focus on the consumer, and this drives consumer-centric decisions throughout the whole world. And by the way, Jürgen, when you asked me this morning what makes me confident, I forgot to mention this change in the organization, and I think you said this morning that more than a 1,000 people are sitting on different places, and we steer it from category to category and their full responsibility. And this is what we have started already nine months ago, and you see the first successes already and this is what I think brings us this strong momentum back which we are seeing at the moment.

Sebastian Steffen

So thank you very much, gentlemen. This brings us to the next coffee break. We will meet again here at 4:15 PM to hear about TaylorMade and the often talked-about presentation from Robin. So see you in a bit.