



THE SPOKEN WORD SHALL PREVAIL

**Annual General Meeting  
May 9, 2018  
Kasper Rorsted, CEO of adidas AG**

Dear Shareholders,  
Ladies and Gentlemen,

On behalf of my colleagues on the Executive Board and the entire adidas team, I would like to welcome you all to our 2018 Annual General Meeting here in Fürth. I also extend a very warm welcome to everyone following this AGM digitally via the Internet. I hope you have already done your early morning sport... Believe me, it does you good – especially when you have a long day in an indoor venue ahead of you.

**Through sport, we have the power to change lives**

Sport keeps you fit and healthy. People around the world associate sport primarily with positive emotions. Just as we do. And more especially: We firmly believe that through sport, we have the power to change lives. This core belief guides the entire way we run our company.

adidas is at home in sport. Top athletes will not settle for average. We, too, want to always deliver top performance. Every day, we work hard to create and sell the best sports and fitness products in the world, and to offer the best service and consumer experience – and to do it all in a sustainable way.

We harness the positive power of sport. Our mission is to be the best sports company in the world. We want our products to excite consumers. To inspire them to give their best, and to set new standards. Because it is not we who say whether we are the best sports company in the world. It is our consumers, our employees and, of course, you, our shareholders. If they all say we are the best, we will have achieved our mission.

And I can already say that last year we came a lot closer to achieving our mission. 2017 was a successful year for adidas.

**Agenda**

My report today consists of three parts. I would like to begin with an overview of the progress we are making in the implementation of our strategy “Creating the New”. Then I will present to you the company’s results for the 2017 financial year. To close, I would like to provide you with a brief outlook for the current year, 2018.



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### **“Creating the New” is our strategy**

Sport is our passion. And an athlete’s mindset helps you to be successful, in life and in business. We first presented our Creating the New strategy in 2015. It will be implemented in the period up until 2020.

The focus of Creating the New is our ambition to increase the desirability of our brands. Only with strong brands is it possible to grow sales and earnings sustainably. But the starting point for Creating the New is our corporate culture. It, too, is oriented towards sport. We are a team that wants to win. But what exactly makes a winning team?

### **Confidence, collaboration and creativity as the basis for everything we do**

Physical power is not enough. Athletes also need mental strength in order to be successful. We foster an athlete’s mindset within our company, with the focus on three people behaviors: confidence, collaboration and creativity.

Confidence helps athletes to quickly make the right decisions on the field. Confidence helps us to be an industry leader.

Top athletes rely on partners: coaches, team mates, fitness experts and nutritionists. We, too, are stronger together.

No great athlete simply copies their competitors’ training plans. It takes creativity to gain an edge.

### **Developing internal leaders**

Confidence, collaboration and creativity are the foundations of the Leadership Framework we launched globally last year. It defines what great leadership at adidas looks like.

In 2017, we saw three new leaders joining the Executive Board: Harm Ohlmeyer taking over as Chief Financial Officer, Karen Parkin being elevated to Board Member responsible for Human Resources, and Gil Steyaert becoming Board Member responsible for Global Operations. All three were internal promotions, a nod to our huge people potential.

To continue to excel in leadership development, we established a Core Leadership Group and an Extended Leadership Group. These two groups consist of around 150 leaders from our most important markets and functions. Their job is to make sure we implement our strategy consistently, and to promote the development of future leaders.

The focus lies in particular on the development of female talent. In this respect, we have made quite some progress in the past few years. For instance, over the last three years, we have increased female representation on the first management level below the Executive Board from 11% to 18%. Female representation on the second management level below the Executive Board increased from 26% to 29% within the same period. But we want to and must get even better in this respect.

## **Long-term executive compensation linked to share price development**

To align the interests of our senior leaders with those of our shareholders, we have linked the long-term remuneration of our executives to the development of the adidas share price. At the same time, we are presenting a new compensation system for the Executive Board to this Annual General Meeting for approval. It also brings the compensation of the Executive Board members directly into line with the interests of the shareholders, because it makes them shareholders too. The new compensation system is to apply from the 2018 financial year. In addition, under the proposal on which you can vote today, at least 80% of the variable compensation of the Executive Board is directly linked to the sales and earnings targets we communicate externally, making the compensation system a lot less complex and much more transparent.

## **Stock purchase plan makes employees shareholders**

Back in 2016, we introduced an attractive stock purchase plan for employees. We further extended this plan last year. Around 3,600 employees have participated in the plan so far. They are now adidas AG shareholders and, like you, dear shareholders, they benefit from a positive development of the adidas share.

## **Focus on implementing our strategy**

An athlete's mindset drives us to continuously raise the bar. Creating the New is the right strategy for success in our attractive industry. We are making great strides and are clearly delivering against our financial ambition. But let me add here: We were very successful in 2016 and 2017. However, we still have a long way to go until 2020. Therefore, we are also orienting ourselves towards sport in this respect. No athlete should feel like a winner at half-time already. We must continue to focus on implementing our strategy.

## **Progress on Speed, Cities, and Open Source**

Creating the New is based on three strategic choices: Speed, Cities, and Open Source. In 2017, we made considerable progress in all three areas.

Speed is a key factor for success in our business. We want to be in a position to always offer our consumers exactly the products they want to buy – whenever, wherever and however they want to buy. That means we need speed.

The net sales share of speed-enabled products increased to 28% in 2017. We are embedding speed in our global supply chain and accelerating the traditional production process. At the same time, we are exploring new, intelligent business models and technologies. Our Speedfactories, with their data-driven development process and automated production, are important future-oriented projects. Through our two Speedfactories, in Ansbach and Atlanta, we are bringing production closer to the consumer. Last year we implemented our first major Speedfactory project: the "adidas



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Made For” series of individually crafted shoes. Each pair of shoes is customized to a global key city.

There is a reason for focusing on key strategic cities: Trends are primarily born in metropolitan centers. In order to make our mark on a global scale, we need to set new trends where they are particularly impactful. For this reason, we are investing over-proportionately in our brand presence in six cities: London, Los Angeles, New York, Paris, Shanghai and Tokyo.

In these cities in particular, we want to win the consumer. We can only do this through even closer interaction with them – where they live, where they shop, and where they do sport. These cities offer us a unique platform for activating our brands. Our most successful activities in 2017 included the “Green Light Run” in Tokyo, the Parley “Run for the Oceans” in New York and the “Tango League” soccer tournaments.

We also choose these cities for the launch of global campaigns and new products. One example of this is the presentation of our Nemeziz soccer boot in London. We closely connect with our trade partners and own retail stores for these campaign and product launches. In 2017, we were able to increase market share in our key cities. Our goal is to double revenues there by the end of 2020 compared to 2015. As you can see, our goals remain ambitious in this respect, too.

We now come to the third strategic choice: No athlete can achieve success alone. They need a strong team. We, too, are inspired by the strengths of others. For us, Open Source means open collaboration with athletes, consumers and partners from the worlds of industry, sport and entertainment. As a team, we succeed in shaping the future of sport, together.

A good example of our understanding of Open Source is our collaboration with Carbon, a California-based pioneer in 4D printing. With Futurecraft 4D, we presented the world’s first sports shoe featuring a midsole crafted with light and oxygen – made possible by the Digital Light Synthesis production process developed by Carbon. Our collaboration with Carbon shows how teamwork creates ground-breaking innovations for our industry.

In addition, we exchange ideas with the world’s most creative minds, such as Alexander Wang, Kanye West and Stella McCartney. Together with them, we bring products to market that excite consumers across the globe. In some cases, consumers queue for days in order to be able to purchase these products. Our close collaboration with many of the world’s best athletes also gives us key impetus. You only have to think of athletes such as Lionel Messi or James Harden, or teams like Bayern München or Real Madrid, with whom we develop bespoke collections. All these partnerships help us drive brand desire and growth.

Ladies and gentlemen, the examples I have just given you are proof positive: Our strategy, Creating the New, is working. Speed, focus on Cities and Open Source partnerships are the foundation of our success. But as already mentioned, we must maintain our momentum.



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### **Strategy acceleration**

For this reason, in spring 2017, we launched several initiatives enabling us to further accelerate our development. Specifically, this involves the areas Portfolio, adidas North America, “One adidas” and Digital. Please allow me to explain the most important developments in this context.

### **Optimizing the portfolio**

Let’s start with Portfolio.

adidas’ competence lies in the development and marketing of sports footwear and apparel. That is what we have established a name for ourselves in. That is what we want to focus on more strongly again in the future, and therefore we have streamlined our brand portfolio.

In 2017, we divested our golf brands TaylorMade, Adams Golf and Ashworth, and also our CCM Hockey business.

At the same time, our “Muscle-Up” turnaround plan at Reebok, aimed at helping the brand gain new strength, is well underway. The goal is to significantly increase Reebok’s profitability by 2020. We want Reebok to make a sustainable positive contribution to our company’s value. The brand is well on the way to reaching this objective – thanks to various measures. For instance, we have set up new, modern headquarters for Reebok in downtown Boston. We have closed stores that were detrimental to brand value or not profitable enough. We have launched a digital initiative. And we have started to work with new partners, such as top designer Victoria Beckham. We have not reached our goal with Reebok yet. But we are confident that the measures taken in the past few months are a good foundation for our future success.

### **North America biggest sporting goods market**

Let’s now turn to the adidas brand in North America.

North America is the biggest market in the sporting goods industry. Almost 40% of sales in our industry are generated in the US. At the same time, North America is the market in which adidas has a relatively small market share compared to other key regions around the world. North America therefore offers us great growth potential. For this reason, last year, we defined North America as one of our strategic priorities and significantly increased our investments in the region. Meanwhile, we know the market well, and we have considerably expanded our infrastructure. Therefore, we believe that North America, together with Greater China, will contribute over-proportionately to our growth in the coming years. And we will continue to support this with corresponding investments.

### **Strong global company through “One adidas”**

The third initiative aimed at accelerating our growth is One adidas. One adidas encompasses numerous initiatives. They all have one objective: to position us as a strong

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global company all around the world. Therefore, we are standardizing systems and processes, reducing the number of articles and aligning our marketing activities worldwide. We are establishing global business solutions in order to become faster and make better decisions. In purchasing, we want to utilize the economies of scale of a global company to a greater extent than we have done so far. All in all, through One adidas, we are considerably simplifying our business, increasing our operational efficiency and improving our profitability.

### **Digital transformation**

Digital plays a very special role in our strategy. Our consumers are global, they are young, and they are digital. Digital is changing the way we manufacture, market and sell products. Digital is having a fundamental impact on the way we work. For this reason, we are driving the digital transformation throughout the entire organization. We are investing into our digital infrastructure, digital campaigns and, last but not least, into digital expertise and talent. In addition, we set up a leadership team for Digital last year, which also includes the CEO of our fitness app Runtastic. This team drives the digital initiatives throughout the company.

One important goal is to grow sales from our own e-commerce activities to € 4 billion by 2020. That is the reason why in 2017, among other things, we introduced new functionalities and technologies with which we are further improving online shopping. Last year, we brought our adidas shopping app to market in North America and the UK. It has also been available in Germany since March. The app has already been downloaded more than 1.7 million times. With growth of 57%, our e-commerce platform was by far the fastest-growing distribution channel in 2017.

### **Committed to sustainability**

As I mentioned at the start: Sustainability is a central topic for adidas. It is our obligation to operate responsibly. We have therefore integrated sustainability into almost all aspects of our business.

We are increasingly using Parley Ocean Plastic in the manufacture of our products – including in the running, training and football categories. In 2017, we created more than one million pairs of shoes made with Parley Ocean Plastic. The waste used was the equivalent of around 11 million plastic bottles. Our offices around the world have also been largely plastic-free since the end of 2017.

We use sustainable methods everywhere throughout our value chain. And, of course, we assume responsibility for the people who make our products. We are pleased to have been recognized again in 2017 as a leading company in sustainability in our industry's most important rankings. adidas was included in the most important sustainability index, the Dow Jones Sustainability Indices, for the 18th consecutive year. Our social supply chain program was awarded the third re-accreditation by the Fair Labor Association. What's more, our 2017 Annual Report marked the beginning of paper-free reporting for us.



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Additionally, we have fully integrated the topic of sustainability into our Annual Report. As you can see, we are also walking the talk on the topic of sustainability.

### Key financial figures 2017

We now come to the second part of my report today: our financial figures for 2017. Consistent implementation of our strategy is reflected in strong results for the past financial year:

- In 2017, we achieved record sales of 21.2 billion euros. That is an increase of 16%. Please note that all the percentage figures I give you for our sales growth are on a currency-neutral basis.
- Despite currency headwinds, our gross margin climbed 1.2 percentage points to 50.4%.
- We have significantly increased our investments into our brands. At the same time, we are focusing on strictly managing our costs. As a result, we were able to feed the gross margin improvement through to the operating margin, which also expanded by 1.2 percentage points to a level of 9.8%.
- Our net income from continuing operations, excluding the negative one-time impact of the US tax reform, grew more than twice as fast as our top line in reported terms, rising 32% to 1.4 billion euros. That, too, is a new record.

### Brand adidas records strong growth

The adidas brand grew 18% in 2017. This means adidas grew more strongly than all key competitors. We have succeeded in making adidas one of the most recognized and popular global brands. The combination of credibility in sport and attractiveness in the lifestyle area gives us a competitive advantage. It is exactly this combination that appeals to consumers.

The drivers of the positive development of the adidas brand were adidas neo, up 35%, adidas Originals, up 30%, and adidas Running, up 23%. In the football category we saw a significant increase in the fourth quarter. This is mainly due to an increase in sales of products for the 2018 World Cup. Twelve teams will compete in adidas, including the current champions, Germany.

The Women's category posted over-proportionate growth, with an increase of more than 20%. Female consumers and products for women are of crucial importance for our success. Women are active in all sports, and they often dominate social media channels and household shopping behavior. This offers tremendous growth potential.



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### **Reebok significantly improves gross margin**

The Reebok brand grew 4% in 2017. More importantly: We succeeded in significantly improving Reebok's gross margin, which was up 4 percentage points to 40.7%. This is the highest gross margin since we acquired Reebok in 2006.

Reebok is focusing fully on the fitness consumer in sports. Fitness is a growth market. More and more people want to stay fit and healthy. We therefore still see considerable potential for Reebok as a fitness brand.

### **Double-digit growth in almost all regions**

Likewise from a regional perspective, we see a positive picture. In 2017, as a company, we again grew at double-digit rates in almost all regions. The sole exception was Russia, where sales declined. As a result of the persistently challenging consumer sentiment, we closed additional stores in the region.

### **Excellent growth in North America continues**

Sales in North America grew 27% in 2017.

Brand adidas was up 35%. Reebok's sales in North America declined 15%, mainly due to the fact that we closed almost 40 Reebok stores last year alone.

Gross margin in our North America business expanded 1.8 percentage points to 39.5% in 2017. Our operating margin was up 4.7 percentage points to 10.9%.

North America remains our priority. We are very pleased with our progress in 2017. But: We are not yet where we want to be in this market. Therefore, we will continue to invest in our US business to create healthy, sustainable growth.

### **Brand popularity drives sales growth in Greater China**

Let us now turn to Asia. With a sales increase of 29% in 2017, Greater China was again our region with the highest growth rate. adidas was up 30%, Reebok grew 25%.

The gross margin in our Greater China business declined slightly, by 0.5 percentage points to 57.1%. Nevertheless, the operating margin improved 0.2 percentage points to 35.4%. This means Greater China is our most profitable market.

China is booming, and we are profiting tremendously from this. Enthusiasm for sport in China is increasing from year to year. In addition, the government is actively promoting sports. Our position in China is extremely strong. Consumers love the adidas brand and are increasingly developing interest in Reebok. Therefore, I am optimistic with regard to further development in this market.

## **Western Europe: Strong growth in a competitive market**

Sales in Western Europe grew 13% in 2017, driven by 12% growth at the adidas brand and 24% growth at Reebok.

Gross margin in our Western Europe business improved 1.1 percentage points to 45.5%. Our operating margin was up 2.1 percentage points to 20.0%.

We have leading positions in numerous markets in Western Europe, including here in Germany, our home market. However, the European market is very mature and highly competitive.

## **Herzogenaurach location**

Let us stay in Germany for a moment. I would like to say one thing: While we are a global organization, we do have a very special relationship with Germany and Herzogenaurach. It was in Herzogenaurach, almost 100 years ago, that the success story of the adidas brand began. This is where the company was officially founded in 1949. We feel closely connected with these roots. For this reason, we are currently investing a triple-digit million euro sum into the expansion of our corporate headquarters.

Next spring will see the opening of our new office building, Arena. It provides workplaces for 2,000 people. At the same time, we are completing a new event center and restaurant building. Our World of Sports campus will then cover 50 hectares, the equivalent of 70 soccer pitches. We urgently need this space to offer our employees an attractive place to work. Last year, we created 550 new jobs in Herzogenaurach. In total, we have 7,600 employees in Germany.

## **Growth in strategic areas in 2017**

To summarize development in the most important regions and in our biggest categories in 2017: We grew in most of the key product categories and markets.

We gained market share. Our success is built on a broad and very solid foundation. We achieved excellent growth rates in particular in the areas we have defined as strategic priorities:

- We grew 35% with the adidas brand in North America.
- Our sales in Greater China increased 29%.
- E-commerce was the fastest-growing distribution channel, increasing 57%.

## **Dividend proposal**

On the basis of our strong results, we are proposing to this Annual General Meeting a dividend of 2.60 euros per share. That is 60 cents or 30% more than for the 2016 financial year. With this proposal, the payout ratio is 37%. The proposal is in line with our dividend policy, where we intend to pay out between 30% and 50%.

## **Multi-year share buyback program launched**

We are convinced of the company's long-term financial strength and our strategy, Creating the New. For this reason, in March 2018, we decided to launch a multi-year share buyback program with a total volume of up to 3 billion euros. The share buyback reflects our commitment to ongoing shareholder returns and will run until May 2021 at the latest. We began to buy back shares on March 22, 2018. Since then, we have purchased around 641,000 shares to a value of around 130 million euros. By the end of the year, we will have bought back shares with a value of up to 1 billion euros. The new share buyback program is in addition to the existing dividend policy. The vast majority of the share buyback program will be financed through the company's net cash position and the expected strong operating cash flow generation. We plan to cancel the majority of the repurchased shares.

## **Positive outlook for 2018**

Let us now turn to the third and last part of my report today: our outlook for the current year. Last week, we released our results for the first quarter. They show that we are continuing to develop dynamically in 2018.

However, we do expect a certain normalization this year, following the second consecutive year of strong double-digit growth rates. We are targeting a sales increase of around 10% in 2018, which means we will continue to grow faster than the market. Our focus is on quality growth. Despite increasing investments into our brands and products, net income is forecast to grow significantly faster than sales. For the full year 2018, we are projecting net income to reach a level of more than 1.6 billion euros.

## **Profitability target for 2020 again raised**

This means we are not only continuing on track towards achieving our financial targets for 2020, we are raising the bar even higher. As announced in our presentation of the 2017 financial results, we are now targeting even higher net income growth, between 22% and 24% on average per year, for our current strategic cycle from 2015 until 2020. When we presented our strategy, back in 2015, we had originally targeted an annual growth rate of 15%. As you can see, we continue to set ourselves challenging ambitions.

Ladies and gentlemen, I hope I have been able to give you a good overview of adidas' development last year. At the same time, I hope that you share my confidence in our prospects for the future.

## **Ideally positioned for further success**

Before coming to the end of my presentation today, allow me to briefly summarize the most important points.

The sporting goods industry is an attractive growth industry.



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With our strategy Creating the New, we are ideally positioned to continue to benefit over-proportionately from this growth and to gain market share.

2017 was a successful year for adidas.

Also on behalf of my Board colleagues, I would like to take this opportunity to thank our 57,000 employees most sincerely for this. They are a strong team. Only as a team were we able to achieve the successes of the past years. I am very proud to be part of this great team. At the same time, I would like to thank the Supervisory Board for their outstanding collaboration and their trust in our work.

We are not slowing down. With the acceleration of our strategy, by the end of 2020, we will deliver even better results than planned in 2015. 2018 is an important milestone on the way. We will continue to consistently implement our strategy. That is the prerequisite for continued strong growth going forward and for a significant improvement of our profitability.

### **Through sport, we have the power to change lives**

We are convinced that, through sport, we have the power to change lives. This is the purpose that shapes our corporate culture. Like all top athletes, we want to be the best. But we are aware that we are not at the finish line yet. Therefore, I can promise you today that we will continue to work hard, and with the same passion, to create sustainable value. Value for our consumers, value for our employees and, last but not least, value for you, dear shareholders. I am looking forward to another successful financial year with you all, and I thank you most sincerely for your attention.