

## adidas with strong growth in Western markets in Q2

### Major developments in Q2 2022:

- **Currency-neutral sales up 4%, despite more than € 300 million negative impact from macroeconomic constraints**
- **Markets representing more than 85% of the business grow 14% overall**
- **Gross margin down 1.5pp to 50.3% reflecting significantly higher supply chain costs**
- **Operating profit reaches € 392 million**
- **Net income from continuing operations amounts to € 360 million**
- **FY 2022 outlook reflects double-digit growth during the second half of the year**

“Our Western markets continued to show strong momentum in the second quarter amid heightened macroeconomic uncertainty. With Asia-Pacific returning to growth, markets combined representing more than 85% of our business grew at a double-digit rate,” said adidas CEO Kasper Rorsted. “With sports back at center stage this summer, revenues in our strategic growth categories Football, Running and Outdoor all increased by double digits. However, the macroeconomic environment, particularly in China, remains challenging. The recovery in this market is – due to continued covid-19-related restrictions – slower than expected. And we have to take into account a potential slowdown in consumer spending in all other markets for the remainder of the year.”

### Currency-neutral revenues increase 4% despite macroeconomic constraints

In the second quarter, currency-neutral revenues increased 4% as adidas continued to see strong momentum in Western markets. This growth was achieved despite continued challenges on both supply and demand. Supply chain constraints as a result of last year’s lockdowns in Vietnam reduced top-line growth by around € 200 million in Q2 2022. In addition, the company’s decision to suspend its operations in Russia reduced revenues by more than € 100 million during the quarter. Continued covid-19-related lockdowns in Greater China also weighed on the top-line development in Q2. From a channel perspective, the top-line increase was to a similar extent driven by the company’s own direct-to-consumer (DTC) activities as well as increases in wholesale. Within DTC, e-commerce, which now represents more than 20% of the company’s total business, showed double-digit growth reflecting strong product sell-through. From a category perspective, revenue development was strongest in the company’s strategic growth categories Football, Running and Outdoor, which all grew at strong double-digit rates. In euro terms, revenues grew 10% to € 5.596 billion in the second quarter (2021: € 5.077 billion).



### **Strong demand in Western markets**

Revenue growth in the second quarter was driven by Western markets despite last year's lockdowns in Vietnam still reducing sales, particularly in EMEA and North America, by € 200 million in total. In addition, the top-line development in EMEA was also impacted by the loss of revenue in Russia/CIS of more than € 100 million. Nevertheless, currency-neutral sales grew 7% in the region. Revenues in North America increased 21% during the quarter driven by growth of more than 20% in both DTC and wholesale. Revenues in Latin America increased 37%, while Asia-Pacific returned to growth. Currency-neutral revenues increased 3% in this market despite still being impacted by limited tourism activity in the region. In contrast, the company continued to face a challenging market environment in Greater China, mainly related to the continued broad-based covid-19-related restrictions. As a result, currency-neutral revenues in the market declined 35% during the three-months period, in line with previous expectations. Excluding Greater China, currency-neutral revenues in the company's other markets combined grew 14% in Q2.

### **Operating profit of € 392 million reflects operating margin of 7.0%**

The company's gross margin declined 1.5 percentage points to 50.3% (2021: 51.8%). Significantly higher supply chain costs and a less favorable market mix due to the significant sales decline in Greater China weighed on the gross margin development. This could only be partly offset by a higher share of full price sales, first price increases and the benefits from currency fluctuations. Other operating expenses were up 19% to € 2.501 billion (2021: € 2.107 billion). As a percentage of sales, other operating expenses increased 3.2 percentage points to 44.7% (2021: 41.5%). Marketing and point-of-sale expenses grew 8% to € 663 million (2021: € 616 million). The company continued to prioritize investments into the launch of new products such as adidas' new Sportswear collection, the next iteration of its successful Supernova running franchise and first drops related to the Gucci collaboration as well as campaigns around major events like 'Run for the Oceans.' As a percentage of sales, marketing and point-of-sale expenses were down 0.3 percentage points to 11.8% (2021: 12.1%). Operating overhead expenses increased by 23% to a level of € 1.838 billion (2021: € 1.492 billion). This increase was driven by adidas' continuous investments into DTC, its digital capabilities and the company's logistics infrastructure as well as by unfavorable currency fluctuations. As a percentage of sales, operating overhead expenses increased 3.5 percentage points to 32.8% (2021: 29.4%). The company's operating profit reached a level of € 392 million (2021: € 543 million), resulting in an operating margin of 7.0% (2021: 10.7%).

### **Net income from continuing operations reaches € 360 million**

The company's net income from continuing operations slightly declined to € 360 million (2021: € 387 million). This result was supported by a one-time tax benefit of more than € 100 million due to the reversal of a prior year provision. Consequently, basic EPS from continuing operations reached € 1.88 (2021: € 1.93) during the quarter.



### **Currency-neutral revenues on prior year level in the first half of 2022**

In the first half of 2022, currency-neutral revenues were flat versus the prior year period. In euro terms, revenues grew 5% to € 10.897 billion in the first six months of 2022 (2021: € 10.345 billion). The company's gross margin declined 1.7 percentage points to 50.1% (2021: 51.8%) during the first half of the year. While price increases as well as positive exchange rate effects benefited the gross margin, these developments were more than offset by the less favorable market mix and significantly higher supply chain costs. Other operating expenses increased to € 4.759 billion (2021: € 4.154 billion) in the first half of the year and were up 3.5 percentage points to 43.7% (2021: 40.2%) as a percentage of sales. adidas generated an operating profit of € 828 million (2021: € 1.248 billion) during the first six months of the year, resulting in an operating margin of 7.6% (2021: 12.1%). Net income from continuing operations reached € 671 million, reflecting a decline of € 219 million compared to the prior year level (2021: € 890 million). Accordingly, basic earnings per share from continuing operations declined to € 3.47 (2021: € 4.52).

### **Average operating working capital as a percentage of sales slightly decreases**

Inventories increased 35% to € 5.483 billion (2021: € 4.054 billion) at June 30, 2022 in anticipation of strong revenue growth during the second half of the year. Longer lead times as well as the challenging market environment in Greater China also contributed to the increase. On a currency-neutral basis, inventories were up 28%. Operating working capital increased 23% to € 5.191 billion (2021: € 4.213 billion). On a currency-neutral basis, operating working capital was up 14%. Average operating working capital as a percentage of sales decreased 0.4 percentage points to 21.0% (2021: 21.4%), reflecting an overproportional increase in accounts payable due to higher sourcing volumes and product costs.

### **Adjusted net borrowings at € 5.301 billion**

Adjusted net borrowings amounted to € 5.301 billion at June 30, 2022, representing a year-over-year increase of € 2.155 billion (June 30, 2021: € 3.146 billion). This development was mainly due to the significant decrease in cash and cash equivalents.

### **FY 2022 outlook reflects double-digit growth during the second half of the year**

On July 26, adidas adjusted its guidance for FY 2022 due to the slower-than-expected recovery in Greater China since the start of the third quarter resulting from continued widespread covid-19-related restrictions. adidas now expects currency-neutral revenues for the total company to grow at a mid- to high-single-digit rate in 2022 (previously: at the lower end of the 11% to 13% range), reflecting a double-digit decline in Greater China (previously: significant decline). While so far the company did not experience a meaningful slowdown in the sell-through of its products or significant cancellations of wholesale orders in any market other than Greater China, the adjusted guidance also accounts for a potential slowdown of consumer spending in those markets during the second half of the year as a result of the more challenging macroeconomic conditions. Therefore, growth in EMEA is now expected to be in the low teens (previously: mid-teens growth), while revenues in Asia-Pacific are projected to



grow at a high-single-digit rate (previously: mid-teens growth). Despite the more conservative view on the development of consumer spending in the second half of the year, adidas has increased its forecasts for North America and Latin America reflecting the strong momentum the brand is enjoying in these markets. In North America, currency-neutral revenues are now expected to increase in the high teens. Sales in Latin America are projected to grow between 30% and 40% (both previously: mid- to high-teens growth).

Due to the less favorable market mix and the impacts from initiatives to clear excess inventories in Greater China until the end of the year, gross margin is now expected to reach a level of around 49.0% (previously: around 50.7%) in 2022. Consequently, the company's operating margin is now forecast to be around 7.0% (previously: around 9.4%) and net income from continuing operations is expected to reach a level of around € 1.3 billion (previously: at the lower end of the € 1.8 billion to € 1.9 billion range).

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## ADIDAS AG CONDENSED CONSOLIDATED INCOME STATEMENT (IFRS)

€ in millions	Quarter ending June 30, 2022	Quarter ending June 30, 2021	Change
Net sales	5,596	5,077	10.2%
Cost of sales	2,781	2,446	13.7%
<b>Gross profit</b>	<b>2,815</b>	<b>2,632</b>	<b>7.0%</b>
(% of net sales)	50.3%	51.8%	(1.5pp)
Royalty and commission income	27	17	60.0%
Other operating income	51	2	1,931.1%
Other operating expenses	2,501	2,107	18.7%
(% of net sales)	44.7%	41.5%	3.2pp
Marketing and point-of-sale expenses	663	616	7.6%
(% of net sales)	11.8%	12.1%	(0.3pp)
Operating overhead expenses <sup>1</sup>	1,838	1,492	23.2%
(% of net sales)	32.8%	29.4%	3.5pp
<b>Operating profit</b>	<b>392</b>	<b>543</b>	<b>(27.9%)</b>
(% of net sales)	7.0%	10.7%	(3.7pp)
Financial income	16	4	313.6%
Financial expenses	107	37	186.6%
<b>Income before taxes</b>	<b>300</b>	<b>510</b>	<b>(41.1%)</b>
(% of net sales)	5.4%	10.0%	(4.7pp)
Income taxes	(60)	123	n.a.
(% of income / (loss) before taxes)	(20.0%)	24.0%	n.a.
<b>Net income from continuing operations</b>	<b>360</b>	<b>387</b>	<b>(7.0%)</b>
(% of net sales)	6.4%	7.6%	(1.2pp)
Gain / (loss) from discontinued operations, net of tax	(52)	20	n.a.
<b>Net income</b>	<b>309</b>	<b>407</b>	<b>(24.2%)</b>
(% of net sales)	5.5%	8.0%	(2.5pp)
<b>Net income attributable to shareholders</b>	<b>294</b>	<b>397</b>	<b>(25.8%)</b>
(% of net sales)	5.3%	7.8%	(2.6pp)
<b>Net income attributable to non-controlling interests</b>	<b>15</b>	<b>11</b>	<b>35.1%</b>
<b>Basic earnings per share from continuing operations (in €)</b>	<b>1.88</b>	<b>1.93</b>	<b>(2.8%)</b>
<b>Diluted earnings per share from continuing operations (in €)</b>	<b>1.88</b>	<b>1.93</b>	<b>(2.8%)</b>
<b>Basic earnings per share from continuing and discontinued operations (in €)</b>	<b>1.60</b>	<b>2.03</b>	<b>(21.5%)</b>
<b>Diluted earnings per share from continuing and discontinued operations (in €)</b>	<b>1.60</b>	<b>2.03</b>	<b>(21.5%)</b>

<sup>1</sup> 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.



## NET SALES

€ in millions	Quarter ending June 30, 2022	Quarter ending June 30, 2021	Change	Change (currency-neutral)
EMEA	2,079	1,910	8.8%	6.8%
North America	1,706	1,249	36.5%	21.3%
Greater China	719	1,003	(28.3%)	(35.1%)
Asia-Pacific	550	533	3.1%	2.6%
Latin America	514	348	47.5%	37.0%
Other Businesses	29	34	(15.9%)	(16.0%)

Rounding differences may arise.



## ADIDAS AG CONDENSED CONSOLIDATED INCOME STATEMENT (IFRS)

€ in millions	Half year ending June 30, 2022	Half year ending June 30, 2021	Change
Net sales	10,897	10,345	5.3%
Cost of sales	5,435	4,983	9.1%
<b>Gross profit</b>	<b>5,463</b>	<b>5,362</b>	<b>1.9%</b>
(% of net sales)	50.1%	51.8%	(1.7pp)
Royalty and commission income	50	31	63.6%
Other operating income	74	10	645.1%
Other operating expenses	4,759	4,154	14.6%
(% of net sales)	43.7%	40.2%	3.5pp
Marketing and point-of-sale expenses	1,304	1,157	12.7%
(% of net sales)	12.0%	11.2%	0.8pp
Operating overhead expenses <sup>1</sup>	3,455	2,997	15.3%
(% of net sales)	31.7%	29.0%	2.7pp
<b>Operating profit</b>	<b>828</b>	<b>1,248</b>	<b>(33.6%)</b>
(% of net sales)	7.6%	12.1%	(4.5pp)
Financial income	24	6	323.6%
Financial expenses	140	75	88.0%
<b>Income before taxes</b>	<b>711</b>	<b>1,179</b>	<b>(39.6%)</b>
(% of net sales)	6.5%	11.4%	(4.9pp)
Income taxes	41	289	(85.9%)
(% of income before taxes)	5.7%	24.5%	(18.8pp)
<b>Net income from continuing operations</b>	<b>671</b>	<b>890</b>	<b>(24.6%)</b>
(% of net sales)	6.2%	8.6%	(2.4pp)
Gain from discontinued operations, net of tax	128	72	78.0%
<b>Net income</b>	<b>799</b>	<b>962</b>	<b>(16.9%)</b>
(% of net sales)	7.3%	9.3%	(2.0pp)
<b>Net income attributable to shareholders</b>	<b>776</b>	<b>955</b>	<b>(18.7%)</b>
(% of net sales)	7.1%	9.2%	(2.1pp)
<b>Net income attributable to non-controlling interests</b>	<b>23</b>	<b>7</b>	<b>231.0%</b>
<b>Basic earnings per share from continuing operations (in €)</b>	<b>3.47</b>	<b>4.52</b>	<b>(23.2%)</b>
<b>Diluted earnings per share from continuing operations (in €)</b>	<b>3.47</b>	<b>4.52</b>	<b>(23.2%)</b>
<b>Basic earnings per share from continuing and discontinued operations (in €)</b>	<b>4.16</b>	<b>4.89</b>	<b>(15.0%)</b>
<b>Diluted earnings per share from continuing and discontinued operations (in €)</b>	<b>4.16</b>	<b>4.89</b>	<b>(15.0%)</b>

<sup>1</sup> 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.



## NET SALES

€ in millions	Half year ending June 30, 2022	Half year ending June 30, 2021	Change	Change (currency-neutral)
EMEA	4,014	3,680	9.1%	7.9%
North America	3,108	2,406	29.1%	17.3%
Greater China	1,723	2,405	(28.4%)	(34.8%)
Asia-Pacific	1,056	1,135	(7.0%)	(7.1%)
Latin America	933	645	44.6%	37.4%
Other Businesses	65	73	(11.4%)	(11.5%)





ADIDAS AG CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

€ in millions	June 30, 2022	June 30, 2021	Change in %
Cash and cash equivalents	1,578	4,151	(62.0)
Accounts receivable	3,022	2,324	30.0
Other current financial assets	1,311	810	61.9
Inventories	5,483	4,054	35.3
Income tax receivables	100	66	51.2
Other current assets	1,334	1,057	26.2
Assets classified as held for sale	-	1,674	n.a.
<b>Total current assets</b>	<b>12,828</b>	<b>14,136</b>	<b>(9.3)</b>
Property, plant and equipment	2,346	2,065	13.6
Right-of-use assets	2,732	2,430	12.4
Goodwill	1,278	1,199	6.6
Trademarks	16	16	0.0
Other intangible assets	401	261	53.5
Long-term financial assets	298	276	7.9
Other non-current financial assets	366	243	50.9
Deferred tax assets	974	1,154	(15.6)
Other non-current assets	84	96	(13.0)
<b>Total non-current assets</b>	<b>8,496</b>	<b>7,741</b>	<b>9.8</b>
<b>Total assets</b>	<b>21,324</b>	<b>21,877</b>	<b>(2.5)</b>
Short-term borrowings	313	682	(54.1)
Accounts payable	3,314	2,165	53.1
Current lease liabilities	608	480	26.7
Other current financial liabilities	496	340	45.9
Income taxes	448	686	(34.7)
Other current provisions	1,338	1,433	(6.6)
Current accrued liabilities	2,579	2,260	14.1
Other current liabilities	506	450	12.3
Liabilities classified as held for sale	-	667	n.a.
<b>Total current liabilities</b>	<b>9,602</b>	<b>9,161</b>	<b>4.8</b>
Long-term borrowings	2,459	2,473	(0.6)
Non-current lease liabilities	2,401	2,206	8.9
Other non-current financial liabilities	53	98	(46.1)
Pensions and similar obligations	108	234	(53.9)
Deferred tax liabilities	155	189	(17.9)
Other non-current provisions	108	134	(19.1)
Non-current accrued liabilities	8	6	48.2
Other non-current liabilities	9	18	(51.3)
<b>Total non-current liabilities</b>	<b>5,301</b>	<b>5,357</b>	<b>(1.0)</b>
Share capital	183	195	(6.4)
Reserves	359	(190)	n.a.
Retained earnings	5,491	7,101	(22.7)
<b>Shareholders' equity</b>	<b>6,032</b>	<b>7,106</b>	<b>(15.1)</b>
Non-controlling interests	388	253	53.5
<b>Total equity</b>	<b>6,420</b>	<b>7,358</b>	<b>(12.7)</b>
<b>Total liabilities and equity</b>	<b>21,324</b>	<b>21,877</b>	<b>(2.5)</b>



<b>Additional balance sheet information</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>	<b>Change in %</b>
Operating working capital	5,191	4,213	23.2
Working capital	3,226	4,975	(35.2)
Adjusted net borrowings <sup>1</sup>	5,301	3,146	68.5
Financial leverage <sup>2</sup>	87.9%	44.3%	43.6pp

<sup>1</sup> Adjusted net borrowings = short-term borrowings + long-term borrowings and future cash used in lease and pension liabilities – cash and cash equivalents and short-term financial assets.

<sup>2</sup> Based on shareholders' equity.

Rounding differences may arise.