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adidas with robust growth in the third quarter as macroeconomic challenges increase

Major developments:

- **Currency-neutral sales up 4%, reflecting continued double-digit growth outside Greater China**
- **Double-digit growth in e-commerce in EMEA, North America, and Latin America**
- **Gross margin down 1.0pp to 49.1% as price increases were more than offset by increased supply chain costs, higher discounting, and an unfavorable market mix**
- **Operating profit of € 564 million reflecting an operating margin of 8.8%**
- **Net income from continuing operations of € 66 million negatively impacted by several one-off costs totaling almost € 300 million as well as extraordinary tax effects in Q3**
- **Impact from termination of adidas Yeezy partnership incorporated into 2022 outlook**

“The market environment shifted at the beginning of September as consumer demand in Western markets slowed and traffic trends in Greater China further deteriorated. As a result, we saw a significant inventory buildup across the industry, leading to higher promotional activity during the remainder of the year which will increasingly weigh on our earnings,” said adidas CFO Harm Ohlmeyer. “We are encouraged by the enthusiasm for the upcoming FIFA World Cup which is already noticeable in our Football revenue growth. And in North America we are gearing up for an exciting upcoming basketball launch.”

Currency-neutral revenues grow 4% in the third quarter

In the third quarter, adidas’ currency-neutral revenues increased 4%. While the company experienced high-single-digit top-line growth during the first two months of the period, deteriorating traffic trends in Greater China as well as slowing consumer demand in major Western markets weighed on the revenue development in September. In addition, the company’s decision to suspend its own operations in Russia at the end of Q1 significantly reduced revenues by more than € 100 million during the third quarter, particularly impacting the company’s direct-to-consumer (DTC) business. In euro terms, the company’s revenues grew 11% to € 6.408 billion in the third quarter (2021: € 5.752 billion).

From a channel perspective, the company’s top-line development was driven by growth in DTC where currency-neutral sales grew 6% year-on-year. Excluding Russia/CIS, revenues in the company’s own distribution channels were up at a double-digit rate, reflecting the successful sell-through of adidas’ products. Within DTC, the company’s e-commerce revenues increased 8% driven by strong double-digit increases in EMEA, North America, and Latin America. Wholesale revenues during the quarter (+3%) were impacted by inventory takebacks of more



than € 200 million in Greater China reflecting the company's initiatives to clean up the full-price channel and clear excess inventory through its own factory outlets.

From a category perspective, revenue growth was the highest in adidas' strategic growth categories Football and Running, both growing at strong double-digit rates. In Football, the jersey launches ahead of the FIFA World Cup 2022 fueled consumer excitement prior to the tournament. Revenues in Running were driven by the latest iterations of adidas' successful running franchises, including Adizero and Supernova, which both grew more than 50% during the quarter. On the Lifestyle side, the further scaling of the successful Forum and Ozweego franchises led to strong double-digit growth for both product families. At the same time, additional highly limited drops as part of the Gucci and Balenciaga partnerships continued to spark excitement around the adidas brand.

From a regional perspective, revenue growth was driven by the company's Western markets and APAC, which combined continued to grow at a double-digit rate (+12%). In EMEA, revenues grew 7% despite the loss of revenue in Russia/CIS of more than € 100 million. Revenues in North America increased 8% during the quarter driven by a double-digit increase in the company's DTC channel. In APAC and Latin America, revenue growth accelerated compared to Q2, reaching 15% and 51% respectively, year-on-year. In contrast, the company's top-line development in Greater China continues to be severely impacted by the challenging market environment, mainly related to the ongoing covid-19-related restrictions. While the company's own retail revenues in Greater China increased 7% in the third quarter reflecting a robust sell-out, the significant product takebacks reduced the company's sell-in and resulted in a revenue decline of 27% for the market as a whole during the three-month period.

Operating profit of € 564 million reflects operating margin of 8.8%

adidas' gross margin in the third quarter declined by 1.0 percentage points to 49.1% (2021: 50.1%) as the broad-based price increases and favorable currency effects were offset by the strong increase in supply chain costs, reflecting significantly higher product costs and freight expenses. In addition, higher discounting as well as a less favorable market mix weighed on the gross margin development. Other operating expenses grew 20% to € 2.676 billion (2021: € 2.237 billion) during the quarter. The majority of this increase was driven by the previously announced one-off costs and currency movements. In addition, investments into the brand, its products, the company's digital capabilities as well as into the consumer experience contributed significantly to this development. As a percentage of sales, other operating expenses were up 2.9 percentage points to 41.8% (2021: 38.9%). Marketing and point-of-sale expenses grew 2% to € 691 million (2021: € 674 million). During the quarter, the company launched several new products such as its second Sportswear collection, the second drop of the collaboration with Gucci, the latest iteration of its successful 'Adizero' running franchise 'Adizero Adios Pro 3' as well as the federation kits for the FIFA World Cup. In addition, adidas



continued to invest into the experience across both its physical and digital platforms with several new store openings, including in Rome, Barcelona, and Mexico City, as well as further improvements of its membership program 'adiClub'. As a percentage of sales, marketing and point-of-sale expenses decreased 0.9 percentage points to 10.8% (2021: 11.7%). Operating overhead expenses with € 1.985 billion were 27% above the prior year level (2021: € 1.562 billion). As a percentage of sales, operating overhead expenses increased to 31.0% (2021: 27.2%). The company's operating profit reached a level of € 564 million (2021: € 672 million), reflecting an operating margin of 8.8% (2021: 11.7%). The company's net income from continuing operations was € 66 million in the quarter (2021: € 479 million). This amount differs from the preliminary figure published on October 20, 2022, due to negative tax implications in the third quarter related to the company's decision to terminate the adidas Yeezy partnership. This negative tax effect will be fully compensated by a positive tax effect of similar size in Q4. Basic earnings per share from continuing operations were € 0.34 in the third quarter (2021: € 2.34).

The bottom-line development during the quarter reflects several one-off costs totaling almost € 300 million on the net income level. The majority of these costs reflect the company's decision to wind down its business operations in Russia. In addition, non-recurring costs related to accelerated cash pooling in high inflationary countries, a recently settled legal dispute as well as higher provisions for customs-related risks also had an adverse effect on gross profit, operating overheads as well as financial and tax expenses in the quarter.

Currency-neutral revenues on prior year level in the first nine months of 2022

In the first nine months of 2022, revenues increased 1% on a currency-neutral basis driven by double-digit growth in North America and Latin America as well as high-single-digit growth in EMEA. In euro terms, revenues grew 8% to € 17.306 billion (2021: € 16.096 billion). The company's gross margin decreased by 1.5 percentage points to 49.7% (2021: 51.2%) during the first nine months of 2022. Higher supply chain costs and the less favorable market mix weighed on the gross margin development. These negative effects were partly offset by price increases as well as favorable currency movements. Other operating expenses increased 16% to € 7.435 billion (2021: € 6.391 billion). As a percentage of sales, other operating expenses were up 3.3 percentage points to 43.0% (2021: 39.7%). adidas generated an operating profit of € 1.393 billion (2021: € 1.920 billion) during the first nine months of the year, resulting in an operating margin of 8.0% (2021: 11.9%). Net income from continuing operations reached € 736 million (2021: € 1.369 billion), reflecting one-off costs occurred in the third quarter of the year totaling almost € 300 million. Accordingly, basic earnings per share from continuing operations were € 3.83 (2021: € 6.87).



Average operating working capital increases to 22.2%

Inventories increased 72% to € 6.315 billion (2021: € 3.664 billion) at September 30, 2022. On a currency-neutral basis, inventories were up 63% versus the prior year. While this development also reflects slower consumer demand in major Western markets since the beginning of September, the majority of the increase is driven by higher product and freight costs, a different order pattern as a result of longer lead times within the company's supply chain as well as lower prior year comparables due to last year's impact from the factory lockdowns in Vietnam. Operating working capital increased 34% to € 6.201 billion (2021: € 4.616 billion). On a currency-neutral basis, the increase was 25%. Average operating working capital as a percentage of sales was up by 2.1 percentage points to 22.2% (2021: 20.1%).

Adjusted net borrowings at € 6.397 billion

Adjusted net borrowings on September 30, 2022, amounted to € 6.397 billion (September 30, 2021: € 3.260 billion), representing a year-on-year increase of € 3.137 billion. This development was driven by the decrease in cash generated from operating activities, the dividend payment as well as by the company's share buyback activities.

adidas outlook for FY 2022 impacted by termination of the adidas Yeezy partnership

On October 20, 2022, adidas had reduced its full year guidance as a result of the further deterioration of traffic trends in Greater China, higher clearance activity to reduce elevated inventory levels as well as total one-off costs of around € 500 million, which are expected to negatively impact the company's net income from continuing operations in 2022. Following the decision on October 25, 2022, to terminate the adidas Yeezy partnership, adidas now incorporates the related top- and bottom-line impact into its guidance for FY 2022, reflecting the high seasonality of the adidas Yeezy business geared towards the fourth quarter. Consequently, adidas now expects currency-neutral revenues for the total company to grow at a low-single-digit rate in 2022. The company's gross margin is now expected to be around 47.0% in 2022. adidas now forecasts its operating margin to be around 2.5% in 2022 and net income from continuing operations to reach a level of around € 250 million.

Strong bottom-line improvement in 2023

In 2023, the company expects the non-recurrence of the one-off costs of around € 500 million occurred in 2022 to have a positive impact on the net income development in the same magnitude. In addition, in light of the challenging market environment, adidas established a business improvement program to safeguard the company's profitability in 2023. As part of this program the company has launched several initiatives to mitigate the significant cost increases resulting from the inflationary pressure across the company's value chain as well as unfavorable currency movements. In total, the program, which will result in one-off costs of around € 50 million in the fourth quarter of 2022, is expected to compensate cost headwinds



of up to € 500 million in 2023. In addition, it is expected to deliver a positive profit contribution of around € 200 million next year.

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ADIDAS AG CONDENSED CONSOLIDATED INCOME STATEMENT (IFRS)

€ in millions	Quarter ending September 30, 2022	Quarter ending September 30, 2021	Change
Net sales	6,408	5,752	11.4%
Cost of sales	3,262	2,868	13.8%
Gross profit	3,146	2,884	9.1%
(% of net sales)	49.1%	50.1%	(1.0pp)
Royalty and commission income	36	22	64.2%
Other operating income	58	3	1,814.7%
Other operating expenses	2,676	2,237	19.6%
(% of net sales)	41.8%	38.9%	2.9pp
Marketing and point-of-sale expenses	691	674	2.5%
(% of net sales)	10.8%	11.7%	(0.9pp)
Operating overhead expenses ¹	1,985	1,562	27.0%
(% of net sales)	31.0%	27.2%	3.8pp
Operating profit	564	672	(16.0%)
(% of net sales)	8.8%	11.7%	(2.9pp)
Financial income	8	6	29.5%
Financial expenses	162	49	228.5%
Income before taxes	411	629	(34.7%)
(% of net sales)	6.4%	10.9%	(4.5pp)
Income taxes	345	150	130.4%
(% of income before taxes)	84.1%	23.8%	60.2pp
Net income from continuing operations	66	479	(86.3%)
(% of net sales)	1.0%	8.3%	(7.3pp)
Gain from discontinued operations, net of tax	286	504	(43.2%)
Net income	352	984	(64.2%)
(% of net sales)	5.5%	17.1%	(11.6pp)
Net income attributable to shareholders	347	960	(63.8%)
(% of net sales)	5.4%	16.7%	(11.3pp)
Net income attributable to non-controlling interests	5	24	(81.0%)
Basic earnings per share from continuing operations (in €)	0.34	2.34	(85.7%)
Diluted earnings per share from continuing operations (in €)	0.34	2.34	(85.7%)
Basic earnings per share from continuing and discontinued operations (in €)	1.91	4.94	(61.3%)
Diluted earnings per share from continuing and discontinued operations (in €)	1.91	4.94	(61.3%)

¹ 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 September 30, 2022	Quarter ending September 30, 2021	Change	Change (currency-neutral)
EMEA	2,463	2,248	9.6%	7.4%
North America	1,750	1,396	25.4%	8.2%
Greater China	937	1,155	(18.9%)	(26.6%)
Asia-Pacific	579	504	15.1%	14.6%
Latin America	633	405	56.4%	50.6%
Other Businesses	46	45	2.8%	2.7%

Rounding differences may arise.



ADIDAS AG CONDENSED CONSOLIDATED INCOME STATEMENT (IFRS)

€ in millions	Nine months ending September 30, 2022	Nine months ending September 30, 2021	Change
Net sales	17,306	16,096	7.5%
Cost of sales	8,697	7,851	10.8%
Gross profit	8,609	8,245	4.4%
(% of net sales)	49.7%	51.2%	(1.5pp)
Royalty and commission income	86	53	63.8%
Other operating income	133	13	919.5%
Other operating expenses	7,435	6,391	16.3%
(% of net sales)	43.0%	39.7%	3.3pp
Marketing and point-of-sale expenses	1,995	1,831	8.9%
(% of net sales)	11.5%	11.4%	0.2pp
Operating overhead expenses ¹	5,440	4,560	19.3%
(% of net sales)	31.4%	28.3%	3.1pp
Operating profit	1,393	1,920	(27.5%)
(% of net sales)	8.0%	11.9%	(3.9pp)
Financial income	32	11	189.3%
Financial expenses	302	123	145.6%
Income before taxes	1,122	1,808	(37.9%)
(% of net sales)	6.5%	11.2%	(4.7pp)
Income taxes	386	439	(12.0%)
(% of income before taxes)	34.4%	24.3%	10.1pp
Net income from continuing operations	736	1,369	(46.2%)
(% of net sales)	4.3%	8.5%	(4.3pp)
Gain from discontinued operations, net of tax	415	576	(28.0%)
Net income	1,151	1,945	(40.8%)
(% of net sales)	6.7%	12.1%	(5.4pp)
Net income attributable to shareholders	1,124	1,915	(41.3%)
(% of net sales)	6.5%	11.9%	(5.4pp)
Net income attributable to non-controlling interests	27	31	(10.9%)
Basic earnings per share from continuing operations (in €)	3.83	6.87	(44.2%)
Diluted earnings per share from continuing operations (in €)	3.83	6.87	(44.2%)
Basic earnings per share from continuing and discontinued operations (in €)	6.08	9.83	(38.1%)
Diluted earnings per share from continuing and discontinued operations (in €)	6.08	9.83	(38.1%)

¹ 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	Nine months ending September 30, 2022	Nine months ending September 30, 2021	Change	Change (currency-neutral)
EMEA	6,477	5,928	9.3%	7.7%
North America	4,858	3,802	27.8%	13.9%
Greater China	2,659	3,560	(25.3%)	(32.1%)
Asia-Pacific	1,635	1,639	(0.2%)	(0.4%)
Latin America	1,566	1,050	49.2%	42.5%
Other Businesses	111	118	(6.1%)	(6.1%)



ADIDAS AG CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

€ in millions	September 30, 2022	September 30, 2021	Change in %
Cash and cash equivalents	806	3,603	(77.6)
Accounts receivable	3,240	2,909	11.4
Other current financial assets	1,454	832	74.8
Inventories	6,315	3,664	72.4
Income tax receivables	112	75	48.6
Other current assets	1,289	1,092	18.0
Assets classified as held for sale	-	1,965	n.a.
Total current assets	13,217	14,142	(6.5)
Property, plant and equipment	2,347	2,102	11.6
Right-of-use assets	2,575	2,454	4.9
Goodwill	1,318	1,214	8.6
Trademarks	16	16	-
Other intangible assets	434	295	46.8
Long-term financial assets	302	287	5.2
Other non-current financial assets	369	181	104.2
Deferred tax assets	1,055	1,173	(10.1)
Other non-current assets	117	82	42.5
Total non-current assets	8,533	7,804	9.3
Total assets	21,750	21,946	(0.9)



ADIDAS AG CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

€ in millions	September 30, 2022	September 30, 2021	Change in %
Short-term borrowings	1,036	84	1,136.8
Accounts payable	3,354	1,958	71.3
Current lease liabilities	605	584	3.6
Other current financial liabilities	552	365	51.1
Income taxes	622	727	(14.5)
Other current provisions	1,377	1,443	(4.5)
Current accrued liabilities	2,487	2,484	0.1
Other current liabilities	571	503	13.6
Liabilities classified as held for sale	-	370	n.a.
Total current liabilities	10,605	8,517	24.5
Long-term borrowings	1,958	2,469	(20.7)
Non-current lease liabilities	2,341	2,138	9.5
Other non-current financial liabilities	44	67	(34.4)
Pensions and similar obligations	81	256	(68.3)
Deferred tax liabilities	84	345	(75.6)
Other non-current provisions	100	139	(27.6)
Non-current accrued liabilities	7	6	13.0
Other non-current liabilities	9	18	(48.4)
Total non-current liabilities	4,625	5,438	(15.0)
Share capital	179	193	(7.2)
Reserves	537	0	122,887.6
Retained earnings	5,387	7,513	(28.3)
Shareholders' equity	6,103	7,707	(20.8)
Non-controlling interests	418	284	47.1
Total equity	6,520	7,991	(18.4)
Total liabilities and equity	21,750	21,946	(0.9)
Additional balance sheet information			
Operating working capital	6,201	4,616	34.3
Working capital	2,612	5,624	(53.6)
Adjusted net borrowings ¹	6,397	3,260	96.2
Financial leverage ²	104.8%	42.3%	62.5pp

¹ 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.

² Based on shareholders' equity.
Rounding differences may arise.