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adidas continues strong financial performance in Q2 FY 2018 outlook confirmed

Major developments in Q2 2018:

- **Revenues grow 10% currency-neutral and 4% in euro terms**
- **Gross margin increases 2.2pp to 52.3%**
- **Operating margin improves 1.2pp to 11.3%**
- **Net income from continuing operations grows 20% to € 418 million**
- **Basic EPS from continuing operations up 20% to € 2.06**

“We delivered another strong quarter on the back of a successful World Cup activation. Our profitable growth was once again driven by our strategic focus areas North America, Greater China and e-commerce, while we continued to invest into the desirability of our brands and the scalability of our business. With these results, we remain firmly on track to achieve our set targets for the full year 2018 and long-term until 2020,” said adidas CEO Kasper Rorsted.

Currency-neutral sales increase 10% in Q2 2018

In the second quarter, adidas currency-neutral revenues increased 10%. Revenues at the adidas brand increased 12%, driven by double-digit growth in Sport Performance, on the back of double-digit growth in the training, running and football categories, as well as high-single-digit growth in Sport Inspired. Revenues at the Reebok brand decreased 3% as growth in Classics was more than offset by declines in the training and running categories. While revenues in the wholesale channel increased at a high-single-digit rate, direct-to-consumer sales rose at a double-digit rate with strong support from e-commerce, where revenues grew 26% in the quarter. In euro terms, the company’s sales were up 4% in the second quarter to € 5.261 billion (2017: € 5.038 billion).

Double-digit growth in North America, Asia-Pacific, Latin America and Russia/CIS

From a market segment perspective, on a currency-neutral basis, the combined sales of the adidas and Reebok brands increased in nearly all market segments. The combined sales of the adidas and Reebok brands grew particularly strongly in North America (+16%) and Asia-Pacific (+19%), the latter driven by a 27% increase in Greater China. Revenues in Latin America (+15%) and Russia/CIS (+14%) also grew at double-digit rates. While currency-neutral sales in Emerging Markets increased by 1%, revenues in Western Europe, in line with expectations, remained flat year-over-year.



Gross margin up 2.2 percentage points to 52.3%

The company's gross margin increased 2.2 percentage points to 52.3% (2017: 50.1%). This development was driven by an improved pricing and channel mix, reflecting the company's focus on the quality of its top-line growth. These improvements more than offset negative currency effects as well as higher input costs. Royalty and commission income increased 10% to € 32 million (2017: € 29 million). Other operating income rose from € 24 million in the second quarter of 2017 to € 70 million in 2018 due to the release of prior year operational provisions and litigation gains. Other operating expenses increased 9% to € 2.261 billion (2017: € 2.072 billion). As a percentage of sales, other operating expenses were up 1.8 percentage points to 43.0% (2017: 41.1%). This increase was mainly driven by significantly higher marketing expenditure, which grew 14% in the quarter, reflecting activities related to the 2018 FIFA World Cup Russia™ as well as overproportionate investments into the company's brands and the sell-through of its products. As a percentage of sales, marketing expenditure increased 1.2 percentage points to 13.5% (2017: 12.3%). In addition, operating overhead costs increased 7% or 0.7 percentage points as a percentage of sales to 29.5% (2017: 28.8%) as the company continues to invest into further improving the scalability of its business.

Operating margin increases 1.2 percentage points to 11.3%

The company's operating profit increased 17% to a level of € 592 million (2017: € 505 million) resulting in an operating margin improvement of 1.2 percentage points to a level of 11.3% (2017: 10.0%). Net income from continuing operations as well as basic earnings per share from continuing operations were up 20% to € 418 million (2017: € 347 million) and € 2.06 (2017: € 1.72), respectively.

adidas with strong financial performance in the first half of 2018

In the first half of 2018, revenues increased 10% on a currency-neutral basis. In euro terms, revenues grew 3% to € 10.809 billion (2017: € 10.485 billion). From a brand perspective, currency-neutral revenues for brand adidas grew 12%. Reebok sales declined 3% on a currency-neutral basis versus the prior year. The gross margin improved 1.8 percentage points to 51.7% (2017: 49.9%), reflecting the positive effects from an improved pricing mix, which more than offset negative currency effects as well as a less favorable channel mix and higher input costs. Royalty and commission income increased 2% to € 58 million (2017: € 57 million). Other operating income increased to € 126 million (2017: € 52 million). Other operating expenses were up 6% to € 4.433 billion (2017: € 4.194 billion). The company's operating profit grew 17% to € 1.338 billion (2017: € 1.142 billion), representing an operating margin of 12.4% (2017: 10.9%), an increase of 1.5 percentage points compared to the prior year. Net income from continuing operations grew 19% to € 960 million (2017:



€ 809 million), resulting in an 18% increase in basic earnings per share from continuing operations to € 4.71 (2017: € 4.00).

Average operating working capital as a percentage of sales decreases

Inventories declined 6% to € 3.425 billion (2017: € 3.644 billion). On a currency-neutral basis, inventories decreased 2%. Operating working capital increased 1% to € 4.318 billion (2017: € 4.258 billion) at the end of June 2018. On a currency-neutral basis, operating working capital grew 6%. Average operating working capital as a percentage of sales decreased 0.3 percentage points to 20.1% (2017: 20.4%), reflecting the strong top-line development during the last twelve months as well as the company's continued focus on tight working capital management.

Net cash position of € 89 million

Net cash at June 30, 2018 amounted to € 89 million, representing an improvement of € 824 million compared to net borrowings of € 735 million in the prior year. This development was driven by a decrease in short-term borrowings as well as an increase in the company's cash position, mainly related to the strong generation of cash from operating activities.

adidas confirms outlook for full year 2018

For 2018, adidas continues to expect sales to increase at a rate of around 10% on a currency-neutral basis, driven by double-digit growth in North America and Asia-Pacific. The company's gross margin is forecast to increase up to 0.3 percentage points to a level of up to 50.7% (2017: 50.4%). Gross margin will benefit from the positive effects of a more favorable pricing, channel and regional mix. These improvements will be partly offset by the negative impact from unfavorable currency movements as well as higher input costs. The operating margin is forecast to improve between 0.5 and 0.7 percentage points to a level between 10.3% and 10.5% (2017: 9.8%). Net income from continuing operations is projected to increase to a level between € 1.615 billion and € 1.675 billion. This development reflects an increase of between 13% and 17% compared to the prior year level of € 1.430 billion, excluding the negative one-time tax impact recorded in 2017. Basic EPS from continuing operations is expected to increase at a rate between 12% and 16% compared to the prior-year level of € 7.05, excluding the negative one-time tax impact in 2017, not taking into account any decrease in the number of shares outstanding due to the company's share buyback program.

Retrospective accounting restatement of Reebok trademark in 2016

As a matter of routine, the German Financial Reporting Enforcement Panel reviewed the company's 2016 consolidated financial statements. In this context, the Panel took the view



that the historical book value related to the Reebok trademark was not sufficiently proven by the annual impairment test conducted at the time. While the Panel confirmed the adequacy of the company's methodology for impairment testing, it disagreed with the chosen input factors in light of Reebok's financial performance during the period between 2006 and 2016.

The company has accepted the Panel's interpretation in order to come to a timely conclusion. As a consequence, the company retrospectively recognized an impairment of intangible assets related to the Reebok trademark in 2016 in an amount in the mid-triple-digit million euro range. The impairment has been reflected ex post in the company's 2017 opening balance sheet. This retrospective accounting restatement has no impact on the company's cash position. In addition, the company's 2018 income and cash flow statements as well as its short- and long-term guidance are also not impacted. Reebok's strategy and the prospects for the brand, which has been realizing significant profitability improvements since 2017 as a result of its 'Muscle-Up' turnaround plan, also remain unchanged.

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adidas AG Consolidated Income Statement (IFRS)

€ in millions	Second quarter 2018	Second quarter 2017	Change
Net sales	5,261	5,038	4.4%
Cost of sales	2,509	2,513	(0.2%)
Gross profit	2,751	2,525	9.0%
<i>(% of net sales)</i>	52.3%	50.1%	2.2pp
Royalty and commission income	32	29	9.9%
Other operating income	70	24	192.7%
Other operating expenses	2,261	2,072	9.1%
<i>(% of net sales)</i>	43.0%	41.1%	1.8pp
Operating profit	592	505	17.2%
<i>(% of net sales)</i>	11.3%	10.0%	1.2pp
Financial income	14	7	98.7%
Financial expenses	18	26	(29.7%)
Income before taxes	588	486	20.9%
<i>(% of net sales)</i>	11.2%	9.7%	1.5pp
Income taxes	169	139	21.9%
<i>(% of income before taxes)</i>	28.8%	28.6%	0.2pp
Net income from continuing operations	418	347	20.5%
<i>(% of net sales)</i>	8.0%	6.9%	1.1pp
Losses from discontinued operations, net of tax	21	189	(88.8%)
Net income	397	159	150.6%
<i>(% of net sales)</i>	7.6%	3.1%	4.4pp
Net income attributable to shareholders	396	158	150.4%
<i>(% of net sales)</i>	7.5%	3.1%	4.4pp
Net income attributable to non-controlling interests	1	0	344.5%
Basic earnings per share from continuing operations (in €)	2.06	1.72	19.9%
Diluted earnings per share from continuing operations (in €)	2.05	1.70	20.6%
Basic earnings per share from continuing and discontinued operations (in €)	1.95	0.78	149.7%
Diluted earnings per share from continuing and discontinued operations (in €)	1.95	0.78	150.5%

Net Sales

€ in millions	Second quarter 2018	Second quarter 2017	Change	Change (currency- neutral)
Western Europe	1,420	1,433	(0.9%)	(0.1%)
North America	1,082	1,014	6.8%	15.6%
Asia-Pacific	1,726	1,495	15.4%	18.8%
Latin America	416	441	(5.6%)	14.7%
Emerging Markets	251	277	(9.2%)	1.5%
Russia/CIS	177	181	(1.7%)	14.1%
Other Businesses	188	198	(4.9%)	(1.5%)
adidas brand	4,772	4,497	6.1%	11.9%
Reebok brand	387	431	(10.1%)	(3.0%)

Rounding differences may arise.



adidas AG Consolidated Income Statement (IFRS)

€ in millions	First half year 2018	First half year 2017	Change
Net sales	10,809	10,485	3.1%
Cost of sales	5,222	5,258	(0.7%)
Gross profit	5,586	5,227	6.9%
<i>(% of net sales)</i>	51.7%	49.9%	1.8pp
Royalty and commission income	58	57	1.6%
Other operating income	126	52	141.1%
Other operating expenses	4,433	4,194	5.7%
<i>(% of net sales)</i>	41.0%	40.0%	1.0pp
Operating profit	1,338	1,142	17.1%
<i>(% of net sales)</i>	12.4%	10.9%	1.5pp
Financial income	22	32	(30.6%)
Financial expenses	23	43	(45.7%)
Income before taxes	1,337	1,131	18.2%
<i>(% of net sales)</i>	12.4%	10.8%	1.6pp
Income taxes	377	322	16.9%
<i>(% of income before taxes)</i>	28.2%	28.5%	(0.3pp)
Net income from continuing operations	960	809	18.7%
<i>(% of net sales)</i>	8.9%	7.7%	1.2pp
Losses from discontinued operations, net of tax	23	195	(88.4%)
Net income	938	614	52.7%
<i>(% of net sales)</i>	8.7%	5.9%	2.8pp
Net income attributable to shareholders	936	613	52.7%
<i>(% of net sales)</i>	8.7%	5.8%	2.8pp
Net income attributable to non-controlling interests	2	1	42.1%
Basic earnings per share from continuing operations (in €)	4.71	4.00	17.7%
Diluted earnings per share from continuing operations (in €)	4.70	3.96	18.7%
Basic earnings per share from continuing and discontinued operations (in €)	4.60	3.04	51.5%
Diluted earnings per share from continuing and discontinued operations (in €)	4.59	3.01	52.6%

Net Sales

€ in millions	First half year 2018	First half year 2017	Change	Change (currency- neutral)
Western Europe	3,023	2,969	1.8%	2.4%
North America	2,122	2,001	6.0%	18.2%
Asia-Pacific	3,582	3,240	10.6%	16.9%
Latin America	847	895	(5.4%)	12.5%
Emerging Markets	560	644	(13.1%)	(2.4%)
Russia/CIS	297	341	(12.9%)	(0.5%)
Other Businesses	378	395	(4.1%)	0.6%
adidas brand	9,772	9,339	4.6%	11.6%
Reebok brand	828	923	(10.3%)	(3.0%)

Rounding differences may arise.



adidas AG Consolidated Statement of Financial Position (IFRS)

€ in millions	June 30, 2018	June 30, 2017 ^{1,2}	Change in %	December 31, 2017 ^{1,2}	January 1, 2017 ^{1,2}
Cash and cash equivalents	1,313	1,232	6.6	1,598	1,510
Short-term financial assets	5	5	(0.5)	5	5
Accounts receivable	2,751	2,477	11.1	2,315	2,200
Other current financial assets	421	422	(0.1)	393	729
Inventories	3,425	3,644	(6.0)	3,692	3,763
Income tax receivables	57	74	(22.5)	71	98
Other current assets	758	558	35.8	498	580
Assets classified as held for sale	-	513	n.a	72	-
Total current assets	8,730	8,924	(2.2)	8,645	8,886
Property, plant and equipment	2,025	1,876	7.9	2,000	1,915
Goodwill	1,236	1,248	(1.0)	1,220	1,412
Trademarks	829	867	(4.4)	806	1,108
Other intangible assets	160	140	14.3	154	167
Long-term financial assets	277	176	58.0	236	194
Other non-current financial assets	260	125	107.6	219	96
Deferred tax assets	683	697	(2.0)	630	732
Other non-current assets	106	111	(4.3)	108	94
Total non-current assets	5,575	5,240	6.4	5,374	5,718
Total assets	14,305	14,164	1.0	14,019	14,604
Short-term borrowings	95	990	(90.4)	137	636
Accounts payable	1,858	1,862	(0.2)	1,975	2,496
Other current financial liabilities	275	286	(3.8)	362	201
Income taxes	532	425	25.0	424	402
Other current provisions	1,086	568	91.2	741	573
Current accrued liabilities	2,129	1,915	11.2	2,180	2,023
Other current liabilities	480	439	9.2	473	434
Liabilities classified as held for sale	-	210	n.a	-	-
Total current liabilities	6,455	6,696	(3.6)	6,291	6,765
Long-term borrowings	1,134	983	15.4	983	982
Other non-current financial liabilities	9	27	(65.9)	22	22
Pensions and similar obligations	298	342	(12.8)	298	355
Deferred tax liabilities	203	229	(11.4)	190	289
Other non-current provisions	106	53	99.5	80	44
Non-current accrued liabilities	13	102	(87.5)	85	120
Other non-current liabilities	61	47	29.3	53	46
Total non-current liabilities	1,823	1,782	2.3	1,711	1,859
Share capital	201	203	(0.8)	204	201
Reserves	133	202	(34.0)	(29)	743
Retained earnings	5,705	5,297	7.7	5,858	5,053
Shareholders' equity	6,040	5,702	5.9	6,032	5,997
Non-controlling interests	(12)	(16)	21.5	(15)	(17)
Total equity	6,027	5,686	6.0	6,017	5,980
Total liabilities and equity	14,305	14,164	1.0	14,019	14,604
Additional balance sheet information					
Operating working capital	4,318	4,258	1.4	4,033	3,468
Working capital	2,276	2,229	2.1	2,354	2,121
Net Cash/(Net borrowings)	89	(735)	n.a.	484	(103)
Financial leverage	(1.5%)	12.9%	(14.4pp)	(8.0%)	1.7%

¹ Restated according to IAS 8.

² Restated according to IFRS 9 / cost of hedging.

Rounding differences may arise.