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adidas records double-digit top- and bottom-line growth in Q1 FY 2018 outlook confirmed

Major developments in Q1 2018¹:

- Revenues grow 10% currency-neutral and 2% in euro terms
- Gross margin increases 1.5pp to 51.1% driven by pricing and product mix
- Operating margin improves 1.8pp to 13.4% despite continued brand investments
- Net income from continuing operations grows 17% to € 542 million
- Basic EPS from continuing operations up 16% to € 2.65

“We had a successful start to the year that was fully in line with our expectations: Our high-quality top-line growth was driven by our strategic focus areas North America, Greater China and e-commerce”, said adidas CEO Kasper Rorsted. “At the same time, we managed to grow the bottom line significantly faster than the top line while continuing to invest into creating brand desire.”

Currency-neutral sales increase 10% in Q1 2018

adidas started into the year with currency-neutral revenues increasing 10%. This development reflects an 11% increase at brand adidas which was driven by double-digit increases in the running, football and training categories as well as at adidas Originals. Revenues at the Reebok brand decreased 3% due to declines in the training and running categories. From a channel perspective, e-commerce was once again the fastest-growing channel with an increase of 27%. In euro terms, the company's sales were up 2% in the first quarter to € 5.548 billion (2017: € 5.447 billion).

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

From a market segment perspective, on a currency-neutral basis, the combined sales of the adidas and Reebok brands grew in most market segments. Growth was particularly strong in North America (+21%) and Asia-Pacific (+15%), the latter driven by a 26% increase in Greater China. While Latin America also grew at a double-digit rate (+10%), revenues in Western Europe

¹ Due to the divestiture of the TaylorMade (including the TaylorMade, Adams Golf and Ashworth brands) and CCM Hockey businesses, all income and expenses of the TaylorMade and CCM Hockey businesses are reported as discontinued operations. For the sake of comparability, all figures related to the 2017 financial year refer to the company's continuing operations unless otherwise stated. However, a restatement of the 2017 balance sheet items is not permitted under IFRS.



increased 5%, in line with the full-year outlook for this market. Sales in Emerging Markets and Russia/CIS declined 5% and 16%, respectively, as a result of the challenging market conditions.

Operating margin increases 1.8 percentage points to 13.4%

The company's gross margin increased 1.5 percentage points to 51.1% (2017: 49.6%). This development was despite a significant currency headwind in the quarter, which was more than offset by the positive effects from a better pricing and product mix. Other operating expenses increased 2% to € 2.172 billion (2017: € 2.122 billion). As a percentage of sales, other operating expenses increased 0.2 percentage points to 39.1% (2017: 39.0%), as significantly higher marketing investments were largely offset by strong operating overhead leverage. The company's operating profit increased 17% to a level of € 746 million (2017: € 637 million), resulting in an operating margin improvement of 1.8 percentage points to a level of 13.4% (2017: 11.7%). Net income from continuing operations was up 17% to € 542 million (2017: € 462 million). Basic earnings per share from continuing operations increased 16% to € 2.65 (2017: € 2.29).

Average operating working capital as a percentage of sales decreases

Inventories decreased 11% to € 3.224 billion (2017: € 3.609 billion). On a currency-neutral basis, inventories were down 4%. Inventories from continuing operations decreased 6% in euro terms and increased 1% currency-neutral. Operating working capital declined 1% to € 4.488 billion (2017: € 4.554 billion) at the end of March 2018. On a currency-neutral basis, operating working capital grew 9%. Operating working capital from continuing operations rose 6% in euro terms and 17% currency-neutral. Average operating working capital as a percentage of sales from continuing operations decreased 0.7 percentage points to 20.3% (2017: 21.0%), reflecting the company's continued focus on tight working capital management.

Net cash position of € 371 million

Net cash at March 31, 2018 amounted to € 371 million (2017: net borrowings of € 859 million), representing an increase of € 1.230 billion compared to the prior year. This development was driven by a decline in short-term borrowings on the back of working capital improvements as well as, to a lesser extent, the conversion of the convertible bond.

adidas confirms outlook for FY 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%), reflecting the projected gross margin improvement as well as operating overhead leverage which is expected to overcompensate the planned increase in marketing investments. 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.

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adidas AG Consolidated Income Statement (IFRS)¹

€ in millions	First quarter 2018	First quarter 2017	Change
Net sales	5,548	5,447	1.9%
Cost of sales	2,713	2,744	(1.2%)
Gross profit	2,835	2,702	4.9%
<i>[% of net sales]</i>	51.1%	49.6%	1.5pp
Royalty and commission income	26	28	(6.9%)
Other operating income	56	28	97.8%
Other operating expenses	2,172	2,122	2.3%
<i>[% of net sales]</i>	39.1%	39.0%	0.2pp
Operating profit	746	637	17.1%
<i>[% of net sales]</i>	13.4%	11.7%	1.8pp
Financial income	19	28	(30.5%)
Financial expenses	16	20	(18.3%)
Income before taxes	749	645	16.2%
<i>[% of net sales]</i>	13.5%	11.8%	1.7pp
Income taxes	208	183	13.1%
<i>[% of income before taxes]</i>	27.7%	28.4%	(0.7pp)
Net income from continuing operations	542	462	17.4%
<i>[% of net sales]</i>	9.8%	8.5%	1.3pp
Losses from discontinued operations, net of tax	1	6	(75.9%)
Net income	540	456	18.6%
<i>[% of net sales]</i>	9.7%	8.4%	1.4pp
Net income attributable to shareholders	540	455	18.7%
<i>[% of net sales]</i>	9.7%	8.3%	1.4pp
Net income attributable to non-controlling interests	1	1	(26.7%)
Basic earnings per share from continuing operations (in €)	2.65	2.29	15.9%
Diluted earnings per share from continuing operations (in €)	2.65	2.26	17.2%
Basic earnings per share from continuing and discontinued operations (in €)	2.65	2.26	17.1%
Diluted earnings per share from continuing and discontinued operations (in €)	2.64	2.23	18.4%

Net Sales

€ in millions	First quarter 2018	First quarter 2017	Change	Change (currency-neutral)
Western Europe	1,603	1,537	4.4%	4.8%
North America	1,040	988	5.3%	21.1%
APAC	1,856	1,744	6.4%	15.1%
Russia/CIS	119	160	(25.5%)	(16.4%)
Latin America	430	454	(5.3%)	10.5%
Emerging Markets	308	367	(16.0%)	(5.4%)
Other Businesses	190	197	(3.4%)	2.8%
adidas	5,000	4,842	3.3%	11.4%
Reebok	440	492	(10.6%)	(3.0%)

¹ Figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey business.



adidas AG Consolidated Statement of Financial Position (IFRS)

€ in millions	March 31, 2018	March 31, 2017	Change in %	December 31, 2017
Cash and cash equivalents	1,575	1,524	3.4	1,598
Short-term financial assets	5	5	1.0	5
Accounts receivable	2,837	2,876	[1.4]	2,315
Other current financial assets	375	605	(38.0)	393
Inventories	3,224	3,609	(10.7)	3,692
Income tax receivables	59	81	(26.6)	71
Other current assets	763	649	17.7	498
Assets classified as held for sale	-	-	n.a.	72
Total current assets	8,839	9,348	(5.4)	8,645
Property, plant and equipment	1,967	1,933	1.7	2,000
Goodwill	1,206	1,403	(14.1)	1,220
Trademarks	1,274	1,654	(22.9)	1,309
Other intangible assets	155	165	(6.4)	154
Long-term financial assets	279	187	49.5	236
Other non-current financial assets	240	90	168.3	219
Deferred tax assets	736	785	(6.3)	630
Other non-current assets	109	119	(8.4)	108
Total non-current assets	5,966	6,336	(5.8)	5,877
Total assets	14,805	15,684	(5.6)	14,522
Short-term borrowings	226	1,406	(83.9)	137
Accounts payable	1,573	1,931	(18.6)	1,975
Other current financial liabilities	396	214	84.9	362
Income taxes	547	455	20.2	424
Other current provisions	988	578	70.7	741
Current accrued liabilities	1,929	1,926	0.2	2,180
Other current liabilities	554	531	4.5	473
Total current liabilities	6,213	7,041	(11.8)	6,291
Long-term borrowings	984	982	0.1	983
Other non-current financial liabilities	25	28	(11.6)	22
Pensions and similar obligations	297	361	(17.7)	298
Deferred tax liabilities	306	371	(17.6)	275
Other non-current provisions	91	60	52.3	80
Non-current accrued liabilities	36	92	(61.4)	85
Other non-current liabilities	56	47	18.5	53
Total non-current liabilities	1,793	1,941	(7.6)	1,796
Share capital	204	202	1.1	204
Reserves ¹⁾	(211)	572	n.a.	(87)
Retained earnings ^{1) 2)}	6,820	5,945	14.7	6,333
Shareholders' equity	6,812	6,719	1.4	6,450
Non-controlling interests	(13)	(17)	21.6	(15)
Total equity	6,799	6,702	1.5	6,435
Total liabilities and equity	14,805	15,684	(5.6)	14,522
Additional balance sheet information				
Operating working capital	4,488	4,554	[1.4]	4,033
Working capital	2,626	2,307	13.8	2,354
Net Cash/(Net borrowings)	371	(859)	n.a.	484
Financial leverage	(5.4)%	12.8%	(18.2pp)	(7.5)%

1 Restated due to IFRS 9 transition effect in 2017 and 2018

2 Restated due to IFRS 15 transition effect in 2018

Rounding differences may arise in percentages and totals.