adidas GROUP

**adidas Group Full Year 2012 Results**
**March 7, 2013**
**Q&A session**
**adidas Group participants:**
**Herbert Hainer, adidas Group CEO**
**Robin Stalker, adidas Group CFO**
**John Paul O'Meara, Vice President Investor Relations**

**Michael Kuhn – Deutsche Bank**
**A few questions from my side. Firstly, on Q4 and some of the effects mentioned: is the 200 basis points gross margin improvement a clean development or are there any special factors that one should consider? And on a like-for-like basis, in Q4 you saw plus 1% in like-for-like sales in retail and you mentioned the NFL and the tough comps. So what would be a clean number? Could you help us on that? And OpEx, on the other hand, was up quite substantially. Were there any special effects or what should we expect in terms of OpEx dynamics, going forward?**
**And secondly, you mentioned your CapEx plans of EUR 500 million to EUR 550 million for the upcoming year, which is quite a considerable increase. Is there any special project included in that or is it just investments on a broad scale? Thank you.**

**Robin Stalker**
Okay, thank you very much, Michael. You know, our fourth quarter is always a little bit difficult to extrapolate because it is obviously a fairly small quarter compared to the other quarters. So unfortunately no, you can't extrapolate the gross margin, which at a 200 basis points improvement is very nice. But there is nothing really significant in terms of one-offs in there. There is about a 40 basis point negative impact from Reebok India and there is a single-digit million impact in the source cost, because of that. But I think, on this, the best guidance is to look at what we are saying for the full year 2013. Here we have provided a pretty good margin range of 48.0% to 48.5% and we have also given clear guidance on our operating margin, which is now going up again, approaching 9.0%.
Your second point was about CapEx. Generally, it tends that our CapEx is about a third to retail, a third to our infrastructure and a third to our IT. As you came here to Herzogenaurach, you have seen we have a few new buildings going up outside. We also have a major warehouse initiative in Northern Germany and many similar initiatives. But there is nothing particular that I would highlight that is different from what we have done in the past. Actually, we're not a very big CapEx company. I mean a CapEx of EUR 500 million for a business of our sort of size; I don't believe this is very large. And I think our cash flow allows us to keep it at this sort of level. We are definitely not planning on anything significantly different in the future. So I would say that a similar rate of CapEx is reasonably good guidance for the next couple of years.

**Matthias Eifert – MainFirst Bank**
**First question – you said China as an overall market is not that bad, but if I look into how bad your competitors are doing I think you might have some difficulties. Can you give us some of your insights as to when you think these difficulties will be worked through and then when we might even see this accelerate from your side? I would be happy if you maintained double-digit growth in China.**

**And my second question is, you mentioned a second innovation in running this year. Is it another product platform similar to Boost or the extension of an existing one?**
**And my third question is about basketball. Is there any other player showing potential to launch a signature shoe besides Derrick Rose? I think his injury has also shown that you probably need to broaden your basis of players and not to be too dependent on one guy. Can you give us a bit more insight on that, please?**

**Herbert Hainer**
Let me start with China. As most of you have been following us already for quite some time, you might remember that in 2009, after the Olympics in Beijing, we ran into problems in the Chinese market, where we had a lot of over-inventory. At that time I told you that we will use this opportunity to clean up the market and to build our relationship with the Chinese consumer and our retailer partners in a completely new way. We invested into our retail partners and we put in new infrastructure such that we could exchange data much faster. With this, we can read the sell-throughs better, we can refill with the right products and we can steer and control our inventory much better. And today I think it is safe to say, when you ask the key retailers in China, we have the best sell-through rates. Therefore, they achieve the best margin and they have the lowest inventory levels with our products. Of course we have done a lot of marketing activities to stimulate the consumer, as I have said in my presentation. I definitely believe that we are doing a better job than many others in the Chinese market at the moment. And you will definitely see continued growth from us in the years ahead, of that there is no doubt.
On your second point; relating to our second major innovation in footwear? This is an exciting product which is called SpringBlade. You have our marketing gurus, especially Eric Liedtke, who is running our Sports Performance division on the adidas side, with you later. And he will explain the Boost technology and he will definitely also explain to you what exactly SpringBlade is. But I will say that it is a completely new technology in our footwear offering.
And the last question was on basketball. Yes, you are right. We will further broaden our base of players. And as I have said, we have moved John Wall from Reebok to adidas, we have brought Ricky Rubio on board and we are still looking for some more players who we will also bring on board. Obviously we want to have the best ones, the young rookies, the stars, etc. and that is not as easy, but we are definitely strengthening our portfolio. Additionally, don't forget we have strengthened our relationship with the NBA into the basketball game through key retailers in the US focusing on basketball. And last but not least, we are permanently bringing out new products, as you have seen with the Crazy Light and the D Rose. And though Derrick Rose didn't play now, for I think it is eight to nine months, we activated him permanently and you have seen the positive numbers from that impacting our basketball business for 2012. There is no doubt that we need to drive our basketball business to be successful overall in the US and this is what we will continue to push further in the future. And I am sure we will have positive numbers in basketball again next year.

**Jurgen Kolb – CAI Cheuvreux**
**Three questions, first on Reebok and specifically the Vulcabras situation in Latin America. Can you update us on that situation? Is there anything negative that might pop up this year or next year? Maybe an update here would be helpful.**
**Secondly, what is your expectation in terms of currency, because obviously some currencies are a little bit of a hiccup? So what is your expectation there and how much can you control that?**
**Thirdly, on Energy Boost, maybe a little bit more about your additional plans, in terms of rollout, when will it be available to a broader retail distribution? What are your expectations and your hopes for expansion into additional categories? And also, as the product is probably not yet fully**

**available, the TPU, in terms of profitability, is that shoe more attractive for you? I mean the retail price is significantly higher than for a standard running shoe. But is that something where you see you can also achieve an extra 10, 20, 50 basis points improvement?**

**Herbert Hainer**

So, let me start with the first one on Vulcabras. Yes, as you know, we have a joint venture partnership with Vulcabras in Brazil and in Argentina. And this is not always an easy relationship and there have definitely been some challenges, especially in relation to them having their own brands and with their own business on that market. Nevertheless, we try to work with them as best we can. We are quite successful in Argentina, whereas Brazil has more pressures. In addition to that, our contract expires in 2015. So yes, we have a few challenges, but I don't expect any big negative impacts in 2013.

Let me just answer the third question, as well, before Robin goes to the currency question. Boost in terms of availability – you don't have to worry! You should not underestimate our offering capabilities, as we want to sell around 1 million pairs of Boost this year. And obviously, we have started it in our own stores, as I mentioned in my speech, and the rollout will continue throughout the rest of the year. And our plan is over the next couple of years to bring the Boost technology into all of our shoe categories. It will not be just the running category, it will also be in basketball, training and so forth. You will see this category expansion because of the advantage this technology brings, especially by comparison to what currently exists on the market today. We would be stupid not to roll it out further into other categories.

**Robin Stalker**

In terms of currencies and given the current state of the world we live in, there is considerable movement in the currencies. We obviously report in euros and we had some tailwind in 2012 through the appreciation of the euro against some of our trading currencies. However, in 2013, I think it may start going a little bit the other way. The biggest call-out here is obviously the Japanese yen. There's been significant pressure on that currency. But I think at this stage it is a bit early to suggest exactly what the developments are going to be going forward. We will keep an eye on it, obviously. Also, there is little we can do about the translations where our business is. However, in terms of the dollar-euro, we continue to hedge that in terms of our purchasing. And here we are pretty much fully hedged for 2013 and we have got a hedge rate which is just above the 132. This is obviously inferior to what we had in 2012 which was 138. So that will also give us a little bit of a headwind, but that is obviously reflected in our guidance.

**Erwan Rambourg – HSBC**

**Herbert, I think you mentioned to the press that you were expecting TaylorMade to have single-digit growth in 2013. I am just wondering if this is down to the fact that the basis of comparison in terms of growth is tough or if the market overall for golf has toughened? And related to that, and given all the moving parts with Reebok last year and the good performance of adidas, if you had to rank the brands in the adidas Group portfolio for this year in terms of growth, could you give us a sense of what that ranking would be?**

**Secondly, I was just wondering if you could help us understand when the end of the US pain will happen; i.e. when the one-offs on Reebok will stop impacting. I believe this might be Q2, but I just want you to confirm when growth rates will normalise in the US.**

**And thirdly, I think you also mentioned to the press that you didn't have in mind any acquisitions in the near future. So I was wondering if we could expect in the future – again all things being equal – that the dividend payout might increase? It's already at the high end of your range of 20% to 40%. Can it go beyond that? Thank you.**

**Herbert Hainer**
So let me start with your first question. Yes, the single-digit growth is definitely a reflection of the fast growth which we have had over the last several years. And as I also said in my presentation, we definitely want to make sure that we have quality growth. So we don't want to overheat the market, but we believe that with all of the new products which we are bringing into the market we will further grow our top-line and of course also drive our profits within that growth to a higher level.
The second question was on the ranking of the brands in terms of their growth prospects. We want to grow with all three of our major brands. Overall, we said that we want to grow mid-single digit for the full year. Obviously, then the adidas brand has to grow at a similar rate, because it is the biggest part. But we have also made a commitment that we want to grow the Reebok business in 2013. So you will definitely see all the three brands growing in 2013.
And then there was your question on acquisitions. No, we don't have any plans for any acquisitions, because I believe that we have still enough work to do with our Reebok brand. And we believe that we have enough potential with all three of our brands to further grow to the level that we have outlined in our Route 2015 plan. And as Robin has said already in his presentation, we also want to give money back to the shareholders, within our guidance range of 20% to 40%. Currently, we are at 35.7% and this is definitely what we want to continue to do – return money to our shareholders.

**Robin Stalker**
Okay, you were asking about the normalisation of the Reebok business in America and that's basically because of the impact of the NFL contract. On that, you will still see some impact in the first quarter. So your assumption is indeed correct, that from the second quarter on it should be normalised.

**Andreas Inderst – Exane BNP Paribas**
**I have three questions. The first one is on Reebok India. After the third quarter you guided up to EUR 70 million one-offs to clean up the market. And I just want to calculate a clean EBIT margin for the full year 2012. Maybe you can help? How much did you spend overall? Was it more than EUR 70 million given that you cut roughly 2% of the workforce at Reebok?**
**My second question relates to your working capital – nice improvements on the inventory side. Robin, what can we expect going forward from inventory management? What kind of potential do you see to further improve your turns? And maybe you can quantify the impact for the mid-term.**
**And my third question relates to the lifestyle segment – very nice development in the fourth quarter and also the full year. I believe you are guiding for high-single-digit/low-double-digit sales growth for 2013.**
**And on adidas NEO, how is it going here? You have already introduced the collection broadly to the market in some emerging markets and in North America. How is the store roll-out of the test stores going in Germany and what can we expect in terms of roll-out in Continental Europe?**

**Robin Stalker**
Okay, Andreas, I will take the first two questions and then Herbert will answer the third one. So I know you would love to get it as clean as possible and I can repeat the Reebok India impact in 2012 is almost exactly EUR 70 million. We were just a little bit under that by the third quarter. There was limited impact in the fourth quarter.
But let me make it clear that this EUR 70 million is the difference between what our initial expectations were for the business for the contribution in 2012 in India and what actually happened. This is because of – as you correctly said – our clean-up efforts in India, where we've closed

franchisee shops. I think we've closed around 400 shops and we have paid our minimum guarantees. So we have also had obviously a loss of sales and margin from that period. So it was a mixture of many of these things that clearly impacted our profit and loss in 2012.
In terms of the second question, working capital; I guided last year that our operating working capital as a percentage of sales was probably likely to slightly deteriorate or increase in 2012, whereas in fact we were actually able to do better. I guide again now with a little bit of caution that it is getting very difficult to further improve this metric, because as we grow our retail business we are also obviously carrying inventory a little bit longer. And so, I am optimistic that we will continue to manage our working capital extremely diligently. But I think we will keep the level of working capital close to what it is at the moment, 20.0%. And I think that is a pretty good level which we will try to maintain. What I would say, however, is in relation to the inventory specifically, and particularly about stock turns. Here, although we will carry more inventory, I think there is some opportunity to improve our stock turns, particularly when I look at some of our large retailer operations, and here I am referring specifically to Russia. There are opportunities in our supply chain to further improve the speed of delivery to market, shorten the lead times and therefore presumably keep less inventory on hand. So I am not giving up on it and I think there are still opportunities to improve, but I think I can't promise too much on this area over the next year.

**Herbert Hainer**
In answering your third question, Andreas, on adidas NEO; obviously we are quite happy with the performance of NEO. As you have seen, 14% sales growth in 2012, and especially because we are targeting a new consumer group, as you know. So therefore we are quite happy. This success is mainly driven by China and by Russia. But also you asked about the 10 test stores in Germany which we opened since summer last year. And we said we will do a test phase for around 12 months. This will end in summer this year, then we will fully review and analyse the situation and define the next steps. I can tell you that overall we are very pleased with our learnings and the performance of these 10 test stores. And it definitely would not be a surprise if we decide to further roll out NEO stores in Europe starting in the second half of 2012.

**Andreas Inderst – Exane BNP Paribas**
**Okay, coming back to India and the EUR 70 million – let me ask the question differently. You said it is a difference between initial expectations and what in the end came out. How much of the EUR 70 million will you recoup, let's say in 2013 and 2014?**

**Robin Stalker**
I knew you would be looking at that. So the thing is it is difficult to say exactly how much that would be. What we obviously will not be repeating in 2013 are the closure of franchisee costs and the restructuring costs that we did. And we will get some sales back, so some of that EUR 70 million presumably will come back. I don't believe, however, it will be a tremendous amount because the sales volume or the sales expectations that we have for Reebok India 2013 are still a lot lower than what our initial expectations were for Reebok India 2012. So you get a little bit of that EUR 70 million back, definitely, but not all of it.

**John Guy – Berenberg Bank**
**Just a few questions, please. The first one is with regard to the inventories which were up 1% on a currency-neutral basis. When you are looking at such well-managed stock, are there any specific areas where you think the inventories are maybe slightly too high or are they evenly balanced across all the regions?**

**A second question with regard to – not acquisitions, but – disposals. Is there any comment you can give on potential progress around the disposal of the Reebok Hockey business? I think that you had a few interested parties and I was just wondering if there is any update on that? Thank you.**

**Robin Stalker**
I will take the first question. So no, the very good thing about the development of our inventories over the last several quarters is that it really is across the board. We have been able to install good discipline throughout all of our operating units to keep a focus on it. We are obviously doing a tremendous amount also in the supply chain to become even more efficient in what is already a good supply chain. And so, it is not just one particular area. However, I think the area where I would identify some potential improvements relates to what I just answered in the previous question. This is our major retail operations, particularly in Russia, where we have rather long supply chains at the moment, and that would be a key area where there is potential to improve.

**Herbert Hainer**
Yes, you are right, we are always getting interest for parts of our business and we definitely had some interested parties looking at our hockey business and, yes we did speak to them. But we haven't got a satisfactory offer from anyone. And you know we have quite a lot of innovations that we are bringing to the hockey business; be it in the RBZ sticks which we have brought over from TaylorMade's technology into the hockey business and which is CCM's most sold stick yet. Maybe the NHL lockout hasn't helped there, but we are not under pressure to sell. Therefore we decided no, and we stopped the sale process. We will continue to drive our business, make it more profitable and drive growth. So this is the status at the moment.

**Andreas Riemann – Commerzbank**
**Two questions from my side. In 2014 there will be the next soccer World Cup in Brazil. And my question is: How are you planning to use this as you begin to focus more on Latin America, because this is not one of your core regions?**
**And a second question is on retail; you closed 260 stores – how many of the closures are basically opening next door or what are real closures? And given that you are becoming a bigger retailer I assume you can probably collect more data points. Is this number going to come down in the future?**

**Herbert Hainer**
So, in terms of football, obviously this is a big event for us as we are the number one football brand in the world. And we are the official sponsors of the 2014 football World Cup and will have a lot of teams there. Obviously the qualification process is not finished yet, but when you think that strong teams such as Mexico, Argentina, Paraguay and so on are all from the Latin America region this will be an important factor when you consider this World Cup. So yes, this will be a big event for us and we will use it to further drive our business in Latin America.
And you mentioned that Latin America is not a core area for us. But Latin America is definitely one of the areas where we grew the fastest in the last 10 years. So this business is certainly very relevant for us and we have a very good market position in most of the countries in the region. Therefore we definitely will use the World Cup in 2014, starting even with the Confederations Cup this year, to show to the consumer what we are all about.

**Robin Stalker**

Andreas, yes, you right in picking up the fact that we are becoming a much more sophisticated retailer. We are learning a lot obviously about retail. And one of these learnings is that you do need to close stores obviously as soon as you identify they are probably potentially not as profitable as you might have initially thought they would be. And so there may be a number particularly in some of the emerging markets where there has been a larger shop opened in close proximity. But my understanding is that you should expect a continuation of a fine-tuning of our retail platform. We have over 2,400 stores at the moment and closing a couple of hundred and opening a couple of hundred of them will continue to be part of our management of our retail footprint.
And yes, we're definitely getting more data and understanding more about where it's appropriate to invest. And we have also a very sophisticated view together with our wholesale guys about our integrated distribution plan for all of our major markets and major cities as to where we want to be in retail or where we want to be in franchising or where we want to be with direct wholesale business.
And so, that is getting more and more sophisticated. But you should continue to expect us to continue closing stores in the future as well.

**Bernd Muell – Landesbank Baden Wurttemberg**

**Just a question on the gross margin, once again, you are guiding for another increase this year and we have briefly talked about the input costs. How do you see things in both of these cases? I guess the pressure on labour costs will continue to increase, as I recently saw that Cambodian workers are rejecting pay hikes of 18%? So I guess the pressure is on there. How do you see material prices evolving in 2013? And are you guiding for an increase in these costs and, if so, do you feel that your countermeasures, such as accelerated growth in retail and all the other factors that you have explained to us recently, will continue to perform strongly in 2013, too? Perhaps you can just enlighten us a little bit more on that.**

**Robin Stalker**
So, fundamentally we believe in our inventory developments and that we will continue, over the next few years, to see increased pressures on our FOBs. The fundamentals, both in terms of wages and also raw materials, are such that it is likely that rubber or other oil-based derivatives are going to continue to be at this high cost level or maybe even get more expensive. Definitely, as you commented yourself on the wages situation, that's clearly the case. However, for 2013 we don't see, through the visibility we already have for the year ahead, significant increases in the raw materials. However, we do see continued pressure on wages. But we are confident, not just through the efforts that we have made to continue to be even better in our supply chain, but also through the dynamics of our businesses and product mix. Furthermore and as you highlighted, with retail growing faster, emerging markets also with higher margins, that will overcompensate for whatever those pressures are. But I don't think we can see them going away.

**Herbert Hainer**
Maybe I can add one more point. As we told you already 18 months ago, we also are looking at all our products and how we can re-engineer them and add more value with lower cost into the business. Innovations such as completely knitted footwear in one piece is one of these initiatives, and we have many more. And they have already helped in 2012, despite the high cost pressures which we had from the FOB side, to keep our margin.

**Louise Singlehurst – Morgan Stanley**

**Two questions from me, please. Firstly focusing on the US market, there's clearly a huge potential for market share growth for adidas Group, when we look at some of the shared data in that market. Can you talk about your discussions with wholesalers? Are you taking more floor space within those stores?**
**And when we think about the new product launches, i.e. Boost this year, is that incremental or does it start to replace something like the lightweight running that seems to be waning in terms of popularity?**
**And then my second question is slightly related to that, I am just thinking about the advertising spend. I was impressed to see that advertising as a percentage of sales slightly came down in 2012. Should we expect that to be ramped up particularly in the US over the next couple of years as you take market share? Thank you.**

**Herbert Hainer**
Let me answer the first question in terms of the market share growth in the US and floor space developments. In my opinion, the one goes with the other. When you see what we have done in the last few years in the US market where adidas has grown more or less every year double-digit, 9% last year, this means that we are winning shelf space and we are winning the hearts and minds of the US consumer, especially with the high school kids. And this will further help us to drive our sales. Yes, we are doing more shop-in-shop solutions with our key customers in the US especially – in the mall and in the sporting goods channel. And this is exactly where we find our high school kid consumers. And this is what you will see in the future, where we will have a stronger presence in these stores through the different categories. And this obviously will help us to get better sales and therefore also better market share.
In terms of advertising or marketing spend in the US, we have definitely found the right formula to spend on what is necessary to drive our sales in a qualitative way. In the US, this means, on the one hand, that we drive our sales and further build our business. And on the other hand, we are driving progress on our margin in the US and you see this getting better and better year-by-year. And once again it all comes back to what we said in our presentation: We went to have quality growth, not just volume.

**John Paul O'Meara**
So, ladies and gentlemen, that completes our conference call for today.