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adidas records strong recovery in third quarter

Major developments:

- **Third quarter top- and bottom-line results close to prior year level**
- **Currency-neutral revenues down 3%, reflecting focus on healthy inventories, profitable sell-through and disciplined wholesale sell-in**
- **E-com sales up 51% with strong increase in full-price share**
- **Gross margin of 50.0% despite headwinds from adverse FX and promotional activities**
- **Operating profit of € 794 million resulting in return to double-digit operating margin**
- **Sequential operating profit improvement of more than € 1.1 billion versus last quarter**
- **Inventories reduced by 10% compared to end of Q2**
- **Similar top-line development expected in fourth quarter as experienced in Q3**

"We saw a strong recovery in our business in Q3. Our focus on healthy inventories, profitable sell-through and disciplined sell-in clearly paid off: inventories declined by more than half a billion euros and our full-price share in e-com increased at a double-digit rate. At the same time, we kept costs under control and delivered a profit improvement of more than € 1.1 billion compared to Q2," said adidas CEO Kasper Rorsted. "Our teams around the globe drove this improvement with dedication and passion. As the coronavirus pandemic is unfortunately far from being over, it remains our top priority to keep everyone healthy and safe."

Strong sequential revenue improvement in the third quarter

adidas recorded a strong sequential revenue improvement in the third quarter as more than 90% of the company's own-retail stores were operational, most of which had been closed for several weeks during the second quarter. Traffic in the stores continued to improve yet remained significantly below prior year levels. At the same time, conversion rates stayed elevated as consumers that visited stores had a clearer buying intent. Despite the consistently high store opening rate, exceptional growth in the company's e-commerce channel continued at a currency-neutral rate of 51%. This growth was accompanied by a strong increase in full-price sales. The company's overall direct-to-consumer business grew 13% in currency-neutral terms and accounted for 35% of total sales in the quarter. The wholesale business also improved sharply yet remained below the prior year level. This also reflects adidas' disciplined stance on shipments in light of the prevailing uncertainties related to the global coronavirus pandemic. In total, third quarter revenues decreased 3% in currency-neutral terms. Brand adidas sales declined 2%, while Reebok revenues were down 7%. In euro terms, revenues decreased 7% to € 5.964 billion (2019: € 6.410 billion).

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Europe and Russia/CIS return to growth

During the third quarter, all market segments showed a sequential recovery compared to the second quarter. Currency-neutral sales in Russia/CIS (+11%) as well as Europe (+4%) even returned to growth. In North America, the company recorded a slight decline of -1% for the full quarter despite positive sales growth over the first two months of the quarter as consumer spending was temporarily supported by fiscal stimulus. Asia-Pacific sales declined by 7%, with Greater China recording a 5% decrease after initial pent-up demand faded. While the company's direct-to-consumer sales in Greater China grew at a rate of more than 30%, franchise revenues were below the prior year level also due to adidas' disciplined approach to sell-in. The overall environment remained challenging in Latin America (-13%) and Emerging Markets (-10%), where the pandemic continued to disrupt operations and several stores remained closed.

Gross margin level of 50.0% despite temporary headwinds

The company's gross margin decreased 2.1 percentage points to 50.0% (2019: 52.1%) in the third quarter. A more favorable channel mix driven by the overproportionate growth of the direct-to-consumer business as well as a more favorable market mix supported gross margin. As anticipated, these tailwinds were more than offset by negative currency developments during the quarter and continued promotional activity. The impact of the latter was significantly less pronounced than in the second quarter due to the company's focus on profitable sell-through and disciplined sell-in.

Return to double-digit operating margin resulting in operating profit of € 794 million

As a result of the company's strict cost control measures, other operating expenses decreased 11% to € 2.223 billion (2019: € 2.486 billion) and, as a percentage of sales, were down 1.5 percentage points to 37.3% (2019: 38.8%). Marketing and point-of-sale expenses declined 23% to € 579 million (2019: € 753 million) as adidas continued its disciplined approach regarding physical marketing activities, while at the same time keeping up digital marketing investments to support its e-commerce business. As a percentage of sales, marketing and point-of-sale expenses were down 2.0 percentage points to 9.7% (2019: 11.7%). Operating overhead expenses decreased 5% to € 1.644 billion (2019: € 1.733 billion). The company recorded lower expenses for travel, IT projects and personnel, which offset increased logistics costs resulting from the continued exceptional growth in e-commerce. As a percentage of sales, operating overhead expenses increased 0.5 percentage points to 27.6% (2019: 27.0%). Compared to the second quarter, the company's operating profit improved by more than € 1.1 billion to a level of € 794 million (2019: € 897 million). This represents a double-digit operating margin of 13.3% (2019: 14.0%).

Net income from continuing operations of € 578 million

The company recorded net income from continuing operations of € 578 million (2019: € 644 million). As a result, basic earnings per share (EPS) from continuing operations amounted to € 2.80 (2019: € 3.26).

Coronavirus pandemic weighs on adidas' results in first nine months of 2020

In the first nine months of 2020, revenues decreased 18% on a currency-neutral basis and 20% in euro terms to € 14.297 billion (2019: € 17.802 billion). From a brand perspective, currency-neutral revenues for brand adidas decreased 18%, while Reebok revenues declined 20%. This development was mainly driven by broad-based store closures due to the global spread of the coronavirus pandemic in the first half of the year. Gross margin was down 3.0 percentage points to 50.0% (2019: 53.0%). A more favorable channel mix due to the exceptional e-commerce growth as well as lower sourcing costs had a positive effect on gross margin. This was countered by a less favorable pricing mix due to increased promotional activity and negative currency fluctuations which weighed on the development in the first nine months of 2020. In addition, an increase in inventory allowances as well as purchase order cancellation costs had a negative impact on the gross margin development. Other operating expenses declined 6% to € 6.717 billion (2019: € 7.149 billion) as a result of the company's decision to proactively reduce costs in light of the coronavirus pandemic. As a percentage of sales, other operating expenses increased 6.8 percentage points to 47.0% (2019: 40.2%). The company recorded an operating profit of € 526 million (2019: € 2.416 billion), resulting in an operating margin of 3.7% (2019: 13.6%). The operating profit development was significantly impacted by several coronavirus-related charges in the first half of 2020. These mainly consisted of product takebacks in Greater China, purchase order cancellations, the increase in inventory and bad debt allowances as well as the impairment of retail stores and the Reebok trademark, with a combined negative impact of around € 500 million. During the nine-month period, adidas reported a net income from continuing operations of € 291 million (2019: € 1.737 billion). Basic as well as diluted EPS were € 1.47 (2019: € 8.76).

Inventories decreased 10% compared to the level as at June 30

Inventories increased 27% to € 4.676 billion versus the prior year level of € 3.677 billion (+35% currency-neutral). This increase reflects the inevitably lower-than-expected product sell-through caused by the broad-based store closures during the first half of the year as well as traffic remaining below prior year levels after stores reopened. Compared to the level as at June 30, 2020, inventories decreased 10%, or more than € 500 million, as the company's inventory normalization is progressing according to plan. The year-over-year increase in inventories was partly offset by a 20% decline in accounts receivable (-14% currency-neutral) as adidas continued to put emphasis on cash collection. Accounts payable decreased 27% (-26% currency-neutral). Overall, operating working capital increased 22% to € 5.573 billion (September 30, 2019: € 4.569 billion) and was up 33% on a currency-neutral basis. Average operating working capital as a percentage of sales increased 5.1 percentage points to 23.2% (September 30, 2019: 18.1%).

Cash position of € 3.2 billion at quarter-end

Cash and cash equivalents were up 37% to € 3.224 billion versus the prior year level of € 2.349 billion. The decrease in cash generated from operating activities due to the unfavorable underlying development of sales and operating working capital was more than offset by effective short-term cash measures, the utilization of credit lines and the issuance of bonds. Net debt amounted to € 1.092 million at the end of the first nine months (September 30, 2019: net cash of € 342 million).

Similar top-line development expected in fourth quarter as experienced in Q3

In Q4, uncertainties around the further development of the coronavirus pandemic as well as the global macroeconomic environment remain high. adidas has continued to successfully execute on its product launch plans since the start of the quarter. However, the number of coronavirus cases in several of its major markets have been on the rise recently, leading to new lockdown measures in several countries. As a result, the company's global store opening rate has fallen to 93% most recently, down from 96% at the end of September. In addition, stricter social distancing guidelines had an adverse impact on store traffic, particularly in Europe. Overall, the company's top line is predicted to develop similarly in Q4 as it did in Q3, implying a low- to mid-single-digit currency-neutral revenue decline. This development is against a strong comparison base from the prior year, when the launch of UEFA Euro 2020 merchandise and earlier shipments due to a different timing of Chinese New Year contributed to Q4 growth. Despite the strong comparison base in Greater China, adidas expects its business in this market to return to growth in the fourth quarter.

As a result of the company's focus on profitable sell-through and disciplined sell-in, gross margin is expected to be around the prior year level in Q4. Consequently, operating profit is anticipated to be between € 100 million and € 200 million. This outlook assumes no additional major lockdowns, a store opening rate above 90% and no further material slowdown of global store traffic.

"While at the beginning of the quarter we were on track for growth in Q4, a worsening of the pandemic in many regions of the world is again requiring our patience and support. However, this is not taking us by surprise. Thanks to our prudent approach, we are now well-prepared to cope with these short-term uncertainties," said adidas CEO Kasper Rorsted. "At the same time, we are even better positioned to benefit from the long-term industry growth drivers accelerated by the pandemic such as health and wellbeing, athleisure and digitization."

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adidas AG Condensed Consolidated Income Statement (IFRS)

€ in millions	Quarter ending September 30, 2020	Quarter ending September 30, 2019	Change
Net sales	5,964	6,410	*(7.0%)*
Cost of sales	2,981	3,071	*(2.9%)*
Gross profit	**2,984**	**3,339**	***(10.6%)***
(% of net sales)	50.0%	52.1%	*(2.1pp)*
Royalty and commission income	24	37	*(36.9%)*
Other operating income	10	7	*34.0%*
Other operating expenses	2,223	2,486	*(10.6%)*
(% of net sales)	37.3%	38.8%	*(1.5pp)*
Marketing and point-of-sale expenses	579	753	*(23.0%)*
(% of net sales)	9.7%	11.7%	*(2.0pp)*
Operating overhead expenses[1]	1,644	1,733	*(5.1%)*
(% of net sales)	27.6%	27.0%	*0.5pp*
Operating profit	**794**	**897**	***(11.6%)***
(% of net sales)	13.3%	14.0%	*(0.7pp)*
Financial income	6	12	*(53.2%)*
Financial expenses	44	44	*0.1%*
Income before taxes	**755**	**865**	***(12.7%)***
(% of net sales)	12.7%	13.5%	*(0.8pp)*
Income taxes	177	220	*(19.7%)*
(% of income before taxes)	23.5%	25.5%	*(2.0pp)*
Net income from continuing operations	**578**	**644**	***(10.4%)***
(% of net sales)	9.7%	10.1%	*(0.4pp)*
(Loss)/gain from discontinued operations, net of tax	(1)	2	*n.a.*
Net income	**577**	**646**	***(10.8%)***
(% of net sales)	9.7%	10.1%	*(0.4pp)*
Net income attributable to shareholders	**546**	**646**	***(15.5%)***
(% of net sales)	9.1%	10.1%	*(0.9pp)*
Net income attributable to non-controlling interests	**31**	**1**	***4,281.3%***
Basic earnings per share from continuing operations (in €)	**2.80**	**3.26**	***(14.2%)***
Diluted earnings per share from continuing operations (in €)	**2.80**	**3.26**	***(14.2%)***
Basic earnings per share from continuing and discontinued operations (in €)	**2.80**	**3.27**	***(14.6%)***
Diluted earnings per share from continuing and discontinued operations (in €)	**2.80**	**3.27**	***(14.6%)***

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.

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Net Sales

€ in millions	Quarter ending September 30, 2020	Quarter ending September 30, 2019	Change	Change (currency-neutral)
Europe	1,753	1,698	*3.3%*	*3.6%*
North America	1,389	1,468	*(5.4%)*	*(1.2%)*
Asia-Pacific	1,872	2,090	*(10.4%)*	*(7.0%)*
Russia/CIS	187	199	*(6.0%)*	*10.5%*
Latin America	296	405	*(26.9%)*	*(13.2%)*
Emerging Markets	314	388	*(19.1%)*	*(10.4%)*
Other Businesses	153	162	*(5.5%)*	*(2.7%)*
adidas	5,459	5,849	*(6.7%)*	*(2.5%)*
Reebok	403	460	*(12.3%)*	*(7.2%)*

Rounding differences may arise.

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adidas AG Condensed Consolidated Income Statement (IFRS)

€ in millions	Nine months ending September 30, 2020	Nine months ending September 30, 2019	Change
Net sales	14,297	17,802	*(19.7%)*
Cost of sales	7,141	8,367	*(14.6%)*
Gross profit	**7,155**	**9,435**	***(24.2%)***
(% of net sales)	50.0%	53.0%	*(3.0pp)*
Royalty and commission income	58	111	*(48.1%)*
Other operating income	30	18	*61.0%*
Other operating expenses	6,717	7,149	*(6.0%)*
(% of net sales)	47.0%	40.2%	*6.8pp*
Marketing and point-of-sale expenses	1,843	2,200	*(16.2%)*
(% of net sales)	12.9%	12.4%	*0.5pp*
Operating overhead expenses[1]	4,874	4,949	*(1.5%)*
(% of net sales)	34.1%	27.8%	*6.3pp*
Operating profit	**526**	**2,416**	***(78.2%)***
(% of net sales)	3.7%	13.6%	*(9.9pp)*
Financial income	19	28	*(31.1%)*
Financial expenses	128	112	*13.8%*
Income before taxes	**417**	**2,331**	***(82.1%)***
(% of net sales)	2.9%	13.1%	*(10.2pp)*
Income taxes	126	594	*(78.8%)*
(% of income before taxes)	30.2%	25.5%	*4.7pp*
Net income from continuing operations	**291**	**1,737**	***(83.2%)***
(% of net sales)	2.0%	9.8%	*(7.7pp)*
(Loss)/gain from discontinued operations, net of tax	(5)	74	*n.a.*
Net income	**286**	**1,811**	***(84.2%)***
(% of net sales)	2.0%	10.2%	*(8.2pp)*
Net income attributable to shareholders	**281**	**1,809**	***(84.4%)***
(% of net sales)	2.0%	10.2%	*(8.2pp)*
Net income attributable to non-controlling interests	**4**	**2**	***117.2%***
Basic earnings per share from continuing operations (in €)	**1.47**	**8.76**	***(83.2%)***
Diluted earnings per share from continuing operations (in €)	**1.47**	**8.76**	***(83.2%)***
Basic earnings per share from continuing and discontinued operations (in €)	**1.44**	**9.13**	***(84.2%)***
Diluted earnings per share from continuing and discontinued operations (in €)	**1.44**	**9.13**	***(84.2%)***

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.

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Net Sales

€ in millions	Nine months ending September 30, 2020	Nine months ending September 30, 2019	Change	Change (currency-neutral)
Europe	4,023	4,670	(13.8%)	(13.6%)
North America	3,353	3,838	(12.6%)	(12.5%)
Asia-Pacific	4,628	6,101	(24.1%)	(23.2%)
Russia/CIS	444	506	(12.1%)	(5.1%)
Latin America	750	1,184	(36.7%)	(24.9%)
Emerging Markets	715	999	(28.4%)	(24.7%)
Other Businesses	383	504	(24.1%)	(23.8%)
adidas	13,023	16,195	(19.6%)	(17.9%)
Reebok	1,003	1,285	(22.0%)	(19.9%)

Rounding differences may arise.

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adidas AG Consolidated Statement of Financial Position (IFRS)

€ in millions	September 30, 2020	September 30, 2019	Change in %
Cash and cash equivalents	3,224	2,349	37.3
Short-term financial assets	0	6	(97.2)
Accounts receivable	2,607	3,247	(19.7)
Other current financial assets	772	699	10.4
Inventories	4,676	3,677	27.2
Income tax receivables	128	78	65.2
Other current assets	955	892	7.1
Total current assets	**12,363**	**10,946**	**12.9**
Property, plant and equipment	2,180	2,213	(1.5)
Right-of-use assets	2,648	2,919	(9.3)
Goodwill	1,233	1,276	(3.4)
Trademarks	785	886	(11.4)
Other intangible assets	244	216	13.2
Long-term financial assets	351	361	(2.8)
Other non-current financial assets	375	418	(10.4)
Deferred tax assets	1,170	723	61.9
Other non-current assets	113	150	(24.2)
Total non-current assets	**9,100**	**9,162**	**(0.7)**
Total assets	**21,463**	**20,109**	**6.7**
Short-term borrowings	1,726	414	316.7
Accounts payable	1,710	2,354	(27.4)
Current lease liabilities	598	559	6.9
Other current financial liabilities	289	227	27.5
Income taxes	630	379	66.4
Other current provisions	1,371	1,304	5.1
Current accrued liabilities	2,204	2,266	(2.7)
Other current liabilities	394	483	(18.4)
Total current liabilities	**8,923**	**7,986**	**11.7**
Long-term borrowings	2,590	1,599	62.0
Non-current lease liabilities	2,309	2,547	(9.3)
Other non-current financial liabilities	94	92	2.1
Pensions and similar obligations	267	260	2.5
Deferred tax liabilities	247	297	(16.7)
Other non-current provisions	215	205	4.8
Non-current accrued liabilities	8	12	(38.6)
Other non-current liabilities	19	7	178.3
Total non-current liabilities	**5,750**	**5,020**	**14.5**
Share capital	195	197	(0.8)
Reserves	(247)	347	n.a
Retained earnings	6,584	6,572	0.2
Shareholders' equity	**6,532**	**7,115**	**(8.2)**
Non-controlling interests	259	(12)	n.a.
Total equity	**6,791**	**7,103**	**(4.4)**
Total liabilities and equity	**21,463**	**20,109**	**6.7**
Additional balance sheet information			
Operating working capital	5,573	4,569	22.0
Working capital	3,441	2,961	16.2
(Net borrowings)/net cash	(1,092)	342	n.a.
Financial leverage	16.7%	(4.8%)	21.5pp

Rounding differences may arise.