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adidas delivers strong results in 2019

Major developments in 2019:

- **Currency-neutral revenues up 6%**
- **Double-digit sales increases in strategic growth areas Greater China and e-commerce**
- **Operating margin expands to 11.3%**
- **Net income from continuing operations grows 12% to € 1.918 billion (up 15% to € 1.972 billion when excluding negative impact from IFRS 16)**
- **Management proposes dividend increase of 15% to € 3.85 per share**

Outlook for 2020:

- **Currency-neutral sales to increase between 6% and 8%**
- **Operating margin to increase to between 11.5% and 11.8%**
- **Net income from continuing operations to increase between 10% and 13%**
- **Outlook for 2020 does not reflect any impact from coronavirus outbreak in China**

"In 2019, we proved our resilience and delivered a strong year yet again. We recorded revenue increases across all regions and our direct-to-consumer business grew double-digits driven by e-commerce, one of our strategic growth areas," said adidas CEO Kasper Rorsted. "In 2020, we will stay focused on the execution of our strategy to bring 'Creating the New' home and aim for a sixth consecutive year of double-digit bottom-line growth. Following the outbreak of the coronavirus, our business in Greater China has experienced a significant negative impact since Chinese New Year. As the situation keeps evolving, we cannot yet reliably quantify the magnitude of the overall financial impact in 2020. Regardless of the impact on our business, it remains our top priority to ensure the health and safety of our employees and their families."

Financial Performance in 2019

Currency-neutral sales increase 6% in 2019

In 2019, adidas delivered another year of robust top-line growth with currency-neutral revenues increasing 6%, despite supply chain shortages which the company had experienced following a strong increase in demand for mid-priced apparel. The company's sales increase was driven by a 7% improvement at brand adidas, reflecting high-single-digit sales growth in Sport Inspired as well as a mid-single-digit gain in Sport Performance. The Reebok brand returned to growth in 2019, with currency-neutral revenues up 2% versus the prior year. This increase was driven by double-digit growth in its home market North America. From a channel perspective, the company's top-line increase was largely driven by 18% growth in direct-to-

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consumer revenues with particularly strong support from e-commerce, where revenues grew 34% to almost € 3 billion in 2019. Direct-to-consumer, including e-commerce, now accounts for one-third of the company's total business (2018: 30%). In euro terms, the company's revenues grew 8% to € 23.640 billion (2018: € 21.915 billion).

Revenue increases in all market segments with Europe returning to growth

From a market segment perspective, the top-line expansion in 2019 was driven by growth in all regions. The combined currency-neutral sales of the adidas and Reebok brands continued to expand at double-digit rates in both Asia-Pacific (10%), driven by a 15% increase in Greater China, and Emerging Markets (13%). North America currency-neutral revenues were up 8%, despite the supply chain shortages which weighed on the region's growth particularly in the first half of the year. Currency-neutral revenues in Latin America were up 7% and sales in Russia/CIS increased 8%, despite tough prior year comparisons related to the 2018 FIFA World Cup. Europe returned to growth with a currency-neutral sales increase of 3% as strategic measures showed the planned effects.

Operating margin expands further to a level of 11.3%

The company's gross margin increased 0.2 percentage points to 52.0% (2018: 51.8%). Lower sourcing costs, positive currency developments as well as a better product and channel mix more than offset higher air freight costs to mitigate the supply chain shortages and a less favorable pricing mix. Other operating expenses were up 7% to € 9.843 billion in 2019 (2018: € 9.172 billion). As a percentage of sales, however, other operating expenses decreased 0.2 percentage points to 41.6% from 41.9% in 2018. In 2019, marketing and point-of-sale expenses amounted to € 3.042 billion (2018: € 3.001 billion) as the company further increased investments into its brands and into the sell-through of its products. As a percentage of sales, marketing and point-of-sale expenses decreased 0.8 percentage points to 12.9% (2018: 13.7%). Operating overhead expenses increased 10% to € 6.801 billion (2018: € 6.171 billion), driven by overproportionate growth in the direct-to-consumer business and further investments into the company's scalability. As a percentage of sales, operating overhead expenses increased 0.6 percentage points to 28.8% (2018: 28.2%). The company's operating profit grew 12% in 2019 to € 2.660 billion (2018: € 2.368 billion), € 24 million of which was attributable to the first-time application of IFRS 16. Operating margin increased 0.4 percentage points to 11.3% (2018: 10.8%).

Net financial result and tax rate decrease

Financial income increased 11% to € 64 million in 2019 (2018: € 57 million), while financial expenses were up 253% to € 166 million compared to € 47 million in 2018. This development was mainly due to higher interest expenses related to the first-time application of IFRS 16. As a result, the company recorded a net financial result of negative € 102 million, compared to

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positive € 10 million in 2018. The company's tax rate decreased 3.1 percentage points to 25.0% in 2019 (2018: 28.1%).

Net income from continuing operations up 12%

Net income from continuing operations increased 12% to € 1.918 billion in 2019 versus € 1.709 billion in the prior year. As a result of the company's ongoing share buyback program, basic EPS from continuing operations increased overproportionately at a rate of 15% to € 9.70 from € 8.46 in 2018. The first-time application of IFRS 16 had a negative impact on net income from continuing operations in the amount of € 54 million in 2019, which reduced year-over-year net income and EPS growth by approximately 3 percentage points. Excluding this impact, net income from continuing operations grew 15% to € 1.972 billion in 2019 while basic EPS from continuing operations increased 18% to € 9.97.

Average operating working capital as a percentage of sales decreases

At the end of December 2019, inventories increased 19% to € 4.085 billion (2018: € 3.445 billion). On a currency-neutral basis, inventories increased 18%, reflecting a low prior year comparison base and higher levels of year-end inventory related to the earlier occurrence of Chinese New Year. Accounts receivable increased 9% to € 2.625 billion at the end of December 2019 (2018: € 2.418 billion) while accounts payable were up 18% to € 2.703 billion (2018: € 2.300 billion). The latter development is a direct result of improved payment terms with the company's vendors. Average operating working capital as a percentage of sales decreased 0.9 percentage points to 18.1% (2018: 19.0%).

Net cash position of € 873 million

Net cash at December 31, 2019 amounted to € 873 million, compared to net cash of € 959 million in 2018, representing a decrease of € 86 million compared to the prior year. This development was driven by cash generated from operating activities, which was more than offset by the utilization of cash for the purchase of fixed assets as well as the dividend paid to shareholders and the repurchase of adidas AG shares.

Strong focus on driving shareholder returns

As a result of the strong operational and financial performance in 2019, the company's strong financial position as well as Management's confidence in adidas' short- and long-term growth aspirations, the Executive and Supervisory Boards will recommend paying a dividend of € 3.85 per dividend-entitled share to shareholders at the Annual General Meeting on May 14, 2020. This represents an increase of 15% compared to the prior year dividend (2018: € 3.35) and a payout ratio of 39.2% of net income from continuing operations based on the number of shares outstanding as at the date of preparation of the consolidated financial statements (2018: actual payout ratio of 38.9%). This is within the target range of between 30% and 50% of net income from continuing operations as defined in the company's dividend policy. In addition, adidas continues its multi-year share buyback program launched in March 2018. In the first two tranches, a total of € 1.8 billion was successfully deployed until the end of 2019. As part of the third tranche, adidas plans to again repurchase own shares worth up to € 1.0 billion in 2020.

Financial Performance in Q4 2019

Currency-neutral sales increase 10% in the fourth quarter of 2019

In the fourth quarter, adidas revenues increased 10% on a currency-neutral basis. This development reflects an increase of 11% at brand adidas, due to double-digit growth in both Sport Inspired and Sport Performance. The latter was driven by double-digit growth in the training, running and basketball categories. Revenues at the Reebok brand grew 7%, driven by double-digit growth in Sport and a high-single-digit growth rate in Classics. In euro terms, sales for the company were up 12% to € 5.838 billion in 2019 (2018: € 5.234 billion).

Double-digit growth across most markets

On a currency-neutral basis, the combined sales of the adidas and Reebok brands were driven by double-digit increases in the company's strategic growth markets Greater China (18%) – leading to growth of 13% in Asia-Pacific – and North America (10%). In addition, the company also recorded double-digit growth in Latin America (22%), Europe (14%) and Emerging Markets (13%). Currency-neutral revenues in Russia/CIS (6%) increased at a mid-single-digit rate.

Gross margin decline consistent with full-year outlook

In line with the company's expectations, gross margin decreased 3.2 percentage points to 49.0% (2018: 52.2%) in the final quarter of the year, as negative currency effects and a less favorable pricing mix more than offset positive effects from lower sourcing costs as well as a better product and channel mix. Other operating expenses were up 2% to € 2.694 billion (2018: € 2.645 billion). As a percentage of sales, other operating expenses decreased 4.4 percentage points to 46.1% (2018: 50.5%). The company's operating profit rose to € 245 million from € 129 million in 2018, representing an operating margin increase of 1.7 percentage points to 4.2% (2018: 2.5%). Net income from continuing operations increased 94% to € 181 million (2018: € 93 million). This includes a negative impact from the adoption of IFRS 16 of € 25 million. Basic EPS from continuing operations was up 97% to € 0.92 from € 0.47 in 2018, including the IFRS 16 impact. Losses from discontinued operations amounted to € 15 million compared to gains of € 15 million in the prior year period. As a result, net income attributable to shareholders increased to € 167 million (2018: € 108 million), resulting in basic EPS from continuing and discontinued operations of € 0.85, compared to € 0.54 in 2018.

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<u>Outlook for 2020</u>

Top line to grow between 6% and 8% driven by all market segments

The company projects sales to increase at a rate of between 6% and 8% on a currency-neutral basis in 2020 driven by growth in all market segments. While currency-neutral sales are projected to grow at a low-double-digit rate in North America and Russia/CIS, currency-neutral revenues in Asia-Pacific and Emerging Markets are expected to grow at a high-single-digit rate. Sales in Europe and Latin America are forecast to improve at a mid-single-digit rate in currency-neutral terms.

Bottom line to once again grow at double-digit rate

In 2020, the gross margin is forecast to decline slightly compared to the prior year level of 52.0%. The gross margin development will be significantly burdened by the adverse impact from unfavorable currency developments as well as negative effects from higher sourcing costs. These headwinds will largely be compensated by a better channel mix as well as normalized use of air freight after last year's supply chain shortages were successfully mitigated. The anticipated slight decline in gross margin is expected to be more than offset by leverage on other operating expenses and the company's operating margin is hence projected to increase between 0.2 percentage points and 0.5 percentage points to a level between 11.5% and 11.8%. This, together with the continued top-line growth, is expected to drive a double-digit-rate improvement of the bottom line. Net income from continuing operations is projected to increase to a level between € 2.100 billion and € 2.160 billion, reflecting an increase of between 10% and 13% compared to the prior year level of € 1.918 billion.

Outlook for 2020 does not reflect impact of the coronavirus outbreak

The company's outlook for 2020 as outlined above is subject to change as it does not reflect the impact of the coronavirus outbreak. adidas has a dedicated task force team in place to assess the situation, develop mitigation actions and ensure the health and safety of its employees, which remains the company's number one priority. adidas already implemented a number of measures, including temporary closures of office locations and stores as well as travel restrictions. The company will continue to provide close guidance to employees and take all appropriate steps to protect them as the situation develops.

While the company's business in Greater China performed strongly in the first three weeks of 2020, the company has been experiencing a material negative impact on its operations due to the outbreak of the coronavirus since then. As a result of a significant number of store closures – both own- and partner-operated – and a pronounced traffic reduction within the remaining store fleet, revenues in Greater China have been around 80% below the prior year level between Chinese New Year on January 25 and the end of February. Since then, the company has started to experience a slight improvement in its Greater China business activity, with stores and warehouses gradually opening and consumer traffic slowly picking up. Since the coronavirus outbreak, adidas has been working closely together with its wholesale partners to ensure inventory levels remain healthy in the market. This resulted in the cancelation of all shipments in February and could lead to the acceptance of a significant amount of product takebacks, which the company plans to clear through its own channels throughout the remainder of the year. Based on the latest information available, the company expects revenues in Greater China in the first quarter of 2020 to be between € 0.8 billion and € 1.0 billion below the prior year level. Consequently, operating profit in Greater China is anticipated to decline between € 0.4 billion and € 0.5 billion in the first quarter. In addition, the company has started to observe traffic declines with a corresponding negative business impact in Japan and South Korea. While the company's supply chain has also been facing disruptions, the majority of factories in China are operational again and global sourcing activities have not been impacted so far.

As the situation keeps evolving, the further recovery in Greater China, the extent of spillover into other countries as well as the availability of raw materials remain largely uncertain. In light of these uncertainties, the overall impact of the coronavirus outbreak on the company's business in 2020 cannot be quantified reliably at this point in time. Despite the temporary challenges posed by the coronavirus outbreak, the company remains fully confident about its future growth prospects thanks to its healthy fundamentals and its strong positioning within an attractive industry.

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Contacts:

Media Relations
corporate.press@adidas.com
Tel.: +49 (0) 9132 84-2352

Investor Relations
investor.relations@adidas.com
Tel.: +49 (0) 9132 84-2920

For more information, please visit adidas-group.com.

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adidas AG Condensed Consolidated Income Statement (IFRS)

€ in millions	Quarter ending December 31, 2019	Quarter ending December 31, 2018[1]	Change
Net sales	5,838	5,234	*11.5%*
Cost of sales	2,980	2,502	*19.1%*
Gross profit	**2,858**	**2,732**	***4.6%***
(% of net sales)	49.0%	52.2%	*(3.2pp)*
Royalty and commission income	43	34	*28.3%*
Other operating income	38	8	*367.4%*
Other operating expenses	2,694	2,645	*1.9%*
(% of net sales)	46.1%	50.5%	*(4.4pp)*
Marketing and point-of-sale expenses	842	875	*(3.8%)*
(% of net sales)	14.4%	16.7%	*(2.3pp)*
Operating overhead expenses[2]	1,852	1,769	*4.7%*
(% of net sales)	31.7%	33.8%	*(2.1pp)*
Operating profit	**245**	**129**	***89.5%***
(% of net sales)	4.2%	2.5%	*1.7pp*
Financial income	36	22	*61.8%*
Financial expenses	53	17	*217.0%*
Income before taxes	**227**	**134**	***68.9%***
(% of net sales)	3.9%	2.6%	*1.3pp*
Income taxes	46	41	*12.0%*
(% of income before taxes)	20.2%	30.5%	*(10.3pp)*
Net income from continuing operations	**181**	**93**	***93.9%***
(% of net sales)	3.1%	1.8%	*1.3pp*
(Losses)/gains from discontinued operations, net of tax	(15)	15	*n.a.*
Net income	**166**	**108**	***54.2%***
(% of net sales)	2.9%	2.1%	*0.8pp*
Net income attributable to shareholders	**167**	**108**	***54.0%***
(% of net sales)	2.9%	2.1%	*0.8pp*
Net income attributable to non-controlling interests	**(0)**	**(0)**	***17.6%***
Basic earnings per share from continuing operations (in €)	**0.92**	**0.47**	***97.0%***
Diluted earnings per share from continuing operations (in €)	**0.92**	**0.47**	***97.1%***
Basic earnings per share from continuing and discontinued operations (in €)	**0.85**	**0.54**	***56.7%***
Diluted earnings per share from continuing and discontinued operations (in €)	**0.85**	**0.54**	***56.8%***

Net Sales

€ in millions	Quarter ending December 31, 2019	Quarter ending December 31, 2018	Change	Change (currency-neutral)
Europe	1,401	1,216	*15.2%*	*14.3%*
North America	1,475	1,297	*13.7%*	*10.0%*
Asia-Pacific	1,930	1,665	*15.9%*	*13.3%*
Russia/CIS	153	132	*15.5%*	*6.0%*
Latin America	476	447	*6.5%*	*21.7%*
Emerging Markets	303	256	*18.3%*	*13.4%*
Other Businesses	101	221	*(54.4%)*	*(54.9%)*
adidas	5,310	4,736	*12.1%*	*10.9%*
Reebok	463	423	*9.3%*	*7.4%*

[1] First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
[2] 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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adidas AG Consolidated Income Statement (IFRS)

€ in millions	Year ending December 31, 2019	Year ending December 31, 2018[1]	Change
Net sales	23,640	21,915	*7.9%*
Cost of sales	11,347	10,552	*7.5%*
Gross profit	**12,293**	**11,363**	***8.2%***
(% of net sales)	52.0%	51.8%	*0.2pp*
Royalty and commission income	154	129	*19.5%*
Other operating income	56	48	*16.6%*
Other operating expenses	9,843	9,172	*7.3%*
(% of net sales)	41.6%	41.9%	*(0.2pp)*
Marketing and point-of-sale expenses	3,042	3,001	*1.4%*
(% of net sales)	12.9%	13.7%	*(0.8pp)*
Distribution and selling expenses	4,997	4,450	*12.3%*
(% of net sales)	21.1%	20.3%	*0.8pp*
General and administration expenses	1,652	1,576	*4.8%*
(% of net sales)	7.0%	7.2%	*(0.2pp)*
Sundry expenses	134	105	*28.3%*
(% of net sales)	0.6%	0.5%	*0.1pp*
Impairment losses (net) on accounts receivable and contract assets	18	41	*(57.2%)*
Operating profit	**2,660**	**2,368**	***12.4%***
(% of net sales)	11.3%	10.8%	*0.4pp*
Financial income	64	57	*11.2%*
Financial expenses	166	47	*253.2%*
Income before taxes	**2,558**	**2,378**	***7.6%***
(% of net sales)	10.8%	10.9%	*(0.0pp)*
Income taxes	640	669	*(4.3%)*
(% of income before taxes)	25.0%	28.1%	*(3.1pp)*
Net income from continuing operations	**1,918**	**1,709**	***12.2%***
(% of net sales)	8.1%	7.8%	*0.3pp*
Gains/(losses) from discontinued operations, net of tax	59	(5)	*n.a.*
Net income	**1,977**	**1,704**	***16.0%***
(% of net sales)	8.4%	7.8%	*0.6pp*
Net income attributable to shareholders	**1,976**	**1,702**	***16.1%***
(% of net sales)	8.4%	7.8%	*0.6pp*
Net income attributable to non-controlling interests	**2**	**3**	***(35.1%)***
Basic earnings per share from continuing operations (in €)	**9.70**	**8.46**	***14.7%***
Diluted earnings per share from continuing operations (in €)	**9.70**	**8.45**	***14.8%***
Basic earnings per share from continuing and discontinued operations (in €)	**10.00**	**8.44**	***18.5%***
Diluted earnings per share from continuing and discontinued operations (in €)	**10.00**	**8.42**	***18.7%***

Net Sales

€ in millions	Year ending December 31, 2019	Year ending December 31, 2018	Change	Change (currency-neutral)
Europe	6,071	5,885	*3.2%*	*3.1%*
North America	5,313	4,689	*13.3%*	*7.6%*
Asia-Pacific	8,032	7,141	*12.5%*	*10.1%*
Russia/CIS	658	595	*10.7%*	*8.0%*
Latin America	1,660	1,634	*1.6%*	*7.1%*
Emerging Markets	1,302	1,144	*13.8%*	*12.6%*
Other Businesses	605	829	*(27.0%)*	*(28.4%)*
adidas	21,505	19,851	*8.3%*	*6.6%*
Reebok	1,748	1,687	*3.6%*	*1.6%*

[1] First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

Rounding differences may arise.

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adidas AG Consolidated Statement of Financial Position (IFRS)

€ in millions	December 31, 2019	December 31, 2018[1]	Change in %
Cash and cash equivalents	2,220	2,629	(15.6)
Short-term financial assets	292	6	5,105.6
Accounts receivable	2,625	2,418	8.5
Other current financial assets	544	542	0.2
Inventories	4,085	3,445	18.6
Income tax receivables	94	48	93.9
Other current assets	1,076	725	48.4
Total current assets	**10,934**	**9,813**	**11.4**
Property, plant and equipment	2,380	2,237	6.4
Right-of-use assets	2,931	-	n.a.
Goodwill	1,257	1,245	0.9
Trademarks	859	844	1.8
Other intangible assets	305	196	55.9
Long-term financial assets	367	276	33.0
Other non-current financial assets	450	256	75.9
Deferred tax assets	1,093	651	67.8
Other non-current assets	103	94	10.5
Total non-current assets	**9,746**	**5,799**	**68.1**
Total assets	**20,680**	**15,612**	**32.5**
Short-term borrowings	43	66	(34.7)
Accounts payable	2,703	2,300	17.5
Current lease liabilities	733	-	n.a.
Other current financial liabilities	235	186	26.2
Income taxes	618	268	131.1
Other current provisions	1,446	1,232	17.4
Current accrued liabilities	2,437	2,305	5.7
Other current liabilities	538	477	12.9
Total current liabilities	**8,754**	**6,834**	**28.1**
Long-term borrowings	1,595	1,609	(0.9)
Non-current lease liabilities	2,399	-	n.a.
Other non-current financial liabilities	92	103	(10.2)
Pensions and similar obligations	229	246	(6.9)
Deferred tax liabilities	280	241	16.3
Other non-current provisions	257	128	100.1
Non-current accrued liabilities	9	19	(54.5)
Other non-current liabilities	7	68	(90.4)
Total non-current liabilities	**4,868**	**2,414**	**101.6**
Share capital	196	199	(1.6)
Reserves	45	123	(63.1)
Retained earnings	6,555	6,054	8.3
Shareholders' equity	**6,796**	**6,377**	**6.6**
Non-controlling interests	261	(13)	n.a.
Total equity	**7,058**	**6,364**	**10.9**
Total liabilities and equity	**20,680**	**15,612**	**32.5**
Additional balance sheet information			
Operating working capital	4,007	3,563	12.5
Working capital	2,179	2,979	(26.9)
Net cash	873	959	(9.0)
Financial leverage	(12.8%)	(15.0%)	2.2pp

[1] First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

Rounding differences may arise.