

adidas First Quarter 2016 Results

May 4, 2016

Q&A session

adidas Group participants:

Herbert Hainer, adidas Group CEO

Robin J. Stalker, adidas Group CFO

Sebastian Steffen, Vice President Investor Relations

John Guy – Main First

If I could start with the Originals business, you've had a very strong start indeed. I think Originals was a roughly EUR 3.5 billion turnover business for you in 2015. I appreciate that the comp was reasonably tough at 31%. However, going forward, compass will get even tougher. What confidence do you have that Tubular and ZX Flux will be able to generate the same type of consumer reaction that you've had with Stan Smith and Superstar and NMD? That's my first question.

My second question is around working capital. There is a good improvement there, around 170 basis points. The inventory was up 25% gross on a constant currency basis, again sales up 22%. Are you happy with the inventory position across your key markets? Is it completely clean in terms of how you see it? It looks like there was an additional build in the North American market. And can you give us some indication about how much of the sales reflects sell-in over sell-out trends?

And finally, my third question is just on the Japanese market. There was a pretty strong spike there. Is that really reflective of the increased football Japanese consumers that we are seeing in that market or is there something else that we should be reading into the Japanese growth that we're seeing? Many thanks.

Herbert Hainer

Let me answer the first question on the Originals business. As we have told you already, one of the key targets within our new strategic business plan 'Creating the New' is to build franchises. And in Originals we have five of them: Stan Smith, Tubular, ZX Flux, NMD and Superstar. We have learned quite a lot regarding how to bring these products to market. And as we have seen, the NMD was by far the best success that we have ever had with 400,000 pairs sold on one day. Of course this will not happen every day, but we are absolutely convinced that with Tubular we have the next strong franchise which we are building.

With a 30%, 40% increase, it gets tougher to compare quarter by quarter, but we are absolutely confident that we'll manage our Originals business and the demand for these franchises in the right way, as you have seen in the past when we took the Superstar franchise out of the market for a certain period of time.

And regarding your third question on the Japanese market: there was a certain shift from the fourth quarter into the first quarter and also in the first quarter in 2015 we had a change in our trade terms policy, which therefore led to an underdeveloped first quarter in 2015. This all helped to grow our first quarter 2016 by 44%. But I also don't want to hide that our business is very strong in Japan. Especially when I look at our own retail stores, we see very good progress.

John Guy

So on that, do you have any idea in terms of how much of that is local consumption or driven by tourism in your Japanese market?

Herbert Hainer

No, unfortunately, I don't have any idea.

John Guy

Okay. Thanks for that.

Robin Stalker

Regarding your second question about inventories: the inventories are great, clean, and overall the ageing has slightly improved again. The largest growth is obviously in major markets such as Western Europe and it is pleasing also to see growth in the others, but this is reflecting the sell-through also, and the demand is not an issue.

Fred Speirs – UBS

The first of three questions is on the Q1 sales growth component of the adidas brand. You're taking this good price mix in several regions, which seems to have been well received by the consumer, judging by your segmental gross margins. So I wondered, could you talk a bit about the price mix contribution to sales growth in Q1? Could you also perhaps talk about your pricing plans for the rest of the year in Western Europe?

My second question was also on momentum within adidas. With Q1 significantly ahead of your initial internal expectations, and if we look ahead, do you see any reason why the current

sales momentum could not be sustained over the next six months, particularly if you think about your current order book?

Last question on the US, we're seeing excellent sell-out figures for adidas in the SportScan data. Just wondered if you could confirm whether you are also starting to see a pick-up in brand perceptions relative to your key competitors in that market when you look at Net Promoter Scores? Thank you.

Herbert Hainer

So let me start with the last question. Regarding the brand perception from the consumer in the US, we see an increase. As I said during my speech we have NPS as one of our KPIs for all the regions and we definitely see an uptick there. We see it in market share and when you talk to the key retailers, you will hear the same.

Concerning the pricing in Western Europe, it can be said that we were able to raise our prices, because of the new products, which we brought into the market. I spoke about the football footwear product, ACE16+, or on the other hand, about the running silhouettes with our BOOST technology. And this definitely gives us a leverage that we can have better prices in the market., I definitely do see a lot of potential in running, especially around the \$100 price barrier in the US, which we obviously will go after as well. I don't have any doubt at all that we will have a strong second, third and fourth quarter and that 2016 will be a record year for us.

Robin Stalker

In terms of the adidas price mix and contribution, I think here the point is that we could not only increase our prices just for Western Europe, but for other markets as well. I think also a factor in terms of the performance here is to note that we are getting more sales through at full price, and this is a positive thing for us. You would have recalled from our strategic business plan that we want to increase our full-price sell-through and it's early days, but this is also effective, it's helping that mix and the gross margin.

Adrian Rott – Deutsche Bank

Three questions from my side. Number one, just going back to Originals real quick, if you look at your future order book, can you tell us what's the volume split between your classic silhouettes, such as Superstar and Stan Smith, as opposed to the younger franchises, such as NMD, Flux and Tubular? And on NMD specifically, what's the rough timeline of scaling up this franchise?

Then secondly, you've mentioned in the slide pack that footwear in training was up double-digits. Can you give me a hint which footwear franchises belong to training? I thought it has historically been an apparel category. And then just on retail like-for-likes, which for adidas were plus 15%. Can you give some insight into how that splits up into HomeCourts, Neighbourhood stores and the factory outlets and maybe comment a little bit on what's driving people into stores. May I have your estimation in this respect, is it event related, or has traffic been picking up around releases from Originals and running, for example, just to understand the sort of like-for-like drivers? Thank you.

Herbert Hainer

In terms of Originals, I think I cannot answer your question exactly on percentages, but I can give you a picture. On Superstar and Stan Smith, we have a consistent common business during the 12-month period, because this is apparent from the volumes which we give to the market. Whereas on the new silhouettes like NMD, we had 400,000 pairs sold on one day. Obviously, here you have a peak when you launch and then we drive controlled volumes to make it a sustainable franchise. So I think you have two different pictures. One, which is a consistent one, which has been in the market already for 20 years and then the new ones, Tubular, NMD, which are coming in, having a big boost when we launch them and then we drive them to a consistent business going forward in the next years.

In terms of training, I think it's fair to say that training is still mainly apparel driven. Footwear is only a small part, because footwear is mainly divided into running and into basketball for example. We only have a few footwear silhouettes in training. So it's mainly the apparel business.

Robin Stalker

And in terms of the growth at our own retail shops of 15%, adidas comparable store sales were at 20% in the concept stores, 9% in factory outlets and 15% in the concession corners.

Antoine Belge – HSBC

The first question relates to the disposal of part of your golf business. I would like to check a few figures with you. I think last year the overall golf business was around EUR 900 million. So, is it fair to assume that to settle that around EUR 600 million will go and what was actually the amount of losses attributable to that part that will be disposed? What are your expectations or requirements in terms of how much you want from that business and what do you intend to do with the cash you would get?

The second question refers to the US business. Obviously, the third quarter was shaped by strong growth and was actually accelerating. I think you already mentioned a few of the reasons behind that. But what is causing the acceleration sequentially?

And finally with regard to the UEFA EURO 2016 football championship. Is it fair to say that Q1 was actually not a big quarter in terms of products after the launch of the ball and the jerseys in Q4 and it's probably going to be Q2 and Q3, and actually do you expect more in Q2 or fairly even between Q2 and Q3? Thank you.

Robin Stalker

Starting with TaylorMade, your estimate is pretty correct, around about EUR 900 million was the sales in that segment last year, and about two-thirds relates to the hard goods business, TaylorMade and then the business of Adams and Ashworth. And we had a loss last year of about EUR 100 million in that segment, which we described. What we want for it is the best price we can get for it. And we've just taken the strategic decision, so I can't give you any other comments on what's the sort of prices at this stage. We'll enter into negotiations and we'll keep you informed of that.

We have the goal to continue to invest in our business and so the proceeds of the sale will in the first instance be used to continue to invest in our business. And we have a good shareholder return programme ongoing, but we don't have any acquisitions or anything like that planned at this stage.

Herbert Hainer

To your second question, that refers to the US business: I think there is not only one specific thing which is helping us to get this momentum in the US. It's a variety of initiatives, which we have taken, starting one and a half years ago with changing the management, with putting a new strategy in place, then investing more in the market. You heard it during the last year when we were talking about Aaron Rodgers, James Harden, and Kanye West as well as Pharrell Williams. Furthermore, we put a more selective distribution strategy in place that will bring the right product to the right distribution channels, which obviously supports sell-through and also supports full-price sell-through, which then gives us a better margin. And I think this all together is really keeping our momentum up.

And in addition to that, I think you have read it, we were definitely the number one sneaker brand in the US in 2015. I think we had five or six models within the top 10 sneakers. And I don't see that stopping. Once again, when you see what happens in the US and how we set up more and more shelf space, how we put more and more shop-in-shops, be it on the sporting goods

side or on the mall base. It's not only the Originals business, so don't get it wrong. We are also very proud about our Sport Performance business in the US, especially in the US sports categories. So I must say I'm quite pleased. Still a long way to go and still a huge potential for us to grow our business here. But the last three quarters and the next three quarters will be definitely fantastic.

In terms of the UEFA EURO 2016, you're completely right, Q1 is a rather smaller quarter, because we introduced the ball in Q4 2015 and the jerseys of all the competing teams that we sponsor. And then in Q2, obviously, as we get closer to the championship, the more the jersey sales go up again. And then Q3, depends a little bit on the performance of our teams. If they go to the final, which is in July, we will fill the pipeline again. But I must say I am very optimistic for the UEFA EURO 2016, because we have nine teams as you know, more than anybody else. We have the ball, we have strong teams such as Germany, Spain and not to forget Belgium, which might be good for a surprise. So this is quite an exciting time. And then Copa America is coming directly after that.

Omar Saad – Evercore ISI

Congratulations on another very nice quarter. You clearly have some really strong products with very strong demand, very hot in the marketplace. I wondered if you could give maybe a little bit more detail and help us understand how the company is managing the demand and the distribution and what's different today versus maybe how the company would have managed some of these really strong areas in the past? What's changed and how has the strategy evolved? And then I have a follow-up question too.

Herbert Hainer

One and a half years ago when we launched our new strategy, 'Creating the New', we already said that we will definitely put the consumer at the heart of everything we do and we said we definitely believe that we get much more insight into the market and therefore can steer our product flow better into the distribution channels where this consumer type is shopping, which I just said as an example in the US.

We don't give Originals to just anybody anymore. As you might have heard and seen, the one or other retailer is complaining about that. But this is what we do believe is the right thing. We don't give every high-performance product to every retailer anymore, which also might cause one or the other complaint, but we definitely do believe this is the right choice for the business and the success is definitely supporting our strategic decisions.

And then obviously, with our market research and the consumer insights, we definitely know much more where the consumer is going, what they're buying and, therefore, are controlling the volumes and the amount which we're giving into the market. So far we are quite pleased with what we see in terms of sell-through data in the market, therefore, higher full price, obviously if the sell-through is better, and I think this has definitely proven that what we are doing to steer the momentum in the market is the right one.

Omar Saad

If I could also ask a question on the performance side, it's really intriguing to see, there seems to be an inflection in the performance business. I think 22% growth this quarter constant currency, it is not a number that you guys publish every quarter. But maybe help us understand what's changed there on that side of the business. Is it the product platforms, is it marketing, is it the move to more of a sport-specific category approach? Help us understand what's really driving, in your opinion, that inflection.

Herbert Hainer

Obviously we would be happy to report every quarter a 22% increase, but as you rightly said this might not always be possible. First and foremost, I think we have gone back to where we always have been: strong in bringing innovative products to market. And I think I said it during 2015, it was definitely our mistake that, for the World Cup in 2014, we didn't have a new innovative football product. This was clearly a miss and I feel guilty about that, but it is what it is. But this is our strength and we took a bold move with the new football footwear offer, where we went from four silos back to two silos, which was an outcome of the market research that we did with a lot of young kids playing in the streets. They clearly told us you have only two types of players. You have the one who wants to control the game and you have the other one who is trying to create chaos, like Thomas Müller, for example. And this is the same in running. I think our running shoes, with all respect, are the best running shoes which are in the market. And we have shown sustainability and consequence in BOOST, because you might remember, when we first launched BOOST, a lot of comments were criticising the white outsole, and that it's maybe too soft. But we were convinced about this technology, and that it has the potential to become the standard in the future, as you will see in the running, cushioning and energy policy.

So I think these are the main ingredients that we went back to where our strength is, bringing innovative products to the market, launch them in an exciting way, as we did, and then distribute through the right channels that we get to the consumer who is coming to this distribution channel. And this will continue and therefore I'm absolutely convinced that the positive momentum, especially for our innovative products of the Sport Performance categories, will

continue. And I'm convinced that, in basketball, you will see the same development in the next six to 12 months.

Andreas Inderst - Macquarie

I have a couple of questions. The first one refers to the potential of the NMD franchise. What's actually your sales level you have for the Superstar and the Stan Smith, just to evaluate the NMD potential you might have in the medium term? That's the first question.

A second question on speed to market and full price sales. You mentioned this was one contributor to the gross margin improvement. Where are you actually today versus your target to have 50% of sales in terms of speed and 45 days, in terms of deliveries? That's my second question.

And my third question refers to the US market, we have seen good operational leverage in the first quarter. Is that the run rate we can assume also for the next few quarters, given your bullish comments on the top line? Thank you.

Herbert Hainer

Regarding the NMD franchise, we don't report the precise figures. But let me just give you an indication. We sold 15 million pairs of Superstar last year, so this should give you an idea of the potential we are looking for.

Robin Stalker

And for the last two questions, it's very early days with full-price sell-through. Our announcement about our 'Creating the New' strategic business plan goes through to 2020. There's a lot of work to be done on those key initiatives, which is helping us get closer to those goals, but we're still very much at the early stages. 2016 is the first year of that strategic business plan. You'll hear more about it when we talk about those particular initiatives when we do a tutorial later in the year.

Second part for me was about operational leverage. We were talking about this last year, when we mentioned the massive headwinds that will come from sourcing this year, because of the devaluation of the euro against the dollar and we were looking for leverage in any case for operating overheads, particularly in 2016. I can confirm we are definitely going to be getting that. I think what you're seeing in the first quarter is not just our operating overhead leverage. It's a smaller part. A larger part of the amount was because of the marketing working budget expenditure. And this is due to savings and also timing-related phasing, because of the way we

spend our money, obviously recognising that we have certain events this year. But I expect, particularly with the topline growth that we are now expecting, we had a good operating leverage and that is one of the reasons why we also felt that we could increase our guidance for bottom-line development for 2016.

Jamie Bajwa – Goldman Sachs

You gave some details in terms of your retail progression in Western Europe and Latin America. I wonder whether you could help us understand how it is trending elsewhere in the world, particularly in areas like the US relative to wholesale?

The second question refers to your e-commerce business. You mentioned that the direct e-commerce business has grown 47%. Do you see similar sorts of growth rates at third parties as well?

Robin Stalker

Own retail represent a different size in the various markets that we have, but we have strong growth in all of our regions in retail. I think the particular figure for North America is 17% on a comparable store base.

Herbert Hainer

The second question was on e-commerce and we don't have all the numbers of all our retail partners on e-commerce. But my personal assumption is that our product and our site are growing much faster, because we put a lot of content around the products, which we put onto our e-com and we follow it diligently day-by-day, minute-by-minute. Of course, be it the Originals product or the key innovation product on the footwear side for football or for running, all of them are doing very well with our wholesale partners as well. But as I said, we definitely have a stronger run with our own e-commerce site.

Jürgen Kolb – Kepler Chevreux

Three questions from my side. First of all, regarding the closures of the 16 adidas neo stores, over which period are you planning to close them and should we expect any specific closure costs associated here, or is it just the ending of lease contracts, so that you can close them down?

The second question refers to the US again. I was wondering if you could maybe provide us with the sales distribution in the individual sales channels or retail channels, broken down

into sporting goods or mall-based retailers. What is the sales split in the US market for brand adidas at this point in time?

And lastly, also on the US market, the new Brooklyn design office that is, as far as I understand, already fully operating, has it already impacted some of the collections or is that something which is still to come for spring, for fall/ winter maybe this year? Thanks.

Herbert Hainer

On the first question: we will close all of the 16 adidas neo stores by the end of the year and you don't need to expect any material one-time cost. All this is already reflected in our forecast.

Regarding the US sales distribution, yes, of course, we have the numbers, we have the percentage of the individual distribution channels, but this we don't disclose. And thirdly, the Brooklyn office will officially be opened in September, but the designers are already on board and of course are working already.

Chiara Battistini – J.P. Morgan

First of all on pricing, some of your peers have commented on a level of price increases or ASP of a high-single-digit rate. Is that something you are also comfortable with? And a further question on pricing: on their conference call last week Puma mentioned that some of the retailers are not fully passing through the price increases implemented by the brand. So, what are you seeing on that front?

Regarding football, you provided a target for football sales in the last event years. If I'm not mistaken, for 2014 it was around EUR 2 billion of sales in football. What kind of levels are you expecting from this category this year? And just a clarification on the contribution from the championship in Q1, because you mentioned football apparel was up double-digits in quarter one, thanks to good demand for the kits for the teams. So does that include also the replica shirts for the European teams or not?

And finally, on Originals, can you confirm that it's roughly more than 20% of total Group sales and would you be able to give also the contribution on the profits? Thank you.

Robin Stalker

I think, although we don't give any specifics on the actual price increases, it's also very difficult to give this, the payment out in the market and obviously on the particular product. We don't do an across-the-board one-figure price increase. We look at it as intelligently as we can and what

kind of market they take, what are the particular consumers, what is the particular product we are looking at, and so that will vary. But a high-single digit, which is probably fair.

In terms of whether dealers are passing it on, I have no comment. I do not have any information on that. Whatever competitors have said, you may have to ask them for more detail.

Herbert Hainer

In addition to that, this once again definitely speaks for the demand and the desirability of your brand. If your brand is hot then there is no reason to reduce prices or not to give price increases to the consumer. As Robin said, we haven't seen anything that people are not sticking to our recommended retail prices.

In terms of football, the increase in the replica kits is mainly driven by Manchester United and Juventus Turin, which we brought new to our roster. But as we have already said before, we definitely expect a boost in Q2, as the Champions League is coming to a final, where our teams Bayern Munich and Real Madrid are playing until the semifinal and now the European Championship starts.

Regarding your question on Originals: the share of Originals is still below 30%. We have nice growth but, as you have seen, we also grew very well on the Sport Performance side and most probably during the second quarter this will be even higher. And just to give you another example, in China in the first quarter, the growth of Sport Performance and Originals was at the same level. As we said before, we are managing our growth very carefully, but don't be concerned about that one, because we have a clear sharp focus on that, because we definitely want to have a long-term Originals business, and not just a few quarters.

Robin Stalker

And finally, we do not break down profitability by the segments.

Chiara Battistini

And just a follow-up on football, do you have a target in terms of sales, as you had in previous event years?

Herbert Hainer

Of course, we have one. So have in mind that, in 2015, we did a little bit over EUR 2.2 billion, and of course we will break a new record in 2016, but we haven't given out a number yet.

Sebastian Steffen

Thank you very much ladies and gentlemen. Thank you very much, Herbert and Robin. This actually completes our conference call today. I know that there were a couple more questions out there. So of course the IR team is available and if you have any questions on the details of this call or any other topic, please don't hesitate to reach out to us.

Our next reporting date for our second quarter results will be on August 4. However, at this stage, I would like to invite you to our third IR tutorial workshop, which will take place here in Herzo on July 18. And during this half-day workshop, we will once again provide you more insight into our new strategic business plan, 'Creating the New'. This time we will take a deeper look into the three strategic choices that we introduced last year in March, Speed, Cities and Open Source, and we would of course be delighted if you could join us here on site. Of course, the event will also be webcasted on our Group website. There will of course be a formal invitation that will go out over the next couple of weeks, but it would be great if you could already block this date in your calendar.

So, as I said, if you have any questions, please don't hesitate to reach out to the IR team. With that I would like to thank you for your participation. I wish you a very good day and look forward to talking to you soon. Bye-bye.