Speaker 3
0s

Ladies and gentlemen, welcome to the Adidas AG Q2 2025 conference call and live webcast. I am Moira, the Chorus Call operator. I would like to remind you that all participants will be in listen only mode and the conference is being recorded. The presentation will be followed by a Q and A session. You can register for questions at any time by pressing 1 on your telephone. For operator assistance, please press N0. The conference must not be recorded for publication or broadcast at this time. It's my pleasure to hand over to Sebastian Steffen. Please go ahead.

Speaker 1
34s

Thanks very much, Moira, and good evening, good afternoon, good morning everyone, wherever you're joining us today. Welcome to our Q2 2025 results conference call here in Herzogenaurach. Our presenters today are our CEO Bjørn Gulden, and our CFO Harm Ohlmeyer. Before Bjørn and Harm will take you through the puts and takes of the quarter and explain our expectations for the remainder of the year, I would like to ask you once again to limit your initial questions to 2 during our Q and A session to allow as many people as possible to ask their questions. Thanks very much. Now, without any further ado, over to you, Bjørn.

Speaker 2
1m 18s

Thanks, Sebastian. Before I go into the numbers and the story about Adidas, we have to say it's a sad day for us here. We have lost a very good family member, Laura Dallmeier, which you see on the picture, Olympic champion, world champion and very, very good friend of ours has passed away in the mountains of Pakistan. We are actually very sad. This news came in a couple of hours ago, so it puts things into perspective and at least we thought we should recognize it because the mood in the building because of this, not very good. As the world moves on then into the story and we start the story with the marketing that we did for the Women's Euro, which had their final on Sunday.

Speaker 1
2m 27s

Brilliant.

Speaker 2
2m 27s

Again, she just building here in the stadium. It.

Speaker 1
3m 21s

Sam.

Speaker 3
4m 6s

Excuse me, this is the operator. We are receiving audio from the speaker feed.

Speaker 2
4m 18s

Should we start all over again?

Speaker 3
4m 20s

Yes, please, after the video clip.

Speaker 2
4m 23s

Okay, I hope you all watched the women's Euro great tournament where unfortunately the competitor's team won. I hope you recognize that we had three of the four teams in the semifinal. We as adidas had the best player, the best young player, and the top scorer. I do think you also saw that this was a great tournament. Stadiums were full, great television ratings, and even commercially, although at a different league than the Men's Euro, we actually sold in and out of the trade many times what we have done before. Another great step for women's football, and I hope you will all support it because it is a great, great, great sport that will continue to grow both from participation, but also for us in the business of sports. I'm then moving into our business, and although I've seen a lot of comments being partly negative, I have a little bit of problems understanding that. We feel that Q2 and H1 have been extremely strong, and I think as we wrote, we are both happy and proud of what we have delivered. If you look at the top line, you see the adidas prime growing 12% currency neutral. The company grew 8%.

Speaker 2
5m 52s

You know the difference is about €200 million plus of the Yeezy business which we don't have this year, but we had last year. Gross margins in the high 51s, 90 basis points up, showcasing again the good sell-through both in the trade and to the trade. That gives you then the EBITDA operating profit of €546 million, which is a 9.2% EBIT margin and a growth of almost 60%. If you then look at the first half, €12.1 billion in sales, 14% growth for the adidas brand, double-digit 10% for the company currency neutral. That's almost with €400 million Yeezy business missing that we then had last year and not could replace this year. Gross margin at 51.9%. Very, very healthy. Also here, 90 basis points better than we had last year. That gives you then the operating profit for the first half of €1.156 billion, which is an EBIT percentage of 9.6% and up 70%. Remember that is not very far away from what we told you two and a half years ago would be the midterm target of 10% EBIT at the end of 2026. We are actually very happy with where we are, knowing that these performances are in a very uncertain and volatile environment.

Speaker 2
7m 21s

When you see the tariffs on the screen, we will of course come back to that. At the end of the presentation, we say that adidas is hot, meaning that the demand for our product globally is strong and is building. I think I want to recognize that our marketing teams both locally and globally have done a great job building back the heat in the brand. That is of course what we are capitalizing on globally. If you look at the different markets, you know, we know that America is the biggest challenge for adidas European brand. Now, after a while of no growth and then at the back end of last year growth, we again grew 15% in Q2, 14% for the brand in the first half. We know we have a lot to catch up, but we are extremely happy with this development. Europe this quarter at 7%, 11% for the first half. I have seen and heard that you are skeptical about these numbers. You have to remember that last year there was something called the Euro where you also at that time concluded that we were selling a lot of replicas. I would say there is at least $100 million missing in that number.

Speaker 2
8m 36s

Yes, there was a very quiet June when it gets to retail in general, but it picked up in July and we feel comfortable that we can again come back to double-digit growth also in Europe in the next quarters. Greater China, we have seen terrible numbers from some brands. We grew again 11%, 13% for the first half. Extremely happy we are having like-for-like growth in all our retail concepts, both with our partners and ourselves. Extremely happy with the energy that the local team are showing. Japan and South Korea, same thing. Plus 15% both for the second quarter and the first half. We have changed management there. We have changed a lot of stuff and have the feeling, same thing, that we are back again towards leadership in both those two markets. Latin America has been growing strongly for a long, long time. Same thing here, 23% and 25% in Q2 and H1. Happy to report that officially we are now the market leader again in Mexico, which is a growing market for us and of course extremely important next year with the World Cup coming up. Same thing here. Very happy with the development of the brand in some of the markets that also have been difficult.

Speaker 2
10m 4s

Emerging markets, a group of many, many markets. Some of them of course now very difficult. Growing. 14% for the quarter, 19% for the first half. Growing. These are the entrepreneurs in our company and some of the markets doing extremely well and some of them being in military conflicts, of course having some issues. Again, very strong numbers and very happy with the team that gives you then the 12% for the brand in Q2 and 14% for H1. As I said, this is ahead of our plan and a number that we are actually very proud of. Channels, wholesale business, which you know, had or have has the priority for us for a while. Plus 14%, our own brick and mortar store of 9%. Same thing here, continuing with like-for-like pluses. I feel that we are a much better retailer now than we were a year ago. E. Com also at +9%. Same thing, a very balanced growth across the channels. That gives you the 61-39 between wholesale and D2C and the split between stores and E. Com the same due to the same growth, the divisions footwear growing at 9%. Yes, it is the highest single-digit number you can get.

Speaker 2
11m 25s

I do not think you should read anything into it. Apparel, we have told you that the goal was to start to bring the brand heat also over to apparel. That is what you have seen over the last two quarters. I think also when you now follow retail, you will see that especially for her, we have a lot of innovative designs, concepts, and materials. You see that now also in the results. Accessories for 7%. Yes, we can always do better in accessories, but also there more innovative designs on the lifestyle side. Of course, we have a ball business that is starting to do very well and that will continue into the 2026 side because of the World Cup. That gives you footwear being at almost 60% at 58%, apparel at 34%, and accessories at 8%. Again, very happy with this mix. Yes, you have to lead with footwear, but that does not mean that footwear in every quarter has to grow more than apparel because in the end then you will have zero apparel. That would not make any sense. A lot of discussions also about the performance business. I think our logic has been all the time we create brand heat on lifestyle footwear, we then roll it over to apparel and performance.

Speaker 2
12m 46s

As you can see here, the so-called performance business of 12%, very strong growth in running, performance, basketball, and training, which are of course, what should I say, the categories that we need to grow globally. Football, again referring to no Copa and no Euro for the men's side. A more flattish business in the first half. As we know, the football business will start to grow again in Q4 and then of course in Q1 and Q2 next year moving into the World Cup. Very successful launches on the unisex Futra side with both Predator and F50 and all the updates. A new concept for her with the SparkFusion range which was launched for the women's Hero. Then on the replica side of course now not so focus on the national teams, but more on the clubs. Yes, there is a delay I would say in the business with the consumer if we compare it to last year. You will see very strong sales of the A clubs and also the B clubs in the third quarter running. Been a challenge for us for a long time to make sure that we are growing the performance side. Happy to report more than 25% growth in the running business.

Speaker 2
14m 10s

In addition to RD0, which is the competitive and the Fast side, now also into Supernova and we will for the next year have a great, great comfort concept coming which will then give us three very solid pillars in the running business going forward. Training what people actually buy to do sports in the gym and in different other, what should I say, facilities, different setup in different markets. Also different, what should I say?

Speaker 1
14m 43s

Product.

Speaker 2
14m 44s

We need to win also on the training side. People are using our shoes and apparel when they train. Good to see here also more than 20% growth in the second quarter. Basketball, something that we will never stop talking about. This is performance basketball, not lifestyle basketball. As you can see, very modern, very unique, innovative designs both for Anthony Edwards and for Harden. A lot of color rollouts. I think when you check with the trade, you will see that the sell-through of our basketball shoes has improved dramatically and that our setup in LA is starting to pay out. Also here, although knowing that we have a lot of market share to try to grab, a very positive development. As we have talked to you a lot of times, we want to be the leaders that we used to be in many, many, many sports, also in the local ones to make sure that we have the credibility in those sports that gives credibility. Also of course moving to sports that are then growing into being commercial. I think you all probably play either pickleball in the U.S. or you play Padel in Europe. Even with us, we clearly see that those two are sports that are also becoming commercial.

Speaker 2
16m 9s

Which shows you that there are new sports that are turning in also to be commercial. What's also been important for us for the last six months is to invest more in American athletes. This shows you recruits that the American team have done in the typical American sports of basketball, baseball, and American football. Some of them also NIL players. This again underlies the wish and the need to be an American sports brand and then get visibility all the way from college into the professional leagues. This is then very, very, very much more investment than we've done before. You will also see that we are going to invest in more university teams and have more adidas visibility also in the college game again, decided by our local team because they have the knowledge. The lifestyle side, both Originals and Sportswear, growing double digit. The sum of that is 13%. I'll take you to the logic of the footwear side. You've seen it many times but it started out with the success of Terrex, the Samba, Gazelle, and Spezial. We added the Campus. Yes, of course there is stagnation in some of those models in certain markets. We knew that was also the reason why we added more categories.

Speaker 2
17m 33s

Low profile being one of them. Talked about it now for about a year. You see an offer of many silhouettes and in a lot of materials. I can show you that especially XI is moving into this segment at different speeds in different markets. I am convinced that it will continue to grow and that low profile will be stronger in 2026 than it was in the whole sector of 2025. We feel very, very good about it. We told you that the next classic would be Superstar. We are relaunching the most sold at industry ever. Just being rolling out now. A lot of collabs, a lot of activations, and of course a lot of media on it. This is the visual language and I am now going to play one of the videos with one of our partners, so you get a little bit of the attitude. Let's see.

Speaker 1
18m 34s

You ever wonder why people still talk about pyramids? Seriously?

Speaker 2
18m 38s

Big old piles of rock, middle of the desert. They ain't shiny, they don't light up. No wifi, no holograms and not even a food court. Four thousand years later, people still fly across the world to see them. Why? Cause they were made to last.

Speaker 1
18m 56s

Built to be unforgettable.

Speaker 2
18m 58s

We talking standing tall, casting shadows. Can't tell me nothing. You remember the first time you saw. Blew your mind, didn't they? Had you living online, trying to figure them out, trying to understand how they did it, huh? The more you looked into them, more they stuck with you. Because there wasn't anything else like them then. Ain't nothing else like them now. Except these. Yeah, pretty cool with Samuel L. Jackson. I hope you like this as much as we. The feedback is of course also very positive. You should also not be surprised that you will see more classics on this sheet going forward. We clearly see in the trend that the triple white look is coming back again, I guess at the back end of 2026 and into 2027. You will probably see shoes like Samba showing up again in a wider distribution than you currently see it. Of course that is a good trend for us when it comes back. We have talked to you for a long time about lifestyle running, about the need to have the, what should I say, the distribution and the visibility and of course also the sales, you know, that we have invested from the classic side that you see on the left side with shoes from the 1970s all the way through a lot of silhouettes into 3D printed shoes like the Climacool and have a TV to report that, you know, this is starting to work.

Speaker 2
20m 40s

The shoe in the middle, Adizero, is doing very well. It's a shoe coming out of performance, but that we also placed into lifestyle. On the extreme side is the Climacool 3D-printed shoe, which I think is the first real printed shoe that is comfortable to be worn. Was meant to be a marketing tool but has turned into a commercial program and it's selling out everywhere. Of course we are then buying more machines and running the machines faster to have more volumes. You will see more and more of this coming forward. What is new and we haven't talked to you a lot about after running lifestyle is, this might be surprising for you, but it's actually the lifestyle side coming out of football. If you move around in the fashion world, you will even see that people are wearing real soccer boots, football shoes on the street, even with studs. I don't think I will see many of you doing that. It is actually a trend. Of course we are playing that trend. We have taken a lot of soccer uppers, meaning Predator, F50s and the likes, and put them on different bottoms. You see here for example on VStech on Megarides, but you also see them on indoor Salah shoes or on low profile.

Speaker 2
21m 58s

We believe from what we can see both in distribution and in the fashion scene and in the sell through that this is going to grow and grow and into the World Cup in 2026. We also think it's a global phenomenon. Again, being the soccer brand, this is something that we should own. We do of course see that competition is also loading on this. That is good because it will get more visibility. Watch it. I think it's going to be a big category in 2026 and hopefully also carried through to 2027. Apparel plus 17 told you over the last 18 months that we were afraid of apparel because there was too much apparel in the market. Too much, I call them black hoodies and too much fleece. We said that we need to make sure that we bring innovation in design and material and concepts. I think when you look at this, you clearly see what we have done. We have brought tennis court back again with the trefoil. Very fashionable, very classic. We have done tons of animal prints in different materials. We even brought denim, not as a jeans brand, but denim as a material bought for tops and bottoms.

Speaker 2
23m 9s

We took knitwear out of the chines, made a lot of that. I do think that our color people have done a great job. The more fashionable the retailer wanted to go, the more success they have had with our brand, which I think is a credit to the job. Other people have done the same on apparel is the collabs. I mean, who do you partner up with from celebrities, influencers, athletes and also brands to make it visible. I think the most successful right now is with Oasis. You know, Oasis is on their comeback tour in the U.K. We did the deal with them on the merchandise. If you go to the concerts that are all sold out and are fantastic, you will see it's almost an Adidas event with a lot of three stripes and trefoil. We are very, very proud of what our U.K. team has there executed because it again shows you a local initiative that actually has gone global. It's not only image-wise very good, it's also commercially become a big business. Finally, accessories, I think I said it in the beginning, we had some work to do in accessories. We feel that we have also there become fresher and more fashionable.

Speaker 2
24m 31s

In accessories, we also have the ball business. Every launch we have done on balls, soccer balls lately has been good. We have a huge order book for the World Cup balls going into 2026. You will continue to see growth on that level. When we conclude the first half, we feel very good. We are ahead of our plan. We feel that we have done what we promised and we have a lot of energy in the market. It's all based on what we have talked about a long time, being a global brand with a local mindset. It's to put the consumer and the athletes in the center of all we do. It is to make sure that the markets are really responsible for the business because they are closest to the retailers and the consumer. We in global should facilitate for that by giving them the resources, making sure we have the right people, giving them concepts, and of course work on innovations. We feel that we're moving in the right direction actually in all regions. In that it is of course also that we need to make decisions as close as we can to the consumer. That needs strong local leadership.

Speaker 2
25m 40s

I think when you look at our local leaders now, we think we have the right team. This is going to be extremely, extremely important and maybe a competitive advantage as we go forward. We see this in the products, a lot of local products that are being made, designed either globally or locally. Some of those products then go back again into the international line. Everything we do in China or the U.S. or in any other market is visible also for the other markets. There is a lot of movement across that. We see it in marketing. We have talked about the global frame. For example, you got this, which you see on the performance side, but we fill it with local content so the athletes that are being showcased are relevant for the market where the marketing is being done. Maybe a surprise to you, the same goes for the retail stores. The culture and architecture of different stores in different parts of the world are different. Also the legal side is different. You are allowed to do many things in certain markets that are more the adidas brand than maybe you can do in a German city.

Speaker 2
26m 49s

You see that here. There's a lot of innovation, there is a lot of, I call it cool adidas designs that are hitting the market. Therefore we are also opening more stores. I think we have opened about 60-70 stores net in the first half year, more than we had last year. Since it's working, we will continue to open new and modern stores because not only does it showcase the brand in the best possible way, it is also now commercially successful. With that background, I hand over to Harm, who will take you through more details of the numbers.

Speaker 1
27m 31s

Thank you, Bjørn, and as always, a warm welcome from my side as well. Good morning, good afternoon wherever you reside. Right now I just want to give you some updates on the, you know, more deep dives on the financials, whether the P&L and the working capital. I want to start with the overall P&L in the second quarter. I want to say again, yes, yet again, we delivered a quality quarter in, of course, much more volatile environment. I believe, and we believe, there's no surprise in these numbers. We executed as we planned and as we communicated before. Of course it starts with a double-digit growth on the adidas brand with 12% currency-neutral. Bjørn talked about the 40% for the half year. More importantly, a very healthy gross margin with 51.7%. Of course it's worthwhile to go into some of the details there on the gross margin. First and foremost, the 90 basis points would be underlying 120 basis points if we exclude the Yeezy part in 2024. Now, how could we deliver this? Of course it starts with more volume on the product side. We have a fantastic sourcing organization that generated savings through more volume and better relationship to the supplier.

Speaker 1
28m 44s

So it's a green arrow.

Speaker 2
28m 46s

Yes.

Speaker 1
28m 46s

You all know there were still some freight spikes in 2024 also. That is a green arrow when it comes to the gross margin. You know, Bjørn already talked about the tariffs. I mean, we said it in the press release. It is a low double-digit amount already in the second quarter. We will talk about the second half later on when we talk about business mix. You know that it is a combination of markets, channels and categories. Most and probably what I want to call out there is the more we grow in the US just on the gross margin. Of course it has a negative effect on the business mix and of course with the success and support of our wholesale partners and also carries a lower gross margin compared to D2C which of course was a channel that was carrying the lion's share of the tariffs in 2024. Should not look that negatively. That was actually planned as well. What you also see, it is a more quality distribution as well when it comes to the discounting, especially in China and North America where the brand is really, really hot. Besides other markets as well, we are still able to be less promotional. That is why discounting is still a green arrow here.

Speaker 1
29m 54s

I do not want to talk about Yeezy a lot. Luckily last year we talk about the comparisons of Yeezy. Of course it is in the reds here for the second quarter. FX is also negative. I want to call out here, that is actually more than a percentage point on the gross margin when we look at the second quarter. Also there, which is interesting for many of you, it is not necessarily the US dollar. This is more we talk about the Argentinian peso or the Turkish currencies. It is more the countries where we have more inflationary environments where we have got an FX impact that hopefully is also a good indication for you in the future when we go further down in the P and L, of course we are successful to spend exactly 12% on the marketing. Jokes aside, we keep investing as a brand because that is what we believe will give us a midterm rally here as well to keep the top line going where it needs to be and what you see probably for the first time more meaningful after the first quarter as well. It is a significant leverage on the operating overheads with 230 basis points in the second quarter.

Speaker 1
31m 0s

I want to call out here as well, this is not impacted by one-times last year in the second quarter because some of the one-times then came in the third and primarily in the fourth quarter. This is very much a like-for-like and it really shows you the discipline that we put in place and what we always said, leveraging the top line with double-digit growth to the bottom line, which is EUR 546 million, it's up by almost 60%. That absolute number is even more remarkable and remind all of ourselves that we lost EUR 300 million in translation on the top line and still delivered in absolute terms EUR 546 million or 9.2% in operating profit. Definitely speaks for the quality of the quarter. When we go further down the operating profit, also no further surprises. Slight increase on your currencies, on the financial expenses, but even more importantly also income taxes as we said all along, with the right top line and the right profitability, we get the income taxes normalized here with 23.3%. You should or can update your financial models for the full year around the 24% of a tax rate. That's probably a good assumption for the full year as well, which results in the net income growing even faster than the operating profit with 77% over the prior year.

Speaker 1
32m 22s

When it comes to inventories, I know there were some concerns on inventories being 22% up. I also want to give you some more details on this one. On the next chart, you might remember I said even in 2024 with EUR 4.5 billion is probably the lowest inventory you will see, hopefully forever, because we will continue to have a growing business and a growing brand. We probably, probably were overshooting a little bit with the reduction of inventory. That's what you do when you focus on it. That's why you should see the increase in light of where we are coming from. We see EUR 4.5 billion, but also understanding that it's an inventory for future growth. It's also an inventory that is impacted by some of the tariff discussions that we have. It's an inventory that's impacted by the Red Sea. We have some goods in transit that are longer on the sea, on the container ships to make sure that we are a reliable partner to our wholesale part of it as well. We have it available when it's needed. That's why I have absolutely no concerns on the inventory. Even more importantly, the aging is healthier than ever. 80% of that is current season inventory.

Speaker 1
33m 32s

Hopefully we have still enough inventory left to do some clearance in our factory outlets or whatever opportunities will be out there. Very, very healthy inventory. Also when we look at the $5.3 billion, then I go further down the line of working capital, accounts receivable of course, being up with our focus on our wholesale partners growing nicely, growing faster than D2C. That will also enable us to cash in a little better in the second half, which we'll come to in a second. You also see the accounts payroll being up, which is an indication of what we are paying to our suppliers around the world. Overall working capital up by 28%, but also that the percentage is one thing, but the percentage over net sales is probably more relevant for all of you and of course for us internally, similar to the inventory. When I finished 2024 in Q1, I said if you get below 20%, we are already a healthy company from a working capital point of view. That is why I said we probably went too quickly, too healthy. I am very, very happy still where we are. You can count on me whenever we are between 20-21%, we are actually a good company.

Speaker 1
34m 41s

Yes, in midterm everything is normal and not as volatile anymore. We want to be a healthy company below 20%, but that is also an indication where we are. That of course has an impact on our cash. At this point in time, we reduced the cash by $800 million. That also is not a surprise because we invested in the inventory. We know that we need to place these orders early. No concerns on this one, which also shows you on the next chart you see it is going down by $900 million. You can also model in your sheets, depending on whether we pay down our bond that becomes due in November. You can probably play around with $2 billion of cash at the end, depending whether we pay down the bond or not in November. That is something we will decide in the next couple of weeks and months. There it is a timing effect. We plan to generate probably $1.2-$1.4 billion in cash in the second half. We talk about adjusted net borrowings also. There the better indicator is probably what we discussed with our rating agencies and you see here where we are coming from from Q2 2023, Q2 2024 and now having a 1.7 multiple of the adjusted net debt over EBITDA.

Speaker 1
35m 56s

That is a very, very strong number. That gives us some flexibility on the balance sheet, whether we have it right on the cash or overall very healthy balance sheet. That also delivered an uptick in the rating from S&P from A minus to A. Also a good start. Decide to refinance bond in November. We would do that coming from the strengths on the balance sheet. Again, that call is still out. With that, I would like to hand over to Bjørn again.

Speaker 2
36m 29s

Thanks, Harm. As we have said many times, you know, we are halfway into the third year, so we are a little bit further than the half time since we started together as a new team. We promised you the numbers that you see on the screen. That gives you 10% EBIT if you then put the H1 of 2025 next to it. I think we have actually delivered what we told you almost. We're growing double digit. We have a gross margin at the high end of the 50-52 with 51.9. Marketing expenses is at 12%, which we said all the time. Operating overhead is a little bit higher than the 30 and 9.6% is a little bit lower than the. Again, we promise you that the adidas brand with the current business model in the market that we saw in 2023 could deliver 10%. I think there we are right now with of course certain uncertainties, which I know you don't like, but of course we don't like it either, but we have to work through it. You remember we started the year with the following outlook. Double digit growth, if you take EC out high single digit, if you included, and an operating profit of $1.7 billion-$1.8 billion.

Speaker 2
37m 47s

We did flag some issues that we saw, but we did not flag the tariff issue because we didn't see that coming. I have a slide now. I explain you what the tariff situation is for us. It's a little bit complicated, but I'll try to take you through it. If you start on the left side, it is Vietnam, which is the biggest country origin for our US business. The blue box, 30% means that 30% of our imports into the US comes from Vietnam. Old means the duties that were before the tariff discussion started. Basically 14% was the footwear duty, 26% was apparel and 8% was then the accessory duty. That changed with 10% in the first indication from the American authorities. Then to 24%, 36% and 18%. In the second round it went to 20%. It's then 34%, 46% and 28%. There's an increase of 20% on all duties in the assumption. You go to the second biggest country, which is Indonesia. Exactly the same logic, but there the difference is not 20%, but it's 19%. You can go on like this. Pakistan 30%, Cambodia 36% and Jordan 20%. You will ask where is China. Here it is.

Speaker 2
39m 5s

If you see in the blue box, China is almost irrelevant for us because we have reduced the amount of China imports into the US to only 2%. Here you can see it started out with an all duty rate of 21%, 32% and 20% and then during three increases it went up to 166%, 177% and 165%. Then it came down again to the 30% more, which is then 51, 62, and 50. For U.S. midterm, not really relevant. I can then add the other four countries, which are Thailand, Honduras, India, and El Salvador. There you can see the full picture. If you take the planned volumes that we have in the second half, not what we are buying because that would be more, but what we expect to sell, the impact of these duties, if they are the way we have calculated them here, is an increase in cost of goods sold of about $200 million. There are uncertainties on this. There is not even a certainty by many people if these additional duties are in addition; maybe they are only replacing. We have made an assumption based on old advice that it is actually in addition, and that is why we get to these numbers.

Speaker 2
40m 19s

If you look at what we have done, I talked about China, we did not go out of China. What we did is that we transferred the Chinese capacities to be mostly China for China. You see the growth we have in China. I would say close to 90% of the production in China is now made in China. We took some of the additional capacities and used them for other non-U.S. markets. We work with our suppliers, who are mostly multi-country, and are of course depending on the FOB plus the duty for the country of origin, trying to optimize this based on the tariffs that we think will come, and hopefully when we have them final, we can optimize it correctly. We have been very close to the local governments to understand where they are, although we also understand that our impact is not that great, but we feel we have worked well with them. You have to remember that since there are no shoe factories in the U.S. that can take these volumes and also no apparel, local production is not the alternative. I think that is important for all of you to understand, which might be different in other sectors.

Speaker 2
41m 31s

All suppliers know that when we have the truth, we will work with the suppliers to see how we can take this cost as much as we can down by sharing the burden in different forms and, as I said, also reallocate production where the duties plus the FOBs are the lowest for the use. Finally, we will, and believe me, we have modelled thousands of different programs, what kind of price increases we could take depending on the different, what should I say, duties. There is no decision on that. I think you all know we've said it also from the beginning, we are not the price leader, but we of course follow what the market is doing, our competitor is doing. We also of course look very closely at what the consumer is accepting. In the end, it is to keep the balance between all these factors. Knowing that, we confirm our outlook, so the growth in double digits excluding EEC, the high single digit when you include EEC, and still we can deliver an operating profit of $1.7 billion-$1.8 billion. Many companies have, I've seen, removed the outlook totally and some have reduced it dramatically. We thought that we were very prudent.

Speaker 2
42m 56s

We're doing it. We do acknowledge that there is an upside to this should, you know, these duties be lower. Again, with the uncertainty both on what they're going to be and with the uncertainty of what the consumer demand will be, we felt this was the most prudent way of doing it, like we always do. You shouldn't have a lot of fantasy to think that if we didn't have the duties, the guidance would probably be at least $200 million higher. That is an easy matter for you to do. The reason for that, we would have been more bullish, is of course that the first half has been stronger than what we thought it would be when we started the year. We still have a very strong order book for Q3 and Q4, despite these uncertainties. I think you also can measure it that the attitude towards the brand, both from retailers and consumers, is actually strengthening in all markets. The negatives, in addition to conflicts and uncertainty in many markets, is of course the direct and indirect impact of the tariffs, which no one knows. When we don't know, we always go on the conservative side.

Speaker 2
44m 12s

I think that kind of tells you the story, hopefully gives you a perspective of what we have done and how we think. We feel that we have a great pipeline of products and great marketing and have momentum. Of course, the time from now up to the World Cup in the US is important for us, but believe me, we are also working on things after that, which of course is the way adidas should work. I hope we gave you some confidence and I'm handing over to Sebastian to do whatever you want to do.

Speaker 1
44m 50s

I assume there's going to be some.

Speaker 2
44m 52s

Questions, so I would suggest that we move to the Q and A session.

Speaker 1
44m 55s

Maura, if you could lead us into.

Speaker 3
45m 0s

We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on the telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press and two. Questioners on the phone are requested to disable the loudspeaker mode and eventually turn off the volume from the webcast while asking a question. Anyone who has a question may press star and one at this time. The first question comes from the line of Grace Smalley from Morgan Stanley. Please go ahead. Hi, good afternoon. Thank you. My first question would be on the order books. I think you commented on strong order books for the remainder of 2025. Could you also just touch on the initial reads on order books going into Spring, Summer 2026 and therefore your confidence level on continued double digit growth for the athlete US brand going into next year, perhaps particularly in light of changes in the competitive landscape. My second question, you mentioned the excitement around the World Cup and that we should start to see tailwinds from that in Q4 and then building in the front half next year.

Speaker 3
46m 8s

Could you just comment on how we should think about the magnitude of those tailwinds and how big that benefit could be? Thank you very much.

Speaker 2
46m 18s

Yeah, the order book, when you look at it, is as solid as it's been all the time. You know, the order book according to the normal timelines are full for the rest of the year, meaning, you know, Q3 and Q4, and then it's currently building for Q1. There is no indication from the way people are placing the orders that there is a change in the order book. Same confidence on that. What we all know though, and that's the only, what should I say, disclaimer, is that should the sales in the U.S. go down because of inflation, you don't know what's happening to the order book because, as you know better than me, orders can be cancelled and moved depending on what is happening in the market. We have not seen cancellations, we have not cancelled anything with the factories. Currently it's all on green. I think we all know should we get mega inflation in the U.S., things will happen on the demand side. Of course, volumes will go down. I think when you look at the import, I think the last official month that we have of footwear imports to the U.S. is May.

Speaker 2
47m 24s

I think you already there saw that imports of footwear are down double digits. Again, it's an indicator that you can look upon. We haven't changed anything right now in our planning based on neither order book nor what we have seen on consumer demand. Again, we're only a week away from having the tariffs finally, hopefully, and then we will see what that means. The World Cup this time has a big impact because I think it's the first time at least that I'm around where we believe that soccer will have a cultural impact that is bigger than the fan. Meaning there are lifestyle trends on both apparel and footwear that we haven't seen before. It looks to me from the demand that they are global. You're probably looking at the business that are in the billion and more that you never seen before in the soccer side. Again, we will see. I think we have shown you over the last six months that the culture we are around soccer has increased. You see it everywhere. We now also are bringing footwear to the street that comes from soccer. That has never happened before. It might be we're sitting on something that is even much bigger than that.

Speaker 2
48m 44s

Currently, I would say it's a billion or more that is connected to World Cup that we currently see.

Speaker 3
48m 52s

Thank you very much. Next question comes from the line of Jürgen Kolb from Kepler Cheuvreux. Please go ahead.

Speaker 1
49m 1s

Thanks very much indeed. Two questions. First of all, on all the product initiatives that you showed, Bjørn, is there.

Speaker 3
49m 9s

A chance for you to increase average.

Speaker 1
49m 11s

Selling prices or is there intention to do so with all these new products that are coming in. Secondly, specifically on the running side, you mentioned very strong performance here, specifically.

Speaker 3
49m 26s

On the specialty running channel.

Speaker 1
49m 28s

Have you made inroads there? Is that now also moving into a growth or do you still think this needs a little bit of more time? Thank you.

Speaker 2
49m 39s

I mean, you know, Jürgen, we always need more time. It's obvious that we have improved our running business, I think from a product and also from a performance. And now from a sales, it's growing 25% and more. And it's across all the channels we feel with Adizero, which is the fast side, you know, also shoes with carbon plates and are made to run races and run fast. I think we are in very good shape. We added the YSL underneath, which is EUR 150 shoe that has been accepted tremendously well in the industry and maybe it's one of the best selling shoes at all. I think the area where we've not been happy is on the comfort side that all the brand has done a better job than us. But that's where we next year with a new concept which I think you would love, feel very comfortable that we get another leg to stand on that will actually be both in specialty but also have the legs to go into, I would call it normal sports distribution and the concept itself even into lifestyle. If there is a category right now that we feel comfortable with what we have in the pipeline, it's actually probably the running side right now.

Speaker 2
50m 52s

That doesn't mean that we feel we are close to being saturated. There's many, many markets where our market share in specialty is a joke. Again, if we continue doing what we're doing and we have some time, then you will see very good progress in general with all the products initiatives. Of course there are new products where you can raise prices, but important is that you cover each category with the right price points. I think the price points in general will not change. We might be able then to fulfill some of the higher price points with more volumes, which is of course always, I would say a goal. I think you also have to be careful with the uncertainty in the trade right now. I would say also a little bit depressed the consumer in many areas. I think it is very, very important that you don't run away from the lower price points and believe you can just raise prices and do less volumes. You will see our pipeline being targeting everything from I would call the dice, one consumer and all the way up to specialty and even higher than that when it gets to fashion.

Speaker 2
52m 7s

We have all the product we need in all price points and the go to market process, market by market is important that we fit it. You also have to remember that the price increases that might come in the US because of the tariffs should not have any impact on prices in any other market. Try, you know, to take the tariffs in the US and then put them on the prices in Germany. We will not do that.

Speaker 1
52m 31s

Understood. Very good. Thank you very much.

Speaker 3
52m 36s

The next question comes from the line of Anlor Bismuth from HSBC. Please go ahead. Yes, hi, good afternoon. Thank you for taking my question. My first question is about the FX. Can you explain how you see FX tailwinds help you in H2 this year and in 2026 and how much this can mitigate the potential tariff pressure? My second question is about the lifestyle. What is the balance between terrace and low profile? Also, you mentioned to the press that you might relaunch the Stan Smith late 2026. What would prompt you to do or not? Thank you very much.

Speaker 2
53m 17s

Yeah, I'll hand over to Harm afterwards for the FX. I mean, Taras, if you look at the models, it is of course still much bigger than low-profile that you start to see low profile growing week by week, month by month in most markets. Of course, none of the low-profile models have replaced Samba yet. They should not, to be honest. You have to remember it is not only low profile, but it is also then what we are doing with Superstar. The Stan Smith issue is, you know, there was a time where every fashion item from other brands was triple white and then triple white was replaced also, I think because of us, into more color. You know, trends normally go like this. Triple white always comes back and we feel, knowing that the soles have to come lower and the fashion has become sleeker, that Stan Smith will be our answer if we then need to scale it at the back end of 2026. Maybe, maybe not. We are at least cleaning the market. You will see very little Stan Smith now on. We will start also there to incubate and hold it. It might be 2027, it might be the back end of 2026, but we feel that we have it in the pipeline.

Speaker 2
54m 41s

I think Harm, FX.

Speaker 1
54m 44s

Yeah, Anlo, on the FX, of course, is an interesting topic. Yes, there will be light at the end of the tunnel for us looking forward. Very concretely, for the second half, as I indicated, for the first half, the currency impact was primarily from countries like Argentina and Turkey. The first thing is Argentina has definitely stabilized. Sure, it should be more neutral in the second half. Turkey is a slightly different story. There is still some volatility in that one. It means that it is neutral to tailwind when it comes to these two currencies. When it comes to the US dollar, of course, we are hedging earlier and all the weakness of the dollar that we have seen, we have probably seen in the last four or five months where a lot of hedges have been done for fall, winter 2025 already. Yes, there are slight, but there were not a lot of headwinds in the first half either. The dollar is probably more neutral. Of course, going into 2026, it will become a tailwind. Very clearly, we are more favorably hedged on the dollar going into 2026. We actually started early looking into 2027. It is definitely a tailwind in 2026 and it will probably accelerate going into 2027.

Speaker 1
55m 55s

What we should not forget, however, is there is always a translation impact as well when you have a weak dollar or weak RMB or whatever, as you in Q2. We are better able to mitigate these things because these are local things. If we lose something on the RMB or the dollar, we lose something on the cost side in these markets as well. As you saw in Q2, we are more likely to compensate for the translation impact when it comes to the absolute number, potentially even leading to a % better profitability. In sum, do not expect too much in the second half of this year, but it will not be a headwind anymore. Secondly, yes, there will be a tailwind going into 2026, especially when I talk about the dollar, probably ignore to some degree the translation because that can change very quickly and even more so going into 2027. As I said previously, I was always praying for a dollar of $1.15. My prayers have been heard. Again, this is a short term thing. The last thing that you ask, can we compensate for the tariffs in the U.S.? It is a mathematical question. The key thing for us is that we want to be profitable in the U.S. Yes, it might help in the short term, but we want to make sure that we are profitable in the midterm in the U.S. That is why, what Bjørn said, we look at selective price increases, we look at mitigation with all suppliers, but first and foremost you have certainty what the tariffs will be and then we take actions, as always with calm hands.

Speaker 3
57m 23s

Thank you. Next question comes from Thierry Cota from Bank of America. Erica, please go ahead.

Speaker 2
57m 31s

Yes, good afternoon gentlemen. Thank you for taking my questions, two of them. First, could you restate the one offs?

Speaker 1
57m 37s

That hit the EBIT margin last year.

Speaker 2
57m 39s

In Q3 and Q4?

Speaker 1
57m 40s

I think this was mentioned earlier so that we are sure to get a clean base and it will be removing donations and restructuring costs. On the assumptions I have, I think.

Speaker 2
57m 49s

I have accumulated $150 million in Q3 and $200 million in Q4.

Speaker 1
57m 54s

Just wanted to make sure this was correct. Secondly, beyond the discussion on the mitigation action on the tariffs in the.

Speaker 2
58m 3s

Us, you did not mention sharing the pain with retailers. I was wondering if anything was being discussed there. You did mention on price, the.

Speaker 1
58m 12s

Question of price, the issue potential of price elasticity and you saw it a little cautious.

Speaker 2
58m 17s

I was wondering what has been your experience across the companies where you worked on price hikes in the US and the response you've seen from the US consumer. Thank you. Yeah, I'll take the last one. You know, the pricing in a circumstance like this, no one has the formula because again, first of all there is the uncertainty of what the tariff is going to be and then of course there is a brand that is much bigger than us that probably will lead, in my opinion, the price increases. What we are doing is that we are of course different scenarios on how we price different product and to be honest with you, totally new products that hasn't existed before, people wouldn't know what the price would have been.

Speaker 1
59m 4s

Right.

Speaker 2
59m 5s

You're free to price it the way you want. Of course there are possibilities to mitigate this cost compared to what it would have been if you did not have the price increases. I think you just have to wait and see what the markets are doing. There has so far in the U.S., if you look at prices in retail, not been any price increases because the discounts have been going up. You have also seen that, I think, in the import statistics that imports have gone down. It is going to be interesting to see how the next couple of months go, as soon as we know what the real tariffs are. Do not forget, if you look at the whole chain, then it is obvious that the suppliers will take part of it, we will take part of it, and then of course also the retailers will take part of it. In all those discussions I think it is very important to keep the transparency and try to help each other and not try to optimize your own situation. We have seen, and I am sure when you talk to the factories they will tell you, that there have been a lot of cancellations.

Speaker 2
1h 0m

We have not cancelled one order, we have not seen any cancellations yet from any retailers. That might, of course, change depending on what happens in five or six days. We have the clear, clear meaning that we need to manage this very balanced, try short term to be fair both to our retail partners and our suppliers, and then of course try the midterm and going into next year and to have the recipe. The $200 cost of goods sold will of course not stand there by itself as a reduction in our EBIT. We will of course mitigate, but we think it is important that you know what that could be just because of the increases in tariffs, and that is what we flagged to you. We already had a double-digit hit when it gets to cost of goods sold already in Q2 in the U.S., which we of course swallowed in the results that you saw. Again, I do understand that you would rather have us increase our guidance as you always like to, and then, you know, be very confident. I hope you understand that regardless of what you read, we do not even know what the duties will be.

Speaker 2
1h 1m

There are still a lot of discussions based on, for example, the European duty to the U.S., which the 15% replaced the 10%. It was not on top. Here, of course, we made the assumption that all the duties we talk about are stacked on top of the old duties. We don't get any real confirmation if this is true or not because there are no, what should I say, written confirmation of this. Still a lot of uncertainty. You know us, when we have uncertainty, we always go the conservative way, maybe just as a follow up. $200 million is mitigation, action and.

Speaker 2
1h 2m

Effect already in H2 as much as in the following year you think? Or it's really a ramping up of?

Speaker 1
1h 2m

The negotiations are still ongoing with suppliers and retailers.

Speaker 2
1h 2m

Impact moderate H2 and more visible next year is. Is that the shame? It is obvious that your mitigation will be stronger in 2026 than it will be in 2025. It is kind of obvious. What I am saying is that the cost of goods sold increasing 200 and remember that is not on all your buys because you do not sell everything you buy. There are quite some volumes that are then sitting on your balance sheet at the end of the year. Of course we will mitigate some of that. Again, I think it is important first to say okay, these increases have that kind of impact. Tariffs are nothing else than a cost. Regardless what people are saying, you cannot just throw a cost away. It is there. Secondly, the time it takes then to mitigate for it is, you know, depending also on how the consumer reacts. Do not forget that these tariffs are not only targeting footwear and apparel, it is everything. We feel, to be very honest with you, that if we could have produced in the US we would understand it because then you could move some of the production to the US, but let us face it, in footwear, where are you going to move it?

Speaker 2
1h 3m

There is a slight hope maybe that later there will be an exemption for footwear, for example, but at least this is just hope. We have to work with the worst case and we have told you the worst case. Carm, thank you.

Speaker 1
1h 3m

Yeah, you raised a very good question, Thierry, on the third quarter and fourth quarter, what kind of one-off cost we have. I'm pretty sure when we announce our third quarter results, we will pull out the chart from last year just to repeat again what we said last year and what we will repeat in three months from now. First, of course we had an accrual release linked to Yeezy as well, which was roughly $100 million we said in other operating income. It's really important that we get the line items right. That is definitely something for the roadshow and for our investor relations team, for Adrian Sebastian to explain in more detail. $100 million positive in other operating income last year that will not repeat again this year. Of course, we offset that one with a donation of around $100 million. I'm talking about rounding numbers here of around $100 million that did hit in operating overheads last year, which will not be repeated this year. Then we had two more items. There was, of course, the profit contribution from the remaining sales of the Yeezy, which was around $50 million and primarily the gross margin. That was offset with some restructuring and one-off cost of around $50 million as well, which hit operating overheads again.

Speaker 1
1h 5m

You have kind of $150 million operating overheads negative last year, one-off $100 million other operating income positive, and $50 million Yeezy contribution in the gross margin positive. That's kind of from last year when we look at Q4 again. There was another restructuring of around $150 million that we accrued for the voluntary relief program that we had here at our headquarter. These are kind of the numbers. I know it's tricky sometimes to get the line items right, but I appreciate the question because that's something that will keep us busy on the next call in Q3. We try to be as transparent as possible. Of course, these are rough numbers and we tried to keep it simple last year and we will try our utmost to keep it simple again during the next quarter and when we communicate it. Thank you. Thank you very much.

Speaker 3
1h 5m

Next question comes from the line of Aneesha Sherman from Bernstein Societe Generale. Please go ahead. The first one is on the lifestyle footwear percent of the mix. Lifestyle slightly outgrew our footwear this quarter and it seems you're broadening the mix with a lot of new launches. Of the 58% that's footwear, can you talk about how much of that is lifestyle footwear? Do you expect the mix to continue to skew towards lifestyle and any commentary on how that might impact margins over the next year or so? My second question is just a clarification on your tariff guidance of the $200 million, is that fully going to hit the second half? Tariffs were a headwind in Q2 already. Is some of that $200 million already embedded in Q2? Thank you.

Speaker 2
1h 6m

You know, the definition of lifestyle and performance is a very difficult one. If I put one shoe on the table, five would say it's a performance, five, I would say it's a lifestyle shoe. When we start to talk about this, it is extremely difficult because if you take a running shoe and walk in it for the street, or you take a tennis shoe and use it as a fashion shoe, you know, it's up to the consumer. It is very, very difficult to give you an answer for that that gives you any, what should I say, truth to it. What we have seen is of course that we turned around the brand by selling more shoes that the consumer classified as lifestyle. We believe, and I think it's proven, that the consumer that buys us because they like the brand has a bigger proportion ability to also buy us in performance. If you bought three pairs of Samba and you're now using the knitwear because you like the three stripe and the triple and you start running, the probability that you will then pick up a running shoe that looks good and our advice as being a good running shoe is bigger than if you have no connection to the brand on the lifestyle side.

Speaker 2
1h 8m

You also know that there are so-called running brands that most of the product that they actually sell are not being used for running but for comfort and actually walking and being, what should I say, stylish shoe. I don't want to go into those mixes because it gets very complicated. If you look at the margin on what we're selling on footwear, we think we are at the stage where our markdown rate is very, very low, meaning that the offer is very good and that we then have to engineer the product and the supply in a way that we can continue to improve the margins. You know, 52% margin in our business with the 60-40 wholesale, wholesale, retail is a very good, I would say, gross margin. We can work on improving that. We also feel very happy with where we are. To your tariff thing, the things we have told you is that there was a double-digit million taken care of already in Q2 because we bought products with higher duties that we sold. The $200 million is what we expect would be the product that we have imported or will import with higher duties that will be sold.

Speaker 2
1h 9m

The number of what we're importing is of course higher, meaning that this will then have an impact in Q1, Q2 of 2026. Worst case scenario, the way it is today is that you have another $200 million of increased cost of goods sold in the second half. That has an impact on second half of $200 million before we mitigate anything. But then of course we will mitigate and I'm sure when we get to the Q3 release we will start to tell you how much we could mitigate and what the impact is. What I'm mostly worried about, to be honest, is not only the cost, but is what is going to be the consumer reaction in the market. When all these price increases that I think will come not only in our sector but in general in the US what will then happen? And that uncertainty, you know, I think everybody, what should I say, sees and I think that's why many companies. But it doesn't even give you an outlook. We think that we are very fair because we confirm our outlook after a strong first half and then hopefully we can even deliver you better results than that.

Speaker 2
1h 10m

But as prudent as we are, we like to be conservative.

Speaker 3
1h 10m

That's very helpful, thank you. The next question comes from Warwick Okines from BNP Paribas. Like Sam, please go ahead.

Speaker 2
1h 10m

Thanks very much. Two questions from me please. Firstly, you've talked about this a bit, but what would you say the main reasons are for why you're outperforming by so much in China? Secondly, another question for Harm on costs. Harm, on the Q1 call you said that flat or negative cost was sort of too ambitious for the year. Given what you've already set out about the one offs in the other operating overheads, isn't that a reasonable assumption for the second half of the year after delivering plus one on costs in the first half? I think on China, when you look at sell out data, I. Will agree with you that we are.

Speaker 2
1h 11m

Outperforming all the other brands, which I think has to do with that. Our Chinese team, after a very difficult time, the BCI conflict, the lack of possibilities in marketing and also the lack of flexibility in doing local product has gotten different and the energy of it. When you look at it now, we have a design center in Shanghai that works on tweaking global concepts or even designing from scratch. All apparel have been changed to Chinese spec. The sizing and, what should I say, the patterns are made for Chinese consumers and not for Germans. I think that some of that in a market where we now are also doing marketing, meaning that we have signed both athletes, federations, teams, celebrities and we are doing a lot of activations, are causing a brand heat that was not there and suddenly you have like-for-like growth both with our retail partners and in our own stores. That of course again causes energy. I think when you look at Tao Shen for example, and I am sure you talk to them, they have negative numbers reporting but with us the numbers are positive. Of course it is a great situation to be in.

Speaker 2
1h 12m

When the team feels that what they are doing is right, that gives them the hope and the belief that we can actually continue this in a positive way. Do not forget China, regardless what issues are, is a huge market and we see great potential in it. Do not forget it is also very profitable. We are very, very happy with the local team and the way we globally actually work with them right now. Hart?

Speaker 1
1h 13m

Yeah, it's a good question on the operating overhead and of course we made good progress in the first half and just talking about the one-time cost average last year, it's a fair question. It just confirms again we are very prudent in what we are saying and we want to over deliver. The honest answer is also that we got some tailwind through the FX as well in the comparability on operating overhead. We don't show you the currency-neutral. There is definitely some benefit on the FX on the operating overhead as well. What's more important for us, Warwick, is that we have a clear plan which of course we have to get below the 30% at 26 to get to our formula right and to get to double-digit EBITDA in 26. That's what we are focusing on. It's more the percentage and then secondly implementing around the world the right cost consciousness, the right culture that we understand that we are not done with all the efficiency we need to do. There needs to be the right culture to question things that are not helping the brand, that are not helping to accelerate the top line. That's still some work to be done.

Speaker 1
1h 14m

We still see some opportunities here and there and that's what we're really focusing on and then we will see the results. Yeah, it's a fair question and hopefully the results will lead to what you expect.

Speaker 2
1h 14m

Thanks very much.

Speaker 3
1h 14m

Next question comes from Robert Krankowski from UBS. Please go ahead.

Speaker 1
1h 14m

Thanks for taking my questions, two for me, please. I had one on Terrace and the new franchises. I think you mentioned a couple of times that Terrace is now maturing in some of the markets. When you look at your low profile, at the Samba, Superstar, the progress that you've been making so far, do you think it's enough to offset this kind of slowdown from Terrace somewhere towards the end of the year and maybe early in 2026? Or do you need to see this sustainable acceleration in apparel to offset the slowdown in Terrace? And the second one is usual, the same question, like could you talk a bit about the start to the quarter? I think you mentioned in Europe you saw the acceleration, but what about the other regions? Is it double digit? Maybe that would be the most helpful.

Speaker 2
1h 15m

Thanks. Your first question is a clear yes, we believe we have the franchises and products to continue to grow in footwear. You have to be careful when you talk about tariffs.

Speaker 1
1h 15m

Tariffs is not over.

Speaker 2
1h 15m

There are many, many retail. You still have tariff models as the best selling items. When we heat it up with collabs and new materials and stuff, there is no indication that that trend is over. Of course, we need to manage it market by market so we do not overheat it. When I look at the pipeline that I showed you in lifestyle product, we are not worried that we cannot replace that business or actually add to the business in a way that we get an even bigger share in the lifestyle side. I think you also probably have seen that we are very successful with her and that the momentum on him are lagging behind. Of course, a lot of the initiatives that we are now taking and also what you are seeing running lifestyle, and I would also put probably a Superstar in there, is also more targeted to him to also get the biggest share on the male consumer on that side. I am not worried that based on what we have seen from the reaction in July and what we can see on the order book that we should not at least outside the U.S. grow double digit. The U.S. side again, I do not dare to say because I do not know because as soon as the price increases hit, the consumer might react differently.

Speaker 2
1h 17m

I think outside the U.S. we feel very comfortable about growing double digit and we have not seen the demand in the U.S. going down yet. The price increases have not been there yet either. I think the 2nd of August, when the duties are hopefully being communicated, the reaction then, not only in our industry but in general when people start to talk about prices, I think will tell you what is going to happen in the U.S. Outside of the U.S., the 80% very comfortable.

Speaker 3
1h 17m

The next question comes from Andreas Riemann from ODDO BHF. Please go ahead.

Speaker 1
1h 17m

Yes, good afternoon. Two topics. One would be Europe. Here my question is on sponsorship deals in Q3. The deal with Liverpool will start on.

Speaker 2
1h 17m

Also Eintracht, of course.

Speaker 1
1h 17m

The effect from more sponsorship deals in soccer, isn't it quite meaningful for Q3 so that this should allow for an acceleration of growth in Europe? Linked to that, Bjørn, I think this morning in a press call, didn't.

Speaker 2
1h 18m

You say that the growth in Europe.

Speaker 1
1h 18m

Should return to the double digits in the coming quarters. This would be topic number one. Number two on wholesale, if I'm not mistaken, the number of wholesale partners visiting your shop showrooms is still growing nicely.

Speaker 2
1h 18m

Where are new partners coming from?

Speaker 1
1h 18m

Can you provide any insight? What region or in what category are you able to win new wholesale accounts? Thanks.

Speaker 2
1h 18m

Yes, I did say that I expect.

Speaker 1
1h 18m

Europe to be double digit.

Speaker 2
1h 18m

That is correct. I think adding Eintracht Frankfurt and Liverpool will of course add business. That is true. You have to remember you are coming last year against the Euro sales and I do not remember, but the Euro last year generated this unbelievable German trend where, you know, we were selling 5x what people have expected, so need to be careful. Yes, soccer in general, when we look at both replicas of existing partners, new partners, and all the things that are leading into World Cup should have a strong Q3, Q4. That is correct. Frankfurt alone does not replace, or should I say, everything else that is happening in the market. I do also, we see a strange thing actually and that might help us in Q3, that soccer replicas, meaning what the fans were buying, started later this year. I do not know if that has to do with maybe the soccer fan has been saturated by too many things and are waiting closer to the season. Of course, Liverpool, to be honest, are playing as we speak, the late last game in Nike. The next game will be in three stripes. Of course, that is culturally also relevant. When you then see the whole Oasis thing, I do not know if you follow that, but, you know, it is the Firebird tracksuit, three stripe, threefold. It is very, very soccer inspired.

Speaker 2
1h 20m

Seeing the tremendous success of that is of course also making us very, I would say, positive on the whole soccer culture, lifestyle. What did I forget?

Speaker 3
1h 20m

Wholesale.

Speaker 2
1h 20m

Oh, wholesale partner. Yeah. You know, the wholesale partners that are coming from Germany does not mean that they are new. What is new with that is that we have opened up our podium here where we have 35,000-40,000 samples for more regions to take more customers. That does not mean they are new customers. We do that because seeing the whole brand is, of course, very inspiring also, also for retailers that are far, far away. That is growing continuously and it starts again, I think, in a couple of weeks. To be honest, we could have even more. The request to come here is huge. That does not mean that there are new partners. It means just that we are giving the old partners in smaller markets. They allow us also to come and see the whole global range.

Speaker 1
1h 21m

I thought maybe there are new partners in the running category or something like that.

Speaker 2
1h 21m

Oh, specialty.

Speaker 1
1h 21m

Yeah, that's true.

Speaker 2
1h 21m

Specialty is true. That is like specialty in general is that, you know, we were gone and we have a lot of activations with specialty right now. Also have hired sales forces and are taking care of them in a different way. That does not necessarily mean that they are all coming to Herzog, but they are all welcome. It also means more that we are in the running culture and that we have people visiting the stores and are part of the running clubs and are active in running. That is much more than actually just inviting them to Herzl. Okay, many thanks. You are welcome.

Speaker 3
1h 22m

The next question comes from the line of Adam Cochrane from Deutsche Bank. Please go ahead.

Speaker 2
1h 22m

Good afternoon.

Speaker 1
1h 22m

Thanks guys.

Speaker 3
1h 22m

First question, when you look at your.

Speaker 2
1h 22m

Gross margin being almost at 52% this year, with the FX gains that you've got coming through in 2026, can the gross margin go beyond your 50-52% corridor?

Speaker 3
1h 22m

Or if it goes above that 52%, is that something where you would choose to reinvest the gains in something else to drive higher sales?

Speaker 2
1h 22m

With the commitment to go to.

Speaker 3
1h 22m

The 30% of OpEx sales looking.

Speaker 2
1h 22m

On track, is there any chance?

Speaker 3
1h 22m

The EBIT margin could be higher than. 10% as we look at 2026? The second question for Harm, you.

Speaker 3
1h 22m

Mentioned just a clarification on the cash.

Speaker 2
1h 22m

Improvement in the second half. Did you say $1.2 billion-$1.4 billion cash generation in the second half or for the year as a whole? And if it is the second half, how do we reconcile the difference between $500 million-$600 million of EBIT delivery in the second half versus a much higher cash number? Thanks. You're trying to get me on thin ice by putting the components to be higher than 10% EBIT. Right. Of course, there's an upside on margin depending on what we do in different markets. I think when we started two and a half years ago, we felt that 50%-52% with a 60-40 split between wholesale and retail was a fair one. You also know that there are big differences between the gross margin in a market like Greater China or the U.S., so of course the country mix, the channel mix, and the category mix have an influence on this. We feel again that we have brought the margin to 52% or almost 52% earlier than people expected. I think we've done a good job. We're not planning with it higher, but it might go higher depending on many things. I think right now the tariff discussion is, of course, putting an opposite direction on it.

Speaker 2
1h 24m

We will have to work against that first. The same is on the leverage. We were coming from 34%-35% and now we're down at below 31%. I do think it's the same thing. If you compare apples by apples and you have a global setup, then around 30% is a fair point. Is it possible to leverage it more over time? Yes, but I think we should deliver now first what we have said in those kind of corridors and then hopefully the world stabilizes a little bit so we can start to talk about the higher target. Don't forget we were coming from a very, very low target and are now at 9.6%. Give us a little bit more time. Give the American side the time to decide what the tariffs are. Let us all watch what that causes in the marketplace with the consumer and then let's see what options we have. We don't have any, what should I say, secondary EBIT target yet in our head. Of course, we are discussing it, as you can imagine. Right now we are focused on getting through this volatile uncertainty kind of crisis mode because of the tariffs and then we'll see further on.

Speaker 1
1h 25m

Yeah, you listen correctly, Adam. I mean, I said $1.2 billion-$1.4 billion in the second half. Not for the year. It's actually in the second half. I mean, normally in the normal course of business, we should convert our net income before dividend payments into cash, but that didn't work in the first half given the build up in the inventory that we planned for. As we are collecting on the receivables and the gross and wholesale and as we are keeping the inventory where it needs to be going forward, that's where we generate the $1.2 billion-$1.4 billion operational cash flow which should lead then, still pending whether we pay back the bond in November, to around $2 billion on the balance sheet in cash. That's great.

Speaker 2
1h 26m

Thank you.

Speaker 3
1h 26m

One more if I can. Did you say with regard to tariff trend and still being in growth, is. it a lower proportion of the sales growth in 2Q than it was in 1Q? If you're prepared to answer, yeah, the answer is yes.

Speaker 1
1h 26m

Maura, we have time for one more question.

Speaker 3
1h 26m

Today's last question comes from the line of Cristina Fernandez from Telse Advisory Group. Please go ahead. Hi and thanks for taking my question. I wanted to go back to inventory. Does the inventory increase reflect any sort of like pull forward because of tariffs and is inventory balanced across regions or are inventories higher in the US because of the tariff situation?

Speaker 1
1h 27m

It doesn't, it's rounding what we have probably shipped earlier to the put early on the ship. I mean, you know that we need to pay the right duty right when we put the product on the ship. I mean, we accelerated some. It's not meaningful and it's pretty much balanced around the markets. It's probably a little lighter in China because we have more verticalized supply chain in China. We actually get the benefits of lower inventories in China over time as we have more China for China sourcing right now. You have a shorter period of lead times as well. Overall, it's very, very balanced around the world. No outlier.

Speaker 3
1h 28m

My second question is on price. Prior calls you have talked about taking down some of the fashion from the high end to more commercial styles. How is that performing and are you pleased with the performance across price points for the Adidas brand?

Speaker 2
1h 28m

The strategy for us has always been to give the consumer at different price points the same design directions as you do upstairs because the trends are the same. We feel that we have actually been better upstairs than downstairs. We have not exploited the takedowns maybe as much as we could do, but we will continue that strategy. You know, we also measure our share in the lower end of the distribution and as long as the share is higher in the high end and in the lower end, we feel very healthy. You know, it is a strategy that I think on automatic only we, but everybody is going after. I think actually we have even more potential there when you think of the commercial side in many markets than we have exploited. That will continue.

Speaker 1
1h 29m

All right, thanks very much, Bjørn. Thanks very much, Harm. And thanks very much, Moira. And of course also thanks very much to all of you for participating in our call today. This concludes our Q2 2025 results conference call.

Speaker 2
1h 29m

As always, if you have follow up.

Speaker 1
1h 29m

Questions and I could imagine that there.

Speaker 2
1h 29m

Is still a few, please feel free.

Speaker 1
1h 29m

To reach out to Adrian, Philip, or myself, or any other member of the IR team. We are very much looking forward to chatting with you and meeting with you over the next couple of weeks and months. With that, thanks very much again for your participation. Enjoy a well deserved summer break, and as I said, speak soon. All the best. Bye bye.

Speaker 3
1h 30m

Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call and thank you for participating in the conference. You may now disconnect your lines. Goodbye.