adidas
Q1 2025 29 Apr, 2025

Speaker 1
Start

Webcast viewers may submit their questions in writing by the relative field. 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 2
16s

Thanks very much, Mora. Good evening, good afternoon, good morning, everyone, wherever you're joining us today, and welcome to our Q1 twenty twenty five results conference call with our CEO, Bjorn Goulden and our CFO, Harm Ulmaher. Before Harm and will talk you and take you through the puts and takes of the quarter and explain our expectations for the rest of the year, I would like to ask you as always once again to limit your initial questions to two during our Q and A session in order to allow as many people as possible to ask their questions. Thanks very much. And now before I'm going to hand over to Bjorn, we will start with the video to get everybody in the right Adidas mode. Let's go. 2024 Let's go. Best of the very best.

Speaker 3
1m 22s

Was just the beginning.

Speaker 5
1m 25s

The way we showed the brand to the world during sports was fantastic. When we believe in who we are, there's nothing we can't do. Okay. Let's ride. Always innovating.

Speaker 5
1m 42s

I want you to picture pure comfort.

Speaker 4
1m 44s

The number one shoe of the year, Adidas eighty one.

Speaker 3
1m 48s

And inspiring the world. You're looking for one hiking shoe that can do it all? Sky chaser is your shoe. From sport. Greatest sporting event in 2026, the FIFA World Cup.

Speaker 3
2m 24s

The track.

Speaker 4
2m 27s

And in each other. Embrace it. You're here for a reason, baby. You are here for a reason. Making an impact globally For another one. Go home. My god.

Speaker 3
2m 38s

Let's By winning locally It's all you.

Speaker 6
2m 43s

Millions of a big day.

Speaker 3
2m 45s

Showing up everywhere.

Speaker 7
2m 50s

Absolutely everywhere. There's nothing they can't do.

Speaker 3
2m 52s

That is the power of our brand. Untouchable, unreachable, unrepeatable.

Speaker 3
2m 59s

The best sports brand in the world.

Speaker 5
3m 13s

Yeah. Hello. Also from me, hope, that you enjoyed the video, showcasing the feeling we currently have in the brand. The picture you see on the screen, you probably don't know, but it's Bad Bunny, our hero in the Latino countries. And he is helping us selling a lot of different products, also low profile. As you can see on this picture, we have talked about low profile for a long time. And we now see it also moving into the male consumer and then also helped by an artist like Bad Bunny. But mostly, we are a sports company. And also, you follow those this weekend. We had a fantastic weekend, first, with road to records here on campus, where we had about 200 professional athletes running different distances. And as you can see, even setting world records and national records. And then we also celebrated together the Diesel family. We had 2,500 people running five ks in different speeds. And again, it showcases the enormous power of what we are doing and the spirit we are creating here on our fantastic campus. But even better was what happened then in the other competitions. You probably saw that we won both the men's and the women's London Marathon and where Asafa actually won with a new world record.

Speaker 5
4m 42s

In addition to that, I think we won both in Madrid and Hamburg. So there's no doubt that we currently not only have the best athletes, but also probably the best shoes. And of course, that is very, very important for us. Important is also that, as we promised you, we feel we had a very strong first quarter. To be honest with you, it was actually stronger than we expected. I think partly because we have very good product that we have launched. And secondly, that both the brand heat and the operation in the different markets is actually working better and better. And that's despite, of course, the challenges that we have talked about and has now been accelerated by The U. S. Tariffs. We will get back to the tariff issue at the end of presentation. The numbers, I'm sure you've seen many times, but of course, we have to give them again. Net sales reported on currency neutral up 13%. If you look only for the Ditters brand and take ECL, it was even 17%. Very proud of the development of gross profit, more than 52%, up almost 100 basis points. If you look at only Adidas business, up 160 basis points.

Speaker 5
6m 5s

And again, it showcases again the strength of the current line and the fact that we're able to sell it both D2C and with our wholesale partner with very little discount compared to what has been done before. So that all gives us then the EBIT or the operating profit of million, which is then almost the 10% that we talked about we would like to achieve in our business model. And as you can see, almost a 400 basis points improvement. And again, I know it's only a quarter, and I also know we're only two years into our four year plan. But I think you can see that in a decent quarter with decent operation, we are able to deliver 10% EBIT. Of course, we will not do it this year, but we think in the midterm, we are actually able to do that. And I think the first quarter actually is a proof that, that is achievable. We are a sports brand and the culture that are born from it, but performance is very important from us. We have talked about this for a while that we changed to You Got This. We have been running a lot of activations and a lot of campaigns over the last three months.

Speaker 5
7m 17s

And what is very, very important is this local execution. I think you all agree that the world has become more local, and that's why we have put a lot of energy of talking to the consumer locally. That means in the global frame of the campaign, but always with the mind of hitting the consumer with what is locally relevant. And I think you see those examples here on the screen. Same thing goes for performance. Although we have a huge, I would say, heat on the lifestyle side, our performance launches become more and more important and we are in all the category launches launching products that are both innovative and good looking, meaning that we are taking share. Here, the same thing, the sports that are relevant are not only the big sports, but also the logo sports. And we have the same strategy in our product offer as we have in our marketing offer that we allow the markets then to focus on what is important for them and are executing that as good as we can. In general, we have said it for a while that visibility in sports is important. And when we are visible in competition, we should also talk about it.

Speaker 5
8m 38s

That's why the digital content is important. And if you follow us or you follow sports in general, you will see that three stripes in our logo and our athletes are more visible than ever. And that's a clear strategy that we think is currently important. But as said, brand heat and the culture war from sport is important. And we also know the industry would never be as big if it was only performance. So lifestyle is very, very important on the commercial side. Same thing here. Since eighteen months, we have changed the visual language of our lifestyle business. We have simplified the Trifo logo. And it's the same thing here. We have a language, which is global, but the execution is extremely local. And when you look at these visuals, you see the energy that the different markets are doing and the different tools and the different, which I say, avenues they take. Extremely proud of the local energy when it gets to actually pushing the brand for the right culture locally. And the same thing here, you cannot create brand heat if you don't create a lot of new products. We have, of course, certain franchises that are doing extremely well.

Speaker 5
9m 50s

But the heat is being created by updating the franchises, by giving new materials, by doing limited editions and, of course, a lot of collabs. And The activities that we had in the last three months has been very, very, very high. And it is the same thing here, very strong activations locally, both when it gets to the product and of course, also the activations around the product. On this screen, you have to notice one thing. Up in the right corner, you see animal print. Every style that is currently going lifestyle wise with animal print is doing extremely well. And it's one of those small things that is actually creating an enormous heat right now and where we have probably been leading the trend. When you then look at the sales numbers, again, very, very happy to see that all markets are growing. North America, you see the Dias brand up 13%, the whole business up only 3%, but that is, of course, that we missed the YEEZY business that we had a year ago. And as you know, there's no more Yeezy business, there's no more inventory. That whole thing is history. Europe, on top of very strong growth over the last eighteen months, another 16% for the Didas brand.

Speaker 5
11m 9s

Greater China, up 14%. There's no doubt that our Chinese team are taking market share, extremely happy with the development there. Japan and Korea, we talked about that we were a little bit skeptical about the Korean business because of the destroyed warehouse and the trapped merchandise. They have been able to turn the business into growth despite this, although we have a couple of million units actually trapped in warehouse, but same here. And the brand is trending positive in both the two trending markets in Asia. LATAM been on fire for a long time, same this quarter with up 27% and the same goes for the emerging markets being up 25%. So all in all, currency neutral up 13% and the deal spend up 17%. And as I said, higher than we had planned, higher than we expected, but of course also an attribute again to the great work that our teams are doing. If you look at the channel wholesale up 18 our own retail stores, up 13%, e com, down 3%, but you see that excluding Yeezy, mean, Ferdinand's brand, up 18%. And this is, of course, the €150,000,000 we sold in March of the Yeezy product that is missing.

Speaker 5
12m 31s

And as you can see, a very strong development digitally then for the Didas brand. That gives us the 60 fivethirty 5 split this quarter. Again, this varies from quarter to quarter depending on where the consumer is. And as you can see in this quarter, and mortar then growing stronger than ecom and that gives the $21.14 I'm sure that when you get to next quarter, the wholesale business will probably be a little bit lower and the D2C higher, but that's the fluctuation that you you see. And we don't have a global target for this balance. We will, in the individual markets, be where the consumer is. And as you can see, that is currently then between sixty-forty and 60 fivenirty 5. We continue to invest in our, what should I say, flagship stores and stores in general. I think we have opened around 70 stores in the last twelve months, opened net 70 stores. We have opened, I think, two thirty and closed around 160. And as you can see, we really tried to modernize our fleet. The last one we did was actually in Las Vegas. I think you see it here on the screen on Friday.

Speaker 5
13m 44s

And showcasing the brand with great stores and great merchandise is, of course, part of the strategy, and that will also continue. When it gets to the division, footwear leading again with growth of 17%, apparel going from almost negative numbers to now almost double digit and accessories also now following the trend at plus 10%. Again, we are starting to sell more apparel and there's more demand for apparel. But as you said many times, we need to manage apparel more carefully because of all the apparel in the market and all the discounts. But again, you start to see that getting close to a double digit growth as well. That gives you the almost 60% split footwear and non footwear, 61 footwear, 32 apparel and seven accessories. I think you all agree that is a very healthy, I would say, split. That was kind of the intro. And then I hand over to Arm, who will take you through the details of the quarter financial.

Speaker 8
14m 55s

Thanks, Bjorn, and good afternoon, good morning from my side as well. And as always, I shed some more light into the P and L and the working capital and the balance sheet. And as you are very familiar with the P and L already, as we preannounced last Wednesday, I give you just the highlights of the net sales again. Johan talked about it, so 30%, both nominal and currency neutral growth. And again, very clearly, the Adidas brand growing 17%, which is a more meaningful number. And again, for the last time we talked, excluding Yeezy, that's why it's 17%. The same you also see on the gross profit if you could compensate for the margins that we generated with Yeezy last year as well. So we are 90 basis points up. And if you look at the Adidas brand, again, an indication for the future, we are actually 160 basis points up. How do we do that? With some more details, of course, as we are selling more and drive more volume also our factories in Asia and better planning for these things, the product costs are favorable for us. Trade has been planned better and has normalized.

Speaker 8
16m 4s

So there was a slight positive again in Q1. The business mix and the currencies have been neutral. We continue to have strong demand from the consumers and from the retailers out there. So the promotional cadence has been limited. So that has been a positive as well. And then as you can see, Yeezy, of course, is a negative, but could be fully compensated. And again, FX, since some quarters, has been neutral. I'm going to continue with that one. We keep investing into marketing. As we said, always plan your models around 12%. You see here, it's almost CHF 90,000,000 more in absolute terms, 14% up. Even more important is the operating overheads. I know we had CHF 200,000,000 of one offs in 2023 and 200,000,000 of one offs 2024 again. But now as you are driving towards a healthy company and being a good company and then 2025, you see that the leverage is coming now. It's pretty meaningful in the first quarter with three percentage points, only 3% growth despite the 30% currency neutral growth that we have. And we always said that we have an infrastructure organization that can cater for €30,000,000,000 business. So that's where you see that for the first time in very solid way in Q1.

Speaker 8
17m 27s

That, of course, leads to a significant operating profit. And Bjorn mentioned it, 9.9% is, of course, not 10%, but a good indication that we are clearly on a progress to be a good company and it shows the potential to be a healthy company in 2026. Yes, only one quarter, but more to come. So it gives us a lot of confidence regardless of the tariffs that we are on the right track to become a healthy company again. When you become a good company again, you also see in the more details when I go below the operating profit, which is probably news from today, when I give you the details towards the net income, that the financial income has normalized. We actually participate also on the cash on the balance sheet that we get some interest on, so 41% more on the income. And even more important, we are avoiding some of the expenses that we had last year. I mentioned that last year, we had some repatriation of cash from countries in Latin America. And of course, we had to deal with hyperinflation accounting treatments here and financial expenses, primarily for Argentina and Turkey. That is largely behind us, at least not in the dimension that we had last year.

Speaker 8
18m 36s

And you see also here the normalization. That's what we always say going forward. If you have a net financial expenses of €30,000,000 a quarter, it's probably something you can play around in your models. That leads to significant increase of 139% in the IBT. And then also the taxes, what we kept saying, when we have a normalized profitability, we get it to a normalized tax rate again around 25%. That leads to a significant increase of the net income of 155% to €436,000,000 and the basic earnings per share of €2.44 That's the P and L. When I come to the balance sheet, you've seen the inventories up 15%. This is again according to the plan as we want to be a growth business, especially with the Adidas brand. We said we want to go to double digits. So that is just needed in order to fuel the growth and the demand that we have in the future. When you look at that from the development point of view, as Bjorn said, Yeezy is behind us. You still see that last year, we had some Yeezy stock still in our balance sheet. We finished with €5,000,000,000 at the year end, now at 5,100,000,000.0 And it's still probably slightly growing into the future, also linked somewhat to the your tariffs that some will come, some we don't know, but expect that to grow slightly as well to the end of Q2.

Speaker 8
19m 59s

But again, no worries, the aging is very, very solid, it's fresh product, and it's definitely a benefit right now to have that inventory, especially in The U. S. When it comes to receivables, that is a reflection of the growth that we have with our retail partners. You have seen that we are growing significantly with our retail partners and that is reflected in the accounts receivables. The same on the accounts payable, that is reflecting what we owe our suppliers in Asia. That gives you an indication also that we are sourcing much more, not just in value, but also in volume. Of course, that is reflected in the inventory as you have seen earlier. That all leads to operating working capital that went up slightly as well. But that's where it's probably more important to look at the ratio. We always said, we are a healthy company if we drop below 20% of operating working capital over net sales. If you're around 20% to 22%, we are a good company. And as we are building up inventory for the future growth, expect it to be slightly above 20%. But again, a healthy company means that's our ambition to be below 20%.

Speaker 8
21m 6s

So also that very, very good development and very, very strong on the balance sheet. That's being rounded up with cash and cash equivalents of DKK 1,400,000,000.0. You might remember that we finished with around DKK 2,400,000,000.0 at year end. We used this to invest in the working capital for the future growth. But on a like for like for last year, it's €400,000,000 up or 32%, also very, very solid development and also good to have that in a volatile environment that we are maneuvering through with Calm Hence. That shows you on the left hand side that we're making progress on the cash, on the balance sheet and more to come. And of course, the same thing, adjusted net borrowings are going down as we keep paying back our long term debt through our bonds that we have taken in the past. So that is also according to plan. And our rating agencies, Standard and Poor's and Moody's will be quite happy to see the next chart because also we came down from a level net leverage ratio from 4.7x in Q1 'twenty three to now 1.6. And our internal target is to always be below two in our financial policy.

Speaker 8
22m 14s

So we have some flexibility, but that shows you that lots of P and L is in good order, but the balance sheet is a good order as well. And that is we are well set up for the future. And with that, handing over to Bjorn again.

Speaker 5
22m 29s

Thanks, Arnd. So that explains you where we are currently after one quarter. That explains why we are where we are after one quarter. We have two more years to go before we are kind of at the end of this phase of our plan, and it's time to tell you where we think we are going. First of all, I think you agree, we feel we are and have been the Hothos brand for a while. It started, of course, with the tariffs, but you also know it's not only the tariffs. We have extended the Samba, Gazelle and Spercal into campus in SL72. And again, for those of you who think that this is dangerous, don't worry. The heat of these tiles is being managed. And of course, if you now go into the regional environment, you will see that we're selling on a much wider scale than what we did about twelve months ago. The next thing in the marketplace that you will see grow is low profile, talked about it for a while. We clearly see globally now that especially for her, different styles are taking off. And we clearly, clearly see that she's adding this to her locker.

Speaker 5
23m 38s

But we even see it, as I said in the beginning, on some of the male styles and especially with what we have done with our friend in the Latino markets. The next thing which is important for us and of course, value wise, going to be very, very, very big for us is Lifestyle Running. Lifestyle Running either come from you activating old shoes again or coming with technologies that you kind of tweak. What has happened now is that shoes that were meant to go in the performance side has gone Lifestyle. And you know we've done a lot on the Adecito range, I. We have this EVO one and EVO two, which is the lightest and probably the best running shoe in the world winning marathons. We put that together with Farell in the opening of Olympic ceremony. We have done takedowns like the Pro four, which is also winning marathons. And then we ended with a training shoe that you see here, the EU SL at EUR 150 selling price. That's suddenly because of the design, the comfort and I'm sure also because of the activations that went also lifestyle, and it's currently our best selling shoe in many, many markets, in many, many retail, what should I say, channels.

Speaker 5
24m 53s

And we will extend this into more material versus a lot of colors, and it's a shoe that you will see very, very visible. But that's only one. The lineup on Lifestyle Running is huge. Here, you see some of them where we combine classic silhouettes like the SL72, but also Daily Trainer. We have the old comfort area, where I urge you to look at AdiStar. That's also inspired by the yellow fish that Farrell did for us a couple of months ago. We have in the Vistec area, on the right side, the new climacol shoe, which is a three d printed shoe, which was meant to kind of be an incubation of a technology, but suddenly goes volume. So across these nine models, you will actually see them being quite volume drivers in certain markets. You will not see these as global trends, meaning one shoe goes everywhere, but you will see some of this being very, very commercial in some of the markets and all the styles being in other markets. And I think this is so crucial that you also understand that the localization of your offer becomes extremely important these days. When we then go to the Classics again, we talked about the Superstar as the next movement out of terrace.

Speaker 5
26m 7s

Then we did tell you that it was not necessarily for us to launch it, given that the classic shoes that were already in the market were doing so well. So we have faced the launch of the Superstar from different markets to different timings. And you will continue to see a lot of activations with our partners like Pharrell, and you will see activations like going back to when I was young in the '70s to roller skate. And this is just one example. So what you will see with Superstar. And don't forget that Superstar in white, black and black, white are the big issues that we ever had. So you will, over the next two years, see that the Street will be clearly have the Superstar being extremely visible. Apparel, we have told you for a while that apparel was doing extremely well with the pure players in the digital world, but not so visible in brick and mortar that has started to change. And I think it's fair to say that track tops, bottoms in all kinds of materials and shapes, we are now very hot. And you see it now in the streets in almost all the markets.

Speaker 5
27m 18s

And the demand for apparel right now is also much, much bigger from our retail partners than it was only three to six months ago. Important is also that it's not only in the higher end of the market, but also on the wider scale. And we clearly see that this cash flow look, combined with the retro look and especially with Three Stripes, is high in demand. From the Life Science side, always important to remember, we are a sports fan. And the strategy we started out with two years ago was, of course, to try to create heat. I think we have done that successfully. I agree that some of it is luck, some of it is timing, but it's also hard effort. And then to take the heat that we now have created both in footwear and in apparel and the commercial visibility to then drive performance. I think you all agree it's easier for a consumer to buy our running on training shoe if she's already positive to our brand from the lifestyle side, and it is opposite. And that's, of course, what we are now trying to do. And we're receiving making great progress in all markets with almost all retail partners.

Speaker 5
28m 29s

And I can promise you that we are and will invest more money into sports and more resources into sports because we are, of course, aware of that, that is our future and that we need to have the background in performance to continue to be strong, both in the lifestyle area, the comfort area and in the more commercial area. The four sports or the four categories that we need to be visible successfully globally are, for me, football. I think we are the leader, and we are very, very optimistic what's happening next year. We are making huge progress in running, both on the performance side, especially when it gets to running fast and winning and running from A to B as fast as you can, but also in the everyday low running and in the comfort area, we're making progress. And as I already said to you, to trigger that into the lifestyle area is, for us, very, very important because that's something that has been missing for some years. Training. I mean everybody around the world that is doing sports needs to train. We have to be aware that the trading market is not necessarily global, meaning that you need to approach it both marketing wise and a certain degree product wise more local.

Speaker 5
29m 40s

That's what we're now doing. And then basketball will continue to be important, for The U. S. Market, but also in many other markets because the culture coming out of basketball is actually global. And then in addition, we talked about this for a while, we think we need to be visible across many, many sports, both global and locally. And as you know, there are many, many sports that are extremely important in certain markets, although they don't have the global appeal that some people are talking about. What is also a little bit cool, in my opinion, is that this image of not having a lot of, what should I say, innovation, which Adidas had was, in my opinion, wrong. We have a lot of resources focusing on innovation. It's therefore a little bit cool to actually be named a fast company when it gets to innovation. And when you see the innovation that we are bringing in running, which probably is the most technical category, proud to see that the Pro two now also won the men's marathon in London, although the female winner, which also set the world record, are actually running the Pro one. So we have two shoes out there, which are setting the best times in the world.

Speaker 5
30m 59s

The Women's World Cup in England will be a launch for us on women's specific rugby leads, same thing there, a lot of energy and innovation going in to serve her the best. And going to the Euro in Switzerland, same thing, very specific product made for her, both from a fit but also from a plate point of view to avoid injuries and increased performance. So again, very, very focused innovation on the athlete that is going to perform in three stripes. We talked a lot about football. You know the World Cup in The U. S, Canada and Mexico next summer. We already did our launch. We were in LA A Month ago with about 500 guests showcasing all our products, both for the performance and from the culture side. The what should I say, the Adidas family with Messi and Mahomes, with An Infantino and all the people were there to kind of celebrate it. And I think it's fair to say it's probably the best launch that I have been to ever when it gets to a collection and a concept for a big event. And needless to say, although we now have the tariff issues, we really, really look forward to showcase our brand in The U. S. Next year because we think we should be the clear leader in that tournament.

Speaker 5
32m 21s

What is also cool and new is the way football culture has now spread around the globe. Although many people are not necessarily soccer fans, the soccer culture, meaning old and new soccer strips product coming out of the soccer, what shall I say, area, are now going fashion. I have never seen this before, both for male and female. And of course, this plays straight into our hands when you see what is going on in the market. And of course, we think that will even strengthen towards the World Cup in U. S, Mexico and Canada. Going forward, how do we then think we can use all this to continue to grow double digits, as you know, is our target? Well, we need to be a global brand with a local mindset. And I say local again and again and again. The world is developing in a way that you need to be successful locally. And locally, it always starts with the consumer and the asset. We need to give her what she wants and what we can give her within our frame. The markets are responsible for the offering and the marketing that we're we're doing in the market.

Speaker 5
33m 35s

And a market for me is a cluster that can own the inventory and can actually find the synergies in the best possible way. And then headquarter, the global side is, of course, to set the strategy to give the frame to fund the projects, to come up with innovation and, of course, make sure that Adidas has a future that is going to be in line with what we have promised. To do all this, it is very important that we need the best people in the markets in China and in India and in The U. S. We need the most talented people that can take all the tools that we give them and actually use them. So we're winning in the market. Local strategy does not work if you don't have the best team and if you don't give them the freedom to move, and that is what we are currently doing. So all of this, you remember a couple of months ago, we gave you the guidance for this year. We said that if you exclude EC, we should have a double digit growth. If you include EC, will be high single digit. And with everything we knew, we thought we would then promise you an operating profit on EBIT between 1,700,000,000.0 and €1,800,000,000 We did though tell you that there was some uncertainties around the world that you should be aware of and that could have an impact on the full year.

Speaker 5
34m 57s

And surprise, surprise, that came. And as can see on this a little bit messy screen, it shows you in green what the current increases are in the duties compared to when we talked to you the last time. You also know that on top, you have the duties or the tariffs that were initially initiated by The U. S. And then suspended for ninety days. So currently, on the import, we have the green duties on top of what we had when we set our guidance and when we actually did our planning. But of course, there is a danger that we will go back again to the top of the screen to the higher duties when the ninety days are over, and we don't really know. So what have we done? We have, of course, custom cleared as much as we could before the two dates when the different duties were activated. We have, of course, and we are still analyzing all kinds of the different scenarios. We have rerouted products out of China that was meant to The U. S. Market then to other markets. And we have, of course, done different pricing reviews. I have seen that certain presses writing that Adidas is raising prices.

Speaker 5
36m 18s

That is, of course, not true. What we said is that should the duty stay, then, of course, there will be price increases in The U. S. Market And then we will not be the first one to move on prices, but we would follow what the market leaders are doing. So should the duties go away, again, there will, of course, not be price increases. But I think we all agree that should this duty stay or even be higher, then of course, it will cause a price increase in the market in general, not only in our category. What we also did was that we got all the major suppliers together here in Herzog. We had about 300 guests here for three days, which we do every year, to be honest. But of course, this was also then a topic, how can we, in the chain between the suppliers, also the brand and the retailers work in a balanced way so that we all can get through this uncertainty the best possible way. That is, in our opinion, almost always the best way. So back again to the guidance. We do actually confirm the guidance the way we initially gave it.

Speaker 5
37m 30s

But you need to consider the following: the better than expected Q1, the strong order book and as I hope you also confirm, the strong attitude towards our brand globally would, in a normal world without the tariffs, have caused us to raise our guidance, both top line and bottom line. But given the direct impact of the current tariffs that we see and the danger of these tariffs going even higher after the ninety days period, plus the possible negative impact on the consumer in The U. S, we warn that there might be some negative pressure on this because we don't really know. But again, we confirm under the things that we know. We believe that we can currently gain more momentum in the other markets. And remember, U. S. Is only about 20% of our business. So we can kind of finance the losses that we're doing on margin in The U. S. By then the overachieving in the other markets. That is the current outlook that we give you. And then whatever happens, we do believe that we have the brand, we have the talented people and we have the resources to manage through uncertainty. We are focusing very, very much on achieving the best success that we can in the other markets.

Speaker 5
38m 57s

And again, for 80% of our business, these tariffs have no impact. And then the whole service organization is, of course, focusing on helping The U. S. So they can make the right decision. I think with that, we think, as always, that in sports, we should be a winning team and feel that at least we are on the right way. And with that, I hand over to Youssef for the next step.

Speaker 2
39m 29s

Yes. Thanks very much, Bjorn. Thanks very much, Harm. And Maura, we're now ready to take questions.

Speaker 1
39m 35s

We will now begin the question and answer session. The first question comes from Ed Oban from Morgan Stanley. Please go ahead.

Speaker 4
40m 6s

Yes. Good afternoon. Thanks for taking my questions. So two questions. First of all, Bjorn, some of your peers in the apparel and footwear world have been talking about some consumer weakness over the past few weeks, particularly in The U. S. Have you seen any weakening of demand at the sector level, number one? Number two, on the 10% tariff increase that you just talked about, just to understand, if you wanted to fully pass on this 10% price increase, everything else being equal, what type of prices price increase would you need to take? And assuming that tariffs would stay at about 10% for the remainder of the year and forgetting the indirect impact of tariffs, would you be in a position to meet your EUR 1,700,000,000.0, 1 point 8 billion operating profit guidance? Thank you.

Speaker 5
41m 4s

To answer your last question, I think you had three there, if I'm really understood you. But yes, we think that we can achieve our guidance with those duties for the rest of the year. That's what we are currently working under that assumption. On your first question, when it gets to the demand, we have not seen any, what shall I say, direct change in demand for our product in the channels that we are. You know at the beginning of the year, there was some, what should I say, weaker demand due to different things. But we cannot say that over the last eight weeks have seen any lack of demand because of this. And then the third question, Yes, the price increases is you have to remember the two things here. I mean, one is what price increases do you need to actually pay the duties and you can do the math on that. But then the question is what is then needed to actually keep your margin both for us and the retailers? So of course, the real increases are higher than the duty. But again, I don't want to give you any numbers because you can do the math yourself because there are many ways of putting the assumptions in here.

Speaker 5
42m 15s

We feel that we have the tools to get through this the best way. You probably know we have reduced China export to The U. S. As a minimum. Although China as a country of origin, when it gets to production, it's actually up for the rest of the world and, of course, for the local business. And then when you look at the other countries, the duty increases that are there are currently at 10%. So it's the same. So there's no reason to change any strategy. But should the duties for the different markets, Indonesia, Vietnam or whatever, then difficult different, then of course, we will then start to allocate product in a different way. But currently, we keep the plan. China for The U. S. To a minimum. We keep the production where it is from the other markets. We have not initiated any price increases, but are, of course, observing what the market are doing and then we will inform you as we go.

Speaker 4
43m 16s

Okay. Thank you.

Speaker 1
43m 23s

The next question comes from Piral Dadanya from RBC. Please go ahead.

Speaker 9
43m 30s

Thank you. Good afternoon. So my first question is just in relation to the formation of the wholesale order book for the AutumnWinter twenty twenty five product, which I imagine you're currently taking orders for. Could you just give us a flavor as to the kind of discussions you're having with your retail customers in relation to forward looking orders? Is there any change in their sentiment or their approach towards placing large orders in anticipation of potential changes to the tariff regime in The U. S, for example? And then my second question just is a clarification, Bjorn. In your prepared remarks, you talked about the 10% EBIT margin target as being a midterm target. If I'm not mistaken, I thought previously we were sort of trying to work towards that 10% by 2026. Is there any just to clarify, is there any change in terms of the time frames that you're working towards notwithstanding, of course, any potential headwinds from U. S. Trade policy? Thank you.

Speaker 5
44m 33s

No. There is no change to the 1026%. Twenty six % is for Us midterm. So I think that's in depending on when you were sitting when we talked in 2023, '20 '20 '6 was midterm. So it's just a way of talking about it. When you look at the order book for the second half, globally, there is no change in the order book, meaning that there's no cancellations. Every retailer outside The U. S. Has no reason why they should change anything, and there is no change in the direction of the order book. The U. S. Order book is full for Q3. It's still going on for Q4. And it's the same thing there. There is no changes in the behavior other than people are uncertain, meaning we order and then we see, right. But we have no cancellations. So currently, it's business as usual, expecting then a confirmation of what's going on. And again, regardless what the retailers are nervous about, they will need good selling product, right? And we think we are in this unique situation that we have also in The U. S. Now a good momentum, meaning that they will need our product to sell.

Speaker 5
45m 51s

And then together with both the suppliers and the retailer, we then have to agree upon what are the prices and what are possible discounts if duties should then change or be confirmed. Hope you have the understanding that to give straight answers is very difficult for you don't know what the duty are tomorrow. I mean, if you can imagine that there are so many scenarios. So we feel very calm. We focus on the 80% that is doing well. We focus on delivering the product to The U. S. That we think we can sell. We talk to the trade. We observe any price changes. And as soon as we see something we act on, we will act on it. I think that's the only way you can act today. And of course, we talk about this every day and feel that we have a very good, what should I say, communication internally on different activities. But it is uncertain, which it is the way it is.

Speaker 9
46m 49s

Yes. Hence the questions. Thank you very much.

Speaker 5
46m 53s

No problem.

Speaker 1
46m 58s

The next question is from Erwan Ramberg from HSBC. Please go ahead.

Speaker 10
47m 4s

Hi gentlemen. Well done on a very strong beginning of the year. Two boring questions, pardon me. First of all, could you give a bit of details in terms of the split of regional production going into The U. S? I think you said China was minimal, but can you quantify that and maybe give out the two, three countries of origin that count? I imagine Vietnam and one or two others in Asia. And then secondly, can you give us the percentage of dollar hedging that you have? What level is that in 2025 and 2026? What percent of invoicing is hedged and at what level please? Thank you.

Speaker 5
47m 51s

For the North American market on footwear, I think I've told you before that North America is having China sourcing around percent going, of course, now towards zero. That the balance between Vietnam and Indonesia is very much the same. It's about onethree. And then the rest is spread in around many, many markets. So I would say Vietnam, a third I would say Indonesia, a third and the rest spread among the other markets. I think that's the split on footwear. And then on apparel, it is actually no dominant markets. I think Vietnam is around 15% and the rest of the markets are around 10% and it's spread between countries like Pakistan, Egypt, Indonesia, even Europe. So it is very, very different and very balanced. And the China sourcing for apparel is less than 2%. So I think, having to be careful because I don't have the insights on the other brands, but I think we have taken care of whatever you can do on sourcing as much as you can and reduce China for The U. S. To, as I said, almost nothing. Some special issues are still there, but I mean, we will work on that.

Speaker 5
49m 15s

And then the rest of the portfolio is very balanced. And I don't think that there would be something now that will make us have to change a lot on that, to be honest. But again, who knows? And for the currency, I look at Harm, and he will give you that.

Speaker 2
49m 36s

Thank you.

Speaker 8
49m 38s

Yes. I've got, of course, a good question. Let's see, volatility of the dollar as well. So a short answer to this one, when it comes to SpringSummer twenty twenty five, of course, we are done with our hedges. And you should be aware that, of course, some of the hedges that we closed, you always know that we normally hedge to the beginning of the production season up to 80%. And then we did close the remaining hedges during a time where the dollar was still stronger. So you would see some headwind in Q2 when it comes to that expect. And we have some more volume that we sourced as well, our growth trajectory. We are still having some open hedges for fallwinter twenty twenty five, where we take the benefits of a weak dollar right now. So that should offset each other pretty much for the year. So that's how we look at '25. So definitely some headwinds in Q2, some tailwind in the second half. That's largely how we are looking at that. When it comes to '26, of course, there's more open opportunity and as the dollar would stay where it is right now, we took advantage of some forwards already.

Speaker 8
50m 40s

So that should be a tailwind all along as the dollar stays where it is. And then again, we always said we are praying for a weak dollar for the future. That will definitely help us in 'twenty six and also in 'twenty seven. What we should not forget, however, there's always translation impact as well. And it's good to have a weak dollar in general for us, but it's also from a translation impact, when you have a strong euro against all the other currencies, you also have some translation impact, right? And normally, these things come in sync, but sometimes you have one quarter where you have a double VAMI in one direction and then a double VAMI in the other direction. So but overall, don't expect too much in 2025 from a weak dollar, but definitely opportunities in 2026 and 2027.

Speaker 10
51m 24s

Very clear. Best of luck, gentlemen. Thank you.

Speaker 1
51m 34s

The next question comes from Jurgen Kolb from Kepler Cheuvreux. Please go ahead.

Speaker 11
51m 38s

Thank you very much. Indeed, two questions. A little bit away from all the tariff questions. First of all, on markets. Emerging markets continue to be extremely strong. And that now over quite some time and also from an absolute level have reached a quite attractive level. I was wondering if you could maybe talk a little bit about the top three markets as to what you're seeing there, what the drivers are or what makes really this overall market and then specifically the top three markets so attractive for you and what's the driver behind it? That's the first one. The second one, Bjorn, you mentioned the four categories that you think Adidas should be very strong in. It's again number four, basketball. Still relatively small, if I'm not mistaken. How have you developed here? How is the current performance specifically in The U. S. Obviously? And how is Gerry Lorenzo helping you or not helping you? And what's the plan to attack this category even more aggressively maybe than in the past? Thank you.

Speaker 5
52m 44s

Well, first of all, in Basketball, you are right. The performance category is not as big as people think, but it has a huge impact on your connection to that street culture. And eventually, if you do well in performance, you will sell more of basketball classics, right? So that's the recipe. We have the luxury currently to having at least two players that are doing extremely well. We have Anthony Edwards, which currently with the Timberwolves are up against LeBron and the Lakers doing extremely well. And as you probably know, his shoes has done extremely well. And we are now launching the number two also, and it seems from the reaction that it's very positive. And then we have hardened playing at the clippers. And believe it or not, the hardened mine is the best selling hardened shoe that we ever had. And that's also developing very positive. And if you look at the design of those two shoes is a little bit a new language, so Adidas basketball and it's obvious that that is doing something because we are taking share and we're getting more distribution. From the same time, we have changed the management. So we have a new management for basketball that has come in.

Speaker 5
53m 52s

We have been able, I think, to really get some activities going in the LA office, which is producing a lot of creativity. And that's why we look very positively into basketball for the future. The way you measure basketball is, of course, very difficult because some brands put their classics into it. And we are now splitting between performance and classics, not to confuse. And we see good growth now on the performance side and especially on the signature side, which I think we are almost the only one who currently see. And then you know that the basketball culture from a lifestyle point of view goes into many markets and especially for us ironically, it's been very strong in the China market, which right now is a little bit ironic, but it's a fact. We feel we are in a good way. I can hear in your tone that you don't believe in Adidas basketball as much because we probably talked about it many times. But I do think we have now an American group. We have American creative, American leadership sitting in LA and we give them the freedom from Germany. So they should have all the tools to be successful.

Speaker 5
55m 2s

When it gets to the emerging markets, I think we need to first agree that emerging market is not one market, it's a cluster of many markets. And we have put it in the hands of a management team that are a little bit entrepreneurs. They're sitting in Dubai and are running markets from The Middle East into markets like Australia and New Zealand and all the way to India. So it's a very, I would say, diversified group of markets. But we need to cluster it somewhere. And instead of clustering his headquarter, we have then Tomo, Thomas Davis and his team doing it. David, Thomas, Thomas Davies, Tomo doing it. And I think they found this, what should I say, balance between creativity, energy and local freedom within a frame, and that's why it's working. And to be very honest with you, it works in all the markets. It's not like there is one or two or three markets that you ask for. We have a very strong development in The Middle East. We have finally a strong development in India. And we have turned our business in Australia and New Zealand. So it is a very, I would say, interesting group of markets that are playing a little bit different than what we do in the big, what should I say, classic markets.

Speaker 5
56m 18s

I think that's how I should answer it. We could go into each of the individual markets, but I don't think really it matters. But for example, we talked about India and cricket for many times. Now it's the same thing happening in Australia, where we're going into netball for her and we're doing Aussie Rule football for him. So we kind of adopting to the things that we have talked about also in those markets. And needless to say, that's what you need to do to be a sports fan. And with the power of the three stripes and the global assets we have then on the lifestyle side, it's certainly the recipe then that the right management gets attention on. So that's the reason for it.

Speaker 11
56m 57s

Very good. Super. Thank you very much and all the best for the future.

Speaker 5
57m 1s

Same to you.

Speaker 1
57m 4s

The next question comes from Warwick O'Keyn from BNP Paribas. Please go ahead.

Speaker 12
57m 9s

Thanks. Good afternoon, everyone. The first is back on tariffs, please. If I understand you correctly, you're saying you don't plan any price rises at the sort of current level of tariffs. But if tariffs do go higher and you feel you have to raise prices, would it make any sense to spread those globally? Or would they all fall in The U. S? And then the second question is, could you just give us a bit more flavor about the conditions in Latin America? And how much of your growth is being driven by volume? Thank you.

Speaker 5
57m 44s

Well, there is no reason to raise prices outside The U. S. Of the tariffs. I mean, there's always a discussion about what is the right price level compared to your heat and your selling. So there might be markets where you say you can take higher prices, but they're not initiated of the tariffs. So the discussion we're having on the tariffs is only for The U. S. And again, we have said that we will not raise prices right now, but we see what happens in the market. We do know that there are brands that are more dominant and more dependent on The U. S. Market than we are. We also know that there are brands that are more dependent on China sourcing for The U. S. Market than we are. So we do expect that people will start to raise prices should these duties or all the duties be confirmed. And that's what we're following. And we are then in a reactive mode and not in an active mode. I think that's the only way of saying it. So again, we do not plan to raise any prices outside The U. S. We do not currently plan to be a price increase leader in The U. S, but are following what's happened in the market.

Speaker 5
58m 54s

And then I think we both know that should the duty stay at 10% or should they be even higher, then of course, price increases at the end will be there because there's no way that people can swallow this through the industry, neither the brands nor the retailers. And again, don't forget that when you talk about this, it's not only our sector, right? It's all sectors. So I think we are doing the right thing, having 20% of our business in a market where we don't need to lead, but we can wait. And what should I say then react to what we see in the market?

Speaker 8
59m 32s

Well, when it comes to Latin America, I know a lot of people ask the question whether the growth is only coming from the value through hyperinflation Argentina. But I can tell you first, we are clearly the number one brand across all of Latin America, almost in any market in Latin America. And we are growing volume in every market in Latin America as well, including Argentina. Yes, of course, it helps to show the value growth as well from an inflation point of view. But in a hyperinflation environment, consumers are buying actually or they're pulled forward their buys given the inflation. So the volume goes a significant also in Argentina. So everything very solid. And similar to what Bjorn said to emerging markets, have a very, very solid management team in Latin America. These are entrepreneurs and they find solutions in different environments. But very clearly, we're the number one brand in Latin America and volume growth is in every market.

Speaker 12
1h 0m

Thanks very much. Best of luck.

Speaker 1
1h 0m

The next question is from Thierry Cota from Bank of America. Please go ahead.

Speaker 13
1h 0m

Yes. Good morning, gentlemen. Thank you for taking my questions. Two of them, please. First, we've seen very low OpEx inflation ex marketing in Q1. I was wondering whether you think that overhead expenses could be flat or down in your terms for the rest of the year given the non recurrence of the one offs in H2, the overall cautiousness of the spend and the appreciation of the euro? And the other question just for clarification, you reiterated the full year guidance. I was wondering whether in the recalculation that you've made, you include any tariff FX price effect or not? Or you're just basically comfortable with the full year number target given the strong Q1 that you've just reported? Thank you.

Speaker 5
1h 1m

Well, in our guidance, we have put in the assumptions of the things that we now know. And we think we have the momentum in the rest of the world then to actually accelerate both bottom and top line so we can achieve it should the duties then come in regardless what happened to prices. You can calculate this in 100 different ways, but it doesn't really mean anything. We will fight to reach our guidance as long as we have the chance to react within the frame that we currently see. Should all the duties be 49125%, then of course, we will have to talk, but we can't imagine that, that will happen. So I think that's the only answer I can give you. With everything we need, we still promise you that we will deliver our guidance. And then hopefully, there are some good news coming around in a short period of time and shouldn't it, we will have a discussion. But don't forget that for the rest of the world, this has no impact. So 80% of the business is business as usual. So it is currently a local problem that we need to solve, but we don't have the facts that we can solve it yet.

Speaker 5
1h 2m

So I think I leave it by that. And on the overhead, Harm, I give it to you.

Speaker 8
1h 2m

Yes. And of course, we shouldn't forget when we talk about the operating overheads, first and foremost, our focus is on leveraging our infrastructure and not necessarily declining the operating overhead. And we shouldn't forget, excluding Yeezy, we have been growing 17% currently neutral in the first quarter. And again, with that growth, assuming that the operating overheads in absolute terms will be flat or negative is probably a little bit too ambitious. We did a lot of measures in the markets and also in headquarter to prevent the cost increases. That's what you've seen in Q1. But again, the focus is to get the leverage right and do it right also for the organization over time. But you have seen in Q1 that we're on the right track also to what we believe is our formula for 2026, that we get to an operating overhead ratio around 30%, ideally below 30%. That's where we're right on track with the growth trajectory that we have. But again, the focus is on leverage. And we shouldn't forget, we just talked about emerging markets in Latin America. If you grow like 20% plus and you're in inflation markets, you're also inflation on the cost.

Speaker 8
1h 3m

And that's where you expect salary increases in these markets as well. So that's part of the reality. They become bigger. But the discipline is in our new operating model that the central costs are well managed, well under control. And then, of course, we are growing in the markets with some cost as well, but leveraging the top line that we have. So again, the focus is on leverage, not on declining the operating overhead.

Speaker 13
1h 4m

And just maybe as a follow-up. Thank you very much. So the 30% that we've seen in Q1 effectively supposedly could be maintained in the coming quarters. Do you think that eventually you'll be able to be at 30% for the whole year, not this year naturally, but for the whole year, including a higher number in Q4?

Speaker 8
1h 4m

Well, of course, it's getting easier, especially when we talk about Q4. But again, our goal is not to get to 30% at 25%. Are a lot of things that are still happening with the growth that we have. But again, we are on the path to get on a full year to the 30% number in 26%. That would be the expectation. But right now, in 25%, we're not going to give a quarterly guidance. But you're absolutely right. In Q4 with the onetime set we had, it should be easier to leverage over that net sales growth.

Speaker 13
1h 5m

Right. Very clear. Thank you very much.

Speaker 1
1h 5m

Next question comes from G. J. Lowery from Redburn. Please go ahead.

Speaker 14
1h 5m

Yes. Hi, Vethin. Just one question, please. Discussion around increased localization of your business, can you give us some thoughts about what you mean what that means for longer term financial model? Do you think it means more sales volatility or less, more working capital or less, more marketing budget or less? I'm just intrigued by the sort of deglobalization that you appear to be talking to, and I wondered how you thought it joined up with financials.

Speaker 5
1h 5m

Well, to be honest with you, I think it will actually help profitability at this scale.

Speaker 5
1h 5m

You have to remember that, for example, U. S. And China now have two complete different supply chains. I mean, clearly see that U. S. Cannot source from China and China should source local for local. So the two biggest markets, when you exclude Europe, are independent anyway. And I actually believe that with the scale that we have, let's say, CHF 30,000,000,000, then it's better to have three dedicated, what should I say, go to market processes with supply chain that are each doing CHF 10,000,000,000 than having one that is doing CHF 30,000,000,000, because the synergies in the CHF 30,000,000,000 are lost in the complexities. So I don't see any way of, what should I say, growing double digit on a stable base, making sure that we are efficient on marketing and even on working capital unless you go local. Worst thing for a brand is to push product into a market that the consumer doesn't want because then you know the discount is killing both your brand heat and your profitability. So the SKU counts and the standard going in margin that people calculate and you say you can save $0.10 on a shoe or whatever is irrelevant compared to the discount rate you do on the inventory that is sitting in the wrong market.

Speaker 5
1h 7m

So I am, since a long time, a big, big, big, what should I say, fan of going local because there's no way you can sit in a headquarter and understand the difference between the Australian, the Indian and the Norwegian market because they're very different. So our goal is to set up go to market process and link that into factories. So we bought from a design development and the sourcing can be more efficient for the consumer where he or she is. And I think to be very honest, we have showcased it already. I mean the gross margin improvement that we had over the last twenty four months and the success is partly because we have changed this already with the right attitude. So again, I see it's the opposite. If you want to have one big machine doing it all and you make the assumption that the world is global and the consumer want the same and you put it through the same machine, I don't think you will be able to stabilize neither your growth, your margin nor your working capital. So I don't see any other, what should I say, way. If you look at our exposure to China to The U. S. And we say it's 3%, that is that would not to be possible if you don't think local.

Speaker 5
1h 8m

So I think when you analyze all the brands, then you need to look upon what is their sourcing setup for the so called local markets and maybe they need to also rethink because I don't see any option to be honest.

Speaker 14
1h 8m

Fascinating. Thank you.

Speaker 1
1h 8m

Next question comes from Anisha Sherman from Bernstein. Please go ahead.

Speaker 6
1h 8m

Thank you so much. Biren, you talked about Adidas' demand strength in The U. S. Given that strong demand position and the strong sell throughs you're seeing, do you think you have better pricing power in The U. S. Compared to your competitors and could take up prices without hurting demand as much in the market?

Speaker 1
1h 9m

And then related to that, talked about a few different mitigation strategies for the tariff costs. You talked about consumer pricing, potentially renegotiating with suppliers. There's also the option to renegotiate with retailers and you talked about rerouting products. How do you think about the timing and the prioritization of these? So if we hear the final tariff rates announced by the U. S. Administration in early July, how quickly will you be able to execute these different moves? And should we expect some near term headwinds in H2 before you're able to roll out all these changes to be effective in 2026?

Speaker 5
1h 9m

Well, I think the pricing power you have is always dependent on what happening in the market. And as I said, I think our strategy will not to go as the first mover on price, but we'll actually look at the older brands, especially the American brands and then follow. I don't think we being, I would say, a smaller player in the market compared to at least one brand should lead this. And I don't think it would be in our interest. And let's face it on a global scale, we don't need to. Are there certain products that we could take up in price isolated? Yes. But I think we need to look at this into totality and also make sure that we are a friend of the retailers and that we don't take up prices now on their best sellers so that we look good and let the burden on them. So it's a matter of managing this imbalance. And that leads into your second question. We had all the suppliers here. We have, of course, talked to all the retailers. And this is for me a little bit the same as we had in COVID is that we are moving into big uncertainties where everybody is nervous, and you cannot try just to take advantage yourself.

Speaker 5
1h 10m

You have to think about both your retailers and your retail partners. So yes, our goal is with the retail partners to find a way, of course, to be more efficient for the American order stand should this duty stay. But at the same time that we commit to the quantities, both orders and forecasts that we've given, so they don't need to lay off people and don't run into problems. And at the same time, we have to not forget that the retailers, should we get increase in tariffs, we cannot only put the tariffs on the wholesale price, but then we also need to increase the retail price so that they can do the margin on this, right? So I think this is really a situation where the balance in the chain between supplier, brand and retailer needs to go hand in hand, and that's what we will try to do. And that's also the discussions that we're currently having. So I don't think I can answer it, Alders. How quickly can you do those things? Well, you can change prices tomorrow, right? That's not the problem. But again, you have to do it then in a way that the chain is then in balance.

Speaker 5
1h 12m

Sourcing changes, I don't really see necessity at all because, as I said, we are so small in China that should the high, high, high duties in China stay, it won't have a huge impact on us in any changes. And I do assume that the deals that are being made with the big export countries will be similar. And should they be similar, then it doesn't change any allocations when you get to what country or regions we're using. And I think we told you already that in apparel, we're very balanced between the markets. In footwear, we are, of course, for The U. S. Market, more dependent on Vietnam and Indonesia. But again, we feel given that we cannot produce anything in The U. S. That is any meaningful in volumes, we will try to keep the balance with our suppliers the way we already have and then move as soon as we see what the market is giving and be very agile and fast when it gets to things that we do with speed. We did accelerate very quickly all we could when we heard about this to get custom clearance before the fourth and the ninth.

Speaker 5
1h 13m

So I think we've shown speed already. So I don't think I can say anything else, to be honest.

Speaker 6
1h 13m

That's really helpful. Thank you so much.

Speaker 5
1h 13m

You're welcome.

Speaker 1
1h 13m

The next question comes from Robert Krakowski from UBS. Please go ahead.

Speaker 15
1h 13m

Hello and thanks for my two questions. So first one, I just wanted to clarify because we mentioned The U. S. No change in demand. But Bjorn, could you talk about the beginning of the Q2? Have you sustained double digit momentum? And is it both including excluding Yeezy? And then the second question is more about the other regions. I think we focused a lot about The U. S, but I just wanted to touch on other regions. Like four of your six regions have already delivered or exceeded 50% gross margin. And I understand there's a lot of seasonality in your business. But looking ahead for the remainder of the year, do you see reason why Greater China and Europe could not reach or even exceeded the 50% to 52% or upper end exceed the upper end of 50% to 52%, while emerging markets in Japan, South Korea sustained its high gross margin levels? Thanks.

Speaker 5
1h 14m

Well, you know, it's always easier in Q1 to have a high margin because that's where you have most of the launches. And to keep the margin through the whole year at the same level has always been difficult. And I think we also need to be very, very, what should I say, conscious that we need to make sure that we work together with the retailers to keep, I would say, our supply clean and help them should there be inventory that is not moving. So I think we need to be careful of promising exceeding margin through the year, to be honest. You also know that the margin is also a result of the mix between wholesale and D2C. And as I said, we are currently supplying the wholesaler almost compared to D2C to be service minded. We had to do that, in our opinion, to get better distribution. We have quite some new categories hitting the floor. Running Lifestyle is one of them. We have more performance product on the way than we had before. So I don't want to promise you that. Is there a possibility over long term to have a higher margin in these markets?

Speaker 5
1h 15m

Of course, there are. And there is an upside to it. But I think it would be wrong now to model that for the rest of the year. We think, to be honest with you, with the uncertainty and the Q1 that we have shown and the fact that we're confirming the guidance is a statement that we believe in the future. And want to be very careful of overpromising you in now and the rest of the year with the danger of then what should I say disappointing you, which we don't like. I think that's the only thing I can say.

Speaker 2
1h 16m

On the strategic The current trading yes, we haven't seen any slowdown that you could connect to this, to be honest with you. I see reports and I read reports and I hear, but we can't see it. As you know, there was volatile demand in the market beginning of the year, and there's been many explanations for that. But we haven't seen any impact now of the tariff discussions on the sale, in performance nor the value chain nor the Lifestyle side because of this. We cannot confirm that. But we read about it, but we cannot confirm it.

Speaker 15
1h 16m

Awesome. Thanks.

Speaker 1
1h 16m

Next question is from Adam Cochrane from Deutsche Bank. Please go ahead.

Speaker 16
1h 17m

Good afternoon, guys. One quick question for me. In terms of the performance that you've seen in the marathon and the happiness that you've got with the product lineup. Is now the time that you think you can really double down win in the running category? Thanks.

Speaker 5
1h 17m

Yes. This is a little bit difficult to answer in the sense. But two years ago, if we had the shoes that we have today, I'm not sure it would have worked because I don't think the trade was ready to take Adidas up as a running brand. But I think given the success we've had and many, many consumers now have a positive feeling to Adidas, the interest from the trade is much, much bigger. And that combined with that we're winning a lot of marathons and rewards when it gets to the product, of course, it is the time to double down on running, definitely. So you are spot on when it gets to that this is very, very much a priority for us the next eighteen months, not only in the racing, what should I say, community, but also in the everyday running and the comfort running segment that we have seen so many other brands be so successful in. So you're absolutely right. And the irony then is that, that also leads into the lifestyle area, which you know that many running brands today that were meant for comfort has actually ended up being lifestyle shoes.

Speaker 5
1h 18m

So we think that a little bit luck again that the timing of creating heat in lifestyle then having suddenly a very good running range, even stretching into new models that you will see in the comfort range that will come in 2026. We think it is a great, what should I say, chronological sets of events that would help us. So yes, running priority. And yes, we are doubling down on running in the next eighteen months.

Speaker 16
1h 18m

Actually, while I've got you one more that springs to mind, but for Harm maybe, do you think given the scale of the euro dollar movement, that will enable you, given the lower cost of goods sold across the rest of the world, if you were to hold prices in the rest of the world, would that subsidize anything that you need to do in The U. S? And is that something that you would consider as a lever?

Speaker 8
1h 19m

Well, the starting point is always whatever we do in the rest of the world, we want to run a profitable business in The U. S, right? So you might have in the short term that you can compensate some of the dollar weaknesses with the short term tariffs that you might have in The U. S. I get that question, and there's a good answer to this one. But again, in the midterm, we want to run a profitable business in The U. S. And Bjorn alluded to, if the tariffs would stay or they move away, it's a different story. But if they would stay, we want to be fair to all of our partners, whether it's the suppliers, the retailers and how we share that countermeasures. But it's not our objective in the midterm to raise prices in other markets or using a currency that might be just of short nature because it might flip again very quickly. So that's not our strategy. It can help us probably in the short term to technically mitigate. But in the midterm, again, we want to run a profitable business in The U. S. Regardless, and then we continue to run profitable business in the rest of the world.

Speaker 8
1h 20m

So in the midterm, it doesn't help.

Speaker 13
1h 20m

All right. Thanks.

Speaker 2
1h 20m

Thanks, Adam. Maura, we have time for two more questions, please.

Speaker 1
1h 20m

Thank you. The next question is from Monique Boyard from Citi. Please go ahead.

Speaker 7
1h 20m

Afternoon, everybody. Thank you for taking my questions. So two from me, just based on The U. S. One is a quick clarification question. I'm a bit confused by the North America sales that are implied in the 1Q twenty five data because it seems different to the North America easy sales that were implied in 1Q last year. From the 1Q data last year, it looked like North America was under 50% of easy sales, but this data suggests North America is sort of over 60% of easy sales. So I didn't know if there's been a change in reporting of those easy sales. And then the second question I had was just on North America. So ex any potential impact from tariffs and second order implications on the consumer demand, I guess I'm thinking about lifestyle and performance in North America. You've got the AE2 launching with AE1 having been such a big success in basketball and then the superstar, I guess, starting to scale. So do you think the North American momentum ex anything from tariffs could actually accelerate as we go through the rest of the year?

Speaker 5
1h 21m

Well, again to The U. S. Market, we of course need to invest more in American sports. So when you look at our investment into American football, baseball and basketball, it is increasing because we know that to sell to the kid also training and other gear and the performance side, we need to be more American. So that's going on. And it is a huge target for us to get better distribution with the academies and the DICK'S or the shield is of this world. And we feel that we now have the right products, but of course, we need to do this over a longer time. So there is a clear target to increase our performance side in The U. S. For that kid. But as I said, that will take a long time. When it gets to the lifestyle side, we have a momentum, especially with Her, And we know that we need to get more growth with him. That's why a lot of the investments now are also towards him. But in total, we feel that we have all the elements that would give us a double digit growth in The U. S. And you saw that in the last two quarters.

Speaker 5
1h 22m

And again, we don't see why that should change because of the tariffs because, as I said, the trade and the consumers continue to buy something and why shouldn't they buy us if we have momentum. That is the what should I say, the philosophy. When it gets to your Yeezy, I'm not sure I understand your question, but we sold in the full, what should I say, first quarter last year, '1 hundred and '50 million of Yeezy, which is then missing this year. So when you're measuring the sales, you take Adidas against Adidas, then it's 70% up. If you take the Adidas sales now, which is the only one we have because there's no YEEZY to sold, but you take them through the combined YEEZY and Adidas sales last year, we only have 13%. So I'm not sure what sales are missing. Most of that is, as you can see, in The U. S. And most of it was in digital. That's why you see that those two numbers are different. But there's no change in reporting. And if you really need the details, I'm sure that Sebastian can give it to you later, but there's no change in those numbers.

Speaker 1
1h 24m

Thank you.

Speaker 2
1h 24m

Thanks, Monique. We'll follow-up later.

Speaker 1
1h 24m

Last question for today is from Jonathan Komp from Baird. Please go ahead.

Speaker 17
1h 24m

Yes. Hi, good afternoon. Thank you. Certainly helpful today. I understand that you're embedding a lot of new uncertainties while maintaining guidance for the year. If I could just ask to try to understand the seasonality of your margin performance that you're expecting for 2025, Your first quarter a 9.9% operating margin typically the first quarter is near or even above in most years the full year operating margin that you deliver. So I'm just trying to understand as we think about the balance of 2025 why that may look different based on the assumptions embedded in your guidance?

Speaker 5
1h 24m

Well, you're right. I mean the first quarter is normally your best quarter. If I should in my whole life say the historical and strong Q1, weaker Q2, strong Q3 and weaker Q4, that's kind of the way the operating margin comes through a year. That's why we didn't guide 10% for the full year in 2025. And I think you will see the same seasonality now that Q1 very strong. Next quarter will be everything being the same weaker than Q1 from an operating margin. There might be some negative effect on top of it because of duties depending on what's happening with the merchandisers arriving, what happens, but it shouldn't be that huge. Then Q3 should be very strong depending on or given the order book we have and the size of the business. And then Q4 is always depending on what is in the market when it gets to discounts, what are the take backs that you have in markets like China. So it's a more volatile, what should I say, quarter, but your assumption is right. I think right now, on top of this, you have the uncertainty what could happen to the duties, which no one knows, right?

Speaker 5
1h 26m

So we feel when we tell you that we keep the guidance that we pretty, I would say, tough. I think most people will backpedal on their guidance. We don't because we believe in the momentum and we see the strength also outside The U. S. But again, as you can imagine, there are many uncertainties that is created of this duty thing because you don't really know what the cost of your product is tomorrow, which is very, very unique.

Speaker 17
1h 26m

Yes. That's very helpful. And then just one follow-up. On the footwear business, the three main growth drivers that you're working to scale up low profile lifestyle running and superstar. Bjorn, could you maybe just give a little more context and roadmap in terms of how you see those models starting to contribute over the next few quarters and over the next couple of years? A little more detail there would be helpful. Thank you again.

Speaker 5
1h 27m

Well, I think the low profile is a trend that will last for two to three seasons and go away again. Running Lifestyle is a trend that has been there always, but we, for whatever reason, lost it for a while. I think when you see the effort, that should be the biggest category next to the Classics that we have already success with. And again, should be very, very specifically a segment that we continue to invest in so we don't lose it again like we did some years ago when we lost the success of Boost and NMD. So I think we are more conscious now on bringing innovation and bringing more models to the market so that we can have winners all the time and not have the volatility. And then Superstar is, of course, the biggest issue that we've ever had. It does compete with the Compasses and to a certain degree, even other shoes that you already have success with. But important for us is that when you go to a Foot Locker is that we have a good offer on the classic quartz side, which is currently the terrace and the compass, then you add low profile to it, then you add superstar it, and then you can start to manage out of some of the volumes that you have in tariffs.

Speaker 5
1h 28m

That the on the running wall have bought classic shoes like the LA Trainer or the SL72 that in the comfort area are bringing in new like we do with EVOSL. And then on the V Stick, aggressive side, we have ClimaCool, both the OG shoe and we have the three d printed one. And then in the V Stick side, we also have the MegaRide, which we will start to see that we're putting even soccer up around it because it's a trend that we see, especially with the male consumer in The U. S. And then we will come up with silhouettes that you haven't seen before. There is quite some, what should I say, creative work happening that uses running technologies on new offers that the market hasn't seen. And then basketball, we think that given that another brand has such a market share that we should grab some of that. And we think if we use the resources that we have better, we can not only with Anthony Edwards and Hardin, but also with other, what should I say, franchises be more successful and grab share that will not only sell more basketball shoes, but actually create heat also for that consumer in other areas, including apparel.

Speaker 5
1h 29m

So I think there is a clear strategy how to do this, and then it's up to us then to deliver it.

Speaker 17
1h 29m

It's very helpful. Thanks again.

Speaker 5
1h 29m

Thanks much, John.

Speaker 2
1h 29m

Thanks very much, Moira. Thanks very much, Bjorn and Harman. Thanks very much to all of you for participating in our call today. This concludes our Q1 twenty twenty five results conference call. As always, if you have more questions, please feel free to reach out to Adrian, Philippe, myself or any other member of the IR team. We're very much looking forward to meeting with you over the next couple of weeks, be it during our roadshows, it at one of the conferences during conference season now or be it here at our beautiful campus in Herzl. We've talked a lot about the product during our call. And I can only reiterate what I said in the past. Herzl may not be the center of the universe, but I can definitely tell you it's worth visiting. We have more than 30,000 product of our springsummer twenty twenty six season here on display. And we've talked a lot about the newness that we see in lifestyle running. We've talked a lot about the breadth that we see on the classic side in lifestyle, not starting to talk about apparel. Bjorn has talked about the World Cup tent that we've built here.

Speaker 2
1h 31m

So if you happen to be in Europe, if you want to make the sidestep to Herzog, you're all invited. We will actually have several broker hosted visits during the month of May and June. And if you want to be part of that or visit individually, please feel free to reach out and we're happy to host you and show you around. And with that, enjoy the remainder of this beautiful sunny day. Enjoy some of the Champions League action tonight and speak soon. All the best. Bye bye.