2022

# ADIDAS FINANCIAL ANALYSIS

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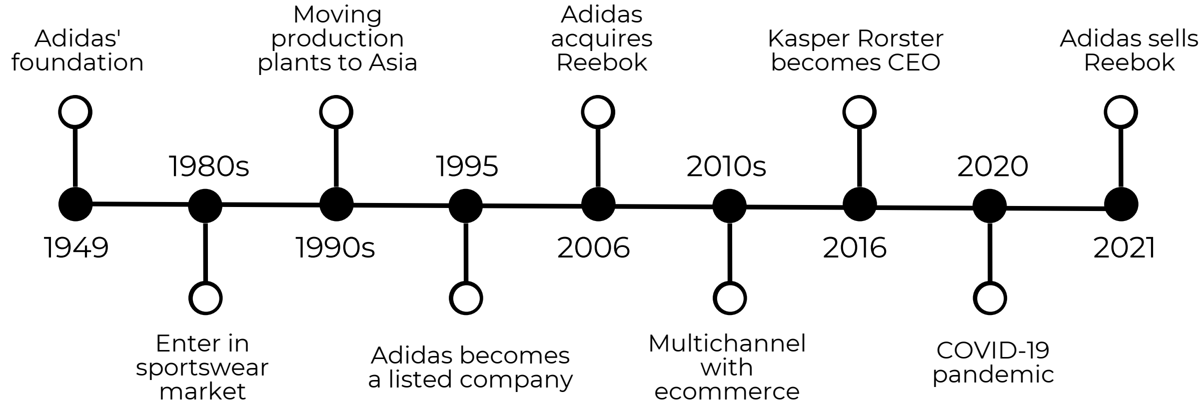
# 1 INTRODUCTION

Adidas Group is a German multinational corporation that designs, manufactures and markets athletic-sports lifestyle products. Founded in 1949 by Adolf Dassler, the company has grown over the years reaching in 2021 an amount of net sales of more than 21 billion euros, ranking it second in the sector, preceded only by the American competitor Nike.




# 2 STRATEGIC ANALYSIS

This section is dedicated to both external and internal analysis in order to analyze the evolution of macrotrends in the global sportswear industry and comprehend Adidas' main internal activities.

**S** — **Social**
- Focus on sustainability impact of companies work and on the workers rights
- Personalize and customize the product
- In USA 64% of the people wear sports clothes and sports shoes in their everyday life [1]

**T** — **Technological**
- E-commerce is one of the main drivers in the growth
- Advertising on social media is fundamental, 67% of young people found their clothes thanks to influencer marketing [2]
- Smart clothing is becoming even more mainstream

**E** — **Economic**
- Expected growth higher than 4% annually to 2027 [3], especially dictated by a complete normal return to the pre-pandemic situation
- “Fast Fashion” trends, need of design, manufacturing, and marketing as rapidly as possible

**E** — **Environmental**
- Second-hand shopping is becoming popular
- More green supply-chain transparency will be requested by stakeholders
- Sustainability nowadays is crucial for customers, employees and all stakeholders

**P** — **Political**
- We can also highlight a still visible impact of COVID-19 pandemic and all related quarantine on the fashion market
- Russia’s invasion on war impacted declining demand in the European fashion industry of 11%, which was the actual market shares provided by Russia/Ukraine [4,5]

**INFRASTRUCTURE**

- **Executive board:** Six members compose the Adidas executive board. Each board member is in charge of at least one important function within the company like global operations, global sales, global HRM, and so on.
- **Mix of divisional and functional organizational structure**
- **Division based on the geographical market**

**HUMAN RESOURCES**

- **Diversity, Equity, and Inclusion:** aims to create the most inclusive workplace and ensure that everyone has the same career opportunities[6]
- **Internships:** for students in different business areas (finance, IT, logistics, e-commerce)[7]
- **Compensation system:** attract, retain, and motivate employees through remuneration and[8] recognition programs that are inclusive and competitive in the marketplace

**TECHNOLOGY DEVELOPMENT**

- **R&D:** €130 million spent in 2021 for the R&D of new products[9]
- **Innovation:** Through process system upgrades and distribution center capacity expansion, Adidas improved e-commerce service levels and provided more delivery choices in 2021[10]
- **3D printing**
- **Automation technologies**

**PROCURAMENT**

- **Long-term relationship:** Around 65% of Adidas independent manufacturing partners have worked for them for at least ten years, and 35% have a tenure of more than 20 years. In order to maintain such a strong relationship specific performance criteria are regularly measured and reviewed[11]
- **Next-generation raw materials:** Adidas is looking for new sustainable materials to produce its shoes and apparel

**INBOUND LOGISTIC**

- **Multi-layered supply chain**[11]
- **Warehousing management**
- **Trend and demand forecasting**

**OPERATIONS**

- **Outsourced production**[10]
- **Product development and design**

**OUTBOUND LOGISTIC**

- **Global distribution network**[10]
- **Omni-channels**[10]
- **Outsourced logistics**[10]

**MARKETING AND SALES**

- **Partnerships**[12]
- **Digital sales channels**[13]
- **Membership program**[14]
- **Digital brand and product promotions**

**SERVICE**

- **Multi-layered supply chain**
- **Warehousing management**
- **Trend and demand forecasting**

**MARGIN**

The SWOT analysis helps in understanding what strategic decisions Adidas has made in order to take advantage of the opportunities that the sportswear market offer.

# S

## Strengths

- **Powerful global brand:** Adidas is an iconic brand with a long history[15]
- **Diversified portfolios**
- **Aggressive marketing strategy:** Adidas amplifies its credibility through partnerships by leveraging their power, authenticity, and reach
- **Strong financial position:** its revenues have seen a constant increase, from €14.5 Bn in 2009 to €21.2 Bn in 2021[16]
- **Innovative products:** Adidas has spent €130 million in the research and development of their products in 2021[17]
- **Effective supply chain management:** internal and external audits are conducted at the suppliers' factories to ensure they comply with the standards for social and environmental compliance[18]

# W

## Weaknesses

- **Over-dependence on third-party manufacturers:** Adidas outsources most of its production to Chinese, Indian and other Asian-based third-party suppliers[11]. If the activities of these producer are disrupted, whether due to pandemics or other events, Adidas may suffer as well
- **Expensive products:** Adidas will not be able to attract lower-income customer because its products are sold at premium prices. The average cost of a single pair of shoes on adidas.com is over 100 euros
- **Few brands under management:** after selling Reebok, the Adidas Group maintains only minor brands in its portfolio, and this limits its ability in brand positioning

# O

## Opportunities

- **Growing industry:** sports and fitness continue to increase in sales of wearables and fitness app[19]
- **E-commerce:** is increased from 7.4% in 2015 to 18.8% in 2021 (retail sales), and it is expected to grow even more in the coming years[20]
- **Social media:** Facebook and Instagram have respectively 2 and 2.9 bn monthly active users worldwide[21]. This data can be leveraged to create effective advertising campaigns
- **Metaverse and NFT:** increasing popularity of blockchain technology, crypto and NFT can be seen as an opportunity to create new revenue streams. Companies will be able to sell digital version of existing products

# T

## Threats

- **Fake products:** Sales value losses from counterfeit goods increases due to the high quality of imitations. In the clothing sector, annual sales losses of 2020 amounted to €26.3 billion[22]
- **Lockdowns:** Closures to limit the expansion of COVID-19 can affect the distribution network and manufacturing capability
- **Global economic uncertainty:** Global growth is forecast to slow from 6% in 2021 to 3.2% percent in 2022 and 2.7 percent in 2023[23]
- **Growing Competition**
- **Trade pressure:** Import restrictions, tariffs and other trade barriers are affecting companies' profitability

# 3 CHOICE OF COMPETITORS

A comprehensive report evaluating Adidas's performance requires a comparison with its main competitors; these are presented below, along with the reasons why they were chosen.

## NIKE

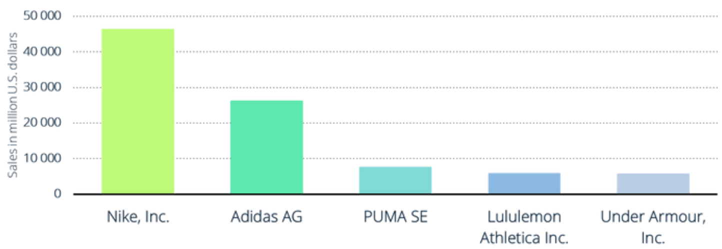
The main reasons Nike Inc. was chosen for the benchmarking with Adidas are:

- Being the **leader in its sector**, a benchmarking with Nike is both a sector[1] and a leader benchmarking (both in the top 50 brands in the world);[7]
- Both Adidas and Nike are driven by **similar values**, as it is shown in Adidas' purpose[2] and Nike's mission[3]. Therefore they have **similar strategies** in terms of approaching the customer, satisfying his needs, sponsoring big sports events, etc.

By choosing Nike for the comparison with Adidas and avoiding doing an incorrect analysis, it is crucial to consider some differences between the two companies:

- Nike's financial statements are in **USD**, while Adidas' ones are in **EUR**, so an appropriate exchange rate has been used when comparing accrual or cash absolute indicators;[11]
- Nike's **fiscal year ends on May 31st** (while Adidas' ends on December 31st), resulting in a seven months misalignment. Since the sector in which these companies operate is not heavily affected by seasonality, and since the knowledge required for an accurate gap adjustment is unavailable, the benchmarking has been done without any alteration to the financial statements. However, it is appropriate to mention it to let the reader be aware of possible inaccuracy in the comparison;

**Sportswear revenue rankings**[1]




- As an American company, Nike's financial statements are drafted in accordance with the US **GAAP** rather than the IAS-IFRS. This implies some differences that must be considered.[8]

## PUMA

Puma and Adidas have many things in common, starting from their origin: they were both founded in Herzogenaurach, in Germany, by two brothers; thus, they have always been in a fierce rivalry.

There are several reasons why we can consider Puma as one of the main Adidas's competitors, the main ones are:

- **Same accounting principles** (IAS-IFRS);
- The companies operate in **similar geographical areas**.

Furthermore Adidas, Nike and Puma are aligned on choices concerning sustainability, in particular on the choice of materials and reduction of pollution.[4,5,6]

# 4 FINANCIAL ANALYSIS

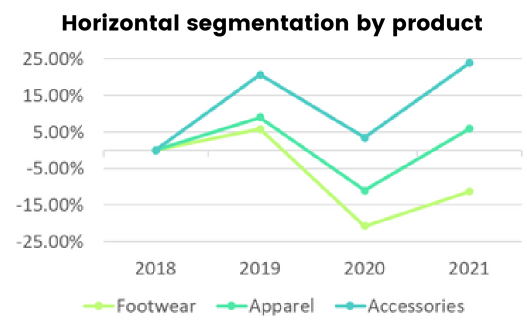
## 4.1 SEGMENTAL ANALYSIS

The segmental analysis has been done by product/geography on revenues and by Capital Expenditure (CapEx) to better undestand how Adidas has performed depending on the geographical area and products sold.

### 4.1.1 By product

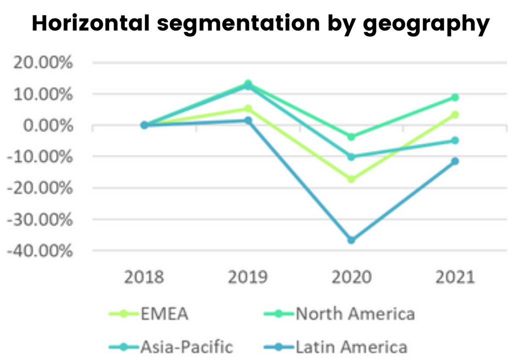
According to the 2021 product segmentation, the footwear segment generates the majority of the revenues (53%), since this has historically been the company's core business, together with the apparel (41%), which has always been of great importance.


Accessories and gear (6% of revenues) have a significantly lower percentage in 2021 compared to the past[1,2] when Adidas Group included sub brands such as Salomon (1997-2005) or TaylorMade (1997-2017). Despite this, it is possible to see how this segment has grown the most in recent years[3] thanks to Adidas continued focus on product innovation with long-term investments, as this market is expected to expand.



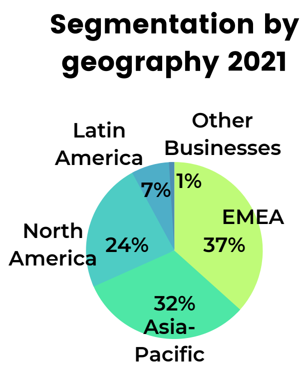

### 4.1.2 By geography

The pie chart of the 2021 Geography Segmentation shows that the three main revenue areas are EMEA, North America, and Asia-Pacific.



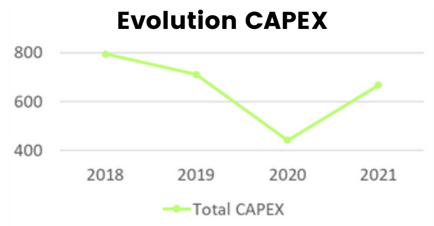

As shown, the pandemic caused a decline in sales in 2020. Latin America bore the burnt of the decline (-38.3%), followed by Asia-Pacific and EMEA (around -22%), while North America was the least effected (-16.9%).

These data could be explained by the political decisions associated with pandemic restrictions. It is important to show that the areas that have experienced the greatest decline are also those that registered the greatest increase in reopening, almost restoring the pre-Covid-19 balance (except for Asia-Pacific which had tighter restrictions during 2021 as well).



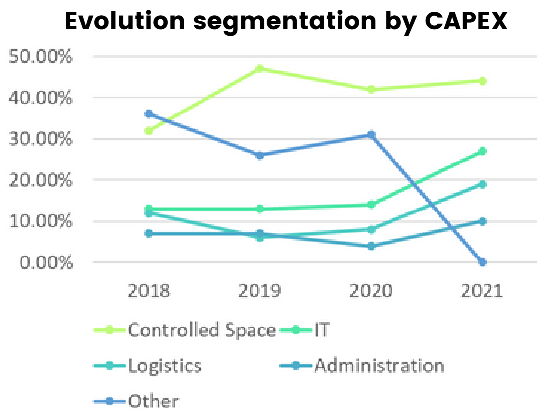
### 4.1.3 By CAPEX

Capital Expenditure segmentation of 2021 registered an increase compared to 2020 (51%), but with €667 million, it has not returned to pre-Covid levels (2018: €794 million, 2019: €711 million).




This could be attributed to the slowdown in the company's expansion due to Covid-19 limitations, but also to investment costs executed in 2020, such as the completion of the company's headquarters in Herzogenaurach (€350m)[4,5] or expansions involving the facilities in Portland and Shanghai. These expenses were classified as "Other" and accounted for approximately 30% of CAPEX.

In 2021, the absence of this item resulted in an increase of more than 10% in IT and logistics expenses. According to a blog post outlining the "Own the Game" strategy, the company's digital transformation will be driven by more than €1 billion in investments until 2025[7]. Core processes across the entire value chain will be digitalized, beginning with the creation process with 3D design capabilities and ending with the sourcing of its products and the sale to customers.



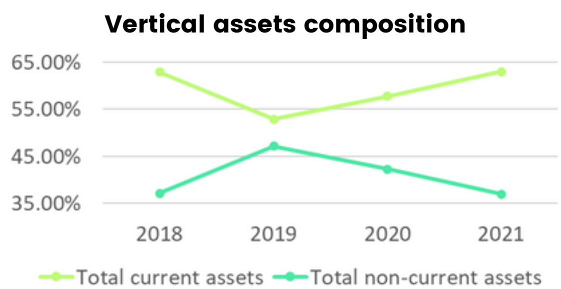

Regarding the logistics, the company has been impacted by a government-imposed factory lockdown in Vietnam[6], a key country for the production of Adidas shoes.

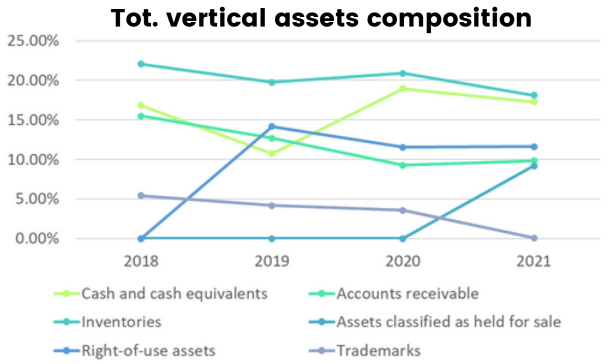
## 4.2 FINANCIAL DOCUMENTS ANALYSIS

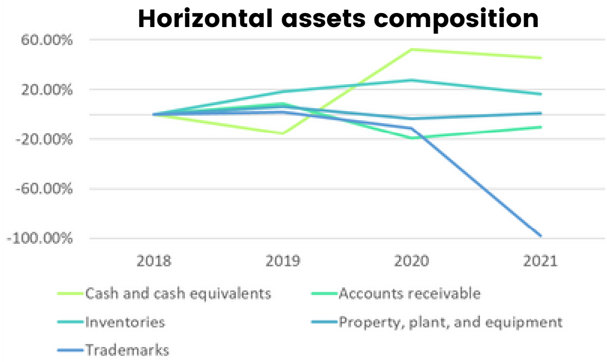
In this section, all major changes in financial document entries have been reviewed. Graphics have been inserted to assist the reader, with emphasis on the most relevant items of the financial statements.

### 4.2.1 Balance Sheet

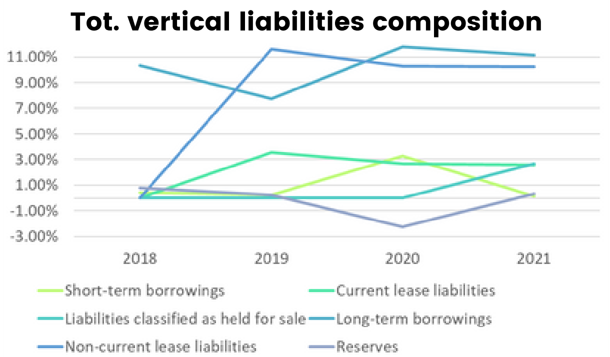
The graph clearly shows that there has been a significant route change in the distribution of assets in 2020. Indeed, the percentage of non-current assets is steadily declining in favor of higher percentage of current assets.

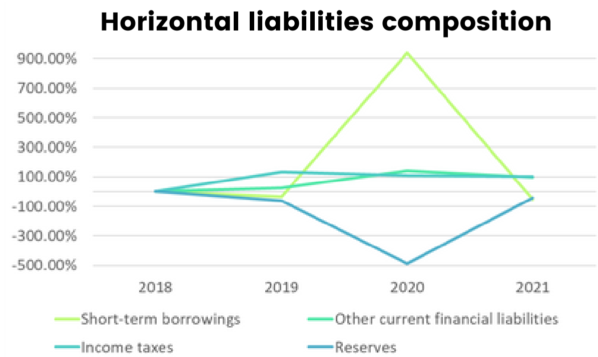





The period of uncertainty associated with the Covid-19 pandemic resulted in a 19% increase in inventories (sales estimates weren't accurate) and an actual decrease in accounts receivable, with the company focusing more on collecting receivables and protecting its financial position by expanding liquidity through loans.
In 2019, as a result of the first-time application of IFRS 16,[8] Adidas starts to recognize right-of-use assets in relation to leases previously classified as operating leases, that were not taken into account until that moment. This affected the growth of total non-current assets, also incrementing deferred tax assets.
It is also interesting the strong decrease, around 99%, of Trademarks at the end of the 2021 FY lead by the divestiture of Rebook,[9] a brand acquired by Adidas in 2005 for $3.8 billion. For the same reason, assets classified as held for sale increased.



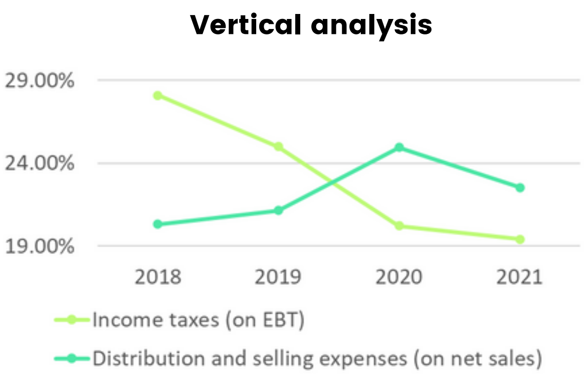

In 2020 short-term borrowings grew a lot (+939,39% cf. 2018) and this is owed to a reclassification of an eurobond (nominal value € 600 million) due to its maturity in 2021. Also long-term borrowings had an interesting growth (+54,26% cf. 2018) and this is linked to issuance of bonds as explained in section 4.2.3.

In 2021 the situation is a little bit more stable, so cash and cash equivalents stay unchanged from the previous year, account receivables start slowly to grow and inventories going down because of people starting to buy products that were already in stock from the year before.

### 4.2.2 Income Statement

Adidas, during the fiscal year of 2021, has seen a growth in revenues, Gross Profit and EBIT compared to the Covid period (fiscal year 2020), but the recovery is still not at the level of the pre-Covid period (fiscal year 2019). That highlights the difficulty of the company to return to his previous productivity power to generate incomes.

It is interesting to see that even if the percentage of Gross Profit compared to the net sales remain almost the same, looking at operating profit instead, in 2020 the percentage of profit compared to the net sales decrease a lot (from 11% to 4%) due to an increase in Operating expenses.



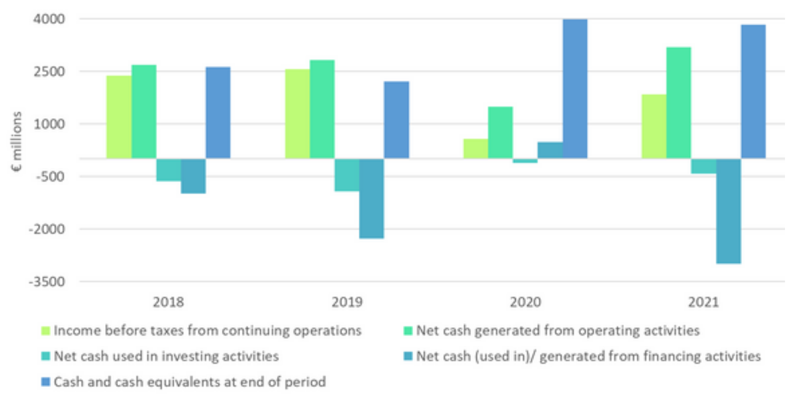

A vertical analysis reveals that the tax rate applied to the company has decreased significantly over the years. This could be due also to a release of valuation allowances with respect to US, Argentina and Brazil, and also by a reductions of tax rates in Argentina, France and Switzerland.[10]
Furthermore, the distribution and selling expenses has seen a strong increase because of inflationary pressures and supply chain issues caused by the increase in e-commerce sales during the pandemic, that leads to more shipping costs.

The increase in discontinued operations was driven by the sale of Rebook (in 2021), as well as the valuation and payment of earn-out components related to the sale of the TaylorMade and CCM Hockey businesses (in 2017 both but with diluted payment).[23]

| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Gain / (losses) from discontinues operations, net of tax | -5 | 59 | -19 | 666 |

### 4.2.3 Cash Flow Statement

As reported in Section 4.2.1, Adidas tried to increase its liquidity to protect its financial position during the Covid-19. In particular, it can be noticed that cash and cash equivalents continue to growth even if the income before taxes decline in the year of pandemic, which influence also net cash from operating activities. This trend is aided by the issuance of two bonds in an amount of € 500 million each, the issuance of a sustainability bond in an amount of €500 million and the suspension of both the dividend payment and share buyback program.




The company also reduced investing activities related to PPE, investments in controlled space initiatives and IT systems, and proceeds from the sale of short-term financial assets. While in 2021, the company resumed its financial activities as until 2019.

# 4.3 ACCOUNTING BASED INDICATORS

The following indicators can help understanding the company's position in the period between 2019 and 2021.

## 4.3.1 Shareholder's perspective

| Indicator | Formula | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| ROE | $\frac{Net\ Profit}{Shareholder's\ equity}$ | 28,01% | 6,62% | 27,53% |
| Net Profit Margin | $\frac{Net\ Profit}{Revenues}$ | 8,36% | 2,40% | 10,16% |

Between 2019 and 2020 **ROE** and **Net Profit Margin** decreased sharply due to the reduction of the net profit. This drop is caused by a contraction in sales which was not matched by a reduction in expenses as already explained in section 4.2.
In the following year (2021) the situation improved slightly due to a increase in both net sales (15.2%) and net profit (30%) caused by the gains from the divestment of Reebok. In fact, in this year, despite the increase in net sales, other operating expenses remained about the same as in 2020.
Even if there was a drastic reduction of the values of indicators in 2020, the company stayed attractive to potential investors.

| Indicator | Formula | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Payout ratio | $\frac{Dividends}{Net\ Profit_{t-1}}$ | 39,10% | 0,90% | 132,00% |

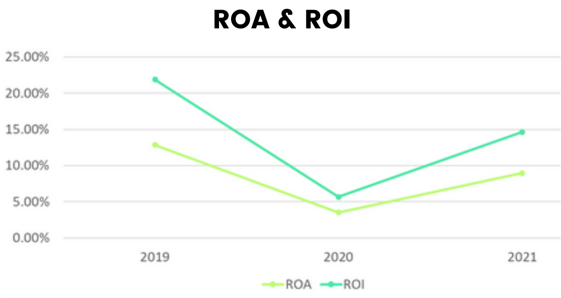
In 2020 the **Payout ratio** declined dramatically since the global pandemic forced Adidas to significantly reduce the dividends payment to the shareholders. In contrast, even if the company distributes almost the same amount of dividends in 2021 as in 2019, the ratio explodes due to the very low net income of the previous year.

## 4.3.2 Overall company perspective

| Indicator | Formula | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| ROA | $\frac{EBIT}{Total\ Assets}$ | 12,86% | 3,54% | 8,97% |
| ROI | $\frac{EBIT}{Total\ Assets - Non\ Fin\ Liab}$ | 21,88% | 5,67% | 14,46% |

The ROA value of 2020 is very low mainly due to a decrease of EBIT (caused by higher other operating expenses and distribution expenses). It is interesting to see that both in 2020 and 2021 the firm has increased its total assets. This could be attributed to the company's strategy to reach a high liquidity in order to navigate the Covid-19 crisis.

For this reason Cash and cash equivalents were up 80% from 2019 to 2020, with cash generated through the placement of bonds in the amount of €1.5 billion, as reported in section 4.2. In addition, the ROA of the company in 2021 was less than in 2019 due to the increase of total assets that were up 5% with respect to 2020.




This is mainly due to the write-up of the Reebok trademark and as right-of-use assets from leasing agreements increased, but also the EBIT that doesn't come back to the 2019 values. Nevertheless the drastic reduction in 2020, ROA has always remained positive, which means that Adidas has always been able to generate profits from its investments.

**ROI** follow the same trend of **ROA**. In particular, the company sought to increase its liquidity through the short-term borrowings, consequently raising the financial debt as well. In 2021, short-term debt decreased by 96%, but due to the increase in equity, the denominator increased anyway. This led to an overall growth in **ROI**, also helped by an increase in EBIT of about 166.3%.

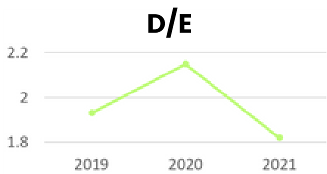
| Indicator | Formula | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| EBITDA Margin | $\frac{EBITDA}{Revenues}$ | 16,17% | 10,49% | 14,73% |

Looking at the **EBITDA margin**, the drop in 2020 is due to the cessation of sales and consequently to a lower value of EBITDA and revenues. Specifically, in 2020 revenues decreased around 20% while EBITDA decreased around 40%. This is because the lower is the **EBITDA margin**, the higher is the influence of operating expenses on the revenues.

### 4.3.3 Stakeholder's perspective

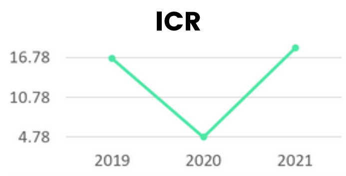
| Indicator | Formula | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| D/E ratio | $\frac{Total\ Liabilities}{Shareholder's\ equity}$ | 1,93 | 2,14 | 1,82 |
| ICR | $\frac{EBIT}{Interest\ Expenses}$ | 16,63 | 4,78 | 18,22 |
| Cost of debt | $\frac{Interest\ Expenses}{Financial\ Debt}$ | 3,14% | 2,42% | 1,85% |

From 2019 to 2020, **D/E ratio** grows because of total liabilities, mainly due to higher debt (short term borrowings increased mainly reflecting the reclassification of a

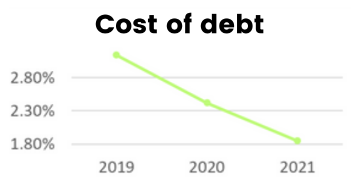



eurobond for the 1483% and long-term borrowings for the 56%). Then in 2021 this indicator decrease due to an increase of 17% of the shareholder's equity. This last item was mainly driven by the net income generated during the year, an increase in hedging reserves of €226 million and a currency effect of €308 million. Since **D/E ratio** is higher than 1, it can be deduced that the company's capital structure is more oriented toward debt than equity financing, and it can also be noticed that in 2020 the firm has heavy debts since the ratio is higher than 2.

As expected, the global pandemic has highly affected the company's ability to pay interest on its outstanding debts since the drastic drop in the operating profit. Indeed, looking at ICR, the drop in 2020 was due to the increase in interest expenses.




It is interesting to see that **ICR** is always remained above the value of 1% meaning that Adidas can repay its interest expenses using operating profits.




It should be noted that the value of the **Cost of debt** continues to decrease from 2019 to 2021, even though short-term debt was increased in 2020 to obtain more liquidity. This means that the company is not perceived as risky by banks, which consequently require less interest.

This is probably due to its ability to generate resources, which provides the company a great ability to repay debts and good creditworthiness.

### 4.3.4 Liquidity analysis

| Indicator | Formula | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Current ratio | $\frac{Current\ Assets}{Current\ liabilities}$ | 1.25 | 1.38 | 1.56 |
| Quick ratio | $\frac{Cash + S.t.\ investments + Receivables}{Current\ liabilities}$ | 0.65 | 0.75 | 0.76 |
| ITR | $\frac{Revenues}{Inventories}$ | 5.78 | 4.19 | 5.3 |

**Current ratio** and **Quick ratio** in 2020 improved according with the decision of Adidas to increase liquidity as already mentioned in section 4.2. In particular, **Current ratio** increased also in 2021 thanks to the Reebok divesture. Since the value is constantly higher than 1, it means that the firm is able to cover the short-term financial commitment just by using current assets.

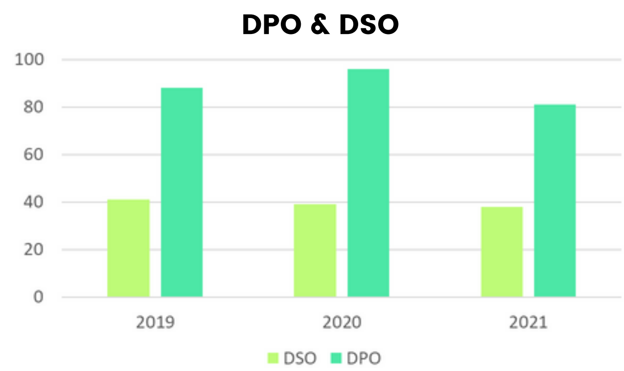
In addition, it is important to emphasize the **Quick ratio**, since Adidas is a manufacturing company and stocks are not usually converted into cash so quickly. Its values, lower than 1, over the years highlight that the company could have some problem in covering its current liabilities only using current assets more close to cash.

The main difference between the current ratio and the quick ratio is due to inventories, that are nearly only finished goods. More than €1500 million of finished goods (less than 40%) are registered by Adidas as goods in transit, that are shipments of finished goods from Asia directed to Europe and America. This suggests that Adidas should not struggle too much in repaying its current liabilities, since 40% of its inventories are likely to become cash or account receivables.

It is also interesting to see that the **ITR** decreased in 2020 because of the higher number of inventories (increased by 14%), reflecting the inevitably lower-than-expected product sell-through caused by the temporary broad-based store closures as well as traffic remaining below prior year levels after stores reopened temporarily.

| Indicator | Formula | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| DSO (days) | $\frac{Account\ Receivables}{Net\ Sales} * 365$ | 41 | 39 | 38 |
| DPO (days) | $\frac{Account\ Payables}{Net\ Purchases} * 365$ | 88 | 96 | 81 |
| Delta | $DPO - DSO$ | 47 | 57 | 43 |

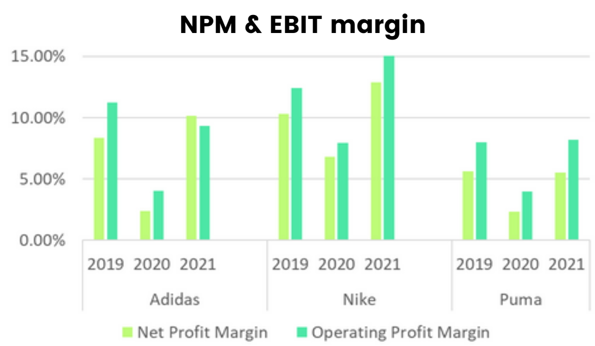
The company results to be efficient since it is able to keep higher DPO value than DSO along the period analyzed.
It should be considered, however, that in 2021 the situation is slightly worse due to the reduction of DPO that causes a narrowing of the difference between the supplier's payback time compared to the credits receiving time.




# 4.4 BENCHMARKING

The indicators related to Nike Inc. and Puma were calculated following the same guidelines and procedures used for Adidas, so that the comparison could be meaningful. It is important to remember that the modality the benchmarking was done with is the unconscious one; therefore, all the data used come from public sources and documents that are mentioned in the references.

## 4.4.1 Profit margins



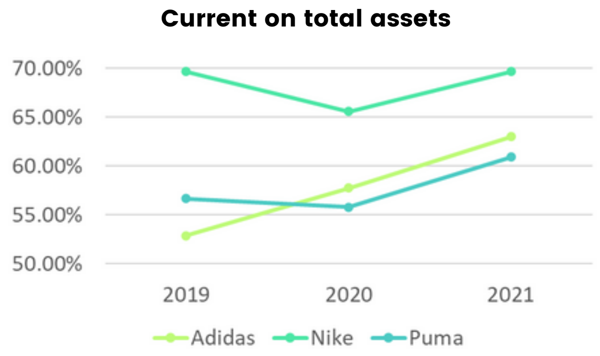

**Revenues (€ in millions)**

| | 2019 | 2020 | 2021 |
|---|---|---|---|
| Adidas | 23640 | 19844 | 21234 |
| Nike | 34947 | 32799 | 37675 |
| Puma | 5502 | 5234 | 6805 |

The graph and table show that there is a strong correlation between the revenues - NPM - Ebit margin: the higher the revenues, the higher the values of the two indicators. At first this could seem illogical since the revenues are the denominator of these indicators. But it actually means that, in the sportswear sector, it is convenient to be "big", since it allows a better control of the operating expenses and in general a better profitability.
It's important to notice how, in 2021, Adidas NPM is higher than the Ebit margin, in contrast with all the other values; this is because 666 of the 2158 mil. € net income is due to the selling of Rebook, a discontinued operation. Instead, an adjusted NPM would be equal to 7%, in line with the other values shown in the graph.

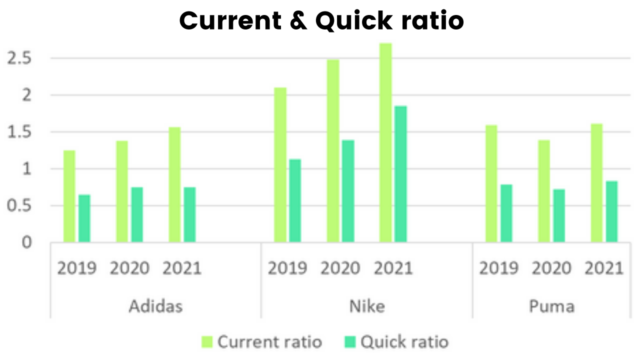
### 4.4.2 Balance Sheet Structure

The graph shows that Nike has a more flexible structure of the assets, and both Adidas and Puma are reaching its level, with Puma struggling a little during the Covid pandemic. This is desirable because it gives the company more room for movement in managing its assets and in planning its activities, and, by looking at the graph, it seems it is something that the three companies want.




For a more detailed analysis of Adidas' assets evolution please refer to paragraph 4.2.

### 4.4.3 Current & Quick ratio

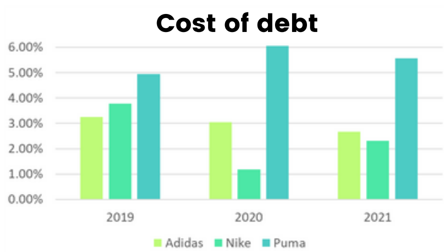



The graph shows that the three companies have a current ratio higher than 1, which means that all the non-current assets and part of the current ones were financed with long-term debts and equity, which gives more financial stability to the companies. By looking at the quick ratio, instead, it seems that, of the three, Adidas has the worst performance, while Nike is by far the best performer, confirming that it is convenient to be the biggest possible. A quick ratio value lower than 1 suggests that Adidas and Puma could have some more problems than Nike in repaying short-term debts.

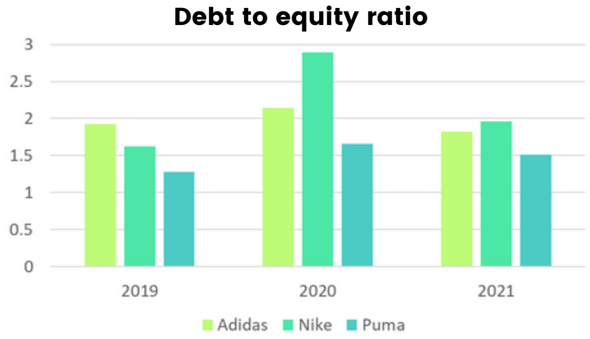
The reader can find a more comprehensive analysis of these indicators for Adidas at paragraph 4.3.4.

### 4.4.4 Leverage & Cost of debt

By looking at the cost of debt graph it stands out that Adidas and Nike have an average cost of debt much lower than Puma. The reason why may be related to the dimensions of the companies. Lending money to a bigger company implies less risk or the creditor (being the two companies equal in financial stability); thus, the interest rate will be lower. It is interesting how the covid crisis did not increase the cost of debt of Nike and Adidas, but it did for Puma, underlying how Puma is (perceived by debtholders) more exposed to financial risk than its two competitors. A confirmation of the previous analysis is seen in the

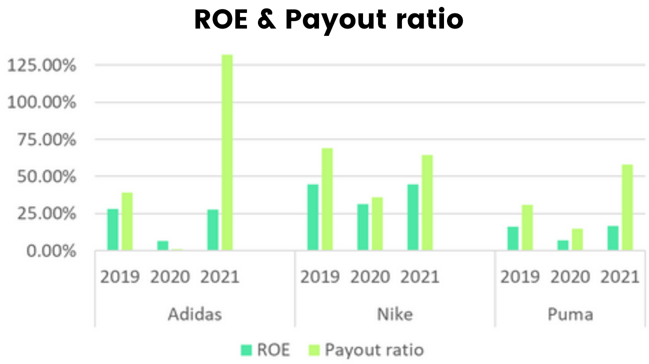


leverage graph, that shows how the two bigger companies rely on debt more than Puma, their interest expenses being lower making it more convenient to issue financial debt.




The graph also shows the increase in the debt-to-equity ratio in 2020 (increase of debt to face the pandemic) and its decreasing in 2021, meaning that the three companies repaid part of their debts issued to face the pandemic.

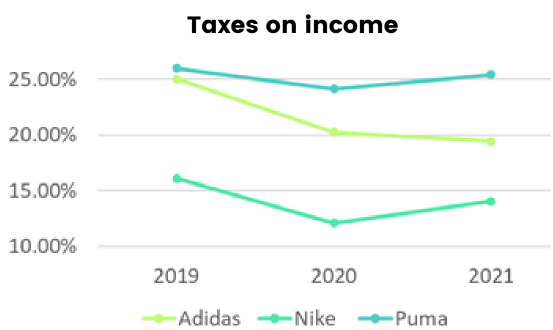
## 4.4.5 ROE and Payout ratio



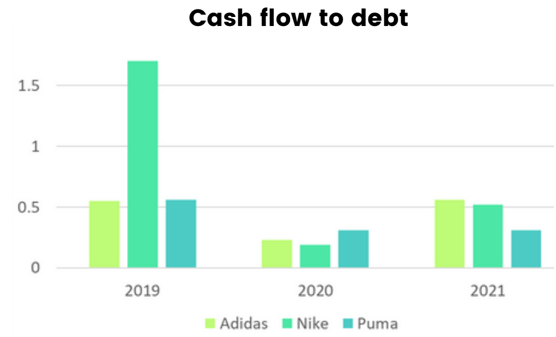

The graph representing the ROE indicates a good profitability for the shareholders investing in the companies, especially Nike. Something a bit different is told by the payout ratio graph, that shows how Adidas is the one remunerating the most its shareholders compared to the net profit, especially in 2021, to compensate the fact that to face the Covid-19 pandemic and avoid cash shortage, in 2020 they nearly didn't distribute any dividends.

## 4.4.6 Taxes on income

This graph shows that the effective tax rate dropped down for all three companies in 2020, to help them face the Covid crisis, meaning the governments took action to sustain the companies. Also, the tax rates are different among the companies, especially between Adidas and Puma with Nike. This does not really depend on the company, but on where its headquarter is located and the government laws, showing a certain difference between USA and Germany.



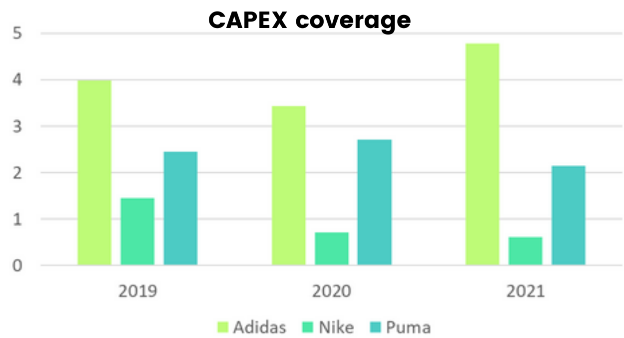
### 4.4.7 Cash flow to debt



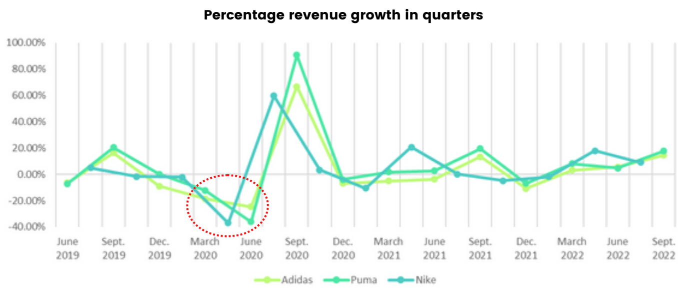

Adidas value changed mainly because of a strong decrease of CFFO in 2020 (decreased by 50%) whereas in 2021 it even got higher than 2 years before.
For Nike the fluctuation of CFFO was even higher (minus 60% and then plus 168%), but the variation of the indicator is also due to a strong increase in financial debt in 2020 (long-term debt from $3.5 billion to $9.5 billion, and new operating lease liabilities of nearly $3 billion).

### 4.4.8 CAPEX coverage

By looking at the graph it's clear that, depending on the company, CAPEX coverage reacted differently to the covid pandemic and to the company's actions. For example, whilst for Adidas the indicator followed the fluctuations of the CFFO (even though they decreased the investments in intangible assets by 42% and the purchase of PPE by 36% in 2020 and went back to the same level in '21), Puma had the exactly opposite trend, with the indicator that followed the CAPEX.

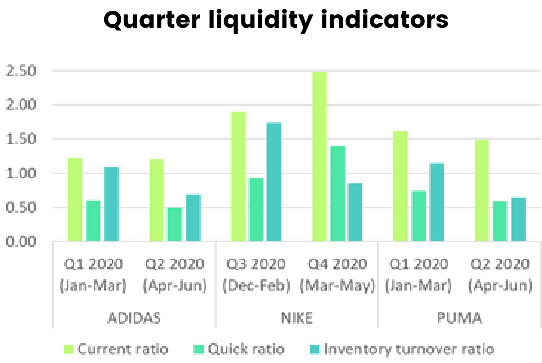



### 4.4.9 Pandemic period analysis




As anticipated in section 3, Nike's fiscal year ends on May 31 while Adidas' and Puma's fiscal year ends on December 31, causing a seven-month misalignment. For this reason, a more in-depth analysis of the quarters mainly affected by Covid-19-related restrictions was conducted, because analysis of annual reports alone would not be accurate, as Nike divides the negative impact into two different fiscal years. It can be seen from the chart that the circled period is the only one of the 4 years in which quarterly growth for all three companies falls below 20%.

As shown in the following graph, during the months of analysis all the companies maintained a current ratio well above 1, and for Nike this value has also increased during the fourth quarter. These results can be associated to an increase in inventory levels due to store closures and lower wholesales shipments. In fact, looking at the quick ratio the values obtained are much lower.




Only Nike has been able to increase its quick ratio from one quarter to the other, and this can be attributed to its effective strategy to assure appropriate liquidity during the pandemic (bond issuance, suspended share repurchase activity). As regard the inventory turnover ratio, the reduction it is attributable to both a decrease of revenues, due to Covid-19 restrictions, and an increase in inventory levels.

| Indicators | Adidas | | Nike | | Puma | |
|---|---|---|---|---|---|---|
| | Q1 2020 Jan-Mar | Q2 2020 Apr-Jun | Q3 2020 Dec-Feb | Q4 2020 Mar-May | Q1 2020 Jan-Mar | Q2 2020 Apr-Jun |
| ROE | 0,38% | -4,90% | 9,36% | -9,81% | 1,85% | -5,31% |
| Net Profit Margin | 0,55% | -8,86% | 8,38% | -12,51% | 2,79% | -11,50% |
| Debt-to-Equity ratio | 2,00 | 2,14 | 1,90 | 2,86 | 1,34 | 1,53 |

In March and April approximately all Adidas, Nike, and Puma stores remained closed, impacting heavily on sales and revenues. These facts are highlighted by the negative values obtained for both Return on Equity and Net Profit Margin indicators, driven mainly by lower gross margin as a result of factory cancellation charges, increased inventory obsolescence reserves, and negative currency fluctuations. As regard the Debt-to-Equity ratio, the considerably high values registered are the result of the different strategies adopted to deal with future uncertain situations. While Adidas and Puma opted for more short-term oriented measures, Nike strong increase in D/E ratio is due to proceeds from a $6 billion corporate bond issuance in March, resulting in a more long-term vision.

# 5 CONCLUSIONS

In conclusion there are some key points emerging from this report:

Adidas has **credibility**[1] in the eyes of its **stakeholders**. Regarding its **customers** this is proved by the performances on Adidas core business over the years. Concerning its **debtholders** this is shown by a relatively low cost of debt and many debt issuances, that the company always managed to repay. While the credibility of its **shareholders** were proved of the good profitability of investments. Finally, the **environment** and the **society**, who are promised a more digital, innovative and sustainable future.

Like all the companies in that industry, Adidas suffered from **Covid**. But it demonstrated its **solid financial and business structure** and got back up faster and better than most of its competitors.

There are some significant points of **difference with Nike**, showing how the American competitor is by far the market leader. It is clear though that Adidas is trying to **fill these gaps**, and so far it seems that it's working.

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# ANNEXES

The purpose of the annexes that follow is to help the reader understand the detailed composition of the indicators.

For each of the three companies, all the indicators, their formula, and in some cases some important observations explaining how some items were considered are given.

Each number has been broken down to the item level in the companies' reports: in this way, the reader can find the exact same number in the company's report, thus understanding why an indicator has that value.

## Adidas (millions euro)

| | Formula | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| **ROE** | $\frac{Net\,profit}{Equity}$ | $\frac{1977}{7058} = 28\%$ | $\frac{443}{6691} = 6.62\%$ | $\frac{2158}{7837} = 27.54\%$ |
| **Net profit Margin** | $\frac{Net\,profit}{Revenues}$ | $\frac{1977}{23640} = 8.36\%$ | $\frac{443}{18435} = 2.40\%$ | $\frac{2158}{21234} = 10.16\%$ |
| **Payout Ratio** | $\frac{Dividends_t}{Net\,profit_{\,(t-1)}}$ | $\frac{666}{1704} = 39.1\%$ | $\frac{17}{1977} = 0.9\%$ | $\frac{585}{443} = 132\%$ |
| **ROA** | $\frac{EBIT}{Total\ Assets}$ | $\frac{2660}{20680} = 12.86\%$ | $\frac{746}{21053} = 3.54\%$ | $\frac{1986}{22137} = 8.97\%$ |
| **ROI** | $\frac{EBIT}{Invested\ capital}$ | $\frac{2660}{12155} = 21.88\%$ | $\frac{746}{13142} = 5.68\%$ | $\frac{1986}{13736} = 14.46\%$ |
| | Invested capital = Financial Debt + Equity | 12155 =(43+733+235+1595+2399+92) + 7058 | 13142 = (686+563+446+2482+2159+115) + 6691 | 13736 = (29+573+363+114+40+2466+2263+51) + 7836 |
| **EBITDA MARGIN** | $\frac{EBIT+D\&A}{Revenues}$ | $\frac{3822}{23640} = 16.17\%$ | $\frac{1934}{18435} = 10.49\%$ | $\frac{3127}{21234} = 14.73\%$ |
| | | 3822=2660+1162 | 1934=746+1188 | 3127=1986+1141 |

| | | | | |
|---|---|---|---|---|
| **D/E ratio** | $\frac{TPL}{Equity}$ | $\frac{13622}{7058} = 1.93$ | $\frac{14362}{6691} = 2.15$ | $\frac{14299}{7837} = 1.82$ |
| | TPL=tot. Current liab.+ tot. Non-current liab. | 13622= 8754+4868 | 14362= 8827+5535 | 14299= 8965+5334 |
| **ICR** | $\frac{EBIT}{Interest\ Expenses}$ | $\frac{2660}{160} = 16.63$ | $\frac{746}{156} = 4.78$ | $\frac{1986}{109} = 18.22$ |
| **Cost of debt** | $\frac{Interest\ Expenses}{Fin.\ Debt}$ | $\frac{160}{5097} = 3.14\%$ | $\frac{156}{6451} = 2.42\%$ | $\frac{109}{5899} = 1.85\%$ |
| | Fin. Debt= Current fin.liab+ Non current fin.liab | 5097= 43+733+235+1595 +2399+92 | 6451= 686+563+446+ 2482+2159+115 | 5899= 29+573+363+114+ 40+2466+2263+ 51 |
| | **OSS1:** leasing was also included | | | |
| **Effective Tax rate** | $\frac{Taxes}{EBT}$ | $\frac{640}{2558} = 25\%$ | $\frac{117}{578} = 20.24\%$ | $\frac{360}{1852} = 19.44\%$ |
| **Current ratio** | $\frac{Current\ assets}{Current\ liabilities}$ | $\frac{10934}{8754} = 1.25$ | $\frac{12154}{8827} = 1.38$ | $\frac{13944}{8965} = 1.56$ |
| **Quick Ratio** | $\frac{Cash+St.Inv.+Rec.}{Current\ liabilities}$ | $\frac{5681}{8754} = 0.65$ | $\frac{6598}{8827} = 0.75$ | $\frac{6858}{8965} = 0.76$ |
| | | 5681= 2220+292+2625+ 544 | 6598= 3944+1952+702 | 6858= 3828+2175+745+ 82+14+11+3 |
| **ITR** | $\frac{Revenues}{Inventories}$ | $\frac{23640}{4085} = 5.79$ | $\frac{18435}{4397} = 4.19$ | $\frac{21234}{4009} = 5.3$ |
| **DSO(days)** | $\frac{Account\ receivables}{Net\ Sales} \cdot 365$ | $\frac{2625 \cdot 365}{23640} = 40.5$ | $\frac{1952 \cdot 365}{18435} = 38.6$ | $\frac{2175 \cdot 365}{21234} = 37.4$ |
| **DPO(days)** | $\frac{Account\ payables}{Net\ Purchases} \cdot 365$ | $\frac{2703 \cdot 365}{11296} = 87.4$ | $\frac{2390 \cdot 365}{9169} = 95.1$ | $\frac{2294 \cdot 365}{10421} = 80.4$ |
| | **OSS1:** the net purchases were found in the notes of the income statement, cost by nature | | | |
| **Cash flow to debt** | $\frac{CFFO}{Fin.\ Debt}$ | $\frac{2819}{5097} = 0.55$ | $\frac{1486}{6451} = 0.23$ | $\frac{3192}{5899} = 0.54$ |
| | Fin. Debt=Current fin.liab+ Non current fin.liab | 5097= 43+733+235+1595 +2399+92 | 6451= 686+563+446+ 2482+2159+115 | 5899= 29+573+363+114+ 40+2466+2263+ 51 |

| | | | | |
|---|---|---|---|---|
| | **OSS1:** leasing was also included | | | |
| **Capex coverage** | $\frac{CFFO}{CAPEX}$ | $\frac{2819}{708} = 3.98$ | $\frac{1486}{432} = 3.44$ | $\frac{3192}{667} = 4.79$ |
| | CAPEX=purchase of tangible and intangible assets | 708=110+598 | 432=64+368 | 667=173+494 |

## Puma (millions euro)

| | Formula | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| **ROE** | $\frac{Net\ profit}{Equity}$ | $\frac{309}{1920.3} = 16.1\%$ | $\frac{123.1}{1763.9} = 6.98\%$ | $\frac{376.8}{2278.5} = 16.5\%$ |
| **Net Profit Margin** | $\frac{Net\ profit}{Revenues}$ | $\frac{309}{5502.2} = 5.6\%$ | $\frac{123.1}{5234.4} = 2.35\%$ | $\frac{376.8}{6805.4} = 5.5\%$ |
| **Payout ratio** | $\frac{Dividends_t}{Net\ profit_{(t-1)}}$ | $\frac{70.9}{229.8} = 30.8\%$ | $\frac{45.6}{309} = 14.75\%$ | $\frac{71.7}{123.1} = 58.2\%$ |
| **Debt-to-equity ratio** | $\frac{TPL}{Equity}$ | $\frac{2457.9}{1920.3} = 1.28$ | $\frac{2920.2}{1763.9} = 1.65$ | $\frac{3449.8}{2278.5} = 1.51$ |
| | TPL= cur.liab.+non cur.liab | 2457.9= 1558.9+899 | 2920.2= 1872.8+1047.4 | 3449.8= 2164.5+1285.3 |
| **Cost of debt** | $\frac{Interest\ Expenses}{Fin.\ Debt}$ | $\frac{47.7}{979.8} = 4.86\%$ | $\frac{77.9}{1357.9} = 5.7\%$ | $\frac{72.1}{1470.3} = 4.9\%$ |
| | Fin. Debt= Current fin.liab+ Non current fin.liab | 47.7= 13.9+29.7+4.1<br><br>979.8= 10,2+144,8+60,5+ 600,5+163,8 | 77.9= 14.1+29.3+34.5<br><br>1357.9= 121,4+156,5+151,1+ 775,2+153,7 | 72.1= 12.9+31.5+27.7<br><br>1470.3= 68,5+172,3+64,4+ 851+314,1 |
| | **OSS1:** leasing was also included | | | |
| **Effective tax rate** | $\frac{Taxes}{EBT}$ | $\frac{108.6}{417.6} = 26\%$ | $\frac{39.2}{162.3} = 24.15\%$ | $\frac{128.5}{505.3} = 25.43\%$ |
| **Current ratio** | $\frac{Current\ assets}{Current\ liabilities}$ | $\frac{2481.2}{1558.9} = 1.59$ | $\frac{2613}{1872.8} = 1.4$ | $\frac{3489.8}{2164.5} = 1.61$ |

| | | | | |
|---|---|---|---|---|
| **Quick ratio** | $\frac{Cash + St.\ Inv. + Rec.}{Current\ liabilities}$ | $\frac{1206.4}{1558.9} = 0.77$ | $\frac{1329.8}{1872.8} = 0.71$ | $\frac{1758.9}{2164.5} = 0.81$ |
| | | 1206.4= 518,1+611,7+76,6 | 1329.8= 655,9+621+52,9 | 1758.9= 757,5+848+153,4 |
| **Cash flow to debt** | $\frac{CFFO}{Fin.\ Debt}$ | $\frac{548.8}{979.8} = 0.56$ | $\frac{421.5}{1357.9} = 0.31$ | $\frac{460.1}{1470.3} = 0.31$ |
| | Fin. Debt= Current fin.liab+ Non current fin.liab | 979.8= 10,2+144,8+60,5+ 600,5+163,8 | 1357.9= 121,4+156,5+151,1+ 775,2+153,7 | 1470.3= 68,5+172,3+64,4+ 851+314,1 |
| | **OSS1:** leasing was also included | | | |
| **CAPEX coverage** | $\frac{CFFO}{CAPEX}$ | $\frac{548.8}{218.4} = 2.51$ | $\frac{421.5}{151} = 2.79$ | $\frac{460.1}{202.4} = 2.27$ |
| | CAPEX=purchase of tangible and intangible assets | | | |

## Nike Inc. (millions dollars)

| | Formula | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| **ROE** | $\frac{Net\ profit}{Equity}$ | $\frac{4029}{9040} = 44.6\%$ | $\frac{2539}{8055} = 31.5\%$ | $\frac{5727}{12767} = 44.9\%$ |
| **Net Profit Margin** | $\frac{Net\ profit}{Revenues}$ | $\frac{4029}{39117} = 10.3\%$ | $\frac{2539}{37402} = 6.8\%$ | $\frac{5727}{44538} = 12.9\%$ |
| **Payout ratio** | $\frac{Dividends_t}{Net\ profit_{(t-1)}}$ | $\frac{1332}{1933} = 68.9\%$ | $\frac{1452}{4029} = 36\%$ | $\frac{1638}{2539} = 64.5\%$ |
| **Debt-to-equity ratio** | $\frac{TPL}{Equity}$ | $\frac{14677}{9040} = 1.62$ | $\frac{23287}{8055} = 2.89$ | $\frac{24973}{12767} = 1.96$ |
| | TPL= cur.liab.+non cur.liab | 14677= 7866+6811 | 23287= 8284+15003 | 24973= 9674+14299 |
| **Cost of debt** | $\frac{Interest\ Expenses}{Fin.\ Debt}$ | $\frac{131}{3470} = 3.78\%$ | $\frac{151}{12767} = 1.18\%$ | $\frac{296}{12811} = 2.31\%$ |
| | Fin. Debt= Current fin.liab+ | 131= 49+82 | 151= 89+62 | 296= 262+34 |

| | | | | |
|---|---|---|---|---|
| | Non current fin.liab | 3470=<br>6+3464 | 12767=<br>3+445+9406+2913 | 12811=<br>467+9413+2931 |
| | **OSS1:** leasing was also included<br>**OSS2:** Interest expenses were calculated adding the financial income to interest expenses, net (see note 6 on nike 2021 report) | | | |
| **Effective tax rate** | $\frac{Taxes}{EBT}$ | $\frac{772}{4801} = 16.1\%$ | $\frac{348}{2887} = 12.1\%$ | $\frac{934}{6661} = 14\%$ |
| **Current ratio** | $\frac{Current\ assets}{Current\ liabilities}$ | $\frac{16525}{7866} = 2.1$ | $\frac{20556}{8284} = 2.48$ | $\frac{26291}{9674} = 2.72$ |
| **Quick ratio** | $\frac{Cash + St.\ Inv. + Rec.}{Current\ liabilities}$ | $\frac{8935}{7866} = 1.14$ | $\frac{11536}{8284} = 1.39$ | $\frac{17939}{9674} = 1.85$ |
| | | 8935=<br>4466+197+4272 | 11536=<br>8348+439+2749 | 17939=<br>9889+3587+4463 |
| **Cash flow to debt** | $\frac{CFFO}{Fin.\ Debt}$ | $\frac{5903}{3470} = 1.7$ | $\frac{2485}{12767} = 0.19$ | $\frac{6657}{12811} = 0.52$ |
| | Fin. Debt=<br>Current fin.liab+<br>Non current fin.liab | 3470=<br>6+3464 | 12767=<br>3+445+9406+2913 | 12811=<br>467+9413+2931 |
| | **OSS1:** leasing was also included | | | |
| **CAPEX coverage** | $\frac{CFFO}{CAPEX}$ | $\frac{5903}{4056} = 1.46$ | $\frac{2485}{3512} = 0.71$ | $\frac{6657}{10656} = 0.62$ |
| | CAPEX=purchase of tangible and intangible assets | 4056=<br>2937+1119 | 3512=<br>2426+1086 | 10656=<br>9961+695 |