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adidas fast out of the gate in 2021; full-year outlook upgraded

Major developments:

- **Currency-neutral sales up 27%, despite high-single-digit drag from external factors**
- **DTC growth of more than 30%, with e-com up 43% on top of 35% in the prior year quarter**
- **Gross margin up 2.1pp to 51.8% due to healthy inventory position (down 9% y-o-y)**
- **Operating margin improves 12.3pp to 13.4%**
- **Net income from continuing operations reaches € 502 million**
- **Full-year outlook upgraded: sales now expected to grow at a high-teens rate in 2021**

"We are fast out of the gate in the first year of our new strategic cycle, with excellent revenue growth, DTC-led sales increases in all market segments and strong profitability improvements," said adidas CEO Kasper Rorsted. "We upgrade our full-year outlook as we are now even more confident about a strong top-line recovery this year, even though the environment is not yet back to normal. Our strategy 'Own the Game' is off to a great start and 2021 will be an important first step in successfully executing against our 2025 ambition."

Currency-neutral revenues increase 27% with footwear up 31%

In the first quarter, currency-neutral revenues grew 27%. This growth was achieved against the backdrop of prolonged lockdowns in Europe and industry-wide supply-chain challenges, which reduced currency-neutral revenue growth by a high-single-digit rate during the quarter. From a channel perspective, the company's top-line increase was led by exceptional improvements in direct-to-consumer (DTC) revenues, which were up 31% and accounted for more than one-third of total sales. This development is a direct result of strong sell-through trends, as the brand's products resonate well with consumers globally. Within DTC, e-commerce again showed particular strength as sales were driven by an exceptional increase in full-price revenues. E-commerce sales rose 43% on top of 35% growth in the prior year quarter, thereby almost doubling over the two-year period. Globally, revenue growth was strongest in footwear with a 31% increase and driven by double-digit gains in the training, running, outdoor and lifestyle categories. In euro terms, the company's revenues grew 20% in the first quarter to € 5.268 billion (2020: € 4.381 billion).

Following the company's decision to focus its efforts on further strengthening the leading position of the adidas brand and to start a process aimed at divesting Reebok, all income and expenses of the Reebok business are reported as discontinued operations as of the first quarter 2021. For the sake of clarity, all figures related to the 2020 financial year refer to the company's continuing operations unless otherwise stated. However, a restatement of 2020 balance sheet items is not permitted under IFRS.

Growth in all market segments

The top-line expansion in the first quarter was driven by increases in all market segments. Across the company's three strategic markets, currency-neutral sales expanded at a triple-digit rate in Greater China (+156%) and increased in the high-single-digits in both North America (+8%) and EMEA (+8%). Revenues were up 18% in Latin America and increased 4% in Asia-Pacific. Out of the market segments, EMEA was most negatively impacted by prolonged lockdowns which decreased the store opening rate in Europe to below 50% in March. The company's global store opening rate stood at 89% at the end of the first quarter.

Gross margin increases 2.1pp to 51.8% as a result of healthy inventory position

The company's gross margin increased 2.1 percentage points to 51.8% (2020: 49.7%). This expansion was mainly driven by lower sourcing costs, as costs related to last year's cancellations of purchase orders with suppliers did not reoccur. In addition, a better channel and market mix supported the gross margin improvement. The favorable mix impact mainly reflects the exceptional growth in both global e-commerce and Greater China. This positive development was partially offset by significantly unfavorable currency developments and – to a lesser extent – a less favorable pricing mix. While promotional activity continued to improve materially versus previous quarters, it was still up year-on-year, as the prior year quarter had not been impacted by pandemic-related discounting at a greater extent.

Operating margin improves 12.3pp to 13.4%

Other operating expenses were down 5% to € 2.047 billion (2020: € 2.147 billion). As a percentage of sales, other operating expenses decreased 10.1 percentage points to 38.9% (2020: 49.0%). Marketing and point-of-sale expenses decreased 17% to € 541 million (2020: € 648 million), as physical marketing activities remain restrained in many parts of the world. At the same time, the company significantly increased its digital marketing investments to support its DTC storytelling and e-commerce business. As a percentage of sales, marketing and point-of-sale expenses were down 4.5 percentage points to 10.3% (2020: 14.8%). Operating overhead expenses were up 1% to € 1.506 billion (2020: € 1.498 billion), mainly due to increased logistics costs amid exceptional e-commerce growth. In addition, adidas incurred temporary stranded costs related to the intended divestiture of Reebok in the amount of around € 60 million. As a percentage of sales, operating overhead expenses decreased 5.6 percentage points to 28.6% (2020: 34.2%). The company's operating profit grew to a level of € 704 million (2020: € 48 million). With an increase of 12.3 percentage points to 13.4% (2020: 1.1%) the operating margin almost fully recovered to the pre-pandemic level.

Net income from continuing operations reaches € 502 million
The company's net income from continuing operations increased to € 502 million (2020: € 26 million), while basic EPS from continuing operations reached € 2.60 (2020: € 0.16).

Inventories and operating working capital decrease
Inventories decreased 9% year-on-year to € 3.938 billion (2020: € 4.334 billion). While this development was supported by the deconsolidation of Reebok, inventories were still down year-on-year on a like-for-like basis. In currency-neutral terms, inventories declined 8% compared to the prior year. Operating working capital decreased 7% to € 4.297 billion (2020: € 4.635 billion). On a currency-neutral basis, operating working capital was down 6%. Average operating working capital as a percentage of sales increased to 23.7% (2020: 21.0%), reflecting a double-digit decrease in payables amid a normalization of the company's payment terms with its vendors.

Adjusted net borrowings of € 3.290 billion
Adjusted net borrowings at March 31, 2021 amounted to € 3.290 billion (March 31, 2020: adjusted net borrowings of € 4.816 billion), representing a year-over-year improvement of € 1.527 billion. This development was mainly driven by the strong increase in cash generated from operating activities, partly offset by the utilization of cash for the purchase of fixed assets as well as repayments of lease liabilities.

adidas upgrades outlook for full year 2021
Despite adverse impacts from the prolonged lockdowns in Europe, industry-wide supply chain challenges and the geo-political situation adidas has upgraded its outlook for the company's top-line development in 2021. Given the healthy brand momentum and stronger-than-expected demand for the brand's products, the company now expects currency-neutral sales to increase at a high-teens rate in 2021. In Q2 specifically, adidas forecasts a significant top-line acceleration, with currency-neutral sales expected to increase by around 50%. This acceleration will be fuelled by an array of innovative product releases, including the first-ever circular Ultraboost that is made-to-be-remade, the arrival of Futurecraft 4D in performance running with the 4D FWD and the further scaling of newly introduced as well as established lifestyle franchises such as Forum and ZX. In addition, major sport events, including the UEFA Euro and the Copa America, will provide a unique stage to tell brand and product stories in front of a global audience.

The company's full-year gross margin forecast continues to be for a level of around 52.0% (2020: 50.0%), while the operating margin is still expected to increase to a level of between 9% and 10% (2020: 4.0%). Net income from continuing operations is projected to increase to a level of between € 1.25 billion and € 1.45 billion (2020: € 461 million). The company's profitability outlook continues to include temporary stranded costs related to the intended divestiture of Reebok. In 2021, these costs are expected to amount to around € 250 million on the operating profit level and to impact net income from continuing operations by approximately € 200 million. The medium-term growth outlook is not impacted by these costs as adidas anticipates that only around 30% of the € 250 million will reoccur in 2022 and that by 2023 the stranded costs will be fully eliminated.

Kasper Rorsted: "Although external uncertainties remain elevated, 2021 will be a successful year for adidas. Our inventories are clean and our pipeline is well-filled with innovative products, which are resonating well globally. The return of major sport events gives us the opportunity to showcase our brand in front of billions of consumers and we look forward to welcoming them back at our stores in all parts of the world. As a result, our revenues will grow even faster than expected this year, driven by strong sales increases in all markets. Overall, we are very confident about achieving our top- and bottom-line ambitions in 2021 and beyond."

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adidas AG Condensed Consolidated Income Statement (IFRS)[1]

€ in millions	Quarter ending March 31, 2021	Quarter ending March 31, 2020	Change
Net sales	5,268	4,381	*20.2%*
Cost of sales	2,538	2,203	*15.2%*
Gross profit	**2,730**	**2,178**	***25.4%***
(% of net sales)	51.8%	49.7%	*2.1pp*
Royalty and commission income	14	15	*(8.5%)*
Other operating income	7	2	*271.5%*
Other operating expenses	2,047	2,147	*(4.6%)*
(% of net sales)	38.9%	49.0%	*(10.1pp)*
Marketing and point-of-sale expenses	541	648	*(16.5%)*
(% of net sales)	10.3%	14.8%	*(4.5pp)*
Operating overhead expenses[2]	1,506	1,498	*0.5%*
(% of net sales)	28.6%	34.2%	*(5.6pp)*
Operating profit	**704**	**48**	***1,362.6%***
(% of net sales)	13.4%	1.1%	*12.3pp*
Financial income	3	7	*(63.8%)*
Financial expenses	38	42	*(10.1%)*
Income before taxes	**669**	**13**	***5,179.8%***
(% of net sales)	12.7%	0.3%	*12.4pp*
Income taxes	166	(13)	*n.a.*
(% of income before taxes)	24.9%	(104.4%)	*n.a.*
Net income from continuing operations	**502**	**26**	***1,839.9%***
(% of net sales)	9.5%	0.6%	*8.9pp*
Gain/loss from discontinued operations, net of tax	52	(0)	*n.a.*
Net income	**554**	**26**	***2,050.4%***
(% of net sales)	10.5%	0.6%	*9.9pp*
Net income attributable to shareholders	**558**	**31**	***1,719.7%***
(% of net sales)	10.6%	0.7%	*9.9pp*
Net loss attributable to non-controlling interests	**(4)**	**(5)**	***18.0%***
Basic earnings per share from continuing operations (in €)	**2.60**	**0.16**	***1,547.6%***
Diluted earnings per share from continuing operations (in €)	**2.60**	**0.16**	***1,547.6%***
Basic earnings per share from continuing and discontinued operations (in €)	**2.86**	**0.16**	***1,723.8%***
Diluted earnings per share from continuing and discontinued operations (in €)	**2.86**	**0.16**	***1,723.8%***

[1] Figures reflect continuing operations as a result of the planned divestiture of the Reebok business.
[2] Aggregated distribution and selling expenses, general and administration expenses, sundry expenses and impairment losses (net) on accounts receivable and contract assets.
Rounding differences may arise.

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Net Sales[1]

€ in millions	Quarter ending March 31, 2021	Quarter ending March 31, 2020	Change	Change (currency-neutral)
EMEA	1,770	1,705	*3.8%*	*7.6%*
North America	1,157	1,166	*(0.8%)*	*8.1%*
Greater China	1,402	559	*151.1%*	*155.9%*
Asia-Pacific	603	602	*0.1%*	*3.9%*
Latin America	297	303	*(2.1%)*	*18.0%*
Other Businesses	39	47	*(16.7%)*	*(16.1%)*

[1] Figures reflect continuing operations as a result of the planned divestiture of the Reebok business.
Rounding differences may arise.

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adidas AG Consolidated Statement of Financial Position (IFRS)

€ in millions	March 31, 2021	March 31, 2020	Change in %
Cash and cash equivalents	3,923	1,975	*98.6*
Short-term financial assets	0	10	*(98.3)*
Accounts receivable	2,418	2,794	*(13.5)*
Other current financial assets	742	698	*6.3*
Inventories	3,938	4,334	*(9.1)*
Income tax receivables	79	108	*(26.5)*
Other current assets	1,067	1,250	*(14.7)*
Assets classified as held for sale	1,679	–	*n.a.*
Total current assets	**13,846**	**11,169**	***24.0***
Property, plant and equipment	2,100	2,350	*(10.6)*
Right-of-use assets	2,376	2,759	*(13.9)*
Goodwill	1,206	1,271	*(5.1)*
Trademarks	16	880	*(98.1)*
Other intangible assets	247	295	*(16.3)*
Long-term financial assets	279	352	*(20.7)*
Other non-current financial assets	346	388	*(10.6)*
Deferred tax assets	1,179	1,139	*3.4*
Other non-current assets	101	178	*(42.9)*
Total non-current assets	**7,851**	**9,613**	***(18.3)***
Total assets	**21,697**	**20,782**	***4.4***
Short-term borrowings	704	964	*(27.0)*
Accounts payable	2,059	2,494	*(17.4)*
Current lease liabilities	556	550	*1.2*
Other current financial liabilities	360	176	*104.3*
Income taxes	654	624	*4.8*
Other current provisions	1,475	1,689	*(12.6)*
Current accrued liabilities	2,135	2,109	*1.2*
Other current liabilities	415	489	*(15.2)*
Liabilities classified as held for sale	655	–	*n.a.*
Total current liabilities	**9,014**	**9,094**	***(0.9)***
Long-term borrowings	2,476	1,592	*55.6*
Non-current lease liabilities	2,076	2,412	*(13.9)*
Other non-current financial liabilities	78	47	*66.5*
Pensions and similar obligations	236	209	*12.7*
Deferred tax liabilities	154	304	*(49.3)*
Other non-current provisions	112	178	*(37.1)*
Non-current accrued liabilities	6	9	*(35.1)*
Other non-current liabilities	19	7	*154.7*
Total non-current liabilities	**5,158**	**4,758**	***8.4***
Share capital	195	195	*0.0*
Reserves	(207)	136	*n.a.*
Retained earnings	7,293	6,331	*15.2*
Shareholders' equity	**7,281**	**6,661**	***9.3***
Non-controlling interests	244	268	*(8.7)*
Total equity	**7,525**	**6,929**	***8.6***
Total liabilities and equity	**21,697**	**20,782**	***4.4***

Additional balance sheet information			
Operating working capital	4,297	4,635	*(7.3)*
Working capital	4,831	2,074	*132.9*
Adjusted net borrowings[1]	3,290	4,816	*(31.7)*
Financial leverage[2]	45.2%	72.3%	*(27.1pp)*

[1] Adjusted net borrowings = short-term borrowings + long-term borrowings and future cash used in lease and pension liabilities – cash and cash equivalents and short-term financial assets.
[2] Based on shareholders' equity.
Rounding differences may arise.