ADIDAS AG FINANCIAL REPORT

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Declaration of authorship

I hereby declare that the corporate report entitled "CORPORATE REPORT ABOUT Adidas AG has been carried out at Politecnico di Milano under the supervision of Prof. Marika Arena and Eng. Giulia Piantoni. The work is original and it has not been submitted in part or full for any degree or for any other purpose at any other university. I further declare that the material obtained from other sources has been duly acknowledged in the report.

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1. COMPANY OVERVIEW

Adidas is a German corporation that designs and manufactures shoes, sports- and active wear and accessories. The company is the largest in its field in Europe and the second biggest in the whole world, after Nike. It was founded in 1949 by the Dassler family and today has an estimated brand value of 14.3 billion U.S. dollar. From 2015 – 2020, Adidas had the strategy "Creating the new", focused on increasing the desirability of the brand. This helped them grow significantly in strategic areas and tripled their market share. In 2021 they launched a new strategy, "Own the Game", with focus on strengthening the credibility of the brand, especially in innovation, digitalization, and sustainability. Our analysis will mainly focus on how Adidas deployed this strategy and its major effects.

2. THE INDUSTRY

The sportswear industry is one of the fastest-growing sectors. The actual market size value is $ 380 billion, growing at a CAGR of 3.7% and is expected to achieve $ 439 billion by 2026. The market is driven by Nike, the global leader with 15% of market share, followed by Adidas at 8% and Puma at 2%. Alongside the growth of Anta from China and ASICS from Japan, the competitive arena is going to be more intense in the coming years. Despite the difficulties, the industry has managed to return to pre-Covid19 levels of growth. Nowadays, the health awareness has increased and people have a new perspective on sports and general fitness. To analyse the environment Adidas operates in and where is its standing, we conducted an External and Internal analysis using SWOT, Value Chain and Porter's Five Forces analyses.

2.1. EXTERNAL ANALYSIS

2.1.1. Porter's Five Forces Analysis

In the Porter's Five Forces Analysis we evaluated the impact that the five factors have on Adidas, using the scale High – Medium – Low. From *figure 1*, we can see that Adidas operates in a very competitive market, where there are many competitors with smaller size and smaller margin. The customers have a medium power because they don't have high knowledge about the characteristics of the products and they have very low-price sensitivity, with willingness to pay what is even higher than the mentioned price. This analysis shows the importance of gaining a strong competitive advantage to remain competitive in the sports wear market by applying a winning strategy, as adidas attempts to do.

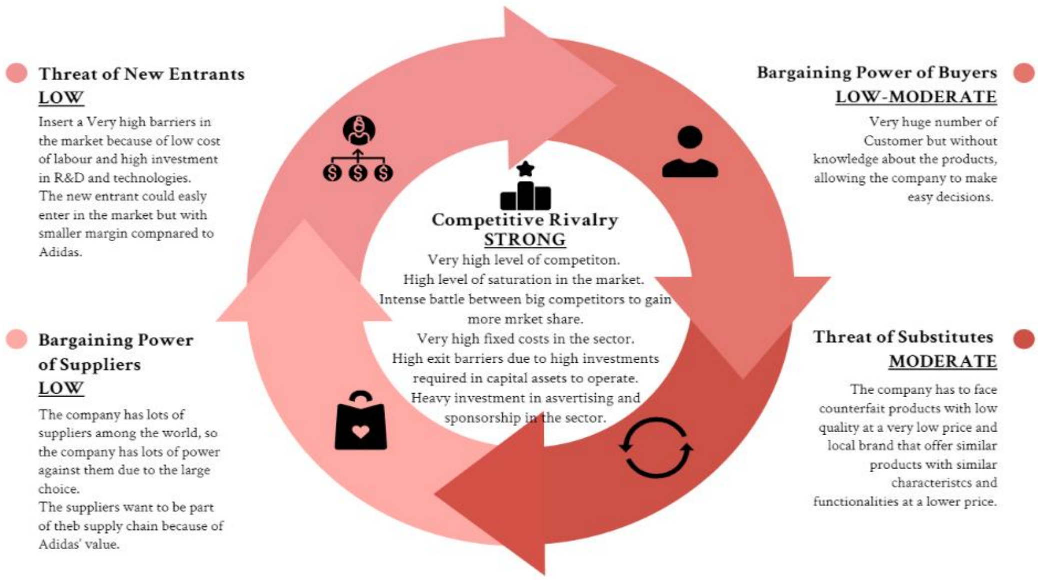

Figure 1: Porter's Five Forces analysis of Adidas

2.2. INTERNAL ANALYSIS

2.2.1. Value Chain Analysis

In this analysis, we analyzed the Primary and the Secondary activities. Adidas follows a mix of divisional and functional organizational structure to supports its activities. Regarding the primary activities, inbound and outbound logistics are strong in the company, ensuring that Adidas can operate in line within the current environment. The main operations performed, sales and marketing and related services are strong and allowing the company to be one of the most important players in the sector.

There is a particular attention to the monitor of the quality of the services, staff training and customer satisfaction. A crucial aspect is product innovation and R&D activities, paying attention to the satisfaction of the customers' needs. In conclusion, this analysis shows derive that although the value chain structure leads to some weaknesses (see SWOT analysis 2.3), it also has a strong potential. This potential can be exploited to a switch to a different model (such as DTC), although the shifts can be substantial.

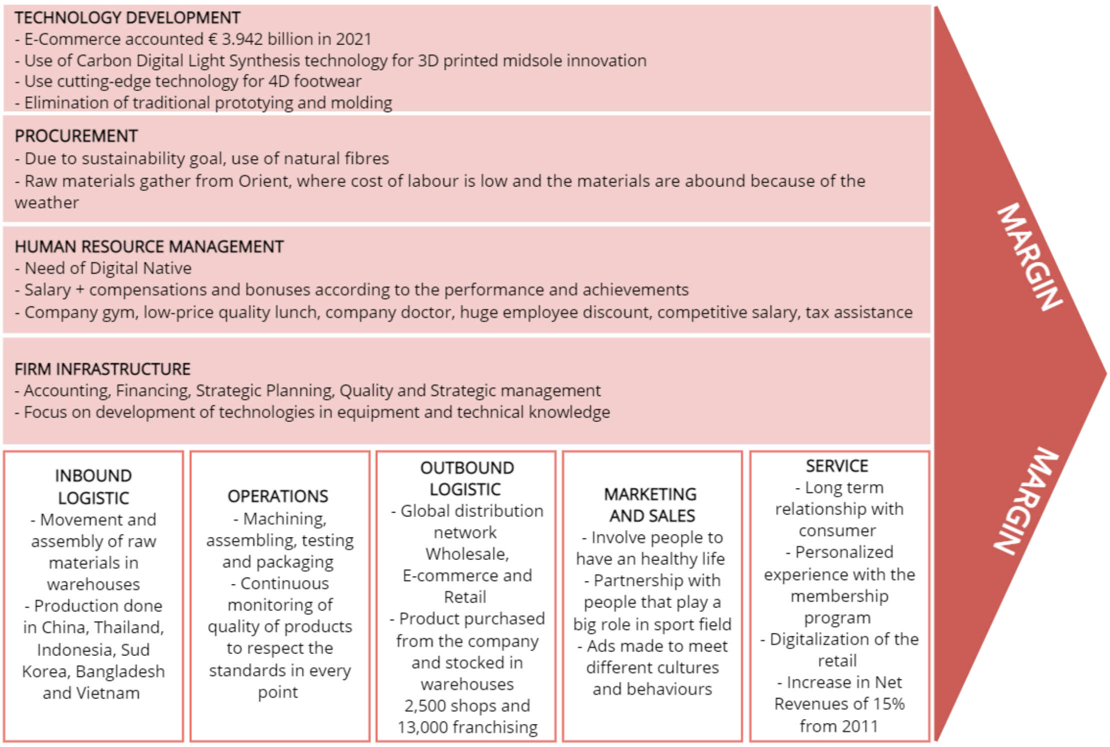

Figure 2: Value Chain analysis of Adidas

2.3. SWOT Analysis

The SWOT analysis not only investigates Adidas' strengths and weaknesses, but also the opportunities of the company in the external environment and the threats to be negated.

Figure 3: SWOT Analysis of Adidas

3. COMPETITOR CHOICE

Anta Sports Products Limited is a Chinese sports equipment multinational corporation, founded in 1991. It is the world's largest purely sports equipment company by revenue, and one of the largest manufacturers of sporting goods in the world. Anta has a multi-brand portfolio that has been strengthened by different strategic decisions: in the past the acquisition of Fila business (with the creation of a joint venture) and more recently the formation of the investor consortium to acquire Amer's sport (March 2019 also with a joint venture). This recent acquisition is a quick way to expand in the European market.

Figure 4: Anta's logo

I. Strategy

We can draw similarities between the companies' strategies. For example, both Anta and Adidas' 2021 budgets were influenced by sporting events. The 2020 UEFA soccer tournament and the 2020 Tokyo Olympics for Adidas, and Tokyo 2020 Olympics and Beijing 2022 Olympics for Anta. Also, digitalization and direct-to-consumer market are two important key elements of both Anta's "Lead to win" and Adidas's "Own the game" strategies, where both companies expect the DTC model to contribute 70-80% of net sales in 5 years.

Another important similarity between the two companies is the determination to expand into other markets as it is mentioned in both shareholder's letters. In particular, the main target for Adidas expansion is the Chinese market, where barriers to entry and confrontation with Anta are the biggest problem for expansion.

II. Magnitude

Anta has the third largest market share in China, just behind Nike and Adidas, which makes it the biggest Chinese company in that market. Recently, Anta is closing the gap with top players, according to research firm Euromonitor. While Adidas' value rose by 39%, Anta's value recorded a huge leap of 157%. This rate of growth suggests that Anta could soon overtake Adidas as the world's second most valuable sports company behind Nike.

III. Accounting standards

Both Adidas and Anta adopt IFRS as standard for accounting, making comparison simpler and more effective. Nonetheless Anta's dimension is significantly smaller compared to Adidas: comparing numbers for 2021, Anta had a revenue of 6.5 B€ and Adidas had 21.2 B€. Although this has brought some limitations to the analysis, but we chose to compare Anta to Adidas for the reasons mentioned above.

4. SEGMENTAL ANALYSIS

Business model

Huge brands such as Nike, Adidas, Levi and Under Armor are proceeding to ditch the wholesale model in favor of selling directly to the consumer. The shift towards a DTC model has been more recently adopted by sportswear brands because of the advantages of more data, better product showcasing and higher revenue, though it is somewhat offset by additional costs. Particularly, Adidas added 75 million new members to its digital ecosystem in 2021, for a total of 240 million member. Its e-commerce business grew by 60% over the past two years. Also, DTC accounted for 38% of net sales with owned retail accounted for half of this. Even more, Anta is more aggressive in the shift to DTC in 2021, where its net sales increased by 484% making 38% of revenue instead of 9%. Also, Anta ecommerce business improved by 61% "34% of revenue". On the contrary, the traditional wholesale revenue plummeted by 21% and made up only 30% of total contribution instead of 58%.

Regional Analysis

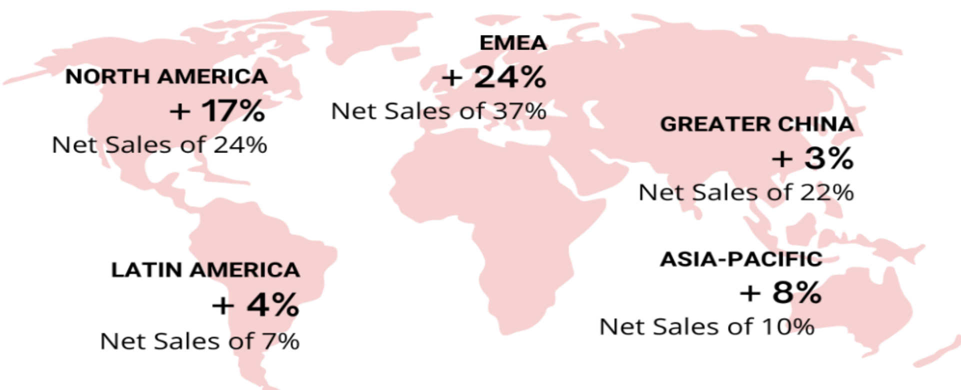

Figure 5: Regional Analysis of Adidas

Products Type Analysis

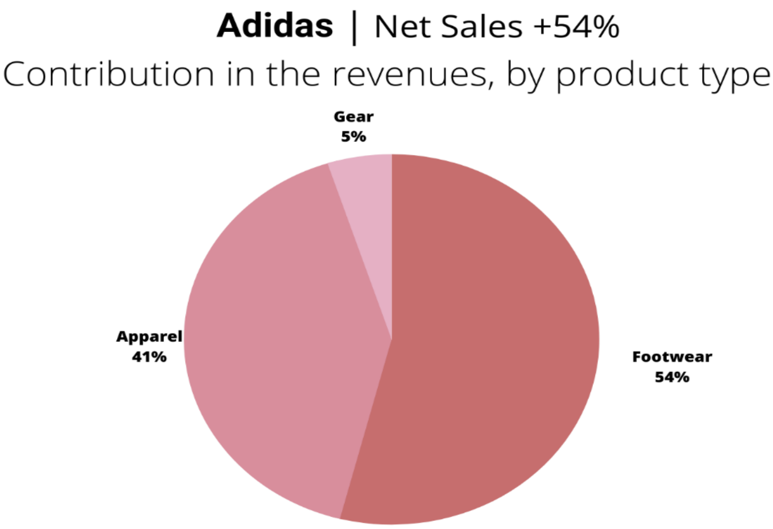

Figure 6: Products Type Analysis of Adidas

5. FINANCIAL ANALYSIS

In this section, we will evaluate the financial performance of Adidas compared with Anta's. We considered a time span of three years (2019-2021) to have an overview on the pre-Pandemic performances, during the Covid period, and changes after that period.
Our focus was on the indicators that showed us how the companies tried to achieve the goals explained in their strategy. Focusing on the expansion policy and the DTC and Digitalization of the channel.

5.1. PROFITABILITY ANALYSIS

In this part, we chose the indicators that demonstrate Adidas' ability to generate profit by combining considerations from different perspectives and exploiting common drivers.

5.1.1. Shareholders' Perspective

<u>PAYOUT RATIO and SUSTAINABLE GROW RATE</u>

In 2020, due to COVID19 crisis, Adidas focused on taking measures for the financial flexibility. They had a loan facility of 3 billion euros and decided to suspend the payment of dividends until the end of the facility which was fully replaced in November 2020. Then, they paid a dividend of 3€ per share which was lower dividend payout than 2019.
In 2021, Adidas accounted a high Payout Ratio of 142.7% because of a very low profit in 2020 by paying 3.30 € per share. Although this could be unsustainable as the growth rate was very low at -11.7%, it also showed the company determination on repaying the shareholders and its confidence on making a recovery in profits.

In comparison, Anta had a trend composed by lower Payout and is explained by the fact that the company has a high growth rate making it more sustainable. That is because the undistributed portion of earnings is used to fund new investments that would otherwise require new capital contributions as liabilities (thus increasing the degree of leverage).

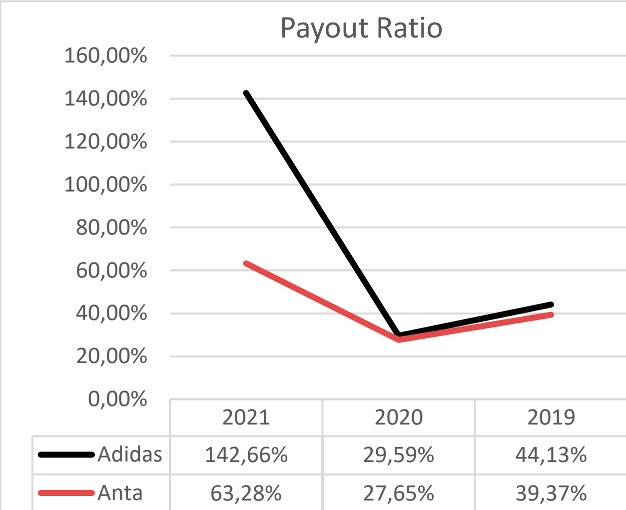

Figure 8: graphical trend of Payout Ratio for Adidas and Anta

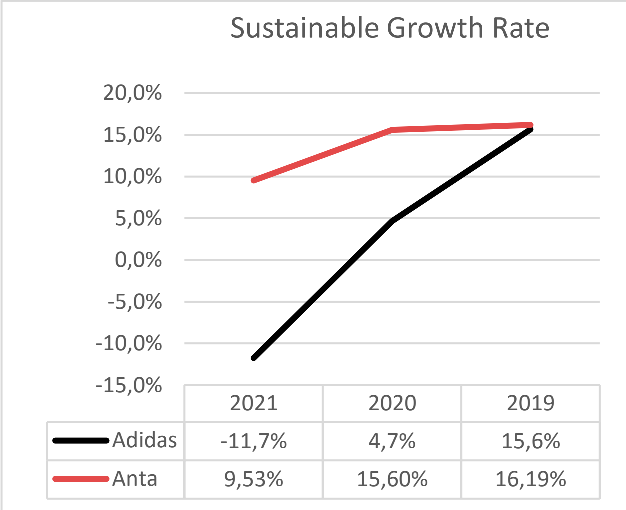

Figure 7: graphical trend of Sustainable Growth Rate for Adidas and Anta

5.1.2. Overall Company Perspective

ASSETS TURNOVER RATIO and RETURN ON ASSETS

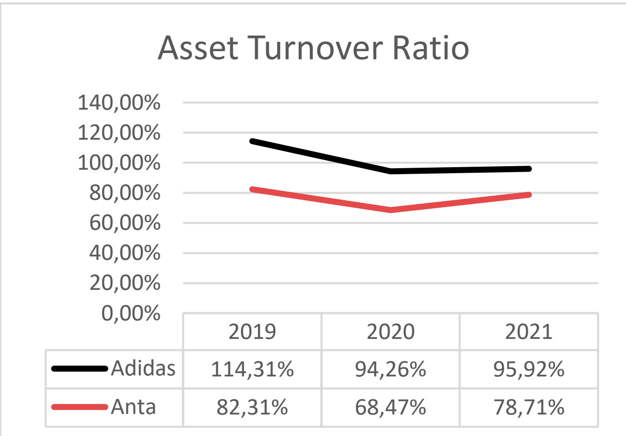

Figure 10: graphical trend of Assets Turnover Ratio for Adidas and Anta

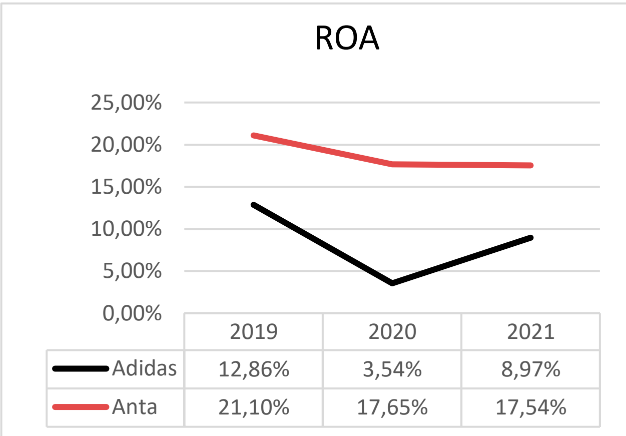

Figure 9: graphical trend of ROA for Adidas and Anta

Adidas has had a downward spiral regarding their **ATR** from 2019 to 2021. This was result of a combination of increasing their total assets and decreasing their net sales at the same time. (The drivers of this trend will be explained in details in section 5.1.4)
It should be noted that although Adidas had the higher ATR because of its high revenues, Anta had the better ROA. This indicated that Anta is better at managing costs as we can see from the vertical analysis of the income statement. However, both Adidas and Anta have performed better than the average of 6,1% ROA in the retail business.

5.1.3. Stakeholders' perspective

LEVERAGE AND SOLVENCY

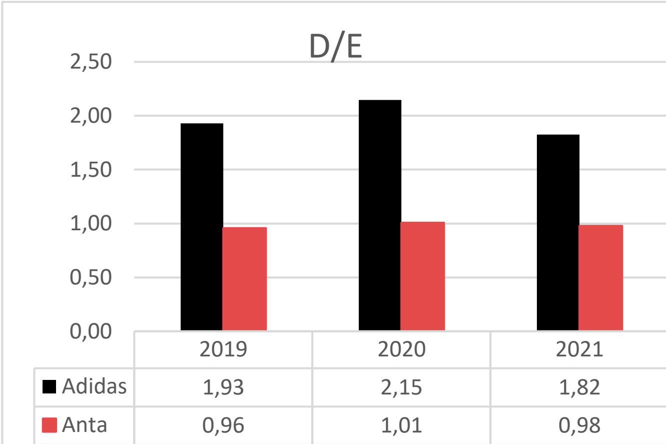

Figure 11: graphical trend of Financial Leverage for Adidas and Anta

To assess the company solvency and financial health, an evaluation of several leverage ratios is done. In 2021, Adidas debt to equity ratio of 1.82, is high when compared to retail industry's average of 1.48, which means that Adidas is using debt to finance its operations. In fact, the debt amounted to 42.3% of Adidas invested capital. Although this might seem risky, Adidas has a high interest coverage ratio of 18.22 compared to the average 7.72 and very low cost of debt because of low Risk Free and high credit ratings, which means that it has capability to pay interests at low effective rates. In 2020 Adidas incurred more debt, mainly due to three rated Eurobonds of €500 million. This resulted in a high debt to equity ratio of 2.14, alongside a sharp fall in operating income, the interest coverage became as low as 4.78. The following year, in 2021, Adidas was able to reduce the cost of debt by 21.5%. This is especially due to the reduction in short-term borrowings, on the contrary, the long-term borrowings have not significantly decreased. This is shown by the vertical analysis (see the annex) of the balance sheet, where the long-term borrowings represent 11.14% of the Total Liabilities and Equity in 2021.The short-term borrowings represent 0.13% of Total Liabilities and Equity to comparison. Adidas also manage to recover by the growth of income and the increase in equity i.e., more retained earnings and noncontrolling interests.

Meanwhile, Anta maintained a very safe debt to equity ratio over the past three years 0.979 in 2021. However, the fact of having a very high interest coverage of 26.88 suggests that Anta is not using debt financing and taxes advantages enough, since debt made up only 36.65% of invested capital. This could be related to the high cost of debt because of China's high Risk Free and bad credit ratings compared to Adidas' (S&P A+ and Moody A2). In 2020, like Adidas, Anta issued bonds (Note 17 of the Financial Statement) which resulted in more debt and continued to increase its lease liabilities in the following year for greater flexibility and resilience. Instead, the lease liabilities for Adidas remined basically the same over the year. Despite the increase in Interest expenses and debt, Anta maintained a stable cost of debt over the three years when compared to Adidas (between 2.4-2.5).

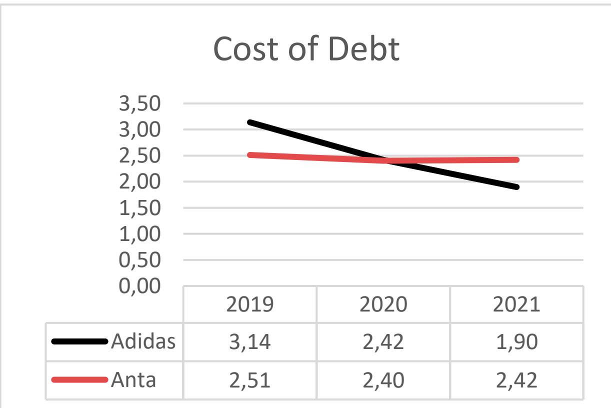

Figure 13: graphical trend of Cost of Debt for Adidas and Anta

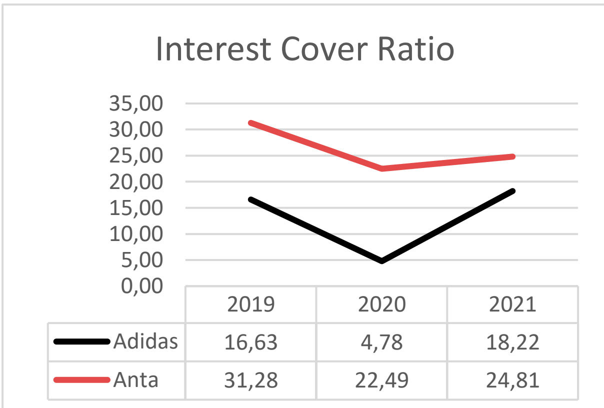

Figure 12: graphical trend of Interest Cover Ratio for Adidas and Anta

It is also important to underline the increase in reserves and noncontrolling interests, when analysing the equity side of Anta, which lead to a stable debt to equity ratio.

5.1.4. ROE Leverage

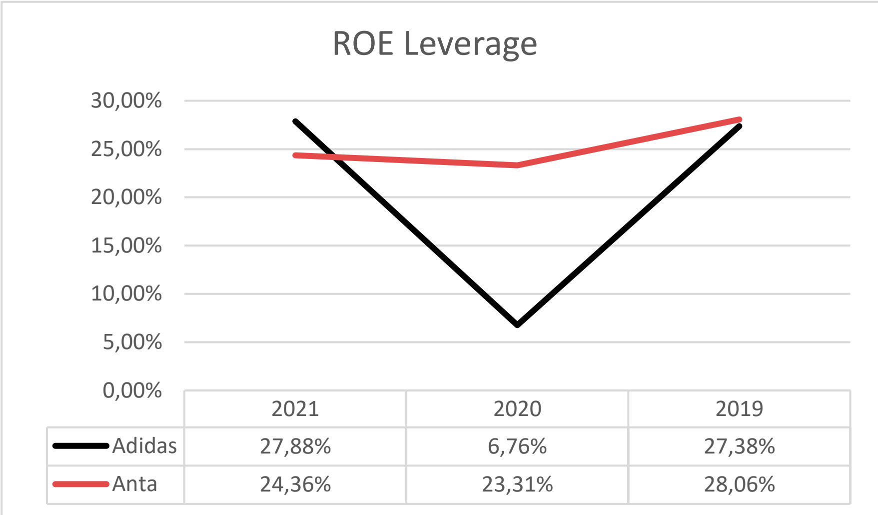

Figure 14: graphical trend of ROE Leverage for Adidas and Anta

By analysing the ROE with the Financial Leverage, we can understand the management choice in Assets and Liabilities and how these choices have impacted the shareholders through the effect of the leverage on the value of ROE.
The ROE leverage for Adidas had an important drop in 2020, before recovering in 2021 to pre-pandemic level. We can explain this trend better by analysing the components were used to calculate the ROE leverage (The formula with ROA was used).

$$ROE = [ROA + D/E * (ROA - r)] * s$$

Starting with ROA, we can observe a decrease between 2019 and 2020 due to a decrease in EBIT from 2660 to 746 and an increment in Total Assets. The increase in Assets is mostly because of the increase in cash and cash equivalents due to the issuing of bonds and the write-up of the Reebok trademark. Although in 2021, we can see an increase in total assets attributable to right-of-use assets from leasing agreements, also Adidas managed to increase their EBIT due to more normal situation in the society, which increased its ROA.
Comparatively, Anta's ability to generate returns from its assets was more efficient. From 2019 to 2021 Anta has kept its ROA at a decent level, with just a slight decrease in 2020. in 2021, we can see that for every 10 euros Anta has invested in their assets, they have produced 1,75 euros of profit. Adidas, on the other hand, have only managed to produce 0,89 euros from the same amount of investment in assets.
The value of "s" was the same in 2019 and 2020, but increased by 52% in 2021 due to the write-up of the previously impaired Reebok resulting in a gain in the discontinued operations.
in 2020, the fact that "ROA > r" means that the company was performing well. Also, D/E had a positive effect on the final ROE, but the decrease in ROA that affected ROE negatively. However, ROE increased in 2021 mainly thanks to the increment in "s".
Benchmarking with Anta, similarly there was a drop in 2020 but because of a higher r, meaning that it had higher interest expenses than 2019, as we explained before.

In conclusion, we have some factors that influenced those results. For Adidas, many physical stores were closed that the high increase in e-commerce channel was not enough to recover the loss. In 2021 there were events like UEFA EURO 2020 and Tokyo 2020 Olympics that allowed to have higher Net Sales and a higher EBIT which consequently affected the ROA. Despite the important drop, the ROE has always been positive, meaning that Adidas was able to generate profit in a difficult situation.
Meanwhile, Anta had very high revenues over the three years and the loss in 2020 was lower than Adidas, which could be explained by the preference of the Chinese market to buy from national brand than foreign, especially during the Pandemic year. In fact, in 2020 the Chinese market constituted 16% of all sportswear sales worldwide.

5.2. LIQUIDITY ANALYSIS

An analysis was done to assess the company cash management, hence several aspects such as cash generation ability, liquidity tests, and investing activities were scrutinized.

<u>CURRENT RATIO and QUICK RATIO</u>

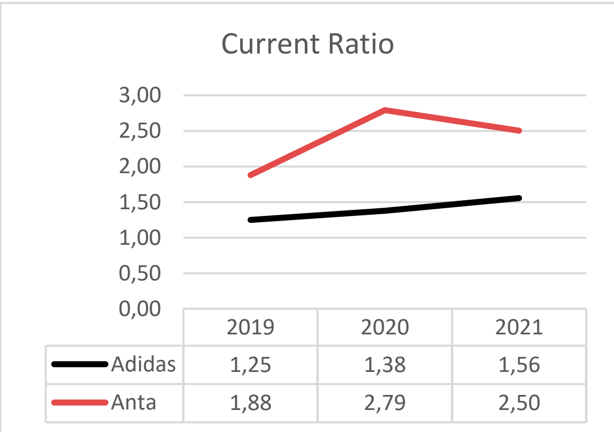

Figure 16: graphical trend of Current Ratio for Adidas and Anta

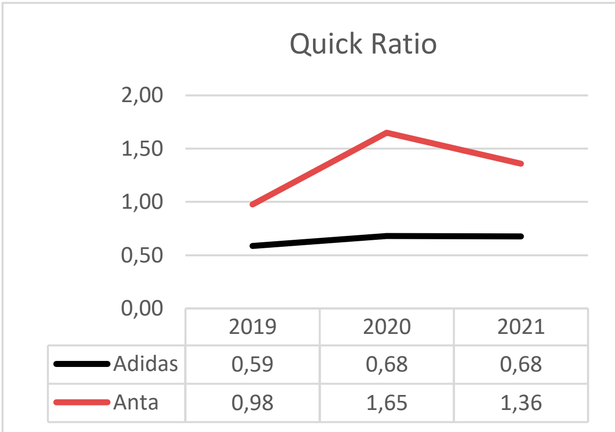

Figure 15: graphical trend of Quick Ratio for Adidas and Anta

The current ratio and quick ratios are regarded as a company's liquidity test, which measures of a company's ability to pay short-term debt. We notice that Adidas has had a current ratio between 1 and 1.6 for three consecutive years, although this indicates that the company has the financial resources to remain solvent in the short term, this value is much lower than that of its competitor Anta, whose current ratio reached a high value of 2.79 in 2020 and has maintained a relatively high current ratio for three years, which means that Anta has more working capital to pay off short-term debts. This also shows that the amount of assets that can be realized is large and risks are less for creditors. Nevertheless, the current ratio of Anta approaching 3 also reflects a certain degree of inefficient use of capital.
More conservatively and intuitively, Adidas may not be able to pay off its current obligations using only quick assets as its quick ratio is below 1, at 0.67. By contrast, it is worth noting that high quick ratio of Anta mainly comes from high value of cash and equivalents, signaling that Anta can be more liquid and generate cash quickly in case of emergency.

INVENTORY TURNOVER RATIO

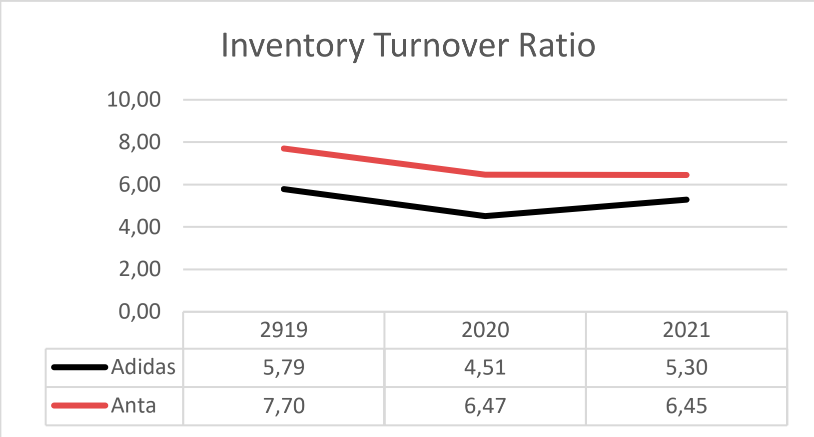

Figure 17: graphical trend of Inventory Turnover Ratio for Adidas and Anta

Analyzing inventory levels, which accounts for a significant portion of current assets, it is clear that the pressure on inventory turnover is becoming a worry for the entire industry Under the impact of COVID-19. Weak sales put Adidas in a crisis of excess inventory, with the lowest inventory turnover ratio of 4.51 in 2020. To clear the pressure of inventory, Adidas has been stepping up its promotional activities to sell goods at low discounts, which may constitute a major reason for the sharp decline in net profit. As of December 31, 2020, its inventory amounted to €4,397 million, up 7.6%. The inventory turnover ratio got a small recovery to 5.30 in 2021 but was still below the retail industry's level of 6.0. The reason is that the unstable supply chain and global logistics has led to longer delivery times, as well as sluggish consumption in the Chinese market. Many Adidas products are manufactured in Asia and then transported to all parts of the world, which is slow and makes the supply chain unable to keep up with market changes.

This ratio for Anta was likewise affected by the pandemic and fell sharply, especially as inventories continued to rise to 7,644 million RMB, up 39.34% year-on-year. According to the financial report, finished good made most of the inventories, which means inventories pressure shifted from distribution to Anta itself due to DTC model. Also, increasing FILA and other brands' retail business scale led to the expansion of overall retail operations. Even though, in 2021 its inventory turnover ratio of 6.46 was still higher than the industry level, the continuing downward trend attention.

CAPEX COVERAGE

A look at capital expenditures, we chose the Capital Expenditure Coverage ratio to understand how much money the company invested in the assets. Adidas had a decrease of 15% in 2020, which was because of a decrease in investing activities and a lower investment base, where a cut in expenditure for Property, Plant and Equipment and in other intangible assets. There is a little increase in IT systems mainly to face the changes due for the Pandemic situation.

In 2021 the performance was better; we can observe a 42% increase in Capex coverage. The company invested €173 million in intangible assets and €494 million for property, plant, and equipment. The 44% of capital expenditure was represented by Controlled Space initiatives that include investments in new own-retail stores and franchise stores and for presentations in shop-in-shop of the products in the customers' stores.

On the other hand, Anta had an increase of 27% in Capex coverage in 2020, where the CFFO remained stable, but capital expenditure was cut by 22% as the company did not have the need to invest in tangible or intangible assets.

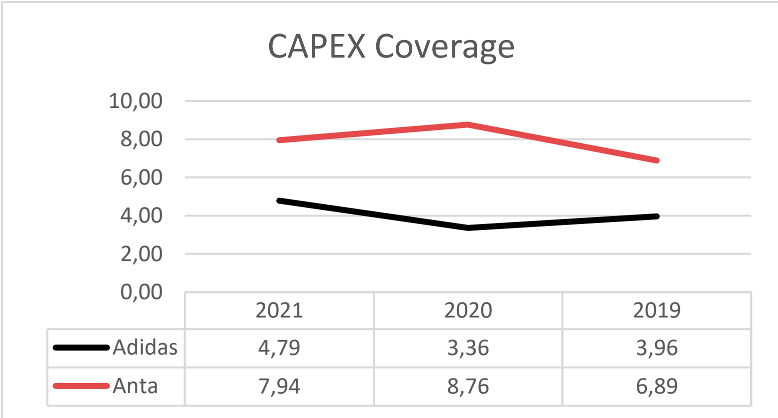

Figure 18: graphical trend of CAPEX Coverage for Adidas and Anta

As shown in figure, Anta has higher Capex Coverage, meaning that it spends less part of CFFO for capital expenditure. Contrarily, Adidas is focused on growing and is investing more CFFO on Capital Expenditure.

<u>CASH GENERATING ABILITY</u>

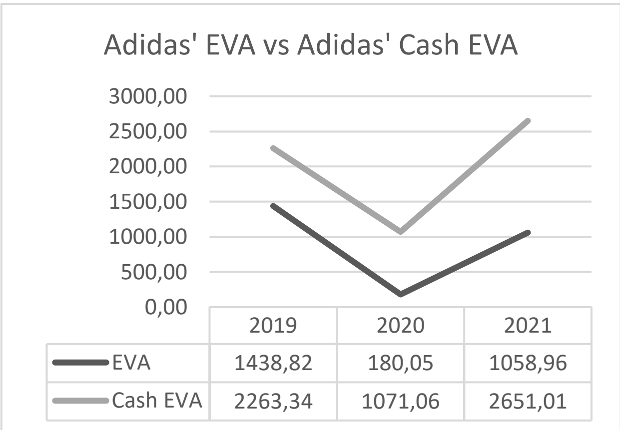

Figure 20: graphical trend of EVA and Cash EVA for Adidas

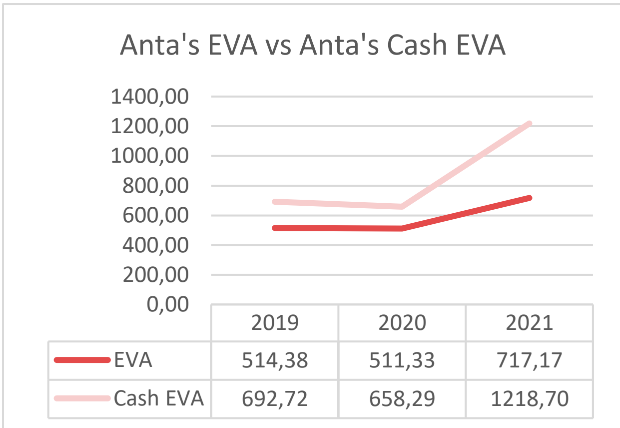

Figure 19: graphical trend of EVA and Cash EVA for Anta

The economic value-added EVA showcases the value a company can generate from the funds invested in it, while Cash EVA measures the company's ability to generate cash from invested capital. From calculations, although Adidas did make a recovery in 2021 where EVA has increased by 489% to 1061 million€, it was still lower than 2019's, however Cash EVA was 17.2% higher than 2019's, which suggests a better ability to generate cash. Additionally, it was clear that Adidas 2020's EVA increased by 387% after the reclassification of data related to the divestiture of Reebok in March 2021, which supports the claims that were stated by Adidas "The sale of Reebok has no impact on adidas' financial outlook for the current year or the company's 2025 financial ambition".

Comparatively, data suggested that Anta also has improved its cash generating efficiency more, because Cash EVA had an increment of 85.1% in 2021, while EVA increased by only 40.25%. This improvement can be attributable to the growth in e-commerce business, DTC model and leasing. Specifically, Anta has exploited leasing extensively by obtaining the right to use lands and properties as offices, retail stores and warehouses.

Consequently, the “Right of use” asset in Anta’s Balance sheet increased by 60.93% and its depreciation Contributed 353 m€ to CFFO.

It should be noted that the cost of capital of Adidas and Anta was proxied with WACC formula adopting the Enterprise perspective to focus more on the activities of the enterprises rather than the availability of liquidity for the shareholders (see annex).

Moreover, both companies have cut their cash conversion cycle short, hence increasing their cash generation efficiency. Adidas’ cycle was shorter by 14 days compared to 2020 because of the improvement in inventories and supply chain after COVID. In comparison, Anta also improved its cycle by 7 days due to the application of DTC that has resulted in Days Sales Outstanding shortening by 14 days, which improved the overall cycle despite the pressure on inventory level (as mentioned earlier). However, although these calculations suggested that Adidas has a shorter cash conversion cycle than Anta, given that Anta was better in 2019, we can expect that Adidas cycle would get longer when deploying DTC unless big breakthroughs and investments are made in logistics and supply chain management.

6. CONCLUSIONS

In conclusion, based on the above detailed analysis, we see the pressure of the pandemic that adidas has suffered and the trend of recovery in terms of profitability and liquidity. Digital transformation is a huge opportunity for companies with a wholesale-led business model. The strategic shift is expected to bring Adidas "significant" market share growth, as well as higher revenue and profit margins. Anta, with faster digitalization process, has already gained benefits from this, performance in high cash flow, and growth rate. However, the transformation process will undoubtedly be full of various challenges, and the sudden increase in inventory pressure of Adidas and Anta is good proof of this point. Just like Harm Ohlmeyer (CFO) said that maybe Adidas is not so ready for DTC and needs lots of investments in the supply chain.
According to Adidas' newly released "Own the Game" five-year plan, it will transform from a wholesale model to a direct-to-consumer model and accelerate digitalization, with more than 80% of sales growth expected to come from direct channels by 2025.

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ANNEX I: Indicators Calculation

PROFITABILITY ANALYSIS

Shareholders' perspective

	Adidas 2019	Adidas 2020	Adidas 2021	Δ1	Δ2	Anta 2019	Anta 2020	Anta 2021	Δ1	Δ2
Net Profit	1977,00	443,00	2158,00			5624,00	5569,00	8219,00		
Shareholders' Equity	7058,00	6691,00	7837,00			21061,00	25824,00	31663,00		
ROE = $\frac{Net\ Profit}{Shareholder's\ Equity}$%	28,01%	6,62%	27,54%	-76,36%	315,90%	26,70%	21,57%	25,96%	-19,24%	20,37%
Net Profit	1977,00	443,00	2158,00			5624,00	5569,00	8219,00		
Revenues	23640,00	19844,00	21234,00			33928,00	35512,00	49328,00		
Net Profit Margin = $\frac{Net\ Profit}{Revenues}$%	8,36%	2,23%	10,16%	-73,31%	355,24%	16,58%	15,68%	16,66%	-5,39%	6,25%
Dividends	752,00	585,00	632,00			1667,00	1555,00	3524,00		
Net Profit (t-1)	1704,00	1977,00	443,00			4234,00	5624,00	5569,00		
Payout Ratio = $\frac{Dividends}{Net\ Profit\ (t-1)}$%	44,13%	29,59%	142,66%	-32,95%	382,13%	39,37%	27,65%	63,28%	-29,77%	128,86%
ROE	0,28	0,07	0,28			0,27	0,22	0,26		
Payout Ratio	0,44	0,30	1,43			0,39	0,28	0,63		
Suistainble Growth Rate = *ROE * (1- Payout Ratio)*	0,16	0,05	-0,12	-70,21%	-352,01%	0,162	0,156	0,095	-3,63%	-38,91%
Net Profit	1977,00	443,00	2158,00			5624,00	5569,00	8219,00		
#CommonShares	195969387,00	195066060,00	191594855,00			2701947000,00	2703329000,00	2703329000,00		
Earnings Per Share = $\frac{Net\ Profit}{\#Common\ Shares}$	10,09	2,27	11,26	-77,49%	395,96%	2,08	2,06	3,04	-1,03%	47,58%

Overall Company perspective

	Adidas 2019	Adidas 2020	Adidas 2021	Δ1	Δ2	Anta 2019	Anta 2020	Anta 2021	Δ1	Δ2
EBIT (Operating Profit)	2660,00	746,00	1986,00			8695,00	9152,00	10989,00		
Total Assets	20680,00	21053,00	22137,00			41218,00	51867,00	62668,00		
ROA = $\frac{EBIT}{Total\ Assets}$	12,86%	3,54%	8,97%	-72,45%	153,18%	21,10%	17,65%	17,54%	-16,35%	-0,62%
EBIT (Operating Profit)	2660,00	746,00	1986,00			8695,00	9152,00	10989,00		
Total Assets	20680,00	21053,00	22137,00			41218,00	51867,00	62668,00		
Non Financial Liabilities	8524,00	7910,00	8555,00			9091,00	9083,00	12687,00		
ROI = $\frac{EBIT}{Total\ Assets - Non\ Financial\ Liabilities}$	21,88%	5,68%	14,62%	-74,06%	157,62%	27,06%	21,39%	21,99%	-20,96%	2,78%
EBIT (Operting Profit)	2660,00	746,00	1986,00			8695,00	9152,00	10989,00		
Equity	7058,00	6691,00	7837,00			21061,00	25824,00	31663,00		
Long Term Debt	4086,00	4756,00	4780,00			7489,00	13702,00	14333,00		
ROCE = $\frac{EBIT}{Equity + Long\ Term\ Debt}$	23,87%	6,56%	15,74%	-72,51%	139,92%	30,46%	23,15%	23,89%	-23,97%	3,18%
EBIT (Operating Profit)	2660,00	746,00	1986,00			8695,00	9152,00	10989,00		
Revenues	23640,00	19844,00	21234,00			33928,00	35512,00	49328,00		
Operating Profit Margin = $\frac{EBIT}{Revenues}$	11,25%	3,76%	9,35%	-66,59%	148,79%	25,63%	25,77%	22,28%	0,56%	-13,56%
EBITDA	3845,00	1967,00	3066,00			1233,00	1615,00	2367,00		
Revenues	23640,00	19844,00	21234,00			33928,00	35512,00	49328,00		
EBITDA Margin = $\frac{EBITDA}{Revenues}$	16,26%	9,91%	14,44%	-39,06%	45,67%	3,63%	4,55%	4,80%	25,14%	5,51%
CFFO	2819,00	1486,00	3192,00			7485,00	7458,00	11861,00		
EBIT	2660,00	746,00	1986,00			8695,00	9152,00	10989,00		
Quality of Operating Margin = $\frac{CFFO}{EBIT}$	105,98%	199,20%	160,73%	87,96%	-19,31%	86,08%	81,49%	107,94%	-5,34%	32,45%
Revenues	23640,00	19844,00	21234,00			33928,00	35512,00	49328,00		
Total Assets	20680,00	21053,00	22137,00			41218,00	51867,00	62668,00		
Asset Turnover Ratio = $\frac{Revenues}{Total\ Assets}$	114,31%	94,26%	95,92%	-17,54%	1,76%	82,31%	68,47%	78,71%	-16,82%	14,96%

Stakeholders' perspective

	Adidas 2019	Adidas 2020	Adidas 2021	Δ1	Δ2	Anta 2019	Anta 2020	Anta 2021	Δ1	Δ2
Liabilities	13622,00	14362,00	14299,00			20157,00	26043,00	31005,00		
Shareholders' Equity	7058,00	6691,00	7837,00			21061,00	25824,00	31663,00		
Debt-to-Equity ratio = $\frac{Liabilities}{Shareholders' Equity}$	1,93	2,15	1,82	11,22%	-15,00%	0,96	1,01	0,98	5,37%	-2,90%
Operating Income	2660,00	746,00	1986,00			8695,00	9152,00	10989,00		
Interest Expenses	160,00	156,00	109,00			278,00	407,00	443,00		
Interest Cover ratio = $\frac{Operating\ Income}{Interest\ Expenses}$	16,63	4,78	18,22	-71,24%	281,01%	31,28	22,49	24,81	-28,11%	10,31%
Interest Expenses	160,00	156,00	109,00			278,00	407,00	443,00		
Financial Debt	5097,00	6451,00	5745,00			11066,00	16943,00	18318,00		
Cost of Debt = $\frac{Interest\ Expenses}{Financial\ Debt}$	3,14	2,42	1,90	-22,96%	-21,54%	2,51	2,40	2,42	-4,38%	0,67%
Taxes	640,00	117,00	360,00			2385,00	2520,00	3021,00		
EBT	2558,00	578,00	1852,00			8009,00	8089,00	11240,00		
Effective tax Rate = $\frac{Taxes}{EBT}$	25,02	20,24	19,44	-19,09%	-3,97%	29,78	31,15	26,88	4,62%	-13,73%

Cash indicators

	Adidas 2019	Adidas 2020	Adidas 2021	Δ1	Δ2	Anta 2019	Anta 2020	Anta 2021	Δ1	Δ2
CFFO	2819,00	1486,00	3192,00			7485,00	7458,00	11861,00		
Invested Capital	12155,00	10420,00	13582,00			32127,00	42767,00	49981,00		
cost of debt (k)	4,57	3,98	3,98			6,62	5,32	5,13		
Economic Margin = $\frac{CFFO}{Invested\ Capital} - k$	18,62	10,28	19,52	-44,80%	89,89%	16,68	12,12	18,60	-27,32%	53,46%

LIQUIDITY ANALYSIS

Accrual indicators

	Adidas 2019	Adidas 2020	Adidas 2021	Δ1	Δ2	Anta 2019	Anta 2020	Anta 2021	Δ1	Δ2
Current Assets	10934,00	12154,00	13944,00			23320,00	32717,00	39902,00		
Current Liabilities	8754,00	8827,00	8965,00			12412,00	11715,00	15943,00		
Current Ratio = $\frac{Current\ Assets}{Current\ Liabilities}$	1,25	1,38	1,56	10,24%	12,96%	1,88	2,79	2,50	48,64%	-10,38%
Cash	2220,00	3994,00	3828,00			8221,00	15323,00	17592,00		
Sort-Term Investments	292,00	55,00	71,00			0,00	270,00	763,00		
Receivables	2625,00	1952,00	2175,00			3896,00	3731,00	3296,00		
Current Liabilities	8754,00	8827,00	8965,00			12412,00	11715,00	15943,00		
Quick Ratio = $\frac{Cash + Short\ Term\ investments + Receivables}{Current\ Liabilities}$	0,59	0,68	0,68	15,85%	-0,34%	0,98	1,65	1,36	68,97%	-17,67%
Revenues	23640,00	19844,00	21234,00			33928,00	35512,00	49328,00		
Inventories	4085,00	4397,00	4009,00			4405,00	5486,00	7644,00		
Inventory Turnover ratio = $\frac{Revenues}{Inventories}$	5,79	4,51	5,30	-22,01%	17,36%	7,70	6,47	6,45	-15,96%	-0,31%
Account Receivables	2625,00	1952,00	2175,00			3896,00	3731,00	3296,00		
Net Sales	23640,00	19844,00	21234,00			33928,00	35512,00	49328,00		
DSO = $\frac{Account\ Receivables}{Net\ Sales} * 365$	41	36	37	-11,41%	4,13%	42	38	24	-8,51%	-36,40%
Account Payables	2703,00	2390,00	2294,00			2963,00	2376,00	3146,00		
Net Purchases	11987,00	9525,00	10081,00			16782,00	15942,00	21082,00		
DPO = $\frac{Account\ Payables}{Net\ Purchases} * 365$	82	92	83	11,27%	-9,31%	64	54	54	-15,59%	0,13%

Cash indicators

	Adidas 2019	Adidas 2020	Adidas 2021	Δ1	Δ2	Anta 2019	Anta 2020	Anta 2021	Δ1	Δ2
CFFO	2819,00	1486,00	3192,00			7485,00	7458,00	11861,00		
Financial Debt	5097,00	6451,00	5745,00			11066,00	16960,00	18318,00		
CF to Debt = $\frac{CFFO}{Financial\ Debt}$	0,55	0,23	0,56	-58,35%	141,20%	0,68	0,44	0,65	-34,92%	47,10%
CFFO	2819,00	1486,00	3192,00			7485,00	7458,00	11861,00		
Current Financial Debt	1011,00	1695,00	965,00			3577,00	3258,00	3985,00		
Short - Term Debt coverage = $\frac{CFFO}{Current\ Financial\ Debt}$	2,79	0,88	3,31	-68,56%	277,30%	2,09	2,29	2,98	9,40%	30,02%
CFFO	2819,00	1486,00	3192,00			7485,00	7458,00	11861,00		
CAPEX	711,00	442,00	667,00			1087,00	851,00	1493,00		
Capex Coverage = $\frac{CFFO}{CAPEX}$	3,96	3,36	4,79	-15,20%	42,34%	6,89	8,76	7,94	27,27%	-9,35%

ABSOLUTE INDICATORS

Accrual Indicators

	Adidas 2019	Adidas 2020	Adidas 2021	Δ1	Δ2	Anta 2019	Anta 2020	Anta 2021	Δ1	Δ2
EBIT	2660,00	746,00	1986,00			8695,00	9152,00	10989,00		
K	4,57	3,98	3,98			6,62	5,32	5,13		
Invested Capital	12155,00	10420,00	13582,00			32127,00	42767,00	49981,00		
Effective Tax Rate	25,02	20,24	19,44			29,78	31,15	26,88		
RI = EBIT - K * Invested Capital	2104,34	331,06	1445,01	-84,27%	336,49%	849,17	873,43	1104,38	2,86%	26,44%
EVA = EBIT' (1 - t) - (K * Invested Capital')	1438,82	180,05	1058,96	-87,49%	488,15%	514,38	511,33	717,17	-0,59%	40,26%

Cash Indicator

	Adidas 2019	Adidas 2020	Adidas 2021	Δ1	Δ2	Anta 2019	Anta 2020	Anta 2021	Δ1	Δ2
CFFO	2819,00	1486,00	3192,00			7485,00	7458,00	11861,00		
K	4,57	3,98	3,98			6,62	5,32	5,13		
Invested Capital	12155,00	10420,00	13582,00			32127,00	42767,00	49981,00		
Cash EVA = CFFO - K * I	2263,34	1071,06	2651,01	-52,68%	147,51%	692,72	658,29	1218,70	-4,97%	85,13%

ROE LEVERAGE

	Adidas 2019	Adidas 2020	Adidas 2021	Anta 2019	Anta 2020	Anta 2021
Third Part Liabilities	13622,00	14362,00	14299,00	20157,00	26043,00	31005,00
Total Equity	7058,00	6691,00	7837,00	21061,00	25824,00	31663,00
Financial Leverage = $\frac{TPL}{Total\ Equity}$	1,93	2,15	1,82	0,96	1,01	0,98
Net Profit	1977,00	443,00	2158,00	5624,00	5569,00	8219,00
Profit from Continuing Operations	1918,00	461,00	1492,00	5624,00	5569,00	8219,00
d = $\frac{Net\ Profit}{Profit\ from\ Continuing\ Operations}$	1,03	0,96	1,45	1,00	1,00	1,00
Profit from Continuing Operations	1918,00	461,00	1492,00	5624,00	5569,00	8219,00
Profit Before Taxes from Continuing Operations	2558,00	578,00	1852,00	8009,00	8089,00	11240,00
t = $\frac{Profit\ from\ Continuing\ Operations}{Profit\ before\ Taxes\ from\ Continuing\ Operations}$	0,75	0,80	0,81	0,70	0,69	0,73
s = $d * t$	0,77	0,77	1,17	0,70	0,69	0,73
Interest Expenses	160,00	156,00	111,00	278,00	407,00	443,00
Third Part Liabilities	13622,00	14362,00	14299,00	20157,00	26043,00	31005,00
r = $\frac{Interest\ Expenses}{TPL}$	1,17%	1,09%	0,78%	1,38%	1,56%	1,43%
ROE = [ROA + D/E * (ROA - r)] * s	27,38%	6,76%	27,88%	28,06%	23,31%	24,36%

COST OF CAPITAL

In the general formula of the WACC, there is the need to focalize on each term:

$$WACC = ke\left(\frac{E}{E+D}\right) + kd(1-tc)\left(\frac{D}{E+D}\right)$$

The following table reports our results for both enterprises; we will analyze in detail each of them.

	Adidas			Anta		
	2019	2020	2021	2019	2020	2021
rf - risk free rate	0,60	0,80	1,10	2,80	3,10	4,00
Kd = rf + CDS	1,90	2,42	3,14	5,13	5,32	6,62
BL - beta levered	0,89	0,89	0,89	0,69	0,69	0,69
mp - market premium	5,80	5,80	5,70	6,20	6,70	7,50
Ke = rf + (BL * mp)	5,76	5,96	6,17	7,08	7,72	9,18
Equity (E)	7837	6691	7058	31663	25824	21061
Financial Debt (D)	5745	6451	5097	18318	16943	11066
Invested Capital (I) = D + E	13582	13142	12155	49981	42767	32127
WACC	3,97	3,98	4,57	5,86	6,11	7,62

Starting from Ke, the cost of equity, we calculated it with the following formula:

$$ke = rf + \beta_1(rm - rf)$$

Where rf, risk-free rate, for Anta is averagely higher than Adidas because the Chinese market, where Anta operates, is known for being riskier.

Regarding the β factor, both for Anta and Adidas the results show that β<1. This means that both the firm stocks are less volatile than the market where they operate. In particular Anta proves to us that it is much less risky than the average of the reference market.

The expression (rm-rf) stands for the market premium. It represents the difference between the expected return on a market portfolio and the risk-free rate, as we can see for Anta is slightly higher also for the reasons mentioned above.

The second part of the WAAC formula is about the calculation of *kd*; we had proxied this value with the relative indicator: Interest Expenses/Financial Debt because the available data did not allow us to use the more precise formula: *kd= rf+CDS* . So in our proxy of the *kd* we must consider that the result obtained does not consider the external situation of the market (with the *rf* factor), so the computed *kd* may be underestimated for Anta.

ANNEX II: Vertical Analysis of Balance Sheet

ADIDAS

	2021	Partial	Total	2020	Partial	Total	2019	Partial	Total
Assets									
Cash and cash equivalents	3828	27,45%	17,29%	3994	32,86%	18,97%	2220	20,30%	10,74%
short term financial assets	0	0,00%	0,00%	0	0,00%	0,00%	292	2,67%	1,41%
Accounts receivable	2175	15,60%	9,83%	1952	16,06%	9,27%	2625	24,01%	12,69%
Other current financial assets	745	5,34%	3,37%	702	5,78%	3,33%	544	4,98%	2,63%
Inventories	4009	28,75%	18,11%	4397	36,18%	20,89%	4085	37,36%	19,75%
Income Tax receivables	91	0,65%	0,41%	109	0,90%	0,52%	94	0,86%	0,45%
Other Current assets	1062	7,62%	4,80%	999	8,22%	4,75%	1076	9,84%	5,20%
Asset Classified Held for Sale	2033	14,58%	9,18%	0	0,00%	0,00%		0,00%	0,00%
Total Current Assets	13944	100%	62,99%	12154	100%	57,73%	10934	100%	52,87%
Property, Plant and equipment	2256	27,54%	10,19%	2157	24,24%	10,25%	2380	24,42%	11,51%
Right of use assets	2596	31,69%	11,73%	2430	27,31%	11,54%	2931	30,07%	14,17%
Goodwill	1228	14,99%	5,55%	1208	13,57%	5,74%	1257	12,90%	6,08%
Trademarks	16	0,20%	0,07%	750	8,43%	3,56%	859	8,81%	4,15%
Other Intamgible Assets	336	4,10%	1,52%	252	2,83%	1,20%	305	3,13%	1,47%
Long-Term Financial Assets	290	3,54%	1,31%	353	3,97%	1,68%	367	3,77%	1,77%
Other non-current financial assets	160	1,95%	0,72%	414	4,65%	1,97%	450	4,62%	2,18%
Deferred tax assets	1263	15,42%	5,71%	1233	13,86%	5,86%	1093	11,21%	5,29%
Other non-current assets	74	0,90%	0,33%	103	1,16%	0,49%	103	1,06%	0,50%
Total Non current Assets	8193	100%	37,01%	8899	100%	42,27%	9746	100%	47,13%
Total Assets	22137		100%	21053		100%	20680		100%
Liabilities and Equity									
Short-term borrwings	29	0,32%	0,13%	686	7,77%	3,26%	43	0,49%	0,21%
Accounts Payable	2294	25,59%	10,36%	2390	27,08%	11,35%	2703	30,88%	13,07%
Current lease liabilities	573	6,39%	2,59%	563	6,38%	2,67%	733	8,37%	3,54%
Other Current financial libilities	363	4,05%	1,64%	446	5,05%	2,12%	235	2,68%	1,14%
Incometaxes	536	5,98%	2,42%	562	6,37%	2,67%	618	7,06%	2,99%
Other current provisions	1458	16,26%	6,59%	1609	18,23%	7,64%	1446	16,52%	6,99%
Current accrued liabilities	2684	29,94%	12,12%	2172	24,61%	10,32%	2437	27,84%	11,78%
Other Current liabilities	434	4,84%	1,96%	398	4,51%	1,89%	538	6,15%	2,60%
Liabilities classified as held for sale	594	6,63%	2,68%	0	0,00%	0,00%		0,00%	0,00%
Total Current Liabilities	8965	100%	40,50%	8827	100%	41,93%	8754	100%	42,33%
Long-term borrowing	2466	46,23%	11,14%	2482	44,84%	11,79%	1595	32,76%	7,71%
Non-current lease liabilities	2296	43,04%	10,37%	2159	39,01%	10,26%	2399	49,28%	11,60%
Other non-current fianncial libilities	51	0,96%	0,23%	115	2,08%	0,55%	92	1,89%	0,44%
Pensions and similar obligations	267	5,01%	1,21%	284	5,13%	1,35%	229	4,70%	1,11%
Deferred tax liabilities	122	2,29%	0,55%	241	4,35%	1,14%	280	5,75%	1,35%
Other non-current provisions	149	2,79%	0,67%	229	4,14%	1,09%	257	5,28%	1,24%
Non-curren accrued liabilities	8	0,15%	0,04%	8	0,14%	0,04%	9	0,18%	0,04%
Other non-current liabilities	9	0,17%	0,04%	17	0,31%	0,08%	7	0,14%	0,03%
Total non-current liabilities	5334	100%	24,10%	5535	100%	26,29%	4868	100%	23,54%
Total Liabilities	14299		64,59%	14362		68,22%	13622		65,87%
Share capital	192	2,45%	0,87%	195	2,91%	0,93%	196	2,78%	0,95%
Reserves	69	0,88%	0,31%	-474	-7,08%	-2,25%	45	0,64%	0,22%
Retained Earnings	7259	92,62%	32,79%	6733	100,63%	31,98%	6555	92,87%	31,70%
Shareholders'e equity	7519	95,94%	33,97%	6454	96,46%	30,66%	6796	96,29%	32,86%
Non controlling interst	318	4,06%	1,44%	237	3,54%	1,13%	261	3,70%	1,26%
Total Equity	7837	100%	35,40%	6691	100%	31,78%	7058	100%	34,13%
Total Libilities and Equity	22137		100%	21053		100%	20680		100%

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	2021	Partial	Total	2020	Partial	Total	2019	Partial	Total
Assets									
Property, plant nd equipment	2853	12,53%	4,55%	2184	11,40%	4,21%	2148	12,00%	5,21%
Right of use assets	6611	29,04%	10,55%	4108	21,45%	7,92%	3237	18,09%	7,85%
construction in progress	926	4,07%	1,48%	545	2,85%	1,05%	421	2,35%	1,02%
Prepayment for acquisition of land	43	0,19%	0,07%	46	0,24%	0,09%	53	0,30%	0,13%
Intangible assets	1531	6,72%	2,44%	1579	8,25%	3,04%	678	3,79%	1,64%
Investment in a joint venture	9027	39,65%	14,40%	9658	50,43%	18,62%	10551	58,95%	25,60%
Other financial assets	722	3,17%	1,15%	70	0,37%	0,13%	64	0,36%	0,16%
Deferred tax assets	1053	4,63%	1,68%	960	5,01%	1,85%	746	4,17%	1,81%
Total non-current assets	22766	100%	36,33%	19150	100%	36,92%	17898	100%	43,42%
Inventories	7644	19,16%	12,20%	5486	16,77%	10,58%	4405	18,89%	10,69%
Trade receivables	3296	8,26%	5,26%	3731	11,40%	7,19%	3896	16,71%	9,45%
Other receivables	3618	9,07%	5,77%	2883	8,81%	5,56%	2412	10,34%	5,85%
Other investments	763	1,91%	1,22%	0	0,00%	0,00%	0	0,00%	0,00%
Pledged deposit	4	0,01%	0,01%	270	0,83%	0,52%	4	0,02%	0,01%
Fixed deposit held at banks with m	6985	17,51%	11,15%	5023	15,35%	9,68%	4382	18,79%	10,63%
Cash and Cash equivalents	17592	44,09%	28,07%	15323	46,83%	29,54%	8221	35,25%	19,95%
Total Current Assets	39902	100%	63,67%	32717	100%	63,08%	23320	100%	56,58%
Total Assets	62668		100%	51867		100%	41218		100%
Liabilities and Equity									
Bank loans ??? NOTE DOWN	1748	10,96%	2,79%	1968	16,80%	3,79%	1359	10,95%	3,30%
Trade payables	3146	19,73%	5,02%	2376	20,28%	4,58%	2963	23,87%	7,19%
Bills payable and other payables	6930	43,47%	11,06%	4539	38,75%	8,75%	5821	46,90%	14,12%
Payable to non-controlling inytere	39	0,24%	0,06%	33	0,28%	0,06%	0	0,00%	0,00%
Lease liabilities	2237	14,03%	3,57%	1273	10,87%	2,45%	1081	8,71%	2,62%
Amount due to related parties	27	0,17%	0,04%	19	0,16%	0,04%	26	0,21%	0,06%
Current taxation	1816	11,39%	2,90%	1507	12,86%	2,91%	1225	9,87%	2,97%
Total current liabilities	15943	100%	25,44%	11715	100%	22,59%	12411	100%	30,11%
Bank loans	11425	75,85%	18,23%	12456	86,93%	24,02%	6644	85,78%	16,12%
Payable to non-controlling interes	74	0,49%	0,12%	99	0,69%	0,19%	0	0,00%	0,00%
Lease liabilities	2908	19,31%	4,64%	1246	8,70%	2,40%	845	10,91%	2,05%
Deferred tax liabilities	655	4,35%	1,05%	527	3,68%	1,02%	256	3,31%	0,62%
Total non-current liabiities	15062	100%	24,03%	14328	100%	27,62%	7745	100%	18,79%
Total liabilities	31005		49,48%	26043		50,21%	20157		48,90%
Equity									
Share capital	261	0,82%	0,42%	261	1,01%	0,50%	261	1,24%	0,63%
Reserves	28662	90,52%	45,74%	23752	91,98%	45,79%	19821	94,11%	48,09%
Total equity attribuable to equity s	28923	91,35%	46,15%	24013	92,99%	46,30%	20082	95,35%	48,72%
Non controlling interests	2740		4,37%	1811		3,49%	979		2,38%
Total Equity	31663	100%	50,52%	25824	100%	49,79%	21061	100%	51,10%
Total liabilities and equity	62668		100%	51867		100%	41218		100%

ANNEX III: Vertical Analysis of Income Statement

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	2019		2020		2021	
Net sales	23640	100%	18435	100%	21234	100%
Cost of sales	11347	48,0%	9213	50,0%	10469	49,3%
Gross profit	12293	52,0%	9222	50,0%	10765	50,7%
Royalty and commission	154	0,7%	61	0,3%	86	0,4%
Other operating income	56	0,2%	42	0,2%	28	0,1%
Other operating expenses	9843	41,6%	8580	46,5%	8892	41,9%
Marketing and point-of-sale expenses	3024	12,8%	2373	12,9%	2547	12,0%
Distribution and selling	4997	21,1%	4601	25,0%	4782	22,5%
General and administration	1652	7,0%	1379	7,5%	1481	7,0%
Sundry expenses	134	0,6%	116	0,6%	76	0,4%
Impairment losses(net) receivable andcontract	18	0,1%	111	0,6%	6	0,0%
Operating profit	2660	11,3%	746	4,0%	1986	9,4%
Financial income	64	0,3%	29	0,2%	19	0,1%
Financial expenses	166	0,7%	196	1,1%	153	0,7%
Income before taxes	2558	10,8%	578	3,1%	1852	8,7%
Income taxes	640	2,7%	117	0,6%	360	1,7%
Net income from continue operations	1918	8,1%	461	2,5%	1492	7,0%
Gain/(loss) from discontinued operations	59	0,2%	-19	-0,1%	666	3,1%
Net income	1977	8,4%	443	2,4%	2158	10,2%

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	2019		2020		2021	
Revenue	33928	100%	35512	100%	49328	100%
Cost of sales	15269	45,00%	-14861	-41,85%	-18924	-38,36%
Gross profit	18659	55,00%	20651	58,15%	30404	61,64%
Other net income	1069	3,15%	1389	3,91%	1266	2,57%
Selling and distribution	-9721	-28,65%	-10766	-30,32%	-17753	-35,99%
Administrative expenses	-1313	-3,87%	-2122	-5,98%	-2928	-5,94%
Profit from operations	8695	25,63%	9152	25,77%	10989	22,28%
Net finance income/(costs)	53	0,16%	-462	-1,30%	332	0,67%
Share of loss of joint venture	-633	-1,87%	-601	-1,69%	-81	-0,16%
Profit before taxation	8008	23,60%	8089	22,78%	11240	22,79%
Taxation	-2384	-7,03%	-2520	-7,10%	-3021	-6,12%
Profit of the Year	5624	16,58%	5569	15,68%	8219	16,66%