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adidas grows double-digit in Western markets in Q1

Major developments:

- **Currency-neutral sales down 3% as supply constraints reduce top-line by € 400 million**
- **Western markets continue to show strong momentum with combined currency-neutral sales growing 13% across North America (+13%), EMEA (+9%) and Latin America (+38%)**
- **Gross margin down 1.9pp to 49.9% driven by significantly higher supply chain costs**
- **Operating margin of 8.2% reflecting additional investments into brand, DTC, and digital**
- **Net income from continuing operations reaches € 310 million**
- **FY 2022 outlook for revenue and net income confirmed at the lower end due to the impact from covid-19-related lockdowns in Greater China**

"In the first quarter, consumer demand for our brand and products was strong in all Western markets. Our combined sales in North America, EMEA and Latin America grew at a double-digit rate. Backed by an exceptionally strong wholesale order book and relentless focus on driving growth in our own DTC channels, we expect this positive development to continue for the rest of the year," said adidas CEO Kasper Rorsted. "In the East, we will return to growth in Asia-Pacific in the second quarter, while we expect the challenging market environment in Greater China to continue. With strong double-digit growth in the vast majority of our markets, representing more than 80% of our business, we are well positioned for success in 2022."

Currency-neutral revenues decrease 3% despite strong momentum in Western markets

Currency-neutral revenues in the first quarter declined 3% as adidas faced challenges on both supply and demand. While the company continued to experience strong demand in all Western markets, supply chain constraints as a result of last year's lockdowns in Vietnam reduced top-line growth by around € 400 million in Q1 2022. In addition, the challenging market environment as well as covid-19-related lockdowns in Greater China and Asia-Pacific continued to weigh on the top-line development in these regions. In light of the supply shortages the company continued to prioritize its own DTC channel in the quarter. As a result, DTC revenues increased 1% versus the prior year, reflecting a 33% increase compared to the 2020 level. While adidas e-commerce revenues experienced a double-digit increase in the share of full-price sales, revenues in the company's own digital channel increased 2% during the quarter reflecting the exceptionally high growth in the prior year period. Compared to the 2020 level, e-commerce revenues grew 50% in the first quarter. From a category perspective, revenue development was strongest in the company's strategic growth categories Football and Outdoor, which both grew at strong double-digit rates. In addition, sales in Running increased at a high-single-digit rate driven by strong sell-through of adidas' latest product innovations such as UltraBoost 22 and adiStar as well as the broadening of the Solar franchise with the introduction of SolarGlide. In euro terms, revenues increased 1% to € 5.302 billion in the first quarter (2021: € 5.268 billion).

Revenue growth driven by continued strong momentum in Western markets

From a regional perspective, the top-line development in the first quarter of 2022 continued to differ significantly between Western and Eastern markets. Despite supply chain constraints limiting growth by around € 400 million, currency-neutral revenues in all Western markets combined increased 13% during the quarter with double-digit increases in North America (+13%) and Latin America (+38%). Sales in EMEA were most impacted by the supply shortages with more than half of the total negative impact recorded in this particular market. Nevertheless, revenues grew at a high-single-digit rate (+9%) in the region. In the Eastern part of the world, the company continued to face a challenging market environment in Greater China, amplified by covid-19-related lockdowns across both regions. As a result, revenues in Greater China decreased 35%, also due to strong prior year comparables, and 16% in Asia-Pacific.

Gross margin declines to 49.9% despite lower discounts and first impact from higher prices

The company's gross margin in the first quarter was down 1.9 percentage points to 49.9% (2021: 51.8%). This decrease was mainly driven by a significant increase in sourcing and freight costs. In addition, the negative impact from a less favorable market mix as well as tough prior year comparables in e-com weighed on the gross margin development. These effects could not be offset by the positive impact from a significantly higher share of full-price sales as well as first selective price increases, mainly on DTC exclusive product.

Operating profit of € 437 million resulting in an operating margin of 8.2%

Other operating expenses were up 10% to € 2.258 billion (2021: € 2.047 billion). As a percentage of sales, other operating expenses increased 3.7 percentage points to 42.6% (2021: 38.9%). Marketing and point-of-sale expenses increased 19% to € 641 million (2021: € 541 million) reflecting additional investments into several brand campaigns and the support of new product launches. As a percentage of sales, marketing and point-of-sale expenses were up 1.8 percentage points to 12.1% (2021: 10.3%). Operating overhead expenses were up 7% to € 1.617 billion (2021: € 1.506 billion) driven by investments into the company's DTC business and its digital capabilities. As a percentage of sales, operating overhead expenses increased 1.9 percentage points to 30.5% (2021: 28.6%). The company's operating profit amounted to € 437 million (2021: € 704 million) in the quarter, reflecting an operating margin of 8.2% (2021: 13.4%).

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Net income from continuing operations reaches € 310 million

The company's net income from continuing operations decreased to € 310 million (2021: € 502 million), while basic EPS from continuing operations reached € 1.60 (2021: € 2.60).

Inventories and operating working capital increase

Inventories increased 15% year-on-year to € 4.542 billion (2021: € 3.938 billion). In currency-neutral terms, inventories increased 12% compared to the prior year. Operating working capital was up 8% to € 4.643 billion (2021: € 4.297 billion). On a currency-neutral basis, operating working capital increased 4%. Average operating working capital as a percentage of sales decreased to 20.4% (2021: 23.7%), reflecting a double-digit increase in payables due to a significantly higher sourcing volume in anticipation of strong double-digit growth in the second half of the year.

Adjusted net borrowings of € 3.690 billion

Adjusted net borrowings at March 31, 2022 amounted to € 3.690 billion (March 31, 2021: € 3.290 billion), representing a year-over-year increase of 12%. This development was mainly driven by the decrease in cash generated from operations as well as the company's strong shareholder return activities during the past twelve months.

Outlook for FY 2022 updated to reflect impact from new lockdowns in Greater China

Despite several external factors continuing to weigh on industry-wide demand and supply, adidas confirms its top- and bottom-line outlook for 2022. While the company continues to expect currency-neutral revenues to increase by a rate of between 11% and 13%, growth is now anticipated to come in at the lower end of this range due to the severe impact from covid-19-related lockdowns in China. Consequently, net income from continuing operations is also forecasted to reach the lower end of the previously communicated range of between € 1.8 billion and € 1.9 billion.

Because of the less favorable market mix due to lower-than-expected revenues in Greater China, the company's gross margin is now expected to be around the prior year's level of 50.7% in 2022 (previously: between 51.5% and 52.0%). As adidas will continue to invest into the brand, its products as well as DTC and digital to support double-digit growth in all other markets in 2022 and long-term market share gains around the globe, the company also expects its operating margin to come in at around the prior year's level of 9.4% (previously: between 10.5% and 11.0%).

Due to the most recent widespread covid-19-related lockdowns in China, which have led to a large number of store closures as well as strong traffic declines even in parts of the country not directly impacted, revenues in Greater China are now expected to decline significantly in

2022. At the same time, the original growth targets for EMEA (mid-teens growth), North America, Latin America (both mid-to-high-teens growth), and Asia-Pacific (mid-teens growth), which combined represent more than 80% of the company's business, are confirmed and well underpinned by an extraordinarily strong orderbook. The strong underlying momentum in all Western markets and the return to double-digit growth in the company's Asia-Pacific region are expected to compensate for the lockdown-related revenue decline in Greater China.

adidas expects to already return to growth in the second quarter despite a continued sales decline in Greater China and around € 200 million negative impact from supply chain constraints. In the second half of the year, net sales are expected to grow more than 20% driven by unconstrained supply combined with the strong momentum in Western markets, accelerating demand in Asia-Pacific, an exciting pipeline of innovative products as well as major sporting events.

Kasper Rorsted: "In this environment, characterized by severe external challenges, it is imperative to stay focused on our strategic objectives. While we will remain agile, we will not jeopardize our long-term growth opportunity for short-term profit optimization. We will continue to invest into our brand and partnerships, into our DTC business and digital capabilities to support top-line acceleration and market share gains in our growth markets in 2022."

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adidas AG Condensed Consolidated Income Statement (IFRS)

€ in millions	Quarter ending March 31, 2022	Quarter ending March 31, 2021	Change
Net sales	5,302	5,268	*0.6%*
Cost of sales	2,654	2,538	*4.6%*
Gross profit	**2,648**	**2,730**	***(3.0%)***
(% of net sales)	49.9%	51.8%	*(1.9pp)*
Royalty and commission income	23	14	*68.1%*
Other operating income	23	7	*214.8%*
Other operating expenses	2,258	2,047	*10.3%*
(% of net sales)	42.6%	38.9%	*3.7pp*
Marketing and point-of-sale expenses	641	541	*18.5%*
(% of net sales)	12.1%	10.3%	*1.8pp*
Operating overhead expenses[1]	1,617	1,506	*7.4%*
(% of net sales)	30.5%	28.6%	*1.9pp*
Operating profit	**437**	**704**	***(38.0%)***
(% of net sales)	8.2%	13.4%	*(5.1pp)*
Financial income	8	3	*222.1%*
Financial expenses	34	38	*(11.6%)*
Income before taxes	**411**	**669**	***(38.5%)***
(% of net sales)	7.8%	12.7%	*(4.9pp)*
Income taxes	101	166	***(39.5%)***
(% of income before taxes)	24.5%	24.9%	*(0.4pp)*
Net income from continuing operations	**310**	**502**	***(38.2%)***
(% of net sales)	5.9%	9.5%	*(3.7pp)*
Gain from discontinued operations, net of tax	180	52	***245.8%***
Net income	**490**	**554**	***(11.5%)***
(% of net sales)	9.2%	10.5%	*(1.3pp)*
Net income attributable to shareholders	**482**	**558**	***(13.6%)***
(% of net sales)	9.1%	10.6%	*(1.5pp)*
Net income/(loss) attributable to non-controlling interests	**8**	**(4)**	***n.a.***
Basic earnings per share from continuing operations (in €)	**1.60**	**2.60**	***(38.3%)***
Diluted earnings per share from continuing operations (in €)	**1.60**	**2.60**	***(38.3%)***
Basic earnings per share from continuing and discontinued operations (in €)	**2.55**	**2.86**	***(10.7%)***
Diluted earnings per share from continuing and discontinued operations (in €)	**2.55**	**2.86**	***(10.7%)***

1 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

€ in millions	Quarter ending March 31, 2022	Quarter ending March 31, 2021	Change	Change (currency-neutral)
EMEA	1,935	1,770	*9.3%*	*9.1 %*
North America	1,402	1,157	*21.2%*	*12.8 %*
Greater China	1,004	1,402	*(28.4%)*	*(34.6%)*
Asia-Pacific	506	603	*(16.0%)*	*(15.7%)*
Latin America	419	297	*41.2%*	*38.0 %*
Other Businesses	36	39	*(7.5%)*	*(7.6%)*

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adidas AG Consolidated Statement of Financial Position (IFRS)

€ in millions	March 31, 2022	March 31, 2021	Change in %
Cash and cash equivalents	3,050	3,923	(22.3)
Accounts receivable	2,819	2,418	16.6
Other current financial assets	1,137	742	53.3
Inventories	4,542	3,938	15.3
Income tax receivables	104	79	31.1
Other current assets	1,376	1,067	29.1
Assets classified as held for sale	–	1,679	n.a.
Total current assets	**13,028**	**13,846**	**(5.9)**
Property, plant and equipment	2,245	2,100	6.9
Right-of-use assets	2,668	2,376	12.3
Goodwill	1,240	1,206	2.8
Trademarks	16	16	0.0
Other intangible assets	350	247	41.5
Long-term financial assets	279	279	0.0
Other non-current financial assets	394	346	13.9
Deferred tax assets	1,102	1,179	(6.5)
Other non-current assets	88	101	(13.5)
Total non-current assets	**8,383**	**7,851**	**6.8**
Total assets	**21,412**	**21,697**	**(1.3)**
Short-term borrowings	39	704	(94.5)
Accounts payable	2,717	2,059	32.0
Current lease liabilities	589	556	5.8
Other current financial liabilities	597	360	65.7
Income taxes	598	654	(8.5)
Other current provisions	1,411	1,475	(4.4)
Current accrued liabilities	2,505	2,135	17.3
Other current liabilities	568	415	36.9
Liabilities classified as held for sale	–	655	n.a.
Total current liabilities	**9,024**	**9,014**	**0.1**
Long-term borrowings	2,462	2,476	(0.6)
Non-current lease liabilities	2,340	2,076	12.7
Other non-current financial liabilities	33	78	(57.7)
Pensions and similar obligations	206	236	(12.6)
Deferred tax liabilities	259	154	67.5
Other non-current provisions	104	112	(6.9)
Non-current accrued liabilities	7	6	25.6
Other non-current liabilities	8	19	(60.1)
Total non-current liabilities	**5,419**	**5,158**	**5.1**
Share capital	186	195	(4.5)
Reserves (thereof at Dec. 31st, 2021 € 128 million relating to the Reebok disposal group)	(67)	(207)	67.6
Retained earnings	6,500	7,293	(10.9)
Shareholders' equity	**6,619**	**7,281**	**(9.1)**
Non-controlling interests	350	244	43.2
Total equity	**6,969**	**7,525**	**(7.4)**
Total liabilities and equity	**21,412**	**21,697**	**(1.3)**

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Additional balance sheet information			
Operating working capital	4,643	4,297	*8.1*
Working capital	4,005	4,831	*(17.1)*
Adjusted net borrowings[1]	3,690	3,290	*12.2*
Financial leverage[2]	55.7%	45.2%	*10.6 pp*

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.