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DISSERTATION

EQUITY RESEARCH: ADIDAS AG

LUÍS PEDRO FIGUEIREDO DAVID

JANUARY - 2017

LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

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SUPERVISION:

CLARA PATRICIA COSTA RAPOSO

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Abstract

This report contains the valuation of Adidas AG. Elaborated in accordance with ISEG's Finance Final Work Thesis, this Equity Research follows the format of a research report recommended by the CFA Institute. The information contained herein has been compiled from public sources on Adidas AG on April 10th, 2015. Hence, the report does not take into consideration any events or circumstances which have arisen after this date. The target price was obtained by combining the Discounted Cash Flow (DCF) and the Comparable Company Multiple Pricing with equal weights. The assumptions considered for this study were formulated using both the historical data publicly disclosed by the company, as well as data from several sources, such as Bloomberg L.P. and Thomson Reuters DataStream. With a target price of €142 and an upside potential of 83.9% from current stock price, I issue a BUY recommendation for Adidas AG.

Resumo

Este relatório contém a avaliação da Adidas AG. Elaborado de acordo com a Dissertação de Trabalho Final do Programa de Mestrado em Finanças do ISEG, este estudo de avaliação segue as recomendações do CFA Institute. As informações aqui contidas foram compiladas a partir de fontes públicas sobre Adidas AG em 10 de abril de 2015. Dito isto, o relatório não leva em consideração quaisquer eventos ou circunstâncias que tenham surgido após esta data. O preço-alvo foi obtido combinando o "Discounted Cash Flow" (DCF) e o "Comparable Company Multiple Pricing" com pesos iguais. As premissas consideradas para este estudo foram formuladas usando tanto os dados históricos divulgados publicamente pela empresa, bem como de bases de dados, como a Bloomberg L.P. e a Thomson Reuters DataStream. Com um preço alvo de € 142 e um potencial de valorização de 83,9% face ao atual preço, a recomendação para a Adidas AG é de "COMPRA".

Date: 10/04/2015 **Current Price: €77.21** **Recommendation: BUY**
Ticker: ADS: GR XETRA **Target Price: €142**

Market Profile (Dec. 31, 2014)	
52-week price range (€)	53.89 – 92.92
Average daily volume	1 356 914
As % of shares outstanding	0.64%
Earnings per Share (€)	2.67
Dividend yield	2.6%
Shares outstanding	211 235 955
Market Capitalization (€ millions)	12 171
ROE 2015E	10.8%
Debt ratio 2015E	-6.0%
Debt-equity ratio 2015E	-0.06
P/E	21.58

Source: Own estimations, Bloomberg

Valuation	DCF	Multipliers
Estimated Price	160 €	124 €
Weights	50%	50%
Target Price	**142 €**	

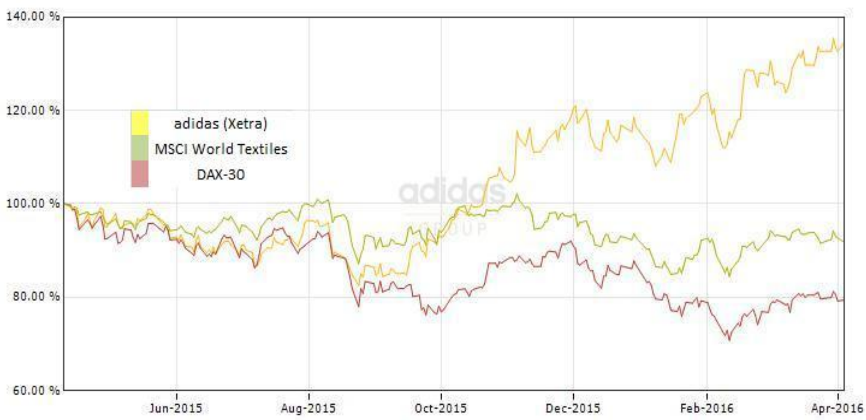
Source: Own estimations, Bloomberg

Highlights

Adidas AG investment

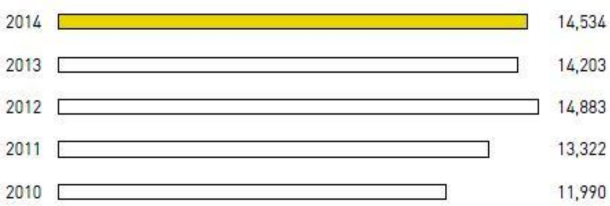
- **I issue a buy recommendation with a target price of €142 at the end of 2015, offering 83.9% upside potential from current stock price.** Adidas is one of the biggest global manufacturers of sporting goods. After the successful turnaround of its business, and the continuous weakness in the golf market as well as the recent downturn of the Russia/CIS economies, Adidas' main growth driver has become product line expansion in the emerging markets of Greater China and Latin America.
- **Adidas will grow revenues and expand margins** on the wake of the increasing exposure to emerging markets. Entry into new markets and launch of new products will 2.36% consolidated top line growth in 2015 and 5.65% CAGR from 2010 to 2013. EBITDA margin will expand by 1.5% in 2015.
- **Net financial position is expected to improve.** Supported by top line growth and margin expansion, Operating Cash Flow is expected to increase and CFO/CAPEX ratio to rise from 125.5% in 2014 to 178.8% in 2015. Adidas' net financial position will fall from €477M in 2014 to -€356M in 2015. This will leave Adidas AG with ample financial flexibility to expand the production capacity and gain market share.
- **Main risks issues are:** failure to expand into new markets due to unsuccessful product launches and the increase in the level of competition in current markets. Other risks come from macro conditions, industry demand and supply assumptions and volatility in exchange rates.

Daily share price development



Source: Company data

07 / **Net sales** 1) 2) (€ in millions) **Source:** Company data

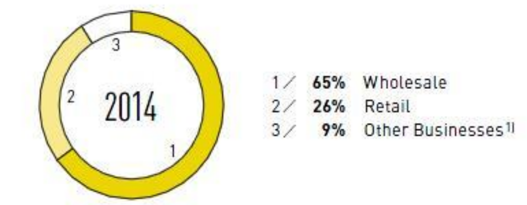


1) 2014 and 2013 reflect continuing operations as a result of the planned divestiture of the Rockport business.
2) 2011 restated according to IAS 8 in the 2012 consolidated financial statements.

09 / **Net sales by region** 1) **Source:** Company data

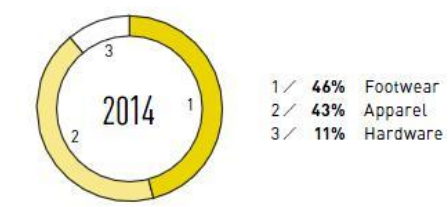
1) Figures reflect continuing operations as a result of the planned divestiture of the Rockport business.

10 / **Net sales by segment** **Source:** Company data



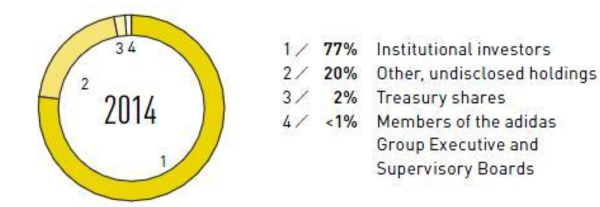
1) Figures reflect continuing operations as a result of the planned divestiture of the Rockport business.

13 / **Net sales by product category** 1) **Source:** Company data



1) Figures reflect continuing operations as a result of the planned divestiture of the Rockport business.

05 / **Shareholder structure by investor group** 1)



1) As of February 2015.

Source: Company data

Business Description

Adidas AG is a historical German company, founded in 1949 and based in Herzogenaurach. It is famous worldwide for its brands, such as Reebok. Acquired in 1993 by Robert Louis-Dreyfus, the company experienced a successful turnaround, followed by the listing on the Frankfurt Stock Exchange in 1998. Nowadays, Adidas AG is one of the largest global manufacturers of sporting goods, which specializes in design and distribution of footwear, apparel and accessories. The company has about 54,000 employees in over 160 countries. The main strengths of the Group are their strong global brands supported by an improving control over distribution network and core competence in sport performance. In 2014 adidas Group underperformed the market, with net sales' increase to €14,534 million (+2% YoY) and deterioration both in operating profit and operating margin (the latter -2.2% YoY, down to 6.1%). The Group's sales grew in all regions except North America, where the USA sales declined 7% YoY.

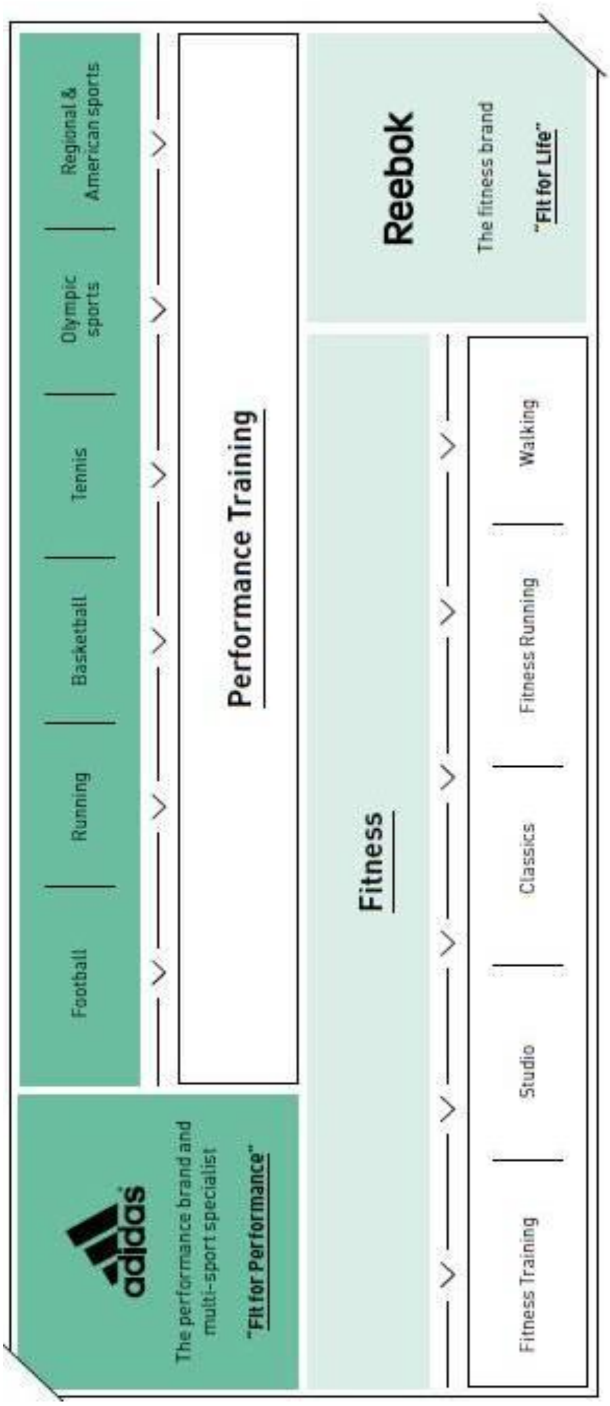
Business Units

The Group's business organizational structure is differentiated in the following main units:

- **Footwear** – In 2014, footwear suppliers produced approximately 258 million pairs of shoes, accounting for 46% of the revenues. The biggest producer for footwear was in Vietnam, with 39% of the total volume;
- **Apparel** – In 2014, apparel suppliers produced approximately 309 million units of apparel, contributing for 43% of the revenues. Main producer of apparel was in China, representing 31% of the produced volume. Reebok-CCM Hockey is the main brand;
- **Hardware** – In 2014, the total hardware sourcing volume was approximately 99 million units, representing 11% of the revenues. China remained the largest source country, accounting 38% of the sourced volume. The main brands are TaylorMade and Reebok-CCM Hockey.

Adidas AG Headquarters

Source: Company data



Source: Company data

Geographic Units

The Group's geographic organizational structure is differentiated in the following regions:

- **Asia** – The biggest region in which adidas Group operates, contributes to 96% of the total footwear volume, 93% of the total apparel volume and 78% of the total hardware products in 2014;
- **Europe** – Second-largest region for adidas Group, accounting 22% of the total hardware products, 5% of the total apparel volume and 1% of the total footwear volume in 2014;
- **Americas** – The thinnest slice of adidas Group's total volume, representing only 3% of the total footwear volume and 2% of the total apparel volume in 2014;

Current Strategy of the company can be described with the following 6 pillars:

- **Diversifying brand portfolio** – strategic goal of providing distinct and relevant products to a wide spectrum of consumers, in order to increase its leverage in the marketplace;
- **Investing on the highest-potential markets and channels** – strategic goal of expanding its activities in the emerging markets, as well as building and reinforcing its market share in the USA and Western Europe;
- **Creating a flexing supply chain** – strategic goal of building and managing a supply chain that quickly responds to changing market needs;
- **Leading through innovation** – strategic goal of generating at least one new innovation or improvement per year, in order to achieve sustainable leadership in the industry;
- **Developing a team grounded in sport** – strategic goal of creating a work environment that is committed to the positive values found in sport (performance, passion, integrity and diversity) and that values sustainability;

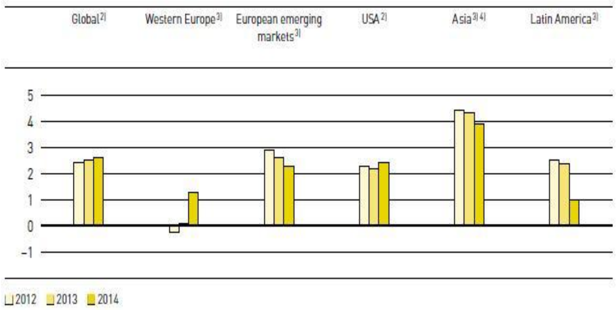
Source: Company data

02 / Key R&D metrics[1) 2)] **Source:** Company data

	2014	2013	2012	2011	2010
R&D expenses (€ in millions)	126	124	128	115	102
R&D expenses (in % of net sales)	0.9	0.9	0.9	0.9	0.8
R&D expenses (in % of other operating expenses)	2.0	2.0	2.1	2.1	2.0
R&D employees	985	992	1,035	1,029	1,002

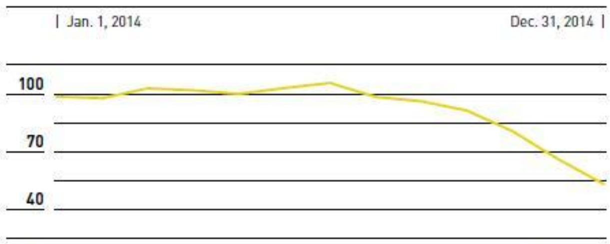
1) 2014 and 2013 reflect continuing operations as a result of the planned divestiture of the Rockport business.
2) 2011 restated according to IAS 8. Prior years are not restated.

01 / Regional GDP development[1)] (in %)



1) Real, percentage change versus prior year; 2012 and 2013 figures restated compared to prior year.
2) Source: World Bank.
3) Source: HSBC.
4) Includes Japan and Area Pacific.

06 / 2014 oil price development[1)] (in US $ per barrel)



1) West Texas Intermediate Cushing crude oil. Source: Bloomberg.

- **Focusing on sustainability** – strategic goal of managing wide-ranging commercial and competitive pressure to deliver increased financial returns and growth. The company is also committed to its responsibilities towards the environment, employees and workers;

Industry Overview

Barriers to entry through innovation, R&D and brand recognition

Contrary to the luxury goods operating model, which is focused on perfectly-competitive prices, significant barriers to entry and exclusive product ranges, the sporting goods industry has a broader demographic base, which relies more heavily on sporting events / icons to help promote awareness. In other words, sporting goods players prefer to work with “brand ambassadors” like successful sporting icons to develop leading-edge technology, adding value and brand credibility to performance-related products. The awards, adidas Group attained in 2014 highlight its technology leadership within the sporting goods industry.

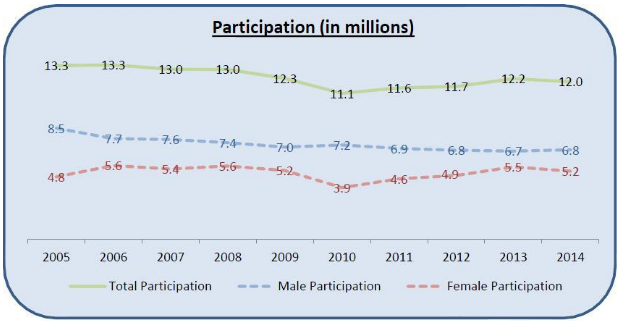
Sporting goods market outlook determined by global economy

The demand for sporting goods in the US has increased at significant rate. According to IBISWorld, the US market size of the sporting goods industry is currently $50 billion in terms of revenue, and it is estimated to grow 2.6% between 10 to 15 years. However, due to declining commodity prices and weak international trade, the global economy grew at a lower rate than expected in 2014, with gross domestic product (GDP) modestly rising 2.6%. Moreover, growth in major economies and developing countries recorded disappointing results, driven by lower external demand, political uncertainties and domestic policy tightening. Last but not least, European emerging markets also impacted adidas Group results, mainly due to negative currency effects, continuous decline in oil prices, higher input costs, increased clearance activities in Russia / Commonwealth of Independent States (CIS) and a lower product margins at TaylorMade-adidas golf market.

04 / **Quarterly consumer confidence development**[1]
(by region)

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
USA[2]	77.5	83.9	86.4	89.0	93.1
Euro area[3]	(13.5)	(9.3)	(7.5)	(11.4)	(10.9)
Japan[4]	40.0	36.9	40.5	39.6	37.5
China[5]	102.3	107.9	104.7	105.4	105.8
Russia[6]	(11.0)	(11.0)	(6.0)	(7.0)	(18.0)
Brazil[7]	111.2	108.8	106.3	109.7	109.2

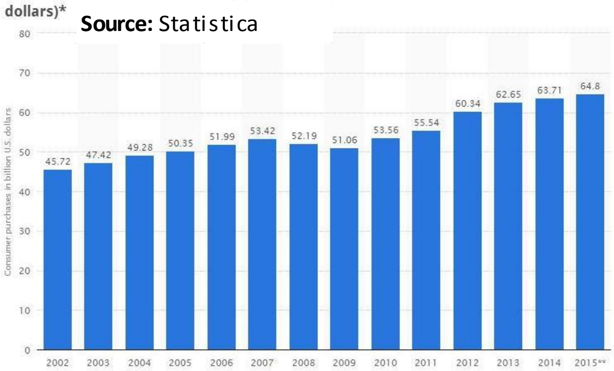
1) Quarter-end figures.
2) Source: Conference Board.
3) Source: European Commission.
4) Source: Economic and Social Research Institute, Government of Japan.
5) Source: China National Bureau of Statistics.
6) Source: Russia Federal Service of State Statistics.
7) Source: Brazil National Confederation of Industry.



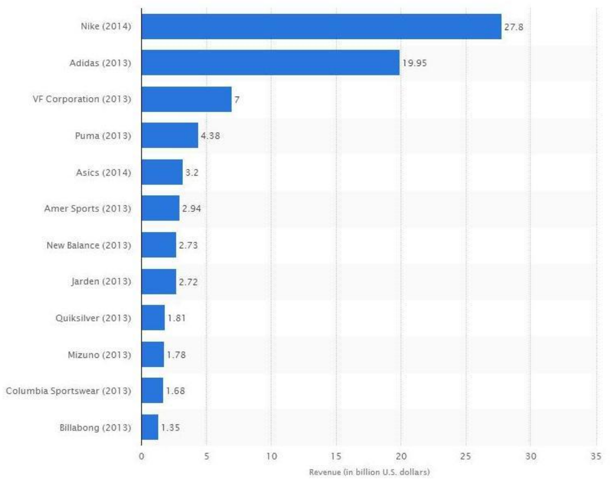
Source: SGMA

Consumer purchases of sporting goods in the U.S. from 2002 to 2015 (in billion U.S. dollars)*

Source: Statistica



Sportswear / Sporting goods companies ranked by worldwide revenue in 2013/2014 (in billion U.S. dollars)*



Source: Statistica

Emerging markets: a driving force in sporting goods consumption

In 2014, the global sporting goods industry grew at robust rates, supported by rising consumer spending in the emerging markets. The industry benefited particularly from the world's largest sporting event, the FIFA World Cup in Brazil. Due to Russia's participation in FIFA World Cup, European emerging markets saw a solid increase in the industry's size. In addition, Asia continues to be the fastest-growing region with 3.9% GDP growth. This trend was particularly evident in China and in India, where the growth was 7.5% and 5.5% respectively.

Consumer trend

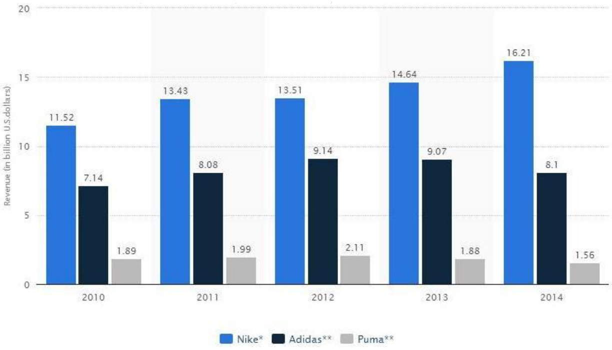
According to the Sporting Goods Manufacturers Association (SGMA), the total participation in sports activities has been recovering over the last years, after a continuous decline from 2005 to 2011. This recovery was mainly supported by a higher female participation, since the male participation remained more or less constant. Furthermore, SGMA also estimated that 15.1% of the total participants were frequent participants (participated 20 or more days during 2014), 45.6% were occasional participants, (5 to 19 days during 2014) and 39.3% were infrequent participants (only 2 to 4 days during 2014).

Sportswear is also increasingly adopted for casual use: in 2014, around 70% of athletic footwear is purchased for casual use, providing the industry with opportunities on a wider scope than in the past. In other words, this has given fashion the platform to enter the sportswear industry.

Competitive Positioning

Adidas AG has been one of the global leaders in the sporting goods industry for a long time, but it was not sooner than in 1995 when the company started operating worldwide. In 2005, with the acquisition of Reebok for $3.8 billion, adidas Group brought together two of the world's most respected and best-known companies in the sporting goods industry, giving the Group a stronger foundation in North America. Recent success stories include its real-time customer engagement activity during World Cup 2014, as well as its successful execution of the "Be More Human" campaign for Reebok, which have resulted

Revenue from footwear segment of Nike, Adidas and Puma from 2011 to 2014 (in billion U.S. dollars) **Source:** Statistica



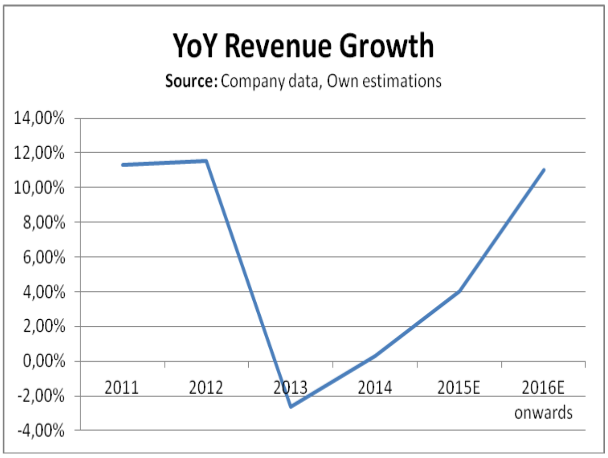
	EBITDA margin (%)	NI margin (%)
Adidas AG	8,25%	3,88%
Nike	13,31%	9,69%
Puma	6,01%	2,20%
VF Corp.	14,09%	8,62%

Source: Companies reports in 2014

Doing Business Index 2014

Rank	Country	GDP (%)
7	United States	2,4
15	Germany	1,6
54	Russia	0,6
83	China	7,3
111	Brazil	0,1
134	India	7,3

Source: World Bank



in Adidas' stronger market positioning as well as increased consumer interest in the brand. They have also recently sold Rockport, a subsidiary of Reebok. This would allow the Group to place a greater focus on its core business.

Strong position in the peer group

Adidas Group's main source of competitive advantage stems from its R&D investments, as well as its sponsorships / partnerships in the sporting goods industry. For instance, its innovation resources paid off in its revolutionary Boost™ technology, which grew the Adidas Running category sales by 15% in 2014. In addition, its partnerships with Rita Ora and Pharrell Williams had a positive impact on the NEO line, as well as Adidas Originals: the Originals business grew by 12% in 2014 and the NEO business grew by 27%, due to the group's strong marketing capabilities. The group's overall sales increase is heavily attributed to its diverse brand portfolio, while its cost reduction strategy can be attributed to its supply chain.

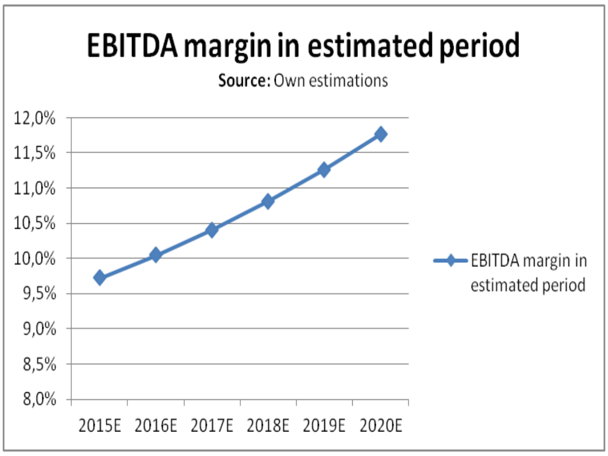
This is why the Group is placed in line with such giants as Nike and VF Corp. Among these two competitors, Adidas posed as the second biggest market share (10.8%) in 2013, only surpassed by Nike (15%), according to Euromonitor.

Diversified product base and demographic

Adidas Group's sporting goods products are well represented across a broad sporting goods and fashion base. Comprised of Adidas, Reebok, TaylorMade-Adidas Golf, and Reebok-CCM Hockey, the Group operates these four brands as separate business units in its related-constrained corporate strategy. Collectively, this multi-brand strategy creates distinct positioning across the group's portfolio to maximize consumer reach, as well as to create product differentiation in its market position.

Adidas Group's brands are also well represented across key regions, namely China, Russia / CIS and North America. It owns multiple internal R&D facilities around the world and also maintains partnerships with external R&D experts, such as the University of Calgary and the University of Michigan. Some of its current trademarked technology includes Boost™, Clima™ and MiCoach™. In order to increase its relevance in the US market against Nike, the Group has recently added Mark King to its leadership. Adidas has also been using digital marketing for all marketing activities in order to connect better with customers.

Investment Summary



Good entry point

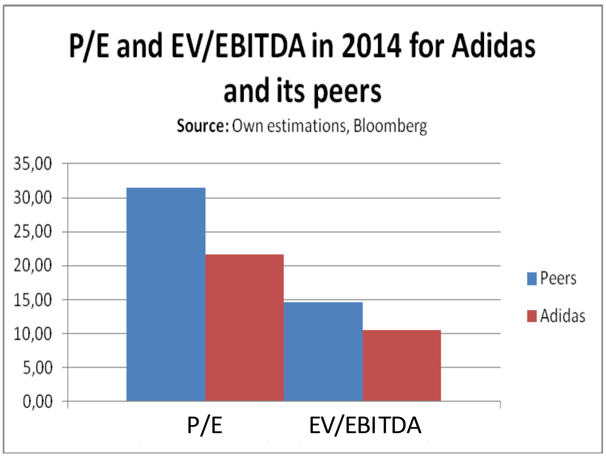
I issue a BUY recommendation for Adidas AG with a target price 142€ at the end of 2015, offering 83.9% upside potential from current stock price. Despite the significant pressure and the underperformance versus the overall market development in 2014, the Group was able to generate robust sales momentum at both adidas and Reebok and ongoing performance in Western Europe and emerging markets. I expect the growth of stock to regain a significant momentum in 2015, as Adidas AG is still undervalued comparing to its peers.

Valuation methods

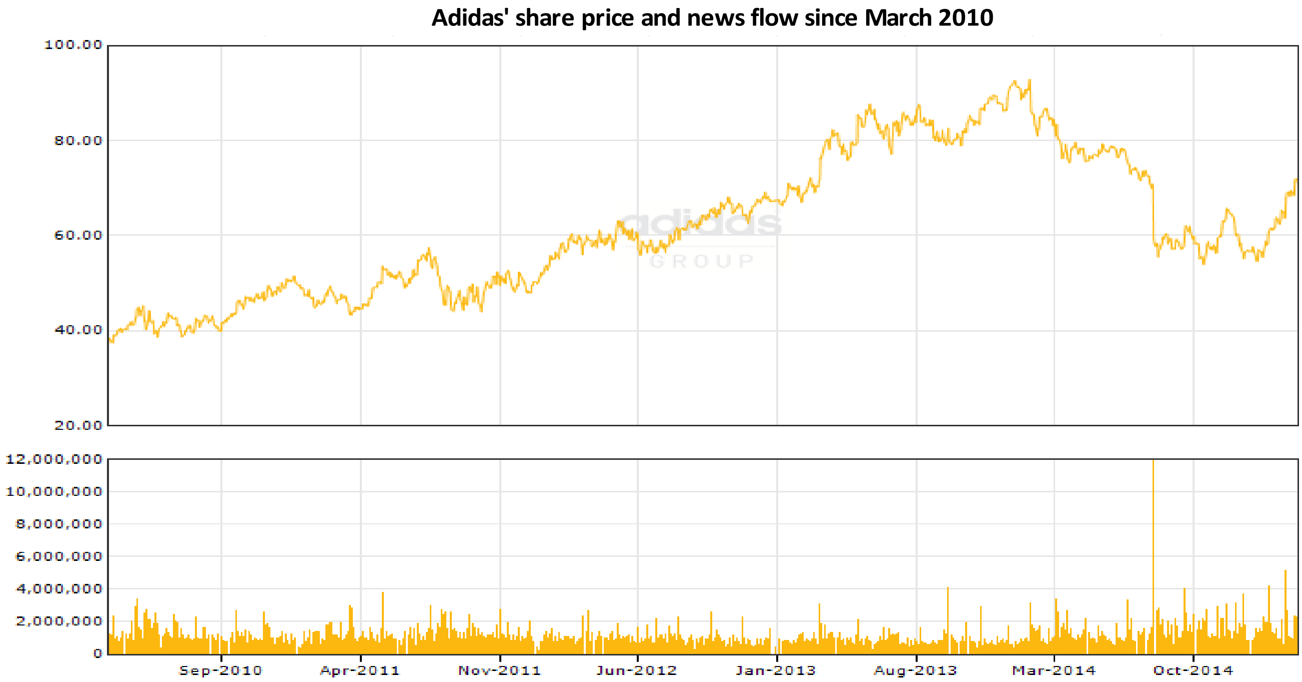
I derived my target price by combining DCF valuation and multiple pricing with equal weights. In my opinion, there is no reason for different treatment of any of those two methods. The peer group was chosen in a rigorous manner and I believe that comparison to selected companies is fully justified.

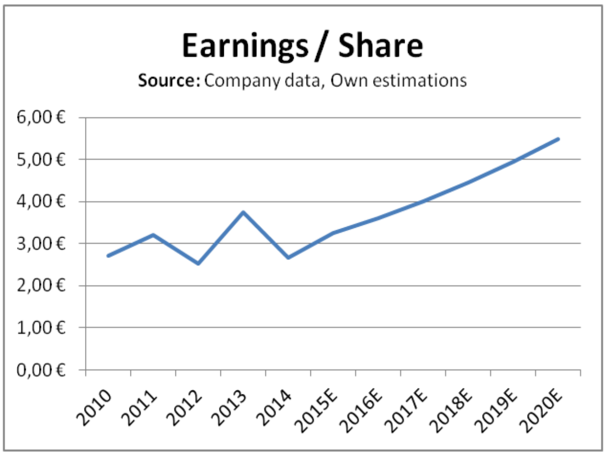
New product launches add value and reduce risk

Main risks are connected to Adidas' expansion into new markets: the Group's ability to succeed in entering new markets is largely related to the success of new product launches, which assures increase of production volume and provides cooperation potential; besides, the high margins of these markets could be negatively impacted by an increase in rivalry among existing players as well as the entrance of new competitors, which brings more importance to innovation and products diversification.



I identify the exchange rates of emerging markets with the Euro to be main drivers for the volatility of earnings. In my report, I based this on the World Bank Commodity Price Forecast. Forecast levels of that catalyst are expected to assure NI CAGR of 9% in 2015E-2020E.





DCF Assumptions	2015E	2016E onwards
Sales Growth YoY (%)	4,0%	11,0%
Effective Tax Rate	31,4%	31,4%
Gross Profit / Revenues	48,0%	48,0%
EBITDA / Revenues	9,1%	9,1%
CAPEX / Revenues	3,0%	3,0%
Depreciation / PPE	24,6%	24,6%
Working Capital / Revenues	8,6%	8,6%

Source: Own Estimations

Valuation

I considered two standard approaches to value Adidas AG – Discounted Cash Flow (DCF) model and comparable company multiple pricing.

DCF Valuation

A discounted cash flow analysis was used to estimate the intrinsic value of Adidas AG's share due to the predictability of cash flows in relation to growth and profitability. According to my detailed DCF analysis I expect the target price of €160.

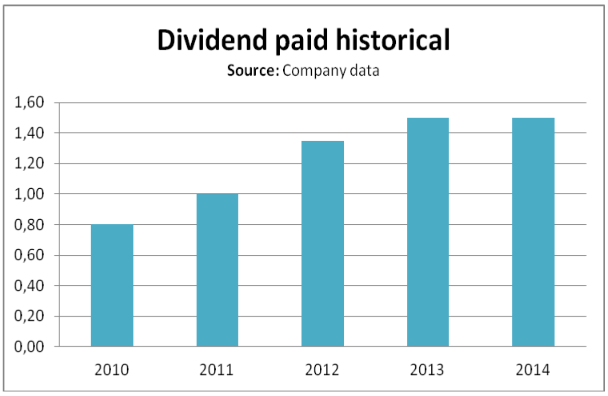
The base case for this model was formulated using guidance from historical performance, industry outlook, an assessment of Adidas AG's competitive positioning, and company guidance on acquisitions, revenue, and earnings growth. The DCF model is sensitive mostly to the following factors:

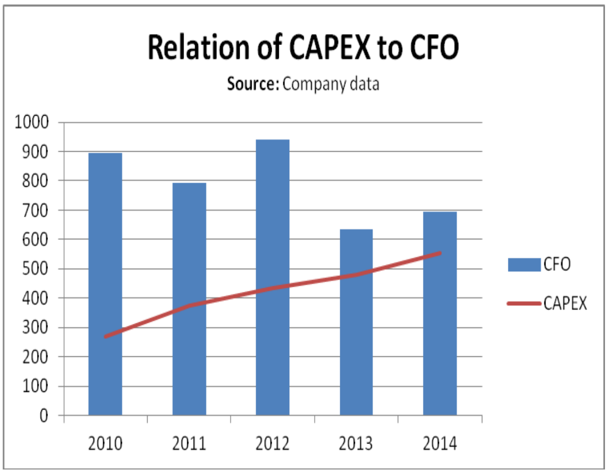
Sales: The forecast of growth in sales is based on increasing wholesale and retail revenues, distribution rationalization and market share gains. Wholesale revenues are the most important component of total sales, accounting 65% of its share in 2014. Having said that, I assume that Adidas AG is able to achieve a high single-digit currency neutral sales growth (i.e. 11%) each year from 2016 to 2020, the same growth verified over the past few years. While this estimate is higher than the analyst or even Adidas estimations, I am confident that the

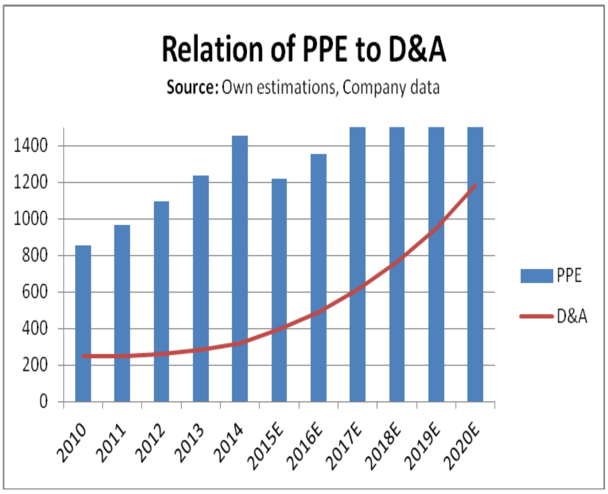
05 / **Exchange rate development**[1] (€ 1 equals)

	Average rate 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Average rate 2014
USD	1.3283	1.3788	1.3658	1.2583	1.2141	1.3296
GBP	0.8492	0.8282	0.8015	0.7773	0.7789	0.8066
JPY	129.58	142.42	138.44	138.11	145.23	140.44
RUB	42.298	49.205	45.933	49.560	68.303	50.737
CNY	8.1674	8.4825	8.4035	7.7417	7.4291	8.1919

1) Spot rates at quarter-end. **Source:** Company data







continuing recovery in the world economy will yield comfortable room to grow, especially from the emerging markets that Adidas Group already operates in. For 2015, however, I expect a mid single-digit rate (i.e. 4%) mainly due to the recent weakness in the golf market, negative economic developments in Russia/CIS, ongoing currency headwinds as well as absence of major sporting events like the World Cup, European Cup or Olympics.

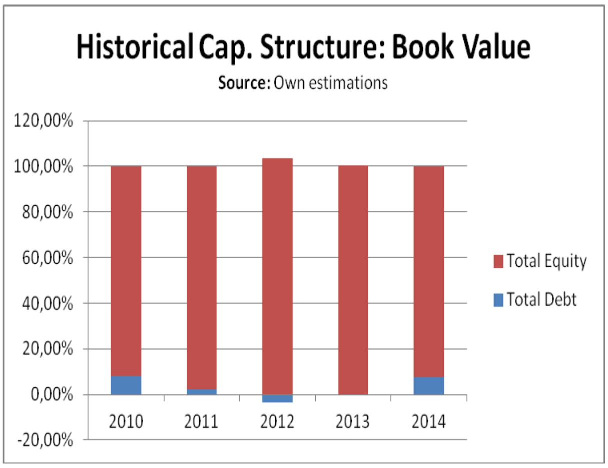
The remainder of the forecasted inputs was derived as a historical percentage of sales. The exceptions were Shareholders' Equity, which was a function of previous equity and new retained earnings (net income less dividends), as well as long-term debt, which served as the plug.

Terminal growth rate is based on: (1) condition in global economy, (2) development of Adidas' business model with a stronger focus on retail, while constantly improves its ability in the wholesale channel, (3) future revenues from product innovations (according to current Group strategy, main source of revenues in the future will be earned from such innovations), (4) Reebok's turnaround due to its more comprehensive apparel line and unique brand positioning, contributing to Group earnings after being loss making in 2013. Taking into account the aforementioned factors I established the terminal growth rate of FCFF at 1.5%, by using the real growth rate of 0.5% and the inflation rate of 1% (ECB estimations).

Dividend Policy: The past history indicates a growing dividend per share – it has increased from 0.80 (2010) to 1.50 (2014). Even thought, the current dividend payout ratio (53.9%) is higher than the current target payout of 20% to 40%, Adidas AG is still committed to a reliable dividend policy aimed towards continuity.

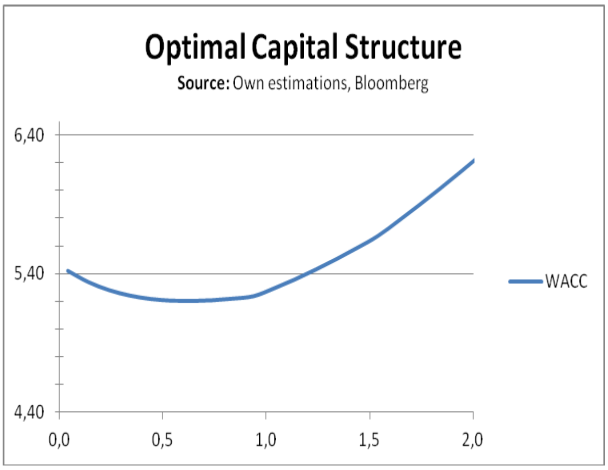
Capital expenditures and depreciation: An important part of the FCF calculation lies on CAPEX and depreciation & amortization (D&A). Due to new growth projects in emerging markets as well as in Western Europe and North America, future capital expenditures will be significant. Other areas of investment include the Group's logistics infrastructure as well as the further development of the adidas Group headquarters in Herzogenaurach.

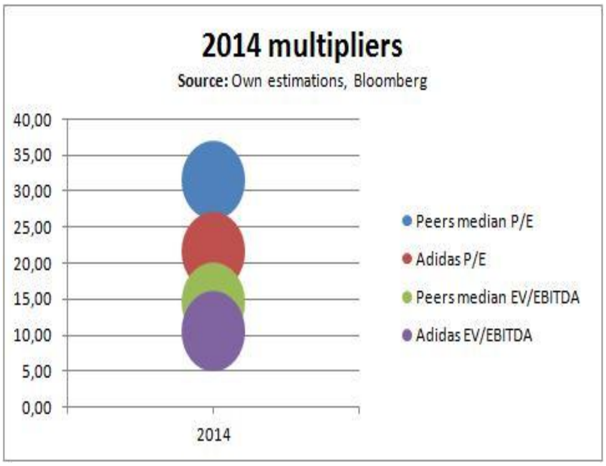
Over the past years, I also noticed that CAPEX grew steadily and strongly correlated to sales (on average 3%). On the other hand, D&A has been growing



Components of WACC	
Risk free rate	0,5%
Beta	0,84
Equity risk premium	6%
Cost of debt	1,58%
Cost of equity	5,58%
Marginal tax rate	32,5%

Source: Own Estimations, market data





steadily and strongly correlated to property, plant and equipment (PPE). These correlations, therefore, encourage me to apply the same formula calculations for the following years. The CAPEX and D&A are described in appendix 7.1.

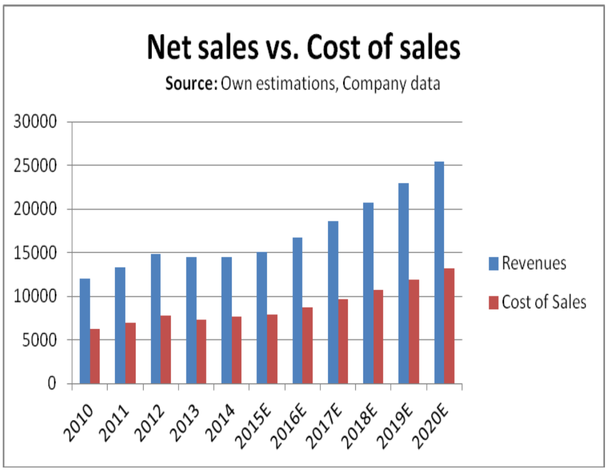
Working capital requirements: Working capital is estimated as a percentage of revenues (8.6%). However, due to a lack of correlation to sales, I excluded cash and cash equivalents from the working capital requirements. Fixed assets and net financial debts have also not been taken into consideration into the working capital requirements calculation for the same reason. For more information please see the appendix 7.2.

Weighted average cost of capital (WACC): The cost of equity was calculated using CAPM model, while a risk-free rate plus a credit default swap and a bank commission was used to calculate cost of debt. I used 10-year German government bond risk-free rate of 0.54%, the levered beta of 0.84 and an equity risk premium of 6% (based on A. Damodaran's estimation). For more details about components of WACC and its assumptions please refer to appendix 7.3.

Optimal Capital Structure

Is Adidas AG using its optimal capital structure at this point in time? In order to answer this question, a look at varying D/E levels and the corresponding WACC and enterprise value levels is required. Whichever capital structure allows minimizing the WACC and thus, maximizing the enterprise value can be deemed optimal. According to appendix 8, the numbers show that the WACC is minimized with a 0.39% debt component. This shows that the current capital structure ≠ optimal capital structure.

Time Horizon – Adidas AG has a long-standing history and has been around since 1949. Hence, I consider it to be in a maturity stage rather than in its growth stage. This means that free cash flows are considered to be stable, which allows me to limit the forecast period to five years.



Peer group pricing: the discount case

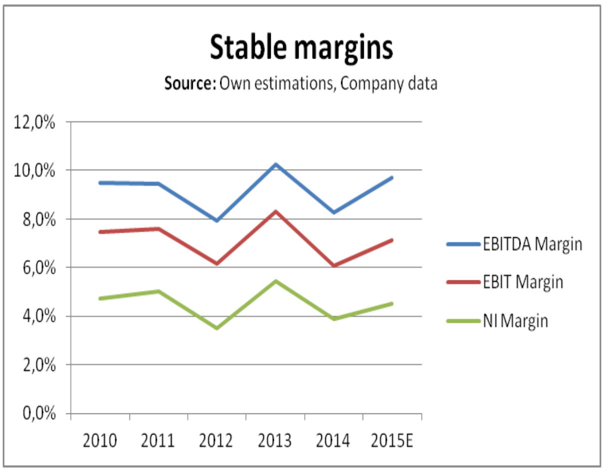
Having previously chosen appropriate peer group (Nike, Puma and VF Corp), I conducted multipliers pricing using benchmark Price/Earnings, EV/EBITDA and EV/Sales ratios. I decided to discard Price/Sales ratio for being an inconsistent ratio, as the numerator (price) relates to the share price or equity component whereas the denominator (sales) relates to the both equity and debt component.

I treated Price/Earnings, EV/EBITDA and EV/Sales equally in my valuation, as there is no evidence of predominance of one over the other. The price I obtained in such combination is equal to €124, what results in €142 when combined with DCF using 50-50 weighting procedure (please see appendix 6).

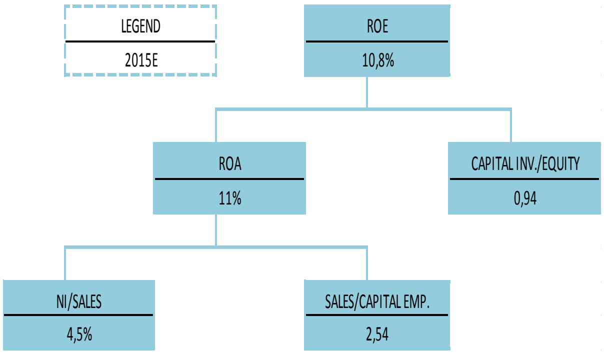
Sensitivity Analysis

In order to test the robustness of my valuation, I perform a sensitivity analysis on its most critical assumptions. For that, I conceived four scenarios where one or more assumptions changes in relation to the base case.

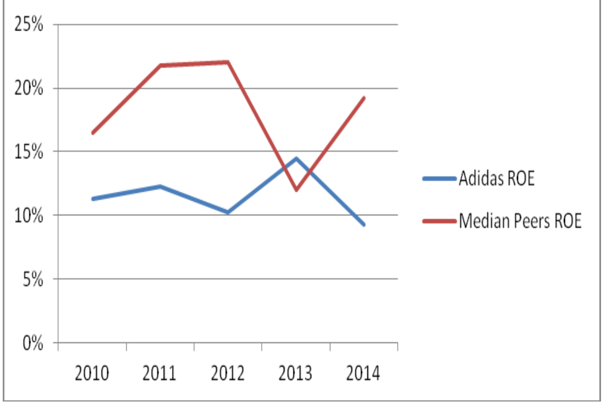
In the first scenario, I consider a situation where the European economy experiences prolonged low inflation, and hence affecting sales growth (falls 3% in each year, as it happened during the global financial crisis in 2009) and the calculation of the terminal growth rate (falls to 1%). A second reflects the possible effects of increased competition in the sporting goods industry, either by higher worldwide production levels or by a decrease in consumption. In this case, I progressively adjust downwards the Gross Profit/Revenues of Adidas AG. Furthermore, I introduce a setting of economic recovery where I increase the revenues growth to 1% per year and reduce the equity risk premium as well as the cost of debt. Finally, there is a case where corporate taxes are increased. According to appendix 10, the results indicate that the valuation is robust to a corporate tax increase, but is quite sensitive to variations in sales growth and Gross Profit/Revenues.



DuPont Analysis for 2015E (Appendix 9)



Source: Own estimations



Adidas ROE compared to peers

Source: Own estimations, Company data

Financial Analysis

Sustainable earnings

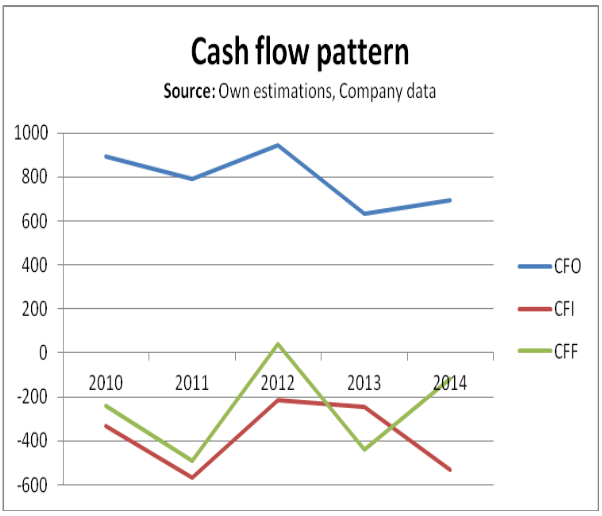
For Adidas AG, year 2013 was a record in terms of both gross profit and net income. The realized earnings CAGR in years 2010-2013 was ca. 5.65%. (2013 NI: 790€, 50.8% YoY). Impressive results were mainly driven by global central banks' promise to keep key rates low for an extended period of time, as well as the recovery of the US economy as well as the stabilization of the euro area economy. Year 2014, however, represented a deterioration of the results with following drivers: considerable negative currency developments versus the euro, distribution constraints in Russia/CIS and a stalling global golf market. Having said that, and despite a challenging year of 2014, I expect steady growth earnings in the mid-term (Forecast NI ca. 9% CAGR in 2015E-2020E), based on previously assumed forecast levels of net sales and launch of new products innovations. Therefore, I maintain the view that forecast level of earnings will enable the continuation of attractive dividend policy, practiced by Adidas AG so far.

Short and long-term sound level of margins

In both short and long-term, I expect main margins to improve slightly and remain at sound level comparing to historical performance of Adidas AG as well as its peers. After an underperformance year of 2014, where NI margin was 3.9%, I expect NI margin to be ca. 4.5% in 2015E.

DuPont Analysis – drivers of profitability

In the analyzed historical period, Adidas AG exhibited an average 12% return on equity. The main drivers of such level of profitability were mainly net income margin, equity multiplier as well as total assets turnover. My analysis indicates pair ROE forecast (2015E ROE 10.8%) mainly due higher net income margin and higher asset turnover. DuPont analysis suggests the most important driver for sustaining future level of return on equity to be net income margin, calculated as ratio of net profit divided by net sales. Hence, I conclude forecast increase of the Company's net income to have positive influence on profitability. Second driver appears to be asset turnover, which indicates the better the utilization of Company's resources. For more details please see the appendix 9.



Robust cash generating abilities

In the analyzed historical period (2010-2014) Adidas AG presented positive CFO and negative CFI due to high level of CAPEX. I predict this trend will hold in the forecast period. The Group also presented negative CFF (except for year 2012) which was due to high level of dividends. Additionally, Adidas AG constantly managed to present positive cash conversion. In my opinion, this trend will continue to be present in 2015.

The company liquidity ratios remained at high levels (Current ratio 2013: 1.45 2014: 1.68). I expect future level of liquidity ratios to be sufficient in projected period (Current ratio 2015: 1.54). For more financial ratios see appendix 4.

Structure of financing

In the last two years the Company was financing the resources entirely with equity (insignificant loans were incurred). In 2014, management stated possibility of incurring debt (management considers several options: long term bank loan, euro bonds issuance). In my opinion, the incurrence of debt has favorably influenced the overall Adidas' cost of capital and profitability ratios, especially taking into account sound financial position as well as cash generation ability.

Corporate Governance and Social Responsibility

Adidas' corporate governance and corporate social responsibility (CSR) are overall highly rated.

Adidas AG shows great efforts in improving its relations with shareholders, clients and employees. It can be shown by Company's high quality of annual reports, creation of audit, remuneration and strategy committees and introduction of Company's own code of ethics. To objectively estimate the Adidas' workplace standards, the Company commissioned International Labour Organization (ILO) to prepare an independent research on supply chain resources and followed the code of conduct of the World Federation of the Sporting Goods Industry (WFSGI). I deem such actions to create additional upside potential for Adidas AG, as compared to companies that lack special focus on corporate governance and CSR.

Corporate governance: I estimated the quality of corporate governance by applying Principles of Corporate Governance developed by Organization for Economic Cooperation and Development (OECD). Adidas' final score was 3.4 out of maximum 5 points. I value this score as relatively high. For detailed calculation methodologies please refer to appendix 11.

Corporate social responsibility: High quality is shown by inclusion of Adidas AG in a variety of high-profile sustainability indices in 2014 (appendix 11). For many years, Adidas AG has been actively supporting communities through various programs such as ongoing support from the adidas brand through its corporate volunteering programs managed by adidas Fund, Reebok's track record in supporting human rights groups or Taylor-Made-adidas Golf's long-standing program supporting charities. Adidas AG has also historically been striving to improve its ecological side, by effectively introducing new eco-products and pro-environmental solutions.

Investment Risks

Probabilities of the following risks and possible impact on the Company price are presented in appendix 12.

STRATEGIC RISKS:

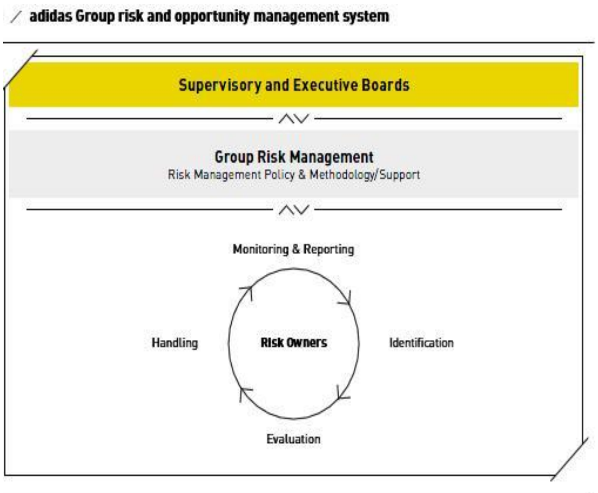
Macroeconomic and socio-political risks – GDP growth rate

Growth in the sporting goods industry is highly dependent on consumer spending and consumer confidence. Economic downturns and socio-political factors such as military conflicts, in particular in regions where the Group is highly represented, therefore pose a significant risk to the Group's business activities.

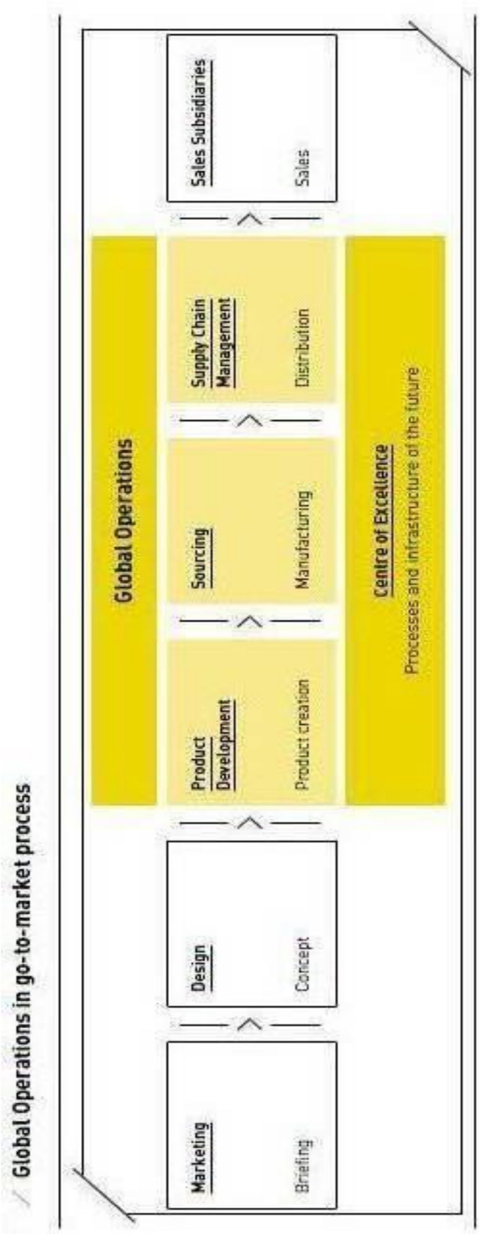
To minimize this risk, the Group strives to balance sales across key global regions and also between developed and emerging markets.

Risks related to media – Demand assumptions

The Group faces considerable risk if it is unable to uphold high levels of consumer awareness, affiliation and purchase intent for its brands. Hence, adverse media coverage on its products or business practices as well as negative social media may significantly hurt the Group's reputation and eventually result in a sales slowdown.



Source: Company data



Source: Company data

To mitigate this risk, Adidas pursue proactive, open communication and engagement with key stakeholders (e.g. consumers, media) on a continuous basis as well as investing significant marketing resources to build brand equity and foster consumer awareness.

Competition risks – oversupply

Strategic alliances amongst competitors and intense competition for consumers and promotion partnerships from well-established industry peers and new market entrants (e.g. new brands) pose a substantial risk to the adidas Group. This context may force the Group to reduce price to maintain its market share, affecting margins.

Group reduces the competition risks by continuously monitor and analyze competitive and market information in order to be able to anticipate unfavorable changes in the competitive environment rather than reacting to such changes.

OPERATIONAL RISKS:

Business partner risks

The Adidas Group interacts and enters into partnerships with multiple third parties, such as retailers, distributors, licensees, etc. As a result, the Group is exposed to a large business partner risks. Failure to maintain strong relationships with retailers, for instance, could have substantial negative effects in the Group's wholesale activities and thus in its business performance.

Inventory risks

Adidas' initial production orders around six months in advance of delivery. Hence, the Group is exposed to inventory risks relating to misjudging consumer demand at the time of production planning. A sudden decline / increase in demand can have negative implications for the Group's financial performance, and could lead to a reduction in brand loyalty and reputation.

To avoid this kind of risks, Adidas' Global Operations offers sophisticated models in order to shorten order-to-delivery times, ensuring availability of products while avoiding excess inventories.

Exposure to foreign exchange risk[1] (based on notional amounts, € in millions)

	USD	RUB	GBP	JPY
As at December 31, 2014				
Exposure from firm commitments and forecasted transactions	(4,890)	318	521	372
Balance sheet exposure including intercompany exposure	(393)	13	13	5
Total gross exposure	**(5,283)**	**331**	**534**	**377**
Hedged with other cash flows	99			
Hedged with currency options	278			
Hedged with forward contracts	3,128	(14)	(355)	(345)
Net exposure	**(1,778)**	**317**	**179**	**32**
As at December 31, 2013				
Exposure from firm commitments and forecasted transactions	(3,811)	348	370	362
Balance sheet exposure including intercompany exposure	(358)	106	(7)	6
Total gross exposure	**(4,169)**	**454**	**363**	**368**
Hedged with other cash flows	87			
Hedged with currency options	425			(47)
Hedged with forward contracts	2,604	(107)	(298)	(209)
Net exposure	**(1,053)**	**347**	**65**	**112**

1) Rounding difference may arise in totals. **Source:** Company data

Sensitivity analysis of foreign exchange rate changes (€ in millions)

	USD	RUB	GBP	JPY
As at December 31, 2014				
	EUR +10%	**USD +10%**	**EUR +10%**	**EUR +10%**
Equity	(188)	–	29	27
Net income	7	4	(1)	0
	EUR –10%	**USD –10%**	**EUR –10%**	**EUR –10%**
Equity	233	–	(35)	(33)
Net income	(8)	(4)	1	0
As at December 31, 2013				
	EUR +10%	**USD +10%**	**EUR +10%**	**EUR +10%**
Equity	(176)	–	21	17
Net income	2	(8)	1	0
	EUR –10%	**USD –10%**	**EUR –10%**	**EUR –10%**
Equity	214	–	(25)	(20)
Net income	(3)	7	(1)	0

Source: Company data

Risks related to product innovation and design

Innovative and attractive products generate strong sales, and hence fulfilling the highest standards in terms of product quality is crucial to sustainable commercial success and to maintain competitive advantage. Failure to do this could lead to a slowdown in brand momentum, lower brand attractiveness and, as a result, sales shortfalls and market share losses.

Thus, Adidas AG continues to invest in innovation and design processes as well as recruitment and retention of creative and innovative talent.

LEGAL & COMPLIANCE RISKS:

Tighter regulations

Numerous laws and regulations regarding competition, trade, customs and taxes affect the Adidas Group's business practices worldwide. Non-compliance with regulation could lead to substantial financial penalties and additional costs as well as negative media coverage and thus reputational damage.

To proactively manage such risks, the Group constantly seeks expert advice from specialized law or tax advisory firms.

FINANCIAL RISKS:

Currency risks – fluctuations of exchange rates

Currency risks for the Adidas Group are a direct result of multi-currency cash flows within the Group (about 72% of the Group's income and costs are related to foreign currency transactions). The biggest single driver behind this risk results from the mismatch of the currencies required for sourcing Adidas' products (US dollars) versus the denominations of its sales (mostly the euro).

Based on a sensitivity analysis performed by Adidas AG, a 10% increase in the euro versus the US dollar at 12/31/2014 would have led to a €7 million increase in net income. The more negative market values of the US dollar hedges would have decreased shareholders' equity by €188 million.

Appendix 1: Statement of financial position

1.1 Normal Balance Sheet

(€ millions)	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
	Historical Balance Sheet					Estimated Balance Sheet					
ASSETS											
Cash and cash equivalents	1156	906	1670	1587	1683	1517	1684	1869	2075	2303	2556
Short-term financial assets	233	465	265	41	5	228	253	280	311	345	383
Accounts receivable	1667	1707	1688	1809	1946	1932	2145	2380	2642	2933	3256
Other current financial assets	197	304	192	183	398	278	309	343	381	423	469
Inventories	2119	2482	2486	2634	2526	2676	2971	3298	3660	4063	4510
Income tax receivables	71	77	76	86	92	88	98	108	120	133	148
Other current assets	390	469	489	506	425	498	553	613	681	756	839
Assets classified as held for sale	47	25	11	11	272	79	87	97	108	119	132
Total current assets	**5880**	**6435**	**6877**	**6857**	**7347**	**7296**	**8098**	**8989**	**9978**	**11076**	**12294**
Property, plant and equipment	855	963	1095	1238	1454	1217	1351	1499	1664	1847	2050
Goodwill	1539	1580	1281	1204	1169	1500	1666	1849	2052	2278	2528
Trademarks	1447	1503	1484	1419	1432	1601	1777	1972	2189	2430	2697
Other intangible assets	142	160	167	164	162	174	193	214	238	264	293
Long-term financial assets	94	98	112	120	129	121	134	148	165	183	203
Other non-current financial assets	54	42	21	30	42	42	47	52	58	64	71
Deferred tax assets	508	493	528	486	577	568	631	700	777	863	958
Other non-current assets	100	107	86	81	105	106	117	130	145	160	178
Total non-current assets	**4739**	**4946**	**4774**	**4742**	**5070**	**5329**	**5915**	**6566**	**7288**	**8090**	**8979**
Total assets	**10619**	**11381**	**11651**	**11599**	**12417**	**12625**	**14013**	**15555**	**17266**	**19165**	**21273**
LIABILITIES AND EQUITY											
Short-term borrowings	273	289	280	681	288	393	436	484	538	597	662
Accounts payable	1694	1886	1790	1825	1652	1942	2156	2393	2656	2949	3273
Other current financial liabilities	123	57	83	113	91	103	115	127	141	157	174
Income taxes	265	252	275	240	294	291	323	359	398	442	490
Other current provisions	470	507	563	450	470	539	599	665	738	819	909
Other accrued liabilities	842	990	1084	1147	1249	1156	1283	1424	1581	1755	1948
Other current liabilities	241	301	299	276	287	307	341	378	420	466	517
Liabilities classified as held for sale	0	0	0	0	46	10	11	12	13	15	16
Total current liabilities	**3908**	**4282**	**4374**	**4732**	**4377**	**4741**	**5263**	**5842**	**6484**	**7198**	**7990**
Long-term borrowings	1337	991	1207	653	1584	725	741	760	780	803	828
Other non-current financial liabilities	15	6	17	22	9	15	17	19	21	23	25
Pensions and similar obligations	180	205	251	255	284	255	283	314	349	387	430
Deferred tax liabilities	451	430	368	338	390	438	486	539	598	664	737
Other non-current provisions	29	55	69	25	38	47	52	58	64	71	79
Non-current accrued liabilities	39	45	40	64	81	58	65	72	80	89	98
Other non-current liabilities	36	36	34	29	35	37	42	46	51	57	63
Total non-current liabilities	**2087**	**1768**	**1986**	**1386**	**2421**	**1575**	**1685**	**1807**	**1943**	**2094**	**2261**
Share Capital	209	209	209	209	204	-	-	-	-	-	-
Reserves	563	770	641	321	583	-	-	-	-	-	-
Retained earnings	3845	4348	4454	4959	4839	-	-	-	-	-	-
Shareholders' equity	4617	5327	5304	5489	5626	6308	7065	7905	8838	9874	11023
Non-controlling interests	7	4	-13	-8	-7	0	0	0	0	0	0
Total equity	**4624**	**5331**	**5291**	**5481**	**5619**	**6308**	**7065**	**7905**	**8838**	**9874**	**11023**
Total liabilities and equity	**10619**	**11381**	**11651**	**11599**	**12417**	**12625**	**14013**	**15555**	**17266**	**19165**	**21273**

Source: Own estimations

1.2 Economic Balance Sheet

(€ millions)	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Property, plant and equipment	855	963	1095	1238	1454	1217	1351	1499	1664	1847	2050
Goodwill	1539	1580	1281	1204	1169	1500	1666	1849	2052	2278	2528
Trademarks	1447	1503	1484	1419	1432	1601	1777	1972	2189	2430	2697
Other intangible assets	142	160	167	164	162	174	193	214	238	264	293
Long-term financial assets	94	98	112	120	129	121	134	148	165	183	203
Other non-current financial assets	54	42	21	30	42	42	47	52	58	64	71
Fixed assets	**4131**	**4346**	**4160**	**4175**	**4388**	**4655**	**5167**	**5735**	**6366**	**7066**	**7844**
Working capital requirements	**909**	**1105**	**951**	**1289**	**1708**	**1297**	**1440**	**1598**	**1774**	**1969**	**2185**
Capital employed	**5040**	**5451**	**5111**	**5464**	**6096**	**5952**	**6606**	**7333**	**8140**	**9035**	**10029**

(€ millions)	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Share Capital	209	209	209	209	204	-	-	-	-	-	-
Reserves	563	770	641	321	583	-	-	-	-	-	-
Retained earnings	3845	4348	4454	4959	4839	-	-	-	-	-	-
Shareholders' equity	4617	5327	5304	5489	5626	6308	7065	7905	8838	9874	11023
Non-controlling interests	7	4	-13	-8	-7	0	0	0	0	0	0
Total equity	**4624**	**5331**	**5291**	**5481**	**5619**	**6308**	**7065**	**7905**	**8838**	**9874**	**11023**
Cash and cash equivalents	1156	906	1670	1587	1683	1517	1684	1869	2075	2303	2556
Short-term financial assets	233	465	265	41	5	228	253	280	311	345	383
Short-term borrowings	273	289	280	681	288	393	436	484	538	597	662
Long-term borrowings	1337	991	1207	653	1584	725	741	760	780	803	828
Other non-current financial liabilities	15	6	17	22	9	15	17	19	21	23	25
Pensions and similar obligations	180	205	251	255	284	255	283	314	349	387	430
Net financial debts	**416**	**120**	**-180**	**-17**	**477**	**-356**	**-459**	**-573**	**-699**	**-839**	**-994**
Capital invested	**5040**	**5451**	**5111**	**5464**	**6096**	**5952**	**6606**	**7333**	**8140**	**9035**	**10029**

	Historical Economic Balance Sheet					Estimated Economic Balance Sheet					
(€ millions)	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Fixed assets	4131	4346	4160	4175	4388	4655	5167	5735	6366	7066	7844
Working capital requirements	909	1105	951	1289	1708	1297	1440	1598	1774	1969	2185
Capital employed	**5040**	**5451**	**5111**	**5464**	**6096**	**5952**	**6606**	**7333**	**8140**	**9035**	**10029**
Total equity	4624	5331	5291	5481	5619	6308	7065	7905	8838	9874	11023
Net financial debts	416	120	-180	-17	477	-356	-459	-573	-699	-839	-994
Capital invested	**5040**	**5451**	**5111**	**5464**	**6096**	**5952**	**6606**	**7333**	**8140**	**9035**	**10029**

Source: Own estimations

Appendix 2: Income statement

(€ millions)	Historical Income Statement					Estimated Income Statement					
	2010	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Revenue											
Net sales	11990	13344	14883	14492	14534	15115	16778	18624	20672	22946	25470
Cost of sales	6260	7000	7780	7352	7610	7861	8726	9686	10751	11934	13246
Gross profit	**5730**	**6344**	**7103**	**7140**	**6924**	**7254**	**8052**	**8938**	**9921**	**11013**	**12224**
(% of net sales)	47,8%	47,5%	47,7%	49,3%	47,6%	48,0%	48,0%	48,0%	48,0%	48,0%	48,0%
Royalty	100	93	105	104	102	111	123	136	151	168	186
Other operating income	110	98	127	143	138	134	149	165	184	204	226
Other operating expenses	5046	5524	6150	6133	6203	6343	7040	7815	8674	9628	10687
(% of net sales)	42,1%	41,4%	41,3%	42,3%	42,7%	42,0%	42,0%	42,0%	42,0%	42,0%	42,0%
Goodwill impairment losses			265	52	78	81	90	100	111	123	136
Operating profit	**894**	**1011**	**920**	**1202**	**883**	**1076**	**1194**	**1325**	**1471**	**1633**	**1813**
(% of net sales)	7,5%	7,6%	6,2%	8,3%	6,1%	7,1%	7,1%	7,1%	7,1%	7,1%	7,1%
Financial income	25	31	36	26	19	30	33	37	41	46	51
Financial expenses	113	115	105	94	67	109	121	135	150	166	184
Income before taxes	**806**	**927**	**851**	**1134**	**835**	**996**	**1106**	**1228**	**1363**	**1512**	**1679**
(% of net sales)	6,7%	6,9%	5,7%	7,8%	5,7%	6,6%	6,6%	6,6%	6,6%	6,6%	6,6%
Income taxes	238	257	327	344	271	313	347	385	428	475	527
Losses / gains fr. discontinued op. net of tax					-68						
(Tax rate %)	29,5%	27,7%	38,4%	30,3%	32,5%	31,4%	31,4%	31,4%	31,4%	31,4%	31,4%
Net income	**568**	**670**	**524**	**790**	**564**	**684**	**759**	**842**	**935**	**1038**	**1152**
(% of net sales)	4,7%	5,0%	3,5%	5,4%	3,9%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
Net income attributable to shareholders	**567**	**671**	**526**	**787**	**558**	**682**	**757**	**840**	**933**	**1035**	**1149**
(% of net sales)	4,7%	5,0%	3,5%	5,4%	3,8%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
Net income to non-controlling interests	1	-1	-2	3	6	1	2	2	2	2	3
EPS (€)	**2,71 €**	**3,20 €**	**2,52 €**	**3,76 €**	**2,67 €**	**3,26 €**	**3,62 €**	**4,02 €**	**4,46 €**	**4,95 €**	**5,49 €**
Diluted EPS	2,71	3,2	2,52	3,76	2,67	3,26	3,62	4,02	4,46	4,95	5,49
Share number for EPS	**210**	**209**	**208**	**210**	**211**	**210**	**210**	**210**	**210**	**210**	**210**
Share number for diluted EPS	210	209	208	210	211	210	210	210	210	210	210

Source: Own estimations

Observations: Year 2014 and following years exclude discontinued operations

Appendix 3: Statement of cash flows

	Historical Cash Flow Statement					Estimated Cash Flow Statement					
(€ millions)	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Income before taxes	806	927	851	1134	835	996	1106	1228	1363	1512	1679
Adjustments for:											
Depreciation, amortisation and impairment losses	270	253	536	346	405	537	711	943	1249	1655	2194
Reversals of impairment losses	-7	-2	-2	-2	-1	-3	-4	-4	-4	-5	-5
Unrealised foreign exchange losses / (gains), net	-19	-31	-26	10	32	-8	-9	-10	-11	-13	-14
Interest income	-23	-30	-35	-25	-17	-28	-32	-35	-39	-43	-48
Interest expense	112	108	97	73	62	101	112	124	137	153	169
Losses on sale of property, plant and equipment	5	12	12	7	16	11	12	14	15	17	19
Other non-cash income	0	0	-3	-1	-1	-1	-1	-1	-1	-2	-2
Payment for external funding of pension obligations	0	0	0	0	-65	-14	-15	-17	-18	-21	-23
Operating profit before working capital change	**1144**	**1237**	**1430**	**1542**	**1266**	**1590**	**1881**	**2241**	**2690**	**3255**	**3969**
Increase in receivables and other assets	-100	-116	-135	-309	-36	-151	-167	-186	-206	-229	-254
(Increase) / decrease in inventories	-561	-349	23	-301	-76	-294	-327	-363	-403	-447	-496
Increase in accounts payable and other liabilities	757	447	94	164	-117	321	356	396	439	487	541
Cash generated from op. before int. & taxes	**1240**	**1219**	**1412**	**1096**	**1037**	**1466**	**1743**	**2087**	**2520**	**3066**	**3759**
Interest paid	-111	-113	-90	-68	-59	-98	-109	-121	-134	-149	-166
Income taxes paid	-235	-314	-380	-394	-284	-349	-387	-430	-477	-530	-588
Net cash generated from op. activities (1)	**894**	**792**	**942**	**634**	**694**	**1019**	**1246**	**1537**	**1908**	**2387**	**3006**
Investing activities:											
Purchase of trademarks and other intangible assets	-42	-58	-58	-52	-49	-50	-52	-54	-55	-57	-59
Sale of trademarks and other intangible assets	17	0	1	1	1	5	5	6	7	7	8
Purchase of property, plant and equipment	-227	-318	-376	-427	-499	-514	-529	-545	-562	-579	-596
Sale of property, plant and equipment	1	2	19	4	4	6	7	8	9	9	10
Acq. of sub. & other business units net of cash acq.	0	-20	-57	0	-6	-17	-19	-21	-24	-26	-29
Disposal of subsidiaries net of cash	0	0	14	0	0	3	3	4	4	4	5
Sale of short-term financial assets	-146	-192	195	226	37	14	16	17	19	21	24
(Purchase of) / investments & other lg-term assets	44	-10	10	-20	-36	-1	-1	-1	-1	-1	-1
Interest received	23	30	35	25	17	28	32	35	39	43	48
Net cash used in investing activities (2)	**-330**	**-566**	**-217**	**-243**	**-531**	**-526**	**-539**	**-552**	**-564**	**-577**	**-590**
Financing activities:											
Repayment of long-term borrowings	33	-48	-3	0	990	203	225	250	277	308	342
Proceeds from issue of a convertible bond	0	0	496	0	-500	-3	-4	-4	-4	-5	-5
Repayments of finance lease obligations	0	0	0	-2	-2	-1	-1	-1	-1	-1	-1
Dividend paid to shareholders of Adidas AG	-73	-167	-209	-282	-314	-223	-247	-275	-305	-338	-375
Dividend paid to non-controlling int. shareholders	0	-3	-3	-1	-4	-2	-3	-3	-3	-4	-4
Acquistion of non-controlling interests	0	0	-8	0	-300	-64	-71	-79	-88	-97	-108
Proceeds from short-term borrowings	0	0	0	67	68	28	31	35	38	43	47
Cash repayments of short-term borrowings	-198	-273	-231	-221	-56	-216	-240	-267	-296	-329	-365
Net cash (used in) / generat. fr. fin. activ. (3)	**-238**	**-491**	**42**	**-439**	**-118**	**-279**	**-310**	**-344**	**-381**	**-423**	**-470**
Effect of exchange rates on cash (4)	**55**	**15**	**-3**	**-35**	**50**	**20**	**22**	**24**	**27**	**30**	**33**
(Decrease) / increase of cash and cash eq.	381	-250	764	-83	96	197	219	243	270	299	332
Cash and cash equivalents at beginning of the year	775	1156	906	1670	1587	1320	1465	1626	1805	2004	2224
Cash and cash equivalents at the end of period	**1156**	**906**	**1670**	**1587**	**1683**	**1517**	**1684**	**1869**	**2075**	**2303**	**2556**
Decrease / increase of cash (1+2+3+4)	**381**	**-250**	**764**	**-83**	**95**	**234**	**420**	**666**	**990**	**1417**	**1979**

Source: Own estimations

Appendix 4: Key Financial Ratios

Key Financial Ratios	2010	2011	2012	2013	2014	2015E
Liquidity Ratios						
Current ratio (x)	1,50	1,50	1,57	1,45	1,68	1,54
Quick ratio (x)	0,78	0,72	0,83	0,73	0,83	0,78
Cash ratio (x)	0,30	0,21	0,38	0,34	0,38	0,32
Activity Ratios						
Days inventory (x)	103,06	119,95	116,54	127,09	123,75	120,78
Days payable (x)	98,77	98,34	83,98	90,60	79,24	90,18
Days sales oustanding (x)	50,75	46,69	41,40	45,56	48,87	46,65
Cash conversion cycle (x)	55,04	68,30	73,96	82,05	93,38	77,25
Inventory turnover (x)	3,49	3,04	3,13	2,87	2,95	3,02
Fixed asset turnover (x)	2,90	3,07	3,58	3,47	3,31	3,25
Total asset turnover (x)	2,38	2,45	2,91	2,65	2,38	2,54
Profitability Ratios						
Gross profit margin (%)	47,8%	47,5%	47,7%	49,3%	47,6%	48,0%
EBITDA margin (%)	9,5%	9,4%	7,9%	10,3%	8,2%	9,7%
Operating profit margin (%)	7,5%	7,6%	6,2%	8,3%	6,1%	7,1%
Net profit margin (%)	4,7%	5,0%	3,5%	5,5%	3,9%	4,5%
ROA (%)	11%	12%	10%	14%	9%	11%
ROE (%)	12,3%	12,6%	9,9%	14,4%	10,0%	10,8%
Solvency Ratios						
Debt ratio (%)	8,3%	2,2%	-3,5%	-0,3%	7,8%	-6,0%
Debt-equity ratio (x)	0,09	0,02	-0,03	0	0,08	-0,06
Financial leverage ratio (x)	1,09	1,02	0,97	1,00	1,08	0,94
Interest coverage ratio (x)	7,98	9,36	9,48	16,47	14,24	10,65
Cash Flow Ratios						
Internal financing of CAPEX	332,3%	210,6%	217,1%	132,4%	125,5%	178,8%
Overall Ratio of cash sufficiency	2,38	1,60	1,47	0,83	0,37	1,02
CFO/(NI+D&A+ΔNWC)	0,52	0,71	1,50	0,45	0,53	1,53
Cash sales performance	0,07	0,06	0,06	0,04	0,05	0,07
Market Ratio						
P/E (x)	18,04	15,71	26,72	24,64	21,58	43,61
EV/EBITDA (x)	9,35	8,45	11,71	13,07	10,55	19,31
EV/Sales (x)	0,89	0,80	0,93	1,34	0,87	1,88

Source: Own estimations

Appendix 5: DCF analysis

Adidas WACC Calculation (1)	2010	2011	2012	2013	2014
10y german bond yield (%)	2,61%	1,50%	1,57%	1,40%	0,54%
Equity risk premium (%)	6,00%	6,00%	6,00%	6,00%	6,00%
Adidas levered beta (x)	0,92	0,89	0,91	0,87	0,84
Net financial debts	416	120	-180	-17	477
Share price year-end (€)	48,89	50,26	67,33	92,64	57,62
Shares used for EPS calc. (m)	210	209	208	210	211
Market value of equity (€m)	10247	10523	14000	19464	12171
D/E (x)	0,04	0,01	-0,01	0,00	0,04
D/(D+E) (x)	0,04	0,01	-0,01	0,00	0,04
Marginal Tax Rate (%)	29,5%	27,7%	38,4%	30,3%	32,5%
Adidas unlevered beta (x)	0,89	0,88	0,92	0,87	0,82
Adidas credit default swap (%)	1,23%	1,18%	1,10%	0,95%	0,84%
Bank comission (%)	0,20%	0,20%	0,20%	0,20%	0,20%
Cost of debt before tax (%)	4,04%	2,88%	2,87%	2,55%	1,58%

Adidas WACC Calculation (2)	2010	2011	2012	2013	2014
Debt-to-Value (x)	0,04	0,01	-0,01	0,00	0,04
Cost of debt after tax (%)	**2,85%**	**2,08%**	**1,77%**	**1,78%**	**1,07%**
Equity-to-Value (x)	0,96	0,99	1,01	1,00	0,96
Cost of equity (%)	**8,13%**	**6,84%**	**7,03%**	**6,62%**	**5,58%**
WACC (%)	**7,92%**	**6,79%**	**7,10%**	**6,62%**	**5,41%**

(€ millions)	2015E	2016E	2017E	2018E	2019E	2020E
EBIT	1076	1194	1325	1471	1633	1813
EBIT*(1-T)	738	819	909	1009	1120	1244
Depreciation & Amortisation	394	491	612	763	951	1185
Operational Cash Flow	1132	1310	1521	1772	2071	2428
ΔNet Working Capital	-411	143	158	176	195	217
Capital Expenditures	570	587	605	623	642	661
FCFF	**973**	**581**	**758**	**973**	**1234**	**1551**
Discount Factor	0,95	0,90	0,85	0,81	0,77	0,73
Discounted Cash Flow	923	523	647	788	948	1131
PV FCFF	4961					
Terminal Value	29380					
Enterprise Value	**34341**					
Net Debt	477					
Equity Value	**33864**					
Shares Outstanding	211					
Price-Target	160 €					

Growth Rate in Perpetuity	**1,5%**
WACC	**5,41%**
WACC in Perpetuity	**3,91%**
Price at the end of 2015	**160 €**
Price at 10th April 2015	**77,21 €**

Real growth rate	**0,50%**
Inflation rate	**1,00%**

Source: Own estimations, Bloomberg

Appendix 6: Multipliers pricing

COMPARABLES (2014)	P/E	EV/EBITDA	EV/Sales
Nike	25,90	14,61	2,27
Puma	40,22	12,45	0,75
VF Corp	31,47	19,76	2,78
Average	32,53	15,61	1,93
Median	31,47	14,61	2,27
Industry	**31,47**	**14,61**	**2,27**
Adidas AG	21,58	10,55	0,87

Adidas AG (2015E)		Net income	EBITDA	Sales
		684	1470	15115
Enterprise Value		21511	21471	34312
Net Debt			-356	-356
Equity Value		**21511**	**21827**	**34668**
Number of shares (2015)		210	210	210
Value of equity per share		102,59 €	104,09 €	165,33 €
Weights for multipliers		33%	33%	33%
Price-Target	124 €			

Price from relative valuation	**124 €**	
Weight of relative valuation	**50%**	
Price from DCF	**160 €**	
Weight of DCF	**50%**	
Price at the end of 2015	**142 €**	**83,9% UPSIDE POTENTIAL**
Price at 10th April 2015	**77,21 €**	

Source: Own estimations, Bloomberg

Appendix 7: DCF assumptions

1. Capital Expenditures and Depreciation

(€ millions)	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Reportable segments	94	161	156	201	205	211	218	224	231	238	245
Other Businesses	26	28	28	28	26	27	28	28	29	30	31
HQ/Consolidation	149	187	250	250	322	332	342	352	363	374	385
CAPEX	**269**	**376**	**434**	**479**	**553**	**570**	**587**	**605**	**623**	**642**	**661**

(€ millions)	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Reportable segments	110	110	122	132	146	182	227	283	352	439	547
Other Businesses	8	9	11	11	14	17	22	27	34	42	52
HQ/Consolidation	128	130	127	143	156	194	242	302	377	469	585
Depreciation and amortisation (D&A)	**246**	**249**	**260**	**286**	**316**	**394**	**491**	**612**	**763**	**951**	**1185**

2. Working Capital Requirements

(€ millions)	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Accounts receivable	1667	1707	1688	1809	1946	1932	2145	2380	2642	2933	3256
Other current financial assets	197	304	192	183	398	278	309	343	381	423	469
Inventories	2119	2482	2486	2634	2526	2676	2971	3298	3660	4063	4510
Income tax receivables	71	77	76	86	92	88	98	108	120	133	148
Other current assets	390	469	489	506	425	498	553	613	681	756	839
Assets classified as held for sale	47	25	11	11	272	79	87	97	108	119	132
Deferred tax assets	508	493	528	486	577	568	631	700	777	863	958
Other non-current assets	100	107	86	81	105	106	117	130	145	160	178
Total	**5099**	**5664**	**5556**	**5796**	**6341**	**6225**	**6910**	**7670**	**8514**	**9451**	**10490**
Accounts payable	1694	1886	1790	1825	1652	1942	2156	2393	2656	2949	3273
Other current financial liabilities	123	57	83	113	91	103	115	127	141	157	174
Income taxes	265	252	275	240	294	291	323	359	398	442	490
Other current provisions	470	507	563	450	470	539	599	665	738	819	909
Other accrued liabilities	842	990	1084	1147	1249	1156	1283	1424	1581	1755	1948
Other current liabilities	241	301	299	276	287	307	341	378	420	466	517
Liabilities classified as held for sale	0	0	0	0	46	10	11	12	13	15	16
Deferred tax liabilities	451	430	368	338	390	438	486	539	598	664	737
Other non-current provisions	29	55	69	25	38	47	52	58	64	71	79
Non-current accrued liabilities	39	45	40	64	81	58	65	72	80	89	98
Other non-current liabilities	36	36	34	29	35	37	42	46	51	57	63
Total	**4190**	**4559**	**4605**	**4507**	**4633**	**4928**	**5471**	**6072**	**6740**	**7482**	**8305**
Working capital requirements	**909**	**1105**	**951**	**1289**	**1708**	**1297**	**1440**	**1598**	**1774**	**1969**	**2185**
ΔNet Working Capital	**909**	**196**	**-154**	**338**	**419**	**-411**	**143**	**158**	**176**	**195**	**217**

3. Weighted Average Cost of Capital

Variable	Value	Basis
Risk-Free Rate	0,5%	31 Dec 2014 10-year German Bond Yield
Equity Risk Premium	6%	Based on Damodaran's calculation
Levered Beta	0,84	Based on Damodaran's calculation
Cost of Equity	5,58%	Own Estimations
Cost of Debt (before tax)	1,58%	Own Estimations
Debt-to-Value	0,04	Own Estimations
Equity-to-Value	0,96	Own Estimations

Source: Own estimations

4. Net Financial Debts

(€ millions)	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Cash and cash equivalents	1156	906	1670	1587	1683	1517	1684	1869	2075	2303	2556
Short-term financial assets	233	465	265	41	5	228	253	280	311	345	383
Short-term borrowings	273	289	280	681	288	393	436	484	538	597	662
Long-term borrowings	1337	991	1207	653	1584	725	741	760	780	803	828
Other non-current financial liabilities	15	6	17	22	9	15	17	19	21	23	25
Pensions and similar obligations	180	205	251	255	284	255	283	314	349	387	430
Net financial debts	**416**	**120**	**-180**	**-17**	**477**	**-356**	**-459**	**-573**	**-699**	**-839**	**-994**

Source: Own estimations

Appendix 8: Optimal Capital Structure

D/E	D-to-V	E-to-V	CDS	Delta	RFR	BM	TR	CD	CDNT	UB	LB	ERP	Cost of Eq.	Op. WACC
X	%	%	bp		%	bp	%	%	%	x	x	%	%	%
0,0	0,04	0,96	84		0,54	20	0,325	1,58	1,07	0,82	0,84	6,00	5,59	5,4188
0,1	0,12	0,88	94	10	0,54	20	0,325	1,68	1,13	0,82	0,90	6,00	5,92	5,3366
0,2	0,19	0,81	104	10	0,54	20	0,325	1,78	1,20	0,82	0,95	6,00	6,26	5,2785
0,3	0,25	0,75	114	10	0,54	20	0,325	1,88	1,27	0,82	1,01	6,00	6,59	5,2393
0,4	0,31	0,69	124	10	0,54	20	0,325	1,98	1,34	0,82	1,06	6,00	6,92	5,2148
0,5	0,35	0,65	134	10	0,54	20	0,325	2,08	1,40	0,82	1,12	6,00	7,25	5,2023
0,6	0,39	0,61	144	10	0,54	20	0,325	2,18	1,47	0,82	1,17	6,00	7,59	5,1995
0,7	0,43	0,57	154	10	0,54	20	0,325	2,28	1,54	0,82	1,23	6,00	7,92	5,2048
0,8	0,46	0,54	164	10	0,54	20	0,325	2,38	1,61	0,82	1,28	6,00	8,25	5,2169
0,9	0,48	0,52	174	10	0,54	20	0,325	2,48	1,67	0,82	1,34	6,00	8,58	5,2347
1,0	0,51	0,49	194	20	0,54	20	0,325	2,68	1,81	0,82	1,40	6,00	8,91	5,2918
1,1	0,53	0,47	214	20	0,54	20	0,325	2,88	1,94	0,82	1,45	6,00	9,25	5,3561
1,2	0,55	0,45	234	20	0,54	20	0,325	3,08	2,08	0,82	1,51	6,00	9,58	5,4268
1,3	0,57	0,43	254	20	0,54	20	0,325	3,28	2,21	0,82	1,56	6,00	9,91	5,5029
1,4	0,59	0,41	274	20	0,54	20	0,325	3,48	2,35	0,82	1,62	6,00	10,24	5,5839
1,5	0,61	0,39	294	20	0,54	20	0,325	3,68	2,48	0,82	1,67	6,00	10,57	5,6692
1,6	0,62	0,38	319	25	0,54	20	0,325	3,93	2,65	0,82	1,73	6,00	10,91	5,7791
1,7	0,64	0,36	344	25	0,54	20	0,325	4,18	2,82	0,82	1,78	6,00	11,24	5,8934
1,8	0,65	0,35	369	25	0,54	20	0,325	4,43	2,99	0,82	1,84	6,00	11,57	6,0115
1,9	0,66	0,34	394	25	0,54	20	0,325	4,68	3,16	0,82	1,89	6,00	11,90	6,1331
2,0	0,67	0,33	419	25	0,54	20	0,325	4,93	3,33	0,82	1,95	6,00	12,23	6,2577

Source: Own estimations

Appendix 9:DuPont analysis

Du Pont Formula:
NP / Equity = NP / Sales * Sales / Cap. Employed * Cap. Invested / Equity
<=> ROE = Net Margin * Asset Turnover * Equity Leverage

Du Pont Analysys (€ millions)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Net income	568	670	524	790	564	684	759	842	935	1038	1152
Equity	4624	5331	5291	5481	5619	6308	7065	7905	8838	9874	11023
Net sales	11990	13344	14883	14492	14534	15115	16778	18624	20672	22946	25470
Capital employed	5040	5451	5111	5464	6096	5952	6606	7333	8140	9035	10029
Capital invested	5040	5451	5111	5464	6096	5951,601	6606,278	7332,968	8139,595	9034,95	10028,79
Net income / Equity	**12,3%**	**12,6%**	**9,9%**	**14,4%**	**10,0%**	**10,8%**	**10,7%**	**10,7%**	**10,6%**	**10,5%**	**10,4%**
Net income / Sales	4,7%	5,0%	3,5%	5,5%	3,9%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
Sales / Capital employed	2,38	2,45	2,91	2,65	2,38	2,54	2,54	2,54	2,54	2,54	2,54
Capital employed / Equity	1,09	1,02	0,97	1,00	1,08	0,94	0,94	0,93	0,92	0,92	0,91

Adidas ROE Calculation (€ millions)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Net income	568	670	524	790	564	684	759	842	935	1038	1152
Equity	4624	5331	5291	5481	5619	6308,051	7065,127	7905,481	8838,275	9873,676	11022,97
ROE	**12,3%**	**12,6%**	**9,9%**	**14,4%**	**10,0%**	**10,8%**	**10,7%**	**10,7%**	**10,6%**	**10,5%**	**10,4%**

Return on Capital Employed (ROCE) Formula:
ROE = ROCE + D/E * (ROCE - Net cost of debt after tax)

Adidas Leverage Effect Calculation (€ millions)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Operating profit	894	1011	920	1202	883	1076	1194	1325	1471	1633	1813
(Tax rate %)	29,5%	27,7%	38,4%	30,3%	32,5%	31,4%	31,4%	31,4%	31,4%	31,4%	31,4%
NOPAT	630	731	566	837	596	738	819	909	1009	1120	1244
Capital employed	5040	5451	5111	5464	6096	5951,601	6606,278	7332,968	8139,595	9034,95	10028,79
ROCE	**12,50%**	**13,41%**	**11,08%**	**15,33%**	**9,78%**	**12,40%**	**12,40%**	**12,40%**	**12,40%**	**12,40%**	**12,40%**
Equity	4624	5331	5291	5481	5619	6308,051	7065,127	7905,481	8838,275	9873,676	11022,97
Net financial debts	416	120	-180	-17	477	-356	-458,849	-572,513	-698,68	-838,726	-994,176
D/E	**0,09**	**0,02**	**-0,03**	**0,00**	**0,08**	**-0,06**	**-0,06**	**-0,07**	**-0,08**	**-0,08**	**-0,09**
Financial income	25	31	36	26	19	30,01443	33,31601	36,98077	41,04866	45,56401	50,57605
Financial expenses	113	115	105	94	67	109,4167	121,4525	134,8123	149,6416	166,1022	184,3735
Financial result	-88	-84	-69	-68	-48	-79,4023	-88,1365	-97,8315	-108,593	-120,538	-133,797
Financial result after tax	-62	-61	-42	-47	-32	-54	-60	-67	-75	-83	-92
Financial result after tax / Net fin. Debts	**-14,9%**	**-50,6%**	**23,6%**	**278,7%**	**-6,8%**	**15,3%**	**13,2%**	**11,7%**	**10,7%**	**9,9%**	**9,2%**
ROCE	12,50%	13,41%	11,08%	15,33%	9,78%	12,40%	12,40%	12,40%	12,40%	12,40%	12,40%
D/E	0,09	0,02	-0,03	0,00	0,08	-0,06	-0,06	-0,07	-0,08	-0,08	-0,09
ROCE - FR / NFD	-2,4%	-37,2%	34,7%	294,0%	3,0%	27,7%	25,6%	24,1%	23,1%	22,3%	21,6%
ROE	**12,3%**	**12,6%**	**9,9%**	**14,4%**	**10,0%**	**10,8%**	**10,7%**	**10,7%**	**10,6%**	**10,5%**	**10,4%**

Source: Company data, Own estimations

Appendix 10: Sensitivity Analysis

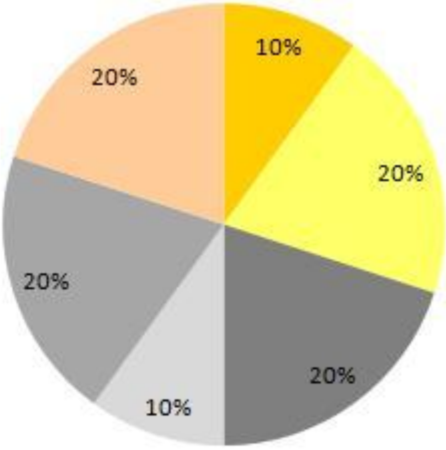
Scenario Summary

		Base Case	Low inflation	High Competition	Economic Recovery	Corporate tax increase
Variables						
Sales Growth Y/Y	**2015E**	4,00%	**1,00%**	4,00%	**5,00%**	4,00%
	2016E	11,00%	**8,00%**	11,00%	**12,00%**	11,00%
	2017E	11,00%	**8,00%**	11,00%	**12,00%**	11,00%
	2018E	11,00%	**8,00%**	11,00%	**12,00%**	11,00%
	2019E	11,00%	**8,00%**	11,00%	**12,00%**	11,00%
	2020E	11,00%	**8,00%**	11,00%	**12,00%**	11,00%
Effective Corporate Tax Rate	**2015E**	31,40%	31,40%	31,40%	31,40%	**31,40%**
	2016E	31,40%	31,40%	31,40%	31,40%	**31,40%**
	2017E	31,40%	31,40%	31,40%	31,40%	**32,00%**
	2018E	31,40%	31,40%	31,40%	31,40%	**33,50%**
	2019E	31,40%	31,40%	31,40%	31,40%	**35,50%**
	2020E	31,40%	31,40%	31,40%	31,40%	**38,00%**
Gross Profit/Revenues	**2015E**	48,00%	48,00%	**48,00%**	48,00%	48,00%
	2016E	48,00%	48,00%	**48,00%**	48,00%	48,00%
	2017E	48,00%	48,00%	**47,00%**	48,00%	48,00%
	2018E	48,00%	48,00%	**46,50%**	48,00%	48,00%
	2019E	48,00%	48,00%	**46,25%**	48,00%	48,00%
	2020E	48,00%	48,00%	**46,00%**	48,00%	48,00%
Inflation Rate		1,00%	**0,50%**	1,00%	1,00%	1,00%
Real Growth Rate		0,50%	0,50%	0,50%	**1,00%**	0,50%
Equity Risk Premium		6,00%	6,00%	6,00%	**5,50%**	6,00%
Cost of Debt		1,58%	1,58%	1,58%	**1,25%**	1,58%
Result Cells						
PV FCF		4.961 €	4.501 €	3.839 €	5.200 €	4.790 €
Terminal Value		29.380 €	22.721 €	19.418 €	41.284 €	27.112 €
Enterprise Value		34.341 €	27.221 €	23.257 €	46.484 €	31.902 €
Share Price Target		**160 €**	**127 €**	**108 €**	**218 €**	**149 €**

Source: Own estimations

Appendix 11: Corporate governance and corporate social responsability

Corporate governance methodology: For measuring overall condition of corporate governance in relation to Adidas AG, I incorporated Principles of Corporate Governance developed by Organization for Economic Cooperation and Development (OECD). The factors taken into account are shown below. On the graph below it is shown the weight for each criterion of OECD.



OECD Criteria	Adidas' score for each criterion	Adidas' score after applying weights
Applying foundations for an effective corporate governance framework	5	0,50
Shareholders' rights	3	0,60
Equitable treatment of shareholders	3	0,60
Role of stakeholders	5	0,50
Disclosure and transparency	3	0,60
The responsability of board	3	0,60
Total		3,40

Source: Own estimations

Each criterion is judged in scale 1-5. Adidas' final score was 3.40. I reckon that this number is relatively high and judge Adidas' corporate governance as of high value.

Sustainability issues

adidas AG in sustainability indices

- Dow Jones Sustainability Indices (World and Europe)
- FTSE4Good Index Series
- Euronext Vigeo Indices (World 120, Europe 120 and Eurozone 120)
- Ethibel Sustainability Index (Pioneer and Excellence)
- ECPI Euro Ethical Index (Euro and EMU)
- STOXX Global ESG Leaders

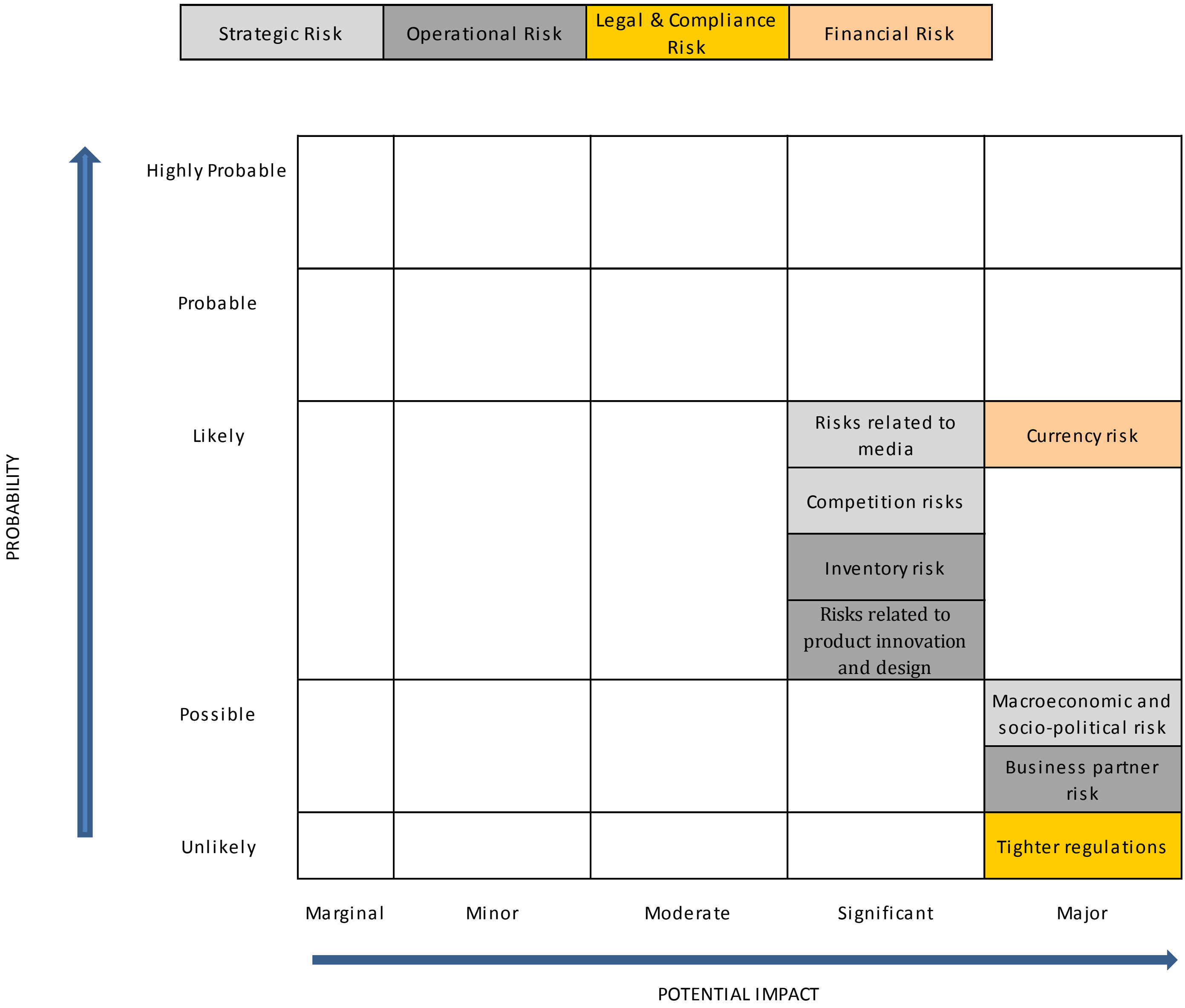
Source: Company data

One of the biggest challenges for Adidas AG is to reduce the overall environmental impact of materials used in their products. The Company aims to find materials that reduce waste or have less of an impact throughout their whole life of cycle. Part of this material is to use 100% "sustainable cotton". To diminish possible negative consequences for environment, sustainable product construction and manufacturing techniques have been implemented, such as the revolutionary DryDye technologies or the low-waste initiative.

The main investments goals related to environmental protection include:

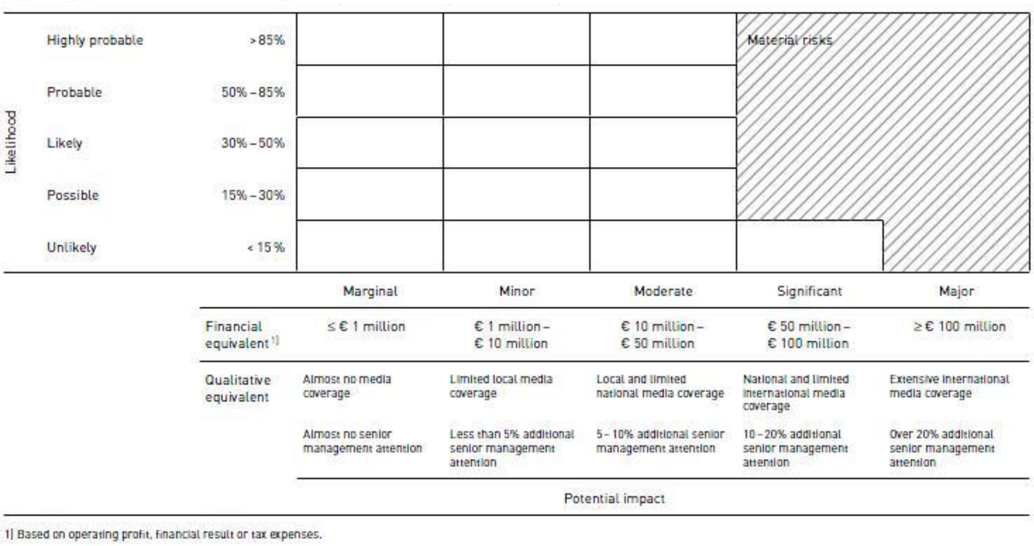
- Sustainability in product creation process;
- Improving environmental footprint at adidas own sites;
- Driving environmental improvements in adidas supply chain;
- Reducing chemical footprint through a chemical management program.

Appendix 12: Risk matrix – major threats



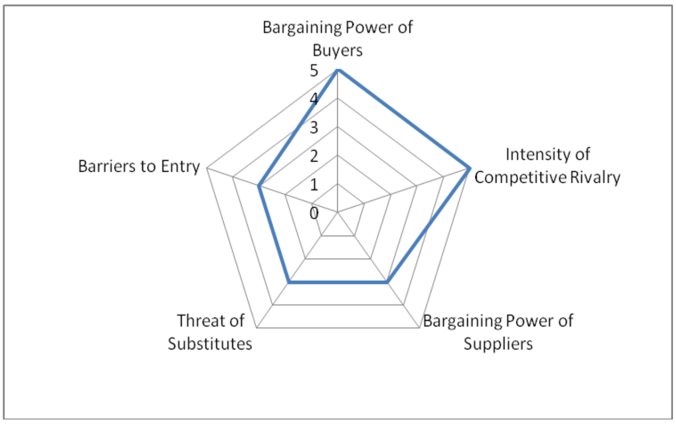
Source: Own estimations, Company data

Corporate risk evaluation categories **Source:** Company data



Appendix 13: Porter's five forces analysis

The scale of the interation:		
0 No interation	2 Low	4 Significant
1 Insignificant	3 Moderate	5 High



Final rating: **3.8**

Bargaining Power of Buyers – HIGH: In the sporting goods industry, there are a large number of buyers relative to the number of companies in that industry. Product differentiation is maintained at a moderate level through specialized designs and brand positioning. However, as unbranded products or competitor products enter the market with similar designs, the differentiation becomes significantly lowered. For certain segments that find quality and branding irrelevant, the bargaining power for such buyers becomes much higher.

Intensity of Competitive Rivalry – HIGH: The intensity of competitive rivalry is high in terms of the business area segment that Adidas AG is in. The marketplace between companies is high as there are several companies that specialize in producing sportswear apparel and shoes as well as other companies that produce sportswear besides their core operations. Although Adidas is a global brand (2nd position brand), it still faces fierce competition from other brands like Nike (1st position brand), making the barrier for exiting the industry very risky and very costly.

Bargaining Power of Suppliers – MODERATE: On one hand, and since Adidas AG outsources significant portion (over 90%) of its products to other countries, the high dependence on manufactures and lack of in-house manufacturing operations <u>will lower the power</u> for buyers to bargain with the suppliers. On the other hand, and since footwear and sportswear are usually made of easily available fabrics such as wool, cotton and polyester, buyers <u>have more power</u> to bargain on the price of the raw materials given the abundance of them.

Threat of Substitutes – MODERATE: The threat of substitutes is moderate as alternative apparel can be one of the options that consumers have to wear or purchase for everyday use, instead of sportswear. Nevertheless, those that are more active in the field of sports will have a higher probability of purchasing sports related apparel. In addition, there is also the threat of knockoffs, where products could be made using the Adidas brand and logo, but not made by the company itself.

Barriers to Entry – MODERATE: New designers / companies enter the industry on a regular basis. Since there are many factories in developing countries, such as Bangladesh and China, where labour and material are inexpensive, new competitors can easily enter the market, because such factories will support the production of sportswear apparel. However, significant investments in production innovation, marketing and distribution over a long period of time are still required to establish a brand, which explains the moderate level.

Source: Own estimations

Appendix 14: SWOT analysis

STRENGTHS	WEAKNESSES
• Long legacy and heritage as well as high brand value since 1924; • Diversified product portfolio with varied range of footwear, equipments to clothing and accessories; • With 2400 stores globally, the Group is in strong financial position; • Effective distribution system for its products through different channels; • Sponsor of major sports events including Olympics and sports team; • Strong relationship within the sustainability area with organizations such as International Labour Organization.	• High price range due to innovative technology or production method, especially in developed countries; • Large percentage of outsourced manufacturing in Asia (over 90%), causing several problems concerning the overall quality of the products; • Limited product line – The group has only two brands under their supervision (Adidas itself, along with the acquired Reebok brands); • Relatively small presence in North America market versus its main competitors (namely Nike).
OPPORTUNITIES	**THREATS**
• Change in taste and preferences as well as consumer lifestyle of developing countries; • Entering new markets, as developed countries are already saturated with high competition; • Expansion of production/service line as well as market size of developing countries;	• Fierce competition from other major brands like Nike and Puma and from local players, substitutes and market penetrators; • High degree of uncertainty regarding the consumer confidence in certain geographical areas, in particular Russia/CIS as well as persisting high levels of currency volatility; • Growing bargaining power of suppliers; • Increase in government regulations.

Source: Own estimations

Appendix 15: GDP growth rate

GDP growth rate (%)	2013	2014	2015E	2016E
United States	2,2	2,4	2,5	3,0
China	7,7	7,3	6,8	6,3
Russia	1,3	0,6	-3,4	0,2
Commonwealth of Independent States	2,2	1,0	-2,2	1,2
Brazil	2,7	0,1	-1,5	0,7
India	6,9	7,3	7,5	7,5
Germany	0,2	1,6	1,6	1,7
Euro Area	-0,4	0,8	1,5	1,7
Emerging Market and Developing Economies	5,0	4,6	4,2	4,7
World	3,4	3,4	3,5	3,8

Source: World Bank

Appendix 16: Product launches in 2014

Product	Brand
adizero f50 Crazylight football boot	adidas
Football World Cup Battle Pack	adidas
Brazuca Final Rio – Official Match Ball for the World Cup Final	adidas
miCoach Smart Ball football	adidas
Predator Instinct football boot	adidas
Messi icon football range	adidas
New 11 Pro football boot	adidas
Energy Boost 2.0 running shoe	adidas
Pure Boost running shoe	adidas
adizero Boston Boost running shoe	adidas
ClimaHeat Rocket Boost running shoe	adidas
Crazylight Boost basketball shoe	adidas
John Wall basketball shoe	adidas
D Rose 5 basketball shoe	adidas
ClimaChill training apparel	adidas
ClimaHeat training collection	adidas
ClimaCool Boat Breeze outdoor shoe	adidas
Terrex ClimaHeat outdoor apparel	adidas
Originals Stan Smith shoe	adidas
Originals ZX Flux shoe	adidas
Originals by Topshop collection	adidas
Originals and The Farm collection	adidas
Originals #miZXFLUX photo app	adidas
Pharrell Williams x adidas Originals collection	adidas
adidas Originals by Rita Ora collection	adidas
ZQuick running shoe	Reebok
Z-Jet running shoe	Reebok
All Terrain running shoe	Reebok
CrossFit Nano 4.0 training shoe	Reebok
Skyscape women's walking shoe	Reebok
Les Mills studio collection	Reebok
Dance and yoga collection	Reebok
Cardio Ultra studio shoe	Reebok
Reebok Pump limited anniversary editions	Reebok

Source: Company data

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