

## adidas Group

Price EUR98.88

FY15 results fairly in line with pre-announced items, solid FY16 outlook

Fair Value EUR104 (+5%)

BUY

Bloomberg	ADS GY
Reuters	ADSG.F
12-month High / Low (EUR)	100.9 / 63.7
Market Cap (EUR)	20,687
Ev (BG Estimates) (EUR)	21,607
Avg. 6m daily volume (000)	1 180
3y EPS CAGR	19.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.1%	5.9%	50.4%	10.0%
Consumer Gds	-0.2%	-8.4%	5.8%	-4.1%
DJ Stoxx 600	1.9%	-11.2%	-3.6%	-6.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	14,534	16,864	18,226	19,470
% change		16.0%	8.1%	6.8%
EBITDA	1,205	1,452	1,631	1,851
EBIT	961.0	1,065	1,212	1,403
% change		10.8%	13.8%	15.7%
Net income	490.0	644.2	809.3	942.4
% change		31.5%	25.6%	16.4%

	2014	2015e	2016e	2017e
Operating margin	6.6	6.3	6.6	7.2
Net margin	3.4	3.8	4.4	4.8
ROE	8.7	12.0	15.5	16.4
ROCE	9.7	10.8	12.2	13.6
Gearing	3.3	17.1	26.3	19.5

(EUR)	2014	2015e	2016e	2017e
EPS	2.72	3.33	4.01	4.67
% change	-	22.5%	20.2%	16.4%
P/E	36.3x	29.7x	24.7x	21.2x
FCF yield (%)	0.5%	0.8%	2.4%	3.1%
Dividends (EUR)	1.50	1.60	1.85	2.15
Div yield (%)	1.5%	1.6%	1.9%	2.2%
EV/Sales	1.4x	1.3x	1.2x	1.1x
EV/EBITDA	17.3x	14.9x	13.5x	11.8x
EV/EBIT	21.7x	20.3x	18.2x	15.5x

The FY15 results reported this morning are in line with the P&L items pre-announced on 11th February. 2015 sales came in at EUR16,915m (+16% and +10% FX-n), implying a 12% FX-n in Q4 alone. Adjusted EBIT margin decreased slightly to 6.5% (-10bp) given a huge step up in marketing expenses in Q4 (+31%). At the conference call today (3pm), management should go into further details on the FY16 outlook. Note that FY sales guidance was revised up at the pre-announced 2015 results (to double-digit growth vs. high single-digit previously). Buy recommendation and FV of EUR104 confirmed.

## ANALYSIS

- **A strong end to the year at the top-line level (+12% FX-n).** By brand, **adidas** grew by 16% FX-n (Q4: +14% FX-n, in line with Q3) boosted by the group's key markets such as Western Europe, Greater China, MEAA and Latin America. **Reebok** registered its third consecutive year of growth with +6% FX-n (Q4: +5%) despite the ongoing streamlining of the US outlet store network. **TMaG** was down 13% FX-n (Q4: -15%) since the division cautiously monitored sell out trends to avoid any excess inventory after the +7% in Q3.
- **Western Europe and Greater China** were the two-best performing regions in 2015 at 17% FX-n (including an amazing +30% in Q4!) and +18% FX-n respectively, driven by the group's core categories such as Football or Lifestyle. We highlight the successful performance in emerging markets, with +14% FX-n in **MEAA** and +12% in **Latin America**, with a similar pace of growth in Q4, as the softer trends in Brazil were more than offset by healthy momentum in Argentina, Colombia, Chile, etc. Sales in **Russia/CIS** fell 11% in 2015 (Q4: -16%). Trends remained robust in **North America** (+8% in Q4 vs. +11% in Q3 – 2015: +5%) mainly driven by Lifestyle, the ramp-up of US sport categories and Running will mostly play in 2016.
- **FY15 op margin (6.5%, -10bp vs. 2014) at lower end of FY guidance (6.5-7%).** The main margin enhancer was again the GM improvement (+60bp to 48.3%) boosted by the combination of drivers (price-mix, geographical, channel), which more than offset higher input costs. At the opex cost level, marketing expenses increased significantly throughout the year (+22%, further acceleration in Q4 with +31%) but this ramp-up was partly made up for by positive operating leverage from other opex costs. **Adj. net income from continuing operations** increased 12% to EUR720m after an unusually higher tax rate (~33%), which should return to more normative levels in 2016 (i.e. 30-30.5%).

## FY15 Adjusted results (ie. excl. GW impairment):

EURm	2014	2015	% change
Sales	14,534	16,915	16.4
Gross profit	6,924	8,168	18.0
% of sales	47.6	48.3	+60bp
Adjusted operating profit	961	1,094	13.8
% of sales	6.6	6.5	-10bp
Net income from continuing op	642	720	12.2

Source: Company Data

- **FY16 guidance confirmed. Sales guidance was increased** on 11th February to double-digit growth vs. high single-digit initially (BG: +10%e FX-n). We expect double-digit increases in Western Europe, Greater China and in MEAA while we remain more conservative with regards to North America (+8% vs. double-digit growth guided by ADS) and we anticipate 7% growth in Latin America thanks to the Summer Olympics in Rio and the other countries (Mexico, Argentina, Colombia, etc.). As for profitability, **the operating profit target was reiterated** ("at least stable vs. 2015", BG: +10bp to 6.6%e) since GM headwinds (labour cost inflation, unfavourable USD hedging rates) should be offset by positive operating leverage.

## VALUATION

- As this publication is in line with the pre-announced figures released on 11th February, it might trigger profit-taking moves in light of the impressive outperformance ytd (+10% in absolute terms, +16.8% vs. the DJ Stoxx 600). We would recommend taking advantage of any weakness in the share price. Buy recommendation and FV of EUR104 confirmed.

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**Table 1: adidas Group quarterly FX-neutral growth:**

% change	Q1 15	Q2 15	Q3 15	Q4 15	2015
Western Europe	11	12	18	30	17
North America	7	0	3	8	5
Greater China	21	19	15	16	18
Russia/CIS	-3	-14	-7	-16	-11
Latin America	6	9	20	12	12
Japan	6	-6	6	-4	0
MEAA	10	16	13	17	14
<b>Total</b>	<b>9</b>	<b>5</b>	<b>13</b>	<b>12</b>	<b>10</b>

Source: Company Data

**Table 2: quarterly FX-neutral growth for the adidas Group's three main brands:**

% change	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	2015
adidas	5	14	12	11	11	10	14	16	12
Reebok	3	9	7	1	9	6	3	5	6
Other businesses	-29	-13	-16	-16	-1	-14	10	-3	-3
<i>o/w TaylorMade-adidas Golf</i>	<i>-35</i>	<i>-18</i>	<i>-36</i>	<i>-24</i>	<i>-9</i>	<i>-26</i>	<i>7</i>	<i>-15</i>	<i>-13</i>

Source: Company Data

**Table 3: guidance for 2016:**

	2015 Targets	2015 Achievements	2016 Guidance
FX-neutral net sales growth	High single-digit	+10	"Double-digit growth"
Gross margin (%)	48-48.5	48.3	47.3-47.8
Adjusted operating margin (%)	6.5-7	6.5	"at least stable vs. 2015"
Net income from continuing operations (% change)	"Around +10%"	+12	+10-12%

Source: Company Data

#### NEXT CATALYSTS

- Conference call today at 3pm (CET) // Q1 16 Results on 29th April 2016.

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