

adidas Group

Price EUR113.45

(Impressive) Q1 16 numbers in line with pre-announced publication

Fair Value EUR122 (+8%)

BUY

Bloomberg	ADS GY
Reuters	ADSG.F
12-month High / Low (EUR)	114.1 / 63.7
Market Cap (EURm)	23,736
Ev (BG Estimates) (EURm)	24,724
Avg. 6m daily volume (000)	1 071
3y EPS CAGR	20.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.7%	23.3%	39.7%	26.2%
Consumer Gds	-0.6%	-0.8%	-7.4%	-5.6%
DJ Stoxx 600	0.7%	1.9%	-11.3%	-8.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	16,915	18,924	20,219	21,750
% change		11.9%	6.8%	7.6%
EBITDA	1,442	1,712	1,996	2,234
EBIT	1,059	1,276	1,511	1,712
% change		20.5%	18.4%	13.3%
Net income	630.0	842.9	1,019	1,166
% change		33.8%	20.9%	14.5%

	2015	2016e	2017e	2018e
Operating margin	6.3	6.7	7.5	7.9
Net margin	3.7	4.5	5.0	5.4
ROE	11.1	15.2	16.5	17.0
ROCE	10.0	11.9	13.9	15.1
Gearing	8.1	17.9	10.4	3.5

(EUR)	2015	2016e	2017e	2018e
EPS	3.32	4.18	5.05	5.79
% change	-	26.0%	20.9%	14.5%
P/E	34.2x	27.1x	22.4x	19.6x
FCF yield (%)	2.5%	1.7%	3.2%	3.6%
Dividends (EUR)	1.60	1.85	2.15	2.40
Div yield (%)	1.4%	1.6%	1.9%	2.1%
EV/Sales	1.4x	1.3x	1.2x	1.1x
EV/EBITDA	16.8x	14.4x	12.2x	10.7x
EV/EBIT	22.8x	19.4x	16.1x	14.0x

The Q1 16 results reported this morning are naturally in line with the P&L items pre-announced last week (on 27th May), sales came in at EUR4,769m and grew at an impressive rate of 22% FX-n. The other good surprise was that operating profit reached EUR490m (+35%), 24% above CS expectations. Following this Q1 publication, ADS has increased all its targets. The group has also announced its intention to divest three brands (TaylorMade, Adams Golf and Ashworth) while keeping adidas-Golf positioned within the golf apparel & footwear category. ADS is hosting a conference call today at 3:00pm (CET).

ANALYSIS

- **A robust start to the year (+22% FX-n).** By brand, **adidas** grew by 26% FX-n (Q4: +14% FX-n) boosted by the key categories such as, Training, Running, Football (ahead of the Copa America and EURO Championships) and of course Lifestyle (Originals and NEO). **Reebok** registered +6% FX-n growth (Q4: +5%) with double-digit growth in Western Europe, LatAm and China, while the streamlining of the US outlet store network is still underway. Trends at **TMaG** have improved sequentially but remain in negative territory (-1% vs. -15% in Q4).
- By region, sales in **Western Europe** increased 25% FX-n thanks to a solid performance in all key markets (France, UK, Germany, etc.) Momentum in **North America** clearly accelerated in Q1 with +22% FX-n (vs. +8% in Q4) while it remained buoyant in **Greater China** (+30% FX-n after +16% in Q4). There were no signs of a slowdown in **Latin America** (+19% FX-n) with even a double-digit growth in Brazil (acceleration vs. Q4). It is worth noting the surprising 44% FX-n increase in **Japan** and **Russia/CIS** which returned to growth (+2% vs. -16% in Q4).
- **Q1 adj. operating margin expanded 140bp to 10.3% (CS: 8.8%).** The GM increased 30bp to 49.4% as the combination of drivers (price-mix, geographical, channel) has more than offset unfavourable hedging rates and the drag from TMaG. At the opex cost level, the very dynamic top line development enabled a significant operating leverage, even on marketing expenses that "only" grew by 8%. **Adj. net income from continuing operations** increased 38% to EUR350m.

Q1 16 Adjusted results (excl. GW impairment):

EURm	Q1 15	Q1 16	% change
Sales	4,083	4,769	17
Gross profit	2,008	2,358	17
% of sales	49.2	49.4	+30pb
Operating profit	363	490	35
% of sales	8.9	10.3	+140bp
Net income from continuing operations	255	350	38

Source: Company Data

- **FY16 targets are increased.** In light of this strong Q1 publication and given a promising backlog, the group has raised all its targets for the year. Two of them were already announced last week (i.e sales to increase around 15% FX-n vs. +10-12% initially and net income from continuing operations to rise 15-18% vs. 10-12% previously) and this morning the group has also raised its GM and operating margin objectives.

Table 3: 2016 targets:

	2016 Initial Guidance	2016 New Guidance
FX-n net sales growth	+10-12%	"around +15%"
Gross margin (%)	47.3-47.8	47.8-48.3
Adjusted operating margin (%)	"at least stable vs. 2015"	"Between 6.6-7%"
Net income from continuing operations (% change)	+10-12%	+15-18%

Source: Company Data

VALUATION

- These definitive results naturally confirm adidas' strong momentum in almost all regions. We believe the market should welcome positively the outcome of the strategic review of its golf business which sustained operating losses of ~EUR100m last year. Buy recommendation and FV of EUR122 confirmed. **(Continued on next page)**



Table 1: adidas Group quarterly FX-neutral growth:

% change	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16
Western Europe	11	12	18	30	25
North America	7	0	3	8	22
Greater China	21	19	15	16	30
Russia/CIS	-3	-14	-7	-16	2
Latin America	6	9	20	12	19
Japan	6	-6	6	-4	44
MEAA	10	16	13	17	17
Total	9	5	13	12	22

Source: Company Data

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

% change	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16
adidas	11	10	14	16	26
Reebok	9	6	3	5	6
Other businesses	-1	-14	10	-3	6
<i>o/w TaylorMade-adidas Golf</i>	<i>-9</i>	<i>-26</i>	<i>7</i>	<i>-15</i>	<i>-1</i>

Source: Company Data

NEXT CATALYSTS

Conference call today at 3:00pm (CET) // AGM on 12th May // H1 16 Results on 4th August.

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Analyst:
Cédric Rossi
33(0) 1 70 36 57 25
crossi@bryangarnier.com

Consumer Analyst Team:
Nikolaas Faes
Loïc Morvan
Antoine Parison
Virginie Roumage

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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