

adidas Group

Price EUR137.35

Mr Rorsted's mandate is getting off to a strong start!

Fair Value EUR136 (-1%)

NEUTRAL

Bloomberg	ADS GY
Reuters	ADSG.F
12-month High / Low (EUR)	159.5 / 82.1
Market Cap (EUR)	28,736
Ev (BG Estimates) (EUR)	29,626
Avg. 6m daily volume (000)	852.9
3y EPS CAGR	25.4%

Barely one month since Mr Rorsted became CEO and after having travelled throughout the world to meet employees, partners and customers, he has already set some ST & MT priorities that will be presented in more detail during the Investor Day on 14th March: (i) restructuring and strengthening Reebok (hence the EUR30m in restructuring costs booked in H2), (ii) continuing the US turnaround and (iii) driving digital transformation and, of course, (iv) ensuring sustainable growth.

ANALYSIS

- Muscling Reebok and its brand equity.** Despite further positive FX-n growth since Q2 2013 (14 quarters in a row), CEO Kasper Rorsted believes that RBK must do more and better: (i) the brand is to be managed by a distinct Global Team, (ii) the organisation will be streamlined and most of teams will be relocated to new premises close to Boston, (iii) RBK is accelerating the distribution upgrade in the US by closing 20 factory outlets this year (more in 2017) to increase customer perception and the brand equity. These projects explain the EUR30m in restructuring costs booked in H2, o/w EUR20m in Q4.
- Continuing the US turnaround.** In our opinion, robust momentum in the US (ADS brand is up 29% FX-n over the first 9M) is one of the most impressive achievements of the "Creating the New" strategic plan. The group declared that it doubled its market share to 10% from 5% the previous year as it reconnected the brand to US customers, helped by the increasing focus on US sports and an improved execution. Although it is not formal guidance, management wants to reach a market share position of "at least 15%". This turnaround will be reinforced with the opening of the NY flagship store on 1st December (the brand's largest store: 4,235 square meters) and the launch of products designed by the Brooklyn Design Studio.
- Driving the digital transformation.** Management was not very talkative about this priority that will be a hot topic during the next ID in March. We believe that it will not only concern the group's e-commerce business, which was up 42% in 2015 to over EUR600m, but also the "digitalisation" of stores ("click-and-collect", inventory sharing, etc.) and how to connect directly with consumers. Notethat "Open Source" is one of ADS' three strategic choices within "Creating the New".
- Sustainable growth.** For 2017, no guidance has been provided yet, but the CEO stated that sales and earnings momentum should be close to the MT guidance (i.e. high single-digit FX-n sales growth and net income rising by ~15% per year) as there are no major sporting events and comparison bases will be quite demanding. However, we do not rule out a sales guidance upgrade for the 2018-20 period (low-teen growth?). In our view, it is clearly margin improvement potential for which market expectations are the highest (*see valuation below*): there is room to improve efficiency and streamline the cost structure, but we believe that the biggest margin enhancer over the MT remains the operating leverage, i.e. expanding the business and gain market share. The US market is a good example: management has often repeated in the past that it could double sales with the same cost base. On top of strong momentum and market share gains (ADS has recently reclaimed the no2 position there), operating margin widened 360bp to 6.8% over 9M, but still far from the profitability level achieved in Europe (20.5%).

	1 M	3 M	6 M	31/12/15
Absolute perf.	-11.1%	-7.1%	21.1%	52.8%
Consumer Gds	-5.5%	-4.4%	-1.2%	-6.7%
DJ Stoxx 600	-3.4%	-1.2%	-1.2%	-9.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	16,915	19,277	20,826	22,488
% change		14.0%	8.0%	8.0%
EBITDA	1,442	1,872	2,175	2,461
EBIT	1,059	1,448	1,696	1,943
% change		36.7%	17.1%	14.6%
Net income	630.0	991.2	1,166	1,343
% change		57.3%	17.7%	15.2%

	2015	2016e	2017e	2018e
Operating margin	6.3	7.5	8.1	8.6
Net margin	3.7	5.1	5.6	6.0
ROE	11.1	17.3	17.9	18.1
ROCE	10.0	13.4	15.2	16.7
Gearing	8.1	15.6	6.9	-1.3

(EUR)	2015	2016e	2017e	2018e
EPS	3.32	4.86	5.69	6.55
% change	-	46.5%	17.0%	15.0%
P/E	41.4x	28.2x	24.1x	21.0x
FCF yield (%)	2.1%	1.7%	2.9%	3.4%
Dividends (EUR)	1.60	1.85	2.15	2.40
Div yield (%)	1.2%	1.3%	1.6%	1.7%
EV/Sales	1.7x	1.5x	1.4x	1.3x
EV/EBITDA	20.3x	15.8x	13.4x	11.6x
EV/EBIT	27.6x	20.5x	17.2x	14.7x



VALUATION

- For the first time since Q4 2014, the publication was "only" in line with expectations and the minor disappointment on the FY2016 margin performance (i.e. FY op margin would have been higher without the one-off restructuring costs at RBK) in our view triggered yesterday's profit-taking moves following a 63% rally on the stock this year.
- As highlighted in our comment [post-H1 publication](#), the share price at that time implied an overly aggressive op. margin improvement by 2020 in our DCF model (~11%, *ceteris paribus*). Hence our reduced upside potential vs. our FV of EUR136 and our Neutral recommendation.

NEXT CATALYSTS

- FY17 Results on 8th March 2017 // Investor Day on 14th March. [Click here to download](#)



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

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

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 56,7%

NEUTRAL ratings 31,8%

SELL ratings 11,5%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

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
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			Geneva
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
				Regulated by the FINMA

Important information

This document is classified under the FCA Handbook as being investment research (independent research). Bryan Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan Garnier & Co Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom

This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC, 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.

This Report is based on information obtained from sources that Bryan Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available.