



Consumer, Brands & Retail

14th March 2019

ADIDAS GROUP

| Consumer, Brands & Retail
| E-Commerce

BUY

Fair Value EUR218 vs. EUR220 (+6%)
Share price EUR204.80
EPS 3Y Cagr 22.6%

Balancing earnings growth AND top line momentum

US business affected by supply chain shortages in H1 2019

As CEO Kasper Rorsted pointed out several times during the confcall, the US business has doubled in just three years to EUR4.7bn. Distribution gains were among the most significant growth drivers, as ADS enlarged its footprint in the wholesale business, not only with specialty retailers (Foot Locker, Dick's SG, etc.), but also with department store and family-store channels, which are in the mid-range price segment. As a result of huge demand that was improperly anticipated by ADS, the latter is currently facing supply chain constraints in North America, which mostly affects apparel and will cost approx. EUR200-400m in missed sales, or -1-2pp on ADS FY sales growth.

Brand activation and innovation to revitalize growth

Managing normalizing trends at Originals after the huge success of the Stan Smith and Superstar franchises was already a difficult challenge since some modern franchises were not as successful as expected. Because of these production bottlenecks, revitalizing growth is even more crucial. A few initiatives on activation and innovation have been presented: (i) enlarging the footwear franchise PF thanks to old and new icons (Falcon, Aztrek, UltraBoost 19, etc.), (ii) scaling up 3D-printing technology (AlphaEdge 4D, Futurecraft, etc.), (iii) surfing on the Yeezy hype and (iv) increasing collaborations and partnerships according to the Open Source strategic pillar.

Our FY19 forecasts are nudged down by -1.5%

Based on ADS' H1 sales guidance (+3-4% FX-n), due to these supply chain shortages, the lower end of the FY guidance (+5-8% FX-n) would imply a 6-7% FX-n acceleration in H2. Our revised FX-n sales growth assumption (+6% vs. +7% previously) would require a +7-8% FX-n increase in H2. Besides these above-mentioned initiatives to accelerate growth, ADS should count on: (i) easier challenging comparison bases (H2 2018: +6% vs. +10% in H1) and (ii) Western Europe gradually returning to positive territory and (iii) the end of the supply chain constraints in North America in H2.

As for profitability, we have only made minor adjustments to our forecasts: we expect: GM up 20bp to 52% (guidance: "up to around 52%"), EBIT margin expansion of 60bp to 11.4% (guidance: +50-70bp to 11.3-11.5%) and a net income from continuing operations increase of 12% (guidance: +10-14% before IFRS 16).

2020 targets confirmed... and shall be updated in due course

Although the 2020 EBIT margin target (11.5%) could be reached a year in advance, management did not want to provide the market a third update since March '15 before next year, which is understandable given that FY19 will be a two-speed year and we assume the group is already working on its future MT plan. Buy recommendation confirmed with a FV slightly adjusted to EUR218 vs. EUR220.

k Market Data

Bloomberg / Reuters	ADS GY/ADSG.F
Market Cap.	EUR41 045
E.V.	EUR41 569
Free Float	100
Avg. Daily volume (6m)	745.4
12m high / low	217.6 / 180.1
Ytd Perf.	12.3%

EURm	12/17	12/18	12/19	12/20
Sales	21,218	21,915	23,226	25,303
% Change		3.3%	6.0%	8.9%
EBITDA	2,511	2,828	3,162	3,558
% Change		12.6%	11.8%	12.5%
EBIT	2,070	2,368	2,651	2,976
% Change		14.4%	11.9%	12.3%
Net Income	1,098	1,702	1,903	2,139
% Change		55.0%	11.9%	12.4%
ROE	17.02	24.31	24.06	23.86

	12/17	12/18	12/19	12/20
EV/Sales	1.9x	1.8x	1.7x	1.6x
EV/EBITDA	16.2x	14.3x	12.7x	11.1x
EV/EBIT	19.6x	17.1x	15.1x	13.3x
EPS	5.75	8.42	9.44	10.61
% change		46.4%	12.1%	12.4%
P/E	35.6x	24.3x	21.7x	19.3x
Div Yield	1.3%	1.9%	2.1%	2.3%

Next Catalyst: Q1 2019 Results on 3rd May.

Last Reports:

Race to 2020: one lap lead

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ADIDAS GROUP

BUY

Fair Value	EUR220(+5%)
Share price	EUR204.80
Market Cap.	EUR41 045
EPS 3Y CAGR	22.6%

Income Statement (EURm)	2015	2016	2017	2018e	2019e	2020e
Revenue	16,915	18,483	21,218	21,888	23,621	25,736
Change (%)	0,16	0,09	0,15	0,03	0,08	0,09
Gross Profit	8,168	9,100	10,703	11,250	12,165	13,280
EBITDA	1,442	1,953	2,511	2,821	3,169	3,555
Adjusted EBIT	1,093	1,582	2,070	2,361	2,649	2,963
EBIT	1,059	1,582	2,070	2,361	2,649	2,963
Change (%)	0,10	0,49	0,31	0,14	0,12	0,12
Financial results	(20,5)	(46,0)	(47,1)	0,0	10,0	20,0
Pre-Tax profits	1,039	1,536	2,023	2,361	2,659	2,983
Tax	(353)	(454)	(668)	(673)	(758)	(850)
Minority interests	(6,0)	(2,4)	(2,9)	(3,0)	(3,2)	(3,5)
Net profit	634	1,017	1,098	1,666	1,898	2,130
Change (%)	0,29	0,61	0,08	0,52	0,14	0,12
Cash Flow Statement (EURm)						
Operating cash flows	1,048	1,407	1,749	2,148	2,431	2,745
Change in working capital	(1,0)	145	271	89,2	286	351
Capex, net	464	573	676	766	827	901
Financial investments, net	214	33,0	(42,0)	43,8	47,2	51,5
Dividends	303	320	405	522	661	753
Other	342	(20,2)	(142)	0,0	0,0	0,0
Net debt	459	103	(478)	(1,210)	(1,821)	(2,511)
Free Cash flow	585	689	802	1,292	1,318	1,494
Balance Sheet (EURm)						
Cash & liquid assets	1,370	1,515	1,603	2,330	2,940	3,630
Other current assets	6,127	7,371	7,042	7,194	7,641	8,188
Tangible fixed assets	1,638	1,915	2,000	2,306	2,614	2,922
Intangible assets	3,020	3,092	2,529	2,529	2,529	2,529
Other assets	1,188	1,283	1,348	1,348	1,348	1,348
Total assets	13,343	15,176	14,522	15,707	17,072	18,618
LT & ST debt	1,829	1,618	1,120	1,120	1,120	1,120
Other liabilities	5,848	7,086	6,953	7,015	7,176	7,373
Shareholders' funds	5,666	6,472	6,450	7,573	8,776	10,125
Total liabilities	13,343	15,176	14,522	15,707	17,072	18,618
Capital employed	7,796	8,474	8,561	8,957	9,549	10,209
Financial Ratios						
Gross Margin (% of sales)	0,48	0,49	0,50	0,51	0,52	0,52
EBITDA margin (% of sales)	0,09	0,11	0,12	0,13	0,13	0,14
EBIT margin (% of sales)	0,06	0,09	0,10	0,11	0,11	0,12
Tax rate	0,34	0,30	0,33	0,29	0,29	0,29
Net Margin	0,04	0,06	0,05	0,08	0,08	0,08
ROE (after tax)	0,11	0,16	0,17	0,22	0,22	0,21
ROCE (after tax)	0,09	0,13	0,16	0,19	0,20	0,21
Gearing	0,08	0,02	(0,08)	(0,16)	(0,21)	(0,25)
Pay out ratio	0,51	0,39	0,48	0,40	0,40	0,40
Number of shares, diluted	201,536	206,147	204,241	202,831	202,831	202,831
Per share data (EUR)						
EPS	3,2	4,9	5,4	8,2	9,4	10,5
Restated EPS	3,3	5,0	5,8	8,2	9,4	10,5
% change	0,22	0,50	0,15	0,43	0,14	0,12
BVPS	28,1	31,4	31,6	37,3	43,3	49,9
Operating cash flows	5,2	6,8	8,6	10,6	12,0	13,5
FCF	2,9	3,3	3,9	6,4	6,5	7,4
Net dividend	1,6	2,0	2,6	3,3	3,8	4,2

Source: Company Data; Bryan, Garnier & Co ests.

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BUY ratings 55,4%

NEUTRAL ratings 37,9%

SELL ratings 6,8%

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