

# NextGen Consumer

12th November 2024 07:30AM

## Consumer Goods

### Sporting Goods: hurdling the threat of higher tariffs

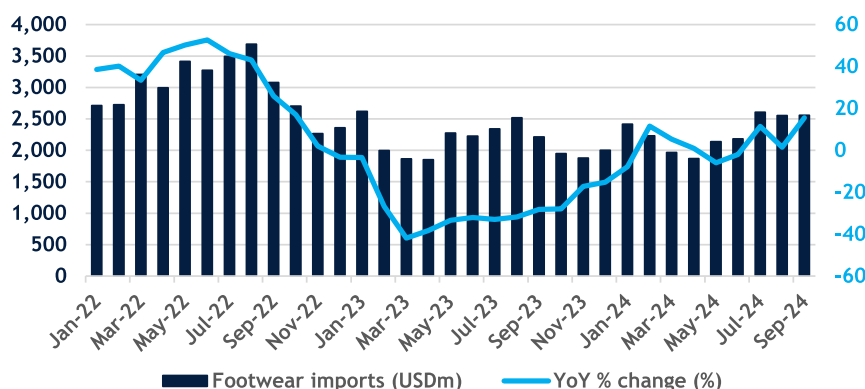
With 99% of all shoes sold in the US being imported in 2023, Donald Trump's proposal to place a universal 10-20% tariff on imports from all foreign countries and an additional 60-100% tariff on imports specifically from China, would significantly impact the footwear (and apparel) categories. The increased costs as a result of the proposed tariffs would be too large for retailers and brands to absorb and would result in higher retail prices than many consumers would be willing to pay in a challenging consumer spending environment.

Tagged Companies	Rating	TP
adidas	BUY	265.00

#### US footwear still heavily reliant on sourcing from China

- With 70% of shoes sold in the US produced in China in 2018, the US footwear industry was already one of the biggest victims in the escalating trade war between the US and China, after the Trump administration imposed an additional 10% duty on imported footwear from China in Q4 2019.
- Since then, the US footwear industry has managed to reduce this Chinese exposure by 10pp to 60% of all footwear imports at end-2023, but that share remains well above those from the No.2 and No.3 suppliers which are Vietnam (23%) and Indonesia (6.5%). Fortunately, the main sportswear brands are well below this 60% share (see page 3).
- However, we understand that President elect Trump has proposed a minimum 10% tariff on all imports from all countries, while those from China would be subject to an additional tax of 60%.
- September footwear import numbers that were unveiled last week soared by 16% YoY, the fastest growth level seen for two years (see Figure 1 below). In our view, the positive inflection point in the US market after several quarters of excess inventory and weak consumer spending could be one explanation, but this abrupt acceleration could confirm that brands and retailers seemed to have already anticipated these higher tariffs that could come into force in H1 2025.

Figure 1 - September 2024 saw the largest increase in footwear imports for two years



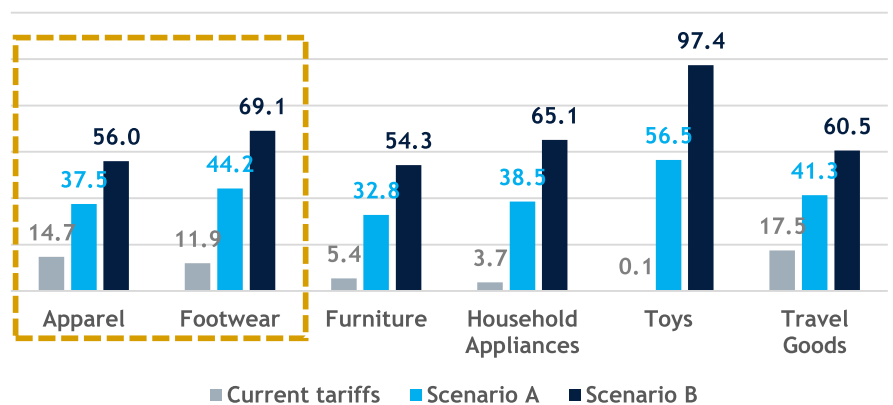
Source: U.S. Bureau of Economic Analysis

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## Dramatic impacts for the US footwear industry and consumers

- During his election campaign, Donald Trump proposed many new tariffs on the US, aimed at both punishing countries for their tariffs on US exports and financing other measures.
- Facing dramatic impacts for US retail and consumers, the FDRA (Footwear Distributors & Retailers of America) which regroups 500 companies and brands representing 95% of total US footwear sales, and NRF (National Retail Federation) have already warned of severe hikes in consumer prices.
- The NRF and Trade Partnership Worldwide examined the low and high-ends of the tariff proposals and their impacts on future tariffs of six large consumer goods categories (see Figure 2) including apparel and footwear:
  - **Scenario A:** a 10% tariff on all imports and an additional 60% tariff on imports from China, totalling a tax of 70% on imports from China.
  - **Scenario B:** a 20% tariff on all imports and an additional 100% tariff on imports from China, leading to an aggregated tariff of 120% on imports from China.

Figure 2 - Current tariffs vs. proposed tariffs (%)

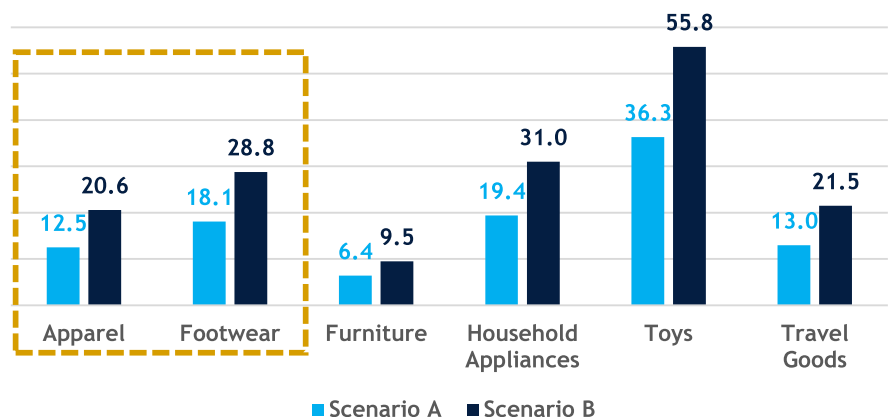


Source: Trade Partnership Worldwide LLC / NRF

As a result of these proposed tariffs:

- **Prices of apparel would increase by 12.5-20.6%**, which would force consumers to cut back spending on apparel by 22-33%.
- **Prices of footwear would increase by 18-29%** which could negatively impact overall purchases by 30-41%. As an example, a pair of a USD90 athletic shoes would jump to USD106-116.

Figure 3 - Estimated increases in consumer prices



Source: Trade Partnership Worldwide LLC / NRF

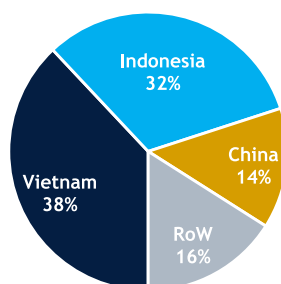
## The main sportswear groups have reduced their sourcing from China

- As already mentioned, the US footwear industry is still heavily reliant on Chinese sourcing with a share of 60% of all footwear imports. Reassuringly, the main sportswear brands are well below this 60% share as they have strived to move production to other Asian countries due to China's tariff threats and continuously increasing labour costs for more than a decade.
- As shown in the following pie charts, Vietnam was the main beneficiary of this relocation of footwear production thanks to two key trade agreements: the Trans-Pacific Partnership Agreement (TPP) between 12 Pacific-rim countries (incl. the USA) and the European Union-Vietnam Free Trade Agreement (EVFTA).

### adidas: China sourcing represents 14-15% of total volumes

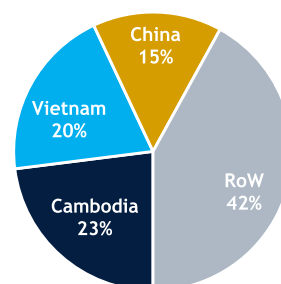
- Over a decade, the weight of China within adidas' sourcing mix has halved from 27% in 2014 to 14% in 2023 in footwear and from 31% to 15% in apparel.
- More importantly, as part of adidas' "Sinicisation strategy" the vast majority of products manufactured in China are now sold locally since the group recently confirmed that c.85% of products sold in China were manufactured locally (vs. 50% in the past).

Figure 4 - ADS - Footwear sourcing mix (%)



Source: Company Data

Figure 5 - ADS - Apparel sourcing mix (%)

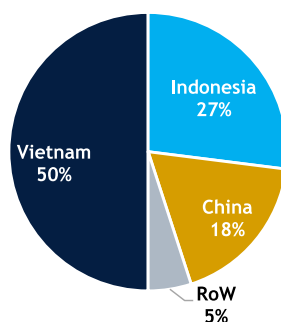


Source: Company Data

### Nike: China represents 16-18% of sourcing

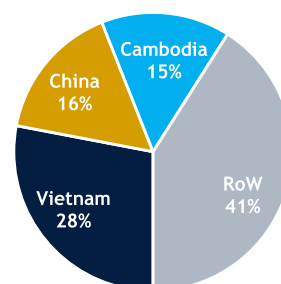
- While Vietnam was already the largest source country for footwear a decade ago (i.e. 43% of total volumes in FY13), Nike continued to relocate its footwear production to Vietnam and Indonesia at the expense of China, which lost 10pp to 18% between FY13-24. In apparel, the weight of China more than halved to 16% at end-FY24. As for adidas, we assume that most of the products manufactured in China are sold domestically.

Figure 6 - Nike brand - Footwear sourcing mix (%)



Source: Company Data

Figure 7 - Nike brand - Apparel sourcing mix (%)

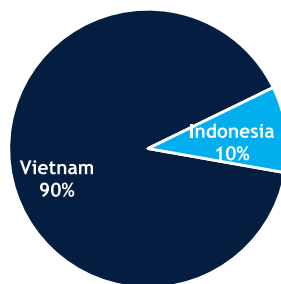


Source: Company Data

**On: one of the lowest levels of exposure to China in the industry**

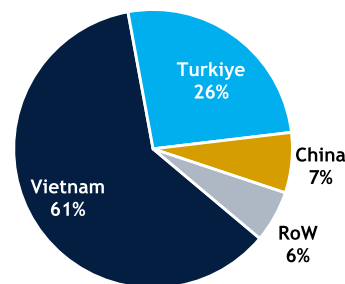
- On was founded in 2010 when rising labour costs were already enticing footwear manufacturers to relocate their production from China to Southeast Asia, which explains why On's footwear production is concentrated in Vietnam (90%) and Indonesia (10%).
- In apparel, On's apparel sourcing mix stands out from its peers with one of the lowest levels of exposure to China (7%) and a significant production footprint in Turkey (26%), which is also a key manufacturing country for Inditex and Hugo Boss, among others.

**Figure 8 - ON Running - Footwear sourcing mix (%)**



Source: Company Data

**Figure 9 - ON Running - Apparel sourcing mix (%)**

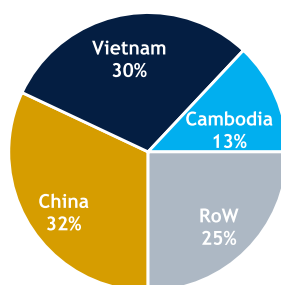


Source: Company Data

**Puma: China accounts for 32% of total sourcing**

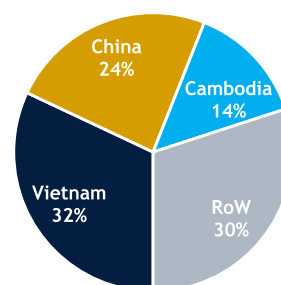
- Puma has one of the highest levels of exposure to China at 32% of its total sourcing. In 2023, while absolute volumes for apparel decreased, China was further strengthened as a country origin for footwear last year.
- Consequently, Puma took the opposite strategy to virtually all its peers and this could now become a serious issue for the brand in the US market if Trump's proposed tariffs would come into force next year.

**Figure 10 - PUM - Total sourcing mix (2023, %)**



Source: Company Data

**Figure 11 - PUM - Total sourcing mix (2018, %)**



Source: Company Data

**After Trump's inauguration, will the reason prevail?**

- **No domestic production to protect.** Unlike other industries, domestic footwear production only accounts for 1% of all shoes sold in the US in 2023, which means that brands and retailers could not switch to US manufacturing to avoid these higher tariffs.
- **Tariffs would worsen inflation.** Whereas inflation was clearly a motivating factor in these election results, with many middle-class voters expressing deep concerns about the impact inflation has had on family budgets, these additional tariffs could lead to drastic hikes in consumer prices (+12.5-21% in apparel and +18-29% in footwear as shown in Figure 3) and thus, unleash a new wave of inflation.



Created by: BlueMatrix

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**BUY:** This rating should traditionally be applied to companies for which we expect a positive absolute share price performance over a 6 to 12 month period. The opinion is based not only on the PT (which represents theoretical upside relative to the current share price over a 12-month period) but also takes into consideration a number of other factors that may include a SWOT analysis, momentum, technical aspects or the sector backdrop.

**NEUTRAL:** This rating is the equivalent of a recommendation not to trade in a stock in the short term, either as a buyer or a seller, for many potential reasons. The view is intended to be temporary since it has been proven that few stocks actually remain within a narrow -5%/+5% range over a long period of time. The rating is particularly valid in exceptional market conditions. Our intention is to limit the total number of NEUTRAL ratings to 20%.

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**NOT RATED:** Covered stocks may be "Not rated" when we view them as being interesting for one or several strategic themes in our universe, but consider that we do not have a general enough perspective or overall assessment of them to be able to issue a rating. As such, our comments are limited to topics where we believe we can add value. More specifically, quarterly earnings will not be commented on per se.

**PRICE TARGET:** PT is the analyst-derived theoretical value of a company over a standard 12-month period.

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