A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

Heralding adidas' Turnaround: Leveraging E-commerce and Athleisure Trends

Henry Johan Philip Meijer-Werner
53792

A Project carried out on the Master in Finance Program, under the supervision of:

Francisco Martins

05-01-2024

Abstract

This equity research delves into the strategic and financial landscape of adidas, a global leader in the sportswear industry. The analysis offers an in-depth exploration of the company's overview, its growth strategy, and the key industry value drivers. I dissect adidas's sales drivers, unearthing the dynamics that propel its market success. The research further presents a scenario and sensitivity analysis, shedding light on potential future trajectories and their financial implications. Anchored by a DCF, the study aims to evaluate adidas' intrinsic value and investment potential, offering a perspective on its prospects per geographic market and growth trajectories.

Keywords: adidas AG, Sportswear Industry, E-commerce, Athleisure

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

This report is part of the “Heralding adidas’ turnaround: Lacing up for a new era” report (annexed), developed by Elena Gasperotti and Henry Meijer-Werner and should be read as an integral part of it.

Table of Contents

Introduction

This report presents a detailed equity analysis of adidas, one of the leading sportswear companies in the world. It serves as a part of a comprehensive examination conducted jointly with my research partner, culminating in a unified document, with the overarching aim of deriving a valuation of adidas' equity through the lens of a DCF analysis. The purpose of this collaborative approach is to ensure a holistic coverage of adidas.

The following report commences with a detailed company overview, shedding light on adidas' strategic orientation and recent challenges. I then scrutinize the key industry value drivers, assessing how these align with adidas' growth strategy. A thorough investigation into the company's sales drivers reveals the mechanisms underlying its potential revenue generation and market success, in each of the regions adidas caters to. The study advances into a comprehensive sensitivity and scenario analysis, evaluating the potential impacts of key model assumptions and varying market conditions on adidas' value.

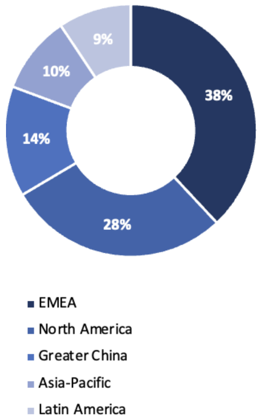
My partner's report encompasses the remaining sections, including an in-depth analysis of adidas' competitive landscape, cost drivers, and the valuation outcome, which synthesizes all inputs into an assessment of adidas' worth though a DCF and multiples analysis.

In conclusion, the report aims to provide an insightful and balanced view of adidas, equipping stakeholders with the knowledge to make informed decisions. Our analysis unveils a company at a pivotal juncture. Despite encountering a series of internal and external headwinds, adidas demonstrates a compelling potential for a turnaround. With robust brand equity, a clear growth strategy and credible leadership, adidas has all the ingredients to capitalize on emergent industry trends.

Company Overview

adidas AG is a leading sporting goods company headquartered in Herzogenaurach, Germany, that designs, distributes and markets athletic and sports lifestyle products. The corporation was initially founded by Adolf Dassler, who was later joined by his older brother Rudolf Dassler in 1924, as the 'Gebrüder Dassler Schuhfabrik'. After a falling out, the brothers split up in 1947. Adolf Dassler went on to establish adidas in 1949, while Rudolf Dassler created Puma, a major business rival.

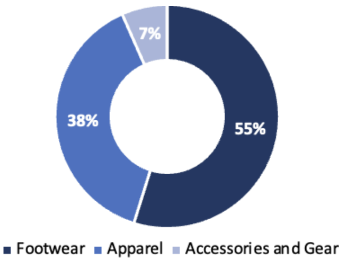
Figure 1: Revenues by region FY2022 (in %)



Source: Company data

Today, adidas is Europe's largest sportswear group, and the second largest in the world, after Nike. The company operates in over 160 countries and employs over 57.000 people. adidas divides its operating activities into five geographic segments, namely EMEA (Europe, Middle East, and Africa), North America, Greater China, Asia-Pacific, and Latin America. In 2022, EMEA provided the highest share of sales (38%), followed by North America (28%) and Greater China (14%) (Figure 1).

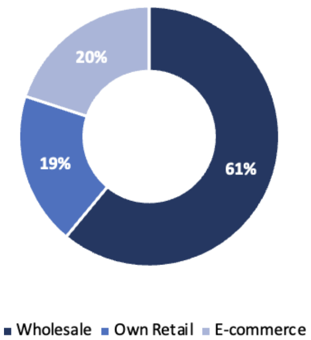
Figure 2: Revenues by product category FY2022 (in %)



Source: Company data

Moreover, adidas segments its products into three categories: footwear, apparel, and accessories and gear. In 2022, footwear depicted the largest product category of overall sales, with 55% (Figure 2). The company's extensive product range spans various sports, including football, tennis, golf, basketball, running and many others. In addition to athletic gear, adidas has a strong presence in the fashion and lifestyle segments, producing streetwear and casual clothing. One of the brand's main strategic priorities is franchising, especially in footwear, which acts as brand lighthouses. Key footwear franchises include Samba, Stan Smith, and Superstar, and accounted for nearly 33% of the total footwear business in 2022.

Figure 3: Revenues by channel FY2022 (in %)



Source: Company data

To keep production costs competitive and increase efficiency, adidas leverages global operations, outsourcing almost 100% of production to independent manufacturing partners. Out of 117 independent manufacturing partners in 2022, the majority reside in Asia (71%). Moreover, 72% of them have worked with the company for over ten years, while 37% have a tenure spanning over 20 years. In 2022, the manufacturing partners produced 419 million pairs of footwear, 482 million units of apparel and 117 million units of accessories and gear, a total volume of 1.018 million.

The company reaches its clients all over the world through a network of third-party retailers, company-owned stores, and online stores. In 2022, wholesale remained the largest channel, accounting for 61% of sales, whereas the share of direct-to-consumer (DTC) business, consisting of e-commerce and own retail sales, exhibited 39% (Figure 3). Within own retail, adidas operated 1.990 stores at the end of 2022, composed of 1.057 factory outlets, 834 concept stores, and 99 concession stores.

Leveraging the 3-Stripes

Figure 4: adidas 3-stripes logo

Source: Company data

Global sports leader with heritage

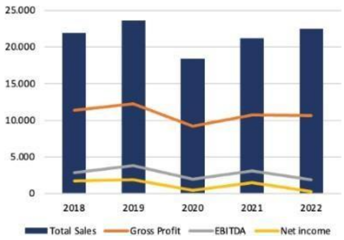
Driven by the mission 'to be the best sports brand in the world', adidas has thrived to become one of the most recognizable and influential global sports brands. 1949 saw the birth of the first shoe with the famous 3-stripes, which quickly became a global success story (Figure 4). When the German national football team miraculously won the 1954 World Cup in adidas football boots, the brand became a global household name. In 1967, adidas introduced the Franz Beckenbauer tracksuit, which paved the way for a whole new business. World-class athletes have trusted adidas for decades and been rewarded with gold medals.

Own the Game Strategy

Leveraging e-commerce and sustainability

adidas launched the ‘Own the Game’ strategy in early 2021, which outlined a plan until 2025 focused on leading through sustainability, digitalization, and expanding its membership program to foster direct consumer relationships. At the heart of the strategy is e-commerce. adidas is devoted to pour around €1bn towards its digital transformation to double online sales by 2025. Similarly, adidas is focused on shifting to a DTC-led model, built around membership. They project DTC sales to account for half of total sales by 2025. Moreover, adidas is committed to improving its product sustainability and reducing its carbon footprint. They aim for nine out of ten articles to be sustainable and to achieve climate neutrality in their own operations by 2025. Furthermore, adidas plans to concentrate on its most important categories, namely football, running, outdoor, training and lifestyle, and to invest over proportionately in EMEA, Greater China, and North America to gain market share in these strategic markets. If successful, adidas target average sales and net income growth of 8%-10% and 16%-18%, respectively, and a gross and operating margin of 53%-55% and 12%-14%, respectively, by 2025.

Figure 5&6: Financial performance 2018-2022 (in €m)



	2019	2020	2021	2022
Sales	23.640	18.435	21.234	22.511
Gross Profit	12.293	9.222	10.765	10.644
EBITDA	3.845	1.967	3.066	1.874
Net Income	1.918	461	1.492	254

Source: Company data

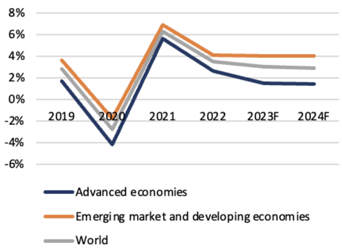
Covid-19 and Macroeconomic Challenges

adidas’ sales grew continuously from 2013 to 2019, at a CAGR of 8.9%. In 2019, the company experienced a banner year, generating a revenue of €23.640m and a gross profit of €12.293m (Figure 5 & 6). Moreover, EBITDA stood at €3.845m, 16,3% of sales. However, adidas has been beset with challenges since the outbreak of Covid-19 and has yet to reach pre-pandemic levels. Apart from the pandemic, intense competition, supply chain issues, slow recovery in China, the war in Ukraine and Yeezy fallout have had an adverse impact on adidas’ business. In 2022, the company made €22.511m sales, an increase of 6% from 2021. However, gross profit decreased by 1% to €10.644m, representing the weakest gross margin since 2014, at 47%.

Value Drivers

Recognizing adidas’ key growth drivers is essential to make sound projections. As outlined in the Company Overview, adidas’ growth strategy will concentrate on the DTC business, digitalization, athleisure, and sustainability. These moves will help adidas capitalize on current industry trends.

Figure 21: Real GDP growth 2019-2024



Source: IMF, 2023

Macroeconomic Drivers

2022 saw the global economy grow 3,5%, as the world continues to recover from the pandemic and the war in Ukraine (Figure 21). While in hindsight the resilience has been astounding, growth remains sluggish and global disparities are widening. In 2022, advanced economies grew 2,6%, while emerging market and developing economies grew 4,1%.

Damped economic growth

Global GDP is predicted to decelerate as central banks continue to tighten monetary policy to fight soaring inflation and the war in Ukraine continues to affect global energy and commodity prices. The damped outlook is accompanied by weakening consumer sentiment. Per IMF’s latest projections, global growth is expected to slow to 3% in 2023, and 2,9% thereafter, well below the historical average of 3,8%. The slowdown is more noticeable in advanced economies compared to emerging and developing countries. While the former is expected to grow 1,5% in 2023 and 1,4% in 2024, the latter is expected to grow 4% both years.

To counteract the potential negative impacts of overconcentration on certain regions, adidas is globally diversified and adjusts accordingly to global events. Thus, adidas has decided to wind down its business operations in Russia, amid their invasion of Ukraine. Real GDP is a key metric for forecasting adidas' future revenues. It offers a gauge of economic growth and health, directly impacting consumer confidence and spending. For a global brand like adidas, whose product range centers on discretionary items, real GDP trends are particularly telling. An uptick in real GDP often correlates with enhanced consumer spending power, especially on lifestyle and leisure products.

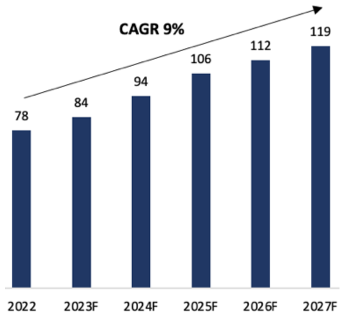
Consumer Shifts

Secular growth trends

Several industry trends provide opportunities that adidas can capitalize on. The effects of e-commerce, athleisure and sustainability can have considerable effects, leading to over- or underperformance in certain regions.

- Digitalization

Figure 22: Global sports & outdoor e-commerce industry size 2022-2027

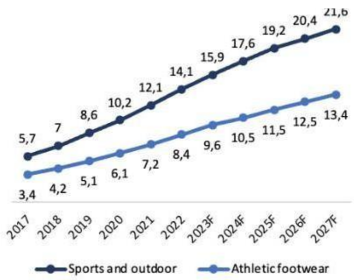


Source: Statista, 2023

Over the years, consumers have increasingly opted for convenience and purchased products online, a trend that has been particularly accelerated by the pandemic. The main arguments for online shopping are that you can shop at any time (32%) and at a lower price (29%)[1]. Over 80% of consumers search for products through online channels[2].

The global e-commerce market is expected to grow at a CAGR of 10,1%, from €2,847bn in 2023 to €4,607bn in 2028, and reach 3,4bn users[3]. In 2023, the number of digital buyers stood at 2,64 billion, a third of the global population. The fashion market depicts the second largest e-commerce segment, behind electronics, which is expected to grow at a CAGR of 9,36% from 2023 to 2028. With a volume of €859bn, China depicts the largest e-commerce market. The global sports and outdoor e-commerce industry stood at $77,6bn in 2022, and is expected to reach $119,1bn in 2027, exhibiting a CAGR of 9% (Figure 22). The global sports e-commerce penetration rate has increased for ten consecutive years, and is expected to reach 21,6% in 2017, up from 5,7% in 2017 (Figure 23). Athletic footwear is expected to reach a penetration rate of 13,4% in 2027, up from 3,4% in 2017.

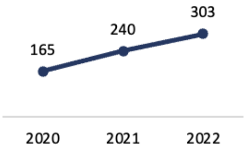
Figure 23: Global sports & outdoor e-commerce industry size 2022-2027



Source: Statista, 2023

adidas has managed to leverage the e-commerce trend. Currently available in over 60 countries, adidas' e-commerce sales generated roughly €4,5bn in 2022, 20% of total sales, up from merely €200m in 2012. Moreover, adidas run an online-based loyalty program, the adiClub, which leverages its website and mobile app to track points, offer rewards, and drive engagement. In 2022, the membership program reached 303 million members, up from 165 million in 2020 (Figure 24). In 2017, adidas launched its app, which has now garnered more than 50 million downloads. adidas digital presence enables them to foster direct consumer relationships and access to clients' sports and style preferences. Moreover, e-commerce gives adidas more control over its pricing and brand, a significant margin tailwind looking forward.

Figure 24: adiClub memberships 2020-2023 (in million)

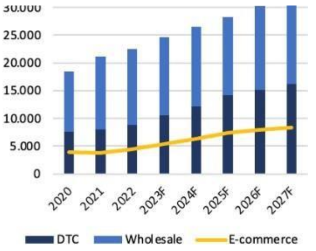


Source: Company data

adidas is devoted to further increase its digital capabilities and capitalize on the e-commerce trend. As outlined in the Own the Game strategy, adidas projects DTC sales to provide half of the total business by 2025, and e-commerce sales to reach between €8bn and €9bn. We view this trend as favorable, as the company is able to sell much of e-commerce sales at full price and can likely increase the margin by diverting some sales from wholesale. Analysing adidas' historical channel sales, we believe adidas is well positioned to leverage the DTC and e-commerce growth.

[1] BrizFeel (2023)
[2] McKinsey (2023)
[3] Statista (2023)

Figure 25: Sales channel mix 2020-2027 (in €m)



Source: Company data, own analysis

We think adidas will reach its goal of 50% sales through DTC by 2025 (Figure 25). However, with e-commerce sales of €7,4bn in 2025, we expect adidas to fall shy of its target of €8bn. We expect adidas online sales to contribute 26% of total sales by 2027, reaching €8,4bn, a CAGR of 13,3% from 2022. Due to adidas' shift to e-commerce and the historical store development, we see adidas continue its net store closing, at an average of 101 stores annually until 2027.

- Athleisure

Wearing athletic clothes beyond exercising

The blending of athletic clothing with leisure wear, known as Athleisure, continues to be a significant trend. It has evolved significantly, transforming from basic activewear to a stylish, comfortable hybrid suitable for various settings, including social events. This trend reflects a shift towards health consciousness and a balanced lifestyle, which gained further traction during the pandemic and the rise in remote working. Top fashion leaders anticipate the continuation of this casualization trend[4]. According to executives, casualwear depicts the category with the highest growth potential, followed by sportswear and sneakers. The trend is now even widespread in workplaces, with branded sweatshirts and sneakers becoming common work attire.

59% of people prioritize comfort when buying clothes

The popularity of athleisure is especially predominant in North America, where around 43% of Americans claim that over half of their wardrobe consists of athleisure items and 59% of people prioritize comfort in their clothing choices[5]. A U.S. survey in 2018 revealed that 64% of respondents wear sports clothes in their everyday life, 62% for exercising and 59% as comfortable home wear[6].

The trend is blurring the lines between the sportswear and fashion industry and adidas has done well to capitalize on athleisure. They have not only succeeded in staying relevant in the casualwear market, but managed to absorb market share from regular fashion brands. Their success is particularly visible in the current Samba hype. adidas aims to continue to leverage the trend through collaborations with high-end brands like Gucci, celebrities, and artists.

- Sustainability

2 out of 3 consumers feel sustainability is important when buying apparel

The fashion industry generates a huge amount of waste. It is responsible for over 20% of global water pollution and disperses roughly 10% of microplastics into the ocean every year[7]. However, consumers are becoming more environmentally aware and beginning to favour brands that incorporate eco-friendly materials and sustainable manufacturing processes. 16% of top fashion executives cited sustainability as the most important opportunity for 2023[8].

adidas' commitment to sustainability has long been embedded into its business practices. The group has set high standards for its products' development, defining a clear roadmap to be achieved by 2025. Aiming to be carbon neutral by 2050 and plastic free by 2024, the company is finding new ways to utilize only recycled plastic. With its 'three-loop-approach' strategy, adidas is focusing on recycled materials usage to foster a circular economy. adidas' goal for 2025 is that 90% of its products are sustainable.

In addition, adidas is actively seeking to replace 100% of virgin polyester with recycled polyester by 2024. They are already making substantial progress, with 96% of virgin polyester being replaced in 2022. Considering that polyester is the most used material in adidas' range of

[4] McKinsey (2022)
[5] Mintel (2023)
[6] Statista (2020)
[7] Earth.Org (2023)
[8] McKinsey (2022)

products and given that recycled polyester costs more than virgin polyester, due to lower production volumes, we expect this to have an impact on adidas' costs. However, this will also be counterbalanced by the increased value that its products will have, translating into premium prices that will positively affect the company's top line.

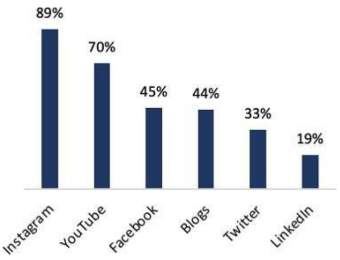
Marketing Investments

adidas' marketing initiatives are vital in stimulating product demand and enhancing brand value, ultimately fostering consumer loyalty. A significant portion of the company's marketing budget is allocated to various brand marketing efforts, including digital campaigns, advertising, point-of-sale promotions, and community-level engagement activities. More importantly, adidas historically dedicates nearly half of its marketing budget to collaborations and partnerships.

Endorsed by the best

adidas has a long history of partnering with major global events and some of the world's most high-profile athletes, celebrities, artists, influencers, and fashion designers to promote its brand and products as well as continually push the boundaries of sportswear innovation and style. The group is best known for its involvement in football, supplying the official kits for some of the world's best teams such as Real Madrid, Bayern Munich and 2022 World Cup winners Argentina, as well as endorsing some of football's biggest stars, including eight-time Ballon d'Or winner Lionel Messi and recent Kopa Trophy winner Jude Bellingham. These sponsorships make it one of the most visible brands worldwide and enable it to command a premium for its products. On the lifestyle side, they collaborate with Gucci, Moncler, Prada and more. Only Nike can currently compete with this portfolio of partnerships.

Figure 26: Global leading platforms for influencer marketing in 2020



Source: Statista, 2023

Moreover, adidas has recognized the power of influencer marketing and has made significant strides in this area. The brand collaborates with popular social media influencers and renowned celebrities, such as Pharrell Williams and Beyonce to develop exclusive product lines. The global influencer marketing economy was worth merely $1,7bn in 2016. In 2022, it was valued at $16,4bn and is expected to reach $21,1bn in 2023, triple the market value of 2019 [9]. 46% of consumers admit their biggest purchase inspiration is social media. Among the leading platforms, 89% of marketers believe Instagram is an important influencer marketing platform, followed by YouTube (70%) and Facebook (45%) (Figure 26). adidas' most followed Instagram account 'adidasoriginals' currently has 34,4 million followers, whereas on Facebook they are followed by 41 million people. Furthermore, adidas' main athlete Lionel Messi, with whom they collaborate on a regular basis, has the second most followed Instagram account in the world, with 492 million followers. We believe the brand, its iconic 3-stripes, and vast array of valuable partnerships provide a competitive edge.

Sports events

Major sports events have a significant impact on adidas' sales, with football-related events being especially crucial given their central role within the portfolio of events where adidas is a key player.

Sports events provide crucial opportunities for visibility and sales

During the 2018 World Cup in Russia, for which adidas supplied the official match ball, the Telstar 18, the company witnessed a 20% sales increase. Additionally, profits soared by 20%, reaching €418 million, surpassing the anticipated €387 million in the quarter. The 2022 World Cup in Qatar significantly bolstered adidas' financial performance. The company reported approximately €400 million in sales tied to the event in the fourth quarter, with its football merchandise experiencing

[9] Statista (2023)

a 30% surge in the first nine months of 2022 compared to the same period the previous year. adidas observed a heightened demand for its products in this iteration of the World Cup, surpassing interest levels from the last tournaments. This is probably because Messi won the cup with Argentina, which are both partners adidas.

Major sports events on the horizon in key markets

2024 is going to be a significant sports event year with the Summer Olympics in Paris and the European football Championship in Germany. Moreover, the U.S., Canada and Mexico are set to jointly host the 2026 football World Cup. We believe these events will pose significant drivers for adidas' brand, especially as they unfold in adidas key strategic markets.

Valuation Assumptions

This section is devoted to analyzing the set of inputs that are necessary for the DCF. It is important to bear in mind recent changes to the organizational structure. Following the Own the Game Strategy, adidas put a strategic emphasis on three key markets, EMEA, North America, and Greater China. Since 2021 adidas is managing Greater China as a separate market and integrating Europe, Russia/CIS, and emerging markets into EMEA, leaving only Latin America and North America unchanged.

Sales Drivers

Isolating the impact of any adidas product, such as the current Samba hype, on overall sales is intrinsically difficult as the company does not detail individual product sales. To project the sales as accurately as possible, revenues are split by region and subsequently by product category within that region. As previously analyzed, adidas' growth strategy aligns with the current industry growth drivers. By considering the real GDP growth projections for each of adidas operating regions, we incorporate the impact of these value drivers on adidas growth (Figure 27). Moreover, inflation and potential market share gains in each region are considered.

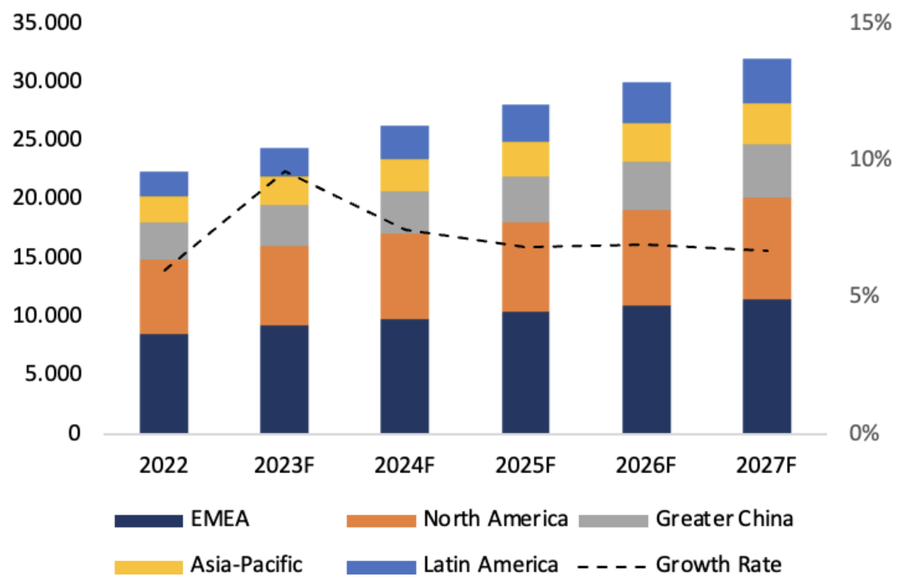
Figure 27: Real GDP growth per region 2018-2027

	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F
EMEA	2,3%	2,0%	-5,5%	6,0%	2,4%	1,0%	1,4%	1,9%	1,9%	1,7%
North America	2,8%	2,0%	-3,5%	5,8%	2,3%	2,1%	1,5%	1,8%	2,0%	2,1%
Greater China	6,8%	6,0%	2,2%	8,4%	3,0%	5,0%	4,2%	4,1%	4,1%	3,7%
Asia-Pacific	5,3%	4,1%	-0,8%	6,9%	4,1%	4,4%	4,1%	4,2%	4,2%	4,0%
Latin America	1,1%	0,2%	-7,0%	7,3%	4,1%	2,3%	2,3%	2,4%	2,5%	2,6%
World	3,6%	2,8%	-2,8%	6,3%	3,5%	3,0%	2,9%	3,2%	3,2%	3,1%

Source: IMF, 2023

adidas' Own the Game strategy set a target average sales growth of 8% to 10% until 2025. We believe they will grow at a CAGR of 7,5% from 2022 to 2027, reaching sales of €32.343m (Figure 28). This compares to a pre-covid CAGR of 8,9%, from 2013 to 2019. Moreover, Latin America and Asia-Pacific are projected to exhibit the highest growth, with 12,6% and 9,8% respectively.

Figure 28: Revenue projections by geographic area 2022-2027 (in €m)



Source: Company data, own analysis

- EMEA

Figure 29: CAGR adidas vs sportswear market in EMEA

	2020-2022	2022-2027
adidas	16,4%	6,3%
Sportswear	10,9%	5,5%

Source: Euromonitor, own analysis

In 2021, adidas integrated its home market, Europe, with Middle East and Africa, into the newly formed EMEA market. In 2022, EMEA contributed 38% of the company's overall sales, up from 34,2% in 2020. Despite the pandemic, adidas has maintained strong gross margins between 50% and 50,8% from 2020 to 2022, in this area. In 2022, the EMEA sportswear market size stood at €94,7bn, of which adidas absorbed 9%, up from 8,2% in 2020. With a CAGR of 16,4% from 2020 to 2022, adidas significantly outperformed the market, which grew at 10,9% (Figure 29). adidas' footwear business was the greatest contributor to the strong performance, benefiting from the hype around Samba. New CEO Gulden emphasized the importance of being market leader in Europe, their home market.

Figure 30: Sales (in €m) and market share in EMEA

Source: Euromonitor, own analysis

Due to stagnating economic growth in Europe, we believe the EMEA sportswear market will experience lower growth than other regions. Nonetheless, we believe that adidas are well positioned to keep gradually winning market share. We anticipate adidas to continue outperforming the sportswear industry in EMEA, growing at a CAGR of 6,3% until 2027, as opposed to a market growth of 5,5% (Figure 30). Especially with the upcoming European football Championship in 2024. Not only is this a tournament during which adidas generate elevated sales and gain visibility, but the tournament will take place in Germany, the origin of the brand. adidas has provided the tournament's official match ball since 1968 and will do so again in 2024.

- North America

Figure 31: CAGR adidas vs sportswear market in North America

	2020-2022	2018-2022	2022-2027
adidas	19,0%	8,1%	6,2%
Sportswear	22,2%	8,5%	5,3%

Source: Euromonitor, own analysis

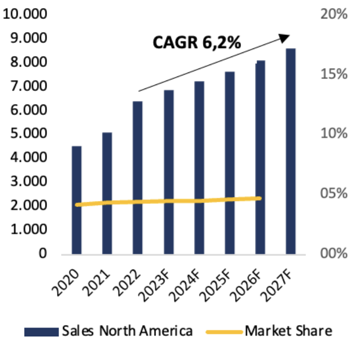
Gulden acknowledged that to be a truly global brand, they must be successful in North America. This is the largest sportswear market in the world, with a volume of €146,5bn as of 2022. adidas has slightly underperformed the North American sportswear market in the last few years. From 2018 to 2022, the sportswear market grew at a CAGR of 8,5%, whereas adidas' sales grew at 8,1% (Figure 31). In 2022, North America accounted for 28,4%, a considerable increase from 21,4% in 2018. Despite significant sales growth in the last two years, elevated inventory and high discounting weighed heavy on cost of sales in the region. Thus, adidas' gross margin in North America decreased from 46,2% in 2021 to 42,9% in 2022. adidas main challenge in North America is the intense competition with local brands Nike and Under Armour.

Nonetheless, we are very optimistic on North America and anticipate adidas' sales to outperform the market from 2022 to 2027. This comes on the back of several opportunities. For one, adidas is making significant strides in the basketball segment, the second most popular sport in the U.S. In December 2023, they released the first signature sneaker of rising basketball star, Anthony Edwards. Moreover, adidas signed a multi-year partnership with Overtime Elite, after the league sent 15 youngsters to the pros in just two years[10]. Additionally, adidas is set gain from the athleisure trend. adidas launched its long awaited 'Fear of God' collaboration with Jerry Lorenzo in December 2023. In the earnings call in May, Gulden said this partnership could be a commercial gamer-changer for the company by 2024[11]. As we previously highlighted, there is also a vast demand for adidas' Samba shoe in the U.S.

Football provides an important venue to gain market share in North America

North America will host the 2026 football World Cup. The last World Cup hosted by the U.S. in 1994 caused a frenzy and saw the introduction of the Major League Soccer. While the sport's popularity still lags American Football, Basketball and Baseball, it is set for another major boost. Most importantly, in July 2023, Inter Miami CF made a landmark signing of adidas athlete and Argentine icon Lionel Messi, on a contract through 2025 with an option for an additional year. Despite joining a last-place team, Messi's influence was immediate, propelling Inter Miami to win the Leagues Cup and advance to the U.S. Open Cup final within a month. Off the field, Messi's impact was equally transformative. Inter Miami's Instagram followers surged by over four million within 24 hours of his signing and now stand at approximately 15,4 million, the highest for any U.S. sports team[12]. Ticket prices to see Messi play rocketed by up to 1.700%[13]. Messi's jersey sales set records, becoming the highest-selling MLS jersey in 2023. Additionally, Messi's debut correlated with a 280% increase in new subscriptions for Apple TV's MLS Season Pass[14]. With adidas as the official kit sponsor of Inter Miami and Messi being the company's main sports person, adidas stands to reap huge sales and gain greater visibility in North America.

Figure 32: Sales (in €m) and market share in North America



Source: Euromonitor, own analysis

Given North America's global influence in setting fashion trends, a strong market position can have positive global spillover effects. We believe adidas will gain further brand awareness, especially through Messi's transfer and the World Cup, and will gain market share from major competitors. We anticipate their market share to grow from 4,2% in 2022 to 4,7% in 2027, and their sales to grow at a CAGR of 6,2% compared to a 5,3% sportswear market growth (Figure 32).

- Greater China

Figure 33: CAGR adidas vs sportswear market in Greater China

	2020-2022	2022-2027
adidas	-14,4%	7,2%
Sportswear	10,0%	11,2%

Source: Euromonitor, own analysis

Since 2021, adidas manages Greater China separate from Asia-Pacific, recognizing its importance as a growth market. China is the second-largest sportswear market in the world and has been a growth driver for adidas. However, because of the pandemic, they are not where they are supposed to be. After growing 5,9% in 2021, adidas' sales fell by 30,8% to €3,2bn in 2022, a alarming negative CAGR of 14,4% over the two years (Figure 33). Moreover, the gross margin fell from 51,8% to 46,7%, due to higher supply chain costs and significant discounting. In 2022, Greater China's share of overall sales amounted to 14,1%, a significant reduction from 23,6% in 2020.

[10] Forbes (2023)
[11] BOF (2023)
[12] Daily Mail (2023)
[13] Statista (2023)
[14] Antenna (2023)

China offers the highest growth potential

Still, we see significant potential for adidas with the lifting of covid restrictions. According to Euromonitor, the Chinese sportwear market will grow to roughly €88bn from €50bn between 2022 and 2027, exhibiting the largest CAGR in the industry at 11,2%. This is propelled by government initiatives and growing health awareness. Benefiting adidas, China's government continues to invest substantially in athletics. On the back of the Beijing 2022 Winter Olympics, China's National Development and Reform Commission vowed to invest $331 million into the construction of 185 sports venues to boost national fitness. In addition, China's General Administration of Sports affirmed to rebuild or launch roughly 1.000 sports venues all over China in a five-year plan, spanning 2021 to 2025[15]. Moreover, China boasts the largest middle class globally, including a significant millennial population, creating a vast market for sportswear. adidas has also been strengthening its digital presence in China, leveraging platforms like WeChat to engage with customers and offer personalized experiences. This digital strategy is crucial in a market where e-commerce is rapidly expanding and becoming a preferred shopping channel, especially among the younger demographic. adidas aims to localize the design of a minimum of 30% of its apparel offerings in China by next year and is also looking to broaden its collaborations with Chinese athletes.

Figure 34: Sales (in €m) and market share in Greater China

Source: Euromonitor, own analysis

The 2023 Asian Games in Hangzhou, combined with renewed visits by prominent sports figures like James Harden, reinvigorated consumer interest in sports following the pandemic. This resurgence has notably rejuvenated the sportswear market. We anticipate the Chinese sportswear to become a key driver again. This growth will be supported by the increasing adoption of sports activities and the expansion of the consumer base, aligning with the objectives of the Health China 2030 national strategy. We anticipate adidas to regain its strength in China and grow at a CAGR of 7,2%, albeit below the overall market, as they compete with strong local brands, such as Anta (Figure 34). We anticipate adidas' market share to recover from 6,4% in 2022 to 6,7% in 2027.

- Asia-Pacific

Figure 35: CAGR adidas vs sportswear market in Asia-Pacific

	2020-2022	2022-2027
adidas	3,7%	9,8%
Sportswear	8,6%	9,5%

Source: Euromonitor, own analysis

Since 2021, the company's Asia-Pacific segment omits Greater China and comprises Japan, South Korea, Southeast Asia, and the Pacific region. This segment depicts the area where adidas grew the least since 2020, after Greater China, as the region grappled with the pandemic. While the sportswear market still grew by a CAGR of 8,6% from 2020 to 2022, adidas underperformed the market with a growth rate of 3,7% (Figure 35).

Together with Greater China, we anticipate Asia-Pacific to exhibit the highest economic growth in the next years. According to Euromonitor, the sportswear market in Asia-Pacific is expected to grow at the second highest industry CAGR, with 9,5% until 2027. With the economic rebound and growing market, we expect adidas to accelerate its sales in the region by a growth rate of 9,8% until 2027 (Figure 36).

Figure 36: Sales (in €m) and market share in Asia-Pacific

Source: Euromonitor, own analysis

Markets like Japan and Korea are very fashion-oriented, which positions them as pivotal growth drivers for adidas. The increasing trend of athleisure and a growing emphasis on health and wellness are likely to fuel demand. Additionally, the rising middle class, along with increasing disposable incomes in these regions, support the potential for higher consumer spending on branded sportswear. The brand's commitment to sustainability and innovation is also resonant

[15] Global Times (2022)

with the values of consumers in these markets, potentially enhancing brand loyalty and market share.

- Latin America

Figure 37: CAGR adidas vs sportswear market in Latin America

	2020-2022	2018-2022	2022-2027
adidas	42,8%	6,6%	12,6%
Sportswear	27,3%	3,3%	7,6%

Source: Euromonitor, own analysis

Latin America is currently on fire. Since 2020, adidas experienced an average annual sales growth of 42,8%. This came after a 37,7% dip in 2020, as the pandemic unfolded. From 2018 to 2022, adidas outperformed the sportswear market with a CAGR of 6,6% compared to 3,3% (Figure 37). With a sportswear market of €19,7bn in 2022, Latin America depicts adidas' smallest market. Still, it provided 9,4% of adidas' total sales in 2022, quickly catching up to the Asia-Pacific share. The company grew its market share considerably from 8,5% in 2020 to 10,7% in 2022. The top three sportswear brands in Latin America hold a combined market share of 37%. This high concentration presents an opportunity for adidas, indicating established demand and a more predictable competitive landscape.

Figure 38: Sales (in €m) and market share in Latin America

Source: Euromonitor, own analysis

We believe adidas will continue to capitalize on the opportunities in Latin America. The region is home to some of the most sports addicted and passionate people, most notably in football. Of the ten countries competing in the CONMEBOL World Cup qualifiers, adidas provides the official jersey of four nations. adidas have recognized the potential of Latin America and are collaborating with Brazilian singer Anitta and Puerto Rican singer Bad Bunny, two of the most famous celebrities in the region. On the back of the momentum and adidas engagement in the area, we project Latin America to be adidas' highest growing area for the next five years, with a CAGR of 12,6% (Figure 38).

- Royalty, Commission, and Other Operating Income

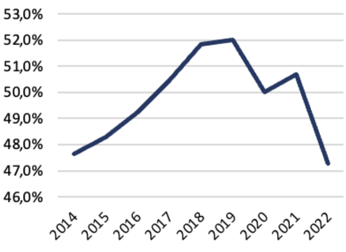
These segments have developed relatively consistently with adidas' overall sales since 2013. The only outlier occurred in 2022 for other operating income, due to post-closing agreements from the Rebook divestiture. Omitting this factor, both segments are projected to continue growing in line with overall sales.

- Other Businesses

adidas' other businesses category encompasses the operations of the Y-3 label, a collaboration with Japanese fashion designer Yohji Yamamoto, and other smaller business units not individually tracked by the chief decision-maker. These are aggregated due to their relatively lesser significance. We estimate other businesses to grow in line with sales, as they have done in the past.

Gross Margin

Figure 39: Gross margin evolution 2014-2022



Source: Company data

One of adidas' targets set in its growth strategy is to improve gross margins to a level between 53% and 55% by 2025. Margins are generally highly dependent on a variety of factors, including sourcing costs, inventory, pricing strategy, product and channel mix, supply chain efficiency, as well as external elements like economic conditions and political stability. As adidas outsources nearly 100% of production, cost of sales mainly refers to the expenses incurred in paying third parties for the production and delivery of products.

adidas' gross margin has continuously improved from 48% in 2014 to 52% in 2019 (Figure 39). The company has an average gross margin of 50% from 2013 to 2022, which is higher than that of its main peers. adidas can retain these margins through its premium pricing strategy. Through its brand power and innovation capabilities, adidas has been able to command premium prices

Figure 40: Gross margin per region 2020-2022

	2020	2021	2022
EMEA	50,0%	50,8%	50,5%
North America	42,8%	46,2%	42,9%
Greater China	52,3%	51,8%	46,7%
Asia-Pacific	52,0%	51,3%	52,9%
Latin America	44,2%	48,2%	47,5%

Source: Company data

for most of its products. For example, club jersey's currently retail between €100 and €150.

The pandemic and inherent supply chain disruptions, increased sourcing costs, and factory closures weighed heavy on adidas' gross margin. This was further exacerbated by recent geopolitical tensions. Consequently, adidas reported a gross margin of 47% in 2022, its weakest since 2014 (Figure 39). Especially North America and China experienced low margins of 42,9% and 46,7% respectively. (Figure 40).

Significant tailwind for 2024

adidas sources over 80% of products from Asia. Over the last years, the pandemic led to a spike in freight costs. However, according to the Freightos Baltic Index (FBX), rates are back to pre-pandemic levels and stabilising between $1.000 and $1.500, after peaking at roughly $11.000 in 2021. Currently, freight contracts are being renegotiated. Nike successfully renegotiated prices to pre-pandemic levels.

Figure 41: Gross margin forecast 2023-2027

	2023F	2024F	2025F	2026F
Gross Margin	47,5%	48,8%	50,1%	51,4%

Source: Own analysis

With easing conditions and freight rates reverting to their pre-pandemic levels, we expect gross margins to improve gradually. Moreover, we expect the shift towards e-commerce and sustainability to further boost margins, enabling adidas to sell more products at full price and premiums. We forecast gross margins to stabilize around 51,4% by 2026, falling shy of target set in its growth strategy (Figure 41).

Valuation Outcome

Sensitivity Analysis

The valuation of adidas hinges on several assumptions. This necessitates a test of the sensitivity of the target price to changes in key assumptions. A DCF analysis is highly sensitive to the long-term growth rate and the WACC. The latter, used to discount the projected FCF's, was determined to be 8,3%. As shown in the cost of capital analysis, one of the most uncertain inputs in the WACC computation is the company beta. Using the unlevered industry average beta of 1,11 would yield a WACC of 9,46%, which would considerably decrease the target price to €170. Moreover, our model assumes a terminal growth rate of 1,6%, considering an operating RONIC of 18,02% and a reinvestment rate of 9,14%. Changes in these variables would significantly impact the recommended share price. To provide a more detailed picture of the sensitivity of these inputs, we apply three incremental changes of 0,5% to the WACC and terminal growth rate (Figure 51). With a terminal growth rate of 1,6%, an increase in WACC from 6,8% to 9,8% leads to a decrease in target price from €264 to €162. Similarly, with a WACC of 8,3%, an increase in the growth rate from 0,1% to 3,1% results in an increase in the recommended price from €177 to €240. Combining both, changes in WACC and terminal growth rate, the recommended share price could fall to the lowest at €147 and the highest at €342.

Figure 51: Price sensitivity to WACC and terminal growth rate

		WACC						
		6,8%	7,3%	7,8%	8,3%	8,8%	9,3%	9,8%
Growth Rate	0,1%	222	205	190	177	166	156	147
	0,6%	233	215	198	184	172	161	152
	1,1%	247	226	208	192	179	167	157
	1,6%	264	240	219	**202**	187	173	162
	2,1%	285	256	232	212	195	181	168
	2,6%	310	275	248	225	206	189	175
	3,1%	342	300	266	240	218	199	184

Source: Own analysis

Scenario Analysis

As previously analyzed, adidas has historically maintained a high gross margin, averaging 50%. This comes as adidas' strong brand and innovative capabilities have enabled them to command premium prices for their products. However, beset with challenges from the pandemic and the war in Ukraine, adidas' margin fell to 47,5% in 2022. This is worth analyzing in further detail, as the gross margin forecast makes a major difference for the valuation. The SWOT analysis already highlights some factors that can either provide relief or further stress for the company's margins. We analyze an upward and a downside scenario on adidas' gross margin.

In an optimistic scenario, we anticipate robust growth in demand, a swift resolution to the conflict in Europe, and an effective supply chain management in the near term. This growth would be driven by a higher expansion in the sportswear market than anticipated and with adidas leveraging the current brand momentum and capitalizing on upcoming global events and key industry trends surrounding athleisure, digitalization, and sustainability. A recovery in China is also a key factor. Additionally, a rapid end to the war in Ukraine, along with a quicker normalization of inflation rates, would boost revenue growth and reduce the cost of goods sold. In the realm of supply chain, as e-commerce and DTC sales become more predominant, adidas can adeptly manage logistics challenges, further reducing the cost of sales. Moreover, e-commerce enables the sale of more products at full price. The absence of new covid variants and the lifting of trade restrictions, coupled with a slower rise in raw material costs, will support this outlook. In this scenario, gross margin is expected to grow by 2% over the anticipated level in 2026.

Conversely, in a pessimistic scenario, adidas might face subdued demand growth, prolonged conflict in Europe, more intense competition, and exacerbated supply chain issues. If the sportswear market expands less than anticipated and adidas fails to capitalize on market opportunities, revenue growth could lag our base case predictions. An extended European conflict could dampen sales in affected regions and push inflation to levels that impede adidas's ability to sustain revenues through price increases. Persistent supply chain disruptions, exacerbated by the conflict, along with potential new logistical challenges, could further hinder operations. The emergence of new virus variants combined with escalating raw material costs would drive up the cost of sales. Because adidas outsource nearly 100% of production, they are very dependent on suppliers. This poses a serious threat in case of supply chain disruptions, as the pandemic uncovered. Moreover, adidas sources roughly 30% of its products from China, which poses a threat if tariffs are introduced. In this scenario, gross margin is anticipated to reach 2% less than expected in 2026.

Figure 52: Gross margin scenario analysis

Gross Margin +2%	
Share Price	€ 239
Potential Return	38%
Recommendation	BUY
Gross Margin -2%	
Share Price	€ 164
Potential Return	-5%
Recommendation	SELL

Source: Company data, own analysis

We project adidas' gross margin to gradually increase and stabilize at 51,4% from 2026 onwards. If the margin was to increase by 2% over the projected level in 2026 and stabilize at 53,4% thereafter, the recommended share price would increase to €239, a potential return of 38% (Figure 52). This would align with adidas' goal of a margin between 53% and 55%. If, however, the gross margin was to stabilize at 49,4% in 2026, 2% less than the forecast level, the recommended target price would fall to €164, a potential loss of 5%.

MASTER IN FINANCE

ADIDAS AG

COMPANY REPORT

SPORTSWEAR INDUSTRY

5 JANUARY 2024

ELENA GASPEROTTI & HENRY MEIJER-WERNER

55525@novasbe.pt / 53792@novasbe.pt

Heralding adidas' turnaround

Lacing up for a new era

- We initiate adidas with a BUY recommendation, with a target share price of €202 indicating a potential return of 16% and a capital gain of €29.
- adidas has experienced challenging years, beset with internal issues, such as the termination of its Yeezy partnership, as well as external headwinds from macroeconomic challenges and geopolitical tensions.
- The company's outlook now seems positively recalibrated under new CEO Bjørn Gulden. His credible leadership coupled with adidas' intangible brand asset is poised to amplify its competitive edge as we transition into 2024, a pivotal year laden with significant sports events.
- We see adidas as a structural growth story, with all the ingredients to capitalize on key industry trends and headwinds now turning to tailwinds.
- We derive our December 2024 price target based on a 2-stage DCF (model forecasts + fade to terminal) and assume a 1,6% terminal growth and 8,3% WACC.

Company description

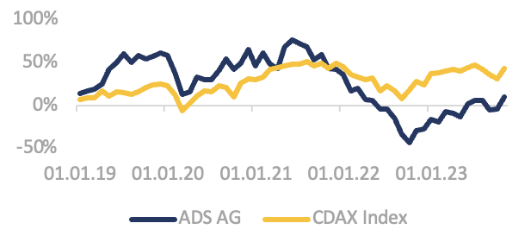
adidas, based in Herzogenaurach, Germany, is the world's second-largest sportswear group. The company designs, distributes and markets products in EMEA, North America, Greater China, Asia-Pacific and Latin America. It offers footwear, apparel, and accessories and gear, that cater to different sports and lifestyle segments.

Recommendation:	**BUY**
Price Target FY24:	**202 €**
Price (as of 5-Jan-24)	**173 €**

Bloomberg: ADS GR

52-week range (€)	117-199
Market Cap (€m)	31.140
Outstanding Shares (m)	180
Return Potential	16%

Source: Bloomberg, own analysis



Source: Bloomberg

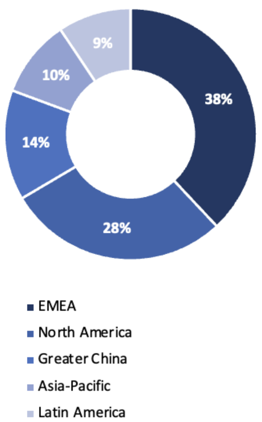
(Values in € millions)	2022	2023E	2024F
Revenues	22.511	24.680	26.527
EBITDA	1.889	2.304	2.984
Net Profit	458	863	1.318
EPS	2,55	4,80	7,32
P/E	50	40	27

Source: Company data, own analysis

Table of Contents

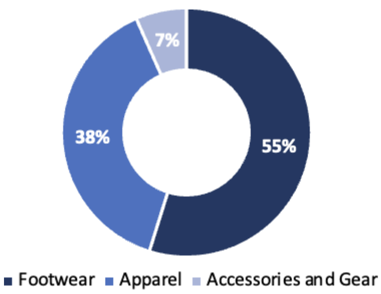
Company Overview

Figure 1: Revenues by region FY2022 (in %)



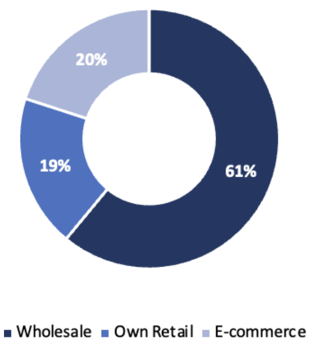
Source: Company data

Figure 2: Revenues by product category FY2022 (in %)



Source: Company data

Figure 3: Revenues by channel FY2022 (in %)



Source: Company data

adidas AG is a leading sporting goods company headquartered in Herzogenaurach, Germany, that designs, distributes and markets athletic and sports lifestyle products. The corporation was initially founded by Adolf Dassler, who was later joined by his older brother Rudolf Dassler in 1924, as the 'Gebrüder Dassler Schuhfabrik'. After a falling out, the brothers split up in 1947. Adolf Dassler went on to establish adidas in 1949, while Rudolf Dassler created Puma, a major business rival.

Today, adidas is Europe's largest sportswear group, and the second largest in the world, after Nike. The company operates in over 160 countries and employs over 57.000 people. adidas divides its operating activities into five geographic segments, namely EMEA (Europe, Middle East, and Africa), North America, Greater China, Asia-Pacific, and Latin America. In 2022, EMEA provided the highest share of sales (38%), followed by North America (28%) and Greater China (14%) (Figure 1).

Moreover, adidas segments its products into three categories: footwear, apparel, and accessories and gear. In 2022, footwear depicted the largest product category of overall sales, with 55% (Figure 2). The company's extensive product range spans various sports, including football, tennis, golf, basketball, running and many others. In addition to athletic gear, adidas has a strong presence in the fashion and lifestyle segments, producing streetwear and casual clothing. One of the brand's main strategic priorities is franchising, especially in footwear, which acts as brand lighthouses. Key footwear franchises include Samba, Stan Smith, and Superstar, and accounted for nearly 33% of the total footwear business in 2022.

To keep production costs competitive and increase efficiency, adidas leverages global operations, outsourcing almost 100% of production to independent manufacturing partners. Out of 117 independent manufacturing partners in 2022, the majority reside in Asia (71%). Moreover, 72% of them have worked with the company for over ten years, while 37% have a tenure spanning over 20 years. In 2022, the manufacturing partners produced 419 million pairs of footwear, 482 million units of apparel and 117 million units of accessories and gear, a total volume of 1.018 million.

The company reaches its clients all over the world through a network of third-party retailers, company-owned stores, and online stores. In 2022, wholesale remained the largest channel, accounting for 61% of sales, whereas the share of direct-to-consumer (DTC) business, consisting of e-commerce and own retail sales, exhibited 39% (Figure 3). Within own retail, adidas operated 1.990 stores at the end of 2022, composed of 1.057 factory outlets, 834 concept stores, and 99 concession stores.

Figure 4: adidas 3-stripes logo

Source: Company data

Leveraging the 3-Stripes

Global sports leader with heritage

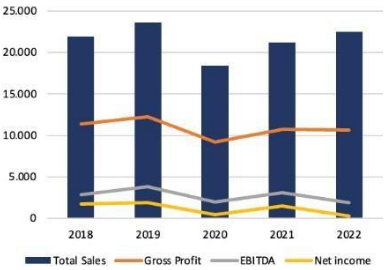
Driven by the mission 'to be the best sports brand in the world', adidas has thrived to become one of the most recognizable and influential global sports brands. 1949 saw the birth of the first shoe with the famous 3-stripes, which quickly became a global success story (Figure 4). When the German national football team miraculously won the 1954 World Cup in adidas football boots, the brand became a global household name. In 1967, adidas introduced the Franz Beckenbauer tracksuit, which paved the way for a whole new business. World-class athletes have trusted adidas for decades and been rewarded with gold medals.

Own the Game Strategy

Leveraging e-commerce and sustainability

adidas launched the 'Own the Game' strategy in early 2021, which outlined a plan until 2025 focused on leading through sustainability, digitalization, and expanding its membership program to foster direct consumer relationships. At the heart of the strategy is e-commerce. adidas is devoted to pour around €1bn towards its digital transformation to double online sales by 2025. Similarly, adidas is focused on shifting to a DTC-led model, built around membership. They project DTC sales to account for half of total sales by 2025. Moreover, adidas is committed to improving its product sustainability and reducing its carbon footprint. They aim for nine out of ten articles to be sustainable and to achieve climate neutrality in their own operations by 2025. Furthermore, adidas plans to concentrate on its most important categories, namely football, running, outdoor, training and lifestyle, and to invest over proportionately in EMEA, Greater China, and North America to gain market share in these strategic markets. If successful, adidas target average sales and net income growth of 8%-10% and 16%-18%, respectively, and a gross and operating margin of 53%-55% and 12%-14%, respectively, by 2025.

Figure 5&6: Financial performance 2018-2022 (in €m)



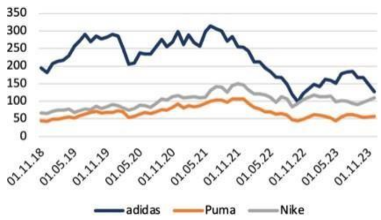
	2019	2020	2021	2022
Sales	23.640	18.435	21.234	22.511
Gross Profit	12.293	9.222	10.765	10.644
EBITDA	3.845	1.967	3.066	1.874
Net Income	1.918	461	1.492	254

Source: Company data

Covid-19 and Macroeconomic Challenges

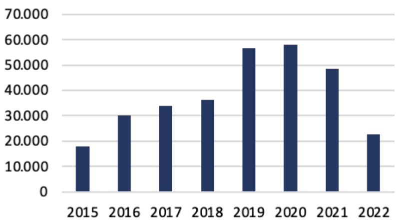
adidas' sales grew continuously from 2013 to 2019, at a CAGR of 8.9%. In 2019, the company experienced a banner year, generating a revenue of €23.640m and a gross profit of €12.293m (Figure 5 & 6). Moreover, EBITDA stood at €3.845m, 16,3% of sales. However, adidas has been beset with challenges since the outbreak of Covid-19 and has yet to reach pre-pandemic levels. Apart from the pandemic, intense competition, supply chain issues, slow recovery in China, the war in Ukraine and Yeezy fallout have had an adverse impact on adidas' business.

Figure 7: Peer stock performance comparison 2018-2022 (in €m)



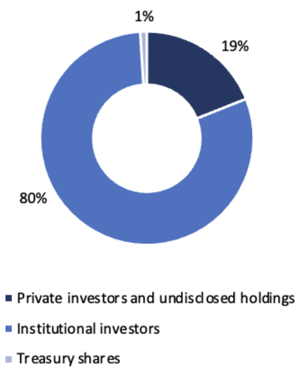
Source: Bloomberg, 2023

Figure 8: Market capitalization 2015-2022 (in €m)



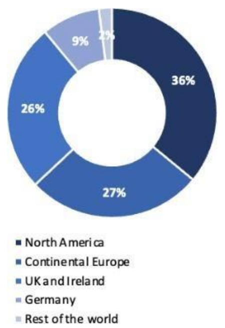
Source: Statista, 2023

Figure 9: Shareholder structure, 2023



Source: Company data

Figure 10: Geographic shareholder distribution, 2023



Source: Company data

In 2022, the company made €22.511m sales, an increase of 6% from 2021. However, gross profit decreased by 1% to €10.644m, representing the weakest gross margin since 2014, at 47%.

Stock Performance

adidas went public in 1995. Today, adidas' shares are listed on the Frankfurt Stock Exchange, and form part of major indices, such as the German DAX-30, EURO STOXX 50, MSCI World Textiles, Apparel & Luxury Goods, MSCI World ESG Leaders and the FTSE4Good Index Series. The latter two indices demonstrate adidas' commitment to sustainability. adidas received the highest MSCI ESG Rating of AAA. Similarly, adidas holds an 85/100 score from S&P Global ESG Evaluation, positioning them among the top ten in the entire rating universe.

Since 2018, adidas' stock has been fluctuating. While it managed to outperform the benchmark until the end of 2021, in 2022 the stock started a declining trend, underperforming its indexes. In that year, global stock markets closed out noticeably weaker compared to 2021 levels, given the high market volatility due to the Ukraine conflict and the adverse effects of the pandemic, all factors that significantly impacted investors' confidence. Also, with Central Banks combating inflation levels with higher interest rates, financial markets were even more liable to downward pressures. During that unfavourable market environment, adidas shares underperformed the broader stock market. By the end of 2022, adidas had experienced a decrease of nearly 50% compared to the previous year. The stocks of main competitors, Nike and Puma, also underperformed the market in 2022, experiencing declines of roughly 30% and 47%, respectively (Figure 7). By then, adidas had a market capitalization of €22,75bn, a significant decrease from €48,51bn in 2021 (Figure 8). Nevertheless, in 2023, the company's performance registered a noticeable recovery of 50%, achieving a market capitalization of €35,31bn in December and claiming one of the top positions on the DAX index.

Shareholder Structure

adidas' ownership is diversified among institutional investors (80%), and private investors and undisclosed holdings (19%) (Figure 9). adidas itself retains 1% as Treasury Shares, resulting from the Buyback Shares Program. The company boasts a strong international investor base, with German investors holding only 9% of total equity. Most shareholders are investors from North America (36%), followed by Continental Europe (27%), the UK and Ireland (26%) (Figure 10).

In May 2023, the Executive and Supervisory Boards recommended a dividend payment of €0,70 per share, reflecting a substantial decrease of nearly 80%

compared to the €3,30 per share in 2022. When adidas announced its two-stage Share Buyback program in December 2021, the company started an intense campaign of share repurchasing, after which a total of 13.134.696 shares were bought back at a total of €2.500m, and 12,1 million Treasury Shares were cancelled. This action effectively reduced the company's outstanding shares and adjusted its stock capital accordingly.

New Leadership

A new captain at the helm

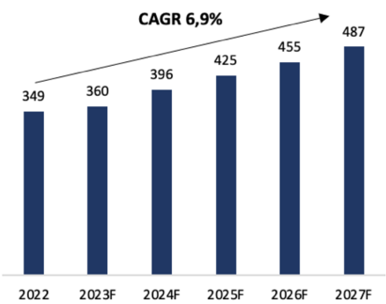
In November 2022, adidas appointed Bjørn Gulden as new CEO with effect from January 1, 2023. The board's decision to transition from Kasper Rorsted's leadership reflects the company's pursuit of new directions to stimulate growth in the wake of prolonged challenges. The market responded positively to the announcement of adidas' new CEO, with the company's shares surging nearly 20%. Gulden, previously at the helm of Puma, brings a wealth of experience spanning over three decades in the sportswear and footwear industry. His diverse leadership roles include serving as CEO at Deichmann, President at Rack Room Shoes, and an executive position at Helly Hansen. Gulden's familiarity with adidas is not new; his journey with the company began in the 1990s. From 1992 to 1999, he played a pivotal role as the Senior Vice President in charge of apparel and accessories.

Credible leadership with strong track record

As Puma's CEO, Gulden orchestrated a remarkable revival of the brand, reversing a prolonged phase of stagnant sales and declining profits. From 2013 until 2022, under Gulden's leadership, Puma's annual sales more than doubled. The company's shares reached an all-time high in 2021, culminating in 2022 with the brand recording its most robust performance in its history. Under the leadership of Gulden, adidas expectations look effectively recalibrated, positioning the company on a solid foundation as it approaches 2024, a year marked by significant sporting events.

Industry Overview

Figure 11: Global sportswear market size 2022-2027 (in €bn)



Source: Euromonitor, 2023

adidas competes in the global sportswear market, which encompasses the design, production and marketing of clothing, footwear and wearables and sports equipment. This market has expanded steadily over the years and is anticipated to continue doing so in the years ahead. The global sportswear market size increased to €349bn in 2022, from €170bn in 2010, and is projected to grow at a CAGR of 6,9% by 2027 (Figure 11). This growth is driven by heightened health consciousness and a growing interest in fitness activities. The pandemic has made people more health conscious, with 62% of Americans agreeing that their health has become more important[1]. Moreover, digital transformation and the fashion trend of athleisure wear, where sports inspired clothes are worn in non-sporting context, are contributing to the industry's attractiveness.

North America boasts the world's largest sportswear market

As of today, North America depicts the world's largest sportswear market (€147bn), followed by EMEA (€95bn) and Greater China (€50bn)[2]. Out of adidas' geographical segments, Greater China is projected to experience the highest sportswear growth, increasing at a CAGR of 11,2% from 2022 to 2027. This is due to a growing middle class and rising disposable incomes.

Women's sportswear market is gaining momentum

The sportswear industry is usually divided by type (apparel, footwear, and accessories), end-user (men, women, and kids) and distribution channel (online and offline). Although men still account for the largest share, with 51.2% in 2023, due to a higher sports affinity, kids and especially women have been gaining more shares in recent years. The women's share increased from 34,5% in 2018 to 36,1% in 2023. In its growth strategy, adidas recognized the significant growth potential of the Women's market. The company is investing significantly in fitness-focused campaigns and product development tailored specifically for women. Hence, in 2021 the company started a partnership with Peloton, a leading exercise equipment and media company. Looking at the sportswear market by distribution channel, offline retail still holds 70,3% in 2023, while e-commerce stands at 29,7%. However, the latter increased drastically from 17,8% in 2018. Within e-commerce, the fashion market depicts the second largest segment in the world[3].

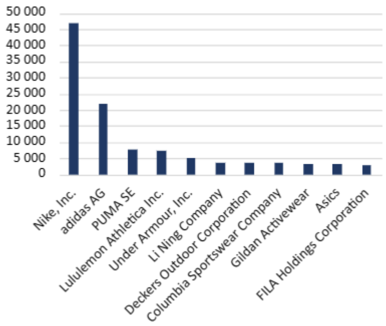
Competitive Analysis

The sportswear industry is characterized by intense competition, with established brands and novel companies vying for market share. The industry is known for constant innovation in design and materials. Well-established brands enjoy strong customer loyalty. Global sportswear market concentration hovered around 30% combined market share for the top three companies for the last decade. Main competitors include Nike, Puma, and Under Armour, but also newcomers, such as Lululemon. Along with adidas, Nike and Puma are the largest sportswear companies in the world.

Nike is the main competitor of adidas, standing as the foremost brand in athletic footwear and apparel worldwide. Holding the title of the world's most valuable clothing brand, their global revenues surpassed the combined earnings of adidas and Puma in 2022. Nike's impressive performance can be attributed to its

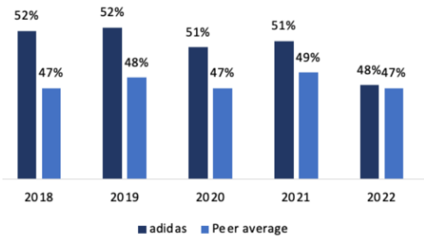
[1] World Economic Forum (2022)
[2] Euromonitor (2023)
[3] Statista (2023)

Figure 12: Top sportswear industry performers 2022



Source: Statista, 2023

Figure 13: Gross margin comparison 2018-2022



Source: Company data, own analysis

Figure 14: Profitability ratios averages 2018-2022

	adidas	Peers
ROA	7,09%	7,65%
ROE	20,83%	20,95%
Net Profit Margin	6,31%	6,33%

Source: Company data, own analysis

commitment to innovative and high-quality products, coupled with robust sponsorships of global sports events and collaborations with notable athletes, such as Cristiano Ronaldo and Lebron James.

As of December 2022, the top industry performers had an estimated combined revenue of $109,38bn (Figure 12). Nike accounted for more than 40% with sales of more than $49,1bn, confirming its leading position in the industry (Statista, 2023). In 2023, Nike achieved a global revenue of around $51,2bn, reflecting an increment of roughly $4,5bn over the preceding year. With its Consumer Direct Acceleration plan, introduced in 2020, Nike started an aggressive shift from wholesale to DTC and e-commerce, announcing a goal of 30% digital penetration by 2023. This goal was already achieved in 2021 and replaced with the aim for DTC sales to account for 60% of the business by 2025.

Puma is currently the world's third largest sportswear company, using affordability as its key selling feature. Blending fashion with sports, Puma's revenues have witnessed a substantial upswing in recent years, with sales reaching €8,5bn in 2022, marking a 24% increase over the previous year. The footwear segment remains the primary revenue driver for the company, accounting for 51% of the company's total revenue in 2022, followed by apparel with a 34% share. While adidas and Nike are concentrated on DTC acceleration, Puma's wholesale channel still accounts for more than 70% of total revenues.

Under Armour distinguishes itself through differentiation. With its performance-driven approach, the company has risen to become one of the leading global sportswear brands over the last decade. With sales of $5,7bn in 2022, the company experienced a remarkable CAGR of 11,23% since 2012. By investing into its e-commerce platforms and employing advanced manufacturing capabilities, Under Armour is leveraging its DTC strategy, managing to grow its e-commerce channel from 35% of sales in 2018 to more than 40% in 2022.

- ### Financial Metrics

Starting from the industry's profitability ratios, when it comes to gross margin performance, adidas has been able to consistently outperform the industry. Compared to a gross margin average of Nike, Puma, Under Armour and adidas itself, adidas has retained a higher gross margin from 2018 to 2022 (Figure 13). In terms of net profit margin, adidas' results are aligned with those of the industry, at roughly 6% (Figure 14). However, in 2020 and 2022, adidas registered way below average results of nearly 3%, versus an industry average of 6%. With an average industry ROE of 20,95% from 2018 to 2022, adidas aligned with its main peers, averaging 20,83%. However, while the average industry ROE was 20,48% in 2022, adidas metric fell below that of its peers, with a ratio of 12,78%, marking a decrease of more than 50% from 2021. Considering the ROA, adidas' average lines up with the industry's average of 7,65%.

Given the extensive outsourcing of production in the sportswear industry, inventories represent a significant source of investment for adidas and its peers. When examining the activity ratios, all competitors experience prolonged Inventory Holding Periods, with an average of 133 days versus adidas' 150 (Figure 15). On average, adidas maintains a Cash Conversion Cycle longer than its counterparts, standing at 103 days compared to the peers' average of 91, showing an overall inefficient resource utilization due to high inventories levels. While adidas Cash Conversion Cycle and Holding periods are far from the ones of its peers, the average Collection and Payable Periods generally align with industry standards, with an Average Payable Period being slightly higher than the average of 82, because of favorable payment terms that the company is able to have given its longstanding relationships with manufacturing partners.

Figure 15: Activity ratios averages 2018-2022

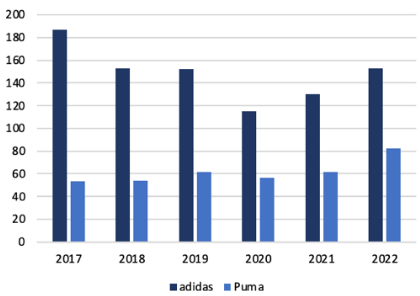
	adidas	Peers
Average Collection Period	40	41
Average Holding Period	150	133
Average Payable Period	86	82
Cash Conversion Cycle	103	91

Source: Company data, own analysis

- R&D expenses

The competitive nature of the industry requires a commitment to high-quality products that boast features such as breathability, quick drying, and heat resistance. Achieving this requires companies to invest massively in research and development to enhance product design, ensuring a high level of customer satisfaction. Renowned for its dedication to innovation and state-of-the-art technology, adidas consistently allocates resources to research and development, resulting in the creation of products that push the boundaries in terms of performance, comfort, and style. From introducing Boost cushioning technology to the development of Primeknit fabrics, adidas consistently introduces groundbreaking advancements that establish new industry benchmarks. From 2020 to 2022, adidas has increased its R&D expenses, getting closer to the 2017 peak of €187m (Figure 16). Such investments allow adidas to gain a competitive edge by delivering innovative and technologically advanced products, also contributing to the optimization of production, costs reduction and sales boost. Still ranked after Nike and adidas, Puma is significantly increasing its investment in the area since 2013, with more than €80m spent towards R&D in 2022.

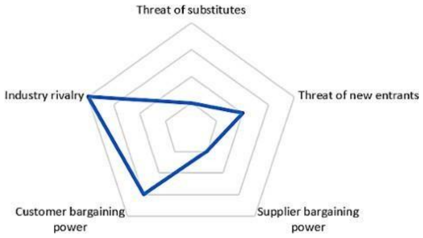
Figure 16: R&D expenses adidas vs. Puma 2017-2022 (in €m)



Source: Company data, Statista 2023

Porter's Five Forces

Figure 17: Porter's 5 forces analysis of the sportswear market



Source: Own analysis

Threat of Substitutes: *Low*	Threat of New Entrants: *Low/Medium*	Supplier Bargaining Power: *Low*	Customer Bargaining Power: *Medium/High*	Industry Rivalry: *High*
• Availability of alternatives • Cheaper offers • Customers preferences	• Challenge to match R&D expenditures and economies of scale • Brand reputation • Market share • Global distribution outsourcing	• High number of suppliers of raw materials • Low degree of differentiation • Low possibility for forward and vertical integration	• High availability of options • More affordable brands • Low buyer switching costs • High sensitivity to price	• Limited potential market expansion • Market saturation • High level of marketing activities and expenditures

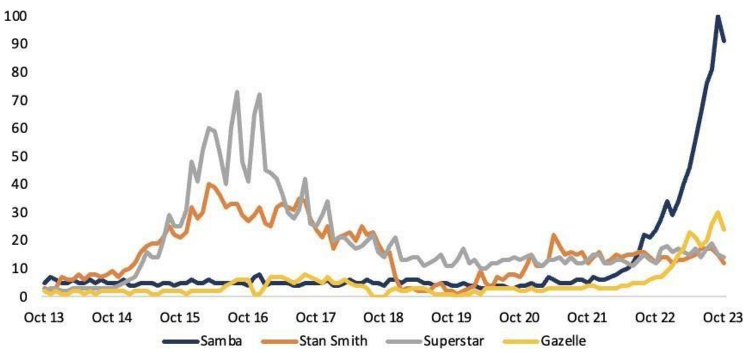
Samba is gaining traction

Samba is the shoe of the year

adidas' footwear market is a central aspect of its business, for they believe that footwear largely influences brand perception. Therein, they focus on franchises, which provide their most iconic symbols of culture and sport and serve as a beacon for their brand. Key footwear franchises include Superstar, Stan Smith and Samba, and exhibited roughly 33% of adidas's footwear business, in 2022.

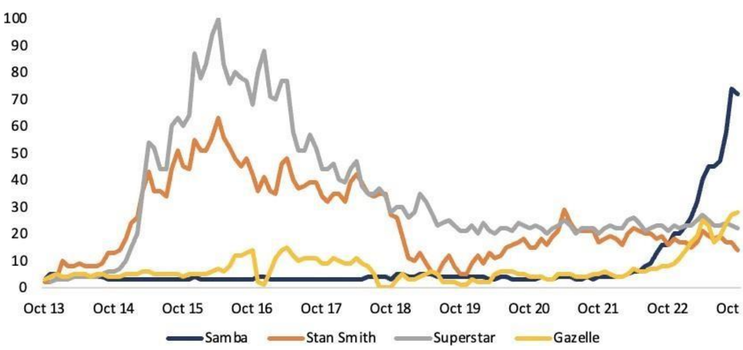
adidas is entering a hot product cycle driven by a growing popularity of its Samba shoe with the Gazelle also gaining momentum. Google Search data illustrates the growing demand for both shoes. Searches for Samba in the U.S., the world's largest sportswear market and major driver of global lifestyle trends, have eclipsed the peak for adidas' Stan Smith and Superstar shoes in 2016 (Figure 18). Samba's global popularity has surpassed the peak for Stan Smith and lags Superstar's peak (Figure 19). Key wholesale partner Foot Locker acknowledged "very positive early reads behind soccer-inspired looks like the Samba and Gazelle by adidas, which will be a key story for us in back-to-school and holiday this year"[4].

Figure 18: Google searches U.S., indexed, monthly



Source: Google searches, own analysis

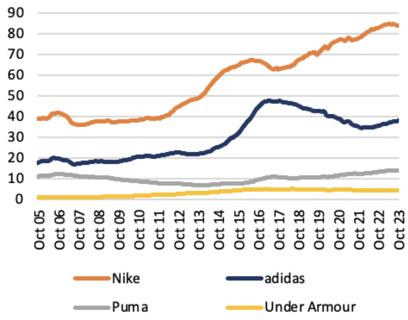
Figure 19: Google searches global, indexed, monthly



Source: Google searches, own analysis

[4] Yahoo Finance (2023)

Figure 20: Google searches global, indexed, rolling 12 months



Source: Google searches, own analysis

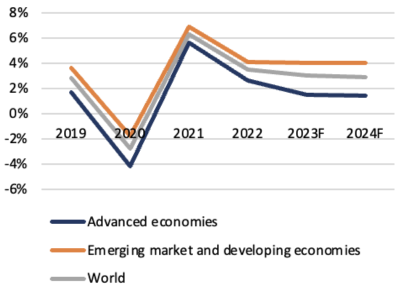
With Samba and Gazelle gaining momentum, adidas looks set to capitalize on a trending new product cycle, unseen since the 2015-2017 cycle surrounding the Superstar and Stan Smith shoes. The improved brand momentum offers a key source for footwear market share gains. To capitalize on this trend, one of the first steps of newly appointed CEO Gulden was to increase the production of both items. If managed properly, we believe adidas could be in for an attractive product cycle spanning multiple years.

Hot product cycles drive halo effects across brands. adidas' brand momentum appears to be reaching a clear turning point (Figure 20). To get an idea of the growth potential, we can look at the past growth achieved in comparable product cycles. When adidas last experienced a particularly successful product cycle, sales increased at a CAGR of 23% from 2014 to 2017.

adidas SWOT Analysis

Strenghts	Weaknesses
• Strong brand with a diverse product offering and geographical diversification • Innovation and technology • Europe's largest and the world's second largest sportswear group • Market leader in footbal apparel and equipment • Strong partnerships and collaborations • Official sponsor of major sporting events	• Dependence on the sports industry • Intense competition • Outsourced manufacturing • Recent performance
Opportunities	**Threats**
• Growing casualwear and sportswear industry • Capture brand momentum surrounding Samba's hot product cycle • North America and China • E-commerce and digital transformation • Women in sports • Sustainability • Global sports events	• Potential tariffs seeing as roughly 30% of products are sourced from China • Increased competition from novel firms • Geopolitical tensions • Economic downturns • Shifting consumer preferences • Currency fluctuations • Inflation

Figure 21: Real GDP growth 2019-2024



Source: IMF, 2023

Value Drivers

Recognizing adidas' key growth drivers is essential to make sound projections. As outlined in the Company Overview, adidas' growth strategy will concentrate on the DTC business, digitalization, athleisure, and sustainability. These moves will help adidas capitalize on current industry trends.

Macroeconomic Drivers

2022 saw the global economy grow 3,5%, as the world continues to recover from the pandemic and the war in Ukraine (Figure 21). While in hindsight the resilience has been astounding, growth remains sluggish and global disparities are widening. In 2022, advanced economies grew 2,6%, while emerging market and developing economies grew 4,1%.

Damped economic growth

Global GDP is predicted to decelerate as central banks continue to tighten monetary policy to fight soaring inflation and the war in Ukraine continues to affect global energy and commodity prices. The damped outlook is accompanied by weakening consumer sentiment. Per IMF's latest projections, global growth is expected to slow to 3% in 2023, and 2,9% thereafter, well below the historical average of 3,8%. The slowdown is more noticeable in advanced economies compared to emerging and developing countries. While the former is expected to grow 1,5% in 2023 and 1,4% in 2024, the latter is expected to grow 4% both years.

To counteract the potential negative impacts of overconcentration on certain regions, adidas is globally diversified and adjusts accordingly to global events. Thus, adidas has decided to wind down its business operations in Russia, amid their invasion of Ukraine. Real GDP is a key metric for forecasting adidas' future revenues. It offers a gauge of economic growth and health, directly impacting consumer confidence and spending. For a global brand like adidas, whose product range centers on discretionary items, real GDP trends are particularly telling. An uptick in real GDP often correlates with enhanced consumer spending power, especially on lifestyle and leisure products.

Consumer Shifts

Several industry trends provide opportunities that adidas can capitalize on. The effects of e-commerce, athleisure and sustainability can have considerable effects, leading to over- or underperformance in certain regions.

▪ Digitalization

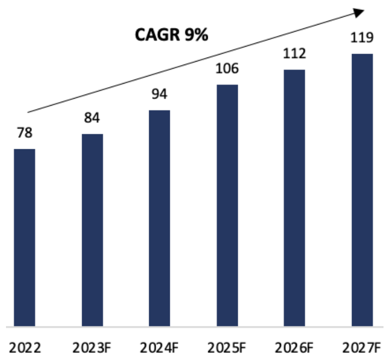
Secular growth trends

Over the years, consumers have increasingly opted for convenience and purchased products online, a trend that has been particularly accelerated by the pandemic. The main arguments for online shopping are that you can shop at any time (32%) and at a lower price (29%)[5]. Over 80% of consumers search for products through online channels[6].

The global e-commerce market is expected to grow at a CAGR of 10,1%, from €2,847bn in 2023 to €4,607bn in 2028, and reach 3,4bn users[7]. In 2023, the number of digital buyers stood at 2,64 billion, a third of the global population. The

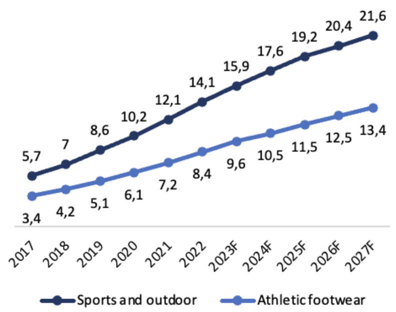
[5] BrizFeel (2023)
[6] McKinsey (2023)
[7] Statista (2023)

Figure 22: Global sports & outdoor e-commerce industry size (2022-2027)



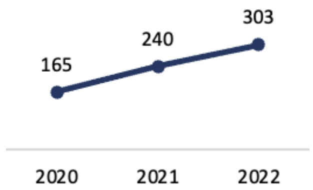
Source: Statista, 2023

Figure 23: Global sports & outdoor e-commerce industry size (2022-2027)



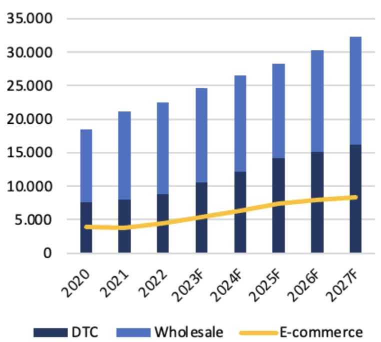
Source: Statista, 2023

Figure 24: adiClub memberships 2020-2023 (in million)



Source: Company data

Figure 25: Sales channel mix 2020-2027 (in €m)



Source: Company data, own analysis

fashion market depicts the second largest e-commerce segment, behind electronics, which is expected to grow at a CAGR of 9,36% from 2023 to 2028. With a volume of €859bn, China depicts the largest e-commerce market. The global sports and outdoor e-commerce industry stood at $77,6bn in 2022, and is expected to reach $119,1bn in 2027, exhibiting a CAGR of 9% (Figure 22). The global sports e-commerce penetration rate has increased for ten consecutive years, and is expected to reach 21,6% in 2017, up from 5,7% in 2017 (Figure 23). Athletic footwear is expected to reach a penetration rate of 13,4% in 2027, up from 3,4% in 2017.

adidas has managed to leverage the e-commerce trend. Currently available in over 60 countries, adidas' e-commerce sales generated roughly €4,5bn in 2022, 20% of total sales, up from merely €200m in 2012. Moreover, adidas run an online-based loyalty program, the adiClub, which leverages its website and mobile app to track points, offer rewards, and drive engagement. In 2022, the membership program reached 303 million members, up from 165 million in 2020 (Figure 24). In 2017, adidas launched its app, which has now garnered more than 50 million downloads. adidas digital presence enables them to foster direct consumer relationships and access to clients' sports and style preferences. Moreover, e-commerce gives adidas more control over its pricing and brand, a significant margin tailwind looking forward.

adidas is devoted to further increase its digital capabilities and capitalize on the e-commerce trend. As outlined in the Own the Game strategy, adidas projects DTC sales to provide half of the total business by 2025, and e-commerce sales to reach between €8bn and €9bn. We view this trend as favorable, as the company is able to sell much of e-commerce sales at full price and can likely increase the margin by diverting some sales from wholesale. Analysing adidas' historical channel sales, we believe adidas is well positioned to leverage the DTC and e-commerce growth. We think adidas will reach its goal of 50% sales through DTC by 2025 (Figure 25). However, with e-commerce sales of €7,4bn in 2025, we expect adidas to fall shy of its target of €8bn. We expect adidas online sales to contribute 26% of total sales by 2027, reaching €8,4bn, a CAGR of 13,3% from 2022. Due to adidas' shift to e-commerce and the historical store development, we see adidas continue its net store closing, at an average of 101 stores annually until 2027.

- Athleisure

The blending of athletic clothing with leisure wear, known as Athleisure, continues to be a significant trend. It has evolved significantly, transforming from basic activewear to a stylish, comfortable hybrid suitable for various settings, including social events. This trend reflects a shift towards health consciousness and a balanced lifestyle, which gained further traction during the pandemic and the rise in remote working. Top fashion leaders anticipate the continuation of this casualization trend[8]. According to executives, casualwear depicts the category with the highest growth potential, followed by sportswear and sneakers. The trend is now even widespread in workplaces, with branded sweatshirts and sneakers becoming common work attire.

Wearing athletic clothes beyond exercising

The popularity of athleisure is especially predominant in North America, where around 43% of Americans claim that over half of their wardrobe consists of athleisure items and 59% of people prioritize comfort in their clothing choices[9]. A U.S. survey in 2018 revealed that 64% of respondents wear sports clothes in their everyday life, 62% for exercising and 59% as comfortable home wear[10].

59% of people prioritize comfort when buying clothes

The trend is blurring the lines between the sportswear and fashion industry and adidas has done well to capitalize on athleisure. They have not only succeeded in staying relevant in the casualwear market, but managed to absorb market share from regular fashion brands. Their success is particularly visible in the current Samba hype. adidas aims to continue to leverage the trend through collaborations with high-end brands like Gucci, celebrities, and artists.

- Sustainability

The fashion industry generates a huge amount of waste. It is responsible for over 20% of global water pollution and disperses roughly 10% of microplastics into the ocean every year[11]. However, consumers are becoming more environmentally aware and beginning to favour brands that incorporate eco-friendly materials and sustainable manufacturing processes. 16% of top fashion executives cited sustainability as the most important opportunity for 2023[12].

2 out of 3 consumers feel sustainability is important when buying apparel

adidas' commitment to sustainability has long been embedded into its business practices. The group has set high standards for its products' development, defining a clear roadmap to be achieved by 2025. Aiming to be carbon neutral by 2050 and plastic free by 2024, the company is finding new ways to utilize only recycled plastic. With its 'three-loop-approach' strategy, adidas is focusing on recycled materials usage to foster a circular economy. adidas' goal for 2025 is that 90% of its products are sustainable.

---

[8] McKinsey (2022)
[9] Mintel (2023)
[10] Statista (2020)
[11] Earth.Org (2023)
[12] McKinsey (2022)

In addition, adidas is actively seeking to replace 100% of virgin polyester with recycled polyester by 2024. They are already making substantial progress, with 96% of virgin polyester being replaced in 2022. Considering that polyester is the most used material in adidas' range of products and given that recycled polyester costs more than virgin polyester, due to lower production volumes, we expect this to have an impact on adidas' costs. However, this will also be counterbalanced by the increased value that its products will have, translating into premium prices that will positively affect the company's top line.

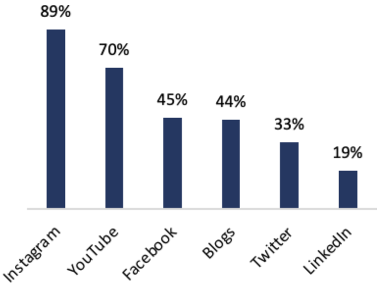
Marketing Investments

adidas' marketing initiatives are vital in stimulating product demand and enhancing brand value, ultimately fostering consumer loyalty. A significant portion of the company's marketing budget is allocated to various brand marketing efforts, including digital campaigns, advertising, point-of-sale promotions, and community-level engagement activities. More importantly, adidas historically dedicates nearly half of its marketing budget to collaborations and partnerships.

Endorsed by the best

adidas has a long history of partnering with major global events and some of the world's most high-profile athletes, celebrities, artists, influencers, and fashion designers to promote its brand and products as well as continually push the boundaries of sportswear innovation and style. The group is best known for its involvement in football, supplying the official kits for some of the world's best teams such as Real Madrid, Bayern Munich and 2022 World Cup winners Argentina, as well as endorsing some of football's biggest stars, including eight-time Ballon d'Or winner Lionel Messi and recent Kopa Trophy winner Jude Bellingham. These sponsorships make it one of the most visible brands worldwide and enable it to command a premium for its products. On the lifestyle side, they collaborate with Gucci, Moncler, Prada and more. Only Nike can currently compete with this portfolio of partnerships.

Figure 26: Global leading platforms for influencer marketing in 2020



Source: Statista, 2023

Moreover, adidas has recognized the power of influencer marketing and has made significant strides in this area. The brand collaborates with popular social media influencers and renowned celebrities, such as Pharrell Williams and Beyonce to develop exclusive product lines. The global influencer marketing economy was worth merely $1,7bn in 2016. In 2022, it was valued at $16,4bn and is expected to reach $21,1bn in 2023, triple the market value of 2019 [13]. 46% of consumers admit their biggest purchase inspiration is social media. Among the leading platforms, 89% of marketers believe Instagram is an important influencer marketing platform,

[13] Statista (2023)

followed by YouTube (70%) and Facebook (45%) (Figure 26). adidas' most followed Instagram account 'adidasoriginals' currently has 34,4 million followers, whereas on Facebook they are followed by 41 million people. Furthermore, adidas' main athlete Lionel Messi, with whom they collaborate on a regular basis, has the second most followed Instagram account in the world, with 492 million followers. We believe the brand, its iconic 3-stripes, and vast array of valuable partnerships provide a competitive edge.

Sports events

Major sports events have a significant impact on adidas' sales, with football-related events being especially crucial given their central role within the portfolio of events where adidas is a key player.

Sports events provide crucial opportunities for visibility and sales

During the 2018 World Cup in Russia, for which adidas supplied the official match ball, the Telstar 18, the company witnessed a 20% sales increase. Additionally, profits soared by 20%, reaching €418 million, surpassing the anticipated €387 million in the quarter. The 2022 World Cup in Qatar significantly bolstered adidas' financial performance. The company reported approximately €400 million in sales tied to the event in the fourth quarter, with its football merchandise experiencing a 30% surge in the first nine months of 2022 compared to the same period the previous year. adidas observed a heightened demand for its products in this iteration of the World Cup, surpassing interest levels from the last tournaments. This is probably because Messi won the cup with Argentina, which are both partners adidas.

Major sports events on the horizon in key markets

2024 is going to be a significant sports event year with the Summer Olympics in Paris and the European football Championship in Germany. Moreover, the U.S., Canada and Mexico are set to jointly host the 2026 football World Cup. We believe these events will pose significant drivers for adidas' brand, especially as they unfold in adidas key strategic markets.

Valuation Assumptions

This section is devoted to analyzing the set of inputs that are necessary for the DCF. It is important to bear in mind recent changes to the organizational structure. Following the Own the Game Strategy, adidas put a strategic emphasis on three key markets, EMEA, North America, and Greater China. Since 2021 adidas is managing Greater China as a separate market and integrating Europe, Russia/CIS, and emerging markets into EMEA, leaving only Latin America and North America unchanged.

Sales Drivers

Isolating the impact of any adidas product, such as the current Samba hype, on overall sales is intrinsically difficult as the company does not detail individual product sales. To project the sales as accurately as possible, revenues are split by region and subsequently by product category within that region. As previously analyzed, adidas' growth strategy aligns with the current industry growth drivers. By considering the real GDP growth projections for each of adidas operating regions, we incorporate the impact of these value drivers on adidas growth (Figure 27). Moreover, inflation and potential market share gains in each region are considered.

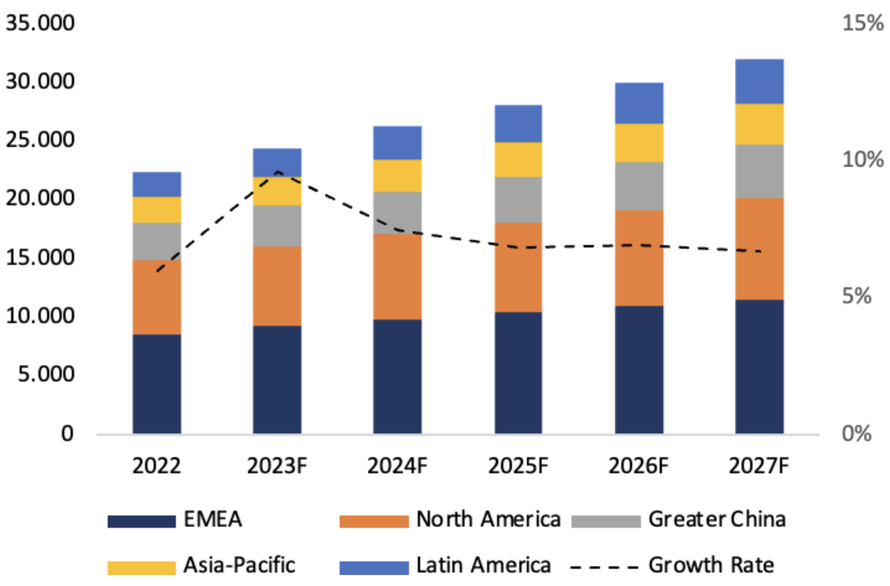
Figure 27: Real GDP growth per region 2018-2027

	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F
EMEA	2,3%	2,0%	-5,5%	6,0%	2,4%	1,0%	1,4%	1,9%	1,9%	1,7%
North America	2,8%	2,0%	-3,5%	5,8%	2,3%	2,1%	1,5%	1,8%	2,0%	2,1%
Greater China	6,8%	6,0%	2,2%	8,4%	3,0%	5,0%	4,2%	4,1%	4,1%	3,7%
Asia-Pacific	5,3%	4,1%	-0,8%	6,9%	4,1%	4,4%	4,1%	4,2%	4,2%	4,0%
Latin America	1,1%	0,2%	-7,0%	7,3%	4,1%	2,3%	2,3%	2,4%	2,5%	2,6%
World	3,6%	2,8%	-2,8%	6,3%	3,5%	3,0%	2,9%	3,2%	3,2%	3,1%

Source: IMF, 2023

adidas' Own the Game strategy set a target average sales growth of 8% to 10% until 2025. We believe they will grow at a CAGR of 7,5% from 2022 to 2027, reaching sales of €32.343m (Figure 28). This compares to a pre-covid CAGR of 8,9%, from 2013 to 2019. Moreover, Latin America and Asia-Pacific are projected to exhibit the highest growth, with 12,6% and 9,8% respectively.

Figure 28: Revenue projections by geographic area 2022-2027 (in €m)



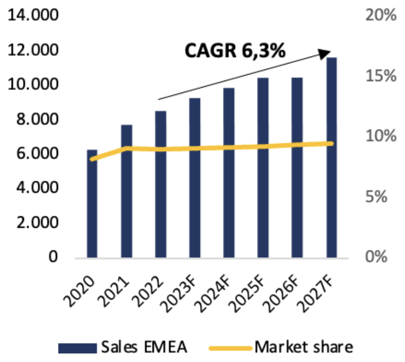
Source: Company data, own analysis

Figure 29: CAGR adidas vs sportswear market in EMEA

	2020-2022	2022-2027
adidas	16,4%	6,3%
Sportswear	10,9%	5,5%

Source: Euromonitor, own analysis

Figure 30: Sales (in €m) and market share in EMEA



Source: Euromonitor, own analysis

Figure 31: CAGR adidas vs sportswear market in North America

	2020-2022	2018-2022	2022-2027
adidas	19,0%	8,1%	6,2%
Sportswear	22,2%	8,5%	5,3%

Source: Euromonitor, own analysis

- EMEA

In 2021, adidas integrated its home market, Europe, with Middle East and Africa, into the newly formed EMEA market. In 2022, EMEA contributed 38% of the company's overall sales, up from 34,2% in 2020. Despite the pandemic, adidas has maintained strong gross margins between 50% and 50,8% from 2020 to 2022, in this area. In 2022, the EMEA sportswear market size stood at €94,7bn, of which adidas absorbed 9%, up from 8,2% in 2020. With a CAGR of 16,4% from 2020 to 2022, adidas significantly outperformed the market, which grew at 10,9% (Figure 29). adidas' footwear business was the greatest contributor to the strong performance, benefiting from the hype around Samba. New CEO Gulden emphasized the importance of being market leader in Europe, their home market.

Due to stagnating economic growth in Europe, we believe the EMEA sportswear market will experience lower growth than other regions. Nonetheless, we believe that adidas are well positioned to keep gradually winning market share. We anticipate adidas to continue outperforming the sportswear industry in EMEA, growing at a CAGR of 6,3% until 2027, as opposed to a market growth of 5,5% (Figure 30). Especially with the upcoming European football Championship in 2024. Not only is this a tournament during which adidas generate elevated sales and gain visibility, but the tournament will take place in Germany, the origin of the brand. adidas has provided the tournament's official match ball since 1968 and will do so again in 2024.

- North America

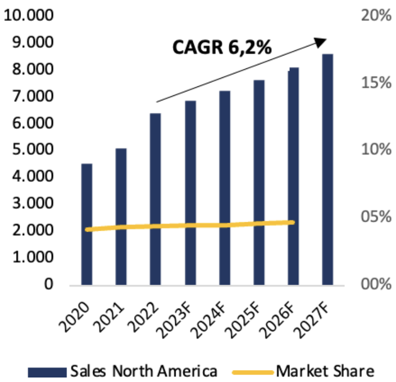
Gulden acknowledged that to be a truly global brand, they must be successful in North America. This is the largest sportswear market in the world, with a volume of €146,5bn as of 2022. adidas has slightly underperformed the North American sportswear market in the last few years. From 2018 to 2022, the sportswear market grew at a CAGR of 8,5%, whereas adidas' sales grew at 8,1% (Figure 31). In 2022, North America accounted for 28,4%, a considerable increase from 21,4% in 2018. Despite significant sales growth in the last two years, elevated inventory and high discounting weighed heavy on cost of sales in the region. Thus, adidas' gross margin in North America decreased from 46,2% in 2021 to 42,9% in 2022. adidas main challenge in North America is the intense competition with local brands Nike and Under Armour.

Nonetheless, we are very optimistic on North America and anticipate adidas' sales to outperform the market from 2022 to 2027. This comes on the back of several opportunities. For one, adidas is making significant strides in the basketball segment, the second most popular sport in the U.S. In December 2023, they released the first signature sneaker of rising basketball star, Anthony Edwards. Moreover, adidas signed a multi-year partnership with Overtime Elite, after the league sent 15 youngsters to the pros in just two years[14]. Additionally, adidas is set gain from the athleisure trend. adidas launched its long awaited 'Fear of God' collaboration with Jerry Lorenzo in December 2023. In the earnings call in May, Gulden said this partnership could be a commercial gamer-changer for the company by 2024[15]. As we previously highlighted, there is also a vast demand for adidas' Samba shoe in the U.S.

Football provides an important venue to gain market share in North America

North America will host the 2026 football World Cup. The last World Cup hosted by the U.S. in 1994 caused a frenzy and saw the introduction of the Major League Soccer. While the sport's popularity still lags American Football, Basketball and Baseball, it is set for another major boost. Most importantly, in July 2023, Inter Miami CF made a landmark signing of adidas athlete and Argentine icon Lionel Messi, on a contract through 2025 with an option for an additional year. Despite joining a last-place team, Messi's influence was immediate, propelling Inter Miami to win the Leagues Cup and advance to the U.S. Open Cup final within a month. Off the field, Messi's impact was equally transformative. Inter Miami's Instagram followers surged by over four million within 24 hours of his signing and now stand at approximately 15,4 million, the highest for any U.S. sports team[16]. Ticket prices to see Messi play rocketed by up to 1.700%[17]. Messi's jersey sales set records, becoming the highest-selling MLS jersey in 2023. Additionally, Messi's debut correlated with a 280% increase in new subscriptions for Apple TV's MLS Season Pass[18]. With adidas as the official kit sponsor of Inter Miami and Messi being the company's main sports person, adidas stands to reap huge sales and gain greater visibility in North America.

Figure 32: Sales (in €m) and market share in North America



Source: Euromonitor, own analysis

Given North America's global influence in setting fashion trends, a strong market position can have positive global spillover effects. We believe adidas will gain further brand awareness, especially through Messi's transfer and the World Cup, and will gain market share from major competitors. We anticipate their market share to grow from 4,2% in 2022 to 4,7% in 2027, and their sales to grow at a CAGR of 6,2% compared to a 5,3% sportswear market growth (Figure 32).

14 Forbes (2023)
15 BOF (2023)
16 Daily Mail (2023)
17 Statista (2023)
18 Antenna (2023)

Greater China

Figure 33: CAGR adidas vs sportswear market in Greater China

	2020-2022	2022-2027
adidas	-14,4%	7,2%
Sportswear	10,0%	11,2%

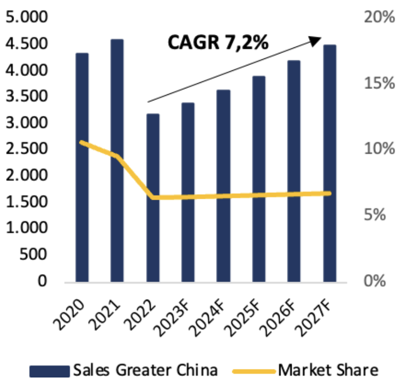
Source: Euromonitor, own analysis

Since 2021, adidas manages Greater China separate from Asia-Pacific, recognizing its importance as a growth market. China is the second-largest sportswear market in the world and has been a growth driver for adidas. However, because of the pandemic, they are not where they are supposed to be. After growing 5,9% in 2021, adidas' sales fell by 30,8% to €3,2bn in 2022, an alarming negative CAGR of 14,4% over the two years (Figure 33). Moreover, the gross margin fell from 51,8% to 46,7%, due to higher supply chain costs and significant discounting. In 2022, Greater China's share of overall sales amounted to 14,1%, a significant reduction from 23,6% in 2020.

China offers the highest growth potential

Still, we see significant potential for adidas with the lifting of covid restrictions. According to Euromonitor, the Chinese sportwear market will grow to roughly €88bn from €50bn between 2022 and 2027, exhibiting the largest CAGR in the industry at 11,2%. This is propelled by government initiatives and growing health awareness. Benefiting adidas, China's government continues to invest substantially in athletics. On the back of the Beijing 2022 Winter Olympics, China's National Development and Reform Commission vowed to invest $331 million into the construction of 185 sports venues to boost national fitness. In addition, China's General Administration of Sports affirmed to rebuild or launch roughly 1.000 sports venues all over China in a five-year plan, spanning 2021 to 2025[19]. Moreover, China boasts the largest middle class globally, including a significant millennial population, creating a vast market for sportswear. adidas has also been strengthening its digital presence in China, leveraging platforms like WeChat to engage with customers and offer personalized experiences. This digital strategy is crucial in a market where e-commerce is rapidly expanding and becoming a preferred shopping channel, especially among the younger demographic. adidas aims to localize the design of a minimum of 30% of its apparel offerings in China by next year and is also looking to broaden its collaborations with Chinese athletes.

Figure 34: Sales (in €m) and market share in Greater China



Source: Euromonitor, own analysis

The 2023 Asian Games in Hangzhou, combined with renewed visits by prominent sports figures like James Harden, reinvigorated consumer interest in sports following the pandemic. This resurgence has notably rejuvenated the sportswear market. We anticipate the Chinese sportswear to become a key driver again. This growth will be supported by the increasing adoption of sports activities and the expansion of the consumer base, aligning with the objectives of the Health China 2030 national strategy. We anticipate adidas to regain its strength in China and grow at a CAGR of 7,2%, albeit below the overall market, as they compete with

[19] Global Times (2022)

strong local brands, such as Anta (Figure 34). We anticipate adidas' market share to recover from 6,4% in 2022 to 6,7% in 2027.

- Asia-Pacific

Figure 35: CAGR adidas vs sportswear market in Asia-Pacific

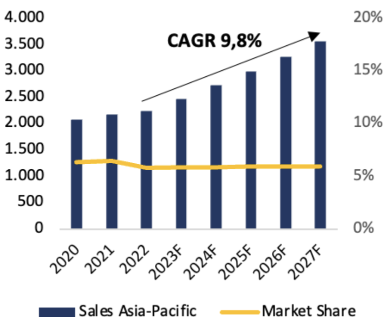
	2020-2022	2022-2027
adidas	3,7%	9,8%
Sportswear	8,6%	9,5%

Source: Euromonitor, own analysis

Since 2021, the company's Asia-Pacific segment omits Greater China and comprises Japan, South Korea, Southeast Asia, and the Pacific region. This segment depicts the area where adidas grew the least since 2020, after Greater China, as the region grappled with the pandemic. While the sportswear market still grew by a CAGR of 8,6% from 2020 to 2022, adidas underperformed the market with a growth rate of 3,7% (Figure 35).

Together with Greater China, we anticipate Asia-Pacific to exhibit the highest economic growth in the next years. According to Euromonitor, the sportswear market in Asia-Pacific is expected to grow at the second highest industry CAGR, with 9,5% until 2027. With the economic rebound and growing market, we expect adidas to accelerate its sales in the region by a growth rate of 9,8% until 2027 (Figure 36).

Figure 36: Sales (in €m) and market share in Asia-Pacific



Source: Euromonitor, own analysis

Markets like Japan and Korea are very fashion-oriented, which positions them as pivotal growth drivers for adidas. The increasing trend of athleisure and a growing emphasis on health and wellness are likely to fuel demand. Additionally, the rising middle class, along with increasing disposable incomes in these regions, support the potential for higher consumer spending on branded sportswear. The brand's commitment to sustainability and innovation is also resonant with the values of consumers in these markets, potentially enhancing brand loyalty and market share.

- Latin America

Figure 37: CAGR adidas vs sportswear market in Latin America

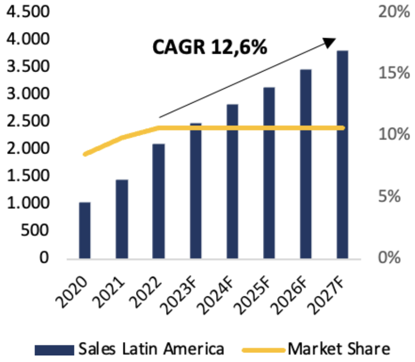
	2020-2022	2018-2022	2022-2027
adidas	42,8%	6,6%	12,6%
Sportswear	27,3%	3,3%	7,6%

Source: Euromonitor, own analysis

Latin America is currently on fire. Since 2020, adidas experienced an average annual sales growth of 42,8%. This came after a 37,7% dip in 2020, as the pandemic unfolded. From 2018 to 2022, adidas outperformed the sportswear market with a CAGR of 6,6% compared to 3,3% (Figure 37). With a sportswear market of €19,7bn in 2022, Latin America depicts adidas' smallest market. Still, it provided 9,4% of adidas' total sales in 2022, quickly catching up to the Asia-Pacific share. The company grew its market share considerably from 8,5% in 2020 to 10,7% in 2022. The top three sportswear brands in Latin America hold a combined market share of 37%. This high concentration presents an opportunity for adidas, indicating established demand and a more predictable competitive landscape.

We believe adidas will continue to capitalize on the opportunities in Latin America. The region is home to some of the most sports addicted and passionate people,

Figure 38: Sales (in €m) and market share in Latin America



Source: Euromonitor, own analysis

most notably in football. Of the ten countries competing in the CONMEBOL World Cup qualifiers, adidas provides the official jersey of four nations. adidas have recognized the potential of Latin America and are collaborating with Brazilian singer Anitta and Puerto Rican singer Bad Bunny, two of the most famous celebrities in the region. On the back of the momentum and adidas engagement in the area, we project Latin America to be adidas' highest growing area for the next five years, with a CAGR of 12,6% (Figure 38).

- Royalty, Commission, and Other Operating Income

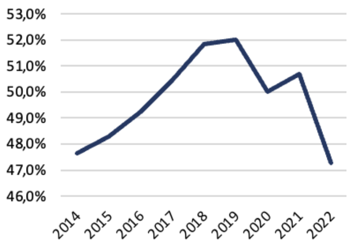
These segments have developed relatively consistently with adidas' overall sales since 2013. The only outlier occurred in 2022 for other operating income, due to post-closing agreements from the Rebook divestiture. Omitting this factor, both segments are projected to continue growing in line with overall sales.

- Other Businesses

adidas' other businesses category encompasses the operations of the Y-3 label, a collaboration with Japanese fashion designer Yohji Yamamoto, and other smaller business units not individually tracked by the chief decision-maker. These are aggregated due to their relatively lesser significance. We estimate other businesses to grow in line with sales, as they have done in the past.

Gross Margin

Figure 39: Gross margin evolution 2014-2022



Source: Company data

One of adidas' targets set in its growth strategy is to improve gross margins to a level between 53% and 55% by 2025. Margins are generally highly dependent on a variety of factors, including sourcing costs, inventory, pricing strategy, product and channel mix, supply chain efficiency, as well as external elements like economic conditions and political stability. As adidas outsources nearly 100% of production, cost of sales mainly refers to the expenses incurred in paying third parties for the production and delivery of products.

adidas' gross margin has continuously improved from 48% in 2014 to 52% in 2019 (Figure 39). The company has an average gross margin of 50% from 2013 to 2022, which is higher than that of its main peers. adidas can retain these margins through its premium pricing strategy. Through its brand power and innovation capabilities, adidas has been able to command premium prices for most of its products. For example, club jersey's currently retail between €100 and €150.

Figure 40: Gross margin per region 2020-2022

	2020	2021	2022
EMEA	50,0%	50,8%	50,5%
North America	42,8%	46,2%	42,9%
Greater China	52,3%	51,8%	46,7%
Asia-Pacific	52,0%	51,3%	52,9%
Latin America	44,2%	48,2%	47,5%

Source: Company data

The pandemic and inherent supply chain disruptions, increased sourcing costs, and factory closures weighed heavy on adidas' gross margin. This was further exacerbated by recent geopolitical tensions. Consequently, adidas reported a gross margin of 47% in 2022, its weakest since 2014 (Figure 39). Especially North America and China experienced low margins of 42,9% and 46,7% respectively. (Figure 40).

Significant tailwind for 2024

adidas sources over 80% of products from Asia. Over the last years, the pandemic led to a spike in freight costs. However, according to the Freightos Baltic Index (FBX), rates are back to pre-pandemic levels and stabilising between $1.000 and $1.500, after peaking at roughly $11.000 in 2021. Currently, freight contracts are being renegotiated. Nike successfully renegotiated prices to pre-pandemic levels.

Figure 41: Gross margin forecast 2023-2027

	2023F	2024F	2025F	2026F
Gross Margin	47,5%	48,8%	50,1%	51,4%

Source: Own analysis

With easing conditions and freight rates reverting to their pre-pandemic levels, we expect gross margins to improve gradually. Moreover, we expect the shift towards e-commerce and sustainability to further boost margins, enabling adidas to sell more products at full price and premiums. We forecast gross margins to stabilize around 51,4% by 2026, falling shy of target set in its growth strategy (Figure 41).

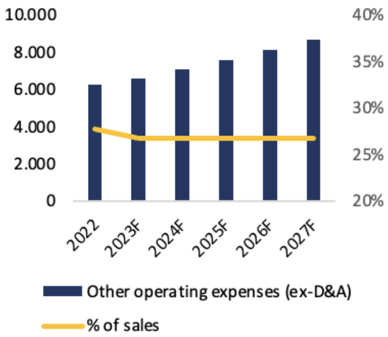
Other Operating Expenses

Other operating expenses include mainly distribution and selling, marketing and point-of-sale, and general and administration expenses. The trajectory of distribution and selling expenses for adidas has been influenced by an uptick in delivery and shipping costs. The pandemic era saw these expenses surge to 25% of sales in 2020 and 2022, a significant increase from the pre-pandemic figures in 2018 and 2019 of 20-21%. The economic rebound following the pandemic is projected to facilitate a gradual reduction in these costs.

Marketing investments are necessary to sustain a competitive edge

Being a fashion business, adidas is required to invest huge sums into product launches and marketing campaigns to increase brand visibility and desire. adidas' success is highly dependent on its portfolio of partnerships and collaborations. Thus, the company has consistently allocated approximately 13% of its net sales to marketing efforts. However, there was a slight dip to 12% in 2021 and 2022, primarily due to the pandemic's influence and a shift towards digital marketing strategies, which are characterized by a lower cost per thousand impressions, than traditional marketing channels. The brand's pivot towards e-commerce and digital initiatives is anticipated to continue, emphasizing influencer marketing through strengthened associations with professional athletes and notable figures. However, to gain and retain market share in key regions, we believe that it is vital for adidas to continue investing in valuable partnerships and campaigns. The upcoming European football Championship in Germany, and World Cup in North America, will necessitate considerable marketing investments. Furthermore, adidas' Own the Game strategy intends to position the company as a leader in the female sportswear sector. To support these strategic aspirations for 2025, adidas is prepared to bolster its marketing investment by one billion euros over 2021 levels. The increase in marketing expenses will dampen the decreasing distribution and selling expenses.

Figure 42: Other operating expenses (ex-D&A) projections 2022-2027 (in €m)



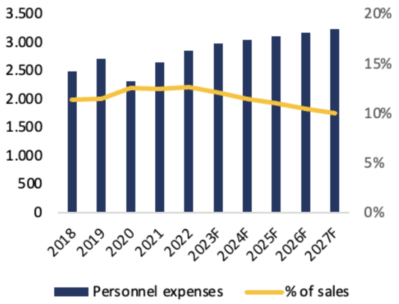
Source: Company data, own analysis

We analyzed adidas other operating expenses separate from D&A and personnel expenses, as they require different drivers. In general, adidas' other operating expenses, as a percentage of sales, remained very consistent until the pandemic. We forecast them to stabilize at 26,8%, from 2023 onwards, not entirely reaching pre-pandemic levels due to heightened marketing investments (Figure 42).

Personnel Expenses

adidas had a workforce of over 65.000 employees in 2019. Since then, it has gradually decreased to over 59.000 in 2022, due to the pandemic and closure of stores. According to adidas, roughly 53% of the employees worked in own retail. We anticipate adidas to continue with its closure of stores, but more people will be employed in e-commerce. In the long-term, we expect the workforce to stabilize and personnel expenses to grow in line with long-term inflation (Figure 43).

Figure 43: Personnel expenses projections 2018-2027 (in €m)



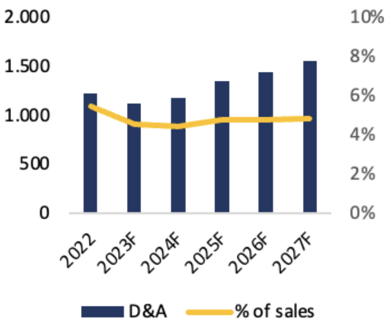
Source: Company data, own analysis

Depreciation and Amortization

To forecast depreciation, adidas' property, plant, and equipment (PP&E) and its right-of-use assets must be considered. To estimate amortization, the main factor to consider is the intangible assets. Thus, we forecast depreciation and amortization (D&A) as a historical percentage of fixed assets at the beginning of the year, incorporating adidas' tangible and intangible assets. After a dip in 2023, we forecast D&A to increase over the next five years, given adidas' investment plan (Figure 44).

It is also common practice to project D&A based as a percentage of sales, depending on the nature of the industry. A check revealed that adidas' D&A has remained relatively consistent as a percentage of sales, and forecasting it based on sales yields similar results to the fixed asset method.

Figure 44: D&A projections 2022-2027 (in €m)

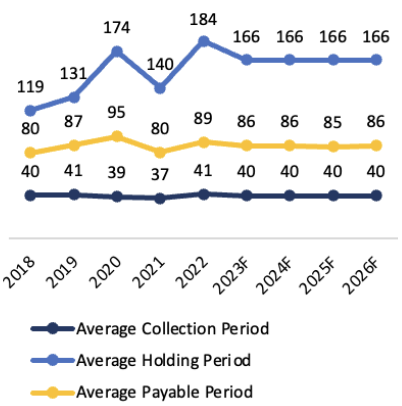


Source: Company data, own analysis

Net Working Capital

Given the business in which adidas operates, which requires a relatively low level of fixed assets compared to other industries, the main financial metric that determines the efficiency of the balance sheet is the working capital management. This comprises accounts receivables and payables, working cash, inventories, income tax receivables and payables, as well as other current assets and liabilities and accrued liabilities.

Figure 45: ACP, AHP, APP projections 2018-2026



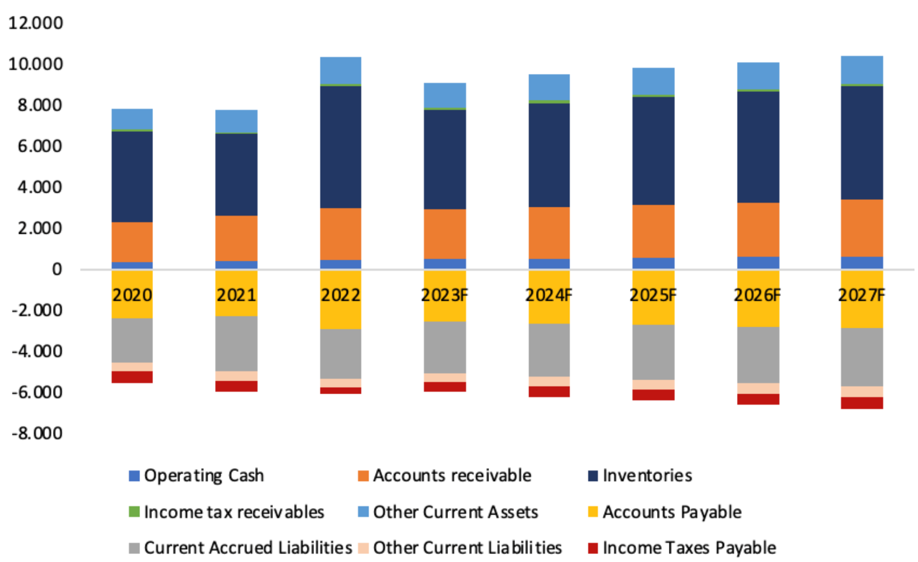
Source: Company data, own analysis

In the years considered, from 2018 to 2022, the average collection period (ACP) of accounts receivables as percentage of sales remained nearly constant from year to year, not registering significant variations. Therefore, using an average of the past five years to forecast the future levels of receivables seemed a reasonable assumption, assuming they will continue with the current collection management. As for the average payable period (APP) of adidas, over the years considered it ranged between 80 and 95 days, averaging 86 days to meet its obligations. The average holding period (AHP) has been fluctuating in the time span considered, but overall, it is showing an increasing trend, highlighting an overall inefficient inventory management of the company, mainly due to the Yeezy product line (Figure 45).

Income tax receivables and payables vary based on their percentage of net sales, and they were forecasted on the historical averaged of the last five years. Other current assets have showed an overall increasing trend but have been stabilizing around 5% of sales, while other current liabilities and accrued liabilities have remained nearly constant, around 2% and 11% of sales, respectively. Operating cash was assumed to remain constant at 2% of total revenues.

From year to year, the net working capital of adidas is consistently positive, showing an overall healthy financial position that allows the company to cover its short-term obligations with its short-term assets. In 2022, adidas registered a huge increase in this metric, given the higher percentage of inventories. In the next years the metric is expected to fall below 2022 standings to then stabilize from year to year, according to the average of the industry (Figure 46).

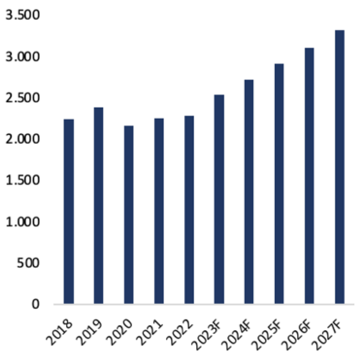
Figure 46: NWC projections 2020-2027 (in €m)



Source: Company data, own analysis

Capex

Figure 47: PP&E projections 2018-2027 (in €m)



Source: Company data, own analysis

adidas' Capex represents expenditures needed to support the company's organic growth and the maintenance of tangible and intangible assets. From 2018 to 2022, the total level of fixed assets increased by more than 60%, mainly because of the recognition of right-of-use assets in year 2019, according to IFRS 16.

For PP&E forecasting, which consists of land, buildings, technical equipment and machinery, furniture and fixtures, a conservative approach was used, based on the historical percentage on revenues (Figure 47). The same applies for right-of-use assets which were projected based on their incidence on revenues. One of the main drivers, but also one of the main challenges, of the industry is digitalization and adidas is planning to allocate more than €1bn until 2025 towards its digital transition. Therefore, we forecast future levels of intangibles as percentage of revenues of the last two years, assuming that over the long term the percentage of growth is going to reach 2% of total revenues, as adidas will invest in digital capabilities and stores.

Cost of Capital

Figure 48: Cost of capital inputs

Inputs	
Target D/EV	0,10
Tax rate	27,3%
Credit rating	A-/A3
YTM 11,5Y bond	3,93%
MRP	6,00%
Risk-free rate	2,77%
BU	0,92
BL	1,02
Cost of equity	8,91%
Cost of debt	2,76%
WACC	8,30%

Source: Own analysis

The Weighted Average Cost of Capital (WACC) used to discount the projected Free Cash Flows (FCF) was determined through several key inputs, namely adidas' cost of equity, cost of debt and target capital structure (Figure 48).

The company's cost of equity is calculated through the Capital Asset Pricing Model (CAPM). Therein, a Market Risk Premium of 6% is considered, following the recommendation of PWC. Since adidas is a German company, the current German 10-year Government Bond yield of 2,77% is considered as the risk-free rate[20]. To adjust for the company risk, adidas' levered equity beta is determined by regressing its stock returns against the market. Therefore, the MSCI World Index, denominated in euros, was used as market proxy. The Index' currency alignment, diverse set of companies, and global presence make it a well-diversified and suitable market portfolio. Applying a measurement period of five-year monthly returns, to avoid systematic biases, results in a raw beta of 0,91. However, the accompanying standard error of the regression is 0,23. Hence, according to the 95% confidence interval, the true beta may lie between 0,44 and 1,38. Given the widespread, and significant impact on the company value, the process was extended to a measurement period of 15 years. The regression results in a raw beta of 1,04 and a standard error of 0,14. The resulting 95% confidence interval implies that the true beta may lie between 0,76 and 1,32, less widespread than

[20] Market Watch (2023)

over the five-year observation period. To further assess the quality of the regression, the results were compared against the unlevered betas of comparable peers, namely Nike, Puma, Under Armour, Skechers, Deckers and Columbia Sportswear. The industry average yields an unlevered beta of 1,11, which suggests that, on average, these companies' stocks are slightly more volatile than the market. If the market goes up or down, the stocks of these companies are expected to go up or down by a slightly higher percentage. Considering the sportswear industry this average beta makes sense for several reasons. The industry can be somewhat cyclical and sensitive to economic conditions. Moreover, sportswear typically falls under the category of consumer discretionary goods, which means that they are products that consumers buy when they have excess income. Furthermore, with their global market presence, many sportwear companies may be affected by various factors, such as currency exchange rates and global economic conditions, which can add to their volatility. After some consideration, adidas' raw beta of 1,04 is chosen and re-levered applying a target capital structure. Because adidas' leverage increased considerably in 2023, the industry average D/E ratio of 11,84% is applied, which results in a re-levered beta of 1,02. Plugging in all estimates, adidas cost of equity yields 8,91%.

To estimate adidas cost of debt, the yield to maturity of 3,93% from their 11,5-year corporate bond is used. adidas are A- and A3 rated by S&P and Moody's, respectively. Considering Moody's annual default study of 2018, and the inherent annualized probability of default and average recovery rates for similar bonds of similar maturity, rendered a cost of debt of 3,8%. Applying adidas statutory tax rate of 27,3% results in an after-tax cost of debt of 2,76%.

To derive the final WACC, an industry average debt-to-enterprise value ratio of 10% is used. This is consistent with adidas publicly stated net debt/EBITDA target ratio of less than two. With the estimated cost of equity and capital as well as the capital structure, adidas' WACC yields 8,3%. This is at the lower end of PWC's 7,7% to 9,4% recommendation for the retail and consumer goods industry, emphasizing adidas market position. Moreover, this figure aligns with industry benchmarks, as evidenced by similar estimates of 8,6% and 8,9%, by JP Morgan and Goldman Sachs, respectively, in their latest adidas analyses.

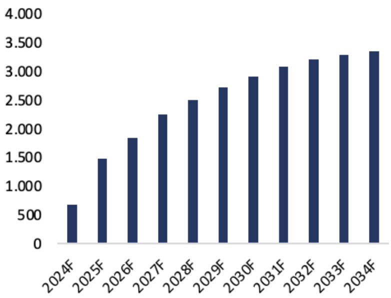
Long-Term Growth Rate

adidas is expected to experience high growth until 2026, driven by substantial investments aimed at enhancing performance. After 2026, the company is anticipated to transition into a phase of gradual stabilization, slowly reaching a stable state. To determine the long-term growth rate, we considered the combination of the terminal operating RONIC of 18,02% with a terminal reinvestment rate of 9,14%. As a result, the anticipated perpetual growth rate of adidas is 1,65%. This rate is considered a sustainable growth rate, aligning with the forecasted long-term GDP of 2% by OECD until 2060. Additionally, adidas is expected to maintain a long-term forecasted operating ROIC of 30,09%. We then expect adidas to leverage its capabilities to consolidate its position in a fast-growing market, both using its competitive advantage to narrow the gap with Nike and widen the distance from smaller players. adidas aims to outperform peers in seizing new market opportunities, thereby achieving a ROIC that surpasses industry standards.

Valuation Outcome

Discounted Cash Flow

Figure 49: Expected unlevered FCF 2024-2034 (in €m)



Source: Company data, own analysis

We apply the DCF model to discount the forecasted FCF's at the WACC of 8,3% until 2033. The terminal value was calculated using the estimated growth rate of 1,65%, determined by the operating RONIC and the reinvestment rate over the long term. The FCF is expected to increase from year to year, reaching an estimated value of €3.350m by 2034 (Figure 49), a moderate increase determined by steady revenues growth and consistent investments in capex. From an enterprise value of €40.463m, we deduct an expected level of net debt equal to €3.923m and non-controlling interest of €267m to derive an equity value of €36.274m. We assume the shares outstanding to remain constant at 180 million and arrive at a recommended target share price of €202. Given the current share price of €173, this corresponds to a capital gain of €29 and a potential return of 16%. Thus, we issue a BUY recommendation.

Multiples Analysis

To assess the market valuation of adidas, we conduct a relative valuation using multiples, which involves comparing the company's pricing to those of its peers, to identify and analyze potential mismatches between them. This requires selecting an appropriate peer group and determining the appropriate multiples. While Bloomberg provides an extensive list of companies, we refine our selection to adidas' main competitors within the industry, including Nike, Puma, VF Corporation, Lululemon Athletica, Deckers Outdoor and Under Armour. Factors such as industry alignment, but also cash flow, growth, profitability, and risk were considered. To maintain consistency in the analysis, adidas' ratios are included in the averages.

Figure 50: Relative valuation

	P/BV	EV/EBITDA	EV/Sales
ADIDAS AG	**6,55x**	**28,77x**	**1,57x**
NIKE INC -CL B	13,26x	24,19x	3,08x
PUMA SE	2,9x	--	1,15x
VF CORP	3,5x	8,15x	1,24x
LULULEMON ATHLETICA	17,6x	20,23x	5,32x
DECKERS OUTDOOR CORP	15,22x	18,11x	3,53x
UNDER ARMOUR INC	1,8x	6,16x	0,65x
Equity Value	51,953	37,763	46,545
Share Price	**288,63**	**209,8**	**258,58**

Source: Bloomberg, own analysis

We select the ratios that we deem most relevant to the industry, aiming to minimize potential distortions in the results. According to Morgan Stanley valuations, we firstly choose the EV/EBITDA ratio, as it avoids the influence of different capital structures. Besides, considering adidas' negative EPS, we opt for the P/B ratio, utilizing book value of equity generally. Finally, the EV/Sales multiple is computed for its intuitiveness, and its widespread use among researchers.

After finalizing the multiples and peer selection, our analysis uses Bloomberg's latest 2023 data. We compute the average, median, and 1st and 3rd quartile for each multiple to capture a comprehensive view. We exclude some outliers from the calculations to ensure the integrity of the valuation.

The median price suggested with the EV/EBITDA multiple equals €209,80. Looking at the EV/Sales ratio, it is likely to have a value of €258,58, while the price suggested by P/B ratio is €288,63.

Overall, the multiples approach is displaying a wide range of prices for each ratio considered, and using the median values of each ratio, the estimated share price should range between €209,80 and €288,63 (Figure 50).

Sensitivity Analysis

The valuation of adidas hinges on several assumptions. This necessitates a test of the sensitivity of the target price to changes in key assumptions. A DCF analysis is highly sensitive to the long-term growth rate and the WACC. The latter, used to discount the projected FCF's, was determined to be 8,3%. As shown in the cost of capital analysis, one of the most uncertain inputs in the WACC computation is the company beta. Using the unlevered industry average beta of 1,11 would yield a WACC of 9,46%, which would considerably decrease the target price to €170. Moreover, our model assumes a terminal growth rate of 1,6%, considering an operating RONIC of 18,02% and a reinvestment rate of 9,14%. Changes in these variables would significantly impact the recommended share price. To provide a more detailed picture of the sensitivity of these inputs, we apply three incremental changes of 0,5% to the WACC and terminal growth rate (Figure 51). With a terminal growth rate of 1,6%, an increase in WACC from 6,8% to 9,8% leads to a decrease in target price from €264 to €162. Similarly, with a WACC of 8,3%, an increase in the growth rate from 0,1% to 3,1% results in an increase in the recommended price from €177 to €240. Combining both, changes in WACC and terminal growth rate, the recommended share price could fall to the lowest at €147 and the highest at €342.

Figure 51: Price sensitivity to WACC and terminal growth rate

Growth Rate \ WACC	6,8%	7,3%	7,8%	8,3%	8,8%	9,3%	9,8%
0,1%	222	205	190	177	166	156	147
0,6%	233	215	198	184	172	161	152
1,1%	247	226	208	192	179	167	157
1,6%	264	240	219	**202**	187	173	162
2,1%	285	256	232	212	195	181	168
2,6%	310	275	248	225	206	189	175
3,1%	342	300	266	240	218	199	184

Source: Own analysis

Scenario Analysis

As previously analyzed, adidas has historically maintained a high gross margin, averaging 50%. This comes as adidas' strong brand and innovative capabilities have enabled them to command premium prices for their products. However, beset with challenges from the pandemic and the war in Ukraine, adidas' margin fell to 47,5% in 2022. This is worth analyzing in further detail, as the gross margin forecast makes a major difference for the valuation. The SWOT analysis already highlights some factors that can either provide relief or further stress for the company's margins. We analyze an upward and a downside scenario on adidas' gross margin.

In an optimistic scenario, we anticipate robust growth in demand, a swift resolution to the conflict in Europe, and an effective supply chain management in the near term. This growth would be driven by a higher expansion in the sportswear market than anticipated and with adidas leveraging the current brand momentum and capitalizing on upcoming global events and key industry trends surrounding athleisure, digitalization, and sustainability. A recovery in China is also a key factor. Additionally, a rapid end to the war in Ukraine, along with a quicker normalization of inflation rates, would boost revenue growth and reduce the cost of goods sold. In the realm of supply chain, as e-commerce and DTC sales become more predominant, adidas can adeptly manage logistics challenges, further reducing the cost of sales. Moreover, e-commerce enables the sale of more products at full price. The absence of new covid variants and the lifting of trade restrictions, coupled with a slower rise in raw material costs, will support this outlook. In this scenario, gross margin is expected to grow by 2% over the anticipated level in 2026.

Conversely, in a pessimistic scenario, adidas might face subdued demand growth, prolonged conflict in Europe, more intense competition, and exacerbated supply chain issues. If the sportswear market expands less than anticipated and adidas fails to capitalize on market opportunities, revenue growth could lag our base case predictions. An extended European conflict could dampen sales in affected regions and push inflation to levels that impede adidas's ability to sustain revenues through price increases. Persistent supply chain disruptions, exacerbated by the conflict, along with potential new logistical challenges, could further hinder operations. The emergence of new virus variants combined with escalating raw material costs would drive up the cost of sales. Because adidas outsources nearly 100% of production, they are very dependent on suppliers. This poses a serious threat in case of supply chain disruptions, as the pandemic uncovered. Moreover, adidas sources roughly 30% of its products from China, which poses a threat if tariffs are introduced. In this scenario, gross margin is anticipated to reach 2% less than expected in 2026.

Figure 52: Gross margin scenario analysis

Gross Margin +2%	
Share Price	€ 239
Potential Return	38%
Recommendation	BUY
Gross Margin -2%	
Share Price	€ 164
Potential Return	-5%
Recommendation	SELL

Source: Company data, own analysis

We project adidas' gross margin to gradually increase and stabilize at 51,4% from 2026 onwards. If the margin was to increase by 2% over the projected level in 2026 and stabilize at 53,4% thereafter, the recommended share price would increase to €239, a potential return of 38% (Figure 52). This would align with adidas' goal of a margin between 53% and 55%. If, however, the gross margin was to stabilize at 49,4% in 2026, 2% less than the forecast level, the recommended target price would fall to €164, a potential loss of 5%.

Appendix

Financial Statements

Balance Sheet (in €m) - Forecast	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Operating																
Operating cash	438	473	369	425	450	494	531	567	606	647	685	721	752	779	801	817
Accounts receivable	2.418	2.625	1.952	2.175	2.529	2.675	2.876	3.073	3.286	3.506	3.714	3.906	4.077	4.223	4.341	4.428
Inventories	3.445	4.085	4.397	4.009	5.973	5.888	6.172	6.428	6.695	7.144	7.568	7.959	8.307	8.605	8.845	9.022
Income tax receivables	48	94	109	91	102	121	130	139	149	159	168	177	185	191	197	201
Other current assets	725	1.076	999	1.062	1.316	1.338	1.438	1.537	1.643	1.754	1.858	1.954	2.039	2.112	2.171	2.215
Operating Current Assets	**7.074**	**8.353**	**7.826**	**7.762**	**10.370**	**10.516**	**11.147**	**11.743**	**12.379**	**13.210**	**13.994**	**14.716**	**15.359**	**15.910**	**16.354**	**16.682**
Accounts payable	(2.300)	(2.703)	(2.390)	(2.294)	(2.908)	(3.057)	(3.204)	(3.305)	(3.476)	(3.709)	(3.929)	(4.132)	(4.312)	(4.467)	(4.592)	(4.684)
Current accrued liabilities	(2.305)	(2.437)	(2.172)	(2.684)	(2.412)	(2.762)	(2.969)	(3.172)	(3.392)	(3.620)	(3.835)	(4.033)	(4.209)	(4.360)	(4.482)	(4.571)
Other current liabilities	(477)	(538)	(398)	(434)	(452)	(511)	(549)	(587)	(627)	(670)	(709)	(746)	(779)	(806)	(829)	(846)
Income taxes payable	(268)	(618)	(562)	(536)	(302)	(531)	(570)	(609)	(652)	(695)	(737)	(775)	(809)	(838)	(861)	(878)
Operating Current Liabilities	**(5.350)**	**(6.296)**	**(5.522)**	**(5.948)**	**(6.074)**	**(6.861)**	**(7.293)**	**(7.673)**	**(8.147)**	**(8.694)**	**(9.210)**	**(9.685)**	**(10.109)**	**(10.471)**	**(10.764)**	**(10.979)**
Net Operating Working Capital	**1.724**	**2.057**	**2.304**	**1.814**	**4.296**	**3.656**	**3.854**	**4.070**	**4.232**	**4.516**	**4.784**	**5.031**	**5.251**	**5.439**	**5.591**	**5.703**
Property, Plant and Equipment, Net	2.238	2.380	2.157	2.256	2.279	2.531	2.721	2.907	3.109	3.317	3.514	3.696	3.857	3.996	4.107	4.189
Right of use assets, closing	0	2.931	2.431	2.570	2.668	3.057	3.285	3.510	3.754	4.006	4.244	4.462	4.658	4.825	4.959	5.058
Other Intangible Assets, Net	1.040	1.166	1.002	353	428	440	473	505	606	647	685	721	752	779	801	817
Total Fixed Assets	**3.278**	**6.477**	**5.590**	**5.179**	**5.375**	**5.639**	**6.479**	**6.923**	**7.469**	**7.970**	**8.443**	**8.879**	**9.267**	**9.599**	**9.867**	**10.065**
Operating Invested Capital	**5.002**	**8.534**	**7.894**	**6.993**	**9.671**	**9.295**	**10.333**	**10.992**	**11.701**	**12.486**	**13.227**	**13.909**	**14.518**	**15.038**	**15.458**	**15.767**

Non Operating																
Deferred tax assets, net	**410**	**813**	**992**	**1.141**	**1.082**	**1.082**	**1.082**	**1.082**	**1.082**	**1.082**	**1.082**	**1.082**	**1.082**	**1.082**	**1.082**	**1.082**
Current Provisions	**(1.232)**	**(1.446)**	**(1.609)**	**(1.458)**	**(1.589)**	**(1.698)**	**(1.825)**	**(1.950)**	**(2.085)**	**(2.225)**	**(2.357)**	**(2.478)**	**(2.587)**	**(2.679)**	**(2.754)**	**(2.809)**
Other non-current assets	94	103	103	74	76											
Other non-current liabilities	(68)	(7)	(17)	(9)	(6)											
Other Assets, Net Other Liabilities	**26**	**96**	**86**	**65**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**
Pensions and similar obligations	(246)	(229)	(284)	(267)	(118)	(267)	(273)	(278)	(284)	(289)	(295)	(301)	(307)	(313)	(320)	(326)
Financial assets	1.074	1.361	1.469	1.195	1.651	1.651	1.651	1.651	1.651	1.651	1.651	1.651	1.651	1.651	1.651	1.651
Marketable Securities	6	292	-	-		-	-	-	-	-	-	-	-	-	-	-
Other non current provisions	(128)	(257)	(229)	(149)	(88)	(88)	(88)	(88)	(88)	(88)	(88)	(88)	(88)	(88)	(88)	(88)
Assets classified as held for sale	-	-	-	2.033	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities classified as held for sale	-	-	-	(594)	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Invested Capital	**(90)**	**630**	**425**	**1.966**	**1.008**	**750**	**618**	**487**	**346**	**201**	**63**	**(64)**	**(179)**	**(278)**	**(359)**	**(420)**
Total Invested Capital (excluding goodwill)	**4.912**	**9.164**	**8.319**	**8.959**	**10.679**	**10.045**	**10.951**	**11.480**	**12.047**	**12.687**	**13.290**	**13.845**	**14.339**	**14.760**	**15.099**	**15.347**
Goodwill, Net	1.246	1.257	1.208	1.228	1.260	1.260	1.260	1.260	1.260	1.260	1.260	1.260	1.260	1.260	1.260	1.260
Total Invested Capital (including goodwill)	**6.158**	**10.421**	**9.527**	**10.187**	**11.939**	**11.305**	**12.211**	**12.740**	**13.307**	**13.947**	**14.550**	**15.105**	**15.599**	**16.020**	**16.359**	**16.607**
Excess Cash	**2.191**	**1.747**	**3.625**	**3.403**	**348**											
Debt and debt equivalents	(1.983)	(5.106)	(6.459)	(5.753)	(6.934)											
Short term borrowings	66	43	686	29	527											
Non current accrued liabilities	19	9	8	8	7											
Financial liabilities	289	327	561	414	468											
Long term debt and capital lease	1.609	4.727	5.204	5.302	5.932											
Net Debt	**208**	**(3.359)**	**(2.834)**	**(2.350)**	**(6.586)**	**(3.872)**	**(3.885)**	**(4.079)**	**(4.253)**	**(4.400)**	**(4.533)**	**(4.653)**	**(4.761)**	**(4.859)**	**(4.949)**	**(5.036)**
Adidas' shareholders' equity	6.377	6.796	6.454	7.519	4.991	7.433	8.326	8.661	9.054	9.546	10.017	10.452	10.838	11.162	11.410	11.571
Non-controlling interests	(13)	261	237	318	360											
Equity and equity equivalents, Total	**6.364**	**7.057**	**6.691**	**7.837**	**5.351**	**7.433**	**8.326**	**8.661**	**9.054**	**9.546**	**10.017**	**10.452**	**10.838**	**11.162**	**11.410**	**11.571**

Income Statement (in €m) - Forecast	**2018**	**2019**	**2020**	**2021**	**2022**	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**	**2030F**	**2031F**	**2032F**	**2033F**
Footwear sales	12.783	13.521	10.129	11.336	12.402	13.488	14.452	15.390	16.385	17.409	18.374	19.262	20.057	20.743	21.305	21.731
Apparel sales	8.223	8.963	7.315	8.711	8.732	9.498	10.189	10.870	11.603	12.358	13.069	13.724	14.308	14.809	15.216	15.520
Accessories and Gear sales	910	1.156	991	1.187	1.493	1.694	1.886	2.084	2.322	2.576	2.820	3.044	3.241	3.403	3.521	3.592
Net Sales	**21.915**	**23.640**	**18.435**	**21.234**	**22.511**	**24.680**	**26.527**	**28.343**	**30.309**	**32.343**	**34.263**	**36.030**	**37.606**	**38.954**	**40.042**	**40.843**
Cost of Sales	(10.549)	(11.316)	(9.119)	(10.390)	(11.816)	(12.954)	(13.580)	(14.142)	(14.730)	(15.719)	(16.652)	(17.511)	(18.277)	(18.932)	(19.461)	(19.850)
Gross Profit	**11.366**	**12.324**	**9.316**	**10.844**	**10.695**	**11.726**	**12.947**	**14.201**	**15.579**	**16.624**	**17.611**	**18.520**	**19.329**	**20.022**	**20.582**	**20.993**
Royalty and commission income	129	154	61	86	112	122	131	140	150	160	170	178	186	193	198	202
Other operating income	48	56	42	28	173	50	54	58	62	66	70	73	77	79	82	83
Personnel expenses	(2.481)	(2.709)	(2.314)	(2.648)	(2.846)	(2.980)	(3.040)	(3.100)	(3.162)	(3.226)	(3.290)	(3.356)	(3.423)	(3.491)	(3.561)	(3.632)
Other operating expenses (ex-D&A)	(6.224)	(6.003)	(5.172)	(5.182)	(6.245)	(6.614)	(7.109)	(7.596)	(8.123)	(8.668)	(9.182)	(9.656)	(10.078)	(10.439)	(10.731)	(10.946)
Operating EBITDA	**2.838**	**3.822**	**1.933**	**3.128**	**1.889**	**2.304**	**2.984**	**3.703**	**4.506**	**4.957**	**5.378**	**5.760**	**6.091**	**6.364**	**6.569**	**6.701**
Depreciation and amortization	(470)	(1.162)	(1.188)	(1.141)	(1.220)	(1.116)	(1.171)	(1.346)	(1.438)	(1.551)	(1.655)	(1.754)	(1.844)	(1.925)	(1.994)	(2.049)
Operating EBIT	**2.368**	**2.660**	**745**	**1.987**	**669**	**1.188**	**1.813**	**2.357**	**3.068**	**3.406**	**3.723**	**4.006**	**4.247**	**4.439**	**4.575**	**4.651**
Notional income taxes	(649)	(729)	(203)	(544)	(183)	(324)	(495)	(644)	(838)	(930)	(1.016)	(1.094)	(1.159)	(1.212)	(1.249)	(1.270)
Tax adjustments	(17)	61	41	147	(28)	-	-	-	-	-	-	-	-	-	-	-
NOPLAT	**1.702**	**1.992**	**582**	**1.590**	**458**	**863**	**1.318**	**1.714**	**2.230**	**2.476**	**2.707**	**2.912**	**3.088**	**3.227**	**3.326**	**3.381**
Non-Core Operations																
Gain/(loss) from discontinued operations, net of tax	(5)	59	(19)	666	384											
Items of other comprehensive income that will not be reclassified subsequently to profit or loss	(21)	(38)	(17)	52	131											
Items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met	171	(46)	(524)	521	(113)											
Non-Core Result	**145**	**(25)**	**(560)**	**1.239**	**402**	**402**	**402**	**402**	**402**	**402**	**402**	**402**	**402**	**402**	**402**	**402**
Financing																
Financial income	57	64	29	19	39											
Financial expenses	(47)	(166)	(196)	(153)	(320)											
Net Financial Profit Before Tax	**10**	**(102)**	**(167)**	**(134)**	**(281)**	**(107)**	**(107)**	**(113)**	**(118)**	**(122)**	**(125)**	**(129)**	**(132)**	**(134)**	**(137)**	**(139)**
Tax shield	(3)	28	46	37	77	29	29	31	32	33	34	35	36	37	37	38
Net Financial Profit After Tax	**7**	**(74)**	**(121)**	**(97)**	**(204)**	**(78)**	**(78)**	**(82)**	**(85)**	**(88)**	**(91)**	**(94)**	**(96)**	**(98)**	**(99)**	**(101)**
Total Comprehensive Income																
Total Comprehensive Income	**1.854**	**1.893**	**(99)**	**2.732**	**656**	**1.188**	**1.642**	**2.034**	**2.547**	**2.790**	**3.017**	**3.221**	**3.394**	**3.531**	**3.629**	**3.682**

Cash Flow Map (in €m)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**	**2030F**	**2031F**	**2032F**	**2033F**
Operating profit		2.660	745	1.987	669	1.188	1.813	2.357	3.068	3.406	3.723	4.006	4.247	4.439	4.575	4.651
Notional income taxes		(729)	(203)	(544)	(183)	(324)	(495)	(644)	(838)	(930)	(1.016)	(1.094)	(1.159)	(1.212)	(1.249)	(1.270)
Tax adjustments		61	41	147	(28)	-	-	-	-	-	-	-	-	-	-	-
NOPLAT		**1.992**	**582**	**1.590**	**458**	**863**	**1.318**	**1.714**	**2.230**	**2.476**	**2.707**	**2.912**	**3.088**	**3.227**	**3.326**	**3.381**
Depreciation & amortisation		1.162	1.188	1.141	1.220	1.116	1.171	1.346	1.438	1.551	1.655	1.754	1.844	1.925	1.994	2.049
Gross FCF		**3.154**	**1.770**	**2.731**	**1.678**	**1.980**	**2.489**	**3.059**	**3.668**	**4.027**	**4.362**	**4.666**	**4.932**	**5.152**	**5.320**	**5.431**
Capital expenditures		(4.360)	(302)	(729)	(1.416)	(1.381)	(2.011)	(1.789)	(1.984)	(2.052)	(2.129)	(2.189)	(2.232)	(2.257)	(2.262)	(2.247)
Change in net working capital		(333)	(247)	490	(2.483)	640	(198)	(216)	(162)	(284)	(268)	(247)	(220)	(188)	(152)	(112)
Unlevered Operating Free Cash Flow		**(1.538)**	**1.222**	**2.492**	**(2.220)**	**1.240**	**279**	**1.054**	**1.522**	**1.691**	**1.965**	**2.230**	**2.479**	**2.707**	**2.906**	**3.072**
Non-core result		(25)	(560)	1.239	402	402	402	402	402	402	402	402	402	402	402	402
Change in goodwill		(12)	49	(20)	(32)	-	-	-	-	-	-	-	-	-	-	-
Change in non operating invested capital		(720)	205	(1.541)	959	258	132	130	141	146	138	127	114	99	81	61
Unlevered Non-Operating Free Cash Flow		**(757)**	**(306)**	**(322)**	**1.329**	**660**	**534**	**532**	**543**	**548**	**540**	**529**	**516**	**501**	**483**	**463**
Total Unlevered Free Cash Flow		**(2.295)**	**916**	**2.170**	**(891)**	**1.900**	**814**	**1.587**	**2.065**	**2.238**	**2.505**	**2.760**	**2.996**	**3.208**	**3.389**	**3.536**
Net financial profit after tax		(74)	(121)	(97)	(204)	(78)	(78)	(82)	(85)	(88)	(91)	(94)	(96)	(98)	(99)	(101)
Change in debt		3.567	(525)	(484)	4.237	(2.715)	13	194	174	147	133	120	108	98	91	87
Change in transactions		(1.200)	(267)	(1.586)	(3.142)	895	(749)	(1.699)	(2.154)	(2.297)	(2.547)	(2.786)	(3.008)	(3.208)	(3.381)	(3.522)
Cash Flows from Financing Parties		**2.292**	**(914)**	**(2.167)**	**890**	**(1.898)**	**(814)**	**(1.587)**	**(2.065)**	**(2.238)**	**(2.505)**	**(2.760)**	**(2.996)**	**(3.208)**	**(3.389)**	**(3.536)**

Disclosures and Disclaimers

Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

This report was prepared by [*insert student's name*], a Master in Finance student of Nova School of Business and Economics ("Nova SBE"), within the context of the Field Lab – Equity Research.

This report is issued and published exclusively for academic purposes, namely for academic evaluation and master graduation purposes, within the context of said Field Lab – Equity Research. It is not to be construed as an offer or a solicitation of an offer to buy or sell any security or financial instrument.

This report was supervised by a Nova SBE faculty member, acting merely in an academic capacity, who revised the valuation methodology and the financial model.

Given the exclusive academic purpose of the reports produced by Nova SBE students, it is Nova SBE understanding that Nova SBE, the author, the present report and its publishing, are excluded from the persons and activities requiring previous registration from local regulatory authorities. As such, Nova SBE, its faculty and the author of this report have not sought or obtained registration with or certification as financial analyst by any local regulator, in any jurisdiction. In Portugal, neither the author of this report nor his/her academic supervisor is registered with or qualified under COMISSÃO DO MERCADO DE VALORES MOBILIÁRIOS ("CMVM", the Portuguese Securities Market Authority) as a financial analyst. No approval for publication or distribution of this report was required and/or obtained from any local authority, given the exclusive academic nature of the report.

The additional disclaimers also apply:

USA: Pursuant to Section 202 (a) (11) of the Investment Advisers Act of 1940, neither Nova SBE nor the author of this report are to be qualified as an investment adviser and, thus, registration with the Securities and Exchange Commission ("SEC", United States of America's securities market authority) is not necessary. Neither the author nor Nova SBE receive any compensation of any kind for the preparation of the reports.

Germany: Pursuant to §34c of the WpHG (*Wertpapierhandelsgesetz*, i.e., the German Securities Trading Act), this entity is not required to register with or otherwise notify the *Bundesanstalt für Finanzdienstleistungsaufsicht* ("BaFin", the German Federal Financial Supervisory Authority). It should be noted that Nova SBE is a fully-owned state university and there is no relation between the student's equity reports and any fund raising programme.

UK: Pursuant to section 22 of the Financial Services and Markets Act 2000 (the "FSMA"), for an activity to be a regulated activity, it must be carried on "by way of business". All regulated activities are subject to prior authorization by the Financial Conduct Authority ("FCA"). However, this report serves an exclusively academic purpose and, as such, was not prepared by way of business. The author - a Master's student - is the **sole and exclusive responsible** for the information, estimates and forecasts contained herein, and for the opinions expressed, which exclusively reflect his/her own judgment at the date of the report. Nova SBE and its faculty have no single and formal position in relation to the most appropriate valuation method, estimates or projections used in the report and may not be held liable by the author's choice of the latter.

The information contained in this report was compiled by students from public sources believed to be reliable, but Nova SBE, its faculty, or the students make no representation that it is accurate or complete, and accept no liability whatsoever for any direct or indirect loss resulting from the use of this report or of its content.

Students are free to choose the target companies of the reports. Therefore, Nova SBE may start covering and/or suspend the coverage of any listed company, at any time, without prior notice. The students or Nova SBE are not responsible for updating this report, and the opinions and recommendations expressed herein may change without further notice.

The target company or security of this report may be simultaneously covered by more than one student. Because each student is free to choose the valuation method, and make his/her own assumptions and estimates, the resulting projections, price target and recommendations may differ widely, even when referring to the same security. Moreover, changing market conditions and/or changing subjective opinions may lead to significantly different valuation results. Other students' opinions, estimates and recommendations, as well as the advisor and other faculty members' opinions may be inconsistent with the views expressed in this report. Any recipient of this report should understand that statements regarding future prospects and performance are, by nature, subjective, and may be fallible.

This report does not necessarily mention and/or analyze all possible risks arising from the investment in the target company and/or security, namely the possible exchange rate risk resulting from the security being denominated in a currency either than the investor's currency, among many other risks.

The purpose of publishing this report is merely academic and it is not intended for distribution among private investors. The information and opinions expressed in this report are not intended to be available to any person other than Portuguese natural or legal persons or persons domiciled in Portugal. While preparing this report, students did not have in consideration the specific investment objectives, financial situation or particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in any security, namely in the security covered by this report.

The author hereby certifies that the views expressed in this report accurately reflect his/her personal opinion about the target company and its securities. He/ She has not received or been promised any direct or indirect compensation for expressing the opinions or recommendation included in this report.

[If applicable, it shall be added: *"While preparing the report, the author may have performed an internship (remunerated or not) in* [insert the Company's name]. *This Company may have or have had an interest in the covered company or security"* and/ or *"A draft of the reports have been shown to the covered company's officials (Investors Relations Officer or other), mainly for the purpose of correcting inaccuracies, and later modified, prior to its publication."]*

The content of each report has been shown or made public to restricted parties prior to its publication in Nova SBE's website or in Bloomberg Professional, for academic purposes such as its distribution among faculty members for students' academic evaluation.

Nova SBE is a state-owned university, mainly financed by state subsidies, students tuition fees and companies, through donations, or indirectly by hiring educational programs, among other possibilities. Thus, Nova SBE may have received compensation from the target company during the last 12 months, related to its fundraising programs, or indirectly through the sale of educational, consulting or research services. Nevertheless, no compensation eventually received by Nova SBE is in any way related to or dependent on the opinions expressed in this report. The Nova School of Business and Economics does not deal for or otherwise offer any investment or intermediation services to market counterparties, private or intermediate customers.