

adidas Group (ADSGn.DE)

Running All Over The World

- **FY13 EPS forecast largely unchanged at €4.32** — Following the updated management guidance, we raise our FY13 EPS forecast +1% to €4.32. This assumes ccy-neutral sales +4%, ccy -3.7%, and an 8.8% EBIT margin.
- **What does it all mean?** — We argue that adidas is one of a small group of genuine global growth apparel retailers and brands that is capable of GDP-plus revenue growth. Like the other global apparel brands (Nike, VF Corp, Ralph Lauren) adidas has a track record of organic sales growth of c.2-3x real global GDP, underpinning our c.5% p.a. adidas organic revenue growth forecast (2012-2015E). In addition, as group profitability recovers from one of the lower EBIT margin and ROCE metrics across its peers, adidas also offers material EBIT margin upside (Citi +250bp to 10.5% by 2015). These themes drive a c.+15% p.a. 2012-15E EPS growth forecast, and our Buy rating.
- **Buy rating, €88 target price** — We have a new €88 (from €83) 12-month target price for adidas Group, based on it holding a c.12x EV/EBIT multiple (recent average) to Dec-14E, and is equivalent to a 18x PE and 1% dividend yield to the same forecast year and underpinned by a €93/share DCF.

- **adidas Group is Buy rated and on the Citi Europe Focus List.**

Results Summary

- **FY12 PBT €1,116m, +20.4% yoy, +2.4% ahead of forecast (Citi €1090m)** — FY12 revenues were +11.7%, with currency neutral growth of +6% (Citi +11.6%, +6.6%). Gross margin was +20bps (Citi flat). Group operating margin was 8.0% (Citi 7.8%). DPS €1.35, +35% yoy (Citi €1.25).
- **FY12 net cash €448m (Citi €155)** — Net cash position was sharply ahead of our forecast at €448m (Citi €155m), driven by year-end inventory +1% yoy.
- **FY13 guidance** — adidas is guiding for currency-neutral Group sales growth of mid-single-digit (Citi +4%), gross margin +30-80bp and operating margin of 9% (Citi 8.7%). This drives FY13 EPS guidance of €4.25 to €4.40, +12% to +16% yoy.

Figure 1. adidas Group – Statistical Abstract

Yr to Dec	EBIT (€)	PBT (€m)	Tax Rate	EPS (€)	EPS Old (€)	PE	Net Div (c)	Div Yld (%)	EV/ Sales	EV/ EBITDA	EV/ EBITDA
2010A	894	806	29.5%	2.71	2.71	28.0	0.8	1.1	1.3	18.0	13.9
2011A	1,011	927	27.7%	3.21	3.20	23.7	1.0	1.3	1.2	15.6	12.5
2012A	1,185	1,116	29.3%	3.78	3.74	20.1	1.4	1.8	1.0	13.0	10.6
2013E	1,315	1,265	28.5%	4.32	4.28	17.6	1.7	2.2	1.0	11.6	9.6
2014E	1,490	1,460	29.0%	4.95	4.88	15.3	2.0	2.6	1.0	10.1	8.5
2015E	1,720	1,710	30.0%	5.72	5.65	13.3	2.3	3.0	0.9	8.5	7.4
YTD											
1M											
3M											
12M											
MV	15,900	Shares		209	Abs %		6.92	7.602	6.916	24.9	
EV	15,452				Rel %		3.11	4.326	1.838	11.45	

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (07 Mar 13)	€76.00
Target price	€88.00
from €83.00	
Expected share price return	15.8%
Expected dividend yield	1.6%
Expected total return	17.4%
Market Cap	€15,900M
	US\$20,617M

Price Performance (RIC: ADSGn.DE, BB: ADS GR)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

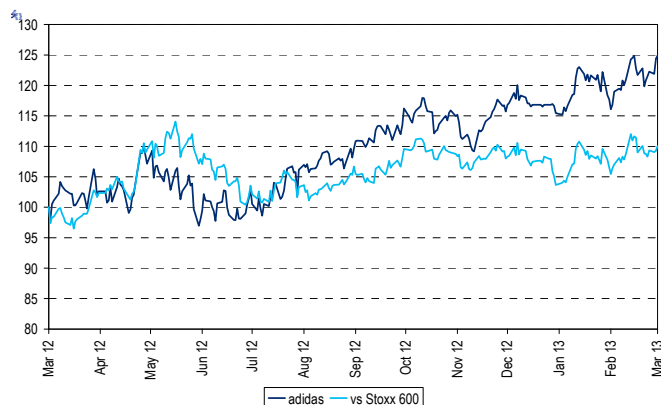
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ADSGn.DE: Fiscal year end 31-Dec						Price: €76.00; TP: €88.00; Market Cap: €15,900m; Recomm: Buy					
Profit & Loss (€m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	13,344	14,883	14,988	15,638	16,412	PE (x)	23.7	20.1	17.6	15.3	13.3
Cost of sales	-7,000	-7,780	-7,729	-7,961	-8,254	PB (x)	3.1	3.0	2.7	2.4	2.2
Gross profit	6,344	7,103	7,259	7,677	8,158	EV/EBITDA (x)	12.9	11.1	10.0	8.9	7.7
Gross Margin (%)	47.5	47.7	48.4	49.1	49.7	FCF yield (%)	2.7	3.2	3.0	3.8	4.6
EBITDA (Adj)	1,264	1,456	1,586	1,761	1,991	Dividend yield (%)	1.3	1.8	2.2	2.6	3.0
EBITDA Margin (Adj) (%)	9.5	9.8	10.6	11.3	12.1	Payout ratio (%)	31	36	38	40	40
Depreciation	-253	-271	-271	-271	-271	ROE (%)	13.8	15.2	16.2	16.6	17.1
Amortisation	0	0	0	0	0	Cashflow (€m)					
EBIT (Adj)	1,011	1,185	1,315	1,490	1,720	EBITDA	1,264	1,456	1,586	1,761	1,991
EBIT Margin (Adj) (%)	7.6	8.0	8.8	9.5	10.5	Working capital	-18	-18	-175	-185	-209
Net interest	-84	-69	-50	-30	-10	Other	-437	-498	-411	-453	-523
Associates	0	0	0	0	0	Operating cashflow	809	940	1,001	1,122	1,259
Non-op/Except	0	0	0	0	0	Capex	-376	-433	-525	-525	-525
Pre-tax profit	927	1,116	1,265	1,460	1,710	Net acq/disposals	22	64	0	0	0
Tax	-257	-327	-361	-423	-513	Other	0	-43	0	0	0
Extraord./Min.Int./Pref.div.	1	2	0	0	0	Investing cashflow	-354	-412	-525	-525	-525
Reported net profit	671	791	905	1,036	1,197	Dividends paid	-167	-209	-282	-345	-418
Net Margin (%)	5.0	5.3	6.0	6.6	7.3	Financing cashflow	-127	-190	-282	-345	-418
Core NPAT	671	791	905	1,036	1,197	Net change in cash	328	338	193	252	316
Per share data						Free cashflow to s/holders	433	507	476	597	734
Reported EPS (€)	3.21	3.78	4.32	4.95	5.72						
Core EPS (€)	3.21	3.78	4.32	4.95	5.72						
DPS (€)	1.00	1.35	1.65	2.00	2.30						
CFPS (€)	3.87	4.49	4.78	5.36	6.02						
FCFPS (€)	2.07	2.42	2.27	2.85	3.51						
BVPS (€)	24.47	25.23	28.26	31.57	35.29						
Wtd avg ord shares (m)	209	209	209	209	209						
Wtd avg diluted shares (m)	209	209	209	209	209						
Growth rates											
Sales revenue (%)	11.3	11.5	0.7	4.3	4.9						
EBIT (Adj) (%)	13.1	17.2	11.0	13.2	15.5						
Core NPAT (%)	18.3	17.9	14.4	14.5	15.5						
Core EPS (%)	18.3	17.9	14.4	14.5	15.5						
Balance Sheet (€m)											
Cash & cash equiv.	1,371	1,935	2,128	2,380	2,696						
Accounts receivables	1,595	1,688	1,688	1,698	1,732						
Inventory	2,502	2,486	2,661	2,836	3,011						
Net fixed & other tangibles	1,554	1,709	1,963	2,217	2,471						
Goodwill & intangibles	3,216	2,932	2,932	2,932	2,932						
Financial & other assets	999	901	901	901	901						
Total assets	11,237	11,651	12,273	12,964	13,743						
Accounts payable	1,887	1,790	1,790	1,790	1,790						
Short-term debt	289	280	280	280	280						
Long-term debt	991	1,207	1,207	1,207	1,207						
Provisions & other liab	2,942	3,083	3,083	3,083	3,083						
Total liabilities	6,109	6,360	6,360	6,360	6,360						
Shareholders' equity	5,119	5,278	5,913	6,604	7,383						
Minority interests	9	13	0	0	0						
Total equity	5,128	5,291	5,913	6,604	7,383						
Net debt	-91	-448	-641	-893	-1,209						
Net debt to equity (%)	-1.8	-8.5	-10.8	-13.5	-16.4						

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com
For definitions of the items in this table, please click [here](#).

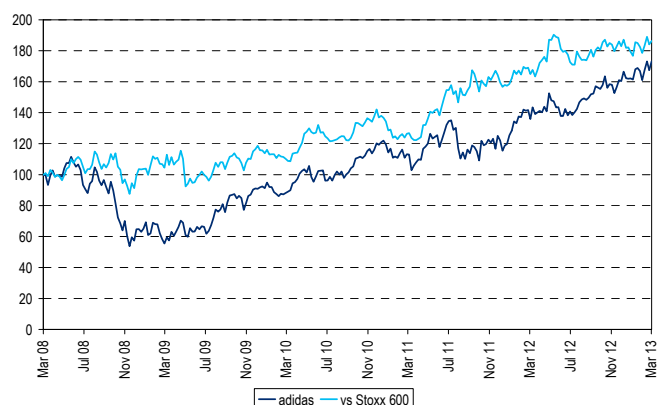
Share Price Performance

Figure 2. adidas – 1 Yr Share Price Performance, 2011-2012



Source: Datastream, Citi Research

Figure 3. adidas – 5 Yr Share Price Performance, 2007-2012



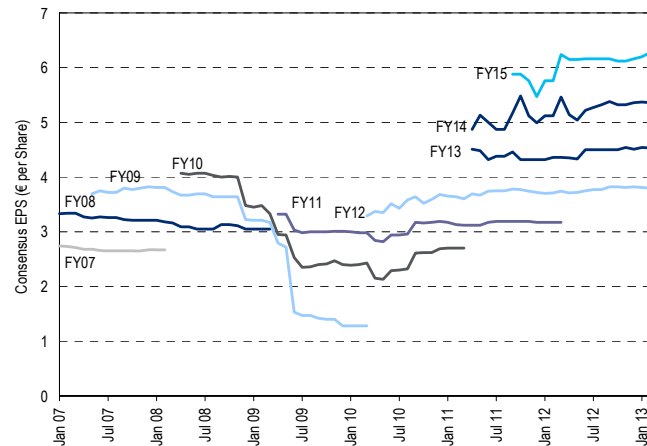
Source: Datastream, Citi Research

Figure 4. adidas – Long Run EV/EBIT Valuation



Source: Datastream, Citi Research estimates

Figure 5. adidas – Consensus EPS



Source: Datastream, Citi Research

Recent changes: FY13 PBT forecast raised €5m to €1265m

Next results: 1Q13 IMS on May 3, 2013

The market view? 23 Buys, 13 Holds, 4 Sell

(Source: Reuters)

Results Analysis

4Q: Revenue momentum slowed, as expected

adidas reported a slower 4Q, with broadly stable revenue trends (4Q curr-neutral growth +1%, vs Citi forecast flat), largely due to demanding comparatives and one-off business model changes, albeit this was as forecast. However, the group delivered a sharply stronger 4Q gross margin delta (+200bp vs Citi +100bp), and opex/sales was also better than forecast, rising +150bp in 4Q against our +170bp expectation. This drove a €26m 4Q Group EBIT, €31m ahead of Citi forecast, resulting in FY12 EPS of €3.78, +17.9% yoy.

FY13 guidance for EPS growth of 12-16%

adidas also provided further guidance for FY13; the group is targeting currency-neutral sales growth of mid-single digit (Citi +4%), an operating margin approaching 9% (Citi 8.8%), and EPS growth of 12% to 16%, equivalent to €4.25 to €4.40 EPS. For context, we and consensus had FY13 EPS forecasts of €4.28 and €4.50 ahead of these results.

4Q FY12 analysis

Revenue: strong momentum in EM largely offset by one-offs and demand comparatives in DM

In 4Q adidas Group maintained positive sales growth in the group's Emerging Markets, against sales decline in Western Europe and North America. Specifically, while Greater China ccy-neutral sales rose +13%, European EM grew at +9%, and Other Asia and LatAm at +4%, Western Europe and North America saw -4% and -8% ccy-neutral sales declines. The latter declines related to tough comparatives from the 4Q sell-through ahead of EURO 2012 and the Olympics, and the non-recurrence of the NFL license sales, respectively.

Figure 6. adidas – Summary Revenue Split, by geography, by channel, by brand (€ in Millions)

	1Q11	2Q11	1H11	3Q11	4Q11	2H11	2011	1Q12	2Q12	1H12	3Q12	4Q12	2H12	2012
Western Europe	14%	4%	9%	11%	11%	11%	10%	7%	4%	6%	1%	-4%	-1%	3%
European EM	26%	22%	24%	21%	21%	18%	22%	15%	17%	16%	19%	9%	14%	15%
Greater China	36%	40%	38%	14%	12%	17%	23%	26%	12%	19%	12%	13%	11%	15%
Other Asia	7%	6%	6%	6%	3%	6%	5%	26%	1%	13%	0%	4%	3%	8%
North America	26%	7%	15%	13%	19%	19%	15%	11%	10%	10%	-6%	-8%	-6%	2%
Latin America	15%	8%	11%	19%	0%	7%	10%	14%	-2%	6%	16%	1%	11%	8%
Total – neutral ccy	19%	10%	14%	13%	11%	12%	13%	14%	8%	11%	4%	1%	3%	6%
Currency	4%	-5%	-1%	-5%	0%	-3%	-2%	3%	8%	5%	8%	2%	5%	6%
Total revenue growth	22%	5%	13%	8%	11%	9%	11%	17%	15%	16%	11%	3%	8%	12%
Group Revenue	3273	3064	6337	3746	3261	7007	13344	3817	3524	7341	4173	3368	7542	14883
Wholesale	2320	1973	4293	2577	2101	4678	8971	2614	2113	4727	2743	2061	4806	9533
Retail	577	681	1258	758	777	1535	2793	686	861	1547	944	882	1826	3373
Other Businesses / misc	376	410	786	411	383	794	1580	517	550	1067	486	424	910	1977
Group Gross Profit	1587	1506	3093	1762	1489	3251	6344	1822	1700	3522	1978	1603	3581	7103
- margin	48.5%	49.2%	48.8%	47.0%	45.7%	46.4%	47.5%	47.7%	48.3%	48.0%	47.4%	47.6%	47.5%	47.7%
- yoy (bps)	-13	21	3	-27	-81	-53	-25	-77	-89	-83	36	193	108	18
Group Operating Profit	313	219	532	441	38	479	1011	405	260	665	494	26	520	1185
- margin	9.6%	7.1%	8.4%	11.8%	1.2%	6.8%	7.6%	10.6%	7.4%	9.1%	11.8%	0.8%	6.9%	8.0%
PBT	285	197	482	418	27	445	927	385	240	625	479	12	491	1116
EPS (fully diluted)	1.00	0.67	1.67	1.45	0.08	1.53	3.20	1.37	0.80	2.17	1.64	-0.04	1.61	3.78
- yoy growth	24%	11%	18%	14%	184%	18%	18%	37%	19%	30%	13%	-143%	4%	18%
DPS	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	1.35
- yoy growth	0%	0%	0%	0%	0%	0%	25%	0%	0%	0%	0%	0%	0%	35%
adidas	2424	2213	4637	2769	2373	5130	9767	2859	2628	5487	3234	2513	5747	11230
Reebok	472	440	912	567	506	1085	1997	452	335	787	453	430	885	1676
Other Businesses	377	411	788	410	382	792	1580	506	561	1067	486	424	910	1977

Source: Company Reports and Citi Research Estimates

Figure 7. adidas – Wholesale Quarterly Revenue Split, by geography (€ in Millions)

Wholesale	1Q11	2Q11	1H11	3Q11	4Q11	2H11	2011	1Q12	2Q12	1H12	3Q12	4Q12	2H12	2012
Western Europe	926	694	1620	988	579	1567	3187	972	721	1693	1006	558	1564	3257
- currency	2.2%	0.7%	1.5%	-1.9%	2.2%	-0.4%	0.6%	0.0%	2.3%	1.0%	1.9%	0.5%	1.4%	1.2%
- organic sales	14.0%	3.0%	9.0%	11.6%	10.0%	11.0%	10.0%	5.0%	1.6%	3.5%	0.0%	-4.2%	-1.6%	1.0%
- total	16.2%	3.7%	10.5%	9.8%	12.2%	10.7%	10.6%	5.0%	3.9%	4.5%	1.9%	-3.7%	-0.2%	2.2%
European EM	142	94	236	154	106	260	496	160	106	266	180	99	279	545
- currency	1.9%	-8.2%	-2.9%	-10.5%	-8.3%	-9.7%	-6.4%	-2.0%	8.0%	2.0%	3.7%	8.3%	5.6%	3.9%
- organic sales	9.0%	-10.0%	0.0%	5.0%	17.6%	9.7%	5.0%	14.7%	4.7%	10.7%	13.2%	-14.9%	1.7%	6.0%
- total	10.9%	-18.3%	-2.9%	-5.5%	9.3%	0.0%	-1.4%	12.7%	12.8%	12.7%	16.9%	-6.7%	7.3%	9.9%
North America	445	356	801	510	460	970	1771	453	401	854	480	410	890	1744
- currency	2.6%	-11.6%	-5.1%	-9.5%	1.3%	-4.8%	-4.9%	4.0%	13.0%	8.0%	12.6%	0.8%	7.0%	7.5%
- organic sales	31.0%	3.2%	16.0%	11.1%	18.2%	14.2%	15.0%	-2.2%	-0.4%	-1.4%	-18.6%	-11.6%	-15.3%	-9.0%
- total	33.6%	-8.5%	10.9%	1.6%	19.5%	9.4%	10.1%	1.8%	12.6%	6.6%	-6.0%	-10.8%	-8.2%	-1.5%
Greater China	239	223	462	300	276	576	1038	327	290	617	381	324	705	1322
- currency	6.7%	-9.0%	-1.1%	-4.9%	5.7%	0.0%	-0.4%	10.0%	18.3%	14.0%	14.0%	7.8%	11.0%	12.4%
- organic sales	39.0%	45.0%	42.0%	13.6%	11.2%	12.5%	24.0%	26.8%	11.8%	19.5%	13.0%	9.6%	11.4%	15.0%
- total	45.7%	36.0%	40.9%	8.7%	16.9%	12.5%	23.6%	36.8%	30.0%	33.5%	27.0%	17.4%	22.4%	27.4%
Other Asia	291	322	613	325	416	741	1354	393	330	723	346	424	770	1493
- currency	9.2%	-1.0%	3.5%	0.6%	-0.1%	0.2%	1.6%	6.0%	9.8%	8.0%	8.5%	-4.6%	1.2%	4.3%
- organic sales	11.0%	3.9%	7.0%	7.0%	0.8%	3.4%	5.0%	29.1%	-7.3%	9.9%	-2.0%	6.5%	2.7%	6.0%
- total	20.2%	2.9%	10.5%	7.6%	0.7%	3.6%	6.6%	35.1%	2.5%	17.9%	6.5%	1.9%	3.9%	10.3%
Latin America	277	284	561	300	264	564	1125	309	265	574	352	246	598	1172
- currency	5.4%	-4.9%	-0.2%	-8.5%	-4.6%	-6.5%	-3.5%	-1.0%	-1.0%	-1.0%	4.0%	-5.9%	-0.6%	-0.8%
- organic sales	13.0%	7.5%	10.0%	15.7%	-3.1%	6.2%	8.0%	12.6%	-5.7%	3.3%	13.3%	-0.8%	6.7%	5.0%
- total	18.4%	2.5%	9.8%	7.1%	-7.7%	-0.4%	4.5%	11.6%	-6.7%	2.3%	17.3%	-6.8%	6.0%	4.2%
Total	2320	1973	4293	2577	2101	4678	8971	2614	2113	4727	2745	2061	4806	9533
- currency	4.2%	-5.7%	-0.8%	-4.1%	0.9%	-1.9%	-1.3%	2.3%	7.1%	4.5%	6.6%	0.1%	3.7%	4.1%
- organic sales	18.0%	8.1%	13.0%	10.4%	7.8%	9.2%	11.0%	10.4%	0.0%	5.6%	-0.1%	-2.0%	-1.0%	2.2%
- total	22.2%	2.4%	12.2%	6.4%	8.7%	7.4%	9.7%	12.7%	7.1%	10.1%	6.5%	-1.9%	2.7%	6.3%

Source: Company Reports and Citi Research Estimates

Figure 8. adidas – Retail Quarterly Revenue Split, by geography (€ in Millions)

Retail	1Q11	2Q11	1H11	3Q11	4Q11	2H11	2011	1Q12	2Q12	1H12	3Q12	4Q12	2H12	2012
Western Europe	100	115	215	141	120	261	476	110	126	236	148	123	271	507
- currency	0.4%	1.5%	1.0%	0.7%	0.3%	0.5%	0.7%	0.0%	0.0%	0.0%	1.9%	-0.2%	0.9%	0.5%
- LFL + space contribution	12.0%	10.1%	11.0%	6.1%	17.4%	11.0%	11.0%	10.0%	9.6%	9.8%	2.8%	3.0%	2.9%	6.0%
- total	12.4%	11.7%	12.0%	6.8%	17.6%	11.5%	11.7%	10.0%	9.6%	9.8%	4.7%	2.8%	3.8%	6.5%
European EM	218	277	495	273	287	560	1055	259	368	627	376	343	719	1346
- currency	1.6%	-12.5%	-6.7%	-13.0%	-2.9%	-7.8%	-7.3%	3.0%	11.9%	8.0%	14.5%	4.0%	9.1%	8.6%
- LFL + space contribution	39.0%	37.3%	38.0%	32.7%	22.0%	27.2%	32.0%	15.8%	20.9%	18.7%	23.2%	15.6%	19.3%	19.0%
- total	40.6%	24.8%	31.3%	19.7%	19.1%	19.4%	24.7%	18.8%	32.9%	26.7%	37.7%	19.5%	28.4%	27.6%
North America	93	113	206	149	149	298	504	118	140	258	182	159	341	599
- currency	1.8%	-9.6%	-4.8%	-7.7%	-1.1%	-4.6%	-4.7%	5.0%	12.3%	9.0%	12.6%	4.8%	8.7%	8.8%
- LFL + space contribution	13.0%	9.6%	11.0%	13.4%	19.3%	16.2%	14.0%	21.9%	11.6%	16.2%	9.4%	1.9%	5.7%	10.0%
- total	14.8%	0.0%	6.2%	5.7%	18.3%	11.6%	9.3%	26.9%	23.9%	25.2%	22.1%	6.8%	14.4%	18.8%
Greater China	37	35	72	39	46	85	157	46	46	92	46	60	106	198
- currency	4.3%	-8.1%	-2.0%	-4.7%	6.9%	1.4%	-0.2%	8.0%	16.2%	12.0%	14.0%	10.7%	12.2%	12.1%
- LFL + space contribution	19.0%	21.0%	20.0%	22.8%	17.5%	20.0%	20.0%	16.3%	15.2%	15.8%	3.9%	19.8%	12.5%	14.0%
- total	23.3%	12.9%	18.0%	18.2%	24.3%	21.4%	19.8%	24.3%	31.4%	27.8%	17.9%	30.4%	24.7%	26.1%
Other Asia	81	90	171	95	107	202	373	102	112	214	112	110	222	436
- currency	10.1%	-0.4%	4.5%	2.5%	4.7%	3.6%	4.0%	8.0%	11.8%	10.0%	12.0%	0.9%	6.1%	7.9%
- LFL + space contribution	4.0%	11.5%	8.0%	8.0%	11.6%	9.9%	9.0%	17.9%	12.6%	15.1%	5.9%	1.9%	3.8%	9.0%
- total	14.1%	11.1%	12.5%	10.5%	16.3%	13.5%	13.0%	25.9%	24.4%	25.1%	17.9%	2.8%	9.9%	16.9%
Latin America	48	51	99	61	68	129	228	58	62	120	80	87	167	287
- currency	8.2%	-7.5%	-1.1%	-6.2%	-3.4%	-4.5%	-3.1%	1.0%	2.9%	2.0%	4.0%	3.1%	3.6%	2.9%
- LFL + space contribution	33.0%	9.5%	19.0%	38.8%	8.0%	20.8%	20.0%	19.8%	18.6%	19.2%	27.1%	24.8%	25.9%	23.0%
- total	41.2%	2.0%	17.9%	32.6%	4.6%	16.2%	16.9%	20.8%	21.6%	21.2%	31.1%	27.9%	29.5%	25.9%
Total	577	681	1,258	758	777	1,535	2,793	686	861	1,547	944	882	1,826	3,373
- currency	3.4%	-6.5%	-2.3%	-7.2%	-1.0%	-3.0%	-4.1%	4.0%	9.5%	6.8%	10.6%	2.2%	6.3%	6.5%
- LFL (inc online)	17.0%	13.0%	15.0%	15.0%	15.0%	15.0%	15.0%	9.0%	7.7%	8.6%	11.8%	8.3%	10.1%	9.4%
- space	5.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	5.9%	9.2%	7.6%	2.0%	3.1%	2.6%	4.8%
- total	25.4%	13.5%	18.7%	13.8%	17.2%	18.0%	16.9%	18.9%	26.4%	23.0%	24.5%	13.6%	19.0%	20.8%

Source: Company Reports and Citi Research Estimates

Figure 9. adidas – Group Quarterly Revenue Split, by geography (€ in Million)

Group	1Q11	2Q11	1H11	3Q11	4Q11	2H11	2011	1Q12	2Q12	1H12	3Q12	4Q12	2H12	2012
Western Europe	1094	868	1962	1211	749	1960	3922	1174	924	2098	1241	737	1978	4076
- total	15.6%	5.1%	10.7%	9.8%	12.1%	10.7%	10.7%	7.3%	6.5%	6.9%	2.5%	-1.6%	0.9%	3.9%
European EM	370	381	751	439	406	845	1596	431	486	917	570	459	1029	1946
- total	28.0%	10.8%	18.6%	9.5%	16.0%	12.5%	15.3%	16.5%	27.6%	22.1%	29.9%	13.0%	21.8%	21.9%
Europe	1464	1249	2713	1650	1155	2805	5518	1605	1410	3015	1811	1196	3007	6022
- total	18.5%	6.8%	12.8%	9.7%	13.5%	11.2%	12.0%	9.6%	12.9%	11.1%	9.8%	3.5%	7.2%	9.1%
Greater China	284	268	552	348	329	677	1229	384	348	732	437	393	830	1562
- total	42.7%	31.4%	37.0%	9.4%	17.9%	13.4%	22.9%	35.2%	29.9%	32.6%	25.6%	19.5%	22.6%	27.1%
Other Asia	447	509	956	527	642	1169	2125	594	568	1162	577	668	1245	2407
- total	16.4%	5.4%	10.3%	7.1%	4.7%	5.8%	7.8%	32.9%	11.6%	21.5%	9.5%	4.0%	6.5%	13.3%
Asia	731	777	1508	875	971	1846	3354	978	916	1894	1014	1061	2075	3969
- total	25.4%	13.1%	18.7%	8.0%	8.9%	8.5%	12.9%	33.8%	17.9%	25.6%	15.9%	9.3%	12.4%	18.3%
North America	751	700	1451	856	797	1653	3104	869	859	1728	912	770	1682	3410
- total	28.4%	-3.6%	10.7%	3.3%	19.8%	10.6%	10.7%	15.7%	22.7%	19.1%	6.6%	-3.4%	1.8%	9.9%
Latin America	328	339	667	364	337	701	1368	372	332	704	437	341	778	1482
- total	21.0%	2.7%	11.0%	10.3%	-5.1%	2.3%	6.4%	13.4%	-2.1%	5.5%	20.0%	1.2%	11.0%	8.3%
Other	-1	-1	-2	1	1	2	0	0	0	0	0	0	0	0
Total	3273	3064	6337	3746	3261	7007	13344	3824	3517	7341	4174	3368	7542	14883

Source: Company Reports and Citi Research Estimates

adidas and TaylorMade remain the sales growth drivers

In Wholesale, the adidas brand continued to grow in ccy-neutral terms in 4Q (+3%) driven by adidas sports style, albeit this was more than offset by a -19% sales decline at Reebok. In Retail, both adidas and Reebok made good 4Q progress, +11% and +5%, respectively, while +15% TaylorMade 4Q ccy-neutral sales growth drove +10% Other Business ccy-neutral sales growth, more than offsetting declines at Rockport and Reebok CCM.

Figure 10. Currency-neutral revenue growth by channel by brand

	1Q11	2Q11	1H11	3Q11	4Q11	2H11	2011	1Q12	2Q12	1H12	3Q12	4Q12	2H12	2012
Wholesale														
adidas sports performance	16.0%	0.4%	8.0%	10.6%	13.4%	11.9%	10.0%	11.0%	13.2%	12.0%	4.0%	-3.7%	0.6%	6.0%
adidas sports style	21.0%	34.5%	27.0%	19.1%	7.0%	13.7%	20.0%	24.4%	-5.1%	11.0%	22.5%	5.4%	15.0%	13.0%
adidas brand	17.3%	7.5%	12.4%	14.6%	11.9%	12.3%	12.3%	15.0%	9.1%	12.3%	8.2%	3.0%	6.2%	9.2%
Reebok brand	26.0%	1.3%	13.0%	-3.4%	-5.1%	-4.2%	3.0%	-11.4%	-41.6%	-24.8%	-40.7%	-19.0%	-30.7%	-28.0%
Total	18.0%	8.1%	13.0%	10.4%	7.8%	9.2%	11.0%	10.4%	0.0%	5.6%	-0.1%	-2.0%	-1.0%	2.2%
Retail														
adidas sports performance	14.0%	14.0%	14.0%	16.6%	15.0%	15.8%	15.0%	14.4%	13.7%	14.0%	9.2%	8.9%	9.1%	11.3%
adidas sports style	45.0%	35.9%	40.0%	27.2%	28.2%	27.7%	33.0%	22.9%	23.6%	23.3%	21.5%	15.0%	18.0%	20.4%
adidas brand	23.1%	20.0%	21.3%	19.7%	19.1%	19.4%	20.2%	17.3%	16.8%	16.9%	13.2%	10.9%	11.9%	14.2%
Reebok brand	16.0%	21.3%	19.0%	19.0%	15.3%	17.2%	18.0%	12.1%	11.7%	11.9%	19.0%	4.9%	12.1%	12.0%
Total	22.0%	20.0%	21.0%	21.0%	21.0%	21.0%	21.0%	14.9%	16.9%	16.1%	13.9%	11.4%	12.6%	14.2%
Other Businesses														
TaylorMade	20.0%	14.5%	17.0%	17.0%	11.7%	14.5%	15.9%	31.7%	26.8%	29.2%	2.0%	15.0%	8.3%	19.7%
Rockport	-6.0%	9.7%	2.0%	7.1%	11.8%	9.3%	6.0%	7.1%	2.0%	4.4%	2.1%	-1.8%	0.1%	2.0%
Reebok CCM	0.0%	8.4%	6.0%	10.2%	1.5%	6.0%	6.0%	64.2%	11.4%	26.5%	12.5%	-16.7%	-1.1%	9.0%
Total	14.0%	12.2%	13.0%	13.0%	13.0%	13.0%	13.0%	32.1%	27.6%	29.7%	9.9%	9.9%	9.9%	19.8%

Source: Company Reports and Citi Research Estimates

Sharply better GM% delta in Wholesale due to pricing and sales mix (geography, channel) drive 4Q groups GM% up c.+200bp.

At the gross margin level, adidas Group was able to offset input cost pressures through favourable geographical mix (higher proportion of EM sales), channel mix (higher proportion of retail sales) and pricing. Specifically, management stated that input costs had a theoretical -380bp adverse impact on the full year gross margin (-310bp in 4Q), implying that the above initiatives had a c.+510bp impact in 4Q, driving the c.+200bp full year adidas Group gross margin delta. Notably, the Reebok gross margin rose in 4Q for the first time in 2012, by +436bp and +354bp in Wholesale and Retail, respectively.

Reebok 4Q GM% delta now positive

Figure 11. adidas Group – gross margin trends by channel / brand

	1Q11	2Q11	1H11	3Q11	4Q11	2H11	2011	1Q12	2Q12	1H12	3Q12	4Q12	2H12	2012
adidas wholesale	20	-197	-76	-171	-363	-259	-170	-200	-123	-164	119	219	172	10
Reebok wholesale	-20	12	44	-185	-313	-242	-120	0	-1336	-424	-826	436	-213	-314
Group Wholesale	1	-146	-58	-145	-280	-207	-134	-130	-123	-123	84	275	174	32
adidas retail	220	15	90	108	-107	-2	40	60	-460	-220	-240	-1	-111	-150
Reebok retail	700	249	440	793	-451	184	300	-190	-374	-290	-482	354	-88	-180
Group Retail	331	31	150	146	-88	28	84	10	-275	-142	-326	-60	-196	-170
Other Businesses	69	47	59	-239	162	-56	2	-190	49	-66	-34	-239	-126	-80
Group	-13	21	3	-27	-81	-53	-25	-77	-89	-83	36	193	108	18

Source: Company Reports and Citi Research Estimates

Adverse cost leverage offset much of the gross margin gain, albeit less than feared

The c.+200bp increase in the 4Q group gross margin was in large part offset by a +150bp increase in the operating costs/sales ratio (Citi +170bp). Taken together, these P&L dynamics drove the FY12 EBIT margin +40bp to 8%.

Citi forecast changes

FY13 EPS raised +1% to €4.32, +14.4% yoy

In the wake of the updated FY13 earnings guidance (see above), we have modestly raised our FY13 EPS forecast 1% to €4.32. This simply reflects a slightly lower tax charge than expected – here we have applied a 28.5% FY13 tax rate, the upper end of the group's 28-28.5% guidance. Notably, we continue to assume a -3.7% currency translation headwind in the year ahead, primarily stemming from Other Asia (of which Japan is c.40%), +4% ccy-neutral sales progress, +70bp gross margin, and +80bp EBIT margin to 8.8%.

Target price raised to €88 (from €83)

This assumes a 12x 2014e EV/EBIT multiple

We have a new €88 (from €83) 12-month target price for adidas Group, based on adidas Group holding a c.12x EV/EBIT multiple (recent average) to Dec-14E. This is equivalent to an 18x PE and 1% dividend yield to the same forecast year and underpinned by a €93 DCF.

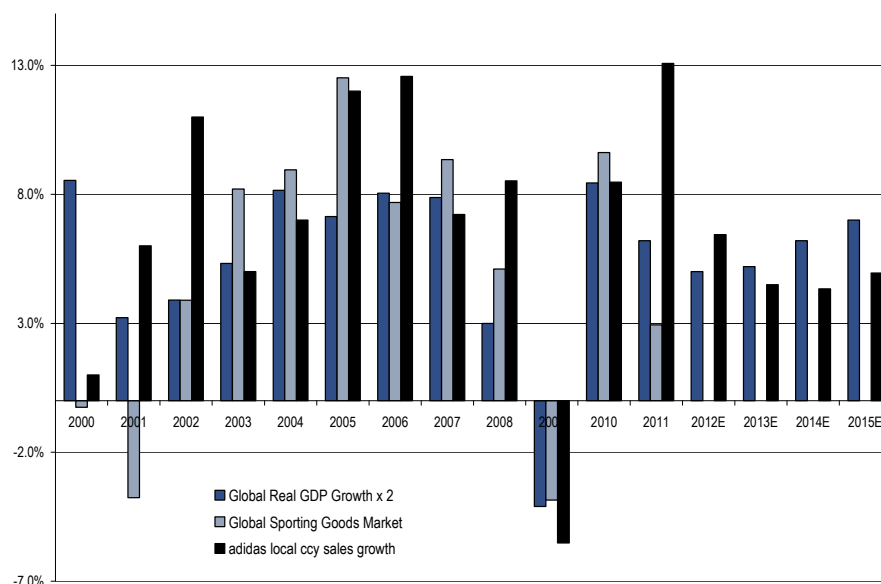
2015 Route Map

Over the last two years, the adidas Group's delivery against its 2015 strategy objectives has been impressive in the context of both a demanding global consumer environment and sharply rising input cost inflation, and in our view this has improved the credibility of the 2015 targets set out in 2010.

Neutral-currency +4-5% p.a. Group sales growth forecast looks conservative (2012-15E)

With reference to the €17bn 2015 group revenue target, while a c.-4% 2013 currency headwind limits our FY15 adidas Group revenue forecast to €16.4bn, we argue that our c.+4-5% p.a. neutral-currency 2012-15 revenue forecast remains conservative, and as illustrated below represents a discount to the c.2x real global GDP growth rate that the global sportswear market has delivered over the last decade.

Figure 12. Global sports goods market growth vs 2x real GDP vs adidas



Source: Company Reports and Citi Research Estimates

+80-100bp p.a. Group EBIT margin progress looks credible (2012-15E)

More significantly, we argue that post the recent input cost headwinds, the combination of positive mix effects (geographic – higher gross margin China and Russia rising in the sales mix; channel – higher gross margin Retail outperforming Wholesale), lower mark-downs (following the -300bp FY12 Reebok gross margin decline), and warehousing and IT efficiencies are forecast to drive c.+70bp annual gross margin delta 2012-15E. In addition, the combination of sales leverage and opex productivity gains in the Retail channel look capable of adding c.+150bp p.a. to the Retail channel EBIT margin, up from the 21.5% in FY12, adding c.+35bp p.a. to the group EBIT margin. Taken together, these margin dynamics support the thesis that adidas can achieve c.+100bp EBIT margin progress p.a. through to 2015 (consistent with the Group's 11% 2015 EBIT margin target).

Figure 13. adidas – Primary P&L structure and forecast dynamics, 2012E-2015E

	2012E Sales mix	2012E Geog split	2012E GM%	2012E Wholesale	2012E Retail	2012E Other	2012 Local ccy sales growth	2013E Local ccy sales growth	2014E Local ccy sales growth	2015E Local ccy sales growth
W Europe	4,076	27%	44%	80%	12%	8%	2.6%	1.4%	0.3%	1.1%
EEM	1,946	13%	56%	28%	69%	3%	14.9%	12.3%	11.0%	10.9%
N America	3,410	23%	45%	51%	18%	31%	1.6%	2.0%	3.2%	3.3%
Gt China	1,562	10%	59%	85%	13%	3%	14.7%	8.5%	7.7%	9.5%
Other Asia	2,407	16%	41%	62%	18%	20%	7.7%	2.9%	3.7%	4.4%
LatAm	1,482	10%	49%	79%	19%	2%	8.4%	5.2%	5.4%	5.4%
Total	14,883	100%	48%	64%	23%	13%	6.8%	4.2%	4.3%	4.9%
							2012E	2013E	2014E	2015E
Gp Sales							14,883	14988	15638	16412
- growth%							11.5%	0.7%	4.3%	4.9%
- growth (local ccy)%							6.8%	4.2%	4.3%	4.9%
GM%				40.3%	60.9%	42.7%	47.7%	48.4%	49.1%	49.7%
- delta (bp)							18.4	71	66	62
Div Opex/sales				9.2%	39.5%	15.4%	19.3%	19.1%	19.1%	18.9%
Div EBIT/sales				31%	21%	27%	28.4%	29.3%	30.0%	30.8%
Central cost/sales							22.0%	22.1%	22.0%	21.9%
- MWB							10.1%	10.1%	10.0%	9.9%
- Other							11.9%	12.0%	12.0%	12.0%
Royalties/sales							0.7%	0.7%	0.7%	0.7%
Other income/sales							0.9%	0.9%	0.9%	0.9%
Gp EBIT/sales							8.0%	8.8%	9.5%	10.5%
Gp EBIT							1,185	1,315	1,490	1,720
- growth%							17.2%	11.0%	13.2%	15.5%

Source: Company Reports and Citi Research Estimates

adidas can deliver c.+15% p.a. EPS growth (2012-15E). Buy

While our 8.8% and 10.5% 2013 and 2015 adidas Group EBIT margin forecasts are -20bp and -50bp shy of guidance, we still forecast that adidas can deliver c.+15% p.a. EBIT growth 2012-15E. Such growth rates should allow the shares to hold their valuation metrics over time (c.12x EV/EBIT), which in combination with a c.2% dividend yield should drive c.+15-20% total return p.a. for investors. Buy.

Financials

Figure 14. adidas Group - P&L, 2008-2015e (€m)

	2008	2009	2010	2011	2012	2013e	2014e	2015e
Wholesale Revenue	7758	7164	8181	8971	9533	9494	9778	10170
- currency	-5%	1%	6%	-1%	4%	-4%	0%	0%
- organic sales	10%	-9%	8%	11%	2%	3%	3%	4%
- total	5%	-8%	14%	10%	6%	0%	3%	4%
Wholesale Gross Profit	3387	2978	3379	3585	3840	3886	4051	4264
- margin	43.7%	41.6%	41.3%	40.0%	40.3%	40.9%	41.4%	41.9%
- yoy (bps)	0	-209	-27	-134	32	65	50	50
Retail Revenue	1738	1905	2389	2793	3373	3498	3804	4125
- currency	-8%	3%	7%	-4%	7%	-3%	0%	0%
- LFL (inc online)	0%	-6%	11%	15%	9%	4%	4%	4%
- space	18%	13%	7%	6%	5%	3%	5%	4%
- total	10%	10%	25%	17%	21%	4%	9%	8%
Retail Gross Profit	1069	1116	1476	1749	2055	2148	2365	2596
- margin	61.5%	58.6%	61.8%	62.6%	60.9%	61.4%	62.2%	62.9%
- yoy (bps)	0	-292	320	84	-170	50	75	75
Other Businesses Revenue	1285	1294	1420	1580	1977	1996	2056	2118
- currency	0%	5%	8%	-2%	5%	-3%	0%	0%
- LFL	0%	-4%	2%	13%	20%	4%	3%	3%
- total	-2%	1%	10%	11%	25%	1%	3%	3%
Other Businesses Gross Profit	543	509	618	688	845	862	898	935
- margin	42.3%	39.3%	43.5%	43.5%	42.7%	43.2%	43.7%	44.2%
- yoy (bps)	0	-292	419	2	-80	42	50	50
Misc revenue	18	16	0	0	0	0	0	0
Misc gross profit	257	109	257	322	363	363	363	363
	2008	2009	2010	2011	2012e	2013e	2014e	2015e
Group revenue	10799	10379	11990	13344	14883	14988	15638	16412
- currency	-4%	2%	7%	-2%	5%	-3%	0%	0%
- LFL / space	9%	-6%	8%	13%	7%	4%	4%	5%
- total	5%	-4%	16%	11%	12%	1%	4%	5%
Gross Profit	5256	4712	5730	6344	7103	7259	7677	8158
- margin	48.7%	45.4%	47.8%	47.5%	47.7%	48.4%	49.1%	49.7%
- yoy (bps)	127	-327	239	-25	18	71	66	62
Divisional operating costs	-1644	-1719	-2080	-2277	-2510	-2506	-2624	-2740
- yoy growth		5%	21%	9%	10%	0%	5%	4%
- as a % of sales	15.2%	16.6%	17.3%	17.1%	16.9%	16.7%	16.8%	16.7%
Central operating costs	-2654	-2613	-2921	-3217	-3622	-3639	-3777	-3924
- yoy growth		-2%	12%	10%	13%	0%	4%	4%
- as a % of sales	24.6%	25.2%	24.4%	24.1%	24.3%	24.3%	24.2%	23.9%
Misc expenses	-80	-58	-45	-30	-18	-32	-30	-30
Other income	192	186	210	191	232	233	244	256
Group Operating Profit	1070	508	894	1011	1185	1315	1490	1720
- yoy growth	13%	-53%	76%	13%	17%	11%	13%	15%
- as a % of sales	9.9%	4.9%	7.5%	7.6%	8.0%	8.8%	9.5%	10.5%
EBITDA	1280	780	1159	1264	1456	1586	1761	1991
- as a % of sales	11.9%	7.5%	9.7%	9.5%	9.8%	10.6%	11.3%	12.1%
Net finance expenses	-166	-150	-88	-84	-69	-50	-30	-10
PBT	904	358	806	927	1116	1265	1460	1710
- yoy growth	11%	-60%	125%	15%	20%	13%	15%	17%
Tax	-260	-113	-238	-257	-327	-361	-423	-513
- effective rate	29%	32%	30%	28%	29%	29%	29%	30%
Minorities	-2	0	-1	1	2	0	0	0
Earnings	642	245	567	671	791	905	1036	1197
Basic EPS	3.25	1.25	2.71	3.21	3.78	4.32	4.95	5.72
Diluted EPS	3.07	1.22	2.71	3.21	3.78	4.32	4.95	5.72
- yoy growth	20%	-60%	122%	18%	18%	14%	15%	16%
DPS	0.50	0.35	0.80	1.00	1.35	1.65	2.00	2.30
- yoy growth	0%	-30%	129%	25%	35%	22%	21%	15%
- payout ratio	0.16	0.29	0.30	0.31	0.36	0.38	0.40	0.40

Source: Company Reports and Citi Research Estimates

Figure 15. Revenue by Channel and Geography, 2008-2015e (€m)

	2008	2009	2010	2011	2012	2013e	2014e	2015e
Wholesale								
Western Europe	2936	2633	2882	3187	3257	3283	3275	3299
- currency		-2.3%	1.5%	0.6%	1.2%	-0.8%	0.0%	0.0%
- organic sales (sense check)		-8.0%	8.0%	10.0%	1.0%	1.6%	-0.2%	0.7%
- total		-10.3%	9.5%	10.6%	2.2%	0.8%	-0.2%	0.7%
European EM	543	475	503	496	545	589	636	700
- currency		0.5%	7.9%	-6.4%	3.9%	-0.9%	0.0%	0.0%
- organic sales		-13.0%	-2.0%	5.0%	6.0%	9.0%	8.0%	10.0%
- total		-12.5%	5.9%	-1.4%	9.9%	8.1%	8.0%	10.0%
North America	1461	1295	1609	1771	1744	1678	1712	1746
- currency		4.6%	7.2%	-4.9%	7.5%	-3.9%	0.0%	0.0%
- organic sales		-16.0%	17.0%	15.0%	-9.0%	0.1%	2.0%	2.0%
- total		-11.4%	24.2%	10.1%	-1.5%	-3.8%	2.0%	2.0%
Greater China	999	855	840	1038	1322	1405	1517	1669
- currency		5.6%	5.2%	-0.4%	12.4%	-2.8%	0.0%	0.0%
- organic sales		-20.0%	-7.0%	24.0%	15.0%	9.1%	8.0%	10.0%
- total		-14.4%	-1.8%	23.6%	27.4%	6.3%	8.0%	10.0%
Other Asia	1029	1041	1270	1354	1493	1389	1431	1488
- currency		6.2%	14.0%	1.6%	4.3%	-9.0%	0.0%	0.0%
- organic sales		-5.0%	8.0%	5.0%	6.0%	2.0%	3.0%	4.0%
- total		1.2%	22.0%	6.6%	10.3%	-7.0%	3.0%	4.0%
Latin America	790	865	1077	1125	1172	1150	1207	1268
- currency		-6.5%	13.5%	-3.5%	-0.8%	-6.9%	0.0%	0.0%
- organic sales		16.0%	11.0%	8.0%	5.0%	5.0%	5.0%	5.0%
- total		9.5%	24.5%	4.5%	4.2%	-1.9%	5.0%	5.0%
Total	7758	7164	8181	8971	9533	9494	9778	10170
- currency		-4.5%	1.3%	-1.3%	4.1%	-3.7%	0.0%	0.0%
- organic sales		9.8%	-9.0%	8.0%	2.2%	3.3%	3.0%	4.0%
- total		5.3%	-7.7%	14.2%	6.3%	-0.4%	3.0%	4.0%
Retail				2011	2012e			
Western Europe	384	405	426	476	507	452	461	472
- currency		-2.5%	1.2%	0.7%	0.5%	-0.9%	0.0%	0.0%
- LFL + space contribution		8.0%	4.0%	11.0%	6.0%	-10.1%	2.2%	2.3%
- total		5.5%	5.2%	11.7%	6.5%	-10.9%	2.2%	2.3%
European EM	606	617	846	1055	1346	1523	1713	1909
- currency		2.8%	7.1%	-7.3%	8.6%	-0.9%	0.0%	0.0%
- LFL + space contribution		-1.0%	30.0%	32.0%	19.0%	14.1%	12.5%	11.5%
- total		1.8%	37.1%	24.7%	27.6%	13.2%	12.5%	11.5%
North America	363	380	461	504	599	611	654	700
- currency		4.7%	7.3%	-4.7%	8.8%	-4.0%	0.0%	0.0%
- LFL + space contribution		0.0%	14.0%	14.0%	10.0%	6.0%	7.0%	7.0%
- total		4.7%	21.3%	9.3%	18.8%	2.0%	7.0%	7.0%
Greater China	53	88	131	157	198	204	219	234
- currency		9.0%	7.9%	-0.2%	12.1%	-2.8%	0.0%	0.0%
- LFL + space contribution		57.0%	41.0%	20.0%	14.0%	6.0%	7.0%	7.0%
- total		66.0%	48.9%	19.8%	26.1%	3.2%	7.0%	7.0%
Other Asia	240	286	330	373	436	423	453	485
- currency		8.2%	14.4%	4.0%	7.9%	-8.9%	0.0%	0.0%
- LFL + space contribution		11.0%	1.0%	9.0%	9.0%	6.0%	7.0%	7.0%
- total		19.2%	15.4%	13.0%	16.9%	-2.9%	7.0%	7.0%
Latin America	92	129	195	228	287	285	304	326
- currency		-10.8%	17.2%	-3.1%	2.9%	-6.9%	0.0%	0.0%
- LFL + space contribution		51.0%	34.0%	20.0%	23.0%	6.0%	7.0%	7.0%
- total		40.2%	51.2%	16.9%	25.9%	-0.9%	7.0%	7.0%
Total	1,738	1,905	2,389	2,793	3,373	3,498	3,804	4,125
- currency		-7.8%	7.4%	-4.1%	6.5%	-3.1%	0.0%	0.0%
- LFL (inc online)		-0.4%	11.0%	15.0%	9.4%	3.8%	4.0%	4.0%
- space		18.2%	7.0%	6.0%	4.8%	3.0%	4.7%	4.5%
- total		10.1%	25.4%	16.9%	20.8%	3.7%	8.8%	8.4%

Source: Company Reports and Citi Research Estimates

Figure 16. adidas Group – Revenue and Gross Profit by Channel and Brand, 2008-2015e (€m)

	2008	2009	2010	2011	2012e	2013e	2014e	2015e
Wholesale								
adidas Revenue	6335	5921	6660	7439	8424	8404	8666	9035
adidas Gross Profit	2914	2629	2910	3124	3547	3593	3748	3953
- margin	46.0%	44.4%	43.7%	42.0%	42.1%	42.8%	43.3%	43.8%
Reebok Revenue	1410	1265	1505	1499	1109	1090	1112	1134
Reebok Gross Profit	465	359	464	444	293	293	303	311
- margin	33.0%	28.4%	30.8%	29.6%	26.5%	26.9%	27.3%	27.4%
Wholesale Revenue	7758	7164	8181	8971	9533	9494	9778	10170
- currency	-4.5%	1.3%	6.2%	-1.3%	4.1%	-3.7%	0.0%	0.0%
- organic sales	9.8%	-9.0%	8.0%	11.0%	2.2%	3.3%	3.0%	4.0%
- total	5.3%	-7.7%	14.2%	9.7%	6.3%	-0.4%	3.0%	4.0%
Wholesale gross profit	3387	2978	3379	3585	3840	3886	4051	4264
- margin	43.7%	41.6%	41.3%	40.0%	40.3%	40.9%	41.4%	41.9%
- yoy (bps)		-209	-27	-134	32	65	50	50
Retail								
adidas Revenue	1430	1562	1979	2328	2806	2918	3189	3474
adidas Gross Profit	910	951	1251	1481	1743	1827	2020	2227
- margin	63.6%	60.9%	63.2%	63.6%	62.1%	62.6%	63.3%	64.1%
Reebok Revenue	307	339	408	463	558	580	614	651
Reebok Gross Profit	910	951	1251	1481	1743	1827	2020	2227
- margin	63.6%	60.9%	63.2%	63.6%	62.1%	62.6%	63.3%	64.1%
Retail Revenue	1738	1905	2389	2793	3373	3498	3804	4125
- currency	-7.8%	2.6%	7.4%	-4.1%	6.5%	-3.1%	0.0%	0.0%
- LFL	-0.4%	-6.0%	11.0%	15.0%	9.4%	3.8%	4.0%	4.0%
- space contribution	18.2%	13.0%	7.0%	6.0%	4.8%	3.0%	4.7%	4.5%
- total	10.1%	9.6%	25.4%	16.9%	20.8%	3.7%	8.8%	8.4%
Retail gross profit	1069	1116	1476	1749	2055	2148	2365	2596
- margin	61.5%	58.6%	61.8%	62.6%	60.9%	61.4%	62.2%	62.9%
- yoy (bps)		-292	320	84	-170	50	75	75
Other Businesses revenue	1285	1294	1420	1580	1977	1996	2056	2118
- yoy	-1.5%	0.7%	9.7%	11.3%	25.1%	1.0%	3.0%	3.0%
Other Businesses gross profit	543	509	618	688	845	862	898	935
- margin	42.3%	39.3%	43.5%	43.5%	42.7%	43.2%	43.7%	44.2%
- yoy (bps)		-292	419	2	-80	42	50	50
Other Revenue	18	16	0	0	0	0	0	0
Other Gross Profit	257	109	257	322	363	363	363	363
Group Revenue	10799	10379	11990	13344	14883	14988	15638	16412
- currency	-3.7%	1.6%	7.0%	-1.8%	4.7%	-3.5%	0.0%	0.0%
- LFL	8.5%	-5.5%	8.5%	13.1%	6.8%	4.2%	4.3%	4.9%
- total	4.9%	-3.9%	15.5%	11.3%	11.5%	0.7%	4.3%	4.9%
Group Gross Profit	5256	4712	5730	6344	7103	7259	7677	8158
- margin	48.7%	45.4%	47.8%	47.5%	47.7%	48.4%	49.1%	49.7%
- yoy (bps)	127	-327	239	-25	18	71	66	62

Source: Company Reports and Citi Research Estimates

Figure 17. adidas Group – Balance Sheet, 2008-2015e (€m)

	2008	2009	2010	2011	2012e	2013e	2014e	2015e
Cash	244	775	1156	906	1670	1863	2115	2431
Accounts Receivable	1624	1429	1667	1595	1688	1688	1698	1732
Inventory	1995	1471	2119	2502	2486	2661	2836	3011
Short-term financial assets	140	75	233	465	265	265	265	265
Total Other Current Assets	931	735	705	860	768	768	768	768
Current Assets	4934	4485	5880	6328	6877	7245	7682	8207
Net Fixed Assets	886	723	855	963	1095	1349	1603	1857
Net Intangible Fixed Assets	1390	1342	1447	1503	1484	1484	1484	1484
Investments	96	91	93	97	112	112	112	112
Other Financial Assets	0	58	54	42	21	21	21	21
Total Financial Assets	2372	2214	2449	2605	2712	2966	3220	3474
Net Goodwill	1499	1478	1539	1553	1281	1281	1281	1281
Total Other Intangible Assets	204	160	142	160	167	167	167	167
Total Other Non Current Tangible Assets	524	538	608	591	614	614	614	614
Total Other Non Current Assets	2227	2176	2289	2304	2062	2062	2062	2062
Total Assets	9533	8875	10618	11237	11651	12273	12964	13743
Accounts Payable	-1218	-1166	-1694	-1887	-1790	-1790	-1790	-1790
Short Term Debt	-797	-198	-273	-289	-280	-280	-280	-280
Total Other Current Liabilities	-1284	-1152	-1471	-1613	-1741	-1741	-1741	-1741
Current Liabilities	-3299	-2516	-3438	-3789	-3811	-3811	-3811	-3811
Long Term Debt	-1776	-1569	-1337	-991	-1207	-1207	-1207	-1207
Deferred Tax	-463	-433	-451	-430	-368	-368	-368	-368
Other Non Current Liabilities	-249	-261	-299	-295	-342	-342	-342	-342
Total Other Non Current Liabilities	-2488	-2263	-2087	-1716	-1917	-1917	-1917	-1917
Provisions	-346	-320	-470	-604	-632	-632	-632	-632
Total Liabilities	-6133	-5099	-5995	-6109	-6360	-6360	-6360	-6360
Net assets	3400	3776	4623	5128	5291	5913	6604	7383
Shareholders Equity b/f	3035	3400	3776	4623	5128	5291	5913	6604
Minority interests	14	5	7	9	13	0	0	0
Profit for the period	642	245	567	671	791	905	1036	1197
Share issued	-409	400	0	0	0	0	0	0
Dividend payment	-99	-97	-73	-167	-209	-282	-345	-418
Other (sh opt charge / def tax)	217	-177	346	-8	-432	0	0	0
Shareholders Equity c/f	3400	3776	4623	5128	5291	5913	6604	7383
Capital Employed	5589	4693	4844	5020	4843	5272	5711	6174
Adj Capital Employed		7587	8124	8686	8932	9390	10008	10683
Avg Cap Emp	5195	5141	4769	4932	4931	5058	5492	5943
Avg Adj Cap Emp			7856	8405	8809	9161	9699	10345
ROCE	21%	10%	19%	20%	24%	26%	27%	29%
Adj ROCE			14%	14%	16%	17%	18%	19%
Stock days	131	95	124	130	117	126	130	133
Creditor days	-80	-75	-99	-98	-84	-85	-82	-79
Debtor days	107	92	97	83	79	80	78	77
Working capital days	158	112	122	115	112	121	126	131
Working capital/sales	22%	17%	17%	17%	16%	17%	18%	18%

Source: Company Reports and Citi Research Estimates

Figure 18. adidas Group – Cashflow, 2008-2015e (€m)

	2008	2009	2010	2011	2012e	2013e	2014e	2015e
Operating profit	1070	508	894	1011	1185	1315	1490	1720
Depreciation and Amortisation	210	272	265	253	271	271	271	271
Other operating cash flows	-75	42	-15	-9	-26	0	0	0
Share-based payments charge	0	0	0	0	0	0	0	0
Operating cashflow before wc	1205	822	1144	1255	1430	1586	1761	1991
Movement in inventories	-324	617	-561	-349	23	-175	-175	-175
Movement in receivables	-236	464	-100	-116	-135	0	-10	-34
Movement in payables	374	-312	757	447	94	0	0	0
Change in working capital	-186	769	96	-18	-18	-175	-185	-209
Cash generated by operations	1019	1591	1240	1237	1412	1411	1576	1782
Financing cash flows	-176	-131	-111	-113	-90	-50	-30	-10
Tax cash flows	-346	-262	-235	-314	-380	-361	-423	-513
Net financing and tax cash flows	-522	-393	-346	-427	-470	-411	-453	-523
Net cash from operating activities	497	1198	894	810	942	1001	1122	1259
Capex (Growth)	-268	-131	-152	-276	-263	-355	-355	-355
Capex (Maintenance)	-100	-100	-100	-100	-170	-170	-170	-170
Capex	-368	-231	-252	-376	-433	-525	-525	-525
Acquisitions/Disposals	-17	9	68	22	64	0	0	0
Total Other Investing Cash Flow	0	0	0	0	-43	0	0	0
Investing Cash Flow	-17	9	68	22	21	0	0	0
Borrowings / Bonds	0	497	0	0	0	0	0	0
Equity Changes	-409	0	0	0	0	0	0	0
Dividends Paid	-99	-97	-73	-167	-209	-282	-345	-418
Total Other Financing Cash Flow	2	7	55	15	-3	0	0	0
Other (P)	-29	-111	4	25	22	0	0	0
Financing Cash Flow	-535	296	-14	-127	-190	-282	-345	-418
Net Cash Inflow / (Outflow)	-423	1272	696	329	340	193	252	316
Net cash (recon)	-2189	-917	-221	91	448	641	893	1209

Source: Company Reports and Citi Research Estimates

DCF Analysis

Figure 19. adidas – DCF calculation

Year to January	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
PBIT	1,315	1,490	1,720	1,849	1,987	2,134	2,290	2,457	2,635	2,767
Tax	(361)	(423)	(513)	(536)	(576)	(619)	(664)	(713)	(764)	(802)
Depreciation & provisions	271	271	271	258	271	285	299	314	330	346
Capex	(525)	(525)	(525)	(551)	(579)	(608)	(638)	(670)	(704)	(346)
Delta Working Capital	(175)	(185)	(209)	(71)	(151)	(159)	(167)	(175)	(184)	(193)
Free Cashflow	526	627	744	949	952	1,033	1,120	1,214	1,313	1,771
Residual Value										28,116
Total Free Cashflow	526	627	744	949	952	1,033	1,120	1,214	1,313	29,888
Discount factor	0.923	0.853	0.787	0.727	0.671	0.620	0.572	0.528	0.488	0.451
Discounted Free Cashflow	485	535	586	690	639	640	641	641	641	13,465

Source: Company Reports and Citi Research Estimates

Figure 20. adidas – DCF summary

NPV	18,964
Cash	448
Total Valuation (M Euro)	19,412
Implied PE (Dec 2013)	21.5
# shares	209.2
Valuation per share	93

Source: Company Reports and Citi Research Estimates

Figure 21. adidas WACC assumptions

DCF	Rf	Rm	Beta	Re
Inputs	2.0%	7.0%	0.90	8.3%
Growth rate				2.0%

Source: Company Reports and Citi Research Estimates

Figure 22. adidas – DCF assumptions

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Sales	14,988	15,638	16,412	17,233	18,094	18,999	19,949	20,946	21,994	23,094
- growth	0.7%	4.3%	4.9%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
- Lfi	4.2%	4.3%	4.9%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
- Space	-3.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
COGS	7,729	7,961	8,254	8,667	9,100	9,555	10,033	10,535	11,061	11,614
PBIT (pre provision and goodwill)	1,315	1,490	1,720	1,849	1,987	2,134	2,290	2,457	2,635	2,767
ROS%	8.8%	9.5%	10.5%	10.7%	11.0%	11.2%	11.5%	11.7%	12.0%	12.0%
- growth	11.0%	13.2%	15.5%	7.5%	7.4%	7.4%	7.3%	7.3%	7.2%	5.0%
Depreciation	271	271	271	258	271	285	299	314	330	346
- depn/sales	1.8%	1.7%	1.7%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Capex	(525)	(525)	(525)	(551)	(579)	(608)	(638)	(670)	(704)	(346)
- capex/sales	3.5%	3.4%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	1.5%
Working Capital	2,559	2,744	2,953	3,024	3,175	3,334	3,500	3,675	3,859	4,052
- working capital/sales	17.1%	17.5%	18.0%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%
Stock	2,661	2,836	3,011	3,162	3,320	3,486	3,660	3,843	4,035	4,237
- stock turn	2.90	2.81	2.74	2.74	2.74	2.74	2.74	2.74	2.74	2.74
Capex growth	21%	0%	0%	5%	5%	5%	5%	5%	5%	-51%
Capex/depn	1.94	1.94	1.94	2.13	2.13	2.13	2.13	2.13	2.13	1.00

Source: Company Reports and Citi Research Estimates

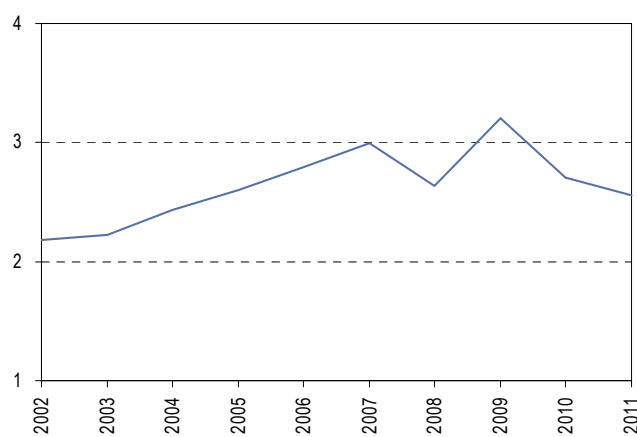
Appendix

Figure 23. adidas – Long Run Market Share Trends



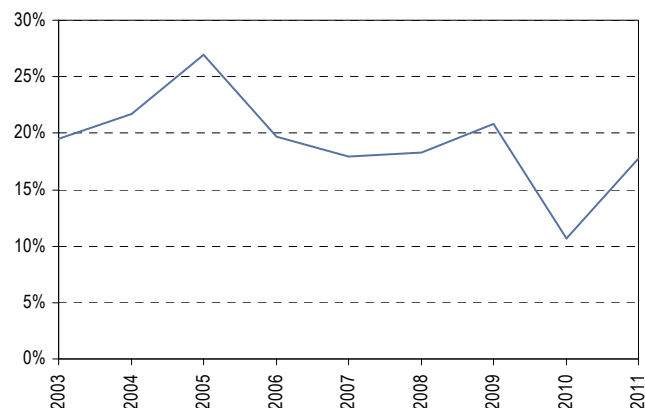
Source: Euromonitor International

Figure 24. adidas – Long Run GROI



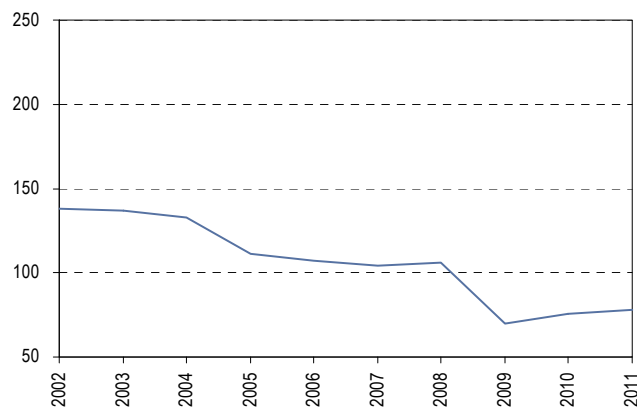
Source: Company reports and Citi Research

Figure 25. adidas – Long Run ROCE



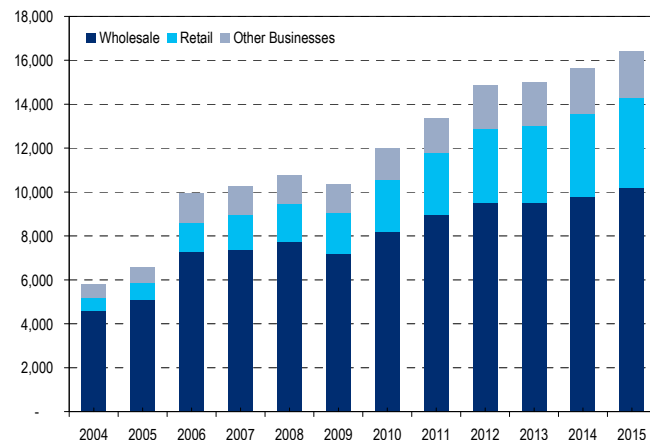
Source: Company reports and Citi Research

Figure 26. adidas – Long Run Working Capital Days



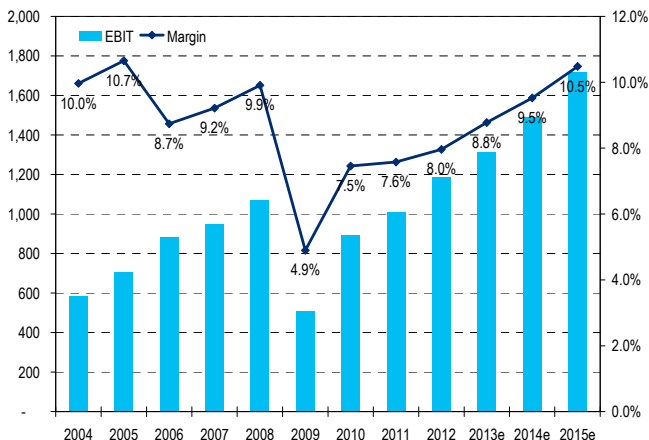
Source: Company reports and Citi Research

Figure 27. adidas – Long Run Divisional Mix



Source: Company reports and Citi Research

Figure 28. adidas – Long Run EBIT and EBIT margin



Source: Company reports and Citi Research

adidas Group

Company description

adidas was founded in Germany in 1948 by Adi Dassler. The adidas Group has a portfolio of brands including adidas (adidas Sport Performance, adidas Sport Style), Reebok, TaylorMade-adidas Golf, Rockport and Reebok-CCM Hockey.

The group operates a global distribution network, through wholesale, retail and e-commerce channels. The adidas and Reebok brands account for c.88% of group sales, three-quarters of which are made through the wholesale channel. Footwear and clothing account for c.45% of sales each, with the balance being equipment.

Europe is the Group's largest market, representing c.42% of sales, whilst the participation of Asia and Latin America has doubled over the last decade to 35% of sales. In all we estimate that one-third of sales are made to emerging markets.

Investment strategy

We rate adidas Buy. We argue that adidas combines an ongoing market share winning brand with premium global sales growth (EM expansion, US opportunity from sub-scale to scale) and EBIT margin self-help. This looks capable of delivering c.+15% p.a. compound earnings growth (2012-15E). We believe that the group should be capable of sustaining its c.12x EV/EBIT multiple over time, driving high-teens p.a. compound total returns for investors.

Valuation

We have a 12-month target price of €88 for adidas Group, based on the company holding a c.12x EV/EBIT multiple to Dec-14E (in line with the group's recent average). This is equivalent to a 18x PE and 1% dividend yield for the same forecast year.

Risks

The following risks could impede the share price from reaching our target price:

Macroeconomic Risks. Growth in the sporting goods industry is dependent on consumer spending. Whilst adidas has a broad geographical portfolio, an abrupt economic downturn would pose a risk to sales development.

Input Cost Risks. Raw materials account for c.60% of the Group's cost of sales. The prices of rubber, cotton, polyester or other materials are subject to the risk of sharp price changes.

Customer Risks. adidas works with a few key customers, which have the ability to exert pressure on Group margins through their scale and bargaining power. A number of these customers are also developing own-branded offers, increasing the competitive environment. We note that as part of Route 2015 adidas is increasing the amount of controlled space sales. Further we note that no single customer accounts for more than 10% of Group sales.

Promotion Partnership Risks. Promotional partnerships play a key role in establishing and maintaining brand image and product authenticity with customers. adidas faces the risk of losing key partnerships or having to accept unfavourable terms in order to secure contracts. We note that adidas seeks to negotiate contract

extensions before expiry on key partnerships, and constantly seeks to broaden the portfolio of premium partnerships.

IT risks. Key business processes are all dependent on IT systems. System performance problems or delivery-chain failure could seriously affect the ability of the Group to trade.

Currency Risks. The biggest currency risk arises from a mismatch of the currencies required for sourcing (primarily dollars) versus the denomination of sales. A strengthening in the US dollar would therefore exert pressure on input costs. We note that the Group hedges currency on a rolling 12-24-month basis in order to provide visibility on any pressures from currency fluctuations.

Appendix A-1

Analyst Certification

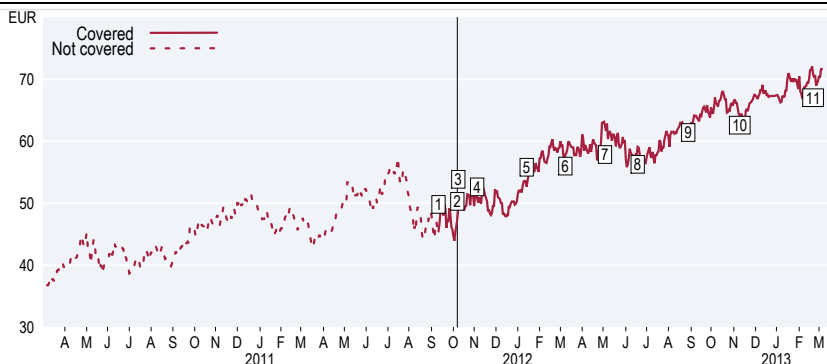
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adidas Group (ADSGn.DE)

Ratings and Target Price History Fundamental Research

Analyst: Richard Edwards
Covered since February 14 2012



Date	Rating	Target Price	Closing Price
1 11-Sep-11	*1M	*56.00	45.61
2 7-Oct-11	Stock rating system changed		
3 8-Oct-11	*1	56.00	47.53
4 4-Nov-11	1	*60.00	50.86

* Indicates change

Date	Rating	Target Price	Closing Price
5 13-Jan-12	1	*63.00	52.67
6 8-Mar-12	1	*65.00	57.86
7 3-May-12	1	*72.00	62.57
8 19-Jun-12	1	*68.50	59.11

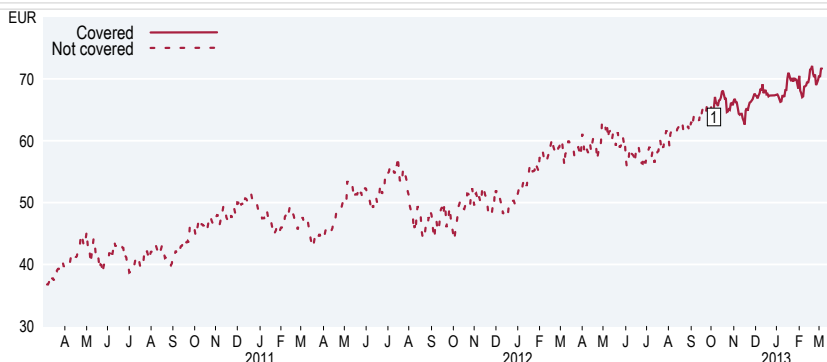
Date	Rating	Target Price	Closing Price
9 29-Aug-12	1	*74.00	62.39
10 9-Nov-12	1	*76.00	64.20
11 21-Feb-13	1	*83.00	70.85

Rating/target price changes above reflect Eastern Standard Time

adidas Group (ADSGn.DE)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Richard Edwards
Covered since February 14 2012



Date	Rating	Target Price	Closing Price
1 4-Oct-12	*ADD MP	-	65.45

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Data current as of 31 Dec 2012

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
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53%	49%	45%	60%	49%	55%

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