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ADS.DE - Adidas AG Annual Shareholders Meeting

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CORPORATE PARTICIPANTS

Kasper Bo Rorsted *adidas AG - CEO & Member of Executive Board*

PRESENTATION

Kasper Bo Rorsted - *adidas AG - CEO & Member of Executive Board*

[Interpreted] To shareholders, ladies and gentlemen, on behalf of my colleagues on the Executive Board and on behalf of the entire adidas team, I would like to welcome you all to our 2019 Annual General Meeting here in Fürth. I'd also like to extend a very warm welcome to everyone following this AGM via the webcast.

Over the next 30 minutes, I'd like to give you my report for 2018, so that you know where the company stands. 2018 was a great sports year with the Olympic Winter Games in Korea and the Football World Cup in Russia, and adidas was center stage because sport is the core of our company. We're there when Laura Dahlmeier wins gold. We are thrilled when Paul Pogba powers the ball into the back of the net and James Harden pulls off a slam dunk. We cheer when Angie Kerber scores a match point, and we celebrate the champions league with Real Madrid.

But before I report on 2018, I wish to say thank you. As you know, a new Supervisory Board will be elected today. I would, therefore, like to take this opportunity to express my sincere thanks to all the Supervisory Board members who are retiring from the Board at the end of today's AGM. Specifically, these are employee representatives Sabine Bauer; Heidi Thaler-Veh; Dieter Hauenstein; Hans Ruprecht; and Kurt Wittman; trade union representative Wolfgang Jäger; and shareholder representatives Katja Kraus; Frank Appel; and Willi Schwerdtle. Thank you for the pleasant and constructive collaboration you have given for the benefit of adidas. You certainly deserve a big round of applause.

Next, I would like to welcome the already elected representatives of the employees and trade union to the new Supervisory Board: Petra Auerbacher, Roswitha Hermann, Beate Rohrig. Udo Müller, Roland Nosko, Frank Scheiderer, Michael Storl and Günter Weigl.

The shareholders' representatives will be elected at today's AGM. Five of the current Supervisory Board members are running for another term. The new nominees are Jing Ulrich, Bodo Uebber and Thomas Rabe. They will introduce themselves to you later on either personally or by video. I look forward to working successfully with the newly elected Supervisory Board. In particular, I'd like to express my thanks to Igor Landau who has agreed to chair the Supervisory Board for another year.

And finally, I would like to thank Gil Steyaert for his many years of successful service to the company. Gil left the Executive Board at the end of February 2019 with Martine Shankland assuming responsibility for Global Operations as a member of the Executive Board in March. Welcome to the team, Martin.

But I'll turn to my report, which consists of 3 parts. I will begin with an overview of the execution of our long-term strategy, Creating the New. Then I will present to you the company's results for the year 2018. And I can already say that 2018 was a successful year for the company -- for our company. In the third part, I'd like to provide you with an outlook for 2019. 2019 is a special year for our company. Adi Dassler officially founded adidas in 1949, which means we are turning 70. But no worries, we're as fit as a fiddle. We're a growth company in an attractive industry.

Our strategy is called Creating the New. Now if you've been following our company for a while, you will be familiar with this strategy, which we introduced in 2015. We will execute it consistently in the period up until 2020. This continuity is important. It is the foundation of our success. At the heart of Creating the New are our brands, adidas and Reebok. Only with strong brands is it possible to grow market share and increase sales and earnings sustainably. And that is precisely what we aim to achieve. We wanted to win, and we want to continue to grow.

The starting point for Creating the New is our corporate culture. Our culture takes its cues from sport. We are a team that wants to win. We are confident, collaborative and creative. Confidence collaboration and creativity are the foundations of our leadership framework. This framework defines what great leadership means for adidas.



To excel in leadership development, the Executive Board works closely with a core leadership group and an extended leadership group. These 2 groups consist of around 150 leaders from our most important markets and functions. They are responsible for executing our strategy and fostering our talents with a particular focus on the development of female talent. In this respect, we've made significant progress over the past 3 years. For instance, in Germany, over the last 4 years, we increased female representation on the first management level below the Executive Board from 11% to 20%. On the second management level below the Executive Board, the percentage of women stands at 25%. Overall, the percentage share of women in leadership positions has meanwhile reached 33% globally. This means we have over delivered on our target, which was to achieve 32% by 2020.

We have linked the long-term compensation of the Executive Board and our senior management to the development of the adidas AG share price. This ensures that the interests of our senior leaders are aligned with the interests of our shareholders. And as part of Creating the New, we have set ourselves clear targets for the period up until 2020, benchmarks against which we can be measured. At least 80% of the variable compensation of the Executive Board is directly linked to the sales and profitability targets we communicate on an ongoing basis.

Many of our employees are shareholders, too. Back in 2016, we introduced an attractive stock purchase plan for employees. And meanwhile, almost 5,000 employees own adidas shares, and just like you, they profit from a positive development of the adidas share and a growing dividend.

Let's now move on from our corporate culture to the 3 strategic pillars of Creating the New: Speed Cities and Open Source. These 3 pillars make us faster, better and more innovative.

Now speed is how we deliver. We have to be in a position to always offer consumers the products they want to have whenever, wherever and however they want to have them. A good example of our speed are the shoes we make for key sports events. For the Super Bowl in American football, for example, we launched limited-edition sports shoes produced in our Atlanta-based Speedfactory.

Next, Cities. Cities is where we deliver. In 2018, we strengthened our presence in our 6 key cities: London, Los Angeles, New York, Paris, Shanghai and Tokyo. In Los Angeles, we celebrated the adidas branch together with thousands of fans. And in Shanghai, we opened our latest and most modern adidas store to date. Up to 20,000 people visit this store every day.

Open source is how we create. We invite athletes, consumers and partners to collaborate with us. Creative minds such as Victoria Beckham, Stella McCartney, Pharrell Williams and Kanye West are helping us to drive brand growth. And just a few weeks ago, we gained a new partner in the shape of Beyoncé. By partnering with many of the world's best athletes and teams, we're also building communities of brand advocates. A prime example in 2018 was the Football World Cup in Russia where our teams and players and our Telstar ball clearly took center stage. Though we did not get to cheer for an adidas team in the finals and in particular Germany, sadly, did not play a good World Cup. We won the World Cup in terms of jersey sales and brand visibility.

Ladies and gentlemen, the examples I have just given are proof-positive: Our strategy, Creating the New, is working. Speed, focus on Cities and Open Source partnerships are key pillars of our success. But like any athlete, we, too, want to keep aiming for better. To amplify the impact of our strategy on brand desire, growth and profit, we're accelerating Creating the New through 4 priorities: Portfolio, adidas North America, ONE adidas and Digital. Portfolio means each entity, all markets, all sales channels must contribute to the success of our company. This is why we regularly review the performance of our portfolio, and Reebok is a good example. By implementing a turnaround plan, we have enabled Reebok to become better, and our progress is visible. In 2018, Reebok returned to profitability for the first time in many years.

North America is the world's largest sporting goods market. At the same time, we have a relatively small market share in North America compared to other regions. And therefore, North America is the high-priority market for us. We're investing into people, assets and infrastructure in North America. As a result, in 2018, we continued to gain market share by increasing adidas brand sales by 17% year-on-year.

The third initiative aimed at driving our growth is ONE adidas. ONE adidas comprises numerous initiatives. They all have one objective: To position us as a strong global company all around the world. It's actually ONE adidas means that we're simplifying our processes, working more efficiently and increasing the scalability of our operating model. For example, we now have 700 employees working for us in Shared Service Centers.

Our core belief is through sport, we have the power to change lives. And digital plays a key role in this. To change lives, we have to create direct relationships with our consumers. The best way to do this is through digital because this is where our target group is. We are driving the digital transformation throughout the entire organization. In addition, we're expanding our e-commerce business with clear targets in mind. In 2018, our e-commerce business with adidas.com and rebook.com continued to be our fastest-growing distribution channel with a 36% increase in sales. By the end of 2018, our adidas app had been downloaded 7 million times in 25 countries.

Let me now turn to a topic that is very close to the heart of many of our consumers and very important to me personally as well, sustainability. Only a few companies are able to embed sustainability authentically into their business model. adidas is one of these companies as evidenced by the 5 million pairs of shoes we made with Parley Ocean Plastic in 2018, up from 1 million pairs the year before. What's more, 100% of all cotton used in our products globally was sustainable cotton.

Our ongoing work to protect human rights continues. We strive to ensure fair working conditions in our supply chain. We stand up for human rights in sport, and we take the topic of women in sport center stage in our campaigns. This is both an internal and an external focus for us as a company.

For the 19th year in a row, adidas was included in the Dow Jones Sustainability Indices, a family of benchmarks evaluating the sustainability performance of the largest 2,500 companies. In addition, adidas was rated as the overall industry leader in the economic, environmental and social dimensions.

We were ranked #1 in the 2018 Corporate Human Rights Benchmark, which measures the human rights performance of the top 100 global companies across industries. We are proud to receive these awards and we'll not cease in our efforts to strive for more sustainability.

Quite the contrary, this year, adidas plans to bring to market 11 million pairs of shoes made with recycled plastic. And by 2024, we aim to be using 100% recycled polyester in our products.

With this good news, we now come to the second part of my report, our financial results for 2018. Again, there are numerous positive developments to report as we reach new highs on all fronts. Sales rose to EUR 21.9 billion. That's the highest revenues level adidas has ever reached. Year-over-year, this represents an 8% increase. Please note that all the percentage figures I give you in my report for our sales growth are on a currency-neutral basis.

Despite currency headwinds, our gross margin climbed 140 basis points to 51.8%. In 2018, we invested more into our brands than ever before, namely EUR 3 billion. At the same time, we kept our costs well under control. This enabled us to significantly improve the operating margin, which was up 110 basis points to 10.8%. That, too, marks the highest margin in the company's history.

Our net income from continuing operations grew 6x as fast as our top line in nominal terms, up 20% to EUR 1.7 billion. Earnings per share also increased 20% to EUR 8.46, and both are new records.

Record sales, the highest margin in our history, strong net income improvements. As you can see, ladies and gentlemen, 2018 was a successful year for our company.

I'd like to take this opportunity also on behalf my Executive Board colleagues to thank our 57,000 employees most sincerely. They are the team that has made our success possible. I'm glad to be part of this great team. Thank you, team adidas.

Let's now take a look together at the results of our brands and our key markets. The adidas brand grew by 9%. The drivers of these development were the training and running categories with double-digit growth rates and also the successful expansion of our business with the unique Yeezy models.



Sales at Reebok declined 3%. We closed channels and stores that were unprofitable for Reebok, enabling us to significantly improve the brand's gross margin, which was up 3 percentage points to 43.7%. All in all, we succeeded in making our Reebok business profitable again. That was a goal we had actually set ourselves for 2020.

Over the last 2 years, we have improved Reebok's profitability by more than EUR 150 million. Now we still have a long way to go, but I hope you will agree that with Reebok's return to profitability, we have reached an important milestone for the brand.

From a regional perspective, we, likewise, see a largely positive picture. In particular, in the key markets, North America and Asia Pacific, we grew at double-digit rates. In Europe, unfortunately, sales remained flat.

Before we take a more detailed look at the big 3 markets, I'd like to say just one thing on Latin America, Emerging Markets and Russia. Despite partly unfavorable economic conditions, we succeeded in improving our operating margin in all 3 markets.

But let's now take a look at our growth drivers. Sales in North America grew by 15% in 2018. The adidas brand was up 17%. Reebok's sales remained stable. The gross margin in our North America business improved by 1.7 percentage points to 41.2% in 2018. Our operating margin rose 3.9 percentage points to 14.9%.

Since the start of Creating the New and the related focus on North America, our operating margin in the region has improved by 12 percentage points. We are very pleased with our development, in particular, as far as the adidas brand is concerned. By 2020, we aim to reach sales of EUR 5 billion in North America, and we're well on track to achieve this.

Let's now turn to Asia, with a sales increase of 23%. Greater China was again the market with the highest momentum. All in all, our sales in the region grew 15% with adidas up 16% and Reebok up 3%. The gross margin increased by 0.5 percentage points to 56.2%. The operating margin declined slightly as forecast, actually, quite a while ago by 0.3 percentage points to 32.7%.

Now I continue to be optimistic as far as our further development in Asia is concerned and in particular, in Greater China. Growth in the region is nowhere near over yet. China is booming, and adidas in China is booming, too.

Sales in Europe were flat overall and for the adidas brand. Sales at Reebok declined 3%. The gross margin in our Europe business improved 2 percentage points to 47.7%. Our operating margin remained more or less stable at 20%. We hold leading positions in numerous markets, in particular, here in Germany, our home market. Nevertheless, we are not satisfied with our development in Europe, which is why, in 2018, we mapped out the route for returning to sustainable growth in 2019.

Let me summarize the development in the most important regions and in our biggest categories in 2018. We are and will remain a growth company. We grew in many product categories and markets. We increased our profitability, and we brought Reebok back into the profit zone. We achieved excellent growth rates, in particular, in the areas we have defined as strategic priorities: Digital, North America and China.

E-commerce was the fastest growing sales channel increasing by 36%. It has taken us only 2 years to double sales in our digital business to EUR 2 billion. The adidas brand grew 17% in North America. Over the past 3 years, we have doubled our sales in North America to EUR 4.3 billion. In Greater China, we increased sales by 23%. We have doubled our business in Greater China within the space of 4 years to EUR 4.5 billion.

On the basis of our strong results, we are proposing to this Annual General Meeting a dividend of EUR 3.35 per share. That is EUR 0.75 or 29% more than for the 2017 financial year. With this proposal, the payout ratio is 39%. The proposal is in line with our dividend policy where we intend to pay out between 30% and 50%.

We are convinced of the company's long-term financial strength and our strategy, Creating the New. Therefore, we're firmly committed to returning cash to you, our shareholders, through both dividends and share buybacks. In 2018, we clearly delivered on this promise. We completed the first tranche of our multiyear share buyback program, buying back 5.1 million shares for a total of EUR 1 billion.



Taking into consideration the dividend payment of EUR 528 million for the 2017 financial year paid out in May 2018, we returned more than EUR 1.5 billion to our shareholders. On the 7th of January 2019, we launched a second tranche of our share buyback program. Since then, we have purchased around 970,000 shares worth around EUR 204 million. The cash returned to you via the dividend payment and the ongoing share buyback program will again total around EUR 1.5 billion in 2019.

This brings us to the third and last part of my report today, our outlook for the current year, the year in which adidas celebrates its 70th anniversary. We will continue to create value in 2019 as we consistently implement Creating the New. We are targeting a sales increase between 5% and 8%. The operating margin is expected to improve at a rate between 0.5 and 0.7 percentage points reaching between 11.3% and 11.5%.

Net income from continuing operations is forecast to grow significantly faster than sales to a level of around EUR 1.9 billion. This represents an increase of between 10% and 14% compared to the prior year. These figures will keep us firmly on track toward our communicated 2020 financial ambition. Of course, there are challenges. We will eliminate bottlenecks in our production capacities by the end of the year. We want to return to sustainable growth in Europe, and we aim to achieve further progress with the Reebok brand. We're tackling all these challenges with determination and confidence.

Our targets are ambitious, but we owe that to you and to our company founder, Adi Dassler. It was he who founded this marvelous company 70 years ago, and I'm sure that Adi Dassler would be proud if he could see what has become of his adidas. Adi made his first pair of shoes in his mother's laundry room. Today, adidas is a global player. No other DAX company is as young, as sporty, as global. The average age of our employees is 31, and I suppose you're going to skip your notice that I'm much older. Our employees bike to work. They go running in their lunch break or meet in the gym in the evening, not in a bar.

We're a global company through and through. People from more than 100 nations work at our headquarters in Herzogenaurach. Our Executive Board is made up of 2 Americans, 1 Australian, 2 Germans and 1 Dane. We generate 95% of our sales outside Germany. 90% of our shares are held by international investors. Our strategic growth areas are North America, Greater China and Digital. We're at home all over the world. At the same time, we're proud of our roots. We are proud of 4-time Olympic champion, Jesse Owens; the champion of all categories, Mohammed Ali; and of 9-time New York Marathon winner, Grete Waitz as well as Fritz Walter, Uwe Seeler, Franz Beckenbauer and Steffi Graf. Our company founder, Adi Dassler, equipped all of them with shoes.

Adi founded the company, adidas, in August 1949 in the small Franconian town of Herzogenaurach. Today, there are 5,600 people working there for adidas. In the past, they were shoemakers. Today, they are designers, marketing people and digital experts who bring our products to the whole world. We're very closely connected with German sport. Our partners are the German Football Association, DFB, the German Olympic team and Bayern Munich and has been for decades.

adidas is cool. We're the most popular brand in Germany as confirmed by several surveys in 2018. Herzogenaurach is cool. We're investing EUR 350 million into the expansion of our corporate headquarters, the World of Sports. You're welcome to visit us if you're driving past Herzogenaurach on the autobahn. It's well worth it. The architecture is unique. The atmosphere, like on a university campus. And if you're lucky, you may meet our stars of today in Herzogenaurach: Laura Dahlmeier, Angie Kerber, and Manuel Neuer or perhaps Lionel Messi.

At adidas, we all work with passion because we have a clear goal. We want to be the best sports company in the world. This mission describes how we, as a company, act. It defines how we, as employees, go about our work. We wanted to always do our best. We wanted to win, and we want to continue to grow. That's the way it has been for the past 70 years, and that won't change in the next 70 years. As I said, we're as fit as a fiddle in our anniversary year. Therefore, I'd like to close with the words: Happy Birthday, adidas. It's great to have you. Thank you for your attention.

[Statements in English on this transcript were spoken by an interpreter present on the live call.]



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