

FLASH REPORT

## adidas<sup>®</sup> (ETR: ADS) FY16 Results: Standout Sales and Margin Performance

**Figure 1. Adidas FY16 Key Metrics**

	FY16	FY15	YoY Change
Revenues (€ Mil.)	€19,291	€16,915	14.0%
Gross Margin	48.6%	48.3%	30 bps
SG&A/Sales	42.8%	43.1%	(30) bps
Adjusted Operating Margin	7.7%	6.5%	130 bps
Diluted EPS (€)	€4.99	€3.37	47.9%

Source: Company reports/Fung Global Retail & Technology

- In FY16, Adidas reported revenue growth of 14.0% year over year to €19,291 million, slightly below the consensus estimate of €19,307 million. Constant-currency FY16 sales increased 18% year over year.
- The company reported FY16 adjusted EBIT of €1,491 million and the adjusted EBIT margin reached 7.7%, up from 6.5% in FY15.
- Adidas issued FY17 guidance to deliver constant currency year-over-year revenue growth in the range of 11%–13%. The company expects FY17 gross margin expansion of 50 bps year over year and adjusted EBIT margin to expand by 60–80 bps year over year to 8.3%–8.5%.

### FY16 Results

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FY16 gross margin expanded by 30 bps and SG&A margin contracted by 30 bps year over year. The adjusted operating profit margin expanded by 130 bps in FY16 to 7.7%, up from 6.5% in FY15. Diluted EPS from continuing operations increased by 47.9% to €4.99 year over year, broadly in line with analyst consensus forecasts.

### Geographic Segments

The strong sales performance was driven by double-digit revenue growth in nearly all geographic markets. Constant-currency sales growth increased by 20% year over year in Western Europe, 24% in North America, 28% in Greater China, 16% in Latin America and 16% in Japan.

### 4Q16 Results

Adidas increased 4Q16 reported sales by 12.5% year over year to €4,687 million. Constant-currency 4Q16 sales increased 14% year over year. Sales growth during the quarter was driven by the running category, as well as strength at adidas Originals and adidas neo. 4Q16 gross margin expanded by 160 bps year over year to 48.8%.



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**Guidance**

Adidas expects FY17 constant-currency sales to increase 11%–13% year over year. FY17 gross margin is expected to expand by 50 bps year over year to 49.1%. FY17 operating margin is expected to expand by 60–80 bps year over year to 8.3%–8.5%. Net income is expected to increase between 18% and 20% year over year.

Analysts expect the company to generate FY17 revenues up 9.5% year over year to €21,129 million, although estimates are likely to increase following this earnings release. FY17 consensus EBIT is estimated at €1,685 million, implying an EBIT margin of 8.0%. FY17 consensus normalized EPS is forecast at €5.65.



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**Deborah Weinswig, CPA**

Managing Director  
Fung Global Retail & Technology  
New York: 917.655.6790  
Hong Kong: 852.6119.1779  
China: 86.186.1420.3016  
deborahweinswig@fung1937.com

**Eva K.**

Senior Research Associate

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**Hong Kong:**

8th Floor, LiFung Tower  
888 Cheung Sha Wan Road, Kowloon  
Hong Kong  
Tel: 852 2300 4406

**London:**

242–246 Marylebone Road  
London, NW1 6JQ  
United Kingdom  
Tel: 44 (0)20 7616 8988

**New York:**

1359 Broadway, 9th Floor  
New York, NY 10018  
Tel: 646 839 7017

**[FungGlobalRetailTech.com](http://FungGlobalRetailTech.com)**