



ISSUER RATING
Long term

OUTLOOK
Stable

Initiation date 29/11/2022
Rating date 08/03/2024

Contacts

Lead analyst

Javier López Sánchez
javier.lopez@ethifinance.com

Secondary analyst

Francisco Santander Martín
francisco.santander@ethifinance.com

Committee chair

Thomas Dilasser
thomas.dilasser@ethifinance.com

Rating Action and Rationale

- EthiFinance Ratings affirms Adidas AG's long-term rating at BBB, maintaining its Stable outlook.
- This rating is supported by several qualitative and financial aspects that strengthen the group's credit profile. Among these, we highlight the following: i) Adidas is active in a sector characterised by high levels of profitability (EBIT margin 13-18%) and resilience to economic cycles, ii) a solid and robust competitive position in the global market, positioning itself as the second largest company in the sector with a turnover of €22.5bn by the end of 2022, iii) favourable geographic diversification, with 37.8% of 2022 sales in EMEA, 28.3% in North America, 14% in Greater China, 9.9% in Asia-Pacific, and 9.3% in Latam. Additionally, the company has appropriate credit metrics, with a weighted average over 2021-25 around 6x, 25% and 3x for interest coverage, FFO/NFD and NFD/EBITDA ratios, respectively. We maintain a Stable outlook, although highly conditional on the recovery of sales levels, EBITDA and operating margin to similar levels to that of 2021 in the years ahead.
- The rating is limited, however, by a decrease in its turnover and operating margins in FY22 and FY23 (estimated figures) as a result of the termination of the partnership with Kanye West. This resulted in the cessation of sales of products designed by the WEST brand and manufactured and sold by Adidas. However, losses have been minimised, transitioning from negative EBIT (-€700m) expected at the beginning of 2023 to closing the year with expected EBIT of around €250m thanks to management's decision to sell its inventory of Yeeze products at a lower price. In addition, the aggressive share buyback policy, as well as dividend distribution, have led to a deterioration of the solvency ratio (Equity/TFD) in 2022 and 2023e (to 80% and 94.3%, respectively, from 137.6% in 2021).
- According to our methodology, the Consumer Durables & Apparel sector presents a medium ESG exposure (sector heatmap score between 3.0 and 3.5), given its impact on the environment. This assessment has a neutral impact on the industry analysis since the sector does not involve as heavy manufacturing as other industries and does not directly generate a significant amount of GHG. However, there are some scope 2 emissions related to transport and logistics. In addition, the sector's impact on consumers exists, but remains minor. The company has a neutral ESG score (57/100), characterised by a very favourable score for Governance (100) and low average scores for Social (42) and Environmental (38) criteria.

Issuer Description

Adidas AG is a German-based sportswear company, which designs, develops, produces and markets athletic and sports lifestyle products on a global scale. Originally positioned as a wholesaler, the group has a growing street stores network, and an e-commerce stores channel, both constituting its retail division. As of end-2022, the group sold its products through 2,000 own retail stores (mostly under leases), mono-branded franchised stores, wholesale, and the e-commerce channel covering 65 countries. This is in addition to over 150,000 reselling points.

For 2022, the company reported revenues of €22.5bn and adjusted EBITDA of €1.9bn (EBITDA margin of 8.2%). The EthiFinance Ratings-adjusted net leverage ratio stood at 3.3x at end-2022 (0.7x at end-2021) whereas the interest coverage ratio had dropped to 5.8x for 2022 (from 20.0x for 2021). For the 9 months to end-September 2023, Adidas AG reported revenues of €16.6bn and estimated adjusted EBITDA of €1.5bn (adjusted EBITDA margin of 9.2%). The NFD/EBITDA ratio was 4.5x at end-September 2023, and the interest coverage ratio was 6.8x for the same period. In February 2024 Adidas' market capitalisation was around €33.8 billion.

Main Financial Figures

Main financial figures. Millions of €. ⁽¹⁾						
	2021	2022	2023E	2024E	2025E	22vs21
Turnover	21,234	22,511	21,517	22,793	24,496	6.0%
EBITDA	3,067	1,857	1,401	2,081	2,235	-39.5%
EBITDA Margin	14.4%	8.2%	6.5%	9.1%	9.1%	-6.2pp
EBIT	1,911	419	222	672	723	-78.1%
EBIT Margin	9.0%	1.9%	1.0%	2.9%	2.9%	-7.1pp
EBT	1,852	388	26	1,060	1,135	-79.0%
Total Assets	22,137	20,296	18,720	21,099	21,691	-8.3%
Equity	7,837	5,351	5,606	4,220	4,155	-31.7%
Total Financial Debt	5,697	6,689	5,948	8,057	8,497	17.4%
Net Financial Debt	2,083	6,046	5,149	6,604	6,899	190.3%
Equity/TFD	137.6%	80.0%	94.3%	52.4%	48.9%	-57.6pp
NFD/EBITDA	0.7x	3.3x	3.7x	3.2x	3.1x	2.6x
Funds From Operations	2,580	1,402	1,090	1,048	1,702	-45.7%
FFO/NFD	123.9%	23.2%	21.2%	15.9%	24.7%	-100.7pp
EBITDA/Interest	20.0x	5.8x	5.7x	5.4x	5.4x	-14.2x

⁽¹⁾ Data shown from 2023 onwards are estimates made by EthiFinance Ratings.

Credit Rating

Credit Rating	
Business Risk Profile	BBB+
<i>Industry Risk Assessment</i>	<i>BBB</i>
<i>Sector ESG Adjustment</i>	<i>Neutral</i>
<i>Competitive Positioning</i>	<i>A</i>
<i>Governance</i>	<i>BBB+</i>
Financial Risk Profile	BB+
<i>Cash flow and leverage</i>	<i>BB+</i>
<i>Capitalisation</i>	<i>BB</i>
<i>Company's ESG Adjustment</i>	<i>Neutral</i>
Anchor Rating	BBB
<i>Modifiers</i>	<i>No</i>
Rating	BBB

Rating Sensitivity

- Long-term rating positive factors (↑)

An upgrade of our long-term rating could derive from a recovery of Adidas' turnover, EBITDA and operating margins, leading to improved overall credit metrics (FFO/NFD above 40%, EBITDA/Interest above 8x and NFD/EBITDA below 2x, equity/TFD ratio over 120%).

- Long-term rating negative factors (↓)

A downgrade of our long-term rating could derive from the company's inability to recover its EBITDA and operating margins. This would result in higher debt needs, and deteriorated cashflow and leverage ratios (NFD/EBITDA above 3.5x, EBITDA/Interest below 5x, FFO/NFD below 20%) as well as lower capitalization (equity/TFD <70%).

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
 - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA_190_V3_Corporate%20Methodology_2023-10-06.pdf
- The rating scale used in this report is available at <https://www.ethifinance.com/en/ratings/ratingScale>.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

Conditions of Use for this document and its content:

For all types of Ratings that ETHIFINANCE RATINGS, S.L. (the "AGENCY") issues, the User may not, either by themselves or via third parties, transfer, sublease, sublicense, sell, extract, reuse, or dispose of in any other way the content of this Document to a third party, either for free or for consideration.

For the purpose of these Conditions of Use, any client who might have subscribed for a product and/or a service that allows him to be provided with the content of this Document as well as any privileged person who might access the content of this Document via www.ethifinance.com shall be considered as a User.

Nor may they alter, transform or distort the information provided in any way. In addition, the User will also not be permitted to copy and/or duplicate the information, nor create files which contain the information of the Document, either in its entirety or partially. The Document and its source code, regardless of the type, will be considered as the elaboration, creation, or work of the AGENCY and subject to the protection of intellectual property right regulation. For those uses of this Document which are permitted, the User is obliged to not allow the removal of the copyright of the AGENCY, the date of the Document's issuance, the business name as established by the AGENCY, as well as the logo, brands and any other distinctive symbol which is representative of the AGENCY and its rights over the Document. The User agrees to the conditions of Use of this Document and is subject to these provisions since the first time they are provided with this Document no matter how they are provided with the document. The Document and its content may not be used for any illicit purpose or any purpose other than those authorised by the AGENCY. The User will inform the AGENCY about any unauthorised use of the Document and/or its content that may become apparent. The User will be answerable to the AGENCY for itself and its employees and/or any other third party which has been given or has had access to the Document and/or its content in the case of damages which arise from the breach of obligations which the User declared to have read, accepted and understood upon receiving the Document, without prejudice to any other legal actions that the AGENCY may exercise in defence of its lawful rights and interests. The Document is provided on the acceptance that the AGENCY is not responsible for the interpretation that the User may make of the information contained. Credit analyses included in the Document, as well as the ratings and statements, are to be deemed as opinions valid on the date of issuance of the reports and not as statements of fact or recommendations to purchase, hold or sell any securities or to make any investment decision. The credit ratings and

credit rating prospects issued by the AGENCY are considered to be its own opinion, so it is recommended that the User take it as a limited basis for any purpose that it intends to use the information for. The analyses do not address the suitability of any value. The AGENCY does not act as a fiduciary or an investment advisor, so the content of the Document should not be used as a substitute for knowledge, criteria, judgement or experience of the User, its Management, employees, advisors and/or clients in order to make investment decisions. The AGENCY will devote every effort to ensure that the information delivered is both accurate and reliable. Nonetheless, as the information is elaborated based on data supplied by sources which may be beyond the control of the AGENCY, and whose verification and comparison is not always possible, the AGENCY, its subsidiaries, and its directors, shareholders, employees, analysts and agents will not bear any responsibility whatsoever (including, without any limitations, loss of revenue or income and opportunity costs, loss of business or reputational damage or any other costs) for any inaccuracies, mistakes, noncorresponding information, incompleteness or omission of data and information used in the elaboration of the Document or in relation to any use of its content even should it have been warned of potential damages. The AGENCY does not make audits nor assume the obligation of verifying independent sources of information upon which the ratings are elaborated. Information on natural persons that may appear in this document is solely and exclusively relevant to their business or business activities without reference to the sphere of their private life and should thus be considered. We would like to inform that the personal data that may appear in this document is treated in accordance with Regulation (EU) 679/2016, on the protection of natural persons with regard to the processing of personal data and the free movement of such data and other applicable legislation. Those interested parties who wish to exercise the rights that assist them can find more information in the link: <https://www.ethifinance.com/> in the Privacy Policy page or contact our Data Protection Officer in the mail dpo@ethifinance.com. Therefore the User agrees that information provided by the AGENCY may be another element to consider when making business decisions, but decisions will not be made based solely on it; that being the case the AGENCY will not be held responsible for the lack of suitability. In addition, the use of the information before courts and/or tribunals, public administrations, or any other public body or private third party for any reason shall be solely the User's responsibility and the AGENCY shall not be held responsible for any liabilities on the grounds of inappropriateness of the information's contents. Copyright © 2023 ETHIFINANCE RATINGS, S.L. All Rights Reserved. C/ Benjamín Franklin S/N, Edificio Camt, 1º Izquierda, 18100, Granada, España C/ Velázquez nº18, 3º derecha, 28001 - Madrid