EthiFinance Ratings

ADIDAS AG

BBB+ ISSUER RATING
Long term

OUTLOOK
Stable

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Rating Action and Rationale

- EthiFinance Ratings upgrades Adidas AG's long-term rating from BBB to BBB+, maintaining its Stable outlook.
- Adidas AG (Adidas) is a German sportswear company that designs, develops, manufactures, and markets sportswear products worldwide.
- Our rating upgrade is driven by a significant improvement in the company's financial risk profile, supported by strong 9M24 results and optimistic forecasts for 2025 and 2026. This marks a sharp rebound from the weak results in FY22 and FY23, when both sales and profitability margins fell short, as detailed in our previous rating report. At end-September 2024, the EthiFinance Ratings-adjusted net leverage ratio has improved to 2.1x (vs 3.3x in FY23), while the interest coverage ratio has more than doubled, exceeding 10.0x (vs 4.8x in FY23) thanks to a significant EBITDA growth along with lower interest expenses. Adidas's operating performance has surpassed expectations (guidance, consensus and our forecasts), with LTM revenue growth of approximately 3% at constant currency (as of September 2024). This growth was driven by positive contributions from all regions except North America, which saw a 7% decline. Consequently, EBITDA margin improved yoy from 5.0% to 9.0%, benefiting from lower sourcing costs, a better product mix, and normalizing promotional activities. Management has positioned FY24 as a year of sales recovery and credit metric improvement for Adidas. Based on this guidance and our own assumptions, we project constant-currency revenue growth of 10% (up from a previous high-single-digit estimate) and reported EBIT of c. €1.2bn for FY24. With the group's strong focus on deleveraging, we anticipate the adjusted net leverage ratio will decline to 1.7x by year-end 2024 (from 3.3x in FY23) and improve even further to 1.0x by 2026, supported by continued EBITDA growth (CAGR 2023-26E of 37%), robust free cash flow (€1.8bn over the forecast period 2024-26).
- Adidas has implemented a relaunch strategy that brings its legacy footwear back into the spotlight, featuring iconic models such as Samba, Gazelle, and Campus under the Originals marketing campaign, with the Superstar set to relaunch in 2025. Additionally, the brand has benefited from strong full-price sell-through in 2024, particularly in the e-commerce channel, where discounting has decreased compared to 2023 and 2022. Under the leadership of CEO Bjørn Gulden (since 2023), Adidas has adopted a more product-focused and consumer-oriented business model. The strategy prioritizes extending the longevity of franchise products while expanding apparel sales, which offer higher margins than footwear and are more likely to sell at full price, especially limited-edition lifestyle apparel. This approach aims to drive sustainable growth, reduce product cycle volatility, and strengthen the company's long-term profitability.
- However, our rating remains somewhat constrained by rather low barriers to entry in the sportswear industry. Adidas is considered as a mature, heritage brand, facing growing pressure from emerging athletic sportwear brands such Asics and ON, both of which have gained market share in footwear over the past two years. This trend could potentially erode Adidas's market share in specific regions. Additionally, the sportswear industry is highly susceptible to shifting consumer preferences, evolving market trends, and an uncertain macroeconomic environment, all of which could impact sales revenue and put pressure on profitability over time.
- Under our methodology, the Consumer Durables & Apparel sector has medium ESG risks (heatmap score between 3.0 and 3.5), given its impact on the environment. Consequently, our sector ESG assessment has a neutral impact on the ESG industry score, as the sector involve less intensive manufacturing than other industries and does not directly contribute significantly to GHG emissions. The sector has a high impact on pollution, largely due to the substantial waste it generates, while also having a moderate impact on biodiversity, linked to goods production and transportation.
- Adidas has an excellent governance score but falls behind in terms of social and environmental pillars with high yoy carbon and energy intensity and some missing social KPIs. Consequently, our assessment of the company's ESG policy is neutral (company ESG score of between 1.5 and 3.5), resulting in no adjustments made on the company's financial risk profile based on ESG considerations.

Issuer Description

Adidas AG is a German-based sportswear company, which designs, develops, produces and markets sports lifestyle footwear (57% of FY23 sales), apparel (36%) and accessories and gear (7%). Originally positioned as a wholesaler, the group has a growing street stores network (1,901 stores as of end-September 2024 vs 1,813 as of end-September 2023) contributing to c. 20% of 9M24 sales, and an e-commerce stores channel (c. 16% of 9M24 sales), both constituting its retail division. As of end-September 2024, most of Adidas revenues were generated in Europe (33%), North America (21%) and East Asia (China, Japan and South Korea – 20%). With a free float of c. 93%, Adidas is listed on Frankfurt Stock Exchange and had a market capitalization of €43.7bn as of 27 February 2025.

In FY23, Adidas generated revenues of €21.4bn (-4.8% yoy), with adj EBITDA of €1.4bn representing a margin of 6.3% (vs 8.2% in FY22), and an EthiFinance Ratings-adjusted net leverage of 3.3x, which remained unchanged from FY22. For the last twelve months to end-September 2024, the group reported revenues of €22.5bn, and EBITDA of €2.0bn, with a margin of 9.0%.

Liquidity

We assess the liquidity profile of ADIDAS as "Superior", reflecting the company's strong refinancing profile as well as its high liquidity level.

Main Financial Figures

Main financial figures. Millions of €	FY22	FY23	FY24e	FY25e	FY26e	23vs22
Turnover	22 511	21 427	23 570	25 455	28 001	-4.8%
Adj EBITDA (1)	1 857	1 358	2 423	3 050	3 467	-26.9%
Adj EBITDA Margin (1)	8.2%	6.3%	10.3%	12.0%	12.4%	-1.9pp
EBIT	669	268	1 224	1 755	2 042	-60.0%
EBIT Margin	3.0%	1.2%	5.2%	6.9%	7.3%	-1.7pp
EBT	746	48	1 014	1 558	1 847	-93.6%
Total Assets	20 296	18 020	18 592	19 509	20 108	-11.2%
Equity	4 991	4 580	5 149	5 815	6 246	-8.2%
Adj Total Financial Debt (2)	6 689	5 772	5 547	5 599	5 496	-13.7%
Adj Net Financial Debt (2)	6 046	4 518	4 145	3 678	3 617	-25.3%
Equity/Adj TFD (2)	75%	79%	93%	104%	114%	4.7pp
Adj NFD/ Adj EBITDA (1) (2)	3.3x	3.3x	1.7x	1.2x	1.0x	0.1x
Adj Funds From Operations	1 322	1 050	2 032	2 566	2 912	-20.6%
Adj FFO/ Adj NFD (2)	21.9%	23.2%	49.0%	69.8%	80.5%	1.4pp
Adj EBITDA/ Interest (1)	5.8x	4.8x	10.6x	14.2x	16.2x	-1.0x

(1) Adj EBITDA excludes unrealized gains/losses from fair value measurement of financial assets when identified

(2) Adj Total financial debt is identical to the company's reported net debt including debt-like elements such as pension benefits, factoring, leases and ST financial liquid assets, while excluding restricted cash

Credit Rating

Credit Rating	
Business Risk Profile	**BBB+**
Industry risk assessment	*BBB-*
Industry's ESG	*Neutral*
Competitive Positioning	*A*
Governance	*BBB+*
Financial Risk Profile	**BBB**
Cash flow and leverage	*BBB+*
Capitalisation	*BBB-*
Company's ESG	*Neutral*
Anchor Rating	**BBB+**
Modifiers	*-*
Final Rating	**BBB+**

Rating Sensitivity

- **Long-term rating positive factors (↑)**

We could upgrade our long-term rating should Adidas's sales performance exceed our expectations, leading to profitability margin improvement and enhanced credit metrics. In such a scenario, a potential upgrade trigger would be an EthiFinance Ratings-adjusted net leverage below 1.2x and an EBITDA interest coverage ratio above 13x, on a sustained basis. However, a rating upgrade remains contingent on the continuation of the company's current financial policy, which prioritizes deleveraging.

- **Long-term rating negative factors (↓)**

We could downgrade our long-term rating should Adidas adopts an aggressive financial policy such as debt-funded M&As or share buybacks, resulting in a deterioration of credit metrics. Specifically, a downgrade could be triggered if the EthiFinance Ratings-adjusted net leverage exceeds 2.3x and the EBITDA interest coverage ratio falls below 7.0x on a sustained basis. Additionally, macroeconomic headwinds, such as weaker consumer demand in key markets or loss of market share, could also drive a downgrade by eroding sales and profitability over time.

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 - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- 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.