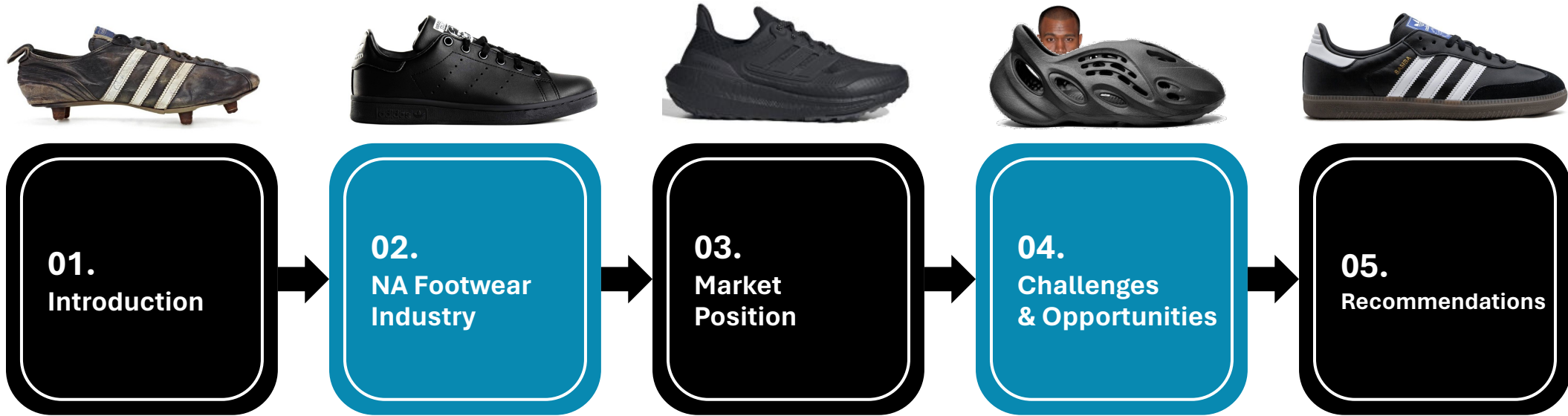




Athletics or Aesthetics:

NA Footwear Strategic Review

Agenda

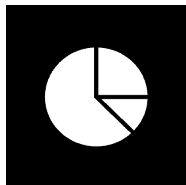




01.

Introduction

Introduction: Facing significant headwinds, adidas US needs to decide where to focus investment to return to growth



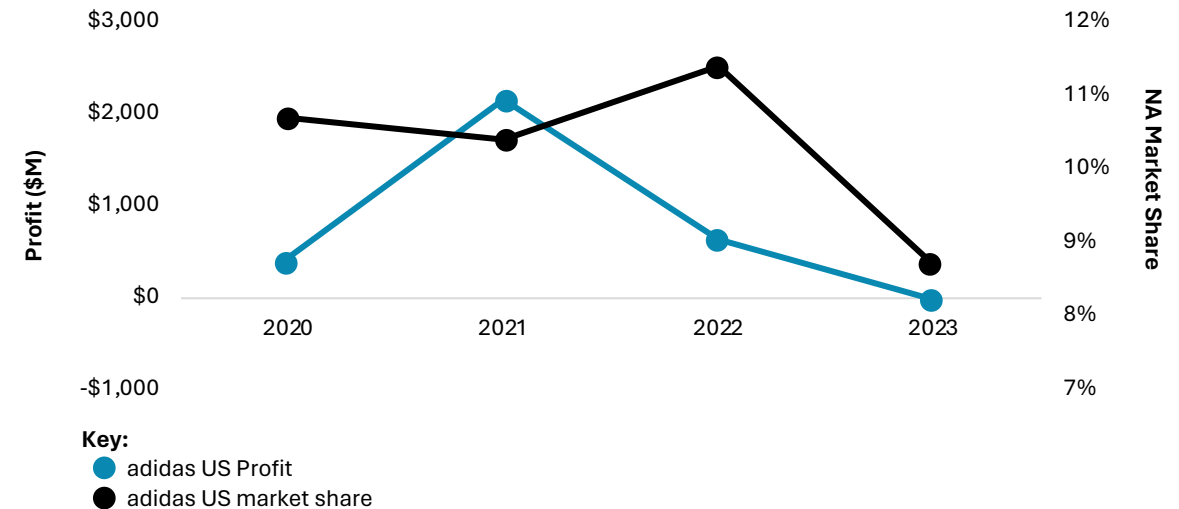
Declining market share



First loss in 30 years in 2023



Shifting consumer preferences and heightened competition



Given these challenges, where should adidas US focus its product development and production capabilities to **grow its share of the NA footwear market?**



02.

NA Footwear Industry

Market Overview: The NA footwear market is large and growing in both the Performance and Lifestyle segments

\$51bn

Total market size
(FY23)

65%

Market share
controlled by
7 major players

\$67bn

Projected size
by FY28

32:68

Lifestyle and
Performance
sales split (FY23)

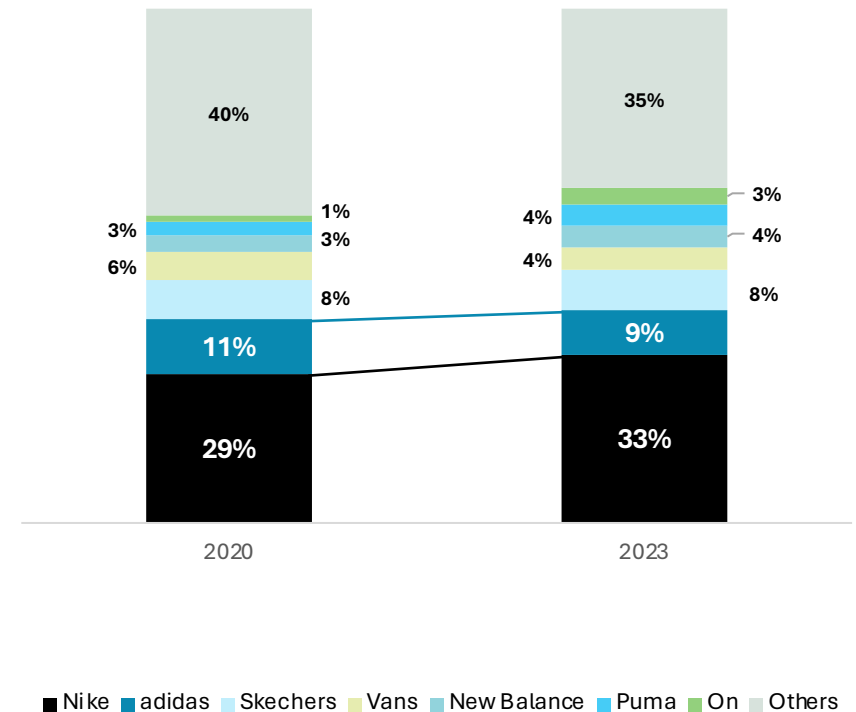
5.3%

Performance footwear
CAGR (FY23-28)

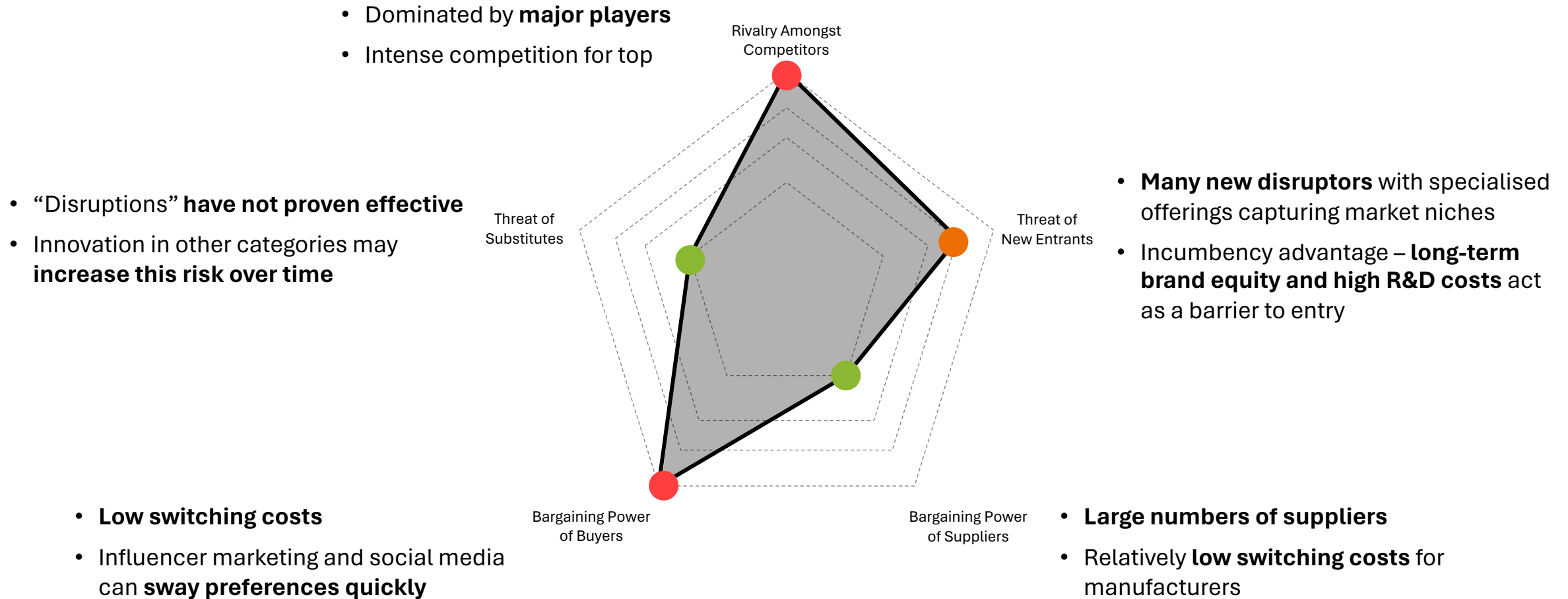
6.2%

Lifestyle footwear
CAGR (FY23-28)


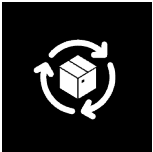

NA market share by brand









Market Overview: The market is characterised by high levels of competition and significant bargaining power of buyers



Market Overview: Each segment has a vastly different customer, marketing, and development focus

		Performance	Lifestyle
		Technical products that enhance performance	Everyday footwear that provides comfort and style
Target Customers		<ul style="list-style-type: none">Athletes and sport enthusiastsSeek specialised footwear	<ul style="list-style-type: none">Consumers focused on fashion/trendsSeek comfort and casual wear (athleisure)
Product Development		<ul style="list-style-type: none">Significant R&D spendFocused on performance metricsFrequent updates required	<ul style="list-style-type: none">Far less R&D spend and slower product development cycleFocuses on comfort and versatilityUses proven materials
Sales & Marketing		<ul style="list-style-type: none">Costly athlete/team endorsements and sponsorships of major sporting eventsSales mostly through D2C and specialised sporting retail channels	<ul style="list-style-type: none">Focus on celebrity and designer collaborationUses influencer marketing and is social-media driven with emphasis on storytelling and cultural relevanceBroad distribution across all sales channels

Market Overview: Competition peaks in lower-cost brackets, whereas the mid-premium segment is comparatively underserved

	Performance Major Players by Price-Point ¹		Lifestyle Significant Players by Price-Point ¹	
<\$150		12+	13+	
\$150 – \$350		9	7	
\$350+		3	4	

Market Overview: Nike dominates sports sponsorship, effectively owning the main Performance segment marketing channel

League	Jersey sponsor		Jersey sponsor		Jersey sponsor		Jersey sponsor		Jersey sponsor	
										
Individual Athletes in order of Instagram following	Odell Beckham Jr		Shohei Ohtani		LeBron James		Alexander Ovechkin		Lionel Messi	
	Tom Brady		Mike Trout		Stephen Curry		P.K. Subban		Douglas Costa	
	Antonio Brown	None	Bryce Harper		Russell Westbrook	 	Connor McDavid		Giorgio Chiellini	
	Russell Wilson		Fernando Tatis Jr.		Kyrie Irving		Evgeni Malkin		Riqui Puig	
	Patrick Mahomes		Ronald Acuna Jr.		Kevin Durant		Auston Matthews		Federico Bernardeschi	
	Cameron Newton		Mookie Betts	 	Giannis Antetokounmpo		Tyler Seguin		Xherdan Shaqiri	
	Ezekiel Elliott		Vladimir Guerrero Jr.		Klay Thompson		Artemi Panarin	Unknown	Lorenzo Insigne	
	Dez Bryant	 	Alex Bregman		Damian Lillard		Henrik Lundqvist	None	Carlos Vela	
	Dak Prescott	 	Juan Soto		Luka Doncic	 	David Pastrnak	None	Thiago Almada	
	Richard Sherman		Miguel Cabrera	None	Chris Paul	 	Max Domi	None	Sebastian Driussi	
Annual Marketing Spend ²	\$149m	\$52m	\$100m	\$13m	\$352m	\$48m	\$68m	\$72m	\$42m	\$139m
	Nike	Adidas	Nike	Adidas	Nike	Adidas	Nike	Adidas	Nike	Adidas

Market Overview: The Lifestyle segment is driven by high-value celebrity collaborations, with adidas and Nike leading the pack

Notable collaborations for adidas



Stan Smith Range

Partner: **Stan Smith (Athlete)**

Launched: **1965**

Impact: **Over 100 million units sold (2019)**



Pharell x adidas Superstar Range

Partner: **Pharell Williams (Musician & Designer)**

Launched: **2016**

Impact: **12% increase in annual sales (2016)**



Yeezy Range

Partner: **Kanye West (Musician)**

Launched: **2015**

Impact: **\$2bn annual worldwide revenue (2022)**

Notable competitor collaborations

Nike Jordans

Partner: **Michael Jordan (Athlete)**

Launched: **1985**

Impact: **\$4.8bn annual worldwide revenue (2021)**

Puma x Selena Gomez

Partner: **Selena Gomez (Musician)**

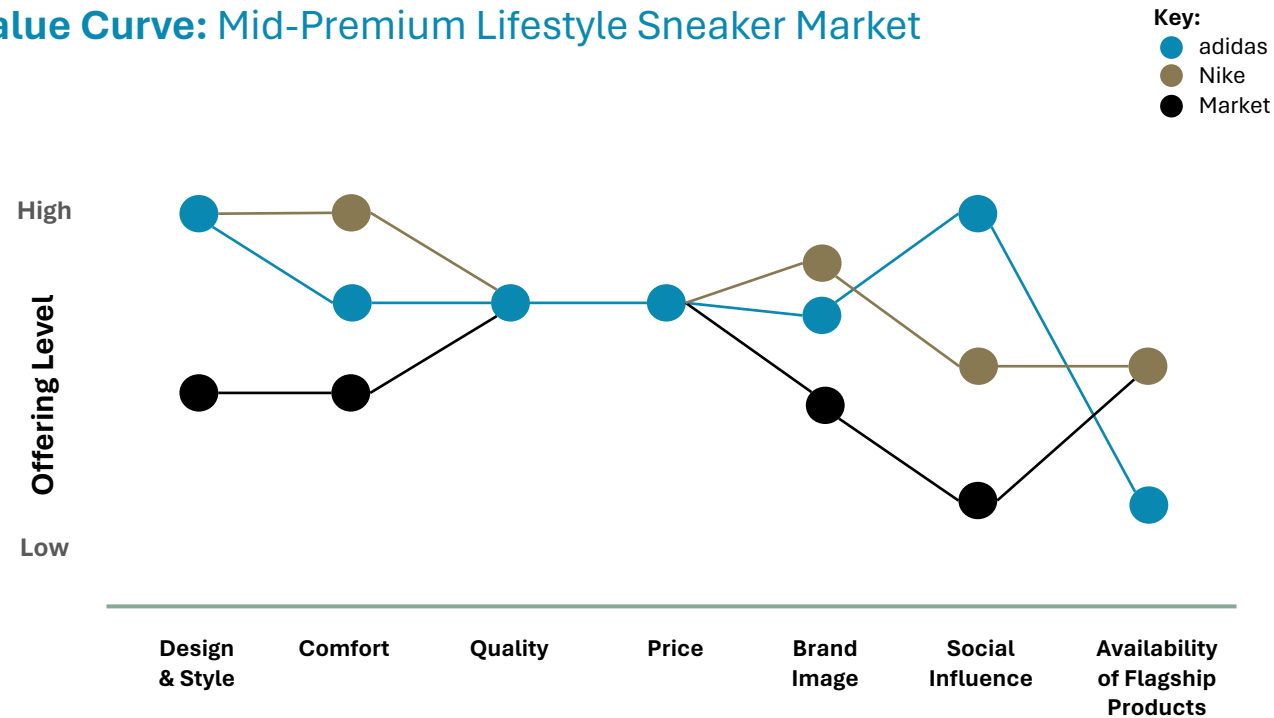
Launched: **2018**

Impact: **Supported 14.3% revenue increase (2018)**



Market Overview: The underserved mid-premium subsegment presents a compelling argument for further investment

Value Curve: Mid-Premium Lifestyle Sneaker Market



Market Insights

\$27bn

Lifestyle footwear
forecasted
revenue (2024)²

440m

Forecasted annual NA
sales in units (2024)²

\$934m

Total marketing spend
on Lifestyle segment
(2022)³

27.8%

Online revenue share
by 2027²



03.

Market Position

Market Position: adidas USA operates a full-stack of capabilities, enabling it to autonomously cater to the NA market

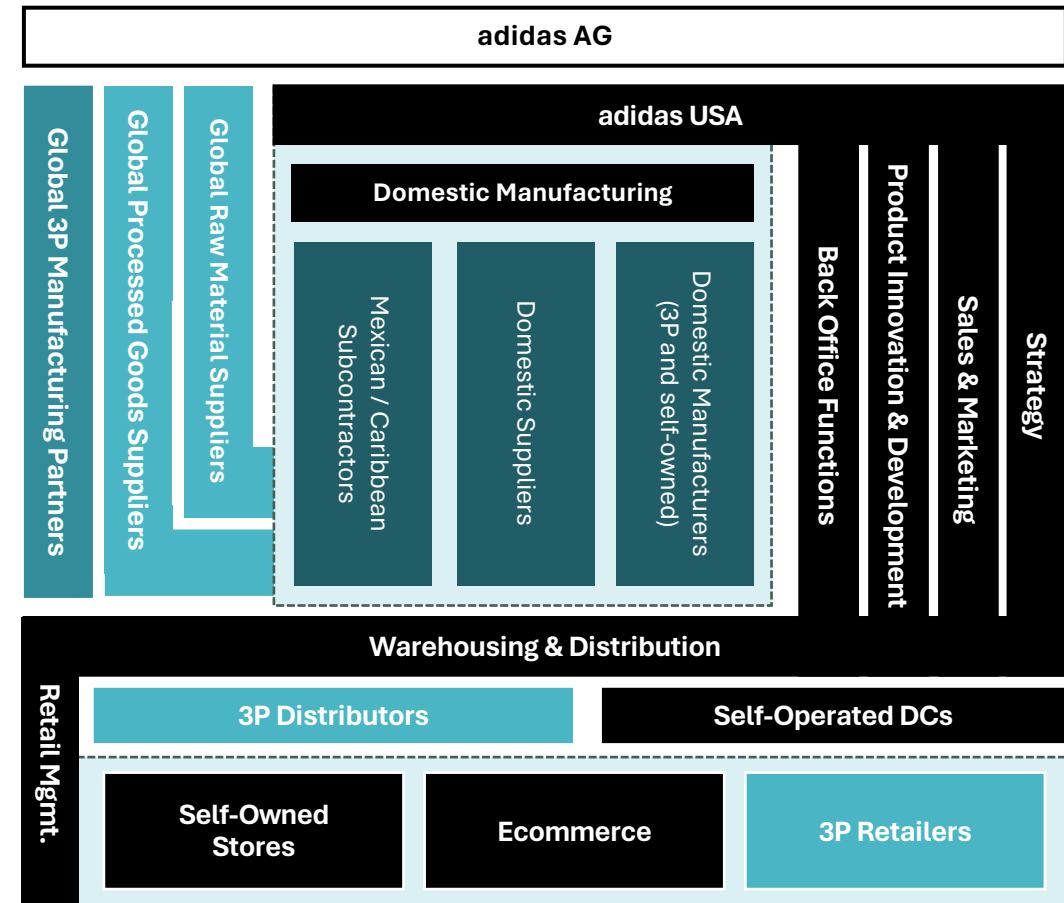
198
Self-owned
retail stores

3,000+
Third-party
retailers

Global
Leadership &
Network

NA
Strategy &
Operations
Management

NA
Sales &
Distribution
Orchestration



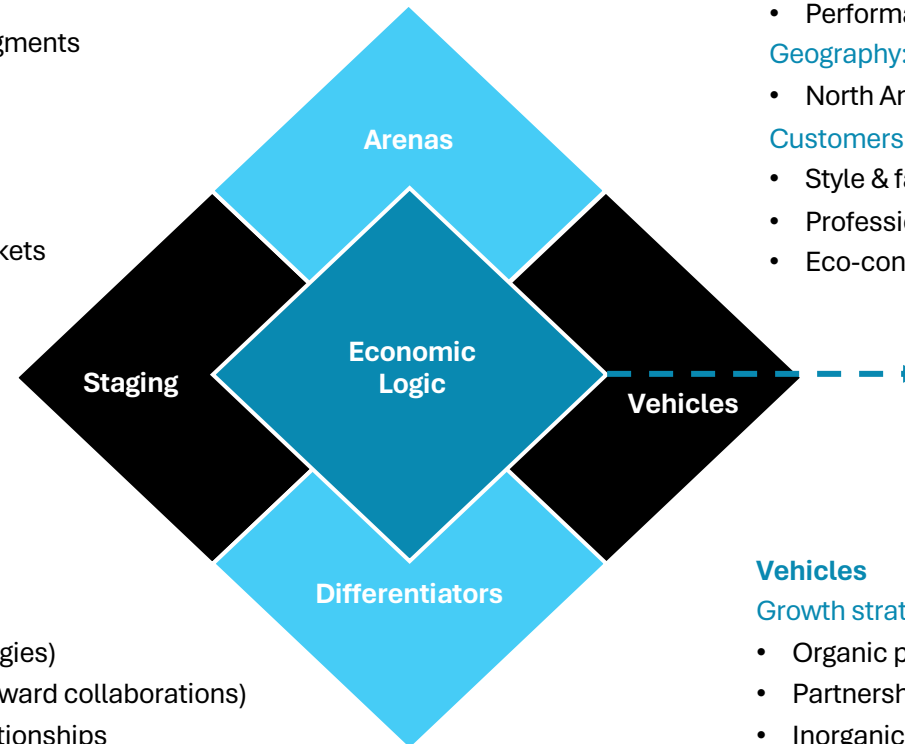
Market Position: The NA strategy is based on heavy investment in both segments, despite prevailing headwinds

Staging

- **Short term:** Maintain steady growth across both product segments
- **Medium term:**
 - Expand product ranges
 - Rebuild Performance market share
 - Capitalise on new fashion trends
 - Increase penetration of emerging Central American markets
 - Invest heavily in performance technology

Differentiators

- Brand heritage & trust
- Innovation (Boost & Primeknit technologies)
- Design (timeless styles and fashion-forward collaborations)
- High-profile celebrity and designer relationships
- Extensive and highly effective use of social media marketing
- Sustainable practices and eco-friendly manufacturing



Arenas

Products:

- Performance and lifestyle footwear (50%+ of total revenues)

Geography:

- North America (primarily the continental United States)

Customers:

- Style & fashion-conscious Lifestyle customers
- Professional athletes and sports enthusiast Performance customers
- Eco-conscious, ethical consumers

Economic Logic

- Premium pricing
- Product differentiation
- Cost leadership

Vehicles

Growth strategies:

- Organic product line expansions
- Partnerships and collaborations with designers and athletes
- Inorganic acquisitions to enhance tech and product capabilities

Channels:

- Self-owned stores, ecommerce and 3P retailers

Market Position: Notwithstanding the challenges, the adidas US has a range of highly valuable strategic resources

**Strong Brand
Equity**

**Celebrity &
Influencer
Relationships**

Infrastructure

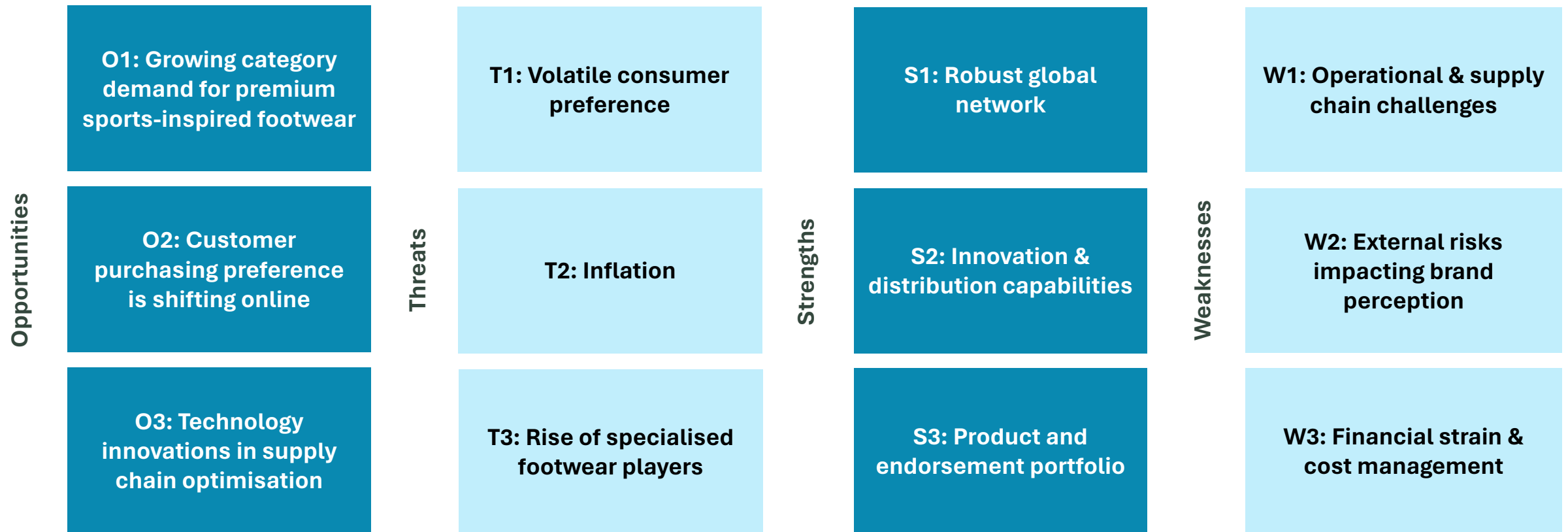
**R&D
Capabilities**



04.

Challenges & Opportunities

Challenges & Opportunities: Despite volatility, there are numerous opportunities to capitalise on growth and shifting preferences by leveraging global networks and capabilities





05.

Recommendations

Where to Play: adidas US has three competing options for its investment in the NA market

Recommendation
& link to SWOT

01.
Continue
Current
Strategy

S1, 2, 3
O1, 3

Ansoff Matrix
Position

Existing Market / Existing Products:
Market Penetration

Evaluation

- Current performance is **sub-par and is declining** vs. competitors.
- Based on market analysis and future projections, it seems **unlikely that this option delivers significant market share growth.**

02.
Prioritise
Performance
Segment

S1, 3 W1
O2, T1

Existing Market / New or Enhanced Products:
Product Development

- Although Performance market has strong growth, **competition levels are very high**, and increasing via specialised players.
- **Nike already dominates** NA sponsorships and endorsement channels
- Requires **significant R&D capital outlay**

03.
Prioritise
Lifestyle
Segment

S1, 3, W1, 2, 3
O1, 2, 3, T1, 3

Existing Market / New or Enhanced Products:
Product Development

- adidas has **strong brand equity** and significant capabilities in this segment.
- Segment is large and growing, and is **structurally attractive**

Recommended Focus

How to Win: By focusing on the mid-premium Lifestyle segment, adidas can return itself to profitability, and regain market share

Rationale

A.
Attractive
market
position

B.
Plays to
adidas'
strengths

C.
Cost
effective

Recommended actions



Prioritise
development
of trend-led
products



Invest in better
inventory
management
systems



Rationalise
product
range



Optimise
marketing
efforts 

How to Win: Managed growth in key areas coupled with cost discipline will enable adidas to return to profitability

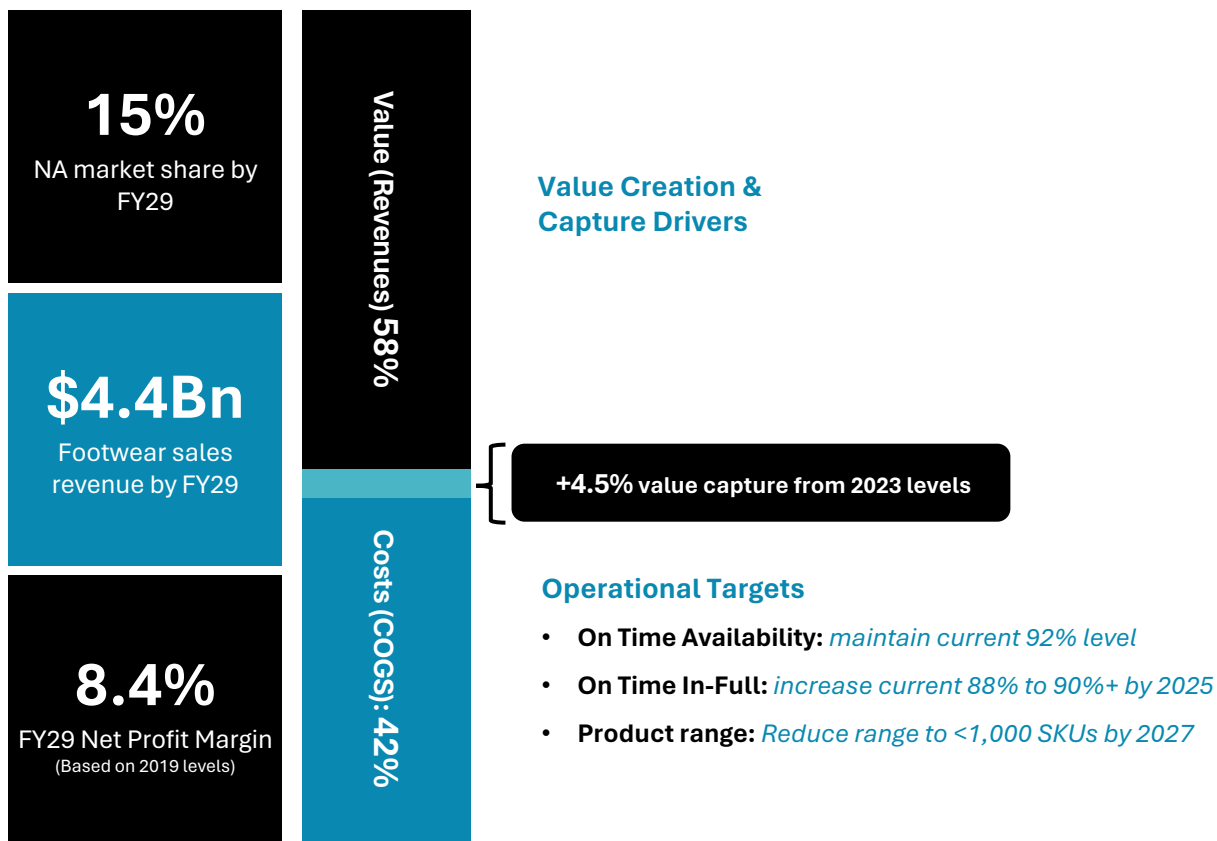
Key Assumptions:

1. Channel margins to wholesalers remain consistent

2. Channel mix stays the same


3. Supply chain remains relatively unchanged

Overall Strategic Targets



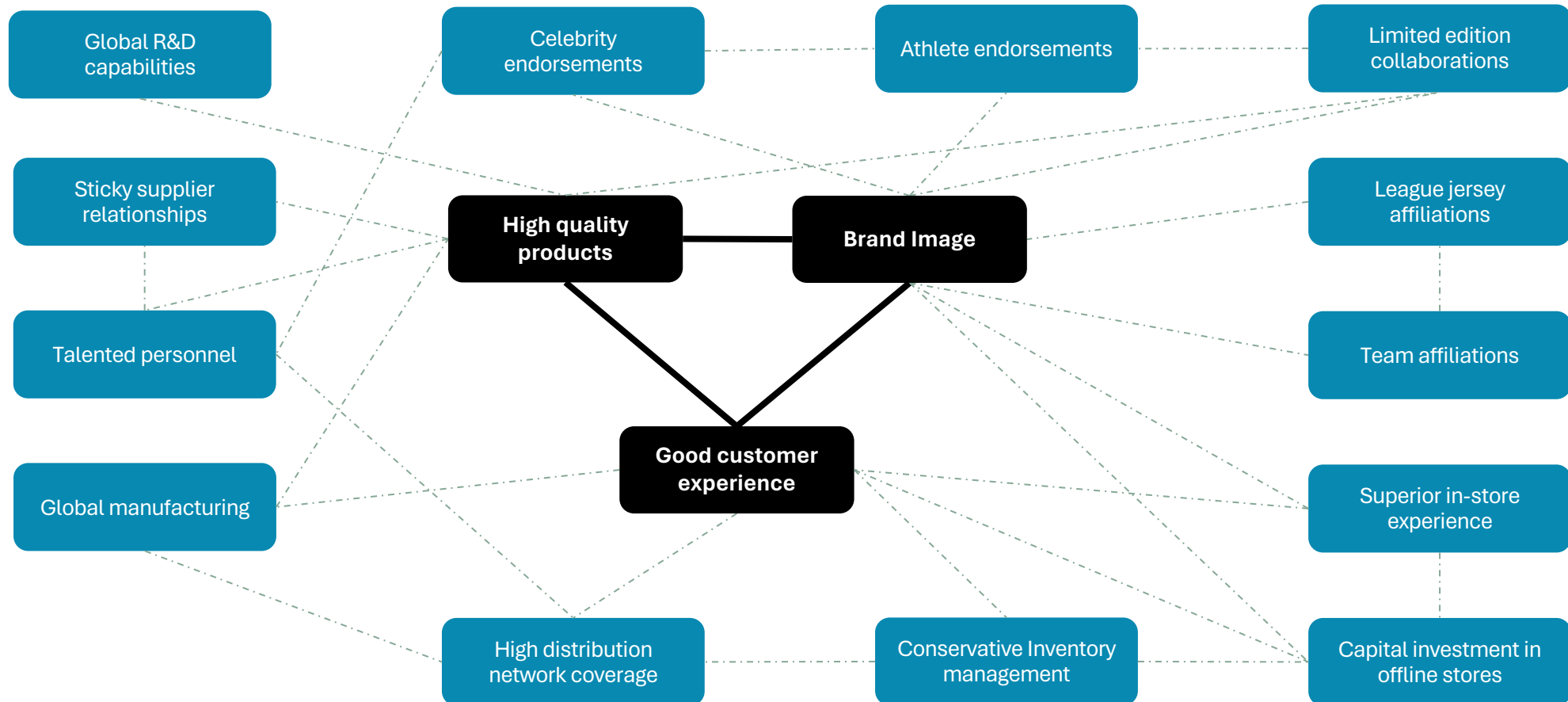
Key Milestones

- 2024:** Continue inventory sell-downs, and slow Performance R&D & marketing spend.
- 2025:** Commence new planning cycle for range rationalisation, invest in new trend-led Lifestyle R&D.
- 2026:** Exit most underperforming Performance contracts, and transition funding into new high-value Lifestyle collaborations, and niche underserved Performance opportunities.
- 2027:** Complete range rationalisation of low-cost underperformers, and extend mid-premium product offering
- 2028:** Finalise Performance contract exits and continue funding niche and Lifestyle products.
- 2029:** Achieve NPM and market share targets.



06. Appendices

Appendix: adidas US systems map

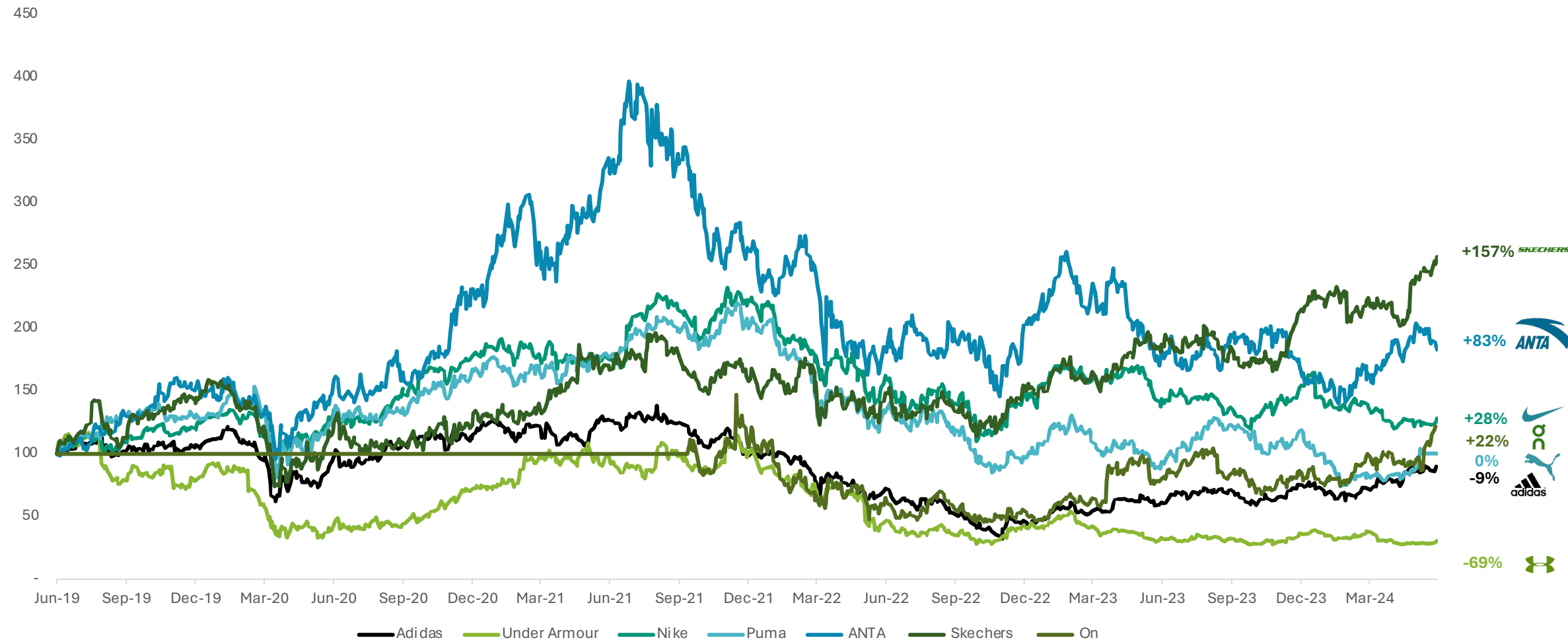


Appendix: adidas AG Income Statement

	Income Statement					Common-size Income Statement				
y/e (all figures in EURm unless mentioned otherwise)	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Particulars	CY19	CY20	CY21	CY22	CY23	CY19	CY20	CY21	CY22	CY23
Net sales	23,640	18,435	21,234	22,511	21,427	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	(11,347)	(9,213)	(10,469)	(11,867)	(11,244)	(48.0%)	(50.0%)	(49.3%)	(52.7%)	(52.5%)
Gross profit	12,293	9,222	10,765	10,644	10,183	52.0%	50.0%	50.7%	47.3%	47.5%
Royalty and commission income	154	61	86	112	83	0.7%	0.3%	0.4%	0.5%	0.4%
Other operating income	56	42	28	173	71	0.2%	0.2%	0.1%	0.8%	0.3%
Other operating expenses	(9,843)	(8,580)	(8,892)	(10,260)	(10,070)	(41.6%)	(46.5%)	(41.9%)	(45.6%)	(47.0%)
Marketing and point-of-sale expenses	(3,042)	(2,373)	(2,547)	(2,763)	(2,528)	(12.9%)	(12.9%)	(12.0%)	(12.3%)	(11.8%)
Distribution and selling expenses	(4,997)	(4,601)	(4,782)	(5,601)	(5,547)	(21.1%)	(25.0%)	(22.5%)	(24.9%)	(25.9%)
General and administration expenses	(1,652)	(1,379)	(1,481)	(1,651)	(1,839)	(7.0%)	(7.5%)	(7.0%)	(7.3%)	(8.6%)
Sundry expenses	(134)	(116)	(76)	(182)	(137)	(0.6%)	(0.6%)	(0.4%)	(0.8%)	(0.6%)
Impairment losses (net) on AR and contract assets	(18)	(111)	(6)	(63)	(19)	(0.1%)	(0.6%)	(0.0%)	(0.3%)	(0.1%)
EBITDA	3,845	1,967	3,066	1,874	1,358	16.3%	10.7%	14.4%	8.3%	6.3%
Operating profit	2,660	745	1,987	669	267	11.3%	4.0%	9.4%	3.0%	1.2%
Financial income	64	29	19	39	79	0.3%	0.2%	0.1%	0.2%	0.4%
Financial expenses	(166)	(196)	(153)	(320)	(282)	(0.7%)	(1.1%)	(0.7%)	(1.4%)	(1.3%)
Income before taxes	2,558	578	1,853	388	64	10.8%	3.1%	8.7%	1.7%	0.3%
Income taxes	(640)	(117)	(360)	(134)	(124)	(2.7%)	(0.6%)	(1.7%)	(0.6%)	(0.6%)
Net (loss)/income from continuing operations	1,918	461	1,493	254	(60)	8.1%	2.5%	7.0%	1.1%	(0.3%)
Gain from discontinued operations, net of tax	59	(19)	666	384	44	0.2%	(0.1%)	3.1%	1.7%	0.2%
Net (loss)/income	1,977	442	2,159	638	(16)	8.4%	2.4%	10.2%	2.8%	(0.1%)

Source: Company filings

Appendix: Footwear market key players share price performance



Source: Yahoo Finance, All numbers rebased to 100 as of 1st Jun 2019

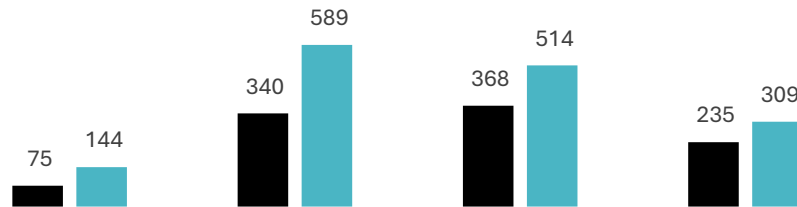
Appendix: NA footwear market product mix

Men

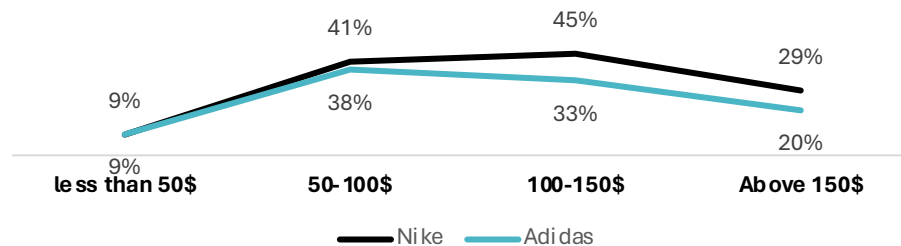
of shoes split
between lifestyle and
performance



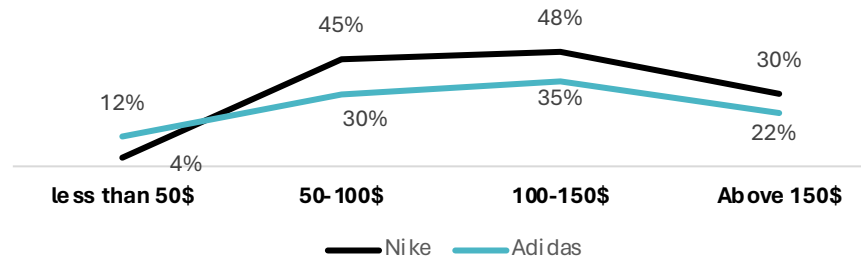
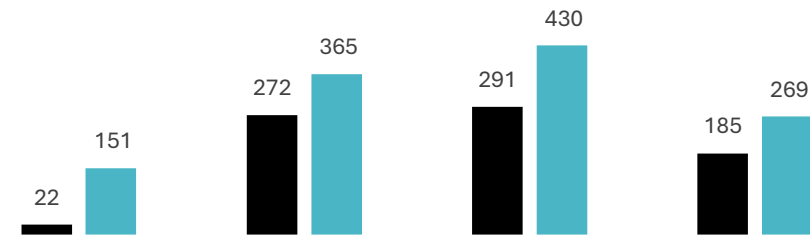
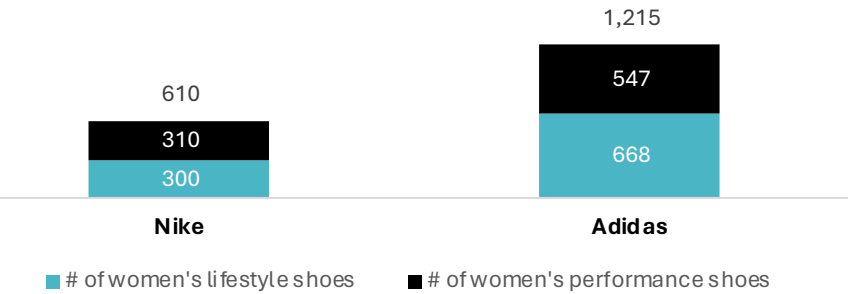
Product # and Price
distribution



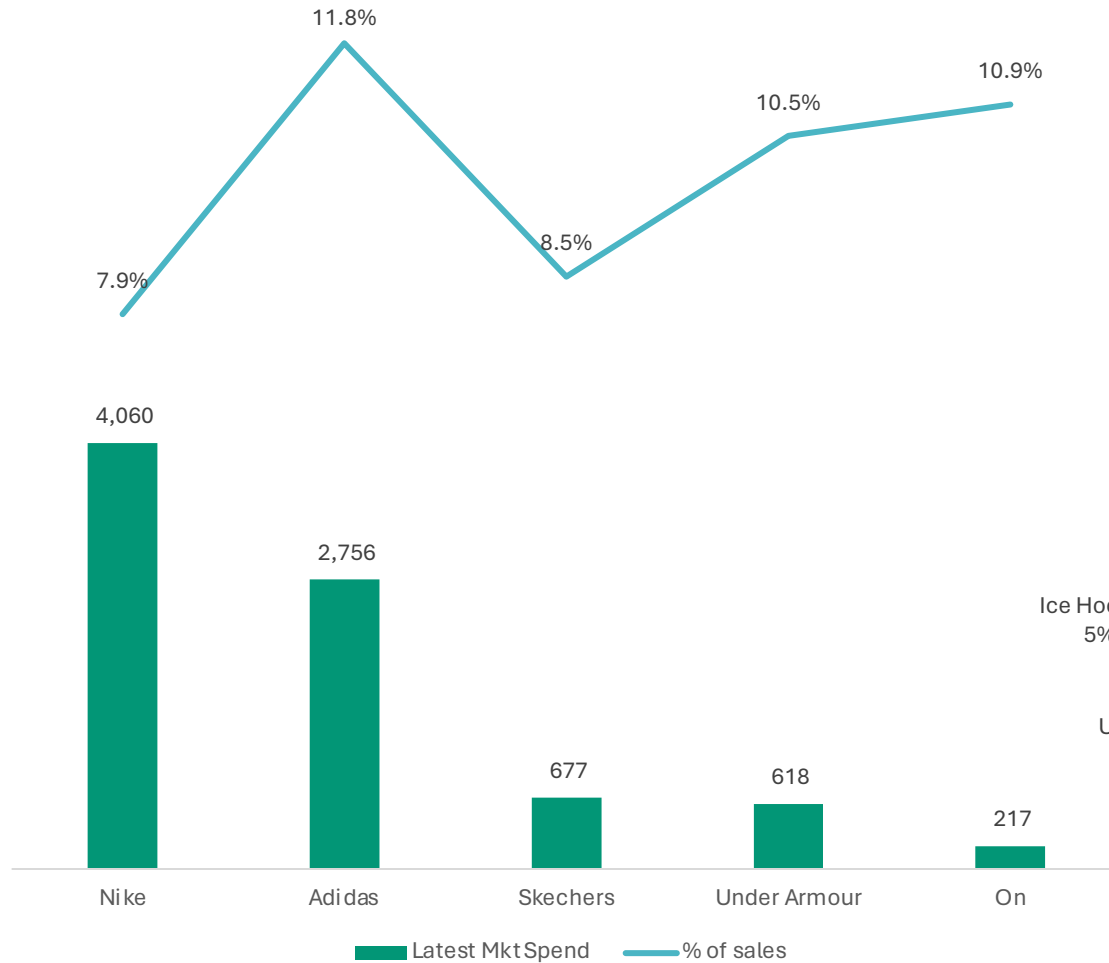
% of portfolio and price
distribution



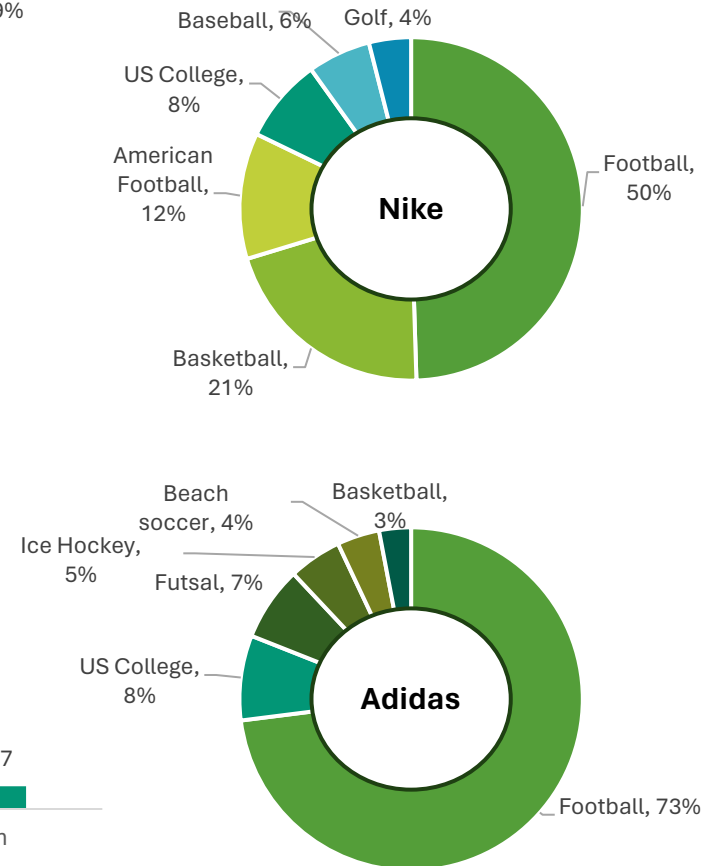
Women



Appendix: Marketing spend gap



Marketing spend split



Comments

- Nike outspends their closest rival by more than a billion dollars with a significant larger war chest
- Nike spends significantly lesser than their closest competitor as a % of sales which indicates higher potential to spend even more
- A lot of adidas' marketing spend is spent outside of the NA market as well meaning that the gap between Adidas and Nike is even more pronounced in the NA market
- adidas chooses to spend a lot more on Football while Nike's spend on basketball is much higher