

# [Financial analysis of adidas](https://assignbuster.com/financial-analysis-of-adidas/)

The story of Adidas Company takes it start in the beginning of 20th century. In 1920, Adi Dassler makes his first shoe of canvas for runners in his workshop in Germany. When producing shoes, A. Dassler followed three main principles: produce the best shoes for the requirements of the sport, protect athlete from injury and make product durable. The trademark of Adidas was registered in 1949 – 3 stripes. In 1984, Olympic Summer Games in Los Angeles 259 medals are won in products with the Three Stripes. (Herzogenaurach)

In 1989 Adidas becomes a corporation, but still retains family ownership. 6 years later Adidas becomes one of the most interesting new listings in German market. Adidas bought Salomon Group in 1997 and was now known as Adidas-Salomon AG. In 1998 Adidas Company’s shares were added to the DAX and became one of 30 largest German companies. In the same year Adidas becomes official supplier to Argentina, Germany, Yugoslavia, Romania and Spain. (Herzogenaurach)

In 2000 Adidas Company received the title of “ Advertiser of the year” and was presented with the prestigious Clio Award in New York. In the same year Adidas-Salomon AG becomes industry leader on sustainability issues. In the year 2001 Adidas-Salomon AG achieves “ record-breaking sales” of €6. 1 billion. In the year 2003 Adidas becomes official sponsor of European Football Championship 2004 and Official Sponsor for the 2006 FIFA World Cup Germany. In 2004 Adidas-Salomon AG’s gross margin reached all-time high of 47. 2%, net income increased to 21% and sales grew by 7% reaching €6. 478 billion. (Herzogenaurach)

## Financial Performance of Adidas

Income Statement

In this section we will focus on mainly 3 years which is 2009, 2008 and 2007. According to data given, for Adidas Company 2008 was very successful. Total revenue for 2008 was $10799, which in comparing with 2007 grew by 4%, Gross profit increased by 7. 6%, income after taxes increased by 16%, net income increased by 16. 5%.

As a result of World Financial Crisis the year 2009 was a difficult period for the company, as total revenue decreased to 4. 1%, gross profit fell by 11% in compare with 2008. Operating income decreased by more than for 50% and a decrease of 53. 5% in sales. Profit after tax also fell by 61. 9% and due to the influence of the above factors the net income also fell by 61. 8%. (Adidas Group, 2009)

Cash Flow Statement

In 2008, Adidas AG showed very strong financial positions and Net Income increased to € 904 million versus € 815 million in the end of 2007. In 2009 Net Income decreased to € 358 million. In 2008, Adidas AG had showed weak positions, only € 497 million on cash from operating activities. The thing is that that year the company had quite big reductions in cash: Accounts Receivable € -236 million and Inventories € -324 million. However in 2007 Adidas AG showed € 780 million from cash operating activities. 2009 was the most successful year for the company among these three periods. In 2009, cash from operating activities increased quite high and was € 1, 198 million, which is almost three times more than in 2008. In 2008 year was the lowest cash from operation activities and amounted € -444 million. There are several reasons of such low amount. The firs reason is that the company has invested in purchasing of fixed assets € -316 million and second reason is purchasing of intangibles € -60 million. As a result, capital expenditures amounted at € -376 million. In 2007, Adidas AG shows also quite low cash from investing activities € -285 million. However in 2009, cash from investing activities amounted at € -162 million. Years 2009 and 2007 has quite similar results in cash from financing activities € -512 million and € -509 million accordingly. The reason is that these years Adidas AG paid dividends and in addition issuance of stocks and issuance of debt, € -415 million and € – 424 million accordingly. However in 2008, the company reported that cash from financing activities was € -106 million. The reason of such high index is that in 2008 company reported of Issuance of debt was € 402 million. (Thomson Reuters)

Balance Sheet

Before evaluating AG’s financial performance in the last three years, we should take the global economy which has impact on AG’s development into consideration. The global economy expanded by 3. 6 % in 2007. The global economic crisis intensified from October in 2007. In 2008, the global economic growth was at its lowest level in six years. And following a sharp slowdown in economic growth in 2008, the global economy fell into recession in 2009 with decreased GDP of 2. 2%. In 2008, Adidas Group delivered strong financial performance. At the end of 2008, total assets increased 15% to € 9. 533 billion versus € 8. 325 billion in 2007. In 2009, total assets decreased 7% to € 8. 875 billion. This was mainly a result of changes in current assets. Group inventories increased 22% to € 1. 995 billion at the end of 2008 versus € 1. 629 billion in 2007. However, group inventories decreased 26% to € 1. 471 billion in 2009. This mainly attributed to reduced production volumes and clearance of excess inventories at all brands. As to the growth in 2008, that may be due to a high volume of product shipments in anticipation of future price increases. In 2007, Group receivables increased 3 % to € 1. 459 billion (2006: € 1. 415 billion) and in 2008 11%. Group receivables decreased 12% to € 1. 429 billion in 2009. Difficult economic situation and strict discipline in the Group’s trade terms management may be main reasons. Fixed assets increased 9% to € 4. 074 billion in 2008 versus € 3. 726 billion in 2007 while decreased 7% to € 3. 794 billion in 2009 compared with 2008. Continued expansion of retail activities and investment into the Group’s IT infrastructure influenced changes in fixed assets. To be mentioned, currency translation had different effects on fixed assets. In 2008, currency translation had a positive effect of € 120 million. However, in 2009, negative currency translation effects in an amount of € 80 million on fixed assets. Due to a high volume of production and product shipments, accounts payable increased 43% to € 1. 218 billion at the end of 2008 versus € 849 million in 2007. But it declined 4% to € 1. 166 billion at the end of 2009 compared with 2008. Shareholders’ equity rose 12% to € 3. 386 billion in 2008 versus € 3. 023 billion in 2007 and an increased of € 3. 771 billion in 2009. (Thomson Reuters)

Ratio analysis

Liquidity Ratios

For Adidas Group, a ratio for 2008 year of 1. 35 indicates that current assets provide a 35 percent cushion over and above current liabilities. Current assets for 2007 year for Company is €4138 million and current liabilities are €2615 million , what in result gives us 1. 58 times more current assets that current liabilities. Thus is good for company because lower index of current liabilities would show of possible company’s insolvency. In 2009 year, current assets for the company are €4485 million and current liabilities are €2836 million, as a result we have 1. 58 times more current assets that current liability. The same result as in 2007 and it is good for company.

A quick ratio for 2008 of 0. 8 indicates that Adidas’ liquid assets would not be adequate to pay off its current liabilities, and a force payment of the 20 percent gap would require liquidating inventory. A quick ratio for 2007 is 0. 96 that is higher than the same ratio in 2008 year. These show that company does not have enough current assets to pay off its liabilities. The quick ratio for 2009 is 1. 06 that compared to the last three years is the best and is means that the company has enough liquid cash to cover the liability.

Profitability Ratios

Thus, AG earned a little more than 11 percent operating profit margin on its sales after covering production and other operating costs. In 2009 Operating Income to Sales was 0. 10 which is 10%. Thus, AG earned 10 more percent operating profit margin on its sales after covering production and other operating costs.

Return on Assets, or ROA, shows overall profitability of company’s investment in assets. Return on assets is a ratio of net income and total assets of company. For Adidas Company net income for 2007 year made €551 million and total assets for the same year was €8325 million. Thus ROA for Adidas Company in 2007 year was 0. 07, or 7%, that is not very high. That means that from each dollar tied up in the business company earns 7 cents. Adidas Group earned a little less than 7 percent on its asset base in 2008 and only 2. 76 percent in 2009, which very low index for Adidas AG.

For Adidas Company return on equity for 2007 year is 0. 18, or 18%. It means that owner receives back 18% from invested assets that is a good index. So for Adidas Group in 2008, 18. 96% AG earned a return of about 19 percent on its 2008 shareholders’ equity investment. Notice that the ROE is larger than the ROA. With the use of debt, the AG can purchase more assets thank it could with equity alone. Any additional return on these assets enhances the total return and improves the ROE. In 2009 ROE was very low, only 6. 50%. As in previous case, please notice that the ROE is larger than the ROA.

Leverage Ratio

DEBT TO EQUITY. png

For 2009 debt to equity ratio is 1. 35. In 2008, the AG’s debt to equity ratio is 1. 8. In 2007 year AG had index of debt to equity of 1. 75. That shows that in 2008 company used more debts, what is shown by higher index of debt to equity. As more debt is used, the Debt to Equity Ratio will increase. Returns to shareholders are higher but also is risk higher.

Debt Ratio. png

For 2008 and 2007 year debt ratio is the same, what is 64%, but in 2009 it is 57%. Cares must be taken in interpreting either of these ratios because there is no absolute level that can be referred to as being better than another. Differences in the size of the ratio may reveal management attitude toward risks. For AG, it takes low risks and has sufficient assets to cover its debt load.

## Financial Forecasting

There are various models that help to forecast a company’s financial situation they are Time Series Models which include Moving Average, Weighted Moving Average, Exponential Smoothing and Seasonal Forecast for the purpose of better evaluation Moving Average, Weighted Moving Average and Exponential Smoothing will be based on 10 years of Sales, Costs and Profit where as the Seasonal Forecast will be based on quarterly figures for Sales, Costs and Profits. For the purpose of this report only the best possible outcome will be considered and the actual calculation for all the forecasting will be shown in the appendix.

The way to find the best possible outcome is using the MAD (Mean Absolute Deviation) which makes it easier to come to a specific conclusion about the different motels. The best possible outcome for Moving Average for sales were calculated to be the 3 years moving average for which the MAD was 1339. 68, where as for Weighted Moving Average it was calculated to be 1091. 03 with W1= 0. 1, W2= 0. 3, W3= 0. 6 and for Exponential Smoothing gave the MAD of 1211. 68 based on the Î± being 0. 4. Thus we can clearly see that the Weighted Moving Average for sales would be the best option to be considered for the future for sales.

As for the profit the MAD for Moving Average was 150. 84 with a 3 years moving average, for Weighted Moving Average was 133. 48 with W1= 0. 1, W2= 0. 3, W3= 0. 6 and the Exponential Smoothing was calculated to be 128. 45 where Î± was 0. 4. This again gives a clear picture that in this case the Exponential Smoothing was the better of the 3 options. As for the cost, this has direct influence on profits of a company as an increase or a decrease of profits depends on the costs of the company. The MAD for costs was calculated to be 1107. 86 for 3 years Moving Average, 859. 51 for Weighted Moving Average where W1= 0. 1, W2= 0. 3, W3= 0. 6 and 1045. 99 for Exponential Smoothing with Î± being 0. 4 thus we could say that in terms of cost the MAD of Weighted Moving Average was the least and can should be considered to be the best possible option for the forecasting of costs.

The last forecasting method which is the Seasonal Forecast took a totally different calculation than that of the other methods as in this case the information was based on quarterly financial statements so as to help in getting accurate information. The Seasonal Forecast of sales for 2010 quarter 1 was $2578. 67 and for quarter 2 it was $2459. 33 which is approximately the average of what the company’s sales has been in the last 3 years as for profit the 2010 quarter 1 was calculated to be 101. 00 and for quarter 2 it is 76. 33, this on the other hand may be a little lower than the normal trends of the quarter 1 and 2 of the last 3 years and as for the last forecast which is for cost the Seasonal Forecast for quarter 1 and 2 was 2420. 00 and 2332. 67 respectively which is very similar to the trends of the last 3 years.

Table 1: Financial Forecasting of Sales

Financial forecasting for Sales. png

Table 2: Financial Forecasting of Profits

Financial Forcasting of Profit. png

Table 3: Financial Forecasting of Costs

Financial Forcasting of Cost. png

## Evaluation and Comments

As mentioned in the previous sections the world is going through a global recession which is affecting every company in one way or the other. Adidas being mainly focused on sports have not been able to get away from this recession and thus we can clearly see the falling of the profits in the last 3 year which in the year 2009 fell by more than 60% from the year 2008. This is not the only factor that affected Adidas as the recent fluctuation of the currencies has not helped the cause for the company as they are now ending up spending more in their costs and due to the low demand for their products they are forced to reduce their rates worldwide. The only boost for them would be their football division as due to the recent purchase of stars like Cristiano Ronaldo, Kaka, Di Maria, Khedira, etc. by the Real Madrid F. C. who were Adidas products only has attracted the clubs followers to purchase their products and to show their love for the team. In terms of the forecasting of sales, cost and profit these can only be considered to be estimates as because of the recession and the purchase of star players by Real Madrid F. C. the future sales, costs and profit could take another turn for the good as it also seems that the recession is starting to get better and this is only good news for the company.

## Further Information

To add to this report there could be a lot of more information that could be included, which will make this assignment a lot more interesting. To prepare a very detailed financial report of Adidas AG it would be really helpful to compare using Benchmarking with other competitors like Nike, Kappa, Puma, etc. Also it would be nice to pay more attention on dividends for Adidas as it is the vital part of any company, because this way a comparison of the company’s financial situation can be made and this data could be included in future forecasting section. The effect of global economic environment plays a big role on the profits of a company thus it would be smart to include the factors that are influencing Adidas AG. It would be helpful for to focus on the influence of global economic crisis on competitors and compare results with Adidas AG and see whether the influence is only affecting Adidas AG or the other competitors as well. All the above recommendations would really help the researchers to get an indebt look of the company’s true financial strengths and weaknesses, thus being able to give more specific recommendations to this research.