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Financial Performance Analysis of Adidas AG

Anupa Jayawardhana
Department of Sport Science and Physical Education, Faculty of Social Sciences, University of Kelaniya, Dalugama, 11600, Sri Lanka

Abstract
The financial statement of Adidas has been selected and analysed. The financial statement indicates the balance sheet, income statement and the cash flow statement. Financial performance has been studied using horizontal analysis, vertical analysis, trend analysis and mainly ratio analysis to suggest improvements to increase finance flow, improve dividend and reduce liabilities. Main analysis is based on 2014 and 2013 financial years which are ending on 31st of December in every year. The latest performance being compared with company's statements over the last five years starting 2010 for showing trends. Finally, recommendations and suggestions have been made to ensure the revenue of the company and reduce the liabilities while improving the stability of the company.
Keywords: financial ratio, Adidas, Financial analysis

1. Introduction

1.1 Purpose of the report

The purpose of this report is to analyse the financial performance, and propose recommendations for financial management that will improve the future financial effectiveness, ensure growth and consolidate the market position of the Adidas organisation. During the discussion, key ratios have been compared and analysed from previous year and with the main competitors which will help to envisage actual finance performance of the organisation. It will help to suggest appropriate recommendations which will improve the liquidity and profitability of the company through implementation.

1.2 Back ground of the organisation

Adidas is a German multinational corporation that designs and manufactures sports shoes, clothing and accessories founded in 1949 by Adolf Dassler. The Adidas group consists of Reebok sportswear company, TaylorMade Golf Company, FC Bayern Munich and Runtastic that headquarter based in Olympiaring, Herzogenaurach, Germany.

German national football team victory in 1954 world cup brought Adidas name on football pitches everywhere as they made the lightweight football boots for national team. According to Forbes (2015) Adidas brand value is more than $17.1 billion. Today Adidas has 1746 concept stores, 779 factory outlets and 316 concession corners and other around the world (Statista, 2015). The Adidas Group's net sales amounted to about €14.53 billion in 2014 and have more than 53731 employees from around the world (Adidas, 2014). The mission of adidas Group, strives to be the global leader in the sporting goods industry with brands built on a passion for sports and a sporting lifestyle.

2. Financial performance

2.1 Finance

The financial statement is the basic document which provides information and recommendation about the financial position, performance and changes in financial position in an organisation (Atrill & McLaney, 2002). Various people are interested about the financial statement such as shareholders, external capital providers, existing and potential investors, lenders, other creditors, government departments, employees, client, suppliers, competitors and stockbrokers (Du Toit, Erasmus, Kotze, Ngwenya, Thomas, & Viviers, 2014). Financial performance refers to the act of performing financial activity and indicates whether financial objectives are being or have been accomplished (Knott, 2004). Measuring financial performance is based on a given period of time and similar firms across the same industry or used to compare industries or sectors in aggregation (Atrill & McLaney, 2002).

Measuring financial performance is required to maintain organisation's liquidity in day-to-day operation to ensure its smooth running and to meet its obligation (Eljelly, 2004). The analysis indicates firm's liquidity, profitability and makes a platform for comparison with other competitors indicating that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders to maintain at least its market value (Altman, 1968). Decisions which are based on finance performance analysis help the maximization of shareholders or owners wealth (Panwala, 2009).

This report has analysed Adidas group financial reports which are ending December 31st 2014. The analysis is based on balance sheet, the income statement and cash flow statement which have been attached in

the Appendices. The income statement set out the summary of the trading events that will affect the capital of the business and shows whether the company is selling its product or service, for less or more than its cost of deliver them to its customers (McLaney, 2006). Balance sheet is a snapshot of the company's assets, liabilities and equity at the end of the fiscal year (Brigham & Ehrhardt, 2013). The statement of cash flow indicates the summary of organisation's ability to generate cash (Du Toit et al.,2014).

2.2 Horizontal Analysis

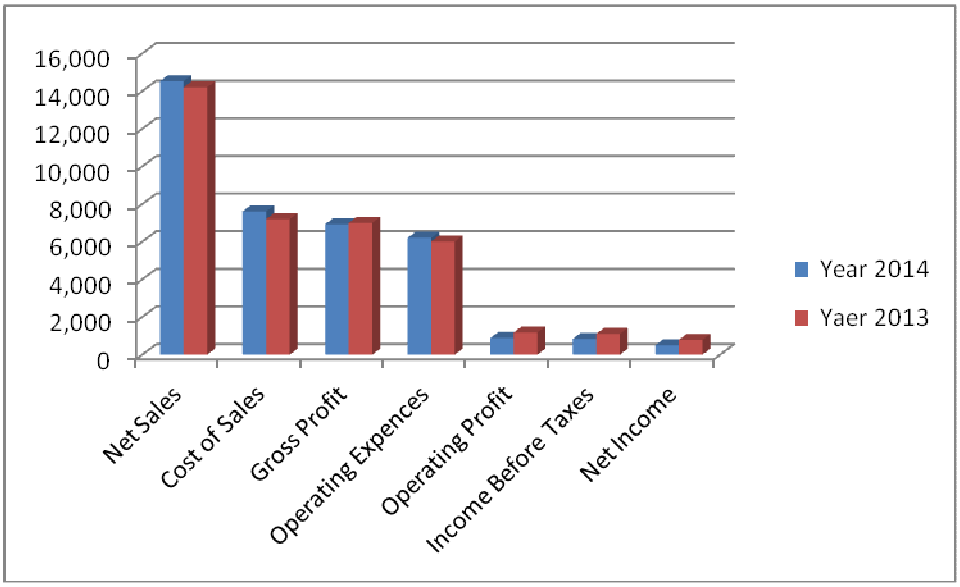
Horizontal analysis is used to identify the changes in the amounts of corresponding financial statement items over a period of time (Gibson, 2010). The analysis is based on two periods of accounts and earliest period is usually used as the base period then all later period are compared with items on the statements of the base period (Bernstein & Wild, 1993). The based period amount is calculated as 100% then each following period is expressed as a percentage of the amount in the based year.

The horizontal analysis is useful to see the impact of operational results on a company's financial condition over the review period. But the common problem is that aggregation of information in the financial statements could change over time, due to ongoing changes on the accounts (Fridson & Alvarez, 2011).

Table; 1. Horizontal Analysis

Item	2014	2013	Change
	(€ in million)	(€ in million)	%
Net Sales	14,534	14,203	2.3
Cost of Sales	7,610	7,202	5.7
Gross Profit	6,924	7,001	-1.1
Operating Expenses	6,203	6,013	3.2
Operating Profit	883	1,181	-25.2
Income before Taxes	835	1,113	-24.9
Net Income	496	790	-37.2

Finger; 1. Horizontal Analysis



Horizontal analysis has been done for income statement in financial year 2013 and 2014 above. Comparing with 2013, Net income was declined 37.2% even though the net sales were increased by 2.3%. These charts illustrate increasing cost of sales by 5.7% and operating expenses by 3.2% directly affected on declining net income. Therefore Adidas should concern about reducing cost of sales and operating expenses to maximise the net income in next years. Effective and low cost communication medium utilised to reduce the cost of sales and reduction of additional employees would be another option to minimise the operation cost as salaries and wages are the highest part of the operation cost (Eljelly, 2004).

2.3 Trend Analysis

This analysis is similar to horizontal analysis, but evaluates an organization's financial information more over two period of time (Fridson & Alvarez, 2011).Therefore this analysis helps to grasp the changes in the selected variables more easily. Evaluating several years' data will help to forecast future financial trends accurately in an

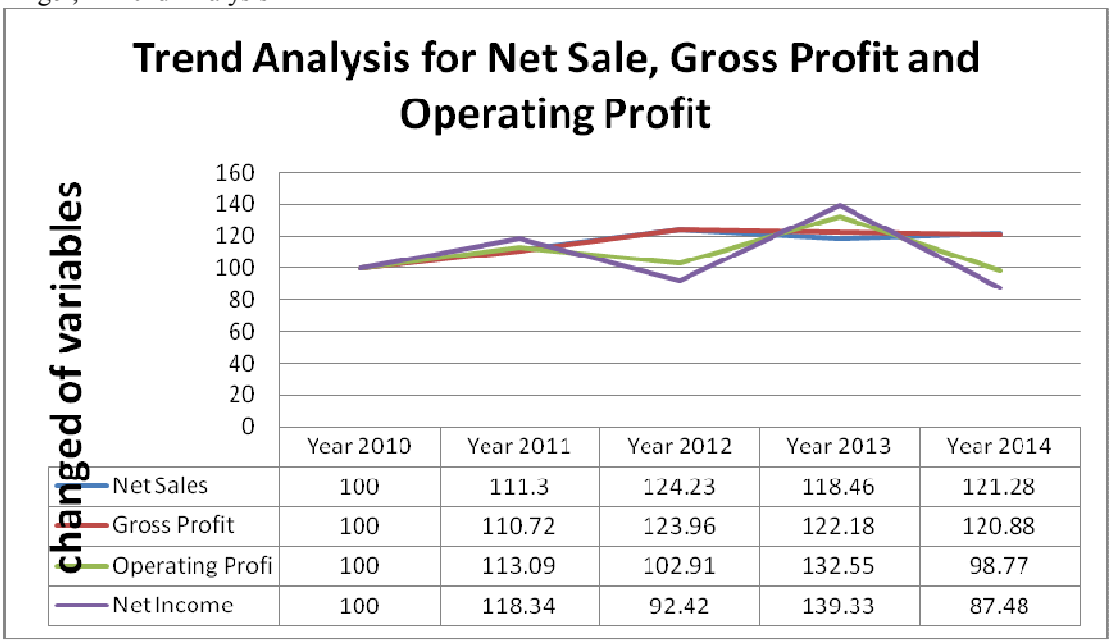
organisation (Bernstein & Wild, 1993).

Table; 2. Trend Analysis

Column1	2010	2011	2012	2013	2014
Net Sales	11,990	13,344	14,883	14,203	14,534
	100	111.3	124.23	118.46	121.28
Gross Profit	5,730	6,344	7,103	7,001	6,924
	100	110.72	123.96	122.18	120.88
Operating Profit	894	1,011	920	1,181	883
	100	113.09	102.91	132.55	98.77
Net Income	567	671	524	790	496
	100	118.34	92.42	139.33	87.48

This trend of income statement illustrates the analysis on the different period of net sales, gross profit and operating profit assuming 2010 as base. While comparing the value to 2006, the absolute value of net sales and gross profit are in increasing trend. The absolute value of operation profits has changed on year to year and at 2014 value of operating profit is low in compared to 2010. It mean, Adidas had more operating cost in 2012 and it affected on reducing the net income. The net income is mainly depending on operating expenses. When the operating cost went down in 2013 net income increased parallel with the operating profit. But when operating profit went down (operating expenses increased) by 98.77%, net income also went down by 87.48%.

Finger; 2 Trend Analysis



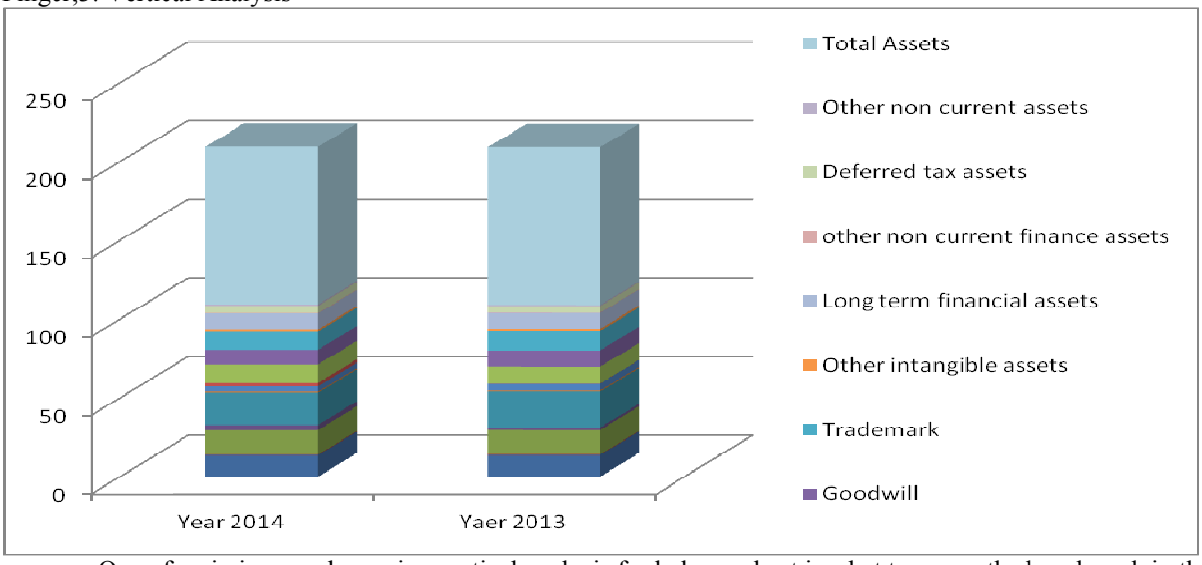
2.4 Vertical Analysis

This is a comparative analysis of a financial statement where each line item on accounts is listed as a percentage of another item (Shaoul, 1998). For example, when analysing the vertical amounts on the balance sheet every amount on the balance sheet is restated to be a percentage of total assets. One of the main advantages of this analysis is that the balance sheet can be easily compared to any size of organisation and it will help to understand relative annual changes within one business (Fridson & Alvarez, 2011).

Table; 3. Vertical Analysis

Assets	2014	%	2013	%
cash and cash equivalents	1,683	13.55	1,587	13.68
Short-term financial assets	5	0.4	41	0.35
Account receivable	1,946	15.67	1,809	15.6
Other current finance assets	398	3.2	183	1.58
inventories	2,526	20.34	2,634	22.7
Income tax receivable	92	0.74	86	0.74
other current assets	425	3.42	506	4.38
Assets classified held for sale	272	2.19	11	0.09
Total current assets	7,347	59.17	6,857	59.11
Property, Plant and Equipment	1,454	11.7	1,238	10.67
Goodwill	1,169	9.41	1,204	10.38
Trademark	1,432	11.53	1,419	12.23
Other intangible assets	162	1.3	164	1.41
Long term financial assets	129	10.03	120	1.03
Other non curent finance assets	42	0.34	30	0.26
Deferred tax assets	577	4.65	486	4.19
Other non-current assets	105	0.86	81	0.69
Total non-current assets	5,070	40.83	4,742	40.88
Total assets	12,417	100	11,599	100
Liabilities and Equity				
Short-term borrowing	288	2.32	681	5.87
Account Payable	288	2.32	681	5.87
Income taxes	294	2.37	240	2.07
Total current liabilities	4,378	35.25	4,732	40.78
Total non-current liabilities	2,422	19.51	1,386	11.95
Reserves	581	4.68	321	2.77
Shareholder equity	5,624	45.24	5,489	47.32
Total equity	5,618	45.25	5,481	47.25
Total liabilities and equity	12,417	100	11,599	100

Finger;3. Vertical Analysis



One of main issues when using vertical analysis for balance sheet is what to use as the benchmark in the percentage calculation (Atrill & McLaney, 2002). The usual benchmarks are total asset or total liabilities when calculating assets and liability line item percentages, and the total of all equity accounts when calculating all equity line item percentages.

The analysis shows that the total assets of the company increased from 2013 to 2014 and there is a slight increase in total current assets. Adidas has 59.17% higher the proportion of current assets in case to cover

all current and non-current liabilities which is total 54.76%. The company also has 13.55% of cash and cash equivalents which can cover short-term borrowing (2.32%) account payable (2.32%) income taxes (2.37%) total amount of 7.01%. The analysis shows that, Adidas strong working capital position and its ability to meet its near-term obligations.

2.5 Financial Ratios

A sustainable organisation requires effective planning and financial management (Lewellen, 2004). Ratio analysis provides key indicators of organisational performance which will help to understand the organisation financial results and trends over time (Barnes, 1987). The ratio analysis reveals valuable information about organisation's financial attributes and it helps to compare organisation's ratio with prior periods, competitor or industry average, that will benefit to understand the current business position of the organisation (Schoenebeck & Holtzman, 2013). Whittington (2007) has recognised that two principal uses of financial ratios; normative use ratio for organisation's ratio compared with a standard and positive use in identifying empirical relationships such as predictive purposes.

Summarising quite complex accounting details into a relatively small number of key indicators is one of main reasons to calculate ratio (McLaney, 2006). However, deferent users have different interests in financial information which will determine the ratios they need to use (Atrill & McLaney, 2002). For example, investors are interested more in profitability ratios, liquidity ratios and solvency ratios. Therefore it is important to identify the objective of the finance report before calculating the ratios for generates useful data (Walsh, 2008).

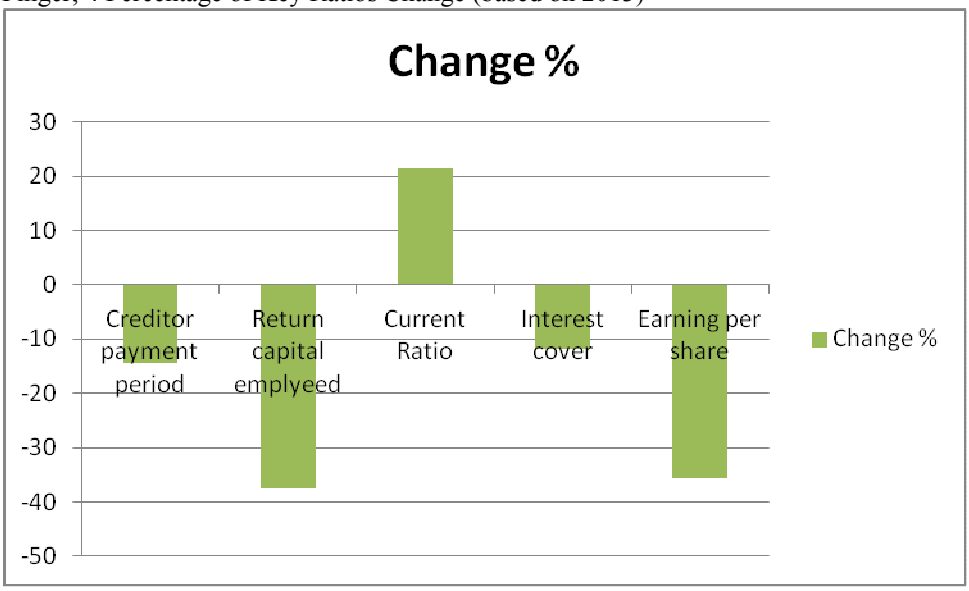
2.6 Key Ratios

The ratios to be analysed are credit payment period, return capital employed, current ratio, net profit margin and earnings per share. These ratios influence on financial health of the company and important for managers, stakeholders, investors, lenders and suppliers. These ratios are a part of ratios such as liquidity ratios, productive ratios, profitability ratios investment ratios and overall performance ratios (appendix, I).

Table; 4 Key Ratios Analysis

Item	2014 year	2013 year	Change %
Creditor payment period	79.2 days	92.5 days	-14.38
Return capital employed	€ 0.1 (10%)	€ 0.16 (16%)	-37.5
Current Ratio	1.7 : 1	1.4 : 1	21.42
Interest cover	13.50	15.20	-11.84
Earnings per share	€ 2.43	€ 3.78	-35.71

Finger; 4 Percentage of Key Ratios Change (based on 2013)



Creditor payment period is a liquidity ratio that indicates an organisation's capacity to pay off its account payable (Bernstein & Wild, 1993). This ratio is a useful calculation to assess the liquidity position of a business (Australian shareholders' association, 2010). It shows how many times an organisation can pay off their average accounts payable balance during the one financial year.

In 2013, Adidas took more than 92 days to pay their traders. In general organisations that need to maximise their cash flow have to take as long as possible to pay its bills (Brigham & Houston, 2004). But 92

days is a far long time, it can be seen when compared with Nike which took just 24 days to pay off their bills in 2013 financial year (Appendix.2). There is several risk associated with taking more time than their agreement with the supplier such as loss of supplier goodwill and potential for late-payment charge and threat of legal actions (Bernstein & Wild, 1993). However, in 2014 Adidas was able to reduce the payment days for 79 day it was 14.38% reduction when it compare to 2013. This could be good news for suppliers and lenders of the Adidas Company.

Return on capital employed (ROCE) is a profitability ratio which indicates how efficiently an organisation can generate profits from its capital employed by comparing profit before interest and tax to capital employed (Keown et al., 2008). This ratio calculation illustrates how much profit each Euros of employed capital generate; a higher number of ratio mean more Euros of profits generated by each Euros of capital employed.

Adidas generated € 0.16 for € 1 investment in 2013 and was reduced to € 0.10 by 37.5% in 2014. These numbers indicate that company assets' performance is struggling and the company long term financial problem. In 2013 and 2014 Nike had € 0.24 ($.026) and €0.22 ($0.22) ratio amounts respectively (appendix.2). According to the return on capital employed calculation, Adidas is below in long term financial performance than Nike by 33.33% in 2013 and 54.54% in 2014. This mean Adidas' amounts of assets are hindering them to achieve a high return. Adidas Company is declining the money return on every euro invested in the business and burns up more capital to generate profits. Decline in ROCE could signal the loss of competitive advantage and bad news for stakeholders and investor.

The current ratio is a liquidity ratio which shows the proportion of current assets of a company in relation to its current liabilities (Bernstein & Wild, 1993). The calculation shows a company's ability to repay short-term liabilities. The ratio of 2:1 consider as the benchmark, however it could vary across industries (Atrill & McLaney, 2002).

In 2013, Adidas 1.4:1 ratio which indicate the sufficient money to meet current liabilities. However, that amount is far below to the benchmark. It indicates the risk of unable to pay off its obligations. End of 2014 Adidas came to good financial health which indicates 1.7:1 amount in current ratio. This ratio reflects using the current ratio in different ways as high current ratio may suggest company is not managing its working capital well (Keown et al., 2008). But it could not be easily liquidated all current assets in a company as current ratio assumed; this is one of error in using this ratio (Australian shareholders' association, 2010).

The interest cover ratio is calculated as the ability of a company to pay the interest on its outstanding debt (Bernstein & Wild, 1993). It helps to calculate how many times a company could pay its current interest payment with its available earnings. A company's capacity to meet its interest obligations is an aspect of a company's solvency as it is an important factor in the return for stakeholders (Brigham & Houston, 2004). Therefore, the ratio is used to determine the risk of lending funds to a company by creditors, lenders, and investors (Bernstein & Wild, 1993).

Adidas had 15.20 and 13.50 interest cover ratios in 2013 and 2014 respectively. In general, interest cover ratio warning sign margin is 2.5, that the company should be careful about their future financial situation (Keown et al., 2008). In this situation, Adidas is in good financial health with confidence to pay their interest for lenders. But they have to consider about 11.84% reduction of their ability in 2014.

The earning per share ratio indicates the amount of company's profit allocated each outstanding share of common stock (Australian shareholders' association, 2010). Indicating high amount of earning per share ratio signals potential of generating a significant dividend for investors (Bernstein & Wild, 1993). Adidas had € 3.78 earnings per share in 2013 and it reduced to € 2.43 in 2014. Reduced net income in 2014 directly effected on this sudden decline. Somehow, Adidas shareholders can satisfy the earning per share in Adidas when compared to Nike as they generated € 3.09 ($3.35) per share in 2014.

In summary, Adidas had some financial difficulties in 2014 when compared to 2013 financial year. Especially company has trouble on capital efficiency as employed capital is not generating sufficient income. However, identifying a company's financial situation is more difficult and it is important not to rely on few financial measurements (Brigham & Houston, 2004).

3. Conclusion

The company is performing well and it will continue to make profit and revenues for next financial years. However Adidas could be affected with considerable risks according to high operating expenses which hinder the overall performance and net income. The company had € 0.1 ROCE that means less efficiency in capital employed in the company. Therefore capital should be invested on a productive manner and unproductivity assets such as vacation properties and personal use vehicles should be sold as soon as possible. Capital should invest on most productive assets which will help to increase the revenue such as equipment for factory, vehicles for sales and showrooms. Adidas had €14,534 net sales in 2014 while their main competitor Nike had €25531 ($27799). Next financial year, Sale of the products should be increased along with their prices in order to acquire more working capital which will help to fund further competitors. Increasing operating cost is the main reason of

the decline of the net profit in Adidas Company. The earning per share declined to € 2.43 in 2014 due to this reason. Therefore, the company should establish cost cutting goals, maximise employees task efficiency and consider about outsourcing. The company should implement quality assurance practice and procedures throughout the entire business for increase sales.

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Appendices

Appendix I. Calculation for ratios

Current Ratio	Calculation	Ratios
2014	7,347/4,378	1.7 : 1
2013	6857/4732	1.4 : 1
Quick Assets Ratio		
2014	(7,347-2,526)/4,378	0.9
2013	(6,857/2,634)/4732	0.9
Cash Ratio		
2014	1,683/4,378	0.4
2013	1,587/4,732	0.3
Stock Turnover		
2014	7,610/{2/(2,526+2,634)}	3
2013	7,202/(2,634+2,486)}	2.8
Average time in stock		
2014	(2,526/7,610)365	121.2 days
2013	(2,634/7,202)365	133.5 days
Turnover per Employee		
2014	14,534/49,808	0.27
2013	14,203/53,731	0.29
Asset Turnover		
2014	14,534/(12,417-4,378)	1.8
2013	14,203/(11,599-4,732)	2.1
Fixed Asset Turnover		
2014	14,534/5,070	2.9
2013	14,203/4,742	3
Working capital turnover		
2014	14,534/(7,347-4,378)	4.9
2013	14,203/(6,857-4,732)	6.7
Return capital employed		
2014	835/(12,417-4,378)	0.1
	1,113/(11,599-4,732)	0.16
Average turnover per Employee		
2014	14,534/{2/ (46,306+49,808)}	0.28
2013	14,203/{2/ (49,808+53,731)}	0.29
Gross profit margin		
2014	(6,924/14,534)100	47.60%
2013	(7,001/14,203)100	49.30%
Net profit margin		
2014	(496/14,534)100	3.40%
2013	(790/14,203)100	5.60%
Earning per share		
2014	(496,000,000/204,327,044)	€ 2.43
2013	(790,000,000/209,216,186)	€ 3.78
Earning yield		
2014	(2.43/57.62)	€ 0.04
2013	(3.78/92.64)	€ 0.04
Dividend cover		
2014	(496/314)	1.6
2013	(790/282)	2.8
Dividend yield		
2014	(314,000,000/204,327,044)/ 57.62	€ 0.03
2013	(282,000,000/209,216,186)/92.64	€ 0.01
Interest cover		
2014	835/62	€ 13.50
2013	1,181/73	€ 15.20
Return on capital employed		
2014	835/(12,417-4,378)	0.1
2013	1,113/(11,599-4,732)	0.16
Return on shareholder's funds		
2014	(568/5,624)100	10.10%
2013	(839/5,481)100	15.30%
Debt collection period		
2014	(1,946/14,534)365	48.9 days
2013	((1,809/14,203)365	46.5 days
Creditor payment period		
2014	(1,652/7,610)365	79.2 days
2013	(1,825/7,202)365	92.5 days

Appendix II. Nike ratios Calculation

Creditor payment period (Nike)	Calculation	Ratios
2014	(1,930/27,799)365	25.3
2013	(1,669/25,313)365	24
Return capital emplyeed(Nike)		
2014	3,544/(18,594-5,027)	0.24
2013	3,256/(17,545-5,027)	0.26
Earning per share Nike		
2014	2,693/883.4	$3.35