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The Dow Jones Business and Financial Weekly

November 6, 2006 \$4.00

Adidas
Gets a New
Bounce
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Ready to Score: Adidas' Smart New Playbook

by Christopher C. Williams

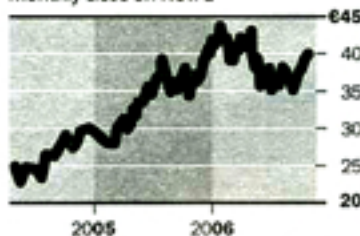
NO COMPANY GOT A BIGGER KICK OUT OF THE SUMMER'S WORLD Cup than Adidas, the No. 2 sporting-goods maker behind Nike.

The German company served as the official sponsor of the quadrennial soccer extravaganza, which was played in its home country. Adidas (ticker: ADS GR) covered stadiums with its ads, clothed

Ohio public-relations account manager Cheryl Besl, who's completed three marathons since 2002 wearing Adidas, is an ardent fan of Supernovas. She buys at least two pairs of Adidas a year, including a bright-green pair after the Columbus Marathon last month. "They are very comfortable," she says. "I won't try another brand."

Adidas holds a leading 38% of the global market for soccer gear. Although it still lags Nike in sports shoes overall, it intends to start catching up.

Adidas Salomon (ADS GR - Frankfurt)
Monthly close on Nov. 2



Source: Bloomberg

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market share in the U.S. and increase operating margins.

Analysts also expect Adidas to push up annual sales and earnings at a spiffy double-digit pace by exploiting its leading brand-identity in the world's most popular sport, soccer—which should help it expand in emerging markets such as Asia and Latin America, where sales grew more than 30% in the first half.

Adidas, which sells everything from jerseys to socks to golf clubs through TaylorMade and Reebok as well as its own brands, gets 42% of its revenue from Europe, and 33% from North America—thanks mainly to Reebok. Founded in 1949 by Adolf Dassler, Adidas, like Nike, made its name as a footwear company; shoes kicked in about half of last year's revenue of €7 billion.

The addition of Reebok, which Adidas bought in January for \$3.8 billion, is expected to pump up overall sales by more than 40% this year, to about €10 billion. Adidas already is benefiting from Reebok's powerful U.S. distribution network, and it's making a promising push in basketball gear, long the domain of Nike.

Net profit, driven by the Adidas brand and TaylorMade golf business, could increase 33% this year to €510 million, or €2.46 a share, analysts say. Next year, sales should grow 10%, a more sustainable pace, to around €11 billion, while net income increases to €631 million, or €3.05 a share, thanks to improvement at Reebok.

The market is valuing Adidas at 18.4 times analysts' 2006 earnings-per-share estimates, a discount to the 19.7 price-to-earnings ratio of Susquehanna Financial Group's index of European athletic-brand companies like Puma (PMMAY).