

## CORPORATE STRATEGY

Everything we do is rooted in sport. With sport playing an increasingly important role in more and more people's lives, on and off the field of play, we operate in a highly attractive industry. Through our authentic sports brands, we push the boundaries of products, experiences and services to drive brand desire and capitalize on the growth opportunities in sport as well as in sports-inspired casual and activewear.

### OUR CORE BELIEF: THROUGH SPORT, WE HAVE THE POWER TO CHANGE LIVES

The importance of sport, however, goes far beyond that. Sport is central to every culture and society and is core to an individual's health and happiness. Therefore, we believe that, through sport, we have the power to change lives. And we work every day to inspire and enable people to harness the power of sport in their lives.

### OUR MISSION: TO BE THE BEST SPORTS COMPANY IN THE WORLD

It is our mission to be the best sports company in the world. Best means that we design, build and sell the best sports products in the world, with the best service and experience, and that we do so in a sustainable way. Best is what our consumers, athletes, teams, partners, media and shareholders will say about us. We are confident that we will see improvements with regard to market share, leadership and profitability once people are saying that we are the best.

### STRATEGIC BUSINESS PLAN: CREATING THE NEW

'Creating the New' is our strategic business plan until the year 2020. Our ambition to further drive top- and bottom-line growth by significantly increasing brand desirability builds the core of Creating the New. The strategic business plan therefore focuses on our brands as they connect and engage with our consumers. This consumer-centric approach is

driving significant improvements in the desirability of our brands and has increased our relevance with consumers around the globe. As a result, we are gaining market share in those categories, markets and cities that we have identified as future growth drivers for our company.

### STRATEGIC CHOICES

Our strategic business plan has a powerful foundation in our unique corporate culture and is built around three strategic choices that will support us in intensifying our focus on our consumers and will drive brand desirability: Speed, Cities and Open Source.

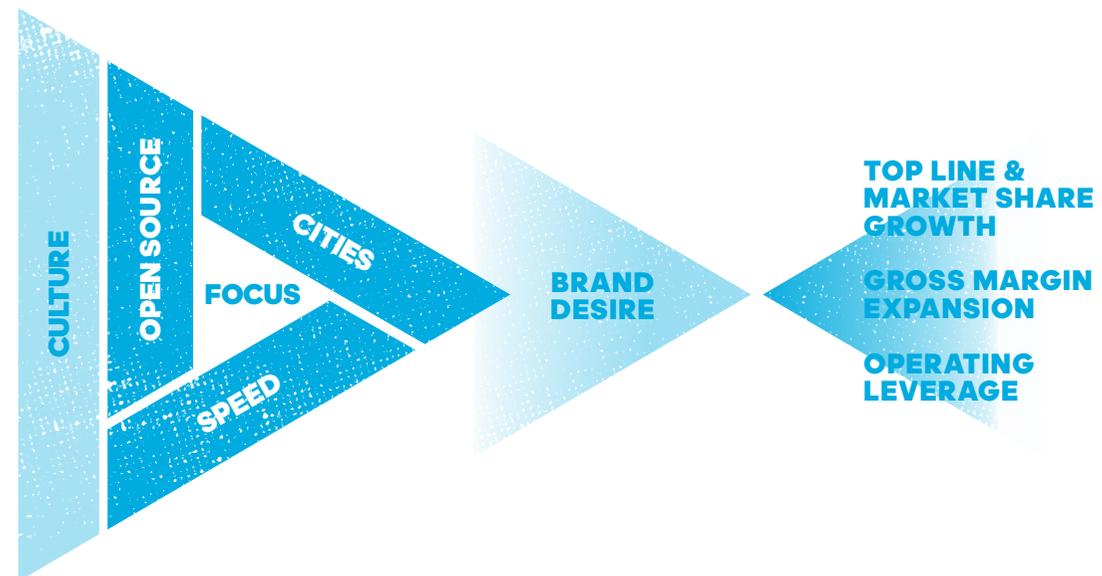
### Culture

We have great talents in our organization who work with passion for sports and our brands. Our people will bring our strategy to life and our culture will make the difference in achieving our long-term goals. We are convinced that a culture of creativity, collaboration and confidence will be a key enabler for us to Create the New. [SEE PEOPLE AND CULTURE, P. 81](#)

Our leaders role model this behavior. To enhance our leadership structure, we established the Core Leadership Group at the end of 2016. This selected group of leaders is mainly responsible for driving the execution of our strategic business plan, with a particular focus on improving cross-functional collaboration and decision making. In 2017, we

Our strategy: 'Creating the New'

14



continued to sharpen our leadership structure by adding an Extended Leadership Group which supports the Core Leadership Group in implementing our strategy and which will serve as a succession pipeline for Core Leadership Group members. The Leadership Framework, introduced in 2017, unites all leaders in our company through a clear definition of what strong leadership looks like at adidas.

We believe that a performance culture is essential to successfully executing our strategy. To further promote a performance culture within our company, we have finalized a new way of developing our people and evaluating their performance. In addition, we made major progress in recalibrating our approach to compensation and benefits. Long-term remuneration for our senior management, for instance, will be simplified and linked to the development of the company's bottom line and our share price going forward in order to further align the interests of our senior leaders with the interests of our shareholders.

As a company, we value diversity and promote inclusivity. While today our employee base is already very diverse in terms of nationalities, we also aim to continuously increase the share of females in leadership positions. With the appointment of Karen Parkin to the Executive Board in May 2017, we have made further progress in this regard. In addition, between July 2015 and June 2017, the share of women at Board-1 level increased from 11% to 18%, and at Board-2 level the percentage of women grew from 26% to 29% during the same period. [SEE PEOPLE AND CULTURE, P. 81](#)

### Speed

Driving brand desirability begins with putting our consumers at the heart of everything we do and serving them in the best possible way. This involves ensuring that consumers always find fresh and desirable products where and when they want them and with an unrivaled brand experience. This, in turn,

means to us being able to anticipate what consumers want and reacting accordingly in a timely manner. Being fast will give us a decisive competitive advantage. The benefits include higher product availability, reduced inventory risk, incremental net sales and higher margins. Speed is therefore a critical and powerful lever for us.

We are using our industry-leading experience to further evolve our entire business model end-to-end, from range planning to product creation, sourcing, supply chain, go-to-market and sales. In this context, our Speed concept builds on three programs:

- **Never out of stock:** We strengthen our existing 'never-out-of-stock' business proposition by setting a global, permanent offer with longer life cycles and continuous reproduction and replenishment. This ensures our most iconic and desired products are permanently available to our consumers.
- **Planned responsiveness:** Systematically monitoring trends at the point of sale enables us to better read demand signals, re-order seasonal products on shorter lead times and deliver them within the season. By doing so, we can repeat seasonal product successes and fulfil higher consumer demand than initially forecast.
- **In-season creation:** We create ranges later in the season to ensure we capture the latest trends in our industry. This, in turn, helps us to create unexpected newness and drive brand desire.

Since the launch of the Speed programs, we have steadily expanded the coverage. All categories and markets have now been fully onboarded and started to capitalize on the benefits of the Speed programs. The net sales share of speed-enabled products has continuously increased to a level of 28% in 2017 which is fully in line with our overall ambition to increase the share of speed-enabled products to at least 50% by 2020. In addition, we are making further progress to achieve a 20%

higher share of full-price sales with this part of our business compared to the regular range.

In addition to focusing on Speed in our existing supply chain and production processes, we also explore new, disruptive business models and technologies to make us faster. At the end of 2015, we opened our first *Speedfactory* [SEE GLOSSARY](#) in Ansbach, Germany. Using smart manufacturing instead of centralized production, it brings production closer to where the consumer is. It opens doors to the creation of products completely unique to the fit and functional needs of our consumers, through a combination of the craft of shoemaking and cutting-edge technology. 2017 saw the first major product to be created at the Speedfactory: The AM4 series, an individually designed and manufactured shoe made for our global key cities, went into production. In addition, we opened a second Speedfactory in Atlanta, USA, to create product more quickly for and closer to the US consumer. Bringing the two factories up to speed is what we are focusing on in 2018. And while Speedfactory enables us to rethink conventional manufacturing processes, it also enables us to continuously learn from it, which in turn will help us to also improve efficiency and increase opportunities within the traditional supply chain, which will remain the backbone of our global sourcing activity.

[SEE GLOBAL OPERATIONS, P. 74](#) [SEE INNOVATION, P. 78](#)

### Cities

Urbanization continues to be a global megatrend. Most of the global population lives in cities and already today cities account for around 80% of global GDP. Cities are shaping global trends and consumers' perception, perspectives and buying decisions. To be successful in the future, we therefore need to win the consumer in the world's most influential cities. We have identified six global megacities in which we want to over-proportionally invest to grow share of mind, share of market, share of trend: London, Los Angeles, New York, Paris, Shanghai and Tokyo.

We aim to deliver extraordinary experiences to consumers in these cities across all touchpoints by engaging more deeply with them in communities where they live, places where they work, fields, courts and streets where they play and doors where they shop. At the same time, we strive to create high synergies between our activation and commercial efforts. This also includes aligning our initiatives with similar activities of key retail partners.

It is our goal to create an end-to-end ecosystem in these cities which connects consumers to relevant products, through bottom-up activation and holistic retail experiences:

- **Activation:** Our global key cities offer a unique platform to activate our brands. Key successes in 2017 include the ‘Green Light Run’ in Tokyo, receiving six Cannes awards, as well as the Parley ‘Run for the Oceans’ in New York City and the launch of our new football footwear franchise Nemeziz in London, which have not only created brand heat in the respective cities but also received significant global social media coverage.
- **Products:** We continue to drive a multi-pronged strategy of product introductions, focused across all six cities, including global campaign launches and exclusive collections. With the launch of the AM4 series in 2017, we introduced the first shoe that was co-created with consumers from our global key cities and tailored to their unique demands. Produced in our Speedfactory, the AM4 saw its debut in London and Paris at the end of 2017, with the remaining four global key cities to follow in 2018.
- **Experiences:** We are committed to providing premium retail experiences to our consumers with executions that connect, engage and inspire them. The opening of our second adidas Originals flagship store in London in 2017 set a new benchmark in the industry. Moreover, in collaboration with our retail partners, we made significant progress in transforming retail spaces into premium shopping spaces in key doors within key trade zones.

The 2017 results for several KPIs (NPS and market share) signal we are well on track to achieve our long-term target to double revenues in our global key cities by the end of 2020 compared to 2015. Our global cities make an above-average contribution to the overall growth of our company and help us achieve market share gains. In addition, we also experienced a relative improvement in brand desire in most of our key cities.

### Open Source

Open Source is a collaboration-based innovation model that aims to build brand advocacy by opening the brands’ doors to the consumer and by inviting him or her to co-create the future of sport and sports culture with us. It is about learning and sharing, about starting conversations between the brand, external experts and consumers and about giving them the chance to have an impact on what we do. We provide access for externals to tools and resources we use to create, thereby acquiring and nurturing creative capital, and explore new territories so as to create unprecedented brand value for the consumer beyond mere transactional businesses.

We have defined three strategic initiatives for Open Source:

- **Creative collaborations:** Creative collaborations increase our creative capital through new tools, new environments and new perspectives from outside creative thinkers. They are meant to give creativity a platform and provide the right tools for ideas to blossom. With the Brooklyn Creator Farm, for example, a design space and creation hub, we offer urban creative talent a platform and invite them in to fuel innovation in sport with their ideas, outside any regular seasonal product creation calendars. Following the initial set-up phase in 2016, the creator farm has meanwhile started to have a visible impact on our creative direction and leaves a footprint in the local creative community. In addition, we have evolved our successful

creative partnerships with Alexander Wang, Kanye West and Stella McCartney, among others, to further drive brand desire and growth.

- **Athlete collaborations:** Through athlete collaborations we aim to build communities of athletes that help shape the future of their sport together with us. Such collaborations include relationships with the world’s best athletes and teams, but they also take place on a local level. To directly engage and interact with a broader consumer community, we have expanded our digital and physical space projects in 2017. For instance, ‘adidas runners’, a highly engaged community of runners, now counts over 50,000 active runners in Western Europe alone. Other collaborations include Wanderlust, a producer of the largest yoga lifestyle events in the world, or our Tango League, a grassroots event for the football enthusiast, among others.
- **Partner collaborations:** The strategic initiatives in the area of partner collaborations intend to open up our knowledge of sport by working with the best in other fields. By exchanging core competencies, we will create unique value for our brands and ultimately also for our consumers. Our partnership with *Parley for the Oceans* [SEE GLOSSARY](#) serves as a prime example. As a founding member of the organization, our support goes far beyond financial aid to fund beach clean-ups. In 2017, we launched multiple franchise silhouettes, such as the UltraBOOST, NMD or EQT, made out of *Parley Ocean Plastic* [SEE GLOSSARY](#). In total, we have produced more than one million pairs of shoes using Parley Ocean Plastic. [SEE SUSTAINABILITY, P. 88](#) In addition, we joined forces with Carbon, a company pioneering in the field of 3D printing, to launch a new product and platform: Futurecraft 4D. Driven by athlete data, a production process called ‘Digital Light Synthesis’ enables us to print previously impossible designs without labor-intensive and complex assembly. The Futurecraft 4D shoe launched in 2017 and will be expanded in the course of 2018. [SEE INNOVATION, P. 78](#)

We remain committed to embedding external creative capital in our processes to extend our possibilities in creating the future of sport. To ensure that we are at the pulse of the consumer journey at key moments and touchpoints in their lives, we have identified two key targets which we are progressing against: On the one hand, we aim to drive brand heat by inviting consumers to become part of our creative culture, thereby measuring the user-generated content on social media, and on the other hand to grow the number of users in our digital ecosystem. For both targets, we made considerable progress in 2017. By using the insights we generate through Open Source, we will craft better products and services for our consumers, driving improvements in brand desire, sales, market share and profitability.

### 'CREATING THE NEW' ACCELERATION PLAN

In March 2017, we introduced a number of initiatives to foster brand momentum and accelerate top- and bottom-line growth:

#### Portfolio

Every entity must contribute to the success of our company, be it a brand, a channel or a market. We constantly revisit the performance and strategic fit of our portfolio, now with a narrowed focus on operating within our core strength areas of athletic footwear and apparel. This will allow us to reduce complexity and pursue our target consumer more aggressively with both the adidas and the Reebok brand. In 2017, we completed the sale of the TaylorMade, Adams Golf and Ashworth brands as well as our CCM Hockey business. In addition, we continued to execute upon Reebok's turnaround plan 'Muscle Up', aimed at accelerating the brand's top-line growth and improving its profitability.

#### adidas North America

North America represents the biggest market in the sporting goods industry with a total share of approximately 40%. At the same time, from a geographical perspective, North America

represents the biggest opportunity for the adidas brand, given its relatively small market share compared to other regions. To improve the adidas brand's overall positioning in the region, we have made North America a strategic priority and started to significantly increase our investments into North America in order to be more relevant and always visible to the consumer. In this context, over the last years, we have stepped up investments into our organizational set-up, including the further expansion of our US headquarters in Portland, elevated our marketing efforts and upgraded our distribution infrastructure. As a consequence of those initiatives, North America saw strong double-digit top-line growth in each of the past three years, despite an increasingly challenging and promotional environment. While we are pleased with the progress we have been making in North America in recent years, we are still not satisfied with our current position, which leaves significant upside for the years to come. Therefore, going forward, we will continue to execute our game plan for North America in order to continue to increase our market share and reach our target of € 5 billion in revenues for the adidas brand by 2020. North America, however, is more than just a market share story, as our profitability in the region remains below our global profitability level even after significant improvements in 2017.

#### ONE adidas

We continuously strive for operational excellence. ONE adidas encompasses a set of initiatives that will enable our company to work smarter, more efficiently and in a more aligned way. By focusing on three pillars – *Brand Leadership* [SEE GLOSSARY](#), marketing effectiveness and operating efficiency – we challenge the current standards and norms in our organization. In order to create a more scalable business model, we will therefore focus on those opportunities that enable us to standardize and harmonize current processes and procedures. In this context, 2017 saw the kick-off of several initiatives which will significantly improve our

operating efficiency and profitability in the years to come, and disciplined execution has yielded some first positive results already. For example, we achieved a further reduction of our product range and marketing concepts. This not only has a positive impact on profitability but also increases the impact of our product franchises. Similarly, we carried out major simplifications on the material, packaging and production side, which helped us to realize an increase in product margins. Our pipeline of initiatives aimed at enabling scalability and operating leverage is filled and we expect more benefits to flow through in the years to come.

#### Digital

The digital transformation is fundamentally changing the way our consumers behave and the way we work. Technology has enabled us to accelerate building direct relationships with our consumer. Improving digital capabilities along the entire value chain enables us not only to interact with the consumer, but also to become faster, better and more efficient in every part of the organization. In 2017, we established the 'Digital Leadership Team' with the purpose to orchestrate the digital initiatives across the company and support functional teams in decision making. In collaboration with the Executive Board, the Digital Leadership Team has defined a clear roadmap of digital priorities. In this context, our own e-commerce sites adidas.com and Reebok.com are our biggest and most important stores, which enable growth by delivering a unique consumer experience that is premium, connected and personalized. To support our 2020 own e-commerce revenue target of € 4 billion, we went through a major paradigm shift in 2017 in how we gear and align our activities towards digital. As we continuously improve our digital capabilities in order to serve our consumer in the best possible way, in 2017 we introduced new features and technologies on our online platform to improve the shopping experience. In addition, 2017 saw the launch of the adidas shopping app with more than 600,000 downloads in less than two months. With 57%

growth, our e-commerce platform was by far the fastest-growing channel in 2017.

### FINANCIAL AMBITION UNTIL 2020

Creating long-term value for our shareholders drives our overall decision-making process. Therefore, we are focused on rigorously managing those factors under our control, making strategic choices that will drive sustainable revenue and earnings growth and, ultimately, operating cash flow. We are committed to increasing returns to shareholders with above-industry-average share price performance and dividends. [SEE INTERNAL MANAGEMENT SYSTEM, P. 102](#)

Our unique corporate culture and the three strategic choices will continue to be step-changers with regard to brand desirability and brand advocacy. In combination with the initiatives that are part of our acceleration plan, this will enable us:

- **To achieve top-line growth significantly above industry average:** We aim to increase currency-neutral revenues annually between 2015 and 2020 at a rate between 10% and 12% on average (initially, in March 2015: high-single-digit currency-neutral increase).
- **To win significant market share across key categories and markets:** We have defined key categories within the adidas and Reebok brands that will spur our growth going forward. From a market perspective, we have defined clear roles for each of our markets, depending on macroeconomic trends, the competitive environment and our brand strength in the respective markets.
- **To improve our profitability sustainably:** We plan to substantially improve the company's profitability, growing our net income from continuing operations by an average of between 22% and 24% per year between 2015 and 2020 (initially, in March 2015: increase at around 15%; updated in March 2017: increase between 20% and 22%).

- **To deliver on our commitment to increase shareholder returns:** Creating the New includes a strong commitment to generating increasing returns for our shareholders. Given our firm confidence in the strength of the company's financial position and future growth ambitions, we target a consistent dividend payout ratio in a range between 30% and 50% of net income from continuing operations.

## ADIDAS BRAND STRATEGY

### MISSION: TO BE THE BEST SPORTS BRAND IN THE WORLD

The adidas brand has a long history and deep-rooted connection with sport. Its broad and diverse sports portfolio, from major global sports such as football and running, to regional heartbeat sports such as American football and rugby, has enabled the brand to transcend cultures and become one of the most recognized and iconic global brands, on and off the field of play. The adidas brand's mission is to be the best sports brand in the world, by designing, building and selling the best sports products in the world, with the best service and experience.

Driven by a relentless pursuit of innovation as well as decades of accumulating sports science expertise, the adidas brand has developed a truly unique and comprehensive sports offering. Spanning footwear, apparel, equipment and services, the brand caters for all, from elite professional athletes and teams to any individual who wants to make sport part of their lives. We help athletes of all levels to make a difference – in their game, in their lives, in their world. This is anchored in our core belief that, through sport, we have the power to change lives.

### CONSUMER OBSESSION: CREATING FOR THE CREATORS

The consumer is at the heart of everything the adidas brand does. By constantly developing desirable products and inspiring experiences, the brand strives to build a strong image, trust and loyalty with consumers. Through 'Creating the New', the adidas brand has refined its strategic direction, operational processes and incentive systems, to foster a culture of consumer obsession across its entire organization.

— **Operating model:** To ensure long-term success, it is important that we continue to challenge ourselves to learn and grow. We must constantly iterate to become faster and

stronger. Therefore, the adidas brand continues to evolve directed by the guiding principles of *Brand Leadership* [SEE GLOSSARY](#), our operating model. The aim of Brand Leadership is to provide an organizational structure which enables a 'consumer-obsessed' culture that can act with speed, agility and empowerment. In 2017, to further strengthen collaboration and alignment in execution across the sport-specific categories, we combined all of the sport-specific business units under one leadership. Similarly, we have created a new business unit called Core, which caters to the value consumer across categories. Moreover, to simplify the interaction between global and local organizations, we consolidated Brand Management and Concept-to-Consumer into a holistic marketing function. Finally, to streamline and align the two most future-facing functions, we consolidated Creative Direction and our Future Team to create continuity and creative fidelity stretching from upstream innovation, engineering and sports science through future design, advanced design, brand design and seasonal creative direction.

— **Creator archetype:** Owing to the rapid evolution of sport and sports culture, the adidas brand targets key consumer groups and influencers to create brand desirability and momentum through a well-defined consumer segmentation strategy. The consumer grid comprises six key quadrants (Male Athlete, Female Athlete, Young Creator, Streetwear Hound, Amplifier and Value Consumer), which are not mutually exclusive. Within this grid, it is key to win the most influential consumers, defined as the creator archetype. True to the brand's values, these influential consumers define themselves as a work in progress – are all doers and makers, first to adopt, focused on what's new and what's next. A large portion of creators live, play and work in the world's most influential and aspirational cities, a key reason for the company's Cities strategic choice. In 2017, the adidas brand accelerated global and local marketing initiatives to amplify the brand's creator positioning in the marketplace.

— **Consumer centricity:** Companies that put the consumer's voice as a centerpiece of their decision-making process have proven higher levels of success in creating brand advocacy. Therefore, we implemented a global Net Promoter Score (NPS) ecosystem in order to drive brand momentum in a measurable and objective manner. NPS, first introduced in 2015, has become an important part of the adidas brand's advocacy program. Through this program, we strive to understand consumers' perception (positive and negative) of the brand and the key drivers which motivate them to recommend the brand to their friends. [SEE INTERNAL MANAGEMENT SYSTEM, P. 102](#)

### PRODUCT FRANCHISES: CREATE THE MOST DESIRED SYMBOLS IN SPORT

We are convinced that footwear has the highest influence on brand perception among product categories. Footwear is also the most powerful driver of NPS, which in turn translates directly into consumer purchase intent and our potential to grow market share. Therefore, the adidas brand is focused on relentlessly creating newness in footwear, as a function of cutting-edge technological innovation with references to history, drawing from deep knowledge and an archive which are unrivaled in the industry. At the same time, the brand has a clear strategy to reduce the number of footwear models, putting a stronger focus on key franchises that can really make a difference for the brand. Such footwear franchises are defined as long-term concepts that we commit to for a multi-year period. The goal of franchises is not only to shape sport, but also to influence culture. They are built to create trends, rather than follow. They are targeted directly at the consumer through iconic features, stories and functions, and have the potential to be iterated and expanded over time. Their life cycles are being carefully managed, to ensure longevity. In addition, franchises will be prioritized throughout the value chain, building on the company's strategic choices of Speed, Cities and Open Source. The adidas brand expects its top

footwear franchises to represent at least 30% of the brand's footwear business by 2020. In 2017, key adidas brand franchises included modern icons such as the UltraBOOST, PureBOOST, Alphabounce, 'X', Nemeziz, NMD and EQT as well as a blend of past icons such as the Superstar, Stan Smith and Gazelle.

Following on from the strong success in footwear, in 2017 the adidas brand started to extend its franchise methodology and approach to apparel. Focused on a set of initiatives that have proven to be successful in footwear, the brand aims at accelerating its performance in apparel going forward. In this context, 2017 saw the successful evolution of the Z.N.E. Hoodie as part of the new Athletics apparel product line. The Z.N.E. Hoodie, specifically engineered to remove distractions and maximize athletes' focus in the make or break period before they compete, was succeeded by the Z.N.E. pants and a suite of related apparel products during the course of the year that live up to the same promise. At the same time, the adidas brand increased its resources and focal point on apparel innovation with a clear focus on fit, feel and aesthetic. This will include the further development of the recently launched Alphaskin franchise, a rejuvenation of the Clima platform, as well as more iterations within exciting growth platforms such as Primeknit in the years to come.

## WOMEN'S: A NEW DIMENSION TO DRIVE GROWTH

Winning the female consumer is an imperative for the adidas brand and offers tremendous growth potential. Women are active in all sports and, to a large extent, dominate social media and household shopping behavior. Given the magnitude of the business opportunity, in 2017, the adidas brand further invested resources in building a cross-functional women's organization and support infrastructure to set direction for creative, ranging, merchandising and marketing and to steer cross-category planning.

The adidas brand will relentlessly focus on five products for her: the bra, the tee, the tank, the tights and the running shoe. These are the five products the brand will innovate against, with the aim to create the best the industry has ever known in these five items. In 2017, the first results of this approach proved successful, with strong double-digit growth for our women's business resulting in an increase in the share of total business for the women's segment. A key highlight in this context was the launch of two global marketing campaigns: 'Unleash Your Creativity' telling the story of 15 female athletes who defy convention as well as a running-specific campaign 'Fearless AF', which aims to break down the stereotypes about female runners. In addition, the adidas brand increased its roster of female influencers around Karlie Kloss, Hannah Bronfman and Robin Arzon and continued to build on the partnership with Wanderlust, organizer of some of the largest yoga lifestyle events in the world.

## MARKETING INVESTMENTS: MEAN MORE BY DOING LESS

The adidas brand is focused on creating inspirational and innovative marketing concepts that drive consumer advocacy and build brand equity. As a result, we are committed to continue increasing our absolute marketing investments going forward. While the brand currently spends almost half of its marketing investments on partnership assets, with the remainder on brand marketing activities such as digital, advertising, point-of-sale and grassroots activations, we will decrease the ratio of marketing investments spent on *promotion partnerships*  [SEE GLOSSARY](#) to less than 45% by 2020. In addition, the brand will consolidate and focus resources to have the biggest effect on the creator and the brand's key franchises. This will be achieved by focusing on three priorities:

- **Reason to believe:** By harnessing the brand's creator positioning, the emotion of sport, and the power of sport to change lives, the adidas brand will communicate a reason to believe in the brand, letting the world know what distinguishes adidas from the competition.

- **Reason to buy:** The second priority is to harmonize and deliver globally consistent and impactful communication around the brand's key franchises. By investing more money against fewer items, the adidas brand will strive to elevate and maintain the iconic status of its key franchises, giving the consumer clear and compelling reasons to buy the product.
- **Sports communities:** Sports communities is where loyalty is built and earned. The adidas brand defines sports communities as those places where athletes are fully immersed in their sport with peers and friends. It's the football cage, the run base or the street court. Until 2020, the brand will therefore significantly step up its grassroots and local activation efforts, led by initiatives in the world's most influential cities.

In terms of partnership assets, while reducing the ratio of marketing spend and the number of partnerships, the adidas brand will nonetheless continue to bring its products to the biggest stages in the world through:

- **Events with global reach:** such as the FIFA World Cup, the UEFA EURO, the UEFA Champions League, Roland Garros (French Open) and the Boston Marathon.
- **High-profile teams:** such as the national association football teams of Germany, Spain, Argentina, Mexico, Colombia, Belgium and Japan, as well as top clubs such as Manchester United, Real Madrid, Bayern Munich, Juventus and Flamengo Rio de Janeiro in football, the New Zealand All Blacks in rugby, and American universities such as Miami, Arizona State and Texas A&M.
- **High-profile individuals:** such as football stars Lionel Messi, Paul Pogba, Gareth Bale, Mesut Özil and Gabriel Jesus, basketball stars James Harden, Damian Lillard and Andrew Wiggins, marathon record holder Dennis Kimetto, American football players Aaron Rodgers and Von Miller, baseball athletes Kris Bryant and Carlos Correa as well as tennis stars Garbiñe Muguruza and Alexander Zverev.

In addition, the adidas brand also has a number of strategic partnerships and creative collaborations in place. The strategic partnership with Kanye West is likely to be the most significant one ever created between an athletic brand and a non-athlete, while the collaboration between adidas Originals and Pharrell Williams remains highly influential. Top designers and design studios the brand works with include Yohji Yamamoto, Stella McCartney, Raf Simons, Gosha Rubchinskiy and Alexander Wang.

## SUSTAINABILITY

The adidas brand is committed to sustainability and our strategic partnership with *Parley for the Oceans* [SEE GLOSSARY](#) serves as a prime example. adidas has changed the game by starting mass production of shoes using *Parley Ocean Plastic* [SEE GLOSSARY](#), and the brand continues to push for a more eco-innovative future. In 2017, we created more than one million pairs of shoes using Parley Ocean Plastic and restated our ambition to reduce the use of virgin plastic. During 2017, the initiative was extended to adidas Originals, yielding pioneering outcomes such as the EQT Support ADV Parley, as well as to apparel performance products in the form of four Major League Soccer (MLS) football jerseys.

[SEE SUSTAINABILITY, P. 88](#)

## ROLE OF CATEGORIES

The adidas brand has assigned each category a role and ambition until 2020, allowing the brand to exploit short- and medium-term potential, while at the same time incubating long-term opportunities for the brand. There are four overarching roles: Lead, Grow, Amplify and Authenticate.

### Lead

- To lead in the sporting goods industry, we believe it is a must to lead in the world's most popular sport, football. As such, the adidas brand aspires to be the number one football brand in every market by 2020. This will be driven

by focusing on winning the football creator in key cities as well as increasing investment in the brand's football footwear franchises. In 2017, the adidas brand pursued its full reset of its football footwear business with the continued focus on the 'X', Nemeziz and Copa franchises as well as playing off its strong product heritage with the re-introduction of the Predator.

- The adidas brand also strives for leadership in lifestyle in every market with Originals. Not only is adidas the original sports brand, it also was the first brand to bring sport to the street. Brand credibility and heritage is an important prerequisite to win the discerning streetwear hound consumer. These consumers are looking for substance and craft and are inspired by stories and design. Growth in this category will be driven by iconic products from the brand's past such as the Samba, Stan Smith, Gazelle and Superstar as well as pioneering new contemporary silhouettes inspired by elements from the past and the future, such as NMD, EQT, Tubular and Swift Runner, which account for approximately 50% of the adidas Originals footwear offering.

### Grow

- The running category is the adidas brand's biggest growth opportunity across all genders and *price points* [SEE GLOSSARY](#). The brand's goal is to double sales in the category by 2020 compared to the 2015 financial year. Many innovations in the sports industry start in running. With groundbreaking innovation in materials such as Boost and pioneering new manufacturing processes being driven through Speedfactory, the timing is perfect for the adidas brand to strike in this category. To spur growth, amongst other things, adidas Running will significantly refine and evolve its franchise strategy for the male and female athlete, increase its investment in running communities and grassroots activations such as the Berlin and Boston

Runbases, as well as play a central role in driving the future of digital in sport in cooperation with Runtastic.

- The second category where the adidas brand is focused on driving significant market share gains is adidas Core. adidas Core targets a more price-conscious consumer, particularly in emerging markets, offering entry-price point styles across all categories. To ensure success, the adidas Core formula employs a 'fast fashion' business model. This means quick reaction to emerging trends through shorter lead times and excellence in retail execution.

[SEE INNOVATION, P. 78](#)

### Amplify

- The training category is the adidas brand's largest performance category and is also the apparel engine of the brand. Led by cutting-edge innovation in fabrics and materials, the adidas brand aims to significantly increase its apparel footprint through Training, which provides products for general training purposes as well as for specific sports, as well as through Athletics, which is geared to capturing the sports mindset of every athlete off the pitch. Given the high visibility of its products in all markets, this category plays a central role in amplifying the brand message and DNA.

### Authenticate

- In order to be the best sports brand in the world, the adidas brand also needs to be true to sports on a local level. As such, the brand will continue to cater to a wide range of sports such as golf, basketball, American football, baseball, outdoor, rugby, tennis, handball, volleyball, swimming and boxing. To maximize impact and resources, in key markets and cities, the adidas brand will prioritize those sports that are most significant in terms of local culture, participation and national pride.

## REEBOK BRAND STRATEGY

### MISSION: TO BE THE BEST FITNESS BRAND IN THE WORLD

Reebok is an American-inspired global brand with a deep fitness heritage and the mission of being the best fitness brand in the world. To realize this mission, the past years have been characterized by a transformation from traditional sports to fitness. The three sides of the Reebok Delta, a symbol of change and transformation, represent the physical, mental and social changes that occur when individuals embrace the challenge of bettering themselves in the gym, in their lives and in the world.

Throughout this journey, Reebok has invested in its training and running businesses to develop products that cater to all fitness routines, while returning to its fitness roots in Classics to support a fashion-forward lifestyle outside of the gym. Driven by its ambition to be the innovation leader in fitness, Reebok continues to merge its iconic past with new technologies that revolutionize both performance and lifestyle products.

### CONSUMER OBSESSION: THE GAME CHANGERS

Reebok's consumer obsession focuses on being distinctive, relevant, and authentic with its focus consumers – the Game Changers. These consumers, equally women and men, of all ages, are driven by becoming their absolute best mentally, socially and physically. The Game Changers participate in a range of activities, are fitness-centric and are inspired by the broader fitness world. They share four essential qualities to create a unified mindset: self-betterment, perseverance, confidence and non-complacency. These are the core values that hold the Game Changers together. They blend fitness into their lives, care about style, and are passionate about what they do. Through robust research and interaction with consumers, Reebok has taken significant time to understand the complexities of their fitness lifestyle across both product

performance needs and style desires, and seeks to exceed expectations across the spectrum.

Within that consumer group, Reebok will continue to focus on the female Game Changers going forward. Rooted in Reebok's heritage, the brand is putting women at the heart of everything the brand does. This female-centric approach, with women being the focal point of content strategy, marketing activation and distribution, is a fundamentally different approach compared to other brands in the industry. It will allow Reebok to become truly dual-gender with the goal of its women's business representing 50% of the brand's net sales. In recent years, the brand has made significant strides in having a distinct position with women by signing prominent influencers that are relevant to her.

### PRODUCT FRANCHISES: LEVERAGING THE BRAND'S FITNESS DNA

Reebok recognizes the importance of building strong footwear and apparel franchises, establishing innovative but repeatable product lines that become annuities for the brand and core items for the consumer. This is not only essential for enhancing consumer perception and brand consideration, but also essential for the efficiency of the Reebok brand.

For this reason, Reebok is heavily investing into franchises, making them a key priority going forward. By 2020, Reebok expects footwear franchises to represent at least 25% of the brand's total footwear business. Key franchises include *performance products* [SEE GLOSSARY](#) such as the CrossFit Nano or the recently launched FloatRide Run that have been authenticated by their respective communities, as well as styles that are unique to Reebok's fitness DNA, such as the Classic Leather and the Freestyle. In apparel, Reebok has established franchises specifically for women, such as the Lux Tight, which debuted in 2017. 2018 will see the introduction of

further apparel franchises focused on the female Game Changers.

Reebok puts a strong emphasis on innovation. The brand is committed to maintaining a full and innovative product pipeline, bringing new technologies, styles and processes to life. In this context, 2018 will see the launch of the PureMove Bra, a revolutionary sports bra featuring patented fabric technology that adapts to movement and intensity. Beyond technology platforms, Reebok is further investing into innovation that consumers can relate to, fostered by unique collaborations and stories. For example, in 2017 the brand launched the Reebok Innovation Collective, a consumer-facing platform to highlight this type of storytelling. [SEE INNOVATION, P. 78](#)

### MARKETING INVESTMENTS: AMPLIFYING BRAND PURPOSE AND DRIVING SCALE

Reebok is focused on creating inspirational marketing capabilities that build brand equity and consumer advocacy, while unleashing powerful brand messages. A key element of Reebok's marketing and communication strategy is to connect emotionally to consumers through its 'Be More Human' platform, supported by a number of relevant assets and influencers in the digital ecosystem.

— **Be More Human:** Inspiring people to be their absolute best physically, mentally and socially is not only the brand's guiding principle, but also the essence of Reebok's global marketing campaign Be More Human. Launched in 2015, Be More Human celebrates everyday people who choose to embrace fitness and lead more fulfilling and less self-focused lives. A suite of films launched in 2017 marks the evolution of Be More Human, opening the aperture to even more types of fitness and people, but with the same message that physicality unlocks a better version of yourself. To celebrate the launch, ReebokONE trainers

were available across several US cities, offering workouts in exchange for a simple handshake as a way to physically and socially connect people through fitness. The campaign is supported by 'Stories of Progress', an online collection of inspirational influencer testimonials, and related content at brand events, retailers and Reebok FitHub locations.

- **Authentic and influential fitness assets:** To amplify the brand and increase its relevance vis-à-vis the fitness consumer, Reebok has entered into a series of partnerships with some of the world's most influential artists and athletes, such as Future, Gigi Hadid and J.J. Watt. In 2017, music artist Ariana Grande, actress Nina Dobrev and high-profile designer Victoria Beckham joined Reebok's strong roster of brand ambassadors. In addition, to validate its authenticity as the best fitness brand in the world, Reebok has entered into partnerships with some of the fastest-growing and most innovative organizations in the fitness world, such as CrossFit, Ragnar, Midnight Runners and Les Mills. Finally, continuing to build relationships with fitness instructors is a crucial component of Reebok's goal of connecting with the global fitness community. With over 100,000 fitness instructors currently being part of its global network, Reebok has made major progress towards its goal to be the brand of choice for instructors around the world.
- **Digital ecosystem:** Reebok is changing the way it operates digitally to realize maximum growth potential. The brand recognizes the need to be relevant and authentic in the digital ecosystem, particularly for women. As a result, this ecosystem is the main channel for communication and marketing initiatives as well as from a commercial perspective, providing experiences and products online. Reebok is focused on improving speed, usability and consumer experience on Reebok.com, both mobile and desktop, with 2018 seeing further enhancements to Reebok's digital ecosystem.

## ROLE OF THE CATEGORIES

Running, Training and Classics each play vital roles for the Game Changers. Consequently, Reebok is focusing on those three categories to amplify its impact on the fitness enthusiast and leverage commercial opportunities from major fitness activities to lifestyle. Reebok Running's insight-driven and consumer-led approach supports authentic and desired cushioning experiences, leveraging innovative technologies for high-performance runners. Additionally, Reebok Running has also developed several contemporary silhouettes, which epitomize the intersection of innovation and style. Reebok Training remains central to Reebok's Game Changer mindset and offers a complete range of both highly specialized and versatile products that are at the forefront of fitness and true to the culture and community that Game Changers train and live in. Reebok Classics fuses the brand's fitness heritage with the modern looks of fitness reflected in Running and Training to support the Game Changer consumer who seeks to reflect a fitness lifestyle in every aspect of life.

## 'MUSCLE UP': REEBOK TRANSFORMATION STRENGTHENS BRAND FUNDAMENTALS

Over the last years, Reebok has made major progress in its transformation from a general sports brand to a 100% fitness-focused brand. While Reebok has recorded top-line growth for several years in a row, the brand's overall market share remains below levels seen in the past. In addition, there has been no growth in Reebok's home market, North America, in the recent past and the brand's margins are not accretive to the company's overall profitability.

Therefore, and as announced in 2016, Reebok continued to execute upon its turnaround plan 'Muscle Up' in 2017, aimed at accelerating Reebok's top-line growth in the US and improving its overall profitability. As part of this plan, the company has created one united team for Reebok in North America. As a result, Reebok's global and US organizations

were merged under one leadership team to streamline Reebok's organization and create an environment that is fully dedicated to fitness. In this context, Reebok moved its headquarters to a new location in the heart of the city of Boston during the course of 2017.

Furthermore, to win in North America, efficient and effective distribution is key to Reebok's future success in this all-important market. The company has therefore accelerated its initiatives to streamline Reebok's store base in the market. In total, the company will close nearly 50% of its own stores in the US market – both concept stores and factory outlets – with the majority of closures having been executed during 2017. At the same time, the brand is also streamlining its wholesale business, putting a clear focus on retailers helping Reebok to elevate brand equity and improve the quality of its growth.

In addition to streamlining Reebok's organizational set-up and progressing on the brand's turnaround efforts in the US market, an integral part of Muscle Up is focused on rethinking the core fundamentals of Reebok's end-to-end operations. Initiatives span across product development, go-to-market initiatives and marketing effectiveness to measures that help accelerate Reebok's product margins.

Executing against those initiatives will have a positive impact on Reebok's operational and financial performance and will accelerate the brand's top-line growth as well as significantly lift the brand's profitability in the years to come. In 2017, the first full year of executing Muscle Up, Reebok has already realized meaningful profitability improvements, as reflected by the brand's increase in gross margin of 4.0 percentage points to a level of 40.7%.

## SALES AND DISTRIBUTION STRATEGY

### TRANSFORMING THE MARKETPLACE

Our Global Sales function drives the commercial performance of the company by converting brand desire into profitable and sustainable business growth. It is our ambition to deliver the best shopping experience within the sporting goods industry across all consumer touchpoints. We strive to transform the marketplace by moving from managing the marketplace as it exists today toward shaping and growing our future destiny. Our objective is to establish scalable business solutions in order to deliver premium experiences, thereby meeting and surpassing consumer expectations with an integrated brand offering.

### DRIVING OPERATIONAL EXCELLENCE ACROSS OUR GLOBAL MARKETS

Our sales strategy is crafted by a centralized and integrated marketplace team which supports the flawless execution of our brand strategies and drives operational excellence across the globe. In this context, in 2017 we continued to execute our strategic business plan until 2020, 'Creating the New', across our nine global markets. During the course of 2017, we also completed all preparatory work to consolidate the markets Greater China, Japan, South Korea and South-East Asia/Pacific, creating one consolidated market for Asia Pacific (APAC). This will allow us to better serve the converging consumer and customer demands in the region in the years to come. In a changing global landscape, our diverse market portfolio is an important asset in maximizing the business, elevating our competitiveness and achieving our ambitions towards 2020.

### SEAMLESS CONSUMER JOURNEY ACROSS OUR CHANNELS

With more than 2,500 own-retail stores, around 13,000 mono-branded franchise stores and approximately 150,000

wholesale doors, we have an unrivaled network of consumer touchpoints within our industry. In addition, through our own e-commerce channel, our single biggest store available to consumers in over 40 countries, we are leveraging a consistent global framework. We are also seeing considerable success in leveraging our strong cross-functional partnerships with key wholesale partners, which is critical for ensuring a consumer journey to the full extent. By seamlessly integrating the channels within our market portfolio, we are uniquely positioned to pursue and succeed in strategies that deliver premium consumer experiences and increase the productivity of our distribution footprint. As we replicate this model to capitalize on new consumer opportunities through own retail destinations (own retail stores and own e-commerce sites) as well as our wholesale partner doors (wholesale managed spaces and e-wholesale) we create halo effects across all consumer touchpoints, resulting in further marketplace expansion.

In 2017, we advanced our sales strategy with several initiatives focused, amongst others, on premium consumer experience, marketplace transformation and productivity of the sales platform.

#### Premium consumer experiences

We aim to be 'omni-present' along the consumer journey and strive to capture the full sales potential on the platforms available to our consumers. We also strive to minimize occasions when consumer demand is not met, by offering innovative solutions. Based on these objectives, we focus on the following omni-channel initiatives:

- 'Inventory Check' which allows online shoppers to view in-store product availability.
- 'Click & Collect' which allows consumers to order online and purchase or reserve items for pick-up in a local store.

- 'Ship from Store' which allows us to service consumers faster than before by turning our stores into mini distribution centers.
- 'Buy Online, Return to Store' which not only provides consumers with a convenient way to return product purchases but also offers new buying opportunities.
- 'Partner Program' which enables us to expand our online offering to a larger group of consumers by making it available to selected key wholesale partners.
- 'Endless Aisle' which provides in-store visitors with access to our full range of products through our e-commerce platform.
- Our newly introduced 'adidas shopping App' is an always-on connection to the adidas brand and offers premium shopping experiences.

In 2017, we deployed a strategic mix of these capabilities across all our markets in our own-retail operations and at key wholesale partner locations. For example, based on the initial success of the Partner Program in 2016, we continued to onboard multiple partners across Western Europe and North America in 2017. In addition, 2017 saw the successful introduction of the adidas shopping App in Western Europe and the US. The App is directly linked to the adidas e-commerce store and provides consumers with personal conversations, a frictionless checkout, seamless order tracking as well as personalized content. The success of the App will be significantly enhanced by continued investments in Customer Relationship Management (CRM), which will enable us to develop a deeper consumer understanding and connection.

#### Marketplace transformation

Our goal is to leverage and scale the success of our initiatives across our channels to better serve consumers. The key contributor to this approach is controlled space. Whenever we can actively manage the way our brands and products are presented at the point of sale, the impact on the consumer

experience, and ultimately on our operational and financial performance, is significant. We have the power to do so in own retail (including e-commerce) and in wholesale (franchise stores, wholesale managed space and in e-wholesale). By 2020, we aim to generate more than 60% of our revenues through controlled space.

For us, own retail acts as a catalyst to our controlled space ambition. We amplify our success in own retail by translating key learnings to franchise stores and expanding franchising as a business model in existing as well as into new geographies. After the successful launch of our adidas flagship store in New York City in 2016, we opened our biggest ever adidas Originals flagship store in Chicago in 2017. We expect these flagships to set new standards in terms of product presentation, execution and service that will be replicated across all other channels. We expect e-commerce to continue to be the fastest-growing channel that we operate, with revenues forecast to grow to € 4 billion in 2020. In wholesale, we will continue to expand our footprint with a focus on prioritized key accounts, targeting important consumer hotspots and trade zones, especially those that are part of our Cities initiative. Strategic partnerships to operate controlled space remain an important thrust of this expansion.

### Cities and trade zones

In 2017, we saw continued success in New York City, Los Angeles, Paris, London, Shanghai and Tokyo. The combined revenue growth for our six key cities outpaced the company's overall top-line development. In addition, our *Net Promoter Score (NPS)* [SEE GLOSSARY](#) relatively outperformed in most of these key cities. To further drive momentum, we will continue to prioritize consumer insights, retail executions and wholesale partnerships across those cities. We have also started to focus on those cities by looking at them on a trade zone level, rather than on a key account and key doors perspective. Our intention is to create one holistic premium

shopping experience for our consumers within these key commercial areas across all identified distribution points of wholesale and own retail. The learnings from this transformation program provide a further boost to our Cities strategic choice and enable us to scale this opportunity up, by rolling it out to a much greater number of cities where we will apply a focus of investments in areas where our focus consumers live, play and shop.

### Specialty Sales

In 2017, we established the Specialty Sales organization. The objective of this organization is to drive brand heat and desire in boutiques and sneaker stores, thereby directly catering to our most influential consumers. The team provides superior service levels, customized range access across selected categories, such as running and Originals, as well as exceptional campaign roll-outs across the globe and has a clear alignment with our key cities and trade zones. Following initial success in 2017, with strong growth generated in boutiques and sneaker stores, we will continue to focus on growing our Specialty Sales initiatives in 2018 and beyond.

### Productivity and efficiency of sales platform

We are committed to further driving productivity improvements across our sales platform through a multi-faceted approach:

- **Premium presentation:** Our physical selling spaces are an important factor in driving Net Promoter Score (NPS) and full-price sell-through. We further evolved the brand experience through the launch and expansion of premium store concepts such as *Stadium* [SEE GLOSSARY](#) and *Neighbourhood* [SEE GLOSSARY](#) for the adidas brand as well as *FitHub* [SEE GLOSSARY](#) for the Reebok brand. Our own-retail concepts are designed for scalability. Consequently, we will continue to roll them out across our store base, which yields benefits across channels, considering the positive spillover impact on our wholesale and franchise partners.

- **Consumer service excellence:** In 2017, we established the Sales Academy. The program helps us to transform the culture and effectiveness of our sales teams. As a result, consumers enjoy significantly elevated service levels which have proven commercially rewarding through higher *conversion rates* [SEE GLOSSARY](#) and increased average selling prices.
- **Personalized interaction:** Our commitment to deliver a premium shopping experience is reflected online through our digital brand flagship stores, adidas.com and reebok.com, as well as our newly created adidas shopping App. E-commerce and digital communication are powerful tools for our brands to engage with consumers.
- **Insight-driven decision-making:** We continue to invest in our analytical capabilities and technical infrastructure to become faster and more insight-driven in decision-making. Leveraging data such as cross-channel product sell-through and consumer purchasing behaviors delivers actionable insights in areas such as assortment planning and product life cycle management.
- **Distribution channel mix:** Based on a thorough analysis of the profitability of our distribution channels in each of our markets, in 2017 we started an optimization program to shift focus and resources to our most profitable channels. By doing so, we aim at further improving the distribution mix of our company and consequently the efficiency of our Global Sales organization.

We are confident that our sales strategy will help us realize significant improvements in brand desirability, as measured by our NPS, net sales, market share and profitability.

[SEE INTERNAL MANAGEMENT SYSTEM, P. 102](#)