Adidas posts 28% decline in Q2 operating profit despite sales increase

August 4, 2022

Adidas on August 4 said operating profit fell by 28% in the second quarter to €392 million ($398.43 million), as results suffered from it suspending business in Russia, higher supply chain costs and COVID-19 lockdowns in China and Vietnam.

The German sportswear firm said currency-neutral sales rose 4% in the quarter but net income from continuing operations declined to €360 million from €387 million in the same period last year.

The company had cut its 2022 outlook in July, citing slower than expected recovery in China, and now expecting currency-neutral revenues to grow at a mid- to high-single-digit rate this year.

In an unscheduled statement last month, it had said it expected full-year net income from continuing operations to reach about €1.3 billion ($1.31 billion), having previously predicted the lower end of a range between €1.8 billion and €1.9 billion.

Initiatives to clear excess inventories in the Chinese market would also weigh on margins during the remainder of the year, it added at the time.

Analysts clearly think Adidas still has work to do. Darcey Jupp, Apparel Analyst at GlobalData, said: "Adidas' H1 FY22 performance was unsurprisingly downbeat. The sportswear specialist blames macroeconomic challenges for its weak performance. While it may be disproportionately affected by the global supply chain crisis, Adidas cannot deny that it is quickly falling behind its competitors, and while the brand is now 5.3% up versus H1 FY19, rival Puma saw an uplift of 53.7% in the same period. It is clear that Adidas' products are not resonating with consumers, as its core collection has been uninspiring, and it has missed out on key trends that Nike is quick to capture.

"Its collaborations with Gucci and Wales Bonner are a step in the right direction, but the premium price points only
appeal to a small percentage of its consumers, particularly as inflation bites.

“Greater China remains Adidas' weakness. Like many other brands, lockdowns in the country hit sales considerably, and while no cities are under lockdown at present, its poor H1 performance and the threat of future closures has forced Adidas to reduce its outlook, with the brand now expecting a double-digit decline in the country in its FY2022.

“This poor performance is certainly a blow to Adidas, announcing just last year that Greater China was a key region for expansion in its ‘Own the Game’ strategy. When this launched, [it] expected to see strong growth in Greater China, but the impact of its zero-COVID policy alongside boycotts and a growing distaste for Western products have proved this to be a much greater challenge than expected. While the sportswear specialist is not alone in its struggles in China, its muted performance in other regions only adds fuel to the fire.”

*Additional reporting by Sandra Halliday*

© Thomson Reuters 2022 All rights reserved.