

"If a giant hurricane comes tomorrow and wipes out Herzo, the one thing people are going to miss most are our products," says Eric Liedtke, Adidas's executive board member responsible for global brands, using company shorthand for Herzogenaurach, the Bavarian enclave where the company is based.

That's quite a turnabout for a company whose stock was Germany's worst-performing in 2014, after it abandoned its sales forecast and scrapped long-standing profit goals. Yet today, thanks to a recent embrace of e-commerce, strong demand for celebrity-themed gear, and a revival of interest in retro-style shoes, Adidas is red hot: Its stock has more than doubled in the past 12 months, and it's gaining ground on Nike and Under Armour in the crucial U.S. market.

A management reorganization has let divisions ship new styles and colors to retailers more often, bringing the latest variants of the classic Stan Smiths, flashier Kanye-designed Yeezy Boost shoes, and running shoe-inspired NMDs to market much faster. Adidas updated the NMD (it stands for "Nomad") three times in August and six times in September, keeping young customers clamoring for the latest styles—and they're willing to pay full price to snag them before limited quantities disappear from store shelves.

"It's really millennials fueling this resurgence," says Neil Schwartz, an analyst at SportsOneSource.

"It used to be Adidas came out with a shoe and they had only a few styles.

Now it's 31 flavors at Baskin-Robbins." Adidas leapfrogged Under Armour to become the second-best-selling sports footwear maker in the U.S. this year through September, Schwartz says, though its share is still about a ninth of leader Nike's. Adidas says it sold 8 million pairs of Stan Smiths globally last year—out of 50 million over the past four decades. It also sold 15 million pairs of Superstars, the white low-rise basketball shoes immortalized by Kareem Abdul-Jabbar in the 1970s and transformed into hip-hop essentials by rappers Run D.M.C. in the '80s. "They are gaining market share at the expense of Nike," says Cédric Rossi, an analyst at investment bank Bryan, Garnier, who notes Adidas's currency-adjusted sales grew at double Nike's pace in the spring quarter.

Chief Executive Officer Herbert Hainer, who retires on Sept. 30, has over the past few years decentralized the company's marketing, advertising, and research and development. In soccer, a flagship sport associated with Adidas since the 1950s, general manager Markus Baumann says he now has more control over sales, design, and sponsorship budgets and doesn't need to tap headquarters staffers to get things done.

Hainer is funneling marketing spending into six trend-setting cities: New York, Los Angeles, London, Paris, Tokyo, and Shanghai. He's also constraining supply of hot shoes such as the NMD to build buzz and amp up demand. In the coming weeks, for example, new versions

of Stan Smiths and Superstars will add Adidas's bouncy Boost running sole—usually found on its most serious athletic shoes—to help keep interest high in the retro-inspired models.

Adidas has also rethought its sponsorship policy, downplaying broad league-wide tie-ins, such as the 11-year NBA sponsorship deal that it ended in 2015. "In the past we couldn't own the runner, the basketball player, the soccer player," Liedtke says. Nowadays, Adidas backs individual players such as NBA star James Harden and European soccer's Paul Pogba, who are more likely to connect with kids. "It's the player behind the club who's influencing the younger generation," says John Guy, an analyst at brokerage MainFirst.

As part of its push to react faster, Adidas in September introduced a white woven running shoe called Futurecraft, knitted by robots in a new factory in Germany. (Most sneakers are made in Asia and then transported by sea, a lengthy process.) A second so-called SpeedFactory will open in Atlanta next year. Both facilities will allow limited-run shoes to be produced more quickly and closer to key markets. Adidas also plans to test in-store robots that can assemble shirts to customers' exact fit.

The durability of Adidas's fashion-driven comeback is still unclear. Two-thirds of Adidas's growth is coming from its casual Originals and Neo brands, rather than hard-core athletic shoes, according to Citigroup. And fashion can be fickle.

Moreover, North America accounted for only 2.4 percent of 2015 operating profit, well below its 16 percent portion of company sales, according to Bloomberg Industries. And Adidas lags far behind rival Nike in profitability. Says Ingo Speich, portfolio manager at Frankfurt's Union Investment: "Nike's margin is nearly twice as much. That's not yet solved." Adidas officials hope that getting new styles to market while they're hot and high-priced can help narrow that gap. —Aaron Ricadela

The bottom line Adidas has aggressively added celebrity and fashion-oriented styles. That's led to a 100 percent rise in its share price in 12 months.

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Apparel

How Adidas Got Back In the Game

► Younger players, music producers, and fast fashion are paying off

► "It's really millennials fueling this resurgence"

When Angelique Kerber won the U.S. Open in September to bring the women's tennis title to Germany, she was decked out head-to-toe in gear by Adidas. NFL wide receiver DeAndre Hopkins kicked off the Houston Texans season wearing cleats designed by rapper Kanye West, part of Adidas's strategy of mixing sports and hip-hop culture that's resonating with kids. Even celebrities such as Katie Holmes and Kristen Stewart lately have been seen sporting Adidas's back-to-basics Stan Smith tennis sneakers, which some fashionistas have taken to mixing with couture wear.



Celine's Phoebe Philo wearing Stan Smiths, which helped spark an interest in the shoe in runway fashion



February 2015 Kanye West releases the first Yeezy Boost shoe

Walk This Way

Adidas annual revenue

May 1986
Run D.M.C. releases *My Adidas*, an ode to their favorite shoe

March 2001
Herbert Hainer becomes CEO

April 1993
Robert Louis-Dreyfus takes over as chairman and CEO

September 1997
Adidas buys French ski maker Salomon for \$1.4b, adding in-line skates to its catalog

November 1995
IPO!

January 2006
Adidas closes its \$12b acquisition of Reebok

November 2010
Adidas unveils *Route 2015*, a set of sales and profitability goals it proves unable to meet

October 2016
Kasper Rorsted will become CEO

