Financial Performance Appraisal of Adidas Group

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Abstract

The purpose of this study was to appraise the financial performance of Adidas during the year 2014 – 2018. Selected liquidity ratios, solvency ratios, profitability ratios, efficiency ratios, and statistical tools like *t* - test were used to appraise the data under consideration. The results largely suggested that overall financial performance of the company was satisfactory ; the only grey area was the liquidity ratios. The results also showed that there was significant difference in solvency position, overall efficiency, & profitability position of the company during the period under consideration. The results are based on data of last 5 years ending 2018 and only monetary information was considered. The prime objective of this investigation was to evaluate Adidas's financial performance.

Keywords : **financial performance, liquidity ratios, solvency ratios, efficiency ratios, profitability ratios**

JEL Classification Codes : G1, G17, M4

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One of the crucial aspects of finance risk management is financial performance analysis, which means the extent to which the financial objectives of any entity has been achieved. For the measurement of any firm's strategies and functioning in financial terms, the firm's financial health needs to be measured over a period of time and there is a need to compare the performances of a firm with firms doing similar business across the same industry or to compare the industries and all this is facilitated through financial performance analysis. The financial statement is analyzed and interpreted in such a manner that it facilitates the diagnosis of profitability and tries to find whether the business is financially sound or not. An effort is being made in this study to evaluate Adidas Group's financial status. Adidas has its origin in Germany, but it is an unquestionably multinational company.Across the globe, the company has employee strength of almost 59,000. Employees from about 100 nations work at the corporate headquarter, that is, Herzogenaurach, Germany, which is well known as the "World of Sports." All these numbers alone clearly show that Adidas is a very huge and multifarious organization. Thus, developing an understanding of the financial performance of Adidas Group becomes all the more important.

Review of Related Literature

According to Burange and Yamini (2008), the overall development of the Indian economy by the cement industry is due to the experience of the boom attributed to the rise in investment and industrial activity in the cement

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market. Edmister (1972) highlighted a variety of approaches for evaluating financial ratios to forecast the loss of small companies, which were developed and empirically tested in the study.

According to Paul (2011), the comparative financial results of the five listed NBFCs were evaluated. Various sorts of statistical methods were commonly used, such as standard deviation, arithmetical mean, correlation, etc.

Robinson et al. (2015) stated that the liquidity deficit will lead to a decrease in the company's energy, thereby affecting profitability. Thus, a high current ratio is always good, indicating adequate liquidity and safety for assets financed by short-term debts.

Sinha (2012) expressed that a high quick ratio reflects high liquidity of a company since this ratio considers only most liquid assets by excluding prepaid expenses and inventories from total current assets.

Research Objectives

- To study the short-term solvency position of Adidas Group during the study period.
- To study the long-term solvency position of Adidas Group during the study period.
- To study the overall efficiency of Adidas Group during the study period.
- To study the profitability position of Adidas Group during the study period.

Research Hypotheses

- **H01:** There is no significant difference in the short-term solvency position of Adidas Group during the study period.
- **H02:** There is no significant difference in the long-term solvency position of Adidas Group during the study period.
- **H03:** There is no significant difference in the overall efficiency of Adidas Group during the study period.
- **H04:** There is no significant difference in the profitability position of Adidas Group during the study period.

Methodology

Statistical methods such as averages, correlation coefficient, variance coefficient, and *t*-test are used. The individual items in Adidas's profit and loss statements and balance sheet have also been classified so that it is possible to better assess the operating performance and financial strength. The time period of the study is from 2014 – 2018.

Analysis and Results

Current Ratio

This ratio determines the capacity of a company to pay off its existing liabilities with its current assets such as cash, accounts receivable, & inventories (payable within one year).The higher the ratio, the higher the safety margin for short-term creditors, and vice versa. Current ratio of Adidas ranges between 1.31 – 1.68 for a period of 5 years under consideration, which signifies that the company is capable of meeting its short-term obligations on time. For attaining an ideal ratio of 2, the company should focus on reducing its current liabilities.

Quick Ratio

The quick ratio evaluates the capacity of a company with most of its liquid assets to satisfy its short-term obligations and thus eliminates inventories and prepaid expenses from its current assets. Typically, a liquid ratio of 1:1 is considered as satisfactory. Adidas has a liquid ratio ranging from 0.75 – 1.06, which is acceptable.

Absolute Liquid Ratio

This is a more stringent way of measuring a firm's liquidity position as compared to current ratio and quick ratio. It considers cash at hand, cash at bank, and marketable securities against current liabilities. A ratio of 0.5 is considered to be satisfactory, which denotes that absolute liquid assets should be half of the current liabilities. In our case, this ratio is less than satisfactory in the years 2015, 2016, and 2017. Finally, in 2018, the ratio rises to 0.42, getting closer to the ideal ratio.

Debt-Equity Ratio

This determines margin of safety to long term creditors. If the ratio is below 1, it means that a greater portion of a company's asset is funded by equity. In our case, for the period of 5 years under consideration, debt-equity ratio ranges between 0.15 – 0.28, which implies that financing is done with the help of equity only and reliance on debt is negligible. A lower debt - equity ratio is considered to be a healthy sign, for it indicates a larger safety of margin to creditors since owners' equity is treated as margin of safety by creditors.

Proprietary Ratio

It shows the degree to which the company's assets were financed out of the funds of the proprietor. Looking at a period of 5 years under consideration, we find that there is a slight decrease in ratio (from 0.57 in 2014 to 0.48 in 2018), which should be taken care of and further fall should be avoided.

Table 1. ***Statement Showing Financial Performance of Adidas Group***

Ratios	Year	2018	2017	2016	2015	2014	Mean	Standard Deviation	COV %	Average Annual Growth %
Liquidity Ratio	Current Ratio (Ideal 2:1)	1.4	1.33	1.31	1.4	1.68	1.42	0.15	10.45	4.00
	Quick Ratio (Ideal 1:1)	0.9	0.75	0.76	0.78	1.06	0.85	0.13	15.52	3.56
	Absolute Liquid Ratio (Ideal 0.5:1)	0.42	0.28	0.29	0.31	0.46	0.35	0.08	23.38	1.90
Solvency Ratio	Debt-Equity Ratio	0.27	0.16	0.15	0.26	0.28	0.22	0.06	28.34	0.74
	Proprietary Ratio	0.48	0.51	0.54	0.56	0.57	0.53	0.04	6.96	3.75
	Capital Employed to Net Worth Ratio	1.38	1.28	1.3	1.41	1.46	1.37	0.08	5.52	1.16
Activity Ratio/ Efficiency Ratio	Inventory Turnover Ratio	3.09	2.82	2.84	3.22	2.9	2.97	0.17	5.85	–1.23
	Receivables Turnover Ratio	9.03	9.06	8	7.54	7.1	8.15	0.88	10.81	–4.27
	Average Collection Period (days)	40.41	40.29	45.6	48.41	51.42	45.23	4.90	10.84	5.45
Profitability Ratio	Gross Profit Ratio (%)	50	50	47	46	45	47.60	2.30	4.84	–2.00
	Net Profit Ratio (%)	8	6	6	4	4	5.60	1.67	29.88	–10.00

Capital Employed to Net Worth Ratio

It commonly indicates the amount of capital or assets a company uses to generate profits. It also refers to the value assets used in the operation of a business. The capital employed to net worth ratio in the recent past 5 years ranges between 1.28 – 1.46, which shows a stable position.

Receivables Turnover Ratio

This reflects both the efficiency of trade receivables and the enterprise's credit collecting activities. This demonstrates the pace at which debtors are converted annually into cash. Adidas has a pretty high receivables turnover ratio, which indicates a shorter collection period, which in turn implies prompt payment by trade receivables.

Inventory Turnover Ratio

The inventory turnover ratio is an efficiency ratio that indicates how inventory is effectively managed by comparing the cost of goods sold for a period with the average inventory. This analyzes how many times over a period an average stock is "turned" or sold. On the face of it, Adidas has satisfactory ITR, but we need to compare it with the industry average to confirm.

Average Collection Period

The average collection period is a measure of how many days a company takes to recover its receivables. It shows

Table 2. ***Results of Hypotheses Testing***

One–Sample Test						
Hypotheses	***t***	***df***	**Sig. (2–tailed)**	**Mean Difference**	**95% Confidence Interval of the Difference**	
					Lower	**Upper**
Current Ratio (Short-Term Solvency)	21.404	4	0.000 ($p<0.05$)	1.42400	1.2393	1.6087
Debt-Equity Ratio (Long–Term Solvency)	7.890	4	0.001 ($p<0.05$)	0.22400	0.1452	0.3028
Inventory Turnover Ratio (Efficiency)	38.216	4	0.000 ($p<0.05$)	2.97400	2.7579	3.1901
Net Profit Ratio (Profitability)	7.483	4	0.002 ($p<0.05$)	5.60000	3.5223	7.6777

Table 3. ***Summary of Hypotheses Testing***

Hypotheses	Failed to Accept Ho	Conclusion
1	Yes ($p<0.05$)	There is significant difference in the short-term solvency position of Adidas Group during the study period.
2	Yes ($p<0.05$)	There is significant difference in the long-term solvency position of Adidas Group during the study period.
3	Yes ($p<0.05$)	There is significant difference in the overall efficiency of Adidas Group during the study period.
4	Yes ($p<0.05$)	There is significant difference in the profitability position of Adidas Group during the study period.

the efficiency of the collection process and the lower it is, the shorter the company's cash cycle is, which has a positive impact on its profitability. In our case, the average collection period is decreasing (from 51 days to 41 days), which is a healthy sign.

Gross Profit Ratio

It determines the efficiency with which production/ purchase operations and selling operations are carried on. In our case, G.P ratio is stable through the years, around 50%. It means that the company can reduce the selling price by 50% without incurring any loss. It's a good performance indicator for the company.

Net Profit Ratio

The net profit highlights the profitability of a company after all costs and taxes. This ratio has improved for Adidas as it went up from 4% in 2014 to 6% in 2018. It means that the company has improved its overall profitability during the period under consideration.

Conclusion

After analyzing and interpreting the data, it is concluded that the short term position of Adidas is not satisfactory since it has been decreasing continuously and average of the current ratio is 1.42 : 1. This situation adversely affects the short term solvency of the company and the growth rate is below 4%. Besides this, the liquidity position of the company is also unsatisfactory and it has been decreasing continuously and the average mean of this ratio is 0.85:1, which is below the ideal ratio of 1:1, which reveals that the company is not even capable to fulfil its current liabilities ; moreover, the growth rate is 3.56%. Such a situation has a negative impact on the business since the short term liquidity is interrupted due to the non-availability of sufficient funds. The absolute liquid ratio position of the company is also unsatisfactory since it has been fluctuating during the study period as it is below the normal standard and average of the ratio is 0.35 : 1. This shows that the company is not able to meet out the day to day expenses due to liquidity crunch. During the study period, Adidas's overall liquidity position is not adequate.

The debt-equity position of the Adidas group is not satisfactory because the average debt in the company is 0.22, which means that the company has been using a limited amount of debt and is not taking advantage of capital mix. This indicates that the company has a conservative approach in determining its capital structure. The financial leverage mechanism is also not satisfactory as the proprietary ratio stood at 0.53:1. The amount of proprietary fund is less than outsider liabilities. Inventory turnover ratio is also not satisfactory and it has been continuously decreasing, its average being 2.97 times. The company has huge block of funds in inventory. The receivables turnover ratio is also not satisfactory as it was fluctuating and the average stood at 8.15 times. It may be due to the fact that the company is not able to realize or recover cash timely. The position of the average collection period is not satisfactory and stood at 45 days. It is quite evident that there are chances of bad debts whereby there is shortage of cash, which is not favourable for the business.

The position of gross profit is satisfactory during the study period, which may be due to the reason that the company has good control on its direct expenses and cost of goods sold, having a positive impact on the business. The position of net profit is not satisfactory and the average is 5.6%. This indicates that the company does not have proper control on the indirect expenses.

Implications

The present research work will form a strong base for researchers to estimate financial strategies of any company as well as can select parameters to evaluate financial well-being of any concern. The present research focused only on appraising financial soundness of only one organization. Future research studies may be conducted by comparing companies from the same industry or cross country comparison can also be done.

Suggestions

In the light of the above findings, the following suggestions are recommended :

(i) The company should aim to boost its short-term liquidity position by increasing existing assets and decreasing current liabilities.

(ii) The company should increase the proprietary funds by issuing fresh share capital or by retaining the earnings.

(iii) The company should have less store of inventory.

(iv) The company should control indirect expenses in order to improve its profitability.

Limitations of the Study and Scope for Further Research

The present research is limited to 5 years only, which cannot be considered to be enough to decide upon how financially a company is performing. Moreover, only one organization is considered for the present research work, which has limited the research to intra - firm comparison. The results of the research may give significant inferences if the time frame differs as well as if more companies from the same industry are considered for inter - firm comparison. Further studies can be conducted keeping in mind the limitations of the present research work.

Authors' Contribution

S. K. Khatik and Amit Kumar Nag conceived the idea and developed qualitative and quantitative design to undertake the empirical study.

Conflict of Interest

The authors certify that they have no affiliations with or involvement in any organization or entity with any financial interest, or non-financial interest in the subject matter, or materials discussed in this manuscript.

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