

Research on the Valuation of Adidas based on P/E Method

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Abstract. The value of a company is a topic that deserves to be studied in depth. Company value is receiving increasing attention and the methods used to assess the value of a company are particularly important. This paper begins with a theoretical discussion of the role of P/E valuation methods in assessing the value of a company. The paper studies the current economic situation of Adidas in the Chinese market in recent years and also compares Adidas' P/E ratio with that of the financial market through the method of data analysis. The study of the P/E ratio provides an understanding of whether a stock is overvalued or undervalued relative to the market. The meaning of the P/E ratio is that the price of a stock is related to its intrinsic value and fluctuates around its intrinsic price in a small range. The study finds that Adidas' P/E ratio for the past year was undervalued relative to the overall market average. The significance of the research on company value assessment is that it can give investors an intuitive picture of the rate of return on the price of a stock and can enable them to make better choices. The main object of this paper is the data performance of Adidas in 2021.

Keywords: *Valuation; Adidas; P/E Ratio.*

1. Introduction

As the internet industry and the globalisation of the economy continue to grow, more and more companies are increasing their brand value and the valuation of company values is becoming a very important aspect. Adidas, the world's leading sports brand, has not been doing well in the Greater China region in recent years, showing a decline in sales. Chen(2019) mentions that Adidas is facing serious challenges as market opportunities continue to grow[1]. Although the production of new products has accelerated, there is an overall lack of innovation. The market is not sufficiently regulated, leading to an increased impact of informal brands. With these problems, Adidas' economy in the Greater China region is also suffering. This paper will assess and analyse the economic situation and P/E ratio of Adidas in recent years. From the previous literature, Ding(2013) has analysed China Unicom using a price-to-earnings ratio approach and obtained that China Unicom's long-term earnings are predictable, while also yielding more accurate data[2]. Besides, the literature has also used DCF valuation methods for analysis, such as the use of DCF models for land valuation by Zhou(2015), which is used due to the specific nature of the land market in order to go about promoting healthy and sustainable land development[3].

Thus, the study of Adidas in this paper mainly uses the P/E approach. The factors associated with the economic instability of recent years is explored, while comparing Adidas' P/E ratio with the overall market average.

The remaining of the research is structured as follows. Section 2 introduces the current state of Adidas. Section 3 introduces the valuation methods, Section 4 the company's strategy for Adidas 2020 and 2021 is discussed. Section 5 summaries the whole article.

2. Analysis on the current state of Adidas

2.1 decreasing market share

Adidas is the most famous sports brand company in the world and has enjoyed a reputation for the past three or four decades. The company value of Adidas is an interesting topic and the slightest change in the company value is studied by other companies. Adidas' company value is also affected by the constant changes in the competitive market. Taking the Chinese market as an example, Adidas'

total market capitalization was \$31.428 billion on July 12 of this year, while the total market capitalization of its biggest competitor in the Chinese market, Anta, was \$32.8 billion. In general, a company's total market capitalization is a measure of its scale of operation and development. The total market capitalization is directly proportional to them. It is clear from the data that Adidas' position in the Chinese market is being constantly challenged. At the same time, Adidas' share of the Chinese market also fell to 14.8% far from its previous peak state. The growth rate in the Chinese market also continues to decline, and this series of data fully reflects the decline in the value of Adidas' company.

2.2 Worsening net sales

Table 1 shows Adidas' operating figures for the first quarter of 2022. It is clear to see that in the Western market remains strong, with sales continuing to grow compared to 2021. In Asia, on the other hand, sales are down significantly compared to 2021, mainly due to the impact of the embargo measures brought about by the epidemic. Not only the offline channel was affected, but the leading position in e-commerce was also strongly impacted by local brands. The CEO of Adidas said he would increase digital investment in Greater China and enhance local marketing to achieve growth.

Table 1. Net Sales for Adidas

Company	March31,2022	March31,2021	Change
EMEA	1,935	1,770	9.3%
North America	1,402	1,157	21.2%
Greater China	1,004	1,402	(28.4%)
Asia-Pacific	506	603	(16%)
Latin America	419	297	41.2%
Other Business	36	39	(7.5%)

2.3 The Adidas crisis

The performance of Adidas in the Chinese market has gradually started to go downhill in the last two years. Because of the impact of the epidemic, shops in Greater China have been hit hard and Adidas has closed some of its directly operated and franchised shops. According to the corporate financial report in July 2022, Adidas found that its revenue dropped by 80% compared to the previous year. Adidas' supply of raw materials and exports of its products have also been severely affected by the epidemic. Adidas, which employs 60,000 people, is also facing job cuts. Adidas had to take out a loan of 1 billion euros from the German government to overcome this problem.

2.4 Reasons for losing defenses

In the previous Chinese market, sports brands all lacked a certain level of innovation and chose to imitate the appearance of Adidas products. Nowadays, the research and development capability of Chinese independent brands is increasing, plus the young people in the Chinese market no longer prefer foreign brands. With the trendiness of Chinese brands, more and more young people's perceptions have changed, leading to signs of decline in Adidas' various figures. In 2021 also appeared a serious public incident Xinjiang cotton, but also many consumers in the Chinese market more favorable to domestic brands [4]. With the rapid development of the Internet, China's self-publishing is also way ahead of the curve. Brands in the Chinese market understand young people better than Adidas, are better at operating and promoting their values, and have put more experience on the Internet [5]. Adidas has not kept pace with the times, leading to the continued downturn in the market. The impact of the 2022 epidemic in the Chinese market has also contributed to some extent to the impact on Adidas' sales.

2.5 Change of strategy

With the increasing threat of competition and the economic downturn, Adidas has also come up with a number of strategies for change.

Firstly, the fan effect is the key to changing Adidas' positioning needs, and the development of the Internet has brought new challenges and opportunities to interact with fans through the Internet to gain a deeper understanding of consumers' needs and expectations, to establish a close interaction between consumers and the company, and to make changes and innovations to the product to gain real economic benefits [6].

Secondly, Adidas CEO Kasper Rorsted said that in Greater China it will continue to take advantage of China's unique digital ecosystem to achieve business expansion in 21 cities in China, and also accelerate the success of its physical retail business through shops and factory outlets. The main objectives of Adidas' new strategy are to enhance the brand's credibility, strengthen the consumer experience and further drive sustainable development. This strategy will be further realised with the consumer at the core and through Adidas' employees.

The third point is Adidas' globalisation strategy. In order to have a good reputation and market in Greater China, Adidas has chosen its own production suppliers in China to reduce transportation costs through localised production. Some Chinese elements have been added to the decoration of the shops and the clothing of the staff according to the traditional Chinese culture. The products are sold in specialised or limited editions in terms of style and design [7].

3. Valuation on Adidas based on multiple valuation method

3.1 Importance of the valuation

With the improvement of the financial market system and the intensification of market competition, the valuation of the company value has become an increasingly important part of the process. The value of a company can be divided into tangible assets and intangible assets. The valuation of intangible assets is one of the most neglected parts, and among the intangible assets, brand is one of the representatives. With the gradual increase of trading activities in China, many state-owned enterprises do not pay attention to the value of brands and neglect the valuation of their own brands when cooperating with foreign investors, resulting in the loss of corporate interests [8]. Therefore, the evaluation of company value is indispensable. The most commonly used method for assessing the value of a company is the calculation of the price-to-earnings ratio, which is the ratio of the stock price divided by earnings per share [9]. The P/E ratio of a company's stock reflects whether the stock is overvalued or undervalued relative to the financial markets. In general, the lower the P/E ratio of a stock, the lower the market price relative to the profitability of the stock, the shorter the payback period, the lower the investment risk, and the greater the investment value of the stock.

3.2 PE method

The formula for the P/E ratio was first proposed by Benjamin Graham in 1937, and the formula for the P/E ratio is $\text{Price Earnings Ratio} = \text{Price per share (P)} / \text{Earnings per share (E)} = \text{company market value} / \text{net profit}$.

The P/E ratio can be interpreted as the ratio of the market price of a stock divided by its earnings per share, and reflects the overall time required to return the capital invested. Suppose the share price of a listed company is \$100 and the earnings per share is 10. A P/E ratio of 10 in this case indicates that it will take 10 years for the company to earn your money. The company worth can be assessed based on the P/E ratio in three ways. The first is to analyse the company's historical P/E ratio, the second is to use the company's P/E ratio to compare it with that of its industry or the market as a whole, and the third is to analyse the company's net profit.

3.3 Advantage of P/E

The value of the P/E ratio is more appropriate for the value of the business, which depends largely on the expected growth rate of the business.

1. The data for calculating P/E is more readily available and the use of recent earnings estimates enables improved accuracy.
2. The value of P/E directly relates the price of the asset to the current level of the asset's earnings.

3.4 Results

Figure 1 and Figure 2 show the P/E ratio of Adidas over the past year, with the highest P/E ratio occurring last year at 39.4 and the lowest at 12.67 in June this year. although the P/E ratios have generally shown a downward trend over the last year, it is not possible to directly define whether Adidas is overvalued or undervalued and a comparison with the overall market average is required to reach a conclusion.

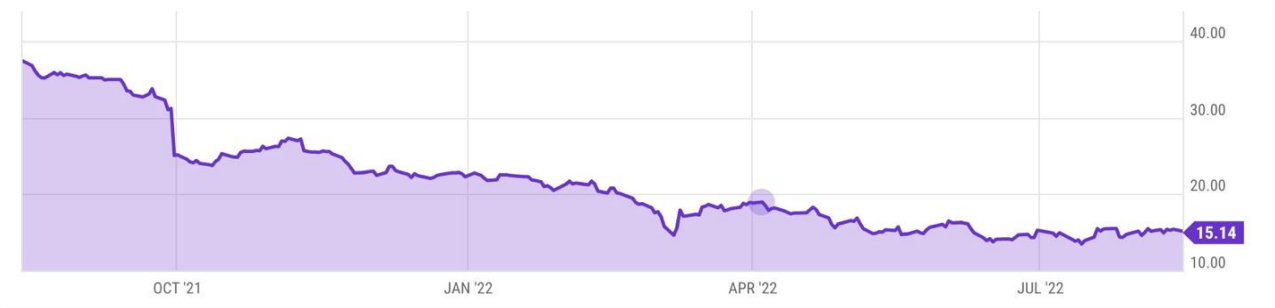


Figure 1. P/E Ratio for Adidas

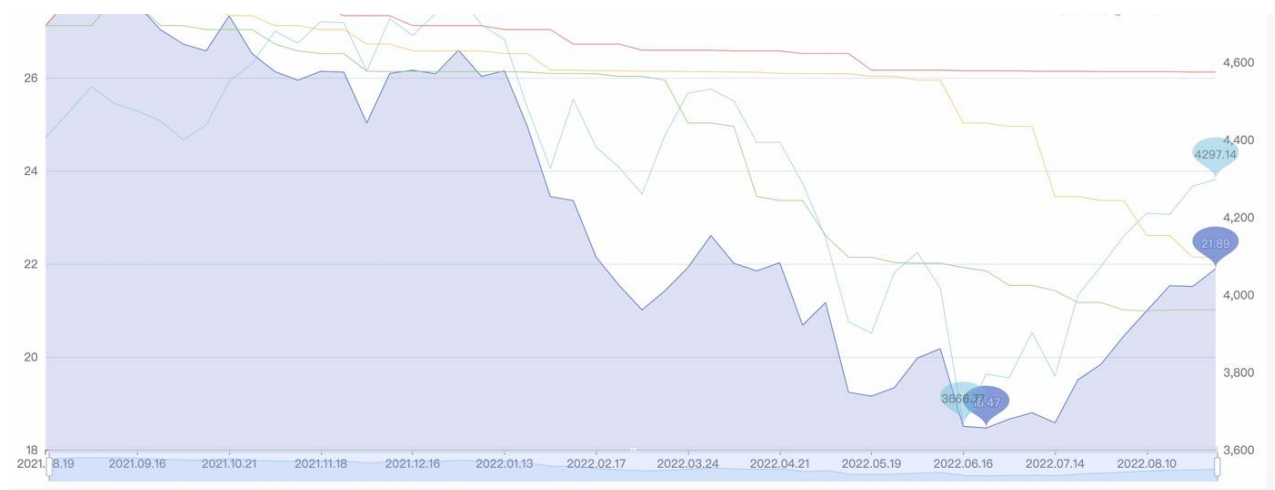


Figure 2. Average market P/E ratio

As shown above are data on the P/E ratio of the S&P 500 for the past year. The peak value of the P/E ratio is 31.8 and the lowest value is 17.48. By comparing the value of the average P/E ratio of the market in the past year with the P/E ratio of Adidas in the past year, we can see that the P/E ratio of Adidas is generally lower than the average P/E ratio of the market. So this paper can conclude that Adidas is generally undervalued.

4. Discussion

The situation of Adidas in the Greater China market in 2021 can be seen directly in the financial statements with a 28.4% drop in turnover and a 14.8% drop in market share in Greater China. The impact of the marketing environment, such as the reduced efficiency of production lines and shipping

lines due to the epidemic and the development of the internet industry, has also had a serious impact on Adidas' economy. He(2020) has also studied the impact of the epidemic on the market economy and the study showed that competition in both import and export trade and capital markets would increase due to the epidemic[10].In this context, innovation is the path to take in the face of the epidemic, and sports brands should be more cutting-edge in technology and fashionable in design to stand out from the crowd. With the impact of the epidemic on the market, Adidas should also re-explore its marketing channels and positioning to minimise losses in the event of an epidemic.The P/E ratio is a relative indicator of the market's expectations of a company's earnings. The P/E ratio indicator is generally used in two ways, one from the relative change in a company's dynamic P/E ratio and its historical P/E ratio. The second is from the company's P/E ratio compared to the industry average P/E ratio. If the company's P/E ratio is higher than the industry average P/E ratio, it indicates that the market expects the company's earnings to rise in the future. So it is important to look at the P/E ratio in relative terms, not that a bad P/E ratio is good and a low P/E ratio is good.Also by comparing the value of Adidas' P/E ratio over the past year with the average value of the overall market over the past year, it is clear that Adidas is not overvalued. This indicates a stabilisation of the value of the Adidas company.

5. Conclusion

Today, as people's consumption levels rise and the economy develops at a faster and faster pace. The pressure of market competition in the same industry is getting bigger and bigger, how to value the company and win through marketing strategies has become the problem faced by major brands. This paper analyses the value of Adidas by using the price-to-earnings ratio and market data analysis to explore the brand value of Adidas. It concludes that Adidas' brand value has been low in the past year compared to the market as a whole and may see a decline in earnings in the coming years.This paper finds Adidas is facing a financial crisis, with a drop in turnover in the Greater China market over the past year, a sharp drop in the number of offline shops and a reduced ability to produce products as a result of the epidemic, and likewise facing redundancies .However, It also analyses how changes in Adidas' marketing strategies, such as local cultural integration and the fan effect, have led to positive economic growth in the Greater China region. In addition, in the face of the strong rise of local brands in the Greater China region and the advent of the Internet era, Adidas has increased its social media outreach and constant technological innovation as a means to solidify its brand value and competitiveness.

There are several suggestions for Adidas. The only way to keep up with the development of the Internet is to find the right marketing model and promotional methods for the Adidas company. With the overall market consumption and transport affected by the epidemic, there is a greater need to make changes to the choice of transport companies and the reform of physical shops. More than anything else, there is a need for mutual respect for different cultures. Only in these ways will Adidas be able to keep more up to date with the big data era.

However, in this paper, as the study focuses on 2020 and 2021 and does not consider more distant years, the conclusions drawn and the data studied are more in the last two years. In future studies, which will focus on the period before 2020, the importance of valuing companies will be examined in greater depth.

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