Financial Accounting Exam 1.3 Supplement

Chart of Accounts for all Exam Questions

ASSETS

Current

AR	Accounts receivable
C	Cash
Inven	Inventories
PrEx	Prepaid expenses
Stin	Short-term investments

Noncurrent

Property, plant, and equipment	
HcPPE	PP&E historical cost
AcDep	PP&E accumulated depreciation
Eqinv	Equity and other investments
Gdw	Goodwill
Tmks	Trademarks, net (including trade names)

LIABILITIES

Current

Accm	Accrued compensation and related expenses
AcL	Accrued liabilities
ATL	Air traffic liability
AP	Accounts payable
DP	Dividends payable
STD	Short-term debt

Noncurrent

LTD	Long-term debt
OLTL	Other long-term liabilities

OWNERS' EQUITY

Permanent

AOCI	Accumulated other comprehensive income
APIC	Additional paid-in capital
CS	Common stock
NCI	Noncontrolling interest
RE	Retained earnings

Net income

Cgs	Cost of goods sold
DepEx	Depreciation expense
Gppe	Gain on sale of PP&E
ImpInt	Impairment of intangible assets
Lppe	Loss on sale of PP&E
IncS	Income summary
Intinc	Interest income
Rev	Revenues, net
SG&A	Selling, general, and administrative expense

Cece's Golf Apparel Company BSE for Entries E1-E9

Entries E1-E9 recorded

		Assets									=	Liabilities		+	Owners' Equity												
		Current					+	Noncurrent			=	Current		+	Permanent			+	Net income								
	+	C	+	AR	+	Inven	+	GPPE	-	AcDep	=	+	AP	+	CS	+	RE	+	Rev	-	Cgs	-	DepEx	+	Intinc	+	IncS
Beginning balances	+	+ $0	+	+ $0	+	+ $0	+	+ $0	-	+ $0	=	+	+ $0	+	+ $0	+	+ $0	+	+ $0	-	+ $0	-	+ $0	+	+ $0	+	+ $0
Period Entries E1 Issue stock for cash	+	+ 3,000	+		+		+		-		=	+		+	+ 3,000	+		+		-		-		+		+	
E2 Purchase building with cash	+	- 450	+		+		+	+ 450	-		=	+		+		+		+		-		-		+		+	
E3 Purchase inventory on account	+		+		+	+ 250	+		-		=	+	+ 250	+		+		+		-		-		+		+	
E4a Recognize revenue	+		+	+ 200	+		+		-		=	+		+		+		+	+ 200	-		-		+		+	
E4b Recognize cost of sales	+		+		+	- 80	+		-		=	+		+		+		+		-	+ 80	-		+		+	
E5 Customer collections	+	+ 120	+	- 120	+		+		-		=	+		+		+		+		-		-		+		+	
E6 Supplier payments	+	- 180	+		+		+		-		=	+	- 180	+		+		+		-		-		+		+	
E7 Interest income and collection	+	+ 45	+		+		+		-		=	+		+		+		+		-		-		+	+ 45	+	
E8 Dividend declared and paid	+	- 80	+		+		+		-		=	+		+		+	- 80	+		-		-		+		+	
E9 Depreciation expense	+		+		+		+		-	+ 30	=	+		+		+		+		-		-	+ 30	+		+	
Trial balance	+	+ $2,455	+	+ $80	+	+ $170	+	+ $450	-	+ $30	=	+	+ $70	+	+ $3,000	+	- $80	+	+ $200	-	+ $80	-	+ $30	+	+ $45	+	+ $0
Closing to and from income summary	+		+		+		+		-		=	+		+		+		+		-		-		+		+	
	+		+		+		+		-		=	+		+		+		+		-		-		+		+	
Ending balances	+		+		+		+		-		=	+		+		+		+		-		-		+		+	

Cece'S GOLF APPAREL COMPANY
Chart of Accounts

ASSETS

Current

AR	Accounts receivable
C	Cash
Inven	Inventory

Noncurrent

PPE	Property, plant, and equipment, net
GPPE	PP&E historical cost
AcDep	PP&E accumulated depreciation

LIABILITIES

Current

AP	Accounts payable

OWNERS' EQUITY

Permanent

CS	Common stock
RE	Retained earnings

Net income

Cgs	Cost of goods sold
DepEx	Depreciation expense
IncS	Income summary
Intinc	Interest income
Rev	Revenues, net

Income statements

Southwest Airlines Co.
Consolidated Statement of Income
(in millions, except per share amounts)

	Year ended December 31,		
	2013	**2012**	**2011**
OPERATING REVENUES:			
Passenger	$ 16,721	$ 16,093	$ 14,754
Freight	164	160	139
Other	814	835	765
Total operating revenues	17,699	17,088	15,658
OPERATING EXPENSES:			
Salaries, wages, and benefits	5,035	4,749	4,371
Fuel and oil	5,763	6,120	5,644
Maintenance materials and repairs	1,080	1,132	955
Aircraft rentals	361	355	308
Landing fees and other rentals	1,103	1,043	959
Depreciation and amortization	867	844	715
Acquisition and integration	86	183	134
Other operating expenses	2,126	2,039	1,879
Total operating expenses	16,421	16,465	14,965
OPERATING INCOME	1,278	623	693
OTHER EXPENSES (INCOME):			
Interest expense	131	147	194
Capitalized interest	(24)	(21)	(12)
Interest income	(6)	(7)	(10)
Other (gains) losses, net	(32)	(181)	198
Total other expenses (income)	69	(62)	370
INCOME BEFORE INCOME TAXES	1,209	685	323
PROVISION FOR INCOME TAXES	455	264	145
NET INCOME	$ 754	$ 421	$ 178
NET INCOME PER SHARE, BASIC	$ 1.06	$ 0.56	$ 0.23
NET INCOME PER SHARE, DILUTED	$ 1.05	$ 0.56	$ 0.23
Cash dividends declared per common share	$ .1300	$ .0345	$ .0180

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Balance sheets

Southwest Airlines Co.
Consolidated Balance Sheet
(in millions, except share data)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,355	$ 1,113
Short-term investments	1,797	1,857
Accounts and other receivables	419	332
Inventories of parts and supplies, at cost	467	469
Deferred income taxes	168	246
Prepaid expenses and other current assets	250	210
Total current assets	4,456	4,227
Property and equipment, at cost:		
Flight equipment	16,937	16,367
Ground property and equipment	2,666	2,383
Deposits on flight equipment purchase contracts	764	416
Assets constructed for others	453	331
	20,820	19,497
Less allowance for depreciation and amortization	7,431	6,731
	13,389	12,766
Goodwill	970	970
Other assets	530	633
	$ 19,345	$ 18,596
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,247	$ 1,107
Accrued liabilities	1,229	1,102
Air traffic liability	2,571	2,170
Current maturities of long-term debt	629	271
Total current liabilities	5,676	4,650
Long-term debt less current maturities	2,191	2,883
Deferred income taxes	2,934	2,884
Construction obligation	437	331
Other noncurrent liabilities	771	856
Stockholders' equity:		
Common stock, $1.00 par value: 2,000,000,000 shares authorized; 807,611,634 shares issued in 2013 and 2012	808	808
Capital in excess of par value	1,231	1,210
Retained earnings	6,431	5,768
Accumulated other comprehensive income (loss)	(3)	(119)
Treasury stock, at cost: 107,136,946 and 77,292,145 shares in 2013 and 2012 respectively	(1,131)	(675)
Total stockholders' equity	7,336	6,992
	$ 19,345	$ 18,596

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Statements of Stockholders' Equity

Southwest Airlines Co.
Consolidated Statement of Stockholders' Equity
(in millions, except per share amounts)

	Year ended December 31, 2013, 2012, and 2011					
	Common Stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at December 31, 2010	$ 808	$ 1,183	$ 5,399	$ (262)	$ (891)	$ 6,237
Repurchase of common stock	—	—	—	—	(225)	(225)
Issuance of common and treasury stock pursuant to Employee stock plans	—	(3)	(14)	—	37	20
Issuance of stock to acquire AirTran	—	—	(127)	—	650	523
Issuance of stock for conversion of debt	—	34	(27)	—	105	112
Net tax benefit (expense) of options exercised	—	(5)	—	—	—	(5)
Share-based compensation	—	13	—	—	—	13
Cash dividends, $.018 per share	—	—	(14)	—	—	(14)
Comprehensive income	—	—	178	38	—	216
Balance at December 31, 2011	$ 808	$ 1,222	$ 5,395	$ (224)	$ (324)	$ 6,877
Repurchase of common stock	—	—	—	—	(400)	(400)
Issuance of common and treasury stock pursuant to Employee stock plans	—	(4)	(22)	—	49	23
Net tax benefit (expense) of options exercised	—	(24)	—	—	—	(24)
Share-based compensation	—	16	—	—	—	16
Cash dividends, $.0345 per share	—	—	(26)	—	—	(26)
Comprehensive income	—	—	421	105	—	526
Balance at December 31, 2012	$ 808	$ 1,210	$ 5,768	$ (119)	$ (675)	$ 6,992
Repurchase of common stock	—	—	—	—	(540)	(540)
Issuance of common and treasury stock pursuant to Employee stock plans	—	12	—	—	84	96
Net tax benefit (expense) of options exercised	—	(9)	—	—	—	(9)
Share-based compensation	—	18	—	—	—	18
Cash dividends, $.1300 per share	—	—	(91)	—	—	(91)
Comprehensive income	—	—	754	116	—	870
Balance at December 31, 2013	$ 808	$ 1,231	$ 6,431	$ (3)	$ (1,131)	$ 7,336

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AT&T

Income statements

AT&T Inc.
Consolidated Statements of Income
Dollars in millions except per share amounts

		2013		2012		2011
Operating Revenues	**$**	**128,752**	$	127,434	$	126,723
Operating Expenses						
Cost of services and sales (exclusive of depreciation and amortization shown separately below)		**51,464**		55,228		54,904
Selling, general and administrative		**28,414**		41,066		41,314
Impairment of intangible assets		**-**		-		2,910
Depreciation and amortization		**18,395**		18,143		18,377
Total operating expenses		**98,273**		114,437		117,505
Operating Income		**30,479**		12,997		9,218
Other Income (Expense)						
Interest expense		**(3,940)**		(3,444)		(3,535)
Equity in net income of affiliates		**642**		752		784
Other income (expense) – net		**596**		134		249
Total other income (expense)		**(2,702)**		(2,558)		(2,502)
Income Before Income Taxes		**27,777**		10,439		6,716
Income tax expense		**9,224**		2,900		2,532
Net Income		**18,553**		7,539		4,184
Less: Net Income Attributable to Noncontrolling Interest		**(304)**		(275)		(240)
Net Income Attributable to AT&T	**$**	**18,249**	$	7,264	$	3,944
Basic Earnings Per Share Attributable to AT&T	**$**	**3.39**	$	1.25	$	0.66
Diluted Earnings Per Share Attributable to AT&T	**$**	**3.39**	$	1.25	$	0.66

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Balance Sheets

AT&T Inc.
Consolidated Balance Sheets
Dollars in millions except per share amounts

	December 31, 2013	2012
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,339**	$ 4,868
Accounts receivable - net of allowances for doubtful accounts of $483 and $547	**12,918**	12,657
Prepaid expenses	**960**	1,035
Deferred income taxes	**1,199**	1,036
Other current assets	**4,780**	3,110
Total current assets	**23,196**	22,706
Property, Plant and Equipment – Net	**110,968**	109,767
Goodwill	**69,273**	69,773
Licenses	**56,433**	52,352
Customer Lists and Relationships – Net	**763**	1,391
Other Intangible Assets – Net	**5,016**	5,032
Investments in and Advances to Equity Affiliates	**3,860**	4,581
Other Assets	**8,278**	6,713
Total Assets	**$ 277,787**	$ 272,315
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	**$ 5,498**	$ 3,486
Accounts payable and accrued liabilities	**21,107**	20,494
Advanced billings and customer deposits	**4,212**	4,225
Accrued taxes	**1,774**	1,026
Dividends payable	**2,404**	2,556
Total current liabilities	**34,995**	31,787
Long-Term Debt	**69,290**	66,358
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**36,308**	28,491
Postemployment benefit obligation	**29,946**	41,392
Other noncurrent liabilities	**15,766**	11,592
Total deferred credits and other noncurrent liabilities	**82,020**	81,475
Stockholders' Equity		
Common stock ($1 par value, 14,000,000,000 authorized at December 31, 2013 and 2012: issued 6,495,231,088 at December 31, 2013 and 2012)	**6,495**	6,495
Additional paid-in capital	**91,091**	91,038
Retained earnings	**31,141**	22,481
Treasury stock (1,268,914,913 at December 31, 2013 and 913,836,325 at December 31, 2012, at cost)	**(45,619)**	(32,888)
Accumulated other comprehensive income	**7,880**	5,236
Noncontrolling interest	**494**	333
Total stockholders' equity	**91,482**	92,695
Total Liabilities and Stockholders' Equity	**$ 277,787**	$ 272,315

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Statement of Changes in Stockholders' Equity (first page)

AT&T Inc.
Consolidated Statements of Changes in Stockholders' Equity
Dollars and shares in millions except per share amounts

	2013			2012			2011		
	Shares		**Amount**	Shares		Amount	Shares		Amount
Common Stock									
Balance at beginning of year	**6,495**	**$**	**6,495**	6,495	$	6,495	6,495	$	6,495
Issuance of stock	**-**		**-**	-		-	-		-
Balance at end of year	**6,495**	**$**	**6,495**	6,495	$	6,495	6,495	$	6,495
Additional Paid-In Capital									
Balance at beginning of year		**$**	**91,038**		$	91,156		$	91,731
Issuance of treasury stock			**(8)**			120			132
Share-based payments			**62**			(78)			(118)
Share of equity method investee capital transactions			**-**			(160)			(290)
Change related to acquisition of interests held by noncontrolling owners			**(1)**			-			(299)
Balance at end of year		**$**	**91,091**		$	91,038		$	91,156
Retained Earnings									
Balance at beginning of year		**$**	**22,481**		$	25,453		$	31,792
Net income attributable to AT&T ($3.39, $1.25 and $0.66 per diluted share)			**18,249**			7,264			3,944
Dividends to stockholders ($1.81, $1.77 and $1.73 per share)			**(9,589)**			(10,236)			(10,283)
Balance at end of year		**$**	**31,141**		$	22,481		$	25,453
Treasury Stock									
Balance at beginning of year	**(914)**	**$**	**(32,888)**	(568)	$	(20,750)	(584)	$	(21,083)
Repurchase of common stock	**(366)**		**(13,028)**	(371)		(12,752)	-		-
Issuance of treasury stock	**11**		**297**	25		614	16		333
Balance at end of year	**(1,269)**	**$**	**(45,619)**	(914)	$	(32,888)	(568)	$	(20,750)

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Statement of Changes in Stockholders' Equity (second page)

AT&T Inc.
Consolidated Statements of Changes in Stockholders' Equity (continued)
Dollars and shares in millions except per share amounts

	2013		2012		2011	
	Amount		Amount		Amount	
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax:						
Balance at beginning of year	**$**	**5,236**	$	3,180	$	2,712
Other comprehensive income attributable to AT&T		**2,644**		2,056		468
Balance at end of year	**$**	**7,880**	$	5,236	$	3,180
Noncontrolling Interest:						
Balance at beginning of year	**$**	**333**	$	263	$	303
Net income attributable to noncontrolling interest		**304**		275		240
Distributions		**(231)**		(205)		(220)
Contributions		**51**		-		-
Acquisitions of noncontrolling interests		**44**		-		-
Acquisition of interests held by noncontrolling owners		**(5)**		-		(59)
Translation adjustments attributable to noncontrolling interest, net of taxes		**(2)**		-		(1)
Balance at end of year	**$**	**494**	$	333	$	263
Total Stockholders' Equity at beginning of year	**$**	**92,695**	$	105,797	$	111,950
Total Stockholders' Equity at end of year	**$**	**91,482**	$	92,695	$	105,797

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Text

Introduction

Financial analysts and others use financial models to derive their own assessments of the values of companies' shares, which generally differ from the prices at which the shares are currently traded in stock markets. To the extent these assessed values are significantly higher than the current share prices and investors have confidence in these assessments, they are motivated to buy the companies' shares, and to the extent the assessed values are significantly lower than the current share prices, they are motivated to sell shares.

While several models are used in practice, since the 1960s there has been widespread agreement in academia that the "discounted cash flow" model is the best conceptually and it is used widely in practice. You will learn about this model in finance courses. For now all you need to know is the assessed values depend on forecasts of future cash flows to shareholders (dividends or capital gains). A few years ago, a new model emerged: It converts the forecasted terms in the discounted cash flow model into four factors that are closely related to concepts we have studied in the course:

1. **Book value of owners' equity**: The current book value of owners' equity.
2. **ROEs**: The expected return on equity (ROE) for each future period.
3. **Growth rates**: The expected growth rate of owners' equity for each future period, which depends on several factors including the expected growth rates of revenues and the expected distributions to owners and contributions from them.
4. **Risks:** The expected cost of capital at each future period – the interest rates the company is expected to pay on issued debt and its expected future share prices (the higher the share price, the fewer the number of shares the company has to issue to raise the same amount of capital). The cost of both sources of capital depends on investors' perceptions about the risks the company faces.

Both of the models discussed above are relatively sophisticated mathematical formulas that allow investors to quantify their qualitative assessments of companies' future prospects into valuations. Our focus here is on these qualitative assessments of the two companies' future prospects. More specifically, based on the provided information and concepts studied thus far in the course, you are to qualitatively assess the two companies' expected ROEs, growth rates, and risks. To this end, you should base these assessments on the extent to which you conclude: (1) past performance (based on plans already being executed and reflected in the financial statements) will persist and (2) new plans (not yet reflected in the financials) will succeed.

Required

In this question, you will explore **Adidas Group's** and **Nike Inc.'s** future return-on-equity (ROE), growth rates, and risks.

Based solely on concepts covered thus far in the course and the provided background information and tabular data, which company, Adidas or Nike, appears to have the better future prospects at the most recent balance sheet dates, taking into consideration expected future ROEs, growth rates, and risks?

- **Respond to this question by completing Parts I-III IN THE EXAM DOCUMENT.**

  Note: If you conclude one company doesn't dominate the other on all three factors (ROEs, growth rates and risk): (1) In your opening remarks, identify the company that has the best prospects for each of the factors; and (2) incorporate the companies' relative strengths into your arguments, counterarguments, and the confidence you attribute to your claim

- Use the **Analysis Consideration Map - Phase 2** at the end of this Exam Supplement to help you develop a response that integrates the qualitative and quantitate background information.

******* Write your response in the Exam in the provided lined space. *******

Background Information

Excerpt from Adidas' Fiscal 2013 Annual Report

"No other brand has a more distinguished history and stronger connection with sport than adidas. adidas is where the best meet the best, such as at the Olympic Games and the FIFA World Cup, but also everywhere else around the world where sports are played, watched, enjoyed and celebrated. As a true global brand with German roots, adidas' mission is to be the leading and most desired sports brand in the world. One major lever to achieve this is the brand's broad and unique product portfolio [Adidas, Reebok, TaylorMade-Golf and Rockport], spanning from apparel and footwear for professional athletes to premium fashion. It allows adidas to address multiple consumer needs, exploit market opportunities from various angles as well as be less affected by one-dimensional market risks. adidas' commitment to product innovation and its rich heritage differentiates the brand from competitors and provides a solid platform for future growth….

To minimize production costs, we outsource almost 100% of the production to independent third-party suppliers, primarily located in Asia."

adidas' 2013 annual report, pages 79, 96

Excerpt from Adidas' website, ROUTE 2015 – Our Road Map to Stay Focused

"… the adidas Group introduced a five-year strategic business plan in 2010 called "Route 2015". It is our road map to ensure that we stay focused on how to create value and to maximise the tremendous growth opportunities we believe we still have to exploit from our portfolio of brands.

It is without a doubt the most comprehensive plan this Group has ever created and it was developed in close alignment across all parts of the business. Now Route 2015 ensures that the entire organisation is working in a more disciplined and more focused manner on exactly the same goals than ever before. "all in" for value creation."

adidas' website, www.adidas-group.com/en/

Excerpt from Adidas' Fiscal 2013 Annual Report

"'Route 2015' Plan: Based on our strong brands, premium products, extensive global presence and commitment to innovation and the consumer, we aspire to grow our business significantly in the five-year period from 2010 to 2015. Our financial aspirations include increasing Group sales to €17 billion, achieving an operating margin of 11% and increasing earns at a compound annual rate of 15%. Our Group sales growth implies outperforming total market growth, both GDP and the sporting goods industry. Our three key "attack markets" North America, Greater China, and Russia/CIS are targeted to contribute around 50% of total Group sales growth. We intend to increase the portion of sales generated through controlled space initiatives to over 50% of Group sales in the coming years."

adidas' 2013 annual report, page 25

"If there is one message I want you to take from this letter [CEO letter in the annual report], it is this: we are a growth company. In 2014, we will grow in all markets, all channels and all brands, and we will do so again in 2015. I am proud we have been able to share a lot of success together with you, dear shareholders, on our Route 2015 journey so far. To date, we have already generated a 14% compound annual earnings growth rate. You have shown your confidence in us and our Group's potential, which is clearly reflected in our strong share price development. In 2013, our share price rose 38% and again outperformed the DAX-30 [Deutscher Aktienindex: German stock index], which gained 25% in the same period. With a market capitalization of € 19 billion, adidas AG has never been as valuable as at the year-end 2013. And as a result of our strong balance sheet, we are pleased to continue our progress on improving our payout ratio from 35.7% to 37.4% (excluding goodwill impairment losses), representing a dividend per share of € 1.50."

adidas' 2013 annual report, CEO letter, page 35

"Consumers want choice. Whether it is the athlete looking for the best possible equipment, or the lifestyle consumer searching for the next fashion trend, we are inspired to develop and create experiences that engage consumers in long-lasting relationships with our brands. To maximize our consumer reach, we have embraced a multi-brand strategy. This approach allows us to tackle opportunities from several perspectives, as both a mass and a niche player, providing distinct and relevant products to a wide spectrum of consumers. In this way, each brand is able to keep a unique identity and focus on its core competencies, while simultaneously providing our group with a broad product offering, increasing our leverage in the marketplace. …

We have prioritized our investments based on those markets which offer the best medium- to long-term growth and profit-ability opportunities. In this respect, we place considerable emphasis on expanding out activities in the emerging markets, particularly China and Russia…"

adidas' 2013 annual report, page 68

"Retail plays an increasingly important role for the future of our Group and our brands and is a key driver on our Route 2015 journey…Our overall vision is to improve our operation KPIs [key performance indicators] and retail sophistication with the goal of delivering healthy, sustainable growth with outstanding return on investment, executing as a best-in-class retailer."

adidas' 2013 annual report, page 74

Excerpt from Adidas' Fiscal 2013 Earnings Release Conference Call Executives had with Analysts

Shortly after the end of fiscal 2013, Adidas held an on-line conference call with financial analysts and others to discuss its fiscal 2013: performance for the fourth quarter (Q4); performance for the entire year; financial position at the end of the year; and future plans and strategies, including those not yet reflected in the company's financial statements. The following quotes are from a transcript of this conference call. They include statements by the company executives followed by questions from analysts and related responses.

Herbert Hainer, CEO

"The strong revenue finished to the year, which was above our expectations, ensured that we comfortably met our revised full year targets from September, despite a further worsening of currency exchange rates, which caused us (negative) nine percentage points on the top line in the first quarter.

For the full year, this translates into sales growing 3% on a currency-neutral basis, or declining 3% in reported euros to EUR 14.5 billion. Gross margin increasing 1.5 percentage points to a new record level of 49.3%. …. Finally, net income attributable to shareholders growing 6% to EUR 839 million [excluding goodwill impairment of EUR 52 million], well within our September range of EUR 820 million to EUR 850 million. This result, ladies and gentlemen, is a clear testament to the persistent energy we exercised in making the most out of a challenging year in several areas. …

We are now touching distance of our Route 2015 goals to lift Reebok's margin above 40%. And I am confident the gap in margins between the brands will continue to narrow further over time. Why? Because we are on a clear, consistent and sustainable growth path, growth in 2013 pull out debt from 2012 and we are accepting those categories that fit perfectly with our positioning for Reebok as the fitness brand. …

…, let's have a look at TaylorMade-adidas Golf. As you know in the third quarter we took swift action to clean up the market following a slower year for the golf industry. While it costs us some margin to do so, it was the right thing to do. As a result we were able to swiftly swing back to action in Q4 reminding the consumer and the competition, just how powerful an industry leader as we are. …

We are already looking forward to playing a major role in the build up to the 2018 FIFA World Cup in Russia. Nevertheless, we cannot ignore the significant weakness of the Russian Ruble since the beginning of the year as well as the current uncertainty in the regions both of which have added considerable risk to us in euros. …

The adidas brand is introducing its first new retail concept in six years with the introduction of the so-called HomeCourt performance and the neighborhood concept, Originals. Our HomeCourt premier began on the first of January at the remodeled adidas Brand Centre in Beijing, our largest adidas store in the planet. HomeCourt features sport in passion in every single element of the store with architecture, communication, presentation tools and products, and this already hitting (inaudible) of consumer. We failed in the first weeks of (inaudible) three opening up 40% compared to the prior year. …"

Robin Stalker, CFO

"Starting with our gross margin, where once again, I am proud we reached at the industry benchmark for margin management achieving a 1.5 percentage point increase to 49.3% for the year. This performance was driven again by more favorable products and pricing mix as well as improved regional and channel mix, which will then offset negative effects from the less favorable hedging rate as well as lower margins at TaylorMade-adidas Golf. …

Accumulated for the 12 months, currencies wiped down around EUR 750 million from our top line result or five percentage points in growth. Throughout the year, the effect was sequentially worse with a peak of 9 percentage points in Q4… Taking all this into account, it didn't stay as they are, we will see at least the same kind of translation negative as we saw in 2013 to mid single-digit to 70 point negative impact on growth… Rest assured we will diligently pursue measures to combat the negatives over time. For example, we will make commercials in from a consumer environment can bear it we will selectively increase prices. In certain markets where currency trends persist, we may choose to strategically prioritize our investments or change our business model. And in other cases, we may choose to observe the negatives for a period of time to protect and nurture our longer term potential."

Jurgen Kolb, Kepler Cheuvreux - Analyst

"First, in your annual reports you talked about the North American market again that you see substantial potentials increase in market share there, and you had talked about improved distribution and highest share of specifically developed products for that market. Now, the growth in market share in 2013 as we know didn't work out, so what is changing now for '14 and maybe also for '15 that makes you confident that you can finally use that potential and show developing market share there, first of all? …"

Herbert Hainer, Adidas CEO

"As you remember in the first two years of our Route 2015 plan, '11 and '12 we grew double-digit in North America, and we were pleased with the result. Unfortunately, this didn't continue in 2013, as you rightly pointed out. The main reason has been that there is a certain shift in the fashion part of the business towards more performance-related lifestyle to U.S., so going a little bit away from the originals. …"

Jurgen Kolb, Kepler Cheuvreux - Analyst

"Secondly, on TaylorMade, you indicated that you certainly lost some market share because of some cleaning of inventories, do you think you can recover that lost margin entirely in '14, or is that a process that will probably also last into '15? …"

Herbert Hainer, Adidas CEO

"Of course, we all, not just TaylorMade, all has hoped for better 2013, but when it started that badly in the first half, especially in North America, product had been already shipped to the market. I think we have been the first one, who realized that there is too much product into the market, and we took especially Q3 to clean up the market and this obviously (has hurt) our margin to a certain extent as well. … Going forward, as we've said already, we will try to be more closer to the market demand and the sales through numbers with our shipping patterns. And therefore, you can expect for the first quarter, lower net sales in 2014 for TaylorMade, and then from the second towards the first quarter ramping it up again because we want to make sure that the product (inaudible) in the first quarter which we shipped in the last quarter of 2014."

Q4 2013 Adidas' Earnings Release Conference Call Transcript, March 5, 2014

Adidas' 2013-2011 statements of cash flows report it paid €427, €376, and €318 million for capital expenditures, respectively, during these years.

NOTE: Capital expenditures pertains to the cost to acquire or construct long-term assets.

Adidas' 2013-2011 statements of cash flows report it paid shareholders €282, €209, and €167 million of cash dividends, respectively, during these years.

Adidas' 2013-2011 statements of cash flows report it paid shareholders €0, €0, and €0 million to repurchase shares, respectively, during these years.

NOTE: Share repurchases and cash dividends decrease cash and owners' equity.

Adidas 2013-2012 Annual Reports, pages 192, 194

Excerpt from Nike's Fiscal 2014 Annual Report

"Our principal business activity is the design, development, and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories, and services. NIKE is the largest seller of athletic footwear and athletic apparel in the world. We sell our products to retail accounts, through NIKE-owned retail stores and internet websites (which we refer to as our "Direct to Consumer" or "DTC" operations), and through a mix of independent distributors and licensees throughout the world. Virtually all of our products are manufactured by independent contractors. Practically all footwear and apparel products are produced outside the United States, while equipment products are produced both in the United States and abroad."

Nike's 2014 10K, page 47

Excerpt from Nike's Fiscal 2014 Earnings Release Conference Call Executives had with Analysts

Shortly after the end of fiscal 2014, Nike held an on-line conference call with financial analysts and others to discuss its fiscal 2014: performance for the fourth quarter (Q4); performance for the entire year; financial position at the end of the year; and future plans and strategies, including those not yet reflected in the company's financial statements. The following quotes are from a transcript of this conference call. They include statements by the company executives followed by questions from analysts and related responses.

Mark Parker, Nike CEO

"We innovate to change the game. And that's what we did throughout the year. We introduced great products, launched new consumer experiences, expanded our digital ecosystem and developed engaging retail concepts that drove excitement and energy for our brands in the marketplace…We know innovation is a long-term growth driver, and that is why we have been so focused on extending our investments in this area…Our drive to innovate extends beyond product into areas such as digital. Our consumers expect us to be digitally connected as they are, making digital one of my top priorities for the company.

Well, first and foremost, there's absolutely no shortage of growth opportunities for NIKE. This has never been as clear to me as it is today. When I look within and across our 5 brands, 6 geographies and 8 categories, I see tremendous untapped potential…The strength and diversity of the NIKE, Inc. portfolio allows us to manage the levers in our business to drive profitability and invest for the future, so we can continue to innovate to meet the expectations of our consumers."

Don Blair, Nike CFO

"We work hard to maintain balance across growth and profitability, investments and returns, near-term and long-term results. The breadth and depth of the NIKE portfolio gives us the opportunity to invest for the future while delivering strong growth and expanding returns on capital…We deliver consistent growth [because] we effectively manage risk. In FY '14, we delivered 11% growth in EPS [earnings per share], despite losing 8 points of growth to currency headwinds. Our ability to deliver in a volatile environment demonstrates that we can pull the levers of our business to mitigate unforeseen downsides.

As we expected, Q4 Demand Creation spending [advertising and promotion expenses, including costs of endorsement contracts] was significantly higher than last year, driven by marketing investments in the World Cup and key product initiatives. Full year demand creation grew 10%, in line with our full year revenue growth, largely driven by an increase in sports marketing expense as well as marketing for global sporting events and new product launches.

We expect [for FY2015] reported Revenue to grow at a high single-digit rate, reflecting low double-digit currency-neutral growth, partially offset by continued FX [foreign currency exchange rate] pressure from developing market currencies. We expect Q1 reported revenue to grow at a low double-digit rate, driven by tremendous energy around the World Cup and continued growth in North America, Europe, China and the Emerging Markets. We expect Gross Margin for Q1 and the full year to expand by about 75 basis points. We expect average selling prices to increase, driven by our ongoing focus on optimizing pricing and driving our product mix to premium. Growth in our DTC [Direct to Consumer] business should also benefit gross margin, helping to offset increases in product input costs, particularly labor."

Trevor Edwards, President, NIKE Brands

"Looking at the results, on a constant currency basis, NIKE Brand revenue grew 13% for the quarter. For the year, revenue was up 11%, with growth across all key categories and geographies. NIKE Brand's DTC revenue was up 27% for the quarter, with 22% for the year, putting DTC revenue past the $5 billion mark. Results for the year were driven by comp store growth of 10%, new store expansion and online sales growth of 42%. …

Let me highlight 3 areas of the business where we've seen significant revenue expansion on a wholesale equivalent basis…First, I'll start with Global Football, which in fiscal year '14 grew 21% to $2.3 billion…The players' response to [our footwear] has been tremendous. There are more players wearing NIKE boots in the World Cup than all other brands combined, and more than 1/3 of them are playing in the distinctive and revolutionary Magista or Mercurial Flyknit boots. Next, I'd like to talk about Running, which is also driven by product innovation, consumer engagement and retail presentation. It's that focus that powers us, growing revenue 10% for the year to $4.6 billion…And third, our Women's business continues to drive strong growth. For the year, the Women's revenue grew 12% to nearly $5 billion, moving us closer to our goal of $7 billion by fiscal year '17. Our women's strategy is very clear, to combine running, training and sportswear into compelling product assortments that women want to run, train and live in, with key styles like the Legend Tights, the NIKE Pro Bras and the Sky Hi Dunks are a must-have for her.

For the last decade, we've heard that our opportunities in North America are tapped out. But as we continue to demonstrate, nothing could be further from the truth. So how do we do it? We expand the market and, at the same time, we take market share by understanding the consumer better than anyone else. We extend our leadership on our perennial strengths like the Basketball and Running categories. This expertise also gives us insight to capitalize on the significant growth opportunities like in E-commerce and in our Apparel, Women's and Young Athletes businesses, just to name a few."

David Weiner, Deutsche Bank - Analyst

"So I was looking for a little more color on your long-term gross margin drivers…It feels like the DTC is what's helping the most right now. Can you just kind of confirm if that's the case?"

Don Blair, Nike CFO

"Okay. Well, let me just start with the biggest drivers. I mean, certainly, we start with the top line. And as I said in my prepared remarks, we have done quite a bit of work around our consumer value equation. And one of the things that the strength of our brand and the innovation that's in our products means that there's a great consumer value proposition at higher price points. So certainly, working to optimize that price-value equation, we think we can continue to raise prices, particularly around product innovation and brand strength. And then the second thing is migrating consumers to premium product. So that is definitely a trend we've seen both on the Footwear and the Apparel side. The second one is really making sure that we are working that product-cost equation. And as Mark [Parker] indicated earlier, there's a whole range of supply chain and manufacturing initiatives that plays all the way from the evolutionary to the revolutionary. And the objective there is to raise the productivity of labor, to reduce waste of materials, and produce even more premium product and we're driving hard against those. DTC is certainly a positive driver for us, and our DTC business is -- has increased significantly in profitability as we've driven our dot-com business and also as we've gotten better and better, as Mark indicated, at operating retail. So all 13 of those are key drivers. They were key drivers in '14. We expect them to be key drivers again in '15 and going forward."

Kate McShane, Citigroup Inc. - Analyst

"Okay, great. And then my second question is on share buybacks. It looks like this quarter, you've bought back more on a dollar basis than you ever have in your history. How should we think about buybacks going forward?"

Don Blair, Nike CFO

"Well, overall, our strategy, as you know, is to continuously increase the level of cash returns to shareholders. And as you know, we've done that very consistently with our dividend, and we do create our share repurchase program based upon analysis of value of the company and market conditions. So over the long haul, what we would expect is that we would continue to deliver more cash back to shareholders. The specific timing of that is based upon our assessment of the marketplace. But we're confident in our ability to continue to generate sustainable profitable growth…."

Q4 2014 Nike's Earnings Release Conference Call Transcript, June 26, 2014

Nike's 2014-2012 statements of cash flows report it paid $880, $598, and $563 million for capital expenditures, respectively, during these years.

NOTE: Capital expenditures pertains to the cost to acquire or construct long-term assets.

Nike's 2014-2012 statements of cash flows report it paid shareholders $799, $703, and $619 million of cash dividends, respectively, during these years.

Nike's 2014-2012 statements of cash flows report it paid shareholders $2,628, $1,674, and $1,814 million to repurchase shares, respectively, during these years.

NOTE: Share repurchases and cash dividends decrease cash and owners' equity.

Nike 2014 Annual Report, page 91

Excerpt from UBS Analyst Report, 14 July 2014

"Companies in the apparel and footwear sector face intense competition and low visibility related to global consumer spending levels. Apparel and footwear companies frequently sell products are that are manufactured by third party partners. Any supply chain disruption would be a risk for these companies. Similarly, most apparel and footwear companies' products are sold through third party retailers that have significant influence over end-market sales of the company's products. Additionally, the apparel and footwear industry is subject to volatility due to fashion cycles. Any deterioration in a company's ability to bringing compelling new product innovation to market would also be a risk."

Nike's Pricing Strategy is Driving 100%+ of Total US Sneaker Industry Growth, page 13

Excerpt from Adidas Planning to Overtake Nike with Posh Ad Campaign

"Adidas CEO reportedly vowed to raise the company's marketing budget by 200m Euros, which is about the same margin of its reported operating profits in the second quarter, Adweek reported. Adidas has been running behind Nike despite record sales of its World Cup football products, which are expected to generate roughly 2.6 billion dollars in sales.

Adidas has also signed an exclusive 10-year contract with Manchester United to be the club's shirts and gear sponsor for a reported minimum guarantee of $1.25 billion. The deal ends Nike's 12-year partnership with the English football club. And, last month Adidas announced sponsorship agreements with four of NBA's top draft picks."

Deccan Chronical, Adidas Planning to Overtake Nike with Posh Ad Campaign, 13 August 2014

Excerpt from Adidas Loses Traction Against Nike,

"In recent years, Adidas has managed to narrow the gap with Nike through product introductions and acquisitions. But a stronger euro, which reduced the value of sales made in dollars and other currencies, has cut into earnings outside struggling Western Europe."

The Wall Street Journal, Adidas Loses Traction Against Nike, 7 November 2013

Quantitative Tabular Data and Locating Companies' Reported Financial Statements

The quantitative tabular data provided on the next few pages summarizes information from the companies' annual reports and computes related ratios. To facilitate comparison across companies, the tabular data combines related line items and includes some line items in "other". For example, "other current assets" in the tabular data includes all current asset line items reported by the company not presented elsewhere in the tabular data.

Importantly, base your response solely on concepts covered thus far in the course and the provided background text information, tabular data, and companies' financial statements, provided herein.

Tabular Data

Comparing Balance Sheets and Select Financial Position Ratios

Numbers below are either disclosed on the company's balance sheets with similar captions or they combine numbers with related captions.
Note: The calendar date for the companies' fiscal year ends are within a few months of each other; this can be ignored for your analyses.

	Adidas				Nike			
	Year end December 31				Year end May 31			
	fiscal 2013	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2014	fiscal 2013	fiscal 2012	fiscal 2011
Assets	Euros Millions €				USD Millions $			
Current assets								
Cash and cash equivalents	1,587	1,670	906	1,156	2,220	3,337	2,317	1,955
Receivables	1,809	1,688	1,707	1,667	3,434	3,117	3,280	3,138
Inventories	2,634	2,486	2,482	2,119	3,947	3,484	3,350	2,715
Other current assets	827	1,033	1,340	937	4,095	3,692	2,584	3,489
Total current assets	**6,857**	**6,877**	**6,435**	**5,880**	**13,696**	**13,630**	**11,531**	**11,297**
Property, plant and equipment net	1,238	1,095	963	855	2,834	2,452	2,279	2,115
Other non-current assets	3,504	3,679	3,982	3,883	2,064	1,463	1,655	1,586
Total assets	**11,599**	**11,651**	**11,380**	**10,618**	**18,594**	**17,545**	**15,465**	**14,998**
Liabilities								
Current liabilities								
Accounts payable	1,825	1,790	1,886	1,694	1,930	1,669	1,588	1,469
Other current liabilities	2,907	2,584	2,394	2,214	3,097	2,293	2,277	2,489
Total current liabilities	**4,732**	**4,374**	**4,281**	**3,908**	**5,027**	**3,962**	**3,865**	**3,958**
Long-term debt (less current maturities)	653	1,207	991	1,337	1,199	1,210	228	276
Other noncurrent liabilities	733	779	777	750	1,544	1,292	991	921
Total liabilities	**6,117**	**6,360**	**6,049**	**5,995**	**7,770**	**6,464**	**5,084**	**5,155**
Stockholders' equity								
Common stock (paid-in capital less treasury stock)	209	209	209	209	5,868	5,187	4,644	3,947
Retained Earnings	4,959	4,454	4,348	3,843	4,871	5,620	5,588	5,801
Accumulated other comprehensive income (loss)	321	641	770	563	85	274	149	95
Noncontrolling interests	(8)	(13)	4	7	0	0	0	0
Total stockholders' equity	**5,481**	**5,291**	**5,331**	**4,623**	**10,824**	**11,081**	**10,381**	**9,843**
Total liabilities and shareholders' equity	**11,599**	**11,652**	**11,380**	**10,618**	**18,594**	**17,545**	**15,465**	**14,998**
RATIOS								
Level 1								
Financial leverage (year-end)								
Liabilities/assets	53%	55%	53%	56%	42%	37%	33%	34%
Level 2								
Working capital	2,125	2,503	2,154	1,972	8,669	9,668	7,666	7,339
Current assets - current liabilities								
Current ratio	1.45	1.57	1.50	1.50	2.72	3.44	2.98	2.85
Current assets/ current liabilities								
Level 3								
Common Size Balance Sheet								
Line item/total assets								
Assets								
Cash and cash equivalents	14%	14%	8%	11%	12%	19%	15%	13%
Receivables	16%	14%	15%	16%	18%	18%	21%	21%
Inventories	23%	21%	22%	20%	21%	20%	22%	18%
Other current assets	7%	9%	12%	9%	22%	21%	17%	23%
Total current assets	59%	59%	57%	55%	74%	78%	75%	75%
Property, plant and equipment net	11%	9%	8%	8%	15%	14%	15%	14%
Other non-current assets	30%	32%	35%	37%	11%	8%	11%	11%
Total assets	100%	100%	100%	100%	100%	100%	100%	100%
Liabilities								
Accounts payable	16%	15%	17%	16%	10%	10%	10%	10%
Other current liabilities	25%	22%	21%	21%	17%	13%	15%	17%
Total current liabilities	41%	38%	38%	37%	27%	23%	25%	26%
Long-term debt (less current maturities)	6%	10%	9%	13%	6%	7%	1%	2%
Other noncurrent liabilities	6%	7%	7%	7%	8%	7%	6%	6%
Total liabilities	53%	55%	53%	56%	42%	37%	33%	34%
Stockholders' equity								
Common stock (paid-in capital less treasury stock)	2%	2%	2%	2%	32%	30%	30%	26%
Retained Earnings	43%	38%	38%	36%	26%	32%	36%	39%
Accumulated other comprehensive income (loss)	3%	5%	7%	5%	0%	2%	1%	1%
Noncontrolling interests	0%	0%	0%	0%	0%	0%	0%	0%
Total stockholders' equity	47%	45%	47%	44%	58%	63%	67%	66%
Total liabilities and shareholders' equity	100%	100%	100%	100%	100%	100%	100%	100%
Market's perception of missed or incorrectly measured BS items								
Market-to-book ratio								
Shares outstanding (issued - treasury)	209.2	209.2	209.2	209.2	870	894	916	936
Fiscal year-end price per share (historical quote)	€ 92.64	€ 67.33	€ 50.26	€ 48.89	$ 76.91	$ 61.66	$ 54.09	$ 42.23
Market value of stockholders' equity	19,382	14,087	10,515	10,229	66,912	55,124	49,546	39,523
Book value of stockholders' equity	5,481	5,291	5,331	4,623	10,824	11,081	10,381	9,843
Market-to-book ratio	3.54	2.66	1.97	2.21	6.18	4.97	4.77	4.02

Source: Companies' websites. See accompanying notes in annual reports.

Comparing Income Statements and Select Performance Ratios

Numbers below are either disclosed on the company's statements with similar captions or they combine numbers with related captions.

	Adidas				Nike			
	Year end December 31				Year end May 31			
	fiscal 2013	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2014	fiscal 2013	fiscal 2012	fiscal 2011
INCOME STATEMENTS	Euros Millions €				USD Millions $			
Net revenues	**14,492**	**14,883**	**13,344**	**11,990**	**27,799**	**25,313**	**23,331**	**20,117**
Cost of goods or services sold	7,352	7,780	7,000	6,260	15,353	14,279	13,183	10,915
Gross profit	**7,140**	**7,103**	**6,344**	**5,730**	**12,446**	**11,034**	**10,148**	**9,202**
Other operating income and (expenses)	(5,938)	(6,183)	(5,333)	(4,836)	(8,766)	(7,796)	(7,079)	(6,361)
Operating profit	**1,202**	**920**	**1,011**	**894**	**3,680**	**3,238**	**3,069**	**2,841**
Other income and (expenses)	(68)	(69)	(84)	(88)	(136)	18	(58)	21
Profit before taxes	**1,134**	**851**	**927**	**806**	**3,544**	**3,256**	**3,011**	**2,862**
Income tax refund (expense)	(344)	(327)	(257)	(238)	(851)	(805)	(754)	(690)
Net profit (loss) from continuing operations	**790**	**524**	**670**	**568**	**2,693**	**2,472**	**2,211**	**2,133**
SELECTED FINANCIAL DATA								
(controlling and non-controlling)								
Comprehensive Income	**473**	**321**	**877**	**920**	**2,504**	**2,597**	**2,265**	**2,013**
Beginning total assets	11,651	11,380	10,618	8,875	17,545	15,465	14,998	14,419
Ending total assets	11,599	11,651	11,380	10,618	18,594	17,545	15,465	14,998
Average total assets	**11,625**	**11,515**	**10,999**	**9,747**	**18,070**	**16,505**	**15,232**	**14,709**
(beginning + ending total assets)/2								
Beginning owner's equity	5,291	5,331	4,623	3,776	11,081	10,381	9,843	9,754
Ending owner's equity	5,481	5,291	5,331	4,623	10,824	11,081	10,381	9,843
Average owners' equity	**5,386**	**5,311**	**4,977**	**4,199**	**10,953**	**10,731**	**10,112**	**9,799**
(beginning + ending owner's equity)/2								
RATIOS								
Level 1: Comprehensive income								
Return-on-equity-Comprehensive Income (ROE-CI)	8.78%	6.04%	17.62%	21.91%	22.86%	24.20%	22.40%	20.54%
CI/average owners' equity								
Level 2: Major categories								
Return-on-equity (ROE)	14.67%	9.87%	13.46%	13.53%	24.59%	23.04%	21.87%	21.77%
net profit/average owner's equity								
Level 3: Significant Subcategories--DuPont Model								
Profit margin ratio	7.83%	5.72%	6.95%	6.72%	12.75%	12.86%	12.91%	14.23%
profit before taxes/revenue								
Asset turnover	1.25	1.29	1.21	1.23	1.54	1.53	1.53	1.37
revenue/average total assets								
Financial leverage	2.16	2.17	2.21	2.32	1.65	1.54	1.51	1.50
average total assets/average owners' equity								
Income tax factor	0.70	0.62	0.72	0.70	0.76	0.75	0.75	0.76
1- (tax expense/pretax income)								
Level 4: Line items								
Common size income statements:	Percent of revenues				Percent of revenues			
Net revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of goods or services sold	50.73%	52.27%	52.46%	52.21%	55.23%	56.41%	56.50%	54.26%
Gross profit margin	49.27%	47.73%	47.54%	47.79%	44.77%	43.59%	43.50%	45.74%
Other operating income and (expenses)	-40.97%	-41.54%	-39.97%	-40.33%	-31.53%	-30.80%	-30.34%	-31.62%
Operating profit margin	8.29%	6.18%	7.58%	7.46%	13.24%	12.79%	13.15%	14.12%
Other income and (expenses)	-0.47%	-0.46%	-0.63%	-0.73%	-0.49%	0.07%	-0.25%	0.10%
Profit margin before taxes	7.83%	5.72%	6.95%	6.72%	12.75%	12.86%	12.91%	14.23%
Income tax expense	-2.37%	-2.20%	-1.93%	-1.98%	-3.06%	-3.18%	-3.23%	-3.43%
Net profit margin (loss)	5.45%	3.52%	5.02%	4.74%	9.69%	9.77%	9.48%	10.60%
Revenue growth	-2.63%	11.53%	11.29%		9.82%	8.50%	15.98%	
(current year-prior year)/prior year								

Source: Companies' websites

See accompanying notes in the annual reports.

Revenue by Geographic Segment

Numbers below are disclosed in the company's annual report's supplemental information sections.

	Adidas		Nike	
	year end		year end	
	fiscal 2013	fiscal 2012	fiscal 2014	fiscal 2013
	% of Sales		*% of Sales*	
North America	23%	23%	47%	47%
Western Europe and Russia	26%	27%	19%	18%
Central & Eastern Europe	13%	13%	5%	5%
Greater China	11%	10%	10%	10%
Japan and Other Asian Markets	15%	16%	3%	4%
Emerging Markets (Latin America)	11%	10%	15%	16%

Source: Companies' websites
See accompanying notes in annual reports.

Revenue By Distribution Channel

Numbers below are disclosed in the company's annual report's supplemental information sections.

	Adidas		Nike	
	year end		year end	
	fiscal 2013	fiscal 2012	fiscal 2014	fiscal 2013
	% of Sales		*% of Sales*	
Sales to Wholesale Customers	73%	74%	79%	81%
Direct to Customers Sales				
Retail Store	25%	25%	5%	6%
E-Commerce	2%	1%	15%	12%

Source: Companies' websites
See accompanying notes in annual reports.

Adidas Financial Statements

adidas AG Consolidated Statement of Financial Position (IFRS)

€ in millions	December 31 2013	December 31 2012	Change in %
ASSETS			
Cash and cash equivalents	1,587	1,670	(5.0)
Short-term financial assets	41	265	(84.4)
Accounts receivable	1,809	1,688	7.2
Other current financial assets	183	192	(5.1)
Inventories	2,634	2,486	5.9
Income tax receivables	86	76	12.7
Other current assets	506	489	3.7
Assets classified as held for sale	11	11	1.2
Total current assets	**6,857**	**6,877**	**(0.3)**
Property, plant and equipment	1,238	1,095	13.1
Goodwill	1,204	1,281	(6.1)
Trademarks	1,419	1,484	(4.4)
Other intangible assets	164	167	(2.3)
Long-term financial assets	120	112	7.9
Other non-current financial assets	30	21	40.6
Deferred tax assets	486	528	(8.0)
Other non-current assets	81	86	(4.8)
Total non-current assets	**4,742**	**4,774**	**(0.7)**
Total assets	**11,599**	**11,651**	**(0.4)**
LIABILITIES AND EQUITY			
Short-term borrowings	681	280	143.3
Accounts payable	1,825	1,790	1.9
Other current financial liabilities	113	83	37.4
Income taxes	240	275	(12.6)
Other current provisions	450	563	(20.1)
Current accrued liabilities	1,147	1,084	5.9
Other current liabilities	276	299	(8.0)
Total current liabilities	**4,732**	**4,374**	**8.2**
Long-term borrowings	653	1,207	(45.9)
Other non-current financial liabilities	22	17	28.3
Pensions and similar obligations	255	251	1.4
Deferred tax liabilities	338	368	(8.2)
Other non-current provisions	25	69	(63.4)
Non-current accrued liabilities	64	40	59.3
Other non-current liabilities	29	34	(11.6)
Total non-current liabilities	**1,386**	**1,986**	**(30.2)**
Share capital	209	209	-
Reserves	321	641	(49.8)
Retained earnings	4,959	4,454	11.3
Shareholders' equity	**5,489**	**5,304**	**3.5**
Non-controlling interests	(8)	(13)	37.9
Total equity	**5,481**	**5,291**	**3.6**
Total liabilities and equity	**11,599**	**11,651**	**(0.4)**

Source: Adidas 2013 annual report page 186

adidas AG Consolidated Income Statement (IFRS)

€ in millions	Year ending Dec. 31 2013	Year ending Dec. 31 2012	Change
Net sales	14,492	14,883	*(2.6)%*
Cost of sales	7,352	7,780	*(5.5)%*
Gross profit	**7,140**	**7,103**	***0.5%***
(% of net sales)	49.3%	47.7%	*1.5pp*
Royalty and commission income	104	105	*(1.2)%*
Other operating income	143	127	*12.8%*
Other operating expenses	6,133	6,150	*(0.3)%*
(% of net sales)	42.3%	41.3%	*1.0pp*
Goodwill impairment losses	52	265	*(80.2)%*
Operating profit	**1,202**	**920**	***30.6%***
(% of net sales)	8.3%	6.2%	*2.1pp*
Financial income	26	36	*(28.2)%*
Financial expenses	94	105	*(11.2)%*
Income before taxes	**1,134**	**851**	***33.3%***
(% of net sales)	7.8%	5.7%	*2.1pp*
Income taxes	344	327	*5.3%*
(% of income before taxes)	30.4%	38.4%	*(8.0)pp*
Net income	**790**	**524**	***50.7%***
(% of net sales)	5.4%	3.5%	*1.9pp*
Net income attributable to shareholders	**787**	**526**	***49.3%***
(% of net sales)	5.4%	3.5%	*1.9pp*
Net income attributable to non-controlling interests	**3**	**(2)**	**-**
Basic earnings per share (in €)	**3.76**	**2.52**	***49.3%***
Diluted earnings per share (in €)	**3.76**	**2.52**	***49.3%***

Source: Adidas 2013 annual report page 188

NIKE, Inc. Consolidated Statements of Income

(In millions, except per share data)	Year Ended May 31, 2014	2013	2012
Income from continuing operations:			
Revenues	$ 27,799	$ 25,313	$ 23,331
Cost of sales	15,353	14,279	13,183
Gross profit	12,446	11,034	10,148
Demand creation expense	3,031	2,745	2,607
Operating overhead expense	5,735	5,051	4,472
Total selling and administrative expense	8,766	7,796	7,079
Interest expense (income), net (Notes 6, 7, and 8)	33	(3)	4
Other expense (income), net (Note 17)	103	(15)	54
Income before income taxes	3,544	3,256	3,011
Income tax expense (Note 9)	851	805	754
NET INCOME FROM CONTINUING OPERATIONS	**2,693**	**2,451**	**2,257**
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**—**	**21**	**(46)**
NET INCOME	**$ 2,693**	**$ 2,472**	**$ 2,211**
Earnings per share from continuing operations:			
Basic earnings per common share (Notes 1 and 12)	$ 3.05	$ 2.74	$ 2.45
Diluted earnings per common share (Notes 1 and 12)	$ 2.97	$ 2.68	$ 2.40
Earnings per share from discontinued operations:			
Basic earnings per common share (Notes 1 and 12)	$ —	$ 0.02	$ (0.05)
Diluted earnings per common share (Notes 1 and 12)	$ —	$ 0.02	$ (0.05)
Dividends declared per common share	$ 0.93	$ 0.81	$ 0.70

Source: Nike 2014 10K, page 88

NIKE, Inc. Consolidated Balance Sheets

(In millions)	May 31, 2014	2013
ASSETS		
Current assets:		
Cash and equivalents	$ 2,220	$ 3,337
Short-term investments (Note 6)	2,922	2,628
Accounts receivable, net (Note 1)	3,434	3,117
Inventories (Notes 1 and 2)	3,947	3,484
Deferred income taxes (Note 9)	355	308
Prepaid expenses and other current assets (Notes 6 and 17)	818	756
Total current assets	13,696	13,630
Property, plant and equipment, net (Note 3)	2,834	2,452
Identifiable intangible assets, net (Note 4)	282	289
Goodwill (Note 4)	131	131
Deferred income taxes and other assets (Notes 6, 9, and 17)	1,651	1,043
TOTAL ASSETS	**$ 18,594**	**$ 17,545**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 8)	$ 7	$ 57
Notes payable (Note 7)	167	98
Accounts payable (Note 7)	1,930	1,669
Accrued liabilities (Notes 5, 6, and 17)	2,491	2,036
Income taxes payable (Note 9)	432	84
Liabilities of discontinued operations (Note 15)	—	18
Total current liabilities	5,027	3,962
Long-term debt (Note 8)	1,199	1,210
Deferred income taxes and other liabilities (Notes 6, 9, 13 and 17)	1,544	1,292
Commitments and contingencies (Note 16)		
Redeemable preferred stock (Note 10)	—	—
Shareholders' equity:		
Common stock at stated value (Note 11):		
Class A convertible — 178 and 178 shares outstanding	—	—
Class B — 692 and 716 shares outstanding	3	3
Capital in excess of stated value	5,865	5,184
Accumulated other comprehensive income (Note 14)	85	274
Retained earnings	4,871	5,620
Total shareholders' equity	10,824	11,081
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 18,594**	**$ 17,545**

Source: Nike 2014 10K, page 90

Analysis Consideration Map (Phase 2)

Analysis Consideration Map - Phase 2