adidas

adidas First Half Year 2017 Results

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Q&A session

adidas participants:

Kasper Rorsted, adidas CEO

Harm Ohlmeyer, adidas CFO

Sebastian Steffen, Vice President Investor Relations

Erinn Murphy - Piper Jaffray

First on the updated guidance: What has been the biggest driver in the last three months that has really given you the confidence to raise the full year '17 guidance by almost EUR 1 billion? And then, connected with that, could you just help us understand what the key growth assumptions are across North America, Western Europe and Greater China in that for the back half of the year?

Kasper Rorsted

As you're seeing, we continue to experience very strong demand for our products in Europe, the U.S. and China. Let me start with the profitability. We saw a high level of full-price sell-through, which is of course due to the brand heat that we have. We have assigned the right products to the right channels, and we have taken also appropriate price initiatives on our key products. These are some of the key drivers. We are also getting slight operating leverage, but I am saying slight operating leverage. Based on the backlogs that we have and I would say we see unchanged brand heat, we have no reason to believe that a slowdown will occur in our key franchises across the board. By the end of the year we are also getting closer to some of the key events taking place in 2018 that will already start driving business in 2017. Hence, at this stage we feel confident with the outlook that we have given and have no reason to believe that this should not be taking place in the second half of the year. What makes us also really confident is that we are growing in the right categories and with the right products.

Erinn Murphy - Piper Jaffray

And then just on the three key regions, should we continue to expect a very similar growth rate like we saw in the first half and in the second half for North America, Western Europe and China?

Kasper Rorsted

We really don't want to go into that detail. We are expecting to see double-digit growth across those regions at this stage as we are guiding for a 17% to 19% revenue increase for the company as a whole in 2017. So double-digit because if not, we would not reach the company guidance. So we expect high growth rates out of China and the US in particular, also moving forward.

Erinn Murphy - Piper Jaffray

And then on the women's business, clearly an area of outperformance, could you just help us understand that outperformance by product category, splitting between footwear and apparel? And then could you just talk more about your marketing approach in this category that gives you confidence to continue to drive outsized growth?

Kasper Rorsted

We don't split our women's business into footwear and apparel, so apologies for that. I think that the most important part is that we are now trying to get a more competitive product set and also better display our products for female consumers in our stores. In addition, the way we communicate to our female consumers is becoming better. We are clearly realizing now that the most effective way to communicate with our female consumers is not through the major sports franchises but through very different channels and different individuals. That is what we changed in our marketing approach to ensure that we get the right interaction with our female consumer through blogs, fashion and other influencers as well as through sports idols like we do with the typical male consumer.

Omar Saad - Evercore ISI

I wanted to ask about the DTC acceleration, I think it was up 66% in the quarter, while I think it was more in the mid-20s in the first quarter. What is driving that? Is there inflection in certain product categories? Furthermore, is the DTC overall growth acceleration more on the digital side or are the stores evenly balanced between the two?

Harm Ohlmeyer

First and foremost, when we talk about DTC it's actually our physical stores and eCommerce business and the 66% growth in the second quarter reflects just the digital piece, hence just eCommerce. On the overall combined, we're talking about a 21% increase in the second quarter. Talking about eCommerce, its growth rate reflects acceleration over Q1, but it's also a reflection or consequence out of the clear prioritization that we set out in 2016. We want to allocate more products through that channel, we want to focus upon the content point of view, we want to focus upon the launch point of view. Drivers from a category point of view are pretty similar to what you have across the markets when it comes to Originals, when it comes to running and to key franchises overall. So there is no difference to what you see across the markets.

Omar Saad - Evercore ISI

And then if I could just ask a question on social media, it seems like you guys are doing a really good job effectively using some of these new marketing strategies, brand-building techniques, social media, partnering with some of the digital ad platforms. Maybe you could dive in a little bit deeper, since it's working so well for the adidas brand globally?

Harm Ohlmeyer

You can't grow the eCommerce business if you don't have a better understanding of where the consumer is living nowadays and that is in social media. Therefore it is important to us to have major partners that are reflecting our brand on-field. As we also mentioned as a digital initiative, we are investing over-proportionally in the digital side of the brand, so in everything across social media. There is nothing specific that I want to highlight, but having an understanding of how the consumer is consuming brands today is fundamental to growth not just in digital, but for the brand overall. I have to refer to my colleagues on the brand side, I can only echo what you said, they are doing a fantastic job, but we don't want to go through the details of what we are really doing there other than connecting with the influencers and the bloggers in these media.

Geoff Lowery – Redburn

Could you talk about your attitudes towards eCommerce platforms and in particular what your approach is to Amazon both in North America and the rest of the world?

Kasper Rorsted

We clearly need to be where the consumer is and that is the starting point for our entire journey. We have got to be a consumer-obsessed company when it comes to products and engagement with the consumer and that is point one. Point two is that we also believe it is essential for us to have a direct relationship with many of our consumers, thus the push to engage directly through our dotcom platform, and we will continue to push that. Certainly we don't believe that it is a one or the other, we believe that you have to be, as I said, where the consumer is, and that is in physical stores, it's in partnerships with companies like Zalando, and in the U.S. we have a partnership with Amazon. We continue to evaluate partnership opportunities with different partners across the globe. In China, in the U.S. and in Europe. And many of those partnerships of course will be online partnerships, whereas in the past they were brick-and-mortar partnerships and that's a natural evolution of the market. So we are very happy with the relationship we have with Amazon. We have a two-year relationship with them in the U.S., and U.S. only. Right now we are not contemplating changing the set-up of that relationship to expand to other parts of the world. As I said, we stressed very clearly that we want to make sure the consumer can buy our products where he or she wants, but we believe that we need to have a personal and direct relationship with our consumers in order to service them the best.

Geoff Lowery – Redburn

What do you expect your U.S. dollar/euro hedge rate to be for this year and next year, and as we stand today what would you expect the FX impacts on the gross margin to be in the second half of this year?

Harm Ohlmeyer

I'm not going to give you the details of what our hedge position is, but you can assume, as we always said, that the second half of 2017 is slightly better than the first half. We are clearly saying that, and that is how we get to the up to 50% gross margin for the full year. Therefore it is slightly better, but it is not a revolution. For 2018, based on our hedging or treasury policy, we are hedging out up to 18 months, so we are pretty significantly hedged into 2018 already. So from what we are seeing right now we might get some of the benefits, but not the full benefits of it in 2018. Again, 2019 is a different story; we have not really started looking at this one. We are just starting to look into that, which might prove to be an opportunity for us, but for 2018 and the second half in 2017, definitely no further headwinds, some easing but it is not significant.

Jürgen Kolb – Kepler Cheuvreux

One question, coming back on the whole topic of eCommerce, Kasper, in a recent interview, you mentioned that you are not just looking to hire the best designers but also the best IT people. I was wondering if that also leads to kinds of IT labs, with the same set-up that you have with some of the design teams in different places so that you can maybe get even more attractive as an employer in destinations that right now might be a little bit more of the hotspots, be it Berlin, be it some of the other markets, or is that all concentrated in the headquarters in Herzogenaurach?

Kasper Rorsted

Of course, for our business model moving forward this plays a key role and that's why we need to make sure we attract the right people. Maybe just as an example, in the first six months we had 330,000 applications alone in the U.S., last year we had more than a million for the company, and clearly the brand is helping us to do so. So we need to continue to attract and build more knowhow in our organization when it comes to digital, not only e-commerce. It is big data, it is analytics, etc. Location does not have to be Herzo. Today we have a very large set-up in the Netherlands and we also have a set-up in Spain. So clearly we're not seeing that the people for the digital space, the hubs or the centres of expertise need to be in Herzo. We will make use of our global presence and create the hubs where it is most appropriate to get hold of the right talent. Clearly we need to have hubs, we have no intention to have 25 different hubs, but as I said today we have a very large set-up in the Netherlands in Amsterdam, we have a strong set-up in Spain in Zaragoza, and we will continue to ensure that we have hubs where the right level of talent is to ensure that we do actually hire that talent into our company. We are a global company, we don't believe that global means that everything has to come out from the headquarters.

Antoine Belge – HSBC

So first of all, I know that the debate going into the results is more about the U.S., but actually

it is Western Europe that came in as a surprise for the consensus. So can you maybe elaborate a little bit about what is driving that extraordinary high performance in Western Europe and if you expect that to continue. And my second question, I think you were quoted on Reuters mentioning extra marketing of EUR 700 million to EUR 800 million with no sort of particular time frame. So maybe a bit of an explanation there on how that fits into everything that you share with us at the Investor Day and the sort of leverage that you expect on marketing spending?

Kasper Rorsted

The latter is very easy. We do EUR 18 billion roughly when you take out TaylorMade and CCM. We guided around EUR 25 billion to EUR 27 billion, that is a difference of around EUR 8 billion. 12% on EUR 8 billion is roughly EUR 800 million and 12% is our current marketing spend as a percentage of sales, so that's how the EUR 800 million came out. So simply we expect, as we said, approximately 12% marketing working budget by 2020 and, as we guided for EUR 25 billion to EUR 27 billion, that's how we get to the EUR 800 million. And there is no change in that: We have significant opportunity to invest moving forward, our guidance this year indicates that we'll be spending up to EUR 300 million more this year compared to last year, which for some of our competitors is about 75% of their total marketing spend. We will use the size that we have as a competitive advantage. For the European growth, I'll hand over to Harm.

Harm Ohlmeyer

Yes, on the European growth; given the size of the growth, which is 19%, it is of course widespread across many categories. It is across Originals, adidas neo, running, but also training which is in the double-digit area, hence apparel is a significant part of that as well. And it is definitely market share gains in some of the larger accounts, so without going into specifics of that, it's definitely broad-based as I mentioned earlier, it is in the double-digit area across most of the countries, and it is across many categories as well as across most of the accounts.

Antoine Belge – HSBC

Since you mentioned running, which was I think very strong, I think you also mentioned some issues with capacities regarding Boost, maybe a word on that?

Kasper Rorsted

Yes, the Boost capacity constraint is not new but we just continue to mention it to be consistent. We are in a very strong position. We grew our UltraBOOST business more than 100% in the second quarter. But we continue to see that demand is outstripping supply. We have a great relationship with BASF, who continue to put more supply on line. It takes 18 months to build a line, and in previous calls both Harm and I have said that we expect to be in a balanced situation between supply and demand by 2019. But the good part is that we have been able to establish the Boost franchise as a very viable franchise in our sports business and in our performance business. So it was not a surprise for us, but of course it does limit some of the growth that we're getting. I just want to say from a constraint standpoint we grew our UltraBOOST business by over 100% in Q2 compared to the same quarter last year. So great growth, but there is more to come and we will continue to make the brand hot and the sports franchise with Boost a very desirable one.

Andreas Inderst – Macquarie

I have two questions. The first one on the gross margin: Your full-price sales improved significantly according to your opening comment. Where are we in terms of full-price sales right now? Maybe you can quantify that. And then maybe you can give us an update on the medium-term target. The second question is on the apparel category: Clearly, it is a footwear-led outperformance right now, but still apparel was robust despite the high comps and the tough clothing market. What is your take on the overall opportunity in apparel for the medium term? What are the key product launches in the next six to twelve months, key initiatives, maybe beyond the FIFA World Cup?

Kasper Rorsted

We have stated that apparel grew less than footwear, which is clearly a big part of our focus. We have been driving differentiation and consumer obsession through innovation in footwear, which worked very well and I think this is also driven by active management of the different franchises. We believe the franchise opportunity also exists within the apparel business and that gives us the opportunity to drive that high growth we are having today further ahead. Clearly, some of the events that are coming up now will help us, but these are one-time events because they only appear every four years. So of course innovation does also have a place in the apparel business.

I think the Z.N.E. Hoodie has been a great example of that. We have not been able to do that consistently and good enough to build a really strong pipeline to drive consistent high growth to the same extent as we've done in footwear. I would say, fairly, just to put it in the right context and not to be over-critical: We have had and still have a greater focus on footwear, because we believe that you drive the high level of differentiation through the footwear part of the business. That's where we see if we can apply some of the same mechanisms to the apparel to get more out of apparel. So that's where we see an opportunity. It is not going to happen next quarter, but it's an opportunity for us in order to get a more balanced growth portfolio. We are right now seeing from a regional standpoint that it will be good for the company in the medium term to maybe have a one-third/two-thirds growth balance between apparel and footwear. But this is something we are just highlighting because it's apparent when you see the numbers. On the gross margin, I'll hand over to Harm.

Harm Ohlmeyer

Yes, Andreas, thanks for the question on the full-price sell-through percentage. We always said it was below 50% in the past and it is definitely getting above the 50% threshold right now. But there is a data challenge on this one as we're talking to our new key accounts and some other wholesale accounts. We don't have a good data basis, these are estimates, but given where we are from a sell-through point of view and where our inventories are right now, it's a combination of better pricing, less clearance, definitely working through the trade terms as well, amongst other things. So it is a combination of many things. But definitely the underlying result is that we are going into above-50% territory right now, and we are working hard on that in the future, but the data quality will remain a challenge for all of us.

Louise Singlehurst – Morgan Stanley

My question is around the U.S. margin progression and thoughts around the speed of the expansion, balancing the investment with the high growth of the business where you're clearly taking a big share. I think, Kasper, you mentioned earlier this year more scale/better return. I guess what we're trying to figure out is the pace of the margin expansion and the thoughts around sponsorship deals. I guess the U.S. will take a bigger proportion of the overall marketing part?

Kasper Rorsted

So on the U.S., for 2015, 2016 and 2017 we clearly articulated that we will spend an additional EUR 100 million every year in the U.S. And you are seeing us doing that not only in terms of sponsorship deals like the MLS or athletes or authenticators of our brand in the U.S., we're also doing it when it comes to infrastructure, physical and non-physical infrastructure. The margin in the U.S. was around 13% and it was about 35% in China. I don't think we'll get to the 35% in the U.S. But clearly, we have no indication of a quick fix in the U.S.; and I think it is most important that we have a long-term view on the U.S. This time we have to get it right. And as you can see, right now we are getting the momentum. The momentum has been there now for almost three years, and after three years the margin is by far not where it needs to be but you are not going to see us push aggressively to make short-term gains on the margin. Hence, we'll continue to over-invest and see the dilutive margin impact from the U.S. Overall, we believe we can increase the margin vis-à-vis our guidance, but don't expect us to drive it aggressively forward, that is not the case. Of course it will be a much better margin in 2020, but it will most likely continue to be dilutive to the Group. Maybe one point just for clarification on my previous answer: When I said one-third apparel and two-thirds footwear, it was an illustration of what it could be, it was not a guidance.

Louise Singlehurst – Morgan Stanley

And in terms of the MLS deal, that I think was announced yesterday, I didn't see any financials around it, but can you talk about the underlying inflation that you're seeing in terms of some of the big sponsorship deals?

Kasper Rorsted

So clearly, I would neither confirm or non-confirm the number, I think that is the first point. The second point is that the deal we have signed is a much more attractive deal, I think, both for the MLS and for adidas, because we can get much more out of it. We can get access to youth teams, the league is getting better, so we are very happy with the construct of the deal. The bigger franchises will continue to increase in price, but we're also seeing the bigger franchises being more financially attractive for both sides. So while there is inflation we probably continue to see inflation on that and the losers are going to be the smaller franchises, because there's going to be less money. But the bigger franchises, whether it's individuals, leagues or clubs, will probably continue to increase in price. Maybe not at the rate that we've seen in the past, but we are also getting much more out of the deal, particularly the MLS deal, and I want to reiterate we have been very happy with the deal we've signed. It is an important step for us and shows our commitment and our willingness to invest long-term in the U.S in a major way.

Chiara Battistini – JP Morgan

The first one on the North America opportunity: Could you please give us more colour on how to think about increasing the penetration of shelf space and adding more shelf space, versus the growth of the like-for-like in the existing space you have? How much of that is driving the growth now and how do you see this evolving going forward? And then on the gross margin for the second half: I think your updated guidance implies around 100 basis points improvement in the second half versus 240 basis points ex-FX for H1, so besides the FX impact in the second half, we shouldn't expect anything different from what we've seen in H1 on an underlying basis?

Kasper Rorsted

In the U.S., we have a plan to do EUR 5 billion with the adidas brand by 2020, we've been clear about that. And we'll continue to see an expansion online and offline. We've seen 400 new doors with Dick's and Foot Locker so far this year. So you're going to see a greater expansion of our products and a wider distribution, which is also needed. We are coming from a position where, in certain areas, we have been under-distributed. This has in certain areas been to our advantage, because we have not been impacted by the mall closures as some of our competitors have been impacted. But we believe that in some areas, particularly in Foot Locker and Dick's, we have not had the appropriate distribution. At the same time, as you heard from some of the previous questions, you should also expect an expanded distribution, particularly in our own stores, and see above-market growth in our own stores. And also with some of our online relationships, including Amazon, whom we have a relationship with in the U.S . For the second part of your question, I'll hand over to Harm.

Harm Ohlmeyer

Yes, the prices that we have in the market are pretty much unchanged in the second half compared to the first half. And as you saw, the first half was 49.9%, and we are approaching

50%, so it's on a similar level in the second half. And, as I mentioned earlier, the hedging benefits in the second half are easing, but they are not significantly different to the first half.

Anna Andreeva – Oppenheimer

You mentioned the less favourable pricing in North America on the gross margin. Was that largely a result of the Reebok activity on the gross margin line? And what are you seeing in terms of pricing in the marketplace? You mentioned the competitive backdrop of course in the region, but the adidas brand is certainly still executing extremely well? And then secondly, having Kasper on board for the past year now, maybe you can talk about the opportunity to lower expenses across the organization, any specific buckets we should be thinking of?

Harm Ohlmeyer

Let me take the opportunity to talk about the expenses first. As we mentioned at the beginning of the call, we are not happy with where we are, with the growth of our operating expenses. So that's why we do a deep dive into the 'One adidas' initiative, whether it's non-trade procurement, whether it's leveraging our infrastructure. We are investing overall and continue to invest not just in the first half, but in the second half into an infrastructure that is more scalable for the future. So, very clearly, it is one of my key priorities, besides generating the cash in the future, to be disciplined on working capital. Cost discipline – and I'm not saying cost cutting – I'm clearly saying cost discipline, to invest where the future growth is fundamental for us going forward. We had made some strategic decisions already, that will get operational in the second half and in 2018, and we should see further leverage then as of 2018 in the operating expense line.

Kasper Rorsted

On the pricing pressure in the U.S., we're not seeing any change in that. The pricing pressure in the market is quite high, and we don't believe that will change. We believe, at the same time, that we are capable of holding our pricing to a high extent, which will help to also drive our margin over time. But we see a very competitive environment in the U.S., and we have no reason to believe that this competitive environment will be less in the second half of the year or next year.

Piral Dadhania – RBC Capital Markets

Kasper, I think you mentioned that the EBIT margin, the profitability that you've been seeing in China for the last few years, is unsustainable on a medium-term view. It's not the first time this has come up. I'm just curious why you're so conservative on that. At the moment it looks like the operating expenses as a percentage of sales are well below some of your other markets. I appreciate this is a wholesale-selling-type market, but what makes you so bearish on the long-term profitability in that market. Could you just help us understand that a bit better and towards what type of EBIT margin should we expect that to go on a segmental basis? That's my first question. And the second one is again just around the U.S. sell-in versus sell-out environment. Obviously, your competitors are not doing quite as well as you in North America and you're posting a very stellar growth rate. Could you help us understand how clean the inventory is in that market and how the sell-out is tracking versus the sell-in, and what gives you confidence that actually all the products that are being pushed into that market will be sold at full price?

Kasper Rorsted

We can't give you guidance on full price, but I can tell you that the inventory in the U.S. is as clean as it is in the rest of the company. We do not have an inventory issue. In China, we have a margin of approximately 35%. The cost of doing business over time will increase due to inflation overall as well as salary inflation. I do not believe it is sustainable and this goes for any industry. If you have a market where there is a substantial margin difference between a major market in one area and a major market in another area, that will over time force a certain equilibrium to take place. I am not by any means suggesting that China can't be the margin leader in our organization, and we're not suggesting the margin decline is happening next quarter, and I know you've heard this before, but we as a company believe it's unrealistic in the long term to have a margin gap between the company and its largest market between 10% and 15%, it's simply not sustainable. And in that context, there will be pricing pressure coming in with a higher competitive market environment. The market is currently dominated by us and somebody else from close to our address in North America, but we are also seeing stronger local competitors coming up. This is included in the guidance also. So we are not coming out saying that now the margin is going down and we are not going to hit our 2020 guidance. That is part of our assumptions. We don't believe this is being bearish, we believe it's being realistic, that you can only over a given period of time sustain such a large difference between the margin of the company and the margin of one single very large market. It will simply drive different business practices, so it's not being negative. We still see a huge business opportunity in China with very strong growth, but maybe not at the margin or the level that we have right now, but still very, very attractive.

John Guy - MainFirst

Maybe just a quick housekeeping one: I think, Harm, you mentioned on the gross margin that you had roughly a third in terms of channel and product mix, and two thirds coming from full-price sell-through and increased prices. So I was just wondering if that was the right kind of split in terms of how you saw the 240 basis points increase on an underlying basis pre FX. And then, Kasper, you've gone into the industry pricing a little bit and that you're feeling pretty comfortable about sustaining momentum. If we think about certain competitors, you mentioned that it is still quite competitive, and I think some prices have lowered across some key categories on footwear including some more competitive pricing from your largest competitor. How do you see footwear pricing moving into 2018 on that basis?

Kasper Rorsted

Clearly, nobody has an interest in reducing prices. You have seen that across different industries, and I also believe that our biggest competitor, which is a very well-run company, also understands that you don't differentiate yourself by promotion. That is not what anybody wants to be known for. So in that context, we believe by driving innovation into the marketplace, which we have done so far with Boost and other franchises, whether it's in our Performance or our Originals category, we can maintain, I would say, stable pricing also in 2018, and our assumption is that this is also how other competitors will drive profit expansion – because if you continue to drive prices down, you need to have a very high volume in order to offset the pricing effect.

Harm Ohlmeyer

Just to repeat on the gross margin, I didn't specifically say it's two thirds and one third, but it is definitely in the ballpark. So the majority is definitely pricing related.

John Guy – MainFirst

Just one very brief one on free cash flow: You've done a great job in terms of managing your inventory and also trade working capital as a whole. When we think about free cash flow and about the returns going forward, given the growth rates that you expect and some of the margin leverage that you're going to get, certainly managing the OpEx going forward, are there any plans to look at buybacks, acquisitions or special dividends, given the amount of free cash flow? Or are you very much focused on just continuing a relentless focus on driving share and growing the top line and the leverage that comes with that?

Harm Ohlmeyer

No, we've always said that we are pretty happy that we went through the divestitures that we did, whether it was Rockport, TaylorMade or now CCM, in a timely manner. There's definitely no plan right now to go into major acquisitions, neither in 2017 nor in 2018. And as we have always said: 'Let's generate the cash problem first, and then deal with the problem of cash in the future'. But we have relentless focus on our operational business to make it better, being disciplined, whether it's on working capital or on cost, and then hopefully generate for ourselves that cash problem in the future. Then we will think about it strategically and update in 2018 what our plans are.

Jonathan Komp – Robert W. Baird

My first question just on the topic of the Originals business. If I look back now for a number of quarters, the growth rate in Originals pretty vastly exceeds the growth rate in the sports performance categories. And just to get a bigger picture, I'm wondering how long you think that trend might continue, and if you can add any more colour in the shorter term, in the next few quarters, what might drive the Originals business?

Kasper Rorsted

First of all, we don't believe that 'quarter-on-quarter' is a right way of looking at it, because the Originals business today contains many products that are used for sports. This is a category, or a way we have categorized the business that was created in the mid-90s. And if you look into it, actually a lot of people who are going to the fitness room are wearing Originals products, which are actually useful for sports. So I think it's up to us to get the right categorization around it. There's no doubt that the athleisure trend is one that is here to stay, and we are very happy about that trend, but that is by far not the only reason why we are seeing a high growth rate in our Originals category. You're also seeing the presence of Boost in many of our footwear franchises in the Originals category - and these products are also used for sport. So I think that we will get to a point where we will re-categorize, because, frankly, it's a misleading indicator with Originals being leisure only. Part of it is of course athleisure, but a big part of it is also sports.

Jonathan Komp – Robert W. Baird

My second question just relates to the North America margin overall. On the operating margin, Kasper, I think back in March you said North America might be dilutive on the company's operating margin for the next two or three years. If I look at the first half performance so far I think the North America operating margins are really back to the low double digits, so I'm just wondering if there is some incremental investments upcoming that we may not see, or are you just kind of over-delivering on the plan relative to what you thought you might a few months ago?

Kasper Rorsted

No. I think that the key point here is that North America is 37% of the global sporting goods market. And if you look upon our position in North America it's about 20% of our business. So you can see, in order to get our fair share of that cake, we still have a way to go. And we believe the best way of creating shareholder value is by building a sustainable competitive position in the U.S. If we try to squeeze the pie too early we are not going to get to where we need to be in the long term. So we have no strategic intent of trying to do so. When we look upon our business, it's our intent to grow margins and grow market share on a company level. The same goes for the U.S., but we have actually no intent to try to drive the margin up too quickly. We tried that a couple of years ago with very bad results and we learned from that. So if we can find the right way of continuing to invest in America to build brand heat and market share, and we believe we can, we will continue to do so. And that's why it will be dilutive for a while moving forward, but if you look upon the expansion of the top line, and also the margin expansion, you're getting a big portion coming out of the U.S., despite a dilutive margin.

Cedric Lecasble – Raymond James

I have two questions. The first one is a follow-up on China and China's profitability. Don't you

think that it's a market that is substantial for eCommerce, probably even stronger than some other markets? And I'd be very interested in your comments on where the consumer is going, through your eCom platforms or through the big leading platforms existing in China? That would be question one. And question two on working capital: Can we expect the improvements to continue or do you think there's a limit to any more progress. So where do you see working capital, maybe in two, three years, as a percentage of sales?

Kasper Rorsted

Yes, I'll ask Harm to help me answer the China question. But before we go there, I think the important part to understand is that the consumer goes to different places in different countries. So there is not one answer to the digital question. It really depends on what are the dominant partners or platforms per country. And they are different in many countries or regions, and they are definitely different in China. So Harm over to you.

Harm Ohlmeyer

Yes, very pleased to answer your question. The majority of what we plan towards 2020, is probably not on our own platform, but is going through Tmall, and that platform is dominating China. This is where the consumers are, and this is where we can clearly present the brand in a very dynamic and qualitative way. We're pretty happy with the relationship that we have with that platform and how we are driving it. The majority will come from there, and you're absolutely right, as you saw in the second quarter results, it's a significant growth driver for our business in China. But still it is relatively small compared to the overall franchise business, so that's why it's not a major driver to keep our profitability where it is today. But of course it will accelerate from where it is today, it will play a significant part towards 2020.

Kasper Rorsted

So on the operating working capital, we've not given any specific guidance on that. We believe right now we are at an appropriate level but, of course, we are looking upon all elements of our company to understand how we can become a better company. And we will of course also over time get more and more focus on the cash flow. I think it's important that we take it step by step. Maybe one point which is very important in this context: What we have done starting July 1, we have changed the organizational structure for the finance organization. That means that in the past the heads of the finance groups in the regions reported to the local head of the region. Now they are reporting into Harm, which of course enables us to get much more consistency in process, in philosophy, and actually in how we treat our accounts receivable and accounts payable. Secondly, in the 'One adidas' initiatives, we're also looking at the expansion, a much better acceleration and use of global procurement. So there are options and opportunities and when we get closer to a point, probably around next year, we'll give better guidance around that. But rest assured that we are looking at all elements. Particularly when it comes to the free cash flow and cash generation, we need to ensure that we get the right level of leverage from a cash standpoint, but also ensure we can actually get the right top-line growth from the market, and not limit ourselves on this at this stage. Assuming that we execute our plan correctly, we will have a positive effect on the cash side, but we need to get top line, product line and cash flow because all three elements are important, and we haven't guided on the cash yet.

Fred Speirs – UBS

I have a longer-term question on the dotcom opportunity. The channel is already nicely margin-accretive, but when we think through to the 2020 target of EUR 4 billion sales, how much expansion opportunity do you see for the eCommerce margin relative to where you are today, and also how much upside could that be to that?

Harm Ohlmeyer

Yes, first and foremost, we set ourselves a pretty aggressive target. I mean doubling from EUR 2 billion to EUR 4 billion, so that's something we have to achieve. And secondly, the nature of the eCommerce business is a very variable one. When it comes to credit card fees, shipping cost, you'll probably be moving more and more to what the consumer is expecting, to what Amazon is driving, to free shipping, to a more personalized experience. So all of these are in the variable nature of the cost. That's why we believe we have a healthy margin today. I don't think there's much of an expansion to be expected over the next several years as we are growing the business. Of course, from a channel mix point of view, it will be attractive for us and that's why we are prioritizing it, but within that channel, we have limited leverage given the nature of the variable cost that is driving most of the expenses now.

Fred Speirs – UBS

Maybe just a follow-up. You're targeting EUR 4 billion from your dotcom business by 2020, but

what's your expectation for the size of revenues that will be coming from wholesale eCommerce at the same point?

Harm Ohlmeyer

Well, we don't have a scientific number for this one. We are very clear about what we are driving through our own platform – and when we talk about own platforms the only exception is Tmall in China – because we're controlling what we're doing there as a brand in full control. Generally speaking, the EUR 4 billion has been part of our EUR 25 billion to EUR 27 billion plan by 2020, it's roughly 15% based on the mathematical calculation. Fundamentally, I believe that sporting goods will transact probably 30% to 35% of the overall business on the online side, whether it's footlocker.com or Zalando or Amazon. I believe the consumer is going more and more online. From what we estimate, probably today 20% to 25% towards 30% to 35% by 2020. And again: Does it stop there, does it accelerate, is it less – I don't have a scientific answer for that. But I still believe that, by 2020, the majority of the products for our brands will be sold outside of our platform when it comes to the online business.