adidas GROUP

adidas Group First Half 2014 Results
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Q&A session
adidas Group participants:
Herbert Hainer, adidas Group CEO
Robin J. Stalker, adidas Group CFO
John Paul O'Meara, SVP Strategy/Investor Relations

Julian Easthope – Barclays Capital
Good afternoon everyone. I have just got one question, which concerns the margin development. Obviously the margin guidance now is for 6.5% to 7.0%, which is basically 400 to 450 basis points below where you were hoping it was going to be for next year. Clearly that's a big disappointment. So, I was just wondering if any of the declines this year were actually one-off in nature and what the underlying level was trading at? And furthermore, if you take into account there's going to be an increase – a step increase – in marketing spend next year, whether we'll actually see any progression in 2015 on the margin for next year?

Robin Stalker
Yes, as we said, it is clearly disappointing that the margin is at that level, but I think we've explained in some detail as to why we are there. And we're obviously not in the position at the moment to give full guidance on our 2015 expectations, but clearly performance and profitability improvements are our goals. So definitely the ambition to continue to improve profitability remains intact and we're working diligently to improve our operating profit. What I can also say is that within our growth forecasts we expect our profitability to over-proportionally grow. So in our outlook for 2015, clearly our profitability is going to be growing higher than the rate at which our sales will be growing. I think that's about the best guidance I can give at the moment and we'll give more guidance on our 2015 outlook when we talk to you in November.

Julian Easthope
So you're looking at approximately giving guidance with the third quarter figures, like normal.

Robin Stalker
Yes. We would be looking to do what we've normally done in giving guidance for the next year in the third quarter of the previous year.

Jurgen Kolb – Kepler Cheuvreux
Thank you very much. In terms of the guidance that you've provided us with for the second half, you indicated that for TaylorMade it will be down something like EUR 50 million to EUR 60 million and for Russia

down about EUR 50 million. What are your expectations for the currency impact for the second half? What shall we model in here?
Secondly, Mr. Hainer, you indicated in your speech that you expect going forward to have higher marketing expenses, but also that the operational costs will be more than compensated by increased sales and the leverage of costs as a percentage of sales. What sales level are you looking at? I mean, what sales level would be necessary for the Group in order to cover these higher marketing expenses? And then on the operational cost side, where do you think you can get better in order to compensate for the higher marketing spend?

Robin Stalker
We can't hear the questions very well, but I believe the first question was about currency impact for the rest of the year. The second question was around marketing spend.
Answering the first question, I mean the major currency impact at the moment is basically in Russia with the risk of a further deterioration of the Russian rouble – its depreciation in value and the impact that this has on our retail margins in Russia. Otherwise, we're not saying anything different about the development of the currencies. That is pretty much in the guidance that we gave at the beginning of the year.
To the marketing question, I guess you're after what are we spending it on or some details on what our marketing plans are. But if I'm wrong with that interpretation, please try again.

Herbert Hainer
Jurgen, let me try to answer the question as Robin has indicated it, why are we spending or do we intend to spend more on marketing next year. I think when you go back a little to 2013 we were under pressure in several markets, especially here in Western Europe, and particularly in the football category. And I think the World Cup was the best demonstration that if we are focused behind our key initiatives – our product initiatives and marketing concepts – and investing the right amount of money, then we can be extremely successful. And there can be no doubt that the football World Cup 2014 was a tremendous presentation of adidas, through all the different channels, be it digital or other types of advertising. All of the consumers which we wanted to reach we reached. And obviously, our products also sold very well.
So, we're bringing momentum back into the brand speed for adidas and Reebok. This is clearly visible around the world, even with these disappointing results. But you can see that the momentum is coming back. We're growing with the adidas brand everywhere across the world. Importantly, adidas Originals is coming back. The ZX Flux is the best-selling shoe for Europe at the moment. Therefore, we definitely believe that it is the right time for us to invest in marketing. But on the other hand, with all of this additional spending, we will have to take it out of our operating overhead costs and gain the leverage to operating profit through growth in the coming years. So, we definitely don't want to sacrifice our operating profit, but we do see a good opportunity because of the momentum of the brands to attack now and to get market share back where we have lost it.

Jurgen Kolb
Then my final question is on Russia. Please help us to better understand what the problem really is in Russia, because we don't hear similar comments from other companies. How do you see the situation in Russia currently on an operational basis, not currency effects, just the operational side?

Herbert Hainer
It's quite simple Jurgen. There is definitely decreasing consumer sentiment in Russia. And I promise you, if you haven't heard it from other companies you will. We hear it relatively quickly because we are one of the biggest

retailers in Russia and we know first-hand what's going on. We are still increasing our sales there and there certainly is appetite for our brands. But there is definitely much more price consciousness from the consumer because of the uncertainty which has developed over the last few months and this is what we are seeing. And therefore, there is a very promotional retail environment in Russia. And obviously we have to follow this development along with all of the other players, not only sporting goods brands, because we are the dominant market leader, but also all of the other fashion brands. This is obviously decreasing our margin and there is also the effect of the rouble devaluation and this is the current situation in Russia. We definitely believe we will grow further in this market, but we are now more conscious that we have the right level of inventory and are planning on opening fewer stores. And we are opening stores more carefully, such that they are in the right locations and closing stores which are still profitable but do not meet our expectations in terms of profit levels, and this is our strategy going forward. But we definitely believe in the market, it is the biggest market for us in Europe. As you know, we do over EUR 1 billion in sales there and we definitely will also invest further, but with more caution than we have done in the past.

Jurgen Kolb
Okay, understood. Thank you.

Antoine Belge – HSBC
I have three questions. First of all, I think this morning, according to Reuter's you said – and I'm going to quote you – so correct me if I'm wrong. You said that you left your brand exposed to attack in the southern markets, in Europe. So could you maybe elaborate a little bit on this? Which product category? What did you not execute as well as you would have expected?
The second question is back to this item about your marketing efforts. Could you maybe put the new contract with Manchester United in that context? And if so, if we look at this new level of spending and if we look at Madrid, for instance, what are you expecting in terms of potential inflation in terms of sponsorships and related costs?
And thirdly, on your new guidance, what is the shape of golf market growth in Q3 and Q4? I think you mentioned a slow development in terms of getting inventory out of the market and of potentially letting your retailers actually clear that stock. So how are you seeing this, as sequential decline maybe? And when do you expect to get back to something like a flattish market for golf? Thank you.

Herbert Hainer
Let me start with the first question. As far as I understood it, you were asking where we have been attacked and in which category. As I said before, in 2013 we had been heavily attacked by our main competitor in Western Europe and it was mainly in football footwear and in the running category. And I think we have fairly well rebalanced this situation with our Boost technology which we introduced last year into the market and you can see our achievements in our running category successes. And now we are coming back on the football footwear side. Battle Pack was the first heavy attack. The Predator Instinct, which is out now and the first two weeks have seen very good sales rates. This is our next attack on the football side and this is what we will continue to do. And as I said before, if we focus all of our activities behind concepts like this and put the right investment behind it, then we are very successful.
Your second question was on Manchester United. There is no doubt that football is by far the biggest sport in the world and club football is the part which is on display 365 days a year. A World Cup is great, but it's only

every four years. And national teams are great, but they also only play every four years, or European championships included every second year, in a tournament. But the club competitions are out and happening 365 days during the year. And with Manchester United we have now three out of the four biggest symbols in the club football world – with Real Madrid, Bayern Munich and Manchester United – this definitely gives us a huge reach to all of the football consumers around the world.

In addition, we also believe that with these three key symbols and with us having their shirts in our own stores, this will definitely help us to drive traffic into our stores, as this is something which the consumer really wants to have. And all studies show that you can sell around 25% to 30% of other branded products from our brand around these key symbols.

And last, but not least, you asked about TaylorMade. And maybe, Robin, you might help me a little bit, but let me start. What we can see in the golf market is that the market is completely over-inventoried and this has two negative effects. On the one hand, it means that we have to help the big retailers with markdowns to flush through the current or the existing inventory. And secondly, obviously we cannot therefore bring that many new products into the market, which ensures a shortfall on revenues and a shortfall in terms of margin. So we get a double negative hit. As a result, we definitely do not want to oversell the market again in 2014 and then run into the same problems in 2015. We do however believe that, as the market leader, we have a responsibility for the golf market and for the longevity of our TaylorMade brand and, therefore, we are doing two things. Firstly, we are helping the golf retailers to clean up the market and specifically our inventory. And secondly, we are being very careful about what products and how much we introduce in 2014. But what I can promise you is that our pipeline of new innovative products is full and we will launch them as soon as we see that the market is ready and the inventories are back to normalised or healthy levels.

Robin Stalker

Yes, absolutely, I agree. I have nothing else to add on that. I think that answered your question, Antoine.

Antoine Belge

Okay. When we spoke on your last call, you were actually expecting real sequential improvements in TaylorMade. So could we expect that the rate of decline will be more moderated in Q3 and then improving slightly in Q4? Any sort of quantification or at least what assumptions you've taken when you came up with this new overall guidance?

Robin Stalker

Antoine, if you're talking about golf we don't see any improvement in the next two quarters.

Antoine Belge

Okay. Thank you.

Louise Singlehurst – Morgan Stanley

Good afternoon, gentlemen. I've got two questions for Herbert, please, and then a last one for Robin.

Herbert, you've spoken a lot about the organisational structure and there's clearly been quite a few changes made, the exciting move of JP O'Meara most recently and also Mark King in the US. Can you just talk about if there are any other gaps that you want to fill or should we be expecting any other changes for the management team to bed down for this new organisational structure going forward?

Secondly, just in terms of the marketing point, I know we're probably not going to get the numbers that we're after today and we're going to have to wait for the next five-year plan until early next year, but can you help us understand the areas of marketing focus. i.e. is it US college athletic teams or is it key personnel assets such as Derrick Rose, going forward?
And then my third question is for Robin, could you just help explain what's happening in retail, in the gross margin piece, because I noticed that was fairly weak, at both adidas and Reebok, down around 500-600 basis points in the second quarter? Thank you.

Herbert Hainer
Okay, Louise, let me start with the first one, the organisational structure. Obviously regarding America we spoke already and you mentioned it too with Mark King – bringing him up to Portland and running the adidas and Reebok North America business. I think the most significant ones we did here at headquarters concern our new organisational structure for marketing and for sales, where we clearly have given much more responsibility to marketing. They now have full P&L responsibility and can handle the products and the concepts end-to-end. We want our sales forces out in the markets to fully concentrate and focus on execution. What we have seen during the World Cup is that when we execute to the highest professional level and we bring our products to life in store with visual marketing, through excellent presentations and by training staff, such that they can explain our products in the right way. When we do this, we can be extremely successful. And we want the sales teams to completely concentrate on this and execute the concepts which they get from marketing to the highest level. And as I said, marketing now has full responsibility and we will make them also accountable for what happens in terms of margin, sell-through, product introduction and so on. And by the way, from August onwards this organisation structure is now finished and this new organisation is in place.
On the marketing numbers, you asked whether this will be more individual athletes or more teams or whatever. Yes, it will be a little bit a mix of everything, but we definitely will invest the biggest part of the money in digital media, talking to our consumer directly. As we have previously mentioned, we had new digital initiatives at the World Cup in Rio de Janeiro, where we had our so-called newsroom. We had a little over 20 people who were engaged and talking daily, hourly and minutely with our consumers around what was happening around the World Cup, about our players, our teams, etc., and this was extremely successful. We have been by far the most talked about brand during the World Cup because of this initiative and this is the area where the most money will go in the future. But we also will increase our investment in regional merchandising, such that we look better in our own stores or at our wholesale partner stores at the point of sale.

Robin Stalker
And Louise, your third question was about what's happening to the retail margin, this is very definitely to do with Russia. I mean, the most significant part of the decline is simply because in Russia we have a highly promotional environment. At the moment, about two-thirds of the total margin decrease in Russia is because of promotional activities. And the other element, about one-third, is because of the devaluation of the rouble, and as we don't hedge the rouble, we are buying product in dollars, at a more expensive rouble rate, and it obviously has impacted the margins. And that is true for the adidas and Reebok business because Reebok is also quite strong in the Russian market.

Louise Singlehurst
Thank you.

Vic Mohan – ISI Group
Thank you. This is Vic Mohan in for Omar Saad. I was wondering if you could talk a little bit about some of the Boost extensions you're doing into new sports and new categories and how those are faring.

Herbert Hainer
Yes, as we have told you already in previous sessions, we started with Boost first in running, but after successfully implementing it into that market we will also spread it out into other categories. The next one will be Boost basketball shoes, which are coming in October this year with the D Rose 5 and then we will broaden out further and bring it out into skateboarding, into kids and roll it out into other categories in the coming years as well.
We definitely believe this is a technology which is first and foremost unique to us, but it's also incredibly good. Everybody who steps into our shoe and feels the Boost technology is immediately convinced. And therefore, we would like to harness this success and bring it out to other categories, but always under the premise that it has to work and the consumer has to really feel it.

Vic Mohan
Thank you. And one more question. How are you guys thinking about pricing going forward, especially on new products and in regions where you're facing some big FX headwinds?

Herbert Hainer
Obviously pricing is a sensitive topic and ideally we would like to stretch it as much as we can. And I would say, with our new products we definitely have more flexibility. But on the other hand, just as we have spoken about, Russia is a market where we are under more pressure from consumer sentiment at the moment. Pricing is a sensitive thing and we have to be careful that we don't price ourselves out of the market. We have and we do a lot of studies, often with external help, to find the right pricing and the price sensitivity of the consumer segment. We are always obviously testing the waters to see how far we can go.

Vic Mohan
Thank you very much.

John Guy – Berenberg Bank
Good afternoon, gentlemen. A couple of questions for me, please. The first, with regard to your estimates on FX and the sales uplift that you had on the back of the football World Cup and the Sochi Games, if you could maybe just quantify that during the first half of the year?
My second question is about the gross margin decline of around the 90 basis points. I know that you went through some detail talking about some of the negative impacts, but I was also interested to see whether or not you had any positive impacts around product, price, regional mix, etc., that you normally talk about in addition. There's usually an offsetting factor, but you just mentioned some of the negatives. Were there any positives in the overall gross margin evolution across those moving parts?
With regard to your comments, Herbert, around the jerseys, the national associations and the investments that you're putting into Manchester United, for example, if I just take Mike Ashley's (editor's comment: Mike

Ashley, the Executive Deputy Chairmen of UK based sports retailer SportsDirect) quote – and I assume this is a relatively basic quote, but he said recently "if you don't want to play we'll come into your country and smash you to bits". And I know that that's a very basic quote that he made, but the inference is actually quite reasonably cautious with regard to companies that are looking to push replica kits into Europe and into other markets, thereby pushing down pricing significantly and almost using those as loss leaders. How do you approach that kind of threat from a pricing and from a strategic point of view? Maybe we'll just start there. Thanks very much.

Herbert Hainer
John, obviously when you refer to Mike Ashley's comment, this was targeted at some retailers around Europe if they don't want to work with him. And I don't want to comment further on that one.
In general, believe me, as we have done in the past, we have a clear strategy of how we introduce our jerseys through a distinctive segmentation within different channels. And yes, we are working well together with all the retailers around the world. But I think when you look at what we have done in the last several years, we have shown great discipline in how we distribute our jerseys and this is definitely what we want to do going forward as well.

Robin Stalker
And John, the first two questions were whether we would quantify the impact of the events on our top line and we normally don't do that. What we have, however, published is the significant number of products that we've been able to sell, the 14 million balls, the 8 million jerseys in Germany. So you can get a feel, I'm sure, from that.
And the second question about the margin decline in the second quarter, being down 90 basis points, yes, very definitely we highlighted the negatives, but there are obviously a lot of positives in there as well. If you add up the negatives that I read out, there are about 160 basis points there. So, we must have 70 basis points of positives and that's in the same areas that we've mentioned in the past. It is the product mix, some pricing and also regional mix.

John Guy
Okay, great. Thanks. And maybe if I could just follow up with regard to adidas NEO. I saw that the second quarter sales improvement was a little bit slower than the first quarter. And when you're looking out into 2015 in terms of total NEO turnover, how would you see that progressing? And I guess, more importantly, are you thinking along the lines of moderating your store growth in Europe or even in China going forward in order to get the right balance in terms of stores for NEO across the region? Thanks very much.

Robin Stalker
Well, I can understand you being very ambitious with this, as we certainly are with our NEO growth, but we thought 21% growth in the second quarter was a good one.

John Guy
Well, I didn't say that it was bad, but it slowed quarter on quarter so that was the point. But I mean, do you have any idea in terms of turnover ambitions for 2015 and stores and space that we can think about?

Herbert Hainer

Well, we definitely have ambitions for our NEO brand; there is no doubt there. As we told you in one of the meetings, I think two years ago, that we want to get to EUR 1 billion with NEO and we are definitely on a very good way to get there. And the second point is that besides generating revenues we are reaching out to a more or less new consumer group, the young female consumer, which we didn't have so much in our portfolio in the past. And this is a consumer which we definitely want to get into the love for our brands, so therefore we will definitely continue to invest into NEO and further distribute it.

John Guy
Great. Thank you very much indeed.

Michael Kuhn – Deutsche Bank
Good afternoon, gentlemen. Mostly follow-up questions from my side. First of all, once again back to the profit warning. You're cutting your EBIT margin guidance by 2 percentage points. That's worth about roughly EUR 300 million. You gave for the second half, golf EUR 50 million to EUR 60 million, Russia EUR 50 million. Obviously, you had some negative effects in the second quarter as well. But overall, it still doesn't fully add up. Is the remainder mostly marketing? Is there restructuring charges included as well? For example, for the reorganisation of the golf business? That would be the first point.
A second point, just as a clarification, you mentioned that you are increasing your corridor for marketing spending by 1 percentage point. Is that more of a temporary thing or is that permanent?
And then lastly on golf. We heard from Dick's Sporting Goods, for example, that they are cutting the selling space allocated for golf because obviously they think that the potential of the category has come down. Do we expect a quick return to the peak sales levels in 2013 or do you expect rather a, I would say, slower recovery path? Thank you.

Robin Stalker
Thanks very much, Michael. Obviously, I'll leave Herbert the third question. The first two questions, there are a lot of factors we've taken into account – well, you summarised most of them yourself. Yes, there's obviously an increased marketing working budget, around EUR 50 million for the second half. There's definitely also in our guidance the impact of the weaker Q2 particularly in golf, which we obviously have to bear in mind as well. And yes, we've taken into consideration the restructuring. So that's the summary of why our guidance is down so much for the rest of the year.
Your second question on MWB, the increase of 1%, whether it's permanent: Well, it's definitely our guidance at the moment. We've only talked at the moment about 2015, but that's the best guidance we have at the moment and it's consistent with what we've been talking about of investing further in our brands.

Michael Kuhn
Just one quick follow-up on the restructuring. Can you give us a number in that regard? So in terms of, let's say, non-recurring costs in the second half?

Robin Stalker
Obviously, once we book it it'll be transparent to you. It's within the EUR 50 million – EUR 60 million that we've said, because that also includes the deterioration in the operating margin.

Herbert Hainer

So, Michael, let me come to your third question on the golf market. In general, yes, you can say we have reacted too late. But also, as you see in Dick's: They were thinking for 2014 that the golf market will be bouncing off the bad 2013. Unfortunately, this has not happened and they are cutting back space now.
We will do the same with our organisation, as we have already mentioned. Yes, we will prepare ourselves for a lower revenue line in the future in golf, but we definitely want to be as profitable as we have been in the past. Therefore, we will do a restructuring programme in our golf section, which we will announce in the next few weeks, and then we will give you all the details. And as Robin said, the restructuring numbers, you will see them after we have booked them. But please understand that we first want to talk to our people internally before we go out to the public. There is no doubt that we will prepare ourselves for lower sales in golf, but we definitely want to be as profitable as we have been in the past.

Michael Kuhn
Great. Thank you.

Andreas Inderst – Exane BNP Paribas
Yes, hello. I have three questions, the first one on TaylorMade. I still don't understand exactly how severe the warning was related to TaylorMade. I guess from the original guidance on EBIT margin of 9.5% and now 6.5%, roughly 50% related to TaylorMade. So how could this happen from an organisational perspective? I mean I understand everyone underestimated the market weakness, but in your organisation how could it happen and what are the measures to improve your flexibility, your responsiveness to weakness in the market? That's my first question.
The second question is on cash flow. It was very weak in the first half of the year. Robin, you mentioned that inventory should improve towards the end of the year again, but maybe you can give us a bit more insight what your expectations are for the full year. And also in this respect, your Capex guidance has now increased from EUR 500 million / EUR 550 million to EUR 600 million. I don't fully understand that given you decelerate your store expansion in Russia. So why the Capex expansion and what can we expect for 2015?
And my third question: Given the share price weakness since December, since your Investor Day, I believe you have become quite vulnerable. So what's your action to win back investors' confidence in the Group and in the shares? Thank you.

Herbert Hainer
Okay, Andreas, let me start with the third one. I think the answer here is quite simple, even if it is more complex in the execution, but we have to produce better results, then we win back the confidence of our investors and our stakeholders. I think in the first part of our Route 2015 we have delivered quite substantial progress but, unfortunately, we fell back in 2014 now. As I said already in my speech, we will work very hard to bring this confidence back, but I believe the best thing is to produce better results and this is what we will do.

Andreas Inderst
Maybe in this respect: Your balance sheet is solid. Would you also consider some share buybacks?

Herbert Hainer
We don't have any plans at the moment. Obviously, we will not exclude it. As you have seen, we have done it in the past, but at the moment we don't have any plans.

So let me come back to the first question on TaylorMade. As I said before, yes, definitely somebody can say we have reacted too late, but let me also describe the situation a little bit. 2013 was not a good year for the golf market because it was very cold in the US, especially on the East Coast; and rounds played were down. But everybody was hoping that this will come back in 2014; so did we, so did our competitors, so did retailers. Unfortunately, we don't have a pre-order system in the golf business as we have in the sneaker business, it is much more a replenishment business model. And we all had hoped and we had plans with our key retailers – with Dick's for example, which is our biggest retailer in golf in the US – to further grow our business; but this didn't happen then in the first half.

As I have said before, there is a double effect: On the one hand you have to help retailers with markdown to flush the existing inventory and on the other hand you can bring in less product. And this is why we are so-called late in our reaction. But now we are definitely doing the right things. We stopped bringing in too much volume into the market to further reduce prices and to further make it more promotional. And the second point is that we are restructuring our company and bringing our cost base to a much lower level so that going forward we can be profitable again.

Robin Stalker
And the second question, Andreas, was about cash flow and Capex. Two elements there: obviously inventory and Capex. Firstly, in terms of inventory, that is the major impact, obviously. And up 16% is not in line with the business. It's pretty broad, but the major issue there is again Russia – but we have plans intact that will definitely clear that over the next few months or bring it down at least to the level of business that we expect to continue there.

The point about Capex is that we have been generating very good cash. And we will continue to generate good cash. At the moment, we felt that it's appropriate to look at the purchase of long-term strategic assets. I'm referring to things like buildings or warehouses and over the last few months we've bought two warehouses. And we continue to finance any extensions of those sort of things ourselves whereas, previously, we might have done that with the third party. So, that's the key driver for the increase in Capex, not the retail part.

Andreas Inderst
And what would you expect for 2015? To slow this down?

Robin Stalker
Well, we'll be running out of strategic assets probably to purchase, so I suspect that it would probably come down a little bit. We've done the biggest purchase, just the large warehouse in the States we did in the first quarter and so there's probably not those strategic assets and that volume for 2015.

Andreas Inderst
Okay. Thank you.

Rogerio Fujimori – Credit Suisse
Hi, everyone. Thanks for taking my question. My question is about wholesale in the US. It has impacted the performance in North America and I was wondering if you could talk about the latest market share trends and particularly your thoughts about basketball and Originals. Thanks.

Herbert Hainer

Yes. As I guess you indicate, Originals has not been our stronghold in the US in the first six months and it will also not be in the third quarter. Within the fourth quarter we are bringing new products to the market, and especially our collaborations with Pharrell Williams, with Rita Ora, with Kanye West are well paying dividends. And you will see more of that going into 2015. We see more momentum already on Originals in Europe and in Asia. As I said before: the ZX Flux is our big asset and we will also bring this shoe to the US which will definitely give us back some momentum in Originals. But I think it's fair to say that, within the fourth quarter and then even more in the first two quarters of 2015, we will expect the rebound of Originals in the US.

Rogerio Fujimori
And does your order book suggest any improvement versus the 11% decline currency-neutral in the first half in North America, especially in wholesale?

Herbert Hainer
So going forward in wholesale for the second half, I don't see any improvement, to be honest. We see quite a nice development in our own retail business. And this once again shows: When we present our brands in the depth and width of all our assortments, then we definitely attract the consumer and they buy our products. And this is what we're working towards with our key wholesale retailers in the US: that we get a better presentation in the future. And as I said before, I am much more optimistic for 2015 because we have presented our 2015 collections to key retailers already, at least for the first quarter, and we got very positive feedback. We see some improvement maybe in the fourth quarter, when we bring our new basketball shoes into the retail and wholesale parts, but the biggest improvement can be seen in the first half of 2015.

Rogerio Fujimori
Thank you, Herbert.

Cedric Lecasble – Raymond James
Yes. Good afternoon, gentlemen. I have a follow-up question on golf. And I just want to double check this restructuring issue impact on the EBIT line in question two and a third question on Boost.
A follow-up on golf, beyond the market conditions which are extremely tough, some competitors, because they were able to launch some new products, managed to have a stronger performance for their top line. So how do you reconcile this with your product launches and how could you limit the damage by introducing new products despite the destocking of old product? What is in the cards for the second half?
The second question is on restructuring. Just to be sure, this EUR 50 million charge roughly will be above the EBIT line? Just want to double check.
And a last question on Boost. You had quite aggressive initial targets in volume for Boost this year. Could you recall these targets and confirm to us or not that they are still on plan? Thank you.

Herbert Hainer
So let me start with the first question on TaylorMade. Yes, to a certain extent it is correct what you're saying. Nevertheless, one of our competitors has just released its numbers I think, which were down -7% in revenues in the second quarter. But obviously, as we are by far market leader in golf, we therefore have the largest inventory in the market.
But what you also can see is that we are maintaining market share leadership in key categories. For metalwoods, for example, 36%. The SLDR driver, which has been in the market for one year, or I think it's to be

precise 11 months in the market, is still the best-selling driver. But there is just too much inventory in the market from our side and we have to clean it up now. It doesn't make any sense to bring further product into the market in the second half of 2014. We then want to launch our new products in 2015 when the market is clean and we can raise prices up to the normal level again and then sell it through properly.

Robin Stalker
And Cedric, let me make it clear: When talking about the impact on TaylorMade for the second half of the year, we've said that the difference between our initial expectations for the second half of the year is about EUR 50 million to EUR 60 million and that includes a restructuring charge, but it also further reflects the promotional nature that's obviously more than we had initially anticipated and perhaps lower sales in that market. So the restructuring is included in that and it'll be part of the ordinary operating result.

Cedric Lecasble
And on Boost?

Herbert Hainer
Oh, sorry. Boost, yes. We wanted to sell 8 million pairs of Boost in 2014 and we can confirm this target.

Cedric Lecasble
Okay, thanks.

Andreas Riemann – Commerzbank
Good afternoon. Three questions from my side. The first one on the product mix. You speak about more brand marketing to gain market share. Does this imply that you'll reconsider also the product mix, i.e. could it make sense to offer more products at lower price points to gain share?
The second question on Russian retail: To clarify, you mentioned costs of EUR 50 million in the second half in Russia. So do I get it right, it's only related to store closures and additional promotions in Russia?
And the third one, given that EPS will be down this year and also given the share price performance, are there any new plans regarding the pay-out ratio? Maybe it's going up so that we see dividend stability? Any thoughts from you on this one? That's it from my side. Thanks.

Herbert Hainer
Okay. Let me start with the first question on the product mix. Obviously we're always looking into our product mix and into the price points – which I guess you refer more to – that we hit the demand and the wishes of the consumer. And through our selective distribution channel policy, we bring products into related distribution channels where we think the consumer can afford them. So for example, in a moderate-price channel we have a different product assortment than in specialty stores or in the sporting goods stores.
But in general, we don't think that we want to win market share by lowering our prices and bringing entry price products to the market because this first and foremost squeezes our margin and, secondly, it doesn't enhance the image of our brand. We are convinced that bringing in new innovative products to the market that really resonate with the consumers' demand is the right way forward.

Robin Stalker

And your second question about clarification and the Russian impact in the second half of the year: Again, what we're trying to say with this guidance is that we will be EUR 50 million at least below what we intended to be. And that includes the impacts of closing shops or not opening as many shops, but it also includes a further projection of the highly promotional market in Russia and, therefore, the lower margins we've already started to experience in the first and second quarter and Herbert has already spoken about that part.
The third question about the dividend, we're obviously very keen to continue to have our shareholders participate in our success. The actual decision on dividend, however, is something that obviously is taken in the next year. But at the moment, I don't think we see any reason as management to see any change year over year in the dividend pay-out.

Andreas Riemann
Okay.

John Paul O'Meara
So, ladies and gentlemen, that completes our call for today. Our next set of results will be announced on November 6. And I'm sure we will catch up with you on roadshow over the next couple of weeks in Europe and in the US.