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adidas Group Investor Day 2015
Q&A session / Part 1: Global Brands & Global Sales
March 26, 2015
adidas Group participants:
Herbert Hainer / adidas Group CEO
Roland Auschel / adidas Group Executive Board Member / Global Sales
Eric Liedtke / adidas Group Executive Board Member / Global Brands
Claire Midwood / General Manager adidas Sport Style
Matt O'Toole / Reebok Brand President
David Abeles / President TaylorMade adidas Golf Company
Sebastian Steffen / Vice President Investor Relations

Antoine Belge – HSBC
Two questions if I may. First of all, you decided to give targets for sales and on net profit, but not to mention a precise EBIT margin target. But I think if we work out the numbers, it should be around 9% or 10%. So, can you maybe explain the rationale for not being extra-precise? And the second question: I think you've given a lot of details about your eCommerce strategy yet, at the same time, I think a lot of other consumer companies will be doing the same thing and probably Nike as well. So, would you consider yourself in sort of catching up phase, or do you think that you're leading the pack? Thank you.

Herbert Hainer
Let me start by answering the first question. Roland, I think you can take the second one. So coming back to what you said, operating margin. We have given you a clear guidance how we want to grow our net income per year. And if you do the mathematics, as you have said, then you end up close to 10%. There is no doubt that we want to achieve a double-digit operating margin. But we also have learned in the last plan that we have been too bound to this 11%, and this has made us too static. We definitely want to act flexible and agile in the period to go. And there is no doubt, as I've said, we want and we will go to a double-digit operating margin. But we also want to have flexibility. When we have to invest then we will invest. Because one point is for sure, and I hope we have brought it into the focus of all of you: We want to win the consumer. This is the ultimate goal for sustainable success of this company. And this is what we will do. But don't worry, we will get to that.

Roland Auschel

On the one about the eCommerce question, yes, everybody else is doing eCommerce at some level. So do our competitors. The whole trend of the world is going into the digital world. Digitalization is a megatrend that will stay with us. So we expect everybody to get about it. What we believe we will lead is the omni-channel aspect of the industry. We're set-up to be the leaders of this trend, and this trend will shape the future of eCommerce. We believe that everybody who is not an omni-channel player, in a few years' time, will actually not exist in the eyes of the consumer because they're not able to do that seamless consumer journey and offer that to them. And that, we believe, sets us up for success for the future.

Jürgen Kolb – Kepler Cheuvreux

Two questions from my side. First, a few questions on numbers: The capex level you expect to have for the next five years would be of interest given all the developments you're planning. And secondly, we've seen over the last Investor Days, in the last 10 to 15 years, several initiatives that you put on stage, some developed positively, some did not. At the end of the day, the question was on execution, which did not really materialise as expected. I think Eric, you talked about a 90-day plan that you're trying to put in place. Could you please explain to us in more detail as to how you want to make sure that these targets that you have put in here will develop positively so that you can really execute on that and that we, in 2020, sit here again and have a clear picture that this will be executed.

Herbert Hainer

So first and foremost, to your first question on capex. We don't want to steal the thunder from Robin in the afternoon. So, he will definitely answer this question to you. Of course we are convinced that we will achieve this target. Otherwise, we wouldn't have put them out today. And of course, we have learned over the last five years where we have failed. But I also want to make one point clear, what I said already in the morning. When you look at the sales numbers, we have really driven this market and we do believe we can do even more. Where we have failed is on the operating margin. There have been some external factors, as we all know, with the currency development and there have been some own mistakes which we have made. But we definitely learned from these mistakes. And therefore, we have put even more KPIs into our targets. And you might have read in our annual report what the targets for the Board are: This is North America, this is margin and all these KPIs. And these are clear objectives for anybody's bonus and long-term incentive programme to get there and we will be measured permanently. And I think Robin will also tell you in the afternoon that we will hold in the future have so-called 'tutorial meetings' where we give you every three to six months updates on specific categories, on specific targets, on specific KPIs and then you can permanently measure and hammer us on this target because we want to be as transparent as possible. And then you can make up your own mind.

Cédric Lecasble – Raymond James
I have a question on the overall sourcing organization. You've been speaking about flexibility, speed, speed to market, lead times. How are you organized today in terms of being in a position to deliver to the stores more rapidly? What's the global challenge around that? And how do you see the organization three, five years from now? Thank you.

Herbert Hainer
If you look at sourcing, we are organized very similar to our main competitors around the world. We have the biggest part of our footwear sourcing in Asia with the main country being China and then Cambodia, Laos, Vietnam. On the apparel side, we are more widespread. We have a big apparel sourcing part in Europe with a liaison office in Turkey, which is quite big. We have some sourcing in Latin America, in Middle America, and then, obviously, in China as well. Because apparel is more fashion driven, therefore it's much faster and we have to make sure that we are closer to market. But this is exactly what we want to be in the future with our footwear sourcing as well. We want to get closer to the market because, today, everything is located in Asia and obviously it takes you normally six weeks from the production site to your retail store when a product is finished. And six weeks is too long. And what we have seen already on the charts today and what you'll see around here: We don't know what will be the industry in two, three or four years but we will bring production back to Europe, we will bring production back to where the main markets are, with the automated production. And this will make us much faster, and obviously, this will help us with regard to economic factors because if we don't need to produce three months in advance, we can directly produce in the market, we don't have this distribution time, etc. And this is what the future will be. I can't give you any exact date today, so I could say that on the 1st of July 2018 we will have the first production back here in Germany. But this is definitely the future. And I absolutely believe we will be the leader and the first mover there.

Julian Easthope - Barclays
I was very impressed by the 45 days speed-to-market from inception to store. But I guess that's very specifically in the more casual sports style products? And I just wondered how on that basis you compared with the competition there, which is more likely Inditex, Uniclo those kind of companies? Whether you consider those kind of companies as your main competitors here? And also in the same vein, how long is your speed-to-market for your real sports performance gear that I think you said was one-and-a-half years for most companies. Just how you compare with that. Thank you.

Eric Liedtke

Okay. So, I'll default to Claire when it gets to the expertise, but currently, our industry has been based on an 18-month futures programme. So, that's how it is. We buy it on a six-month futures and we ship it into markets. So, that's the way it's been since the industry was really resurrected in the mid-1980s. So, we aim to change that. That's very clear with our speed initiatives. We started it with a pilot in NEO which Claire, I think, talked about very clearly, to experiment in that area. But we're here to reset the sporting goods industry. So, when you talked about Inditex, Zara and H&M, they have their own model and we've learned a lot from them, but we've created a better model for the sporting goods industry, whether it would be for more of the sportswear products, the street wear product, or yes, even the sports performance product. Our goal, as Claire said, I believe was 50% by 2020 to have all of our product and that includes sports performance product on the shortened lead times and planned responsiveness and in-season creation.

Sebastian Steffen

Maybe we'll take a first look into the Internet and see if we have questions there. Christian?

Christian Stöhr

So, we have one question from the webcast: And by how much would you have to increase your advertising spend to get to these 2020 numbers? Thank you.

Herbert Hainer

Good, overall, as we have said, we will invest more into marketing working budget in the years 2015 and 2016. We already told you a few months ago certain initiatives, especially in the North American market. But finally, in the course of the years to 2020, we want to go back to around 13% marketing working budget where we have been before. Don't forget, with the growth which we have, the 13% is in absolute terms much more than what we have today.

Kelly Chen – Telsey Advisory Group

You guys have clearly talked about how North America is a market where you need to improve and win. And I think part of the global sales strategy was to take more ownership of the wholesale managed space. So, could you talk a little bit more about those efforts in North America specifically? What do you intend to do when you manage that wholesale space? We've seen a lot of your competitors be successful in opening shop-in-shops. So, what exactly are you doing when you manage that? What type of lift have you seen when you mange that space? And then does that mean that the profitability in North America goes down as you make those investments, or is it kind of a straight trajectory upwards?

Roland Auschel
Kelly, everything I explained this morning, of course, is absolutely relevant for North America as it is for every other market. But this afternoon, we have our friend Mark King coming on stage and really talking about our approach in North America. And he will mention the work that we're doing in retail space management with some of our key partners. So, if you wouldn't mind taking the answer then, and we'll make sure that Mark takes care of that point specifically in his presentation.

Simon Irwin – Credit Suisse
Simon Irwin from Credit Suisse. Within the eCom target that you set yourself, how much of that do you think is going to be direct from yourselves? How much do you think is via stores?

Roland Auschel
So, to explain the € 2 billion, that is the business that we believe we will do ourselves with consumers directly. We very clearly will leverage our store network that exists to ensure that that eCom business is driving forward. So, for example, if you go to one of the omni-channel models that I explained where you can actually order in-store, you're looking at this endless aisle, and you would order something: That we would count as eCommerce. This is where the business has come together, right? But of course, our customers, the Foot Lockers and Decathlons of this world, they will also have their eCom business that is not included into the € 2 billion.

Simon Irwin
Right. And we heard so much about wearables today. Do you see wearables as predominantly being a hardware solution or is this much more about the software and the customer engagement through that?

Eric Liedtke
It's a combination of both. I think you'll have to have some wearables. We have to have wearable offerings, so the consumer can benefit from all the applications and the software that comes with it. And the key is how do you partner with a wearable or how do you create wearables yourself and how do you partner with the software or do you do that yourself. And the magic is to be in the game. I talked a little bit about how we get individual sports and the data we achieved last year, but it's also then that the offering always needs to evolve. And I think partnership is a key theme for me today as far as how we look at partners in the space. It will be critical for us to access this space as well.

Simon Irwin

Okay. And the obvious question is how you set-up for Apple? Will you have any kind of potential of getting involved in that space? You talked about open architecture.

Eric Liedtke

I think right now we have applications already on the Apple app, on their library. So, we're already involved on their devices for people who download us. To your question - we'll continue to do that with our devices as our devices are open to all apps that come in as long as they meet their standards. That's clear. I can't really talk about anything else at this point from a competitive standpoint.

Stephan Seip – Hammer Partners

One follow-up question on eCommerce. You mentioned this is a main growth driver, quadruple sales by 2020. How will you manage that? You mentioned at one point also that you will increasingly deliver product out of the stores, the shipment. Are there also distribution centers planned? New distribution centers? Because I believe if you want to quadruple sales, the SKUs in the stores are usually lower than what you have to offer in the full range. How are you going to manage that? And then a question about the mid-term targets, am I right in assuming, that this time the growth is going to be much more equally spread out, compared to your previous guidance?

Herbert Hainer

Let me answer the second question. Once again, Robin will tell you more in the afternoon about that. I understand your question, but as I said, if you don't want to make Robin obsolete then we save the question for him in the afternoon. I mean obsolete just within this meeting, so don't get me wrong.

Roland Auschel:

Stephan, to your question about eCommerce and what's the impact going to be on our supply chain: We firmly believe that in the future we need to bring all the inventories that we have in the company under one roof. We don't believe in an eCom specific warehouse, we believe that availability, quite the opposite, will be driven by us pulling our stocks across the different channels. And then simply reading the market, understanding what the consumer requires, where, and then being able to flexibly ship to where that happens in the fastest way. And again, availability, we believe, will be one of the key drivers for our success in terms of eCom acceleration between now and 2020. So, yes, you're absolutely right. The 'endless-aisle philosophy' is going to be one of the key drivers where we obviously connect eCommerce to the store network because no store in the world, in fact, can hold all the offering that we have. That's the combination between the physical world and the eCom growth then.

Chris Svezia – Susquehanna

Roland, a question for you first. China – I think you mentioned you want to be number one in China. Your competitor is roughly $ 3 billion. You're roughly $ 2 billion, give-or-take. Just your confidence level to sort of get there. Growth is accelerating in these markets. Inventories are stabilised. So, I'm just curious about your confidence level in terms of closing that gap and surpassing. And I guess the second question, Eric, I guess for you, on products and about embracing the consumer and understanding the consumer. Product innovation is key, obviously. With Boost, you have a very innovative technology. Just maybe talk about what else that you foresee coming in the future, whether in uppers or in sole technology or something that really entices and excites the consumer that adidas could really focus then on?

Roland Auschel:

I'll start on China. Thank you for the question. So, yes, we're very confident that we will get there by 2020, latest, because we are on a tremendous trajectory. And what we are basing our optimism on is the fact that we're selling through ahead of the rate of our major competitor, first. Second, we're the most profitable brand in China for our partners. And as you know, the China model basically means that our partners decide pretty much every six months, how many stores they will open in the future and profitability from the brand is one of the key aspects of that one. So we believe that our partners will continue to open more stores with us than with anyone else and this is going to be one of the absolute key drivers. And lastly, we believe that we're actually running the major categories that make a difference in China in terms of consumer insight, and it's not just about running and football, very clearly, our mono-branded NEO store fleet in China is making a dramatic difference, all the work that Claire and her team have done in China. So, we believe we're set-up for market leadership by 2020.

Herbert Hainer

Maybe I can correct the numbers a little bit. I think 3 billion is overstated. The 2 billion figure is right but remember we report in euros and not in dollars. So that's correct – € 2 billion for us is correct. But I think the $ 3 billion is overstated for our competitor in China. The gap is much closer. And we have been growing faster in the last two years than our main competitor.

Eric Liedtke

From a product standpoint, we believe the innovations we have are second to none. There's no doubt about that. We know we have the innovations. I think to be very reflective and honest: We don't think we've always had the best upper innovations. And innovation is maybe not the right word but maybe aesthetics. And I think what we need to do is combine those two much more readily. We're getting better and better at it every day, but if I can reflect and be honest, I think our innovation pipeline is full. We can't disclose where that's coming, but we continue to get better there. But we need to make sure we continue to stack talents in design. And specifically, in the U.S. insights to fuel those products going forward.

Jamie Bajwa – Goldman Sachs
Just the first one on what you're talking about in terms of shared inventories and how that's going to be brought up across all of your distribution. I just wondered if you could help us explain how that will work, particularly with your wholesale partners, and how you're going to manage growth between retail and wholesale and actually share the inventories together. And whether that even changes the agreements that you have with your wholesale partners? And the second one is on your store growth that you've talked about, and adding new stores. How much of that is going to be split between the markets you've talked about, in terms of growth markets, extending new leadership, and then the ones where you currently are leaders? And thirdly, on the omni-channel, particularly on how you're managing the third party with your own eCommerce. I just wondered why you're thinking about going on your own in terms of eCommerce so aggressively first before using partners to try and actually scale up your business?

Roland Auschel
Most of those questions go to me. So, starting on the first question which is about the inventory sharing. We obviously operate a wholesale model, which is clearly driven by what Eric shared before, the futures business-model with firm contracts that we take with customers. But don't underestimate that, in the world of wholesale, you'll get cancellations, you have certain risks, orders that at the end of the day are not materialising and so on. And then of course, we are taking risks ourselves for being available and never out-of-stock. So, to your question, we believe that we can significantly improve the availability of our products online and in-store without walking away from the business model that is a firm model. However, if we have excess inventories or if we have additional availability, we will probably prioritise these quantities to our eCom and own-retail stores in the future. That's the first aspect of things.

Your second question was about where will the store growth happen over the next couple of years? Yes, I think we will continue to operate stores and open stores in those key cities. I would expect a significant number of these stores that we mentioned and called out here to be opened first in those key cities, and then in the markets in which those key cities exist to benefit from the halo impact that we're generating there.

And to your last point, I'm not sure if it didn't come across so well, but our approach to eCommerce is certainly to open up our omni-channel system to the key partners over the next couple of years. So, as I briefly explained, as of 2017, we're starting to reach out certainly to our global key accounts to integrate them into our efforts of omni-channel. And we're, in fact, testing some of those affiliate models even today. So, our drive across omni-channel and eCommerce is certainly going to include our key partners globally.

Herbert Hainer
Ladies and gentlemen, contrary to the past, we haven't got any questions on Reebok so far. I take it as an agreement that you're all fine with our direction. So, if you have a question for Matt, he is still here.

Geoffrey Lowery – Redburn
Two questions. You talked about a 20% improvement in full-price sell-through, which feels like a huge number. Can you give us some context on what the starting point is on that or some color around what it really means to your business? Second one is actually on Reebok. When we look at the Reebok business, there's obviously a significant margin gap at the gross margin level versus brand adidas. Of the many initiatives you described, does margin feature via a mix of product type, sort of getting that margin up as part of that sales strategy as well?

Matt O'Toole
I take the lack of questions as a compliment as well. Regarding revised margin, this is certainly our biggest opportunity if we look at our contribution to the Group overall. And there's a number of factors that are going to expand our margin over the next five years. Some of them are distribution-related, meaning there's some places where we have shared our distribution with a partner, like our joint venture in Latin America, which will cease to exist, and we'll have to put that on our platform and see margin expansion there. And then there's some other distributor relationships that are opportunities around the world. But certainly the biggest part of our margin expansion is going to be coming from an increase in our average selling price. And this is already happening, we're seeing the consumer kind of trading up to a better version of Reebok than what we have historically known for Reebok. And this is particularly apparent in our apparel business. But we believe there's a significant opportunity in the footwear business because this consumer is a passionate, avid participant, much like in many of the other sports

that Eric has talked about. And as such, they're willing to pay for the best gear. And I think that these changes in the distribution model as well as changes in our average selling price and trading the consumer up to a better version of Reebok are going to be the two biggest contributors.

Eric Liedtke
And as far as the 20% lift in full-price sell-through is concerned, we can't really disclose what we have today in that. We feel good about the number. We feel very good about the case we've built around NEO. We've seen our lift come up, and we've seen what it can do for our brand going forward from maximization. We know we got great opportunity on maximizing full-price sell-through versus where we are today. So, we feel safe about 20% because it all goes back to giving the consumer what they want, when they want it, where they want it. That's the speed model, so we don't have a strategy of hope anymore, where you stick it in, and you hope they buy it. Now it's like we're going to put a little bit in there, if they buy it, we double down. If they don't, we get out without big inventory issues. That's the model.

Geoff Lowery
If I can just ask one follow-up. The 25% reduction in SKUs or sublimed option. What does that mean in absolute numbers or what do they contribute in sales?

Herbert Hainer
Let me just make one more point on what Eric said: Where we exactly can measure the uplift of the 20% is obviously in our own-retail system. From the wholesale level, we sometimes get data for full-price sell-through but most of the time we don't. So where we exactly can measure it is with NEO and in our own stores.

Eric Liedtke
So, again I don't want to talk in absolutes because, it's a floating number season by season but in general, as I told you, it's already in the book. So, as we've already started the fall 2016 creation season, it's already been reduced from what is in the designer pipeline right now from fall 2015. So, going back to your other question: That's measured, that's done. We're tracking that on 90-day increments as we go forward. And I think spring 2017 and fall 2017 give me another opportunity or give us another opportunity to even sharpen more so. So, first time we've really taken this approach to kind of looking at everything holistically and continue to look at how we do more by doing less - mean more by doing less.

Sebastian Steffen

We will take another question from the webcast.

Christian Stöhr
So the next question from the webcast: You've not been able to achieve some of your 2015 targets. Why should investors believe that you can do it this time?

Herbert Hainer
Simply because we have learned from the 'Route 2015' experiences and the mistakes we made, as we said this morning. And I believe that when you, for example, look at the fourth quarter on which you have the numbers, you'd definitely see that there is momentum behind the brands. I mean, the adidas brand was growing by 11%. Western Europe grew 13%. And as I've said this morning, this momentum will continue. So, we are absolutely convinced – firstly, because we took the learnings. Yes, we have made some mistakes, and we admit it, but we took the learnings. And secondly, I can guarantee and confirm that especially adidas and Reebok really have momentum.

Christian Stöhr
One more question from the webcast: It seems like Reebok is finally turning around with their focus on health and active sports, the partnership with UFC, etc. Is that correct? Are you open to selling the brands and can we be confident that it will remain in the Group?

Herbert Hainer
Yes, definitely. There is no doubt. As we said this morning, these are the three main brands. And my personal answer: We have been hammered for six or seven years for Reebok, and now we are turning it around, and it really inspires so many consumers. I think we would be stupid to sell it now.

Adrian Rott – Deutsche Bank
We've heard a great level of detail around how you're planning to push ahead with your controlled space and your wholesale partnerships. I was wondering whether you can comment on how you see your sourcing and distribution network get prepared for that world. I understand that you have a new distribution center on the outskirts of Paris opening or going live next year, and you've mentioned that there are new challenges when you need distribution centers that are able to do both – handle orders from the online shop as well as shipping to wholesalers. So, are you expecting a lot of investment and capex flowing that way? That would be interesting to hear. Thanks.

Roland Auschel

Adrian, thanks for the question. So, first of all, we believe that at least in the major markets and the four focus markets that I talked about this morning, I think we're really well set-up: Our activities that we have undertaken already, investing into a new distribution centre in China, the upgrading of our infrastructure in Europe, with the massive investment into Rieste, everything we have done with our Spartanburg facility in North America; and certainly, I mentioned Latin America, where we are in the process of ramping up new warehouses and so on. I think we're absolutely set up for success, and the direction of these centres is really to be an omni-channel player and to be able to use the availability and leverage our inventory pool to all these places.

So, in a nutshell, no, I don't think that we need to do much more beyond what we have already taken care of. And yes, there will continue to be certain learnings that we take along the way, where we say we now need something more specific to the French market or closer to the Spanish market or whatever. But these are small investments. We believe we're set up for success and our distribution system is already in a position to satisfy these strategies that we presented this morning.

Andreas Riemann – Commerzbank
Two questions from my side. First one on Russia, yesterday we learned it's still a growth region, and it was one of the 'attack regions' back in 2010. Today it's not anymore one of the top four growth regions. So how important is Russia? Are you trying to limit the risk of the growth region? Maybe some light on that. And the second one on currencies. Are you also confident to achieve 9% to 10% EBIT margin in the next years with the euro/US-dollar and euro/ruble remaining where they are right now?

Herbert Hainer
So, let me start with the second question. Once again, Robin can give you more light on that. As you know, currencies go up and down and to a certain extent it plays in our favor, and to a certain extent they don't play in our favor. Last year we had them against us on the translation effect. This year, a lot of currencies are much better in terms of translation. But Robin can give you a little bit more light on this one.

Coming back to your first question on Russia – I'll take it, because five years ago I was here as well. I think we have seen fantastic growth in Russia, and Russia was definitely a very, very profitable market – one of the most profitable markets for us in the last five to ten years. And we have gained a lot of profit out of Russia. I definitely believe Russia will stay a big market. We have 150 million consumers, we have a dominant position being a market leader there with adidas. Reebok is a very, very strong number three. We are still profitable in Russia even with the ruble devaluation. I personally do believe the ruble will come back one day, the oil price will go up. But we are more careful in Russia, so therefore we do not put of our money into Russia and drive this growth, because we want to balance our risks as well. And we see much more potential for the near future in the four markets which we have described.

Ralf Stromeyer – Allianz Global Investors
I'm intrigued by your target of improving sales productivity at your concept stores by 7% per annum and you have achieved 5% over the last five years. Now that seems quite an aggressive target to me. Now, one question is, concept stores, how much of your business is this? What sort of size are we talking about? But also, can you speak a bit more about it and what are the main drivers of that? I can imagine omni-channel should be a big driver because it includes online sales? But also, talk a bit about why are you so confident? And also, should we just see that as an opportunity or also as a risk because you set up the business for growth, and if you don't achieve the comp store sales, you won't keep your profitability. Is there also a risk there? Is there a certain rate of growth that you need in order to not dilute your margins?

Roland Auschel
So, first of all, the last five years, we've been improving our per square meter net sales already at a rate of about 5%. That's excluding Russia and I believe I made that point here. And that sets us up for a solid base. And we, again, have learned, over the last years: What are the specific levers to pull. And very clearly, conversion is a key driver for productivity going forward. And if you just think through the 1 percentage point improvement that we are seeing from the new consumer service model being brought to the stores where we have tested it, and you then just convert that back into a productivity number, that is a significant first element.

The second element, I would say, is that over the last years we have learned how product, how assortment planning, how merchandising is working better and where are we are achieving a higher degree of success. So that is a significant big territory of further improvement and we have taken the Head of Retail, Michael Stanier, I guess you met him last night. We have taken Michael and asked him to now work in the brand together with Eric Liedtke in the so-called 'Concepts-to-Consumer' function. So that basically means that all this work around merchandising and assortment planning has now been taken into the brand, so we that we in the market get ready to implement solutions from the very beginning. We believe that's a significant second opportunity as far as store productivities are concerned.

And then thirdly, I would just repeat what I said this morning about omni-channel and all the innovations that we're bringing. So we are confident about the 7% on average. It will not be a straight line. It's the average over the five years. It's currency-neutral, all the things we talked about before, and therefore we are confident we can drive it. We look at it as a tremendous opportunity. We don't see it as a risk. We believe that the 7% will be a significant element, roughly half of the growth rate that we can drive from the concept store, roughly the other half coming from the additional store openings. So, I believe that's at least how we look at it. I hope you can share our perspective.

Eric Liedtke

Just if I may add, one of the reasons Michael has come over is because he's now driving the reduction in models as well and we will be more directive on what concepts and products will be ranged in our stores across the world. So with him being part of the brands, the influence is more creation than ever before. So it all kinds of adds together. The 25% reduction with the increased productivity in own retail. We also see that carrying under wholesale as we do more and more planned packages, as Roland presented. So it's all working together by bringing these two things together.

Herbert Hainer

And in addition, we also put our money, our marketing working budget, behind the key franchises to drive them, and they will be a key to bringing our 7% to life as well.

Simon Irwin – Credit Suisse

Can I just come back to your marketing expenses. Obviously, in the media there's been massive inflation in recent years, which is very public. Rather less so, obviously, is your cost of sponsoring athletes and teams, I mean, obviously, we hear examples like Manchester United. How do you know that £ 750 million, or whatever the number is, is the right number, and what kind of underlying inflation has there been in the cost of sponsoring athletes, and are you confident you'd still get a good return on that?

Herbert Hainer

Of course, you can imagine that we have several metrics how to define what the right price is. Obviously, this is an investment in the future and you never can be 100% sure whether it pays out exactly like that. But we have done the whole calculation in the past, based on what has happened on the fan base, on the subscribers for Manchester United, and then on the commercial potential which they have already today and what we believe they have. And therefore, we came out not only with the £ 750 million which we pay, but also with £ 1.5 billion in revenues which we want to make. And I can tell you without going into too much detail that for the first year which will start in August this year, so we have started to sell-in already, we will over-achieve our internal target in the first year. Obviously, there is some pipeline filling, and obviously, it depends a little bit on how they play. But we have done an in-depth analysis over months and months to see what the Manchester United brand can do for us, what the commercial success is, how many consumers they have, how many people are engaged, etc. They have around 670 million fans, they have 39 million subscribers, and this is how we brought it all to life.

Simon Irwin – Credit Suisse
Just to follow up on that. Typically, how much is built into these contracts in terms of performance? So, for example, does it cost you more or less when they get into the Champions League? Does it cost you more or less if a prominent athlete gets injured, et cetera?

Herbert Hainer
This is a simple answer because, as you know, Manchester United is listed on the stock exchange, so they have to disclose all of that. And it was clearly written in the disclosure that if they miss the Champions League two times, the contract is reduced by 30%. Of course, we put performance elements in all the contracts because it's not so much the general reputation of a club if they miss the Champions League, for example, but it is definitely the commercial effect which we have. So, one more question before we then go to lunch?

Thomas Grillenberger – Allianz Global Investors
Two questions if I may. First one is quite straightforward: Should you do any M&A acquisitions, would the targets be adjusted? Could you confirm that, please? And secondly, my impression is that five years ago, we heard much more about the lifestyle initiatives you've had. I remember adidas SLVR and adidas Originals, Y-3 and of course NEO. We haven't heard a lot today on this yet. Maybe there's more to come. Can I interpret this? There's bit of a de-emphasizing of the lifestyle segment in your strategy. Would that be a fair comment because there's a big emphasis on performance obviously today?

Herbert Hainer
Yes, which we think is right, because we are a sports company. But answering your first question, no, in this number, there isn't any M&A included. This is pure organic growth.

Claire Midwood
I think Eric talked very eloquently this morning about our focus on sport. Of course, we know from a lifestyle perspective, we started the whole trend with Yohji Yamamoto 14 years ago of bringing sports and style together. We see that as part of our DNA as well. It's rooted in sport.

It's part of sport, so we don't plan to move away from that of course. It's part of our overall brand portfolio.

Herbert Hainer
But maybe in addition to that, Y-3 – and I was there when we started the cooperation – Y-3 was always meant to help us to make the brand cooler. This was never a big revenue driver. And it definitely has helped us to make the brand cooler and not just be a football brand and male-driven. But with NEO, we have clear commercial targets. As we said, we will achieve € 1 billion in 2015 and obviously this will continue to grow.

Thomas Grillenberger
Will we hear more about NEO this afternoon? Because in Germany it is still a roll-out or a trial rather...

Herbert Hainer
No. But Claire can give you a bit more information because she created the NEO business here and is running it.

Claire Midwood
Of course, NEO is, as already said, a growth driver and we continue to focus on growing the label in both wholesale and own retail. China – and I'm sure you're aware and of course Roland alluded to this earlier – is one of our biggest markets. We have a lot of successes within Japan, Russia as well, and of course Western Europe with our stores in Germany, Czech Republic and Poland. So, overall, a very successful business and growing in all markets. And also, which I think Mark will mention later on, doing very well in the US, too.

Thomas Grillenberger
Any plans to expand it to further countries in Western Europe beyond Germany?

Claire Midwood
From an own-retail perspective?

Thomas Grillenberger
Yes.

Claire Midwood

Of course, we plan to expand NEO as it is a key growth driver as we've alluded to and told you today. Of course, we don't want to disclose all of our plans from a label perspective. But, of course, we have growth plans, yes.

Herbert Hainer
And just in addition, outside of Germany we are already in connection with the wholesalers in Austria and Switzerland, etc. And one more point in addition to that, Claire, with NEO, we also get to a new target group, which we didn't connect that well with before. I mean, a more female-driven consumer, and this definitely gives us opportunities for the future as well beyond the NEO business in general.

Sebastian Steffen
Okay. I think that's about it. We'll have some more Q&A sessions in the afternoon, and I'm sure that everyone here is happy to answer your questions also during the lunch break. We will regroup again at 2 o'clock, and then we're heading right into the regions and will hear more about North America and Western Europe. Thank you very much.