

**adidas Group Full Year 2014 Results**

**March 5, 2015**

**Q&A session**

**adidas Group participants:**

**Herbert Hainer, adidas Group CEO**

**Robin J. Stalker, adidas Group CFO**

**Sebastian Steffen, VP Investor Relations**

**Julian Easthope – Barclays Capital**

**Yes, hi. Good afternoon everyone. Just a couple of questions from my side. First of all, is it possible to give us a better understanding with regard to the gross margin guidance for the year? There are so many moving parts between US dollar, euro, rouble, input prices, as well as wage costs related to your suppliers. I just wonder how it sort of pans out during the year by quarter.**

**And the second question comes down to product. You've kind of dominated the market with Boost over the last couple of years. I just wondered whether or not, considering the fact that Puma has decided to have its Ignite product coming in, to actually start competing on sole technology. Is this going to be a new era of competition in terms of soles rather than uppers or not? And what could the potential impact on your margins be? Thank you.**

**Robin Stalker**

Good afternoon, Julian. Let me start with the gross margin topic. And I very much appreciate the desire to have this. We don't break it down by quarter. You are absolutely right, because there are so many moving parts related to this. I would like to point out, however, that, in particular regarding the FOBs, this is a more relevant topic near the end of the year. As you correctly pointed out, probably in spring/summer 2016. Despite that, we're very confident about the growth of the margin, particularly at TaylorMade-adidas Golf. And also because we have much less clearance to do in Russia – as Herbert mentioned. Certainly, there will be a negative impact from the weakness of the Russian rouble, but that's why we've given you this guidance, which is the best we can give you at the moment, in the range of 47.5% to 48.5%.

**Herbert Hainer**

Regarding your second question on Boost: Boost is a technology which really changes the way our running shoes will be made in the future. As I have outlined in my presentation already, we won 27 marathons last year, more than ever before – all in our new Boost shoe technology. The fastest runner in the world is part of our team and has already set a new world record wearing Boost. And this is just the start. We sold around 6.5 million to 7 million pairs of Boost in 2014 and we will double these volumes in 2015. And this will continue as we bring more and more Boost to other footwear products. So this is definitely the technology for the future. There is no doubt about it.

**Julian Easthope**

**Okay. Thank you very much.**

**Jürgen Kolb – Kepler Cheuvreux**

Thanks very much. Three quick questions. First – could you give us an update on the current status of the three new designers who are coming into the Brooklyn design office? What is the situation like and when do you expect them to come to live, work and start designing, especially for the US part of the business?

Second, on gross margin. I understand your 2015 guidance for now. Looking a little bit further out to 2016 though, some of the positive factors, like lower discounting from TaylorMade as well as the Russian situation, will be falling by the wayside, and the hedging rate will be kicking in. Being the euro/US dollar where it is, could you please give us a little bit of an indication of how you are planning to react to the 2016 situation and what do you think that the impact on gross margin is going to be?

And lastly on the Rockport disposal. The proceeds that you've taken in – I think amounting to EUR 240 million, if I'm correct – how do you plan to spend those? Will they be going into share buyback or are you actually thinking about a special dividend or something like that? Thanks very much.

**Herbert Hainer**

Okay. Let me start with the first one and Robin is taking the other two. So the three new designers will start after the summer holiday period in America, this means around September/October. I don't know the exact date, but this indicates approximately when they will start.

**Robin Stalker**

And as far as 2016 is concerned, firstly you'll appreciate that we're not giving much guidance for 2016 at the moment. It's a bit early for that. But I will acknowledge, obviously, that you are right that the US dollar is a lot stronger. And our hedging rates, although we've really just started hedging, could be worse than what we had for 2015. But because it's so early, we've also got lots of opportunities to mitigate this with the same sort of exercise we've done in the past in terms of product engineering, but also including potential price increases.

Regarding the Rockport proceeds, as you may know, we've got a fairly healthy situation with cash so we don't need a particular new injection of cash. However, this does not change our overall strategy. We have made it quite clear that we've got a EUR 1.5 billion shareholder return programme out there. This does not change that or add anything new to it. And, as you have seen, we've continued to be extremely disciplined when it comes to the use of cash. There've been no major acquisitions other than some small ones targeting technical or niche areas. And we have used our cash to further invest in opportunities of growing our business or taking advantage of markets with lower interest rates, where we for instance bought some of our logistics assets. But this cash injection doesn't change any of those strategies.

**Jürgen Kolb**

**Very good. Just one quick follow-up on Boost again. In which categories have you introduced Boost by now?**

**Herbert Hainer**

Yes. The main category is by far running. I think this represents 85% of the Boost shoes, but we have it now in golf, basketball, snowboarding and outdoor, as well as in other categories, but this is just the very first beginning. Running is obviously by far the biggest category.

**Jürgen Kolb**

**Very good. Thanks very much.**

**Antoine Belge – HSBC**

**Yes, good afternoon. It's Antoine Belge from HSBC. Three questions. First of all regarding golf: in your overall 2015 guidance, if I'm not mistaken, I think you're expecting double-digit growth for golf. So what makes you confident that you could get there? I assume it has something to do with the phasing during the year? Maybe at the start of the year it is still a bit tough and then an improvement? Also, I think you mentioned the shift in EBIT, so I guess there was a loss in 2014? Can you maybe quantify that loss? And do you think that 2015 will see the return to profitability?**

**The second question is a follow-up on what you said about 2016 and the US dollar being a bit more of a headwind. I think you mentioned price increases. So, in your view, what's the environment for the price increases? Are you considering that because you think that all your competitors will implement price increases as well? What would be the sort of magnitude for those increases?**

**And finally, you're about to launch a five-year plan, yet at the same time there is a CEO succession plan going on. As a result, this plan will be implemented, at least for a part of it, by a different management team. So how is it going to actually pan out in terms of maybe year one and year two and then near the back-end of the plan? Thank you.**

**Herbert Hainer**

Okay, Antoine, let me start with the third question, the five-year plan. Please have in mind that this plan is not done by just me alone. This is done by the whole Executive Board. So, we are five people and everybody was involved. And especially the marketing as well as the sales guys had the spearhead in developing this plan and these people will definitely be here to execute it. And on the other hand, you do not expect us now sitting here for two years and don't plan anything for the future until the new CEO is here. So this is a permanent, ongoing process. And be assured that, as I said, the whole Board was involved and you will see that on the presentation on the 26th of March.

Second question was regarding 2016 price increases related to the US dollar situation. I think we have different market situations. For example, in America, it doesn't make any difference for us

because we buy in US dollar and we sell in US dollar. In Russia, there is a different situation. We increased prices already in spring this year because of the situation with the rouble. And in general, as I said, we bring a lot of new product innovations to the market and we obviously try to get the best price out of them. Of course, for current products which are carry-overs, an increase in price is not the best solution; therefore we will not do it. But as I said, we will bring a full array of new products into the marketplace, as we just mentioned a few minutes ago.

And the first question was on golf, what drives our confidence. First and foremost, let's not forget that we lost 28% of our business in 2014. So we definitely want to get back to growth. But the main important point is that our inventory is definitely clean. The inventory in the trade is much better than it was 12 months ago. We have shifted a few product introductions from 2014 to 2015 – as an example we already mentioned the R15 and Aero Burner, which both do very well. Furthermore, we gained already in January 8% market share in metalwoods. Then the golf shoe with the new Boost technology was the main point of discussion during the PGA show in Orlando a few weeks ago. And all this goes hand in hand with a much more disciplined execution in retail, avoiding one of our mistakes in 2014 when we brought too many products into the marketplace. All this makes us confident that we can get to a double-digit increase in golf revenues.

**Antoine Belge**

**And maybe on the margin, the loss in 2014 and the return to profitability?**

**Herbert Hainer**

Yes. I mean, as I have told you already in my speech, we have done a lot on the cost side. We closed Plano in Texas, the Adams factory. We took out 15% of our workforce of TaylorMade-adidas Golf across the world. We implemented a strict cost-controlled system. Additionally, we reduced our inventory. Therefore, we do expect much more full-price sales in 2015 than in 2014. And you will also see that our margin will go up step by step in the next years, but also in 2015 already. And this makes us confident that we will definitely be back to profitability in 2015 already.

**Antoine Belge**

**Okay. And regarding the succession, there were rumours that it had already started. So in case you would find your successor quicker than expected, could we envisage that, for a period of 12 months, there could be a co-CEO structure with your successor? How should we think about the most recent developments?**

**Herbert Hainer**

Yes. Antoine these were not rumours, this was confirmed by us. The Supervisory Board started the search for the successor with the assistance of a search company, Egon Zehnder, which I guess you know. And they do it in quite a constructive and professional manner, visiting both the external market as well as the internal candidates in order to find the best successor who is capable of leading our Group in the future. And this process, I believe, will take some time, while my contract is

still running for two more years, until March 2017. So you have to bear with me for another few conference calls.

**Antoine Belge**

**Thank you.**

**Fred Speirs – UBS**

**Hi, good afternoon. It's Fred Speirs from UBS. My first question is on Russia. I think you said there was a EUR 130 million negative impact in 2014 against your plan. Can you give us an idea of what your guidance has included in terms of projected decline in euro million for 2015? Also in Russia, could you give us a sense of the level of pricing you took for the spring collection, please?**

**The second question is going back to golf. Just wanted to get a bit of a sense of how much of the growth is expected to be coming from volumes as opposed to price mix and all of that.**

**Lastly on golf. I noticed a couple of comments around plans to increase the focus on direct-to-consumer business and opening some TaylorMade outlets in the US. Just on this, I would be interested to know the scale of roll-out you're planning here and also to get an idea of the feedback you got from your key retailers about these plans to open outlets. Thank you.**

**Herbert Hainer**

Okay, let me start with Russia. We have increased our prices for spring/summer for the new products which we introduced into the market by 10% to 15%. As a result, this will give us a much better margin, but will also slow down to a certain extent the revenues. However, this is a strategy which we have implied and so far we see good success.

In general, we are expecting Russia to be profitable in 2015. But obviously, you know this is the wildest environment;

On the golf side, yes, we definitely want to work closer and more directly with our consumers in the future. We believe that the golf consumers are very closely related to the product in terms of what the product can offer them and how the product can help them to improve their ability to play golf. So, yes, we increased our CRM programme, getting much more in direct contact with our consumers. We also started to have direct-to-consumer activities online and we'll open around 8 to 10 outlets in the US. And this is all in accordance and in close cooperation with our retail partners, to whom we have outlined all our plans. Because we don't want our retail partners to price down our products in the future. We flush clearance products more into the factory outlets and want to have much more full-price revenues in the stores with our key partners, be it Dick's, Golfsmith, etc. And, as I said, we have communicated all our plans to our retail partners before. And let me just mention one quote – one of our retail partners clearly stated: "We need a strong TaylorMade to be successful and to reignite the golf market again." And this will happen with our product innovations.

In terms of product mix and pricing, obviously, as I said before, we want to have more full-price sales in the future. We do believe that we will achieve this a) by better product and b) by fewer inventories which we have on our side on both the retail as well as the wholesale level.

**Fred Speirs**

Thank you.

**Ashley Wallace – Bank of America Merrill Lynch**

Hi and thank you for taking my question. I just have a few more questions on Russia. I was just wondering if you could talk a little bit about the level of promotion in the market in the fourth quarter and also at the start of 2015. Puma mentioned that their Russia same-store sales had turned negative from mid-January and I was wondering if you could give us an update in terms of the trends that you're seeing in that market from a same-store sales point of view. Could we also get a sense of what rouble/US dollar assumptions you're using when assuming that you will be able to retain a level of profitability in that market in 2015? And what proportion of your US dollar lease liabilities are you expecting to be able to be renegotiated in local currencies?

Then just secondly on the US market. Yesterday, Dick's Sporting Goods said that they are going to reallocate some of the adidas and Reebok shelf space to its own Carrie Underwood brand. This loss of shelf space for your brands continues to be an ongoing issue in the North American market. What gives you so much confidence that this market can be turned around in the near term? Thank you.

**Herbert Hainer**

Let me start with the first part regarding Russia and the second one will be answered by Robin.

We have already started, since the beginning of 2014, to clean our inventory in Russia; therefore the fourth quarter was already a declining promotional business for us. Overall, the marketplace was relatively promotional, there's no doubt. And as you have seen in our inventory numbers, which Robin presented, we have a very clean inventory in general and this is especially true for Russia. So therefore, we do expect from ourselves that the promotional part will be further reduced. The marketplace will stay promotional, there is no doubt. But we will bring a lot of new product into the market with our spring/summer collection and therefore I do expect from our side that we will have less promotional business.

**Robin Stalker**

And the rouble that we fixed at the beginning of this year, basically using the forward rates at that time, was round about 70 rouble to the euro. And you're quite correct that we clearly manage our US dollar exposures there by continuing to renegotiate leases. We've now got the vast majority of our leases in local currency. And that, together with our more conservative shop opening approach, or,

to be more precise, more shop closings at the moment in Russia, helps us manage this risk a little bit.

**Ashley Wallace**

**You said about 25% of your leases in Russia are US dollar linked. Is that still the case or is it less than that today?**

**Robin Stalker**

No. It might well have been the status at some stage in 2014, but we've continued to improve this number in local currency, so it's definitely less than 25% now.

**Ashley Wallace**

**Okay, thanks.**

**Herbert Hainer**

Coming to your second question: in the US, as you will know and as you have seen already, this message has been corrected and they clearly stated that adidas is a large and very important partner for them. And you will see that we will get more shelf space with our retail partners in the US in the future. In case you went to some of the Foot Locker stores during the All-Star Week in New York, you saw already our 'A standard' format, for example in the Foot Locker store on 34th Street. We've never had a better footwear presentation in Foot Locker than this one and this will continue to be rolled out. The same you will see for our sporting goods partners. For example, with Finish Line we are present in a lot of their stores next week with Reebok's Z Pump Fusion. So I don't worry. And with the increased marketing activities and advertising and with the new product introductions in the American marketplace, we will get the shelf space back, which we need to drive our business.

**Ashley Wallace**

**Okay, great. Thanks.**

**Cedric Lescasble – Raymond James**

**Yes, good afternoon. Cedric Lescasble from Raymond James. Some questions have already been answered, but I have two left. The first one is on marketing initiatives in the US where the market has been tough for you over the last years. What will be really different this time and what makes you confident that you will grow in the US this year versus previous years excluding the golf issue. Thinking of Reebok, thinking of the adidas brand, how do you think you will regain share with the two brands?**

**And the second question is more global. On your marketing activity, could you help us forecast your marketing expenditure, not only in 2015, but the kind of run rate for the coming years? Thank you.**

**Herbert Hainer**

Okay. Let me start with our marketing activities in the US. First and foremost, I guess you have seen already what we did during the All-Star weekend and before. And we started a week before with the Grammy's, where you had Kanye West, Pharrell Williams, etc., shown extremely publicly with our product. Then we had the Fashion Week in Paris and then we went back to the All-Star weekend. I think this was the best presentation during the All-Star weekend which we have ever had. I'm not sure whether you have visited, but you have seen the 3-Stripes all over the place. Now, we have launched our 'Sport 15' campaign. And, as I told you, we have already 30 million views on our first spot and this will continue, and, especially in the US, it's resonating very well.

For Reebok, the 'Be More Human' campaign has definitely exceeded all our expectations so far. Extremely positive comments. And yesterday, we had the PR launch of the Z Pump Fusion, which will be in stores from Monday onwards. Also here, we have got a lot of press and I'm absolutely convinced that this shoe will do very well. By the way, we just have introduced in Finish Line the Furylight women's shoe, which had push rates of 10% to 13% in the first days.

So, there is definitely traction coming back to America, no doubt. Of course this will not be overnight because America is a tough marketplace with strong competition. But everything we have done in the last six to eight months, I definitely see it coming to fruition and we will definitely step by step get back market share and be much more relevant in the US market.

And then regarding our marketing activities in general, of course you have to wait until the 26th of March when we present our plan for the period until 2020. Then we will also give a little bit more light on what we will spend on marketing in the future. For 2015, we have told you already that we step up our marketing and we will spend more in 2015 to drive our product initiatives and concepts and the brand images around the world.

**Cedric Lescasble**

**Thank you.**

**Louise Singlehurst – Morgan Stanley**

**Hi there. Good afternoon. Two questions for me, please. Firstly just on the marketing costs, so a follow-up there. I wonder if you can just help us think about the different buckets of spend. Obviously we've seen a very good new campaign from Reebok very recently, but just in terms of priorities, you seem to have a lot more regional focus over the last 12 months for the Group. So are you thinking just more about the US versus Europe/China, adidas brand vs. Reebok? How differently are you thinking about it this year versus last year? And are we still in the same range of the 13% to 14% for 2015 in your implied 6.5% to 7% EBIT margin?**

**And then my second question: I wondered if you could talk a little bit about and tell us how big NEO is today. Obviously that had a very strong end of the year, but just how many points of sales do you have in China and elsewhere in the world? Thank you.**

**Herbert Hainer**

So let me start with the second question. Our NEO business is a little bit over EUR 800 million and it will further grow at a double-digit rate as it did in the last several years. And we have around 1,000 locations in China for NEO.

The first question was on our marketing. We might have given the wrong impression if you think that we are now much more regional. It's just the other way around. We have global campaigns. For example, the 'There Will Be Haters' campaign is a worldwide campaign. The 'Sports 15' campaign is a worldwide campaign, but we are definitely spending more in America. And obviously we have also a tonality which we believe speaks more to the young American athletes. But they are all global campaigns.

**Louise Singlehurst**

**Thank you. And just on the 13% to 14%, is that still relevant for 2015 in context of the 6.5% to 7% group EBIT margin?**

**Robin Stalker**

Yes, Louise, that's absolutely correct. That's the assumption.

**Louise Singlehurst**

**Super. Thank you.**

**Adrian Rott – Deutsche Bank**

**Good afternoon everyone. First, two questions relating to the segment contribution to your targeted currency-neutral mid-single-digit top-line growth. The outlook in the Annual Report states that wholesale is expected to grow at a mid-single-digit rate after a 6% growth in 2014. Retail is expected to remain stable due to the 70 net store closures globally after a 21% increase in 2014. Given this setup, TaylorMade would have to contribute materially and you're forecasting double-digit growth. So can you please elaborate on how retail splits up into space reductions and what sort of comparable store sales you're expecting?**

**Then on golf again: how confident are you with the double-digit growth? If I recall correctly, Callaway is looking for 1% to 4% currency-neutral growth in 2015. Do you have any sort of cross-reads or comments on what they're seeing versus what you're expecting?**

**Thirdly, with regard to your reorganisation that has been taking place. You had some management consultancies in and new hires on the levels reporting to Roland Auschel and Eric Liedtke. Could**

**you quickly elaborate on how that has changed internal processes and whether you expect any effects from that in the current year already? Thank you.**

**Robin Stalker**

Okay. Well, I think you answered your own question, the first one, in terms of how do the segments contribute. You're right, we are very confident that TaylorMade will have a double-digit growth. As Herbert said, it's a question of where we've been in 2014, what have we deliberately done to also reduce the exposure at the latter part of 2014 and of our confidence already on the product launches and how we see golf in 2015.

As far as the retail store openings are concerned, we will continue to open stores in various parts. We've talked about growing stores and square meters in some of the key cities. But obviously, because of our very conservative approach to Russia at the moment, the net situation will probably be that we'll have more shops closing than opening and that obviously plays a role in retail's top-line performance.

In terms of our confidence for TaylorMade, I'm not sure I can say much more than what Herbert has already told you. He already mentioned the product launches that give us this confidence. And don't forget that we are definitely a market leader in the golf business and that gives us certain strength.

In terms of the start of the reorganisation, don't underestimate the significant impact the changes we've made in our organisation have on how we make decisions. And, as Herbert said, we have changed a lot of roles and responsibilities and not just in the marketing organisation but also in our sales organisation, to make it much quicker in terms of decision-making, to make it much clearer in terms of responsibilities. All that aimed, obviously, at being able to recognise the needs of the consumers as quickly and as efficiently as possible.

We have to see how this all pans out in the next couple of seasons, but what we're already experiencing, because this restructuring was completed in about August/September 2014, is a significant uptick in the attitude within the central organisation. And I think it's a tremendous example of what we're bringing at the moment. And you'll have to wait and see what we actually come out with, but I think you will have a look at that on the 26th of March and then you will get a good view about why we think this is a very good move for our Group.

**Adrian Rott**

**That's great. If I can just come back to retail, excluding Russia, retail rollout is still pretty much intact in all other regions and you would still expect something like 9%, 10% comp store sales growth as in the previous year. So there has not really been any change to your view or how you expect things to pan out in the regions ex-Russia retail?**

**Robin Stalker**

Yes, I think that's a good observation. Our retail segment is significantly influenced by Russia. But we showed a considerably positive performance over the last year in the other retail areas and that's our view also for 2015. And we will grow, both in square metres and in other countries, and I am also very confident that we'll maintain a high-single-digit comp-store sales growth.

**Adrian Rott**  
Thanks a lot.

**Ingbert Faust – Equinet**

**Thank you. I think there's one thing left. On the seasonality in 2015, could you help us a bit? If I'm correct, despite the fact that it was run up to the Football World Cup, Q1 2014 wasn't that strong. So is it fair to assume that probably the first quarter should look quite good and that it will fade down a bit during the rest of the year? And, probably in relation to that, we have the already upcoming next UEFA EURO in the mid of 2016 in France. Is there any impact on Q4 this year?**

**Herbert Hainer**

Hello, Ingbert. So on Q1, as I said already a few weeks ago, we definitely had a strong start into Q1 and we see good momentum for our brands. But don't forget, we are also spending a lot of money for our campaigns, which I said before, be it for Reebok or adidas. But definitely, as I said, we had a very good start into 2015, so stay tuned with that.

In terms of the European Championship in France in 2016, you're absolutely correct. We will start to introduce the new products in Q4 2015. This starts with new footwear products and then continues with the new jerseys for the participating teams and then coming up in December with the new European Championship ball.

**Ingbert Faust**

**Okay, thanks. And one follow-up to the Boost statement earlier in the call. I think I heard you saying that it's doubling in 2015 on units?**

**Herbert Hainer**

Yes, that is correct.

**Ingbert Faust**

**Okay. The base is 8.5 million in 2014? Because so far I had 15 million as a target, so it's performing a bit better?**

**Herbert Hainer**

I said it's around 6.5 million to 7 million units in 2014.

**John Guy – MainFirst**

Good afternoon, gentlemen, and thanks for taking my questions. Herbert, you mentioned that consumer perception of your brands is going to be a new KPI now. I appreciate that you'll probably talk more about that during the Capital Markets Day, but could you maybe give us a few examples as to how you're going to measure that KPI going forward?

My second question is with regard to the wearables rate. If we think about tie-ups with Nike and Apple, Under Armour and HTC, I'm just wondering where you stand. Also, given Under Armour's pretty extensive investment in MapMyFitness and other areas here, where do you stand in relation and what is your plan to move more aggressively into that market?

And finally, with regard to the retail net closures that you're going to see running through the year, what have you factored in from a gross margin mix perspective given the fact that clearly you take a richer gross margin coming out of your retail store? Thanks very much.

**Herbert Hainer**

So let me start with the first one. There is a matrix which is called Net Promoter Score, which is used in the industry, but also in other companies outside of the industry where you measure the image of your brand and whether your brand gets recommended by their friends or not. This is quite an objective measurement and this is what we have built in in all the reviews and the incentive plans of our key employees. So everybody has to make sure that our brand is in the centre of what we do and that the consumer loves our brand.

Do you know what the Net Promoter Score is?

**John Guy**

I'm a little bit clearer on it now, thanks.

**Herbert Hainer**

Yes. But this is, as I said, used industry-wide, so this is not something which we have invented.

On the wearables, and I think there are two aspects of what you said. The wearables on the one hand, but on the other hand what Under Armour did is they bought addresses, more or less, to build up their CRM base. You know there are two different ways: you either buy it or you do it by yourself. We started already some time ago to build up our CRM base via the different activities during the FIFA World Cup in Rio de Janeiro where we had it posted on our newsroom and collected a lot of data for our CRM base. This is what we will continue to do. Also in the TaylorMade section, we will do more and more communication directly with our consumer and this is what we forego.

Of course we are looking into the market, what we can do to accelerate that topic. But we definitely will not make any acquisition just for the sake of an acquisition and buy addresses. This is definitely not our place.

In terms of wearables, I think we are fairly well positioned with our miCoach, which has brought out the new device which you might have seen for EUR 199, now bringing down the price from the original miCoach smart run device from EUR 399. I guess this is the best wearable device which is out there, with which you can also train yourself and you can do your training regime.

Nevertheless, let me put it that way: This is definitely in general more for the image than for your commercial business. We want to sell as many of our watches as possible, but compared to the overall business it is still a small part.

**Robin Stalker**

And John, it's a good question. I'm not, however, going to tell you exactly how that's broken down. Because it all comes into this Russia margin issue. And I think here what we should call out is that retail in the non-Russian markets has been continuing to improve its profitability in the more full-price sales, and what you have with clearance, and I think that's also a positive effect here. But basically, the closures of the shops in Russia are all tied up with that currency impact in the rouble against the euro. And I can't call it out any better than that at the moment.

**John Guy**

**Thanks, Robin. Just on the Russia business, I know that you said that you still expect it to be profitable. I mean given the huge move in gross margin and markdown that we saw in 2014, coupled with these closures, I'm not quite sure how you're still going to generate profitability in Russia in 2015.**

**Herbert Hainer**

John, this means you doubt my word. We still have huge business in Russia, as you know. And we have worked on two fronts; on the one hand on the cost side, as I said before. Robin mentioned that we're turning more or less all the contracts into local currencies. We have worked on our cost base in Russia. We will increase the prices in spring/summer, as I have said, which gives us a better margin. And if the rouble doesn't get worse, or the whole sentiment, we definitely will be profitable in 2015. Don't forget Russia was once one of our most profitable markets which we had. But I also said this is quite a volatile place. But, as it is today and if it doesn't get worse, we will definitely be profitable in Russia.

**Robin Stalker**

Just one point to add to that. I mean don't forget that most of the decline in 2014 was because of the clearance that we did at the overhang of inventories, which we will not have in 2015.

**John Guy**

**Yes. I think you mentioned that you had a double-digit clearance in 2014 and you were going to see anywhere between 5% and 10% clearance activity in 2015. Does that still stand or have you pretty much cleared it all?**

**Herbert Hainer**

Yes, it's definitely correct because you might remember that we had this warehouse issue in late 2013 and then we took a lot of product into 2014, which we then had to clear.

**John Guy**

**That's very clear. Thank you very much indeed.**

**Herbert Hainer**

You're welcome.

**Chris Svezia – Susquehanna Financial Group**

**Good afternoon everyone. Thanks for taking my questions. First, with regard to the margin, your gross margin is flat to up 100 basis points and the operating margin is flat to only up 50 basis points. Is the difference there only the marketing and branding initiatives?**

**The second question, Herbert, is there any update on Brazil? You seem to be doing reasonably well there. The macro-environment is challenging and I think other brands are having some challenges there. What is your viewpoint on the situation in Brazil and what are your thoughts for 2015?**

**The third question is on hedging and the euro. When it comes to the input cost equation, I know you're beginning to hedge for 2016, but that's a pretty big delta to make up around 20% on the currency side. So, outside of pricing, what else gives you confidence to make up the gross margin on that side?**

**And the last question. Sorry, I have to ask this because I'm in North America. When you step back and look at the marketplace here, you have a good relationship with Foot Locker and you mentioned Finish Line and the opportunity there with the new Reebok product, but you're still broadly losing market share as other brands grow faster. So the question is: when can we start to see more consistent profitable growth out of the brands and what is Mark King hearing from retailers? What do they ultimately want? Do they want US-specific products? Any colour about that would be helpful. Thank you.**

**Robin Stalker**

I'll take question one and three and Herbert can take two and four.

I think you should look firstly at our guidance for the bottom line. We've stated for some time now that we want to grow our bottom line over-proportionately compared to the top line. We are doing it with our 7% to 10% on top of the mid-single-digit top-line growth. The operating margin difference compared to our guidance for the gross margin is obviously the cost base, but we've been very clear that this is a range highly influenced by the currencies and I can't give you more detail on that at the moment.

In terms of hedging, well, we've already started hedging. We're probably around 25% hedged at the moment in the first season. And I think it is part of the business model. We've had over the various years significant movements in the US dollar/euro. This is an area where we've been very good in the market and in our industry in terms of being able to improve the engineering of some of the products, in terms of our product mix and in terms of getting better with our manufacturers and the efficiencies that we get there. And don't forget that this impact is something that the competitors have as well. I mean we are all basically producing in US dollars and selling in other currencies.

**Herbert Hainer**

Regarding Brazil, yes, Brazil is a little bit of a challenging marketplace. First and foremost, I think we have a little bit of an after World Cup depression there. But I must say we have definitely used the World Cup in 2014 to raise our profile in Brazil and to establish a closer connection with the consumer as we have been the big sponsor of the World Cup. As I said before, luckily our players and our teams resonated well. So, we still have good business in Brazil, but it is obviously a little bit more challenging than it was in 2014.

Coming to your last question, about the US. I just mentioned Foot Locker or Finish Line. We have a very good relationship with the sporting goods stores. For example, Dick's Sporting Goods or TSA, just to name a few. They are definitely waiting that we are stronger in the marketplace. They don't want to be dependent on just one supplier. And we definitely have the products and the reputation to play a much more different role.

I think we made some executional mistakes in the past and we did not spend enough money. Now we have a new team. We definitely will get better shelf space in the US. I just mentioned the Foot Locker example with A-Standard and Finish Line for Pump. We will have a new shop-in-shop concept with Dick's which we are rolling out and which you will see in the future.

You have asked us, what do retailers expect from us and what do they need. They need products which are selling through. And for that you have to do different things. You have to raise the image of your brand in the market, which we do with our campaigns, for example 'Sport 15', as I just said. You have to bring products to the markets which are selling through, which we do with our football products or soccer products, supported by the "There Will be Haters" campaign. And then we also bring products to the market, which cater directly to the market. So for example the football boot, and now I'm talking about American football boots. In the NFL Combine, the six fastest athletes are



wearing our adizero 5-star football cleats, which are the best-selling football cleats at the moment. This is a specific US product.

So we have a mixture of global and local products. Our soccer boots are definitely global. Our American football boots are much more local. And this balance between global and local, we have to play much better in the future with a better market execution through our team and supported by heavier marketing investments. This, we believe, will help us in the future.

**Chris Svezia**

**Okay, fair enough. Thank you and all the best to you in March.**

**Herbert Hainer**

You're welcome.

**Sebastian Steffen**

Thank you, Chris, and thank you very much, Herbert and Robin.

Ladies and gentlemen, that completes our conference call for today. As Herbert mentioned, we are very much looking forward to having you all in Herzogenaurach on March 25 and 26 for our Investor Day. You should have already received the "Save the Date" a couple of weeks ago. The formal invitation with more information will follow in the coming days. If you have any questions on the Investor Day or on our releases today, please feel free to contact us, the Investor Relations team.

I would like to wish you a very good day. We look forward to meeting you in a few weeks. Thank you very much.