adidas

adidas First Nine Month 2017 Results

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Q&A session

adidas participants:

Kasper Rorsted, adidas CEO

Harm Ohlmeyer, adidas CFO

Sebastian Steffen, Vice President Investor Relations

Fred Speirs – UBS

I'm interested, how does Q3 compare to initial expectations when you raised the guidance range? What were the main headwinds and disappointments that you hadn't expected? And then looking forward to Q4, what are the main factors you would highlight to drive the acceleration in Q4? And then secondly around Europe, it feels like there's been a bit of a slowdown in the market and you said, also retail feels like maybe it's becoming a bit more promotional Which countries are driving that, in particular? What's causing that? And are you seeing traffic shifting more towards online?

Kasper Rorsted

So let me start on the third quarter. We came in at the lower end of our own expectation, and there are two different reasons for us. One was that in Europe, we came in at the low end, predominantly driven by a lower number from France. So we saw a slower demand in France than originally anticipated. And in the U.S., we experienced execution challenges in our distribution structure, simply because we have outgrown pretty much all our offices, systems and structures. And we are addressing this urgently, but we probably could have shipped more in the U.S. But as you can see, our growth was, on the adidas side, more than 30%. So we are not speaking about low growth. But these were probably the two most important parts that impacted the growth in the third quarter that drove it to the lower end of our expectation, which of course, also is impacting our fourth quarter. But at the same time, as I said, we believe we'll be within the range for the lower part. In the fourth quarter, we believe we'll have a very strong quarter. Indicative you can see, if you do what I call rule of mathematics, a 20% plus growth is what we expect in the fourth quarter. And it's really down to a couple of things, it's new product launches, it's our continued overall strong business, and it's also the sell-in for the World Cup where we launched the jerseys this week for a number of countries. And we'll start seeing the impact in the fourth quarter of this year. Of course, we didn't have that impact last year. So that is the way we are looking upon it.

Fred Speirs – UBS

And just on top of France, any other sort of changes to call out in the European environment?

Kasper Rorsted

We have Nike that continues to be exceptionally promotionally driven. And I think you can see that in some of their numbers. But I think that has been an ongoing development throughout the year. But I think what I just mentioned before are really the relevant ones.

Geoff Lowery – Redburn

Can you help us understand the phasing of impacts from Chelsea and the NBA. Is this the peak quarter in terms of sales impact of not continuing those relationships? How does it shape from here? And secondly, just picking up on the e-commerce point, clearly, you're still growing very strongly but it has slowed. Was that impacted by the warehousing issues in the U.S.? Or is the slower rate of growth logical from here?

Kasper Rorsted

So let me start with the last question, and Harm will take the first. The answer to your question on our growth rate, yes, of course, the U.S. slowdown following the currently restricted execution capability impacted it. But I just want to be very consistent, what we are saying here is, if you look upon the guidance that we made, back in March, it does indicate that over the coming years, we will not be able to maintain the same growth rate as we had in the past. And just to put that in some perspective, if you do a forecast, we will come out depending on currencies at around EUR 22 billion, without TaylorMade and without CCM. Two years ago, we had EUR 16 billion so we will add EUR 6 billion to the top-line. So continuing to grow with the same relative amount is not going to be realistic. But that was completely, incorporated in our guidance in March this year. We still feel very comfortable with where we are coming out and growing a EUR 20 billion company with approximately 17% plus/minus is still a, formidable achievement.

Harm Ohlmeyer

When it comes to the Chelsea and the EURO impact, I don't want to go into the details by quarter, what the absolute impact is. Because then we get into the game every quarter explaining that again, and also doing it next year again, compared to what we missed this year. So in general, it is definitely the second and the third quarter when it comes to Chelsea and the EURO. But overall, we take responsibility of what decisions we make and what is the impact on the top-line. Again, we care for quality growth. And we are not going to talk about it next year again.

Erinn Murphy – Piper Jaffray

I have a couple of questions focusing on the North American landscape. Clearly, a lot of moving parts here with the competitive landscape. It's been a lot more promotional for some of your peers. I think you, Kasper, already addressed that a little bit. But I guess, how concerned are you that this competitive landscape with excess inventory could start to encroach on your success in the upcoming quarters?

Kasper Rorsted

So, of course, competitive behaviour impacts the overall market. Secondly, we will always be in a competitive market. There is no doubt that it has been more driven by promotional activity than we've seen in the past. But despite that fact, we have now grown in the U.S., in fact, with adidas approximately 30% every year. There is no doubt that we have significantly gained market share, if you look upon our growth rates and those of our competitors. But if you look upon trying to get the balance right, we grow 30% and we took our margins up in the U.S. by 3.5 percentage points. It’s about getting the right balance and not giving our products away. We still feel confident that the U.S. will be accretive to growth for the quarters to come. We still think that we have a long way to go in the U.S. So despite the fact that we've had three and a half good years in the U.S., we need to recognise that we are in catch-up mode, and we are not yet in a market share position that we are aiming for. I believe, in previous calls we have said that a minimum market share in a large country should be around 15%. And we're not there yet at that stage. So I'm actually not concerned at this stage. I think that we'll continue to have quite a lot of opportunity in the U.S. and penetrate the U.S. market further into the future and also gain market share.

Erinn Murphy – Piper Jaffray

Could you just walk through where you guys are at right now, with the percent of the product that you sell on full price, particularly in North America, and maybe where you were last year to help contextualise that? And then on Reebok, when you're done with the reset here in North America, what's the steady run rate of the business from a revenue perspective that we should be looking at for which you can then reaccelerate?

Kasper Rorsted

So on the full-price success, well, we don't disclose that number. But it did improve compared to last year. On the question on Reebok, we've been growing Reebok mid-single-digits as a brand. I would assume that in a steady state that's at least what we should expect. I think that, from a Reebok standpoint, in the past, we said we have consecutive quarters of growth but we are not making any money. And so we need to get Reebok to contribute to the value of creation of our company. And clearly, that means having a meaningful bottom-line contribution but also a top-line contribution. But we are not going to chase revenue in the U.S. for the sake of chasing revenue. As we indicated, both Harm and I, our expectation is to return to revenue growth next year, but you should think about it more in the single-digits.

Jürgen Kolb – Kepler Cheuvreux

Just a quick one on the OpEx line. You indicated that the leverage has not yet kicked in as you may have expected. By when would you expect the OpEx leverage to be a little bit more pronounced, as you've discussed? And then, also on the gross margin development, obviously, a very impressive development here. Maybe some expectations as to what you think could be or is doable, if we take that a little bit forward. What are the levers that you think you can still work on in order to have the gross margin at higher levels?

Harm Ohlmeyer

On the OpEx line: Yes, even if we don't see the leverage yet that we all wish to see in the future, there are probably two reasons for it. As I indicated earlier, we are significantly investing and still rolling out our ERP systems into the remaining markets. And we are investing into setting up a more professional and non-trade procurement team. We're also setting up global business services outside of our main locations. That's something we are still investing in. And by doing that, we are also shifting workforces and that has some one-time costs. We also had to rationalise the business in Russia and in some of the Latin American markets. And whenever you rationalise or rightsize the business, you have some one-time effects and these are some one-time effects that we had both in Q2 and Q3, that's why we don't see the full leverage. But again, these are one-time effects that we have this year and investments into the future. But there is one single goal that we have. And this is what I personally take responsibility for, also leading the IT team. We want and will build a more scalable business model in the future. And that's where the investments are going into, that we can drive more to the bottom-line through the growth that we are experiencing on the top-line. Secondly on the gross margin, yes, we are very happy where we are. But I want to remind everyone, again, as successful as we are in Q3 and with our guidance for the full year 2017, our hedging policies is also 18 months out. And still nine months ago, we were talking about the risk of going to parity with the U.S. dollar and that's why we continue to hedge and not take any bets. That's why there will not be a lot of tailwind in 2018. It will normalise, but not a lot of tailwind in 2018. 2019 will be a different story. But I don't want to talk about it yet. But I think we are optimising the product portfolio. We are getting to the right price points. That's what we're seeing already today. What we have not seen yet is significant impact of the channel shift because e-commerce is just not, from a size point of view, at the level where we want it to be. And so the channel impact is more coming towards 2019 and 2020. And that's where we should see more benefits. But we are very happy with the price points that we are achieving, based on the sell-through of these price points as well. And it's a discipline that we have from a margin point of view.

Antoine Belge – HSBC

First of all, a bit similar to the question that was asked about the top-line but this time on margin. Were the margins actually above your expectation in Q3? And I know that Q4 is a small quarter, but you only need, I think, around EUR 50 million of EBIT, and regarding gross margin, you

already reached 50.1% in the first nine months. And I think selling Chelsea product has always been quite positive for the gross margin. So in other words, are you actually reinvesting part of that extra margin into OpEx to? Second question is, I've noticed an increase in FOB, which is a bit new. What is causing that exactly? And here I'm leaving aside any FX consideration. Finally, I think you had an interesting comment about gross margin at Reebok, which is actually increasing even more than the adidas brand's margin. And then also to quote you, I think you said, "Several quarters of not earning anything." So could you indicate Reebok's EBIT margin in 2016 in order for us to better assess the potential going forward from a brand's perspective?

Kasper Rorsted

So let me start with the last question. Reebok was and is loss-making. We believe that this is not what we can be happy with and we are confident that we can turn that around. On question number one, I don't think it's appropriate if we change our guidance every quarter upwards or downwards. I think it's important that we hit on annual guidance, and we hit the long-term guidance. And there are certain upsides in the fourth quarter, but there are also, as Harm alluded to, a number of investments that we need to make and we want to make particularly in the brand but also in other areas of the company to ensure that we build a scalable model. So that is the way we look upon it in the long-term and we would like to become so predictable that we don't change guidance throughout the year. I don't think it's good that we have to do that and that is also what we would try to strive towards, so the annual guidance is the annual guidance. Of course, if there's upside, we'll reflect that but only with one change. So you shouldn't expect a changed guidance for the fourth quarter.

Harm Ohlmeyer

On the FOB, there is no surprise yet. So it's impacting us through input cost but primarily labour cost and that's where our sourcing and global operations colleagues are doing their utmost to find the right sourcing base and moving it from China to Vietnam, to Cambodia and to other places. But this magnitude that we are seeing. I mean, it's manageable given the price points that we are achieving right now, as you saw on the overall gross margin guidance. But we should expect a continuation of FOB pressure for the years to come and that needs to be managed. And so far, it's being well managed.

Antoine Belge – HSBC

Maybe just a follow up on Reebok margins. So I understand that it was loss-making and still when you look at your 2020 margin target of around 11% for the company, what type of margin does it imply for Reebok at that horizon?

Kasper Rorsted

A positive one.

Andreas Inderst – Macquarie

Maybe you can give us a sneak preview for 2018, not necessarily when it comes to top-line and bottom-line, but maybe in terms of product launches besides World Cup? And the second question, you mentioned some bottlenecks for the U.S. market when it comes to distribution. How quickly can you actually sort these luxury issues out?

Kasper Rorsted

Thank you for describing it that way because we think it's a positive problem that we have in the U.S., and Harm will speak about that. I think it would be more appropriate if we discuss launches for 2018 in 2018. But we believe we have a solid set of new products coming in, both new products but also products within our existing franchises. So we feel comfortable that 2018 should be another year that contributes to the long-term strategy. But beside that, we don't really want to give details of product launches as this will then become public knowledge also to our competitors. But as you can see, we are confirming our 2020 guidance and 2018 is an important step for 2020 so that will be a step in the right direction.

Harm Ohlmeyer

Yes, just on the bottlenecks, as you described it, Andreas. First and foremost, Kasper and I have been in Portland just some months back and all the employees are complaining about not having any parking spots. And we said, it's also a luxury problem because we're hiring a lot of people to drive the growth in the U.S. So it's indeed a luxury problem. But on a more serious note, it is a challenge for us showing significant growth in the U.S a second year in a row. And we are seeing the warehouse capacity right now significantly impacting our e-commerce deliveries in the U.S. So it's not as fast as we wish it to be. And of course, it has an effect on the consumer and also the “on time and in full” delivery to our Key Accounts is not at the level we used to have in the previous years. That's something we are diligently working on. We are adding another capacity still this year in the U.S. that will ease that problem to some degree. But there is a bigger infrastructure plan starting to come into fruition in 2018 and 2019, which is ensuring a faster delivery to our digital consumers and definitely a more professional delivery to our Key Accounts and all the partners. So short-term, there's some easing coming in November and December. But it will definitely be more significant in 2018 and 2019, in order to have a full infrastructure in place again in 2019 for our targets towards 2020.

Andreas Inderst – Macquarie

Harm, you mentioned some one-offs in Russia and Latin America in the second and the third quarter this year. Could you quantify that, please?

Harm Ohlmeyer

I'm not going to quantify that, but the one-offs are in the retail closures, of course. And especially when it comes to Russia, when you close 200 stores, you will have an impact on the central administration in Russia and that was pretty significant. And we are talking about a significant workforce reduction in Russia. You saw headcounts being below prior year and we have experienced a similar thing after the World Cup 2014 in Brazil, and then the Olympics. It didn't get to the expectations that we had from a top-line and that we had to rightsize the Brazilian organization as well. But it's about rightsizing retail stores and rightsizing the organization that is supporting a not as ambitious growth that we originally expected.

Kasper Rorsted

Maybe to add and I think Harm said it very correctly. We'll have ‘one-offs’ every quarter and because we have them every quarter, they are part of the business. I understand you're looking for the underlying, I'm just saying that there will very seldom be a quarter where we don't have either a special income or special expense. But I think that's just the nature of the business and that's why we won’t start specifying it and we won’t start pulling it in and out of the business, as it is actually an ongoing element.

Harm Ohlmeyer

Just assume that Q2 and Q3 were very normal quarters apart from the Chelsea and Mitchell & Ness effects. There will always be some one-offs, up and down, in there. But they're not significant in the overall scheme.

Chiara Battistini –JP Morgan

The first one is just a follow-up on Europe. As we go into next year and forward, should we assume that high-single-digit growth as seen in Q3 is more sustainable going forward rather than the double-digit growth we've seen, so far? And the second question is on your CapEx guidance, which is up to EUR 1 billion, but you've done 50% of that in the nine months. So I was wondering what projects you have in Q4 to make up for the other 50%?

Kasper Rorsted

Just to reiterate, we'll give 2018 guidance in 2018. I think that's the right way of doing it. But what we did say, also three quarters ago, is that we will not be running at the 20% growth rates in the long-term, because that would then articulate a very different number in 2020. But the actual guidance, including growth assumptions for 2018, we will give in March 2018.

Harm Ohlmeyer

Yes, you are definitely right. When it comes to the CapEx I'm not happy with the discipline that we have on CapEx spending, similar to the non-existence of the operating overhead leverage. Sometimes you wish to speed up investments to make decisions faster. That is still something we want to accelerate. So with that being said, I also personally doubt that we spend another EUR 500 million in the fourth quarter. So we definitely will be significantly below the EUR 1 billion number as CapEx spend for the full year.

Chiara Battistini – JP Morgan

Should we expect extra CapEx in 2018? Is it a shift of spending for investments that were supposed to happen in 2017 into 2018?

Harm Ohlmeyer

No. As we said, you can expect roughly another EUR 1 billion in 2018, that's what I've already said, 2017 and 2018 are the investment years. Then it's easing to the normalised levels of 3.5% to 4% in 2019 and 2020. Do not expect a significant shift in 2018.

Omar Saad – Evercore ISI

I wanted to ask about the DTC comp, which decelerated a little bit from a plus 6% trend last quarter to a plus 3%. Can you give any colour around that, e.g. regionally, the outperformers and non-performers by category, or Performance versus Originals. What would it look like excluding Russia? Because I think Russia is a pretty big DTC market.

Harm Ohlmeyer

As reported, we are definitely not happy with the comps that we are seeing. But there are two effects to it. One is, if I exclude Russia, where we are significantly rightsizing and face structural challenges, we are moving more towards the mid-single-digits when it comes to the comp numbers. And secondly, as we indicated in the last call, we are doing a lot of renovation of our stores and the comp basis therefore represents only 50% of the stores. And the stores that we have renovated are actually comping better. So internally, we also look at the like-for-like number, which is slightly more positive and more indicative of what we do in retail. But again, we don't want to create a new KPI.

Omar Saad – Evercore ISI

And then a follow-up in Europe. adidas Originals was such a strong trend in Europe, earlier than the rest of the world. I'm wondering if you're seeing any sort of shift in the product or style or fashion trends and from the demand side in Europe. And if that's a leading indicator for other markets? Or is it really just regional, macro-level issues in Europe?

Kasper Rorsted

No, we're not seeing any change. It's simply a sequential or regional development on the macro side. So there is no overall trend change. Trend is still very much in favour of what we are doing. And with the increased number of franchises we will bring into Originals, we believe we can also satisfy that demand in the future. But you have a different overall macro picture in Europe than you have in certain other regions.

John Kernan – Cowen

Back to North America: The operating margin performance has been fantastic all year. You'll probably be at a double-digit segmental operating margin this year. You haven't even seen the transactional benefits from FX yet that you may see next year. How should we think about the North American profitability as we head into the fourth quarter of this year, given the competitive environment?

Kasper Rorsted

I can't really guide you on the fourth quarter operating margin. But of course we expect a substantial improvement in North America towards 2020. But we've also said that we believe that North America will be slightly dilutive to the overall margin by 2020. We are doing this very diligently and carefully and we are not trying to jack up the margin too quickly. We have been there and done that with a very bad result some years ago. So it's more about building sustainable improvement over time. But we expect a substantial improvement of growth in 2017 compared to 2016 – somewhat in line with what you've seen. That's the only guidance I can give. We want to make sure that we continue sequentially to improve the profitability of the US. That's where a big part of the profit that we need to deliver by 2020 is going to come from.

Harm Ohlmeyer

We wish we could have invested a little faster in some of the distribution network and then have less leverage on the operating margin. But it is what it is. Capturing market share is more important than expanding the operating margin at this stage.

John Kernan - Cowen and Company

One follow-up question on North America: Incredible 30% plus top-line growth for the adidas brand. How are you segmenting the adidas brand now on the digital space versus the brick-and-mortar wholesale channel, which is obviously seeing quite a bit of disruption? And, obviously, the adidas app is a big boost to the digital platform. Can you talk about how you are

going to segment the market between digital and then the brick-and-mortar wholesale channel in North America?

Harm Ohlmeyer

We are definitely prioritising our online channel over other channels. There will be some limited early launches on .com as well when it comes to the key franchises that we are launching. That’s in a limited way, but that’s how we want to create exclusivity on .com, and prioritise it, and get consumers back to .com to drive the growth. Secondly, when it comes to the footwear business, we are clearly segmenting between Originals and the core and neo businesses. Originals is more for the Foot Lockers of this world and for the premium fashion accounts, while the family footwear, is more about the core offering. That's how we're segmenting it in physical retail.

Anna Andreeva - Oppenheimer & Co

Following up on North America, did you by any chance quantify the missed sales opportunity as a result of the bottleneck? What was the North America comp during the quarter? How did growth in wholesale parse out between new versus existing distribution? And then, on supply chain, can you remind us where you currently are in terms of speed-enabled production? What are some of the initiatives to get to 50% target by 2020?

Harm Ohlmeyer

Similar to Chelsea or the EURO, we don't really want to quantify what we have missed in sales. But rest assure, given the change that we have in infrastructure, we could have shipped more if we had had another warehouse. But it is what it is. We are going to catch up, if not in the next quarter than in 2018.

Kasper Rorsted

Before I go through the speed initiatives, I can say that right now, we're approximately at 20% and our aim is to take that to 50%, adding to different product lines from footwear to apparel. I really don't want to break down the initiatives, but we believe we are well underway to ensure that we hit the targets we've set ourselves, which will also deliver the margin that we need to get to. I want to go back to North America real quick and stress where we are: We've had three exceptional years in the US. We have a positive problem right now on delivering. The reason why we have the delivery problem is a continued, exceptionally high demand, coupled with a very strong growth on e-com. The e-com pushes a bigger stress on distribution than normal wholesale will do. This is the consequence of our change in strategy that we went through last year and the increased focused on e-com. We believe it's the right business decision. I want to stress that this is a problem or challenge that we are very happy to have instead of having the reverse challenge. I believe that we've acted in the right way, because moving towards a more one-to-one relationship through digital, even though it does put more stress into our distribution channel, is the right solution in the long term. With the growth rate of 31% in the third quarter, I still believe that we can be quite satisfied with the results that we have in the US. We believe that we can continue to serve the consumer in the appropriate way. That's why Harm said that we've outlined very quickly some short-term solutions which we are in the process of implementing and some medium- and long-term solutions. So we will continue to be able to serve the market well. I wouldn't overemphasise, what could have been done. Right now, we are quite satisfied with the 31%, whether we have left one or two percentage points in the field. Reversely, if we had built a very large infrastructure, then we would have had a margin problem. We simply would have carried different margins. Right now, we need to get this balance right. Overall, the market in the U.S. is growing very slowly, if at all. Growing 31% with the adidas brand is something we are very satisfied with. And we will take the profits that will come along.

John Guy - MainFirst Bank

Just sticking with channel and potential channel volatility going into some markets, namely the North American market next year, especially with what Nike is doing in terms of trying to redefine the retail model and cutting out, as they call it, undifferentiated third parties. How do you see the North American market dealing with potentially a more promotional environment, even more so than what we already see on any incremental markdown not just for Nike brand but also any of the other competitive brands? And what sort of levers do you think that you can pull over the course of the next six to 12 months to mitigate that? And I appreciate that you're really going for quality and not obviously quantity, which is what we've seen with their margin.

Kasper Rorsted

I think the best way of mitigating promotional activity is to bring cool products into the marketplace and to invest into the brand. And I think it sounds very simple but that is really the core of what we're trying to do to achieve full price sell-through. We rather create scarcity in the market around certain franchises instead of driving promotional activity. I believe that it is destructive for a brand if you continue to drive sales through promotional activities over a longer period of time. So you will see us being careful. It doesn't mean that it will never happen but I do believe that the quality of the top-line is in the long term more important than driving top-line growth through promotional activities. So it is new launches, cool products, brand investment, and also, in certain areas, scarcity of bringing products into the market. And reversely, deliberate or undeliberate, the scarcity of our Boost products has potentially been good for us, if you look upon it strategically. Because it has maintained the Boost and the Ultra Boost products very hot and desired.

Harm Ohlmeyer

I really don't want to comment too much on what our competition is doing. But all the comments that I've heard of, the partnership with Amazon or redefining the third-party market place, it is definitely nothing new. I fundamentally believe it will not happen overnight. So it is definitely a strategic direction. When it comes to Amazon, I think it's still more on a pilot or at a limited level. And also, given where we are in the U.S. market with some of the competition I don't think it's a short-term next-quarter or next-half significant change. It's more a strategic intent than anything else. As Kasper said, most importantly, we have to watch our sell-through, we have to come up with good products and good marketing campaigns and continue the growth trajectory that we had in the last three years, and that's what we are focusing on.

John Guy - MainFirst Bank

My second question is around hedging. Could you remind us where we are in terms of hedging rates for this year? And if there is any move going into next year as well?

Harm Ohlmeyer

As I mentioned earlier, our hedging policies are up to 18 months forward. We are not going to take any bets. What we have seen quarter-by-quarter are some unhedged positions in some markets where we get benefits or where we do get downsides. In the third quarter we saw more benefits in the unhedged positions. But for 2018, we don't expect any headwind, but also don't expect any tailwind, given the position that we have. And again, 2019 will then be a different story. There might be some tailwind in 2019. But for 2018, expect that we remain where we are today.

John Guy – MainFirst Bank

So you don't see any benefit at all in the second half of 2018? I thought there'd be some.

Harm Ohlmeyer

Our hedging policy is that we never hedge 100% as you don't know where you are heading. So depending on our growth rates, we are normally going towards 80% hedged and there's 20% variability and some markets where we are not going to hedge at all. So let's see. It's still far out, but the most relevant currency is the pound and the US dollar towards the euro. That's where we are pretty much hedged and there's not a lot of volatility to be expected even in the second half.

Julian Easthope – Barclays

You are still predominantly generating sales within the wholesale business and I wondered what percentage of the Q4 revenue within wholesale you already have full visibility on? What flexibility do the retailers have in terms of returns, or are you helping them out should they get into difficulty in Q4? Just to get an understanding of how confident you are about doing the 20% plus growth in Q4.

Harm Ohlmeyer

First and foremost, the split is roughly 75% wholesale on a yearly basis, including the franchise business in China. Otherwise, you need to be more specific on wholesale and franchise, but including franchise in China, it's roughly 75% wholesale, and 25% DTC. That's the split that we have. This will not fundamentally change in the fourth quarter. Even though the fourth quarter is more a retail quarter for us, the sell-in for our partners is happening more in Q3 for their Q4. So maybe it's slightly up but not significantly up in the fourth quarter. When it comes to returns, as we did in the past, we are working with all partners but we don't have any specific return policies or whatsoever. We are managing our working capital very tightly. We're managing based on the sell-through and the marketplace. And this is how we sell-in based on the sell-through.

Julian Easthope – Barclays

So if the 75% is wholesale then, is that totally booked now at this later stage of the year or does the order pattern still come through later on?

Harm Ohlmeyer

For 2017, we definitely have all the orders in the books. There might be some replenishment still, but it's not significant. The end of the quarter is determined by our Direct-to-Consumer business but not by our wholesale business. That is pretty much based on deliveries. So we have the orders. But it is a question of how we are converting the orders. And that's where we see some bottlenecks with warehouses in the U.S. to come into the game. If you have the order but you can't ship it, then you still have the order in your books but you are not going to ship it.

Piral Dadhania – RBC Capital Markets

On a more high-level basis, Kasper, I think, you mentioned basketball is only less than 2% of your global revenues now, appreciate the NBA contracts rolled off. But when we look to North America and levers of future growth outside of like-for-like, do you consider basketball to be an area which you would plan to rebuild on a medium-term view? How will apparel feature in your plans for 2018, given the two year stacks run rates for footwear becoming increasingly more difficult?

Kasper Rorsted

Let me start with apparel. As I said, I'm not going to give you any guidance for 2018, but I want to say the following: Despite the 'excuses' we have we are not happy with the overall performance. There is no doubt that we have to up the game and get a better balance of revenue growth coming from both footwear and apparel than we've done in the past. When we got into trouble in

2013, part of it was driven by less attractive footwear franchises. And that's why we spent an enormous amount of energy and resources to build a very competitive footwear platform which we put in place now. Now we need to do the same with apparel and get a better platform than we have today. I think that is the appropriate way of answering without giving you 2018 guidance. Right now, it's an uneven growth contributor we're getting from footwear and apparel despite the one-offs or all the impacts that we have this year. When it comes to the U.S. and before I get into the basketball category let me say the following: Pretty much in every country around the world where we are present and our big competitor is also present, we have more or less the same position. We are number one or they are number one, it's a one or two position. In the U.S., it's a dramatically different position. There's approximately EUR 9 billion of difference between us and our competitor. So there are still plenty of growth opportunities in the U.S. irrespective of market segment. Within the market segments that we are strong in, like running or soccer, we also see opportunities for growth because we are coming from a growth profile in the U.S. that in the last couple of years has been dominated by Originals. We need to come into the traditional U.S. sports and be more successful there than we've been in the past. Basketball definitely belongs to one of those areas of sports that we need to address in a more successful way. That's why it's good to see the growth we are having in our footwear business. The apparel business is declining, which is NBA-related. But it's still a very minor part of our business. It's 1% in the U.S. – a blip in a quarter you wouldn't even see. So we need to have a broader base than we have today. But I think it's important that we do it step by step and build meaningful and relevant positions in each area of sport where we are active in instead of trying to boil the ocean.

Piral Dadhania - RBC Capital Markets

Just in the context of the strong momentum in North America for the adidas brand: Why not leverage that momentum in categories where you are underpenetrated like basketball, but very clear.

Kasper Rorsted

Yes. I completely agree. We are just saying that we think that it is one of the options we have and we need to do that. And of course, James Harden signing 18 months ago was a step in that direction because, clearly, we have not achieved what we would like to achieve in North America in basketball.

Let me just close with the following. We will exit 2017 with a very strong year. We upped the guidance in August. It's a very important step in the right direction. Despite the fact that we might come into the low end of our guidance between 17% and 19%, I will not get overly excited about it. I think that we are making substantial progress against what we are trying to do in the long-term, both from a growth standpoint and from a margin expansion standpoint. And in order to do that, we have to build a scalable business model. We have to build a business where we continue to expand our market share position and continue to expand our margin and get into a landscape where we have a competitive margin. That is what we are trying to do every quarter to ensure that we take one step at a time and eventually get away from what you have rightfully criticised us for – a low-margin business. At the same time we also have to grow our market share in a meaningful way. I hope you can see what we are striving to do this year. And that's why we'll continue to do what we are doing to deliver on the short-term but also make sure that we can make the appropriate investments, so that 2018 and 2019 will also be good years.