adidas GROUP

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Herbert Hainer, Robin Stalker, Sebastian Steffen

Sebastian Steffen, VP Investor Relations

Good afternoon ladies and gentlemen and welcome to our nine months 2015 financial results conference call. Our presenters today are Herbert Hainer, adidas Group CEO, and Robin Stalker, Group CFO.

Let me remind you that, as always, to allow for ease of comparison, all revenue-related growth rates will be discussed on a currency-neutral basis, unless otherwise specified. In addition, all figures will refer to the Group's continuing activities and be discussed excluding goodwill impairment losses unless otherwise stated.

We have a lot of topics to cover. So, without any further ado – over to you, Herbert.

Herbert Hainer, CEO

Thanks Sebastian and good afternoon ladies and gentlemen.

I am very pleased to report to you today a very strong set of financial results for our Group. And what is even more important: They didn't come by chance. They are the direct consequence of our relentless focus on the consumer. The third quarter shows that this, in combination with our excellence in execution, is the perfect game plan to drive brand desirability and generate strong top- and bottom-line growth.

So, let’s have a look at the highlights of this stellar financial performance in Q3:

- Sales growth accelerated, with Group revenues increasing a strong 13%. In euro terms, sales were even up an impressive 18% to 4.8 billion euro, the highest quarterly turnover the Group has ever generated.
- Gross margin increased 1.0 percentage points to 48.4%, driven by the positive effects from a more favourable pricing and channel mix, which clearly reflects the strength of our core brands.
- The Group’s operating margin was up 70 basis points to 10.6%.
- Net income improved 20% to 337 million euro.

Clearly, this quarter had many highlights. Allow me to briefly focus on three clear standouts before Robin goes into more detail:

- Firstly, it is the strong momentum the adidas and Reebok brands are enjoying around the world.
- The second is how we are delivering on our commitment to drive brand desirability in the long term by bringing our marketing investments to the next level.

- And thirdly, it is the further progress we are making in North America, one of our strategically most important markets, where adidas revenue growth accelerated significantly in Q3.

Let’s start with a closer look at the development of our brands.

At adidas, brand heat is blistering, propelling sales up 14% in Q3 and 11% year-to-date. The gross margin improvement – 160 basis points in Q3 and 100 basis points year-to-date – is also proof positive of the strength the 3-Stripes are enjoying around the globe. The development in the third quarter is even more impressive if you take into account the difficult comparison the adidas brand faced in some markets following the German team’s victory at the 2014 FIFA World Cup in July last year.

Talking about football, sales increased a strong 19% during the third quarter, with double-digit growth in key markets such as Western Europe, North America and Latin America, just to name a few.

We continue to see very robust momentum on the footwear side, following the successful introduction of our new football footwear franchises ‘ACE’ and ‘X’. Q3 saw not only the retail launch of these product families, but also the introduction of further colourways and customisable versions of the shoes. In addition, we also debuted knitted versions, ‘ACE’ and ‘X’ Primeknit, bringing one of adidas' key technologies into both franchises to give the game's most explosive players a next-generation fit.

In apparel, football revenues increased at a double-digit rate, driven by the highly anticipated and very prolific launch of our two new partnerships with Juventus Turin and, of course, Manchester United.

Particularly teaming up with ManU has yielded unprecedented success so far with both a record-breaking first day and first week launch. Figures in the club’s channels delivered over a month’s worth of forecasted sales within the first five days. Many adidas global retail partners have reported a 200% increase in day one sales compared to last year’s kit launch, experiencing phenomenal demand across the globe and declaring the adidas Manchester United kit launch as the biggest ever launch of replica products. And in our own-retail stores and online shop, we have been experiencing similar success with outstanding demand.

But football was definitely not the only standout category.

In running, our growth accelerated in the third quarter, with sales rising 9%, driven by increases in nearly all markets. In particular, North America, Greater China and Japan were standout markets, generating double-digit growth in the quarter.

We remain encouraged by the strong performance of our Boost franchise. Year-to-date we have sold almost eight million pairs of Boost running shoes alone. As a result, footwear revenues increased double-digits in the third quarter.

At the same time, the track record of Boost in the world's marathon scene speaks for itself. In total, Boost running shoes have been on the feet of the winners in 64 major marathon races since we brought the franchise to the market. On two occasions during the past couple of weeks, in Beijing and Amsterdam, once again both the male and the female winners wore the best running technology out there. We also dominated the Berlin Marathon. Of the six runners on the podium, four competed in Boost, including women's champion Gladys Cherono. And just last weekend, adidas elite runner Mary Keitany won her second straight NYC Marathon title wearing the adizero Adios Boost.

Looking at our lifestyle business, the momentum we are seeing at adidas Originals and also at adidas NEO is just amazing.
In Originals, the strong performance from the first half continued right into Q3, with revenues increasing 33% during the three-month period, representing the fifth consecutive quarter of double-digit growth. During the first nine months, revenues were also up 33% versus the prior year period.

The powerful global reach of adidas Originals is reflected in the strong and broad-based sales growth seen across our various geographic areas, as all markets, with the exception of Russia/CIS, posted double-digit sales increases in the third quarter.

We are seeing unprecedented demand for our major footwear franchises Superstar, Stan Smith, ZX Flux and Tubular. Just to give you one example: year-to-date, we sold over one million pairs of our

ZX Flux at Foot Locker Europe – and this is in a year where the focus has mostly been on our Superstar franchise.

At Reebok, with top-line growth of 3%, the third quarter represented the tenth consecutive quarter of growth – clear testimony that the brand is resonating well with the Fit Generation. With the exception of North America and Russia/CIS, sales increased in all markets, with particularly strong growth in Japan, MEAA and Latin America, where sales grew at double-digit rates each. And to add to this, revenues in Greater China, although on a small scale, doubled in Q3. Revenues in North America continue to be negatively impacted by our efforts to streamline the factory outlet business.

From a category perspective, Reebok's growth during the third quarter is directly linked to key fitness categories, with double-digit growth in the studio category as well as robust growth in training and running. The Classics business continues to show strong momentum and increased at a double-digit rate.

So what's behind all these successes? To me, there is absolutely no doubt that the key driver of this strong top-line development is the unparalleled consumer appeal of our brands. With the introduction of 'Creating the New' back in March we told you that at the end of the day it all comes down to winning the hearts and minds of our consumers. And I am telling you – we are winning big time. Both adidas and Reebok are enjoying great momentum across the globe as our products and marketing initiatives are resonating extremely well with the respective target audience – both in the lifestyle and the performance arena. Our increased brand investments – up almost 20% during the first nine months – have raised the bar when it comes to creating consumer excitement by establishing industry-leading product franchises and cutting-edge communication.

On the latter, we continued to connect with the consumer by bringing the third chapter of ‘Sport 15’ to life. During the third quarter we introduced ‘Create Your Own Game’ and ‘Unfollow’. Both spots, which underline the adidas brand’s leadership and passion for sport, were launched globally in August across all social channels, featuring some of the world’s biggest football assets such as Lionel Messi, James Rodriguez, Gareth Bale and Thomas Müller. Both hero spots had a fantastic social media reach with over 45 million and 43 million views on YouTube, respectively.

In addition, August also saw the launch of ‘Create The New Speed’. The newest chapter of ‘Sport 15’ celebrates and inspires athletes and those who challenge the status quo in sport. The spot features, amongst others, Jimmy Graham, DeMarco Murray and Sammy Watkins – all US sports icons and influencers who are redefining a position, a team, a sport and the concept of speed.

During the third quarter, we also continued our momentum of partnering with the most talented and influential players and teams in sport. These partnerships give us the opportunity to not only gain valuable insights from athletes but also to activate our brands and their values.

In September we proudly announced a multi-year partnership with the reigning NFL MVP, quarterback Aaron Rodgers of the Green Bay Packers. One of the most prolific passers in league history, Aaron debuted in adidas cleats this season, and will collaborate on future product development across footwear, training apparel and equipment. Aaron will also take a leading role in upcoming adidas brand marketing campaigns.
A few weeks later, at the beginning of October, superstar shooting guard James Harden of the Houston Rockets, one of the NBA's best scorers and most recognisable players, joined the adidas family. Initiatives to activate this long-term partnership will include exclusive on- and off-court signature collections, product design collaborations and marketing involvement. In fact, James will play a leading role in future brand communication and help to raise awareness for adidas Basketball. In fact, James will take centre stage together with some of our other key basketball assets in the last episode of our 'Sport 15' campaign, which will create a lot of buzz in December with a clear focus on the US.

And there is of course Manchester United. I had already mentioned this reunification of two of the biggest names in football, which clearly underlines adidas' position as the world's number one football brand. Manchester United is one of the most popular and successful sports teams in the world, having won 62 trophies in its 137-year history.

In addition to record-breaking sales, the launch also saw the campaign break expectations around fan engagement across both adidas and club channels. Our campaign launched with a film that hugely resonated with the fans of the club and quickly became the most shared motion picture from adidas in 2015 with more than two million views within only a few days. The club website and social channels also experienced outstanding engagement with far more than 200 million content impressions in the following days and a total of seven million cumulative interactions. The campaign trended globally on twitter and was exposed to millions of football fans via the social channels of adidas, Manchester United and the nine players that featured in the campaign, including Juan Mata, Ander Herrera and new signing Bastian Schweinsteiger. Our social accounts, both globally and in the home market, saw immediate follower growth with Manchester United fans subscribing to the brand in huge numbers.

With that, Manchester United is a prime example of the benefits of our new marketing approach as it shows the different dimensions of how we can make use of promotion partnerships and the vast opportunities that such partnerships offer us to connect with the consumer.

This is of course essential for us everywhere around the globe. But it is particularly important in the US market. Here, where for too long we have been lacking visibility and relevance in American sports, we have made major inroads over the last couple of months to establish platforms to connect with the US consumer. Through grassroots events at the high-school and college level, much higher visibility in all of the major US sports and highly emotional marketing campaigns, we are authenticating the adidas brand vis-à-vis the consumer as THE true performance brand. In addition, through the hugely impactful partnerships with Kanye West and Pharrell Williams, we are making sure people understand that adidas is the brand that can make the kids look cool on and off the pitch.

And while we have always emphasised that our turnaround in the US is not a sprint but a marathon, we see that our efforts are clearly paying off. The progress is also reflected in our top-line development, with sales for brand adidas in North America growing at a double-digit rate. But that's not the only proof point for the progress we are making in this all-important market:

- At Foot Locker, for example, we have multiplied the number of our aStandard shop-in-shop instalments across the US almost tenfold over the past 12 months.
- With Dick's Sporting Goods, we had successfully launched 600 soccer shop-in-shop solutions for back-to-school. As a result, we increased our market share in Dick's in this category by 10 percentage points in Q3.
- Our 10 newly opened HomeCourt stores, which are part of the 55 new own-retail shops we want to open across the US by the end of 2017, are experiencing significantly higher than expected sell-through rates due to better in-store communication, improved customer service and superior merchandising.
- And last but certainly not least, we are seeing brand strength and market share improving in those areas where we are investing: in American football, for example, we have seen significant market share gains, especially in Eastbay, where the high school athlete shops.

And while I am far away from suggesting that we have solved all our problems in the US, these examples, just like our performance during the third quarter, clearly prove that we can be successful in the US. And I promise you – we will be.

Moving over to our golf business.

TaylorMade-adidas Golf took centre stage on the PGA Tour over the last couple of months, with some of the most prestigious tournaments being won in 3-Stripes and with TaylorMade equipment. Jason Day's win at the PGA Championship was a clear standout as it not only paved his way to become the world's number one, but also made our brands shine in front of millions of golf and sports fans.

The third quarter has also seen the successful global media launch of our revolutionary M1 product line. With the M1 family, TaylorMade is returning to its roots as the leader in product innovation. And while the retail launch only took place at the beginning of the fourth quarter, I can tell you today that the product has been very well received so far. In fact, due to the strong early demand and quick sell-through at retail, our Q4 launch quantities for the M1 are already sold out. Unlike in the past, we have decided not to push further volumes into the market, in order to keep the product fresh and demand high.

Jason Day's win at The Barclays in September was the 10th win on Tour this year for the adidas Boost technology, which is one of the key drivers of the success of our softgoods business with adidas Golf, which grew at a high-single-digit rate during the third quarter.

Overall, revenues at TaylorMade-adidas Golf increased 6% during the quarter. And while this year-over-year and sequential improvement also reflects a cleaner trading environment and first operational improvements, it is to a large degree the result of easier comparisons with the prior year.
And this is why, no matter what the outcome of the strategic review, which we expect be concluded during the first quarter of 2016, will be, we continue to press ahead with our far-reaching restructuring plan. The project team is already working on more than 40 identified initiatives. With these, we are aiming to achieve operating efficiencies across the four pillars of manufacturing, assembly, margin and marketing working budget. In addition, we will focus on only a few key strategic markets globally such as the US, Japan, South Korea and the UK.

TaylorMade's organisational redesign, which started earlier this year, continues to focus on streamlining its processes and global business to create a leaner, faster and more efficient operation. A difficult, yet necessary and important part of these cost-saving efforts includes a further reduction of personnel expenses by reshaping the organisation to be in line with TaylorMade-adidas Golf's future business expectations. As a result, by the end of this year, we will have reduced our global workforce by 14%. While this will negatively impact profitability by a low-double-digit million euro amount in the fourth quarter, the immediate result will be a more nimble organisation, which will have a positive effect on the Group's profitability from 2016 onwards. Further initiatives aimed at reducing our cost base are a consolidation of warehouses around the globe, the optimisation of shipping policies with our retail partners as well as the creation of shared service centres.

So while there is still quite some way to go at TaylorMade-adidas Golf, we are making major progress with our restructuring. These activities, combined with our industry-leading product line-up, will bring TaylorMade-adidas Golf back to the top of the golf world.

And with that, let me now hand you over to Robin to take a closer look at the individual market performance and walk you through the financials.

Robin Stalker, CFO

Thank you, Herbert, and good afternoon ladies and gentlemen.

As you have just heard, within this strong set of numbers we have reported today for the first nine months of 2015, our Group witnessed remarkable sales growth during the third quarter. Let me therefore spend a few minutes on our top-line development first, before going into more detail on how this has ultimately impacted the rest of the P&L.

In the third quarter of 2015, combined revenues for the adidas and Reebok brands grew in all markets except Russia/CIS. Even more importantly, our growth accelerated in most regions compared to the previous quarter.

Of particular note is certainly the strong development of our two biggest markets, Western Europe and North America, where ‘Creating The New’, without a doubt, is starting to reveal its enormous potential. So let’s start with those regions and have a look at the performance in detail.

Starting with our biggest market, Western Europe, currency-neutral sales increased 18% in the quarter, driven by a strong 19% increase at adidas. This increase is even more impressive if you consider the difficult comparisons with the prior year given the additional sales we generated after Germany’s World Cup victory in Brazil when the new ‘four stars jersey’ was literally flying off the racks.
The strong increase in the third quarter was fuelled by double-digit growth at adidas Originals as well as in the football category. The latter is due to the successful introduction of our new football footwear franchises ‘ACE’ and ‘X’ as well as to the outstanding partnerships with Manchester United and Juventus Turin.

At Reebok, sales increased a robust 6%, driven by double-digit sales increases in the training and studio categories as well as high-single-digit growth in running. For the first nine months, revenues at Reebok grew a strong 10%.

From a market perspective, the main contributors to the segment’s sales increase were the UK, Italy and France, where revenues grew at double-digit rates each during the third quarter.

Based on this strong top-line performance, we were also able to leverage our sales and marketing investments. The segmental operating margin increased by 350 basis points to 24.6%. This, ladies and gentlemen, is evidence for us that we are pulling the right triggers with our strategic choices.

The performance in North America is clearly another proof point for our successful measures and initiatives, which we are driving within the framework of our new strategic business plan. Sales for the region as a whole accelerated during the third quarter, up 6% versus the prior year period.
While Reebok revenues were below the prior year level, as Herbert has already mentioned, revenues at adidas were up 11%. The strong momentum at adidas was driven by double-digit increases not only in our lifestyle business but also in the important performance categories running and football. In addition, the training category, our biggest category in this important market, grew at a high-single-digit rate.

Hence, there is no question that we are seeing the first positive signs of our turnaround strategy, fuelled by strong partnerships such as James Harden, Aaron Rodgers or Kanye West and our increased visibility in US sports in general, which is clearly helping us to authenticate the brand vis-à-vis the US consumer.
Additionally, after achieving our goal of leading North America back into profitable territory in the second quarter of this year, we are happy to report a strong improvement in operating margin of 70 basis points, despite further increases in marketing and point-of-sale investments, which grew more than 35% in Q3.

In Greater China, our strong momentum from the previous quarters continued right into Q3, with revenues up 15%. Both brands posted strong growth rates, with adidas revenues up 14% and Reebok sales even doubling in the third quarter.

The increase at adidas was driven by double-digit growth in key performance categories such as training, running and football. On the lifestyle side, adidas Originals and adidas NEO also grew double-digits. The sales increase at Reebok was driven by significant growth in all key categories.

These strong growth rates are nothing but proof of our strong positioning in the Chinese market. Let me therefore reiterate one more time that, based on the very strong momentum which the adidas and Reebok brands enjoy in the marketplace, our Group will be without any doubt in a position to withstand the negative trend in the Chinese economy. Instead, we remain absolutely encouraged by the highly visible trend in China towards living a healthier life, as sports participation and the interest in sport in general continue to trend upwards. With our highly desirable brands, we have the right forces to leverage the values of sport in this growing marketplace.

Let's turn to Russia/CIS. While we are still waiting for the Russian economy and consumer sentiment to start bottoming out, we are right on track with our commitment to keep our Russian operations in profitable territory this year. An operating profit of 55 million euro at the end of September clearly reflects our successful cost management.

This includes an additional 58 store closures during the third quarter, which led to a further 29% decrease in operating expenses in Q3.

In addition to our cost control measures, the process of cleaning inventories is in full swing and is bearing first fruits. In the third quarter, we were able to reduce our promotional activities and start earlier into full-price trading, which also had a positive effect on revenues. Currency-neutral sales were down only 7%, a sequential improvement compared to the previous quarter, while comp store sales even showed the lowest decline since the beginning of the year, down 2% during the three-month period.

Currency-neutral sales in Latin America were up an impressive 20% in the third quarter, as a result of double-digit sales growth at both adidas and Reebok. Growth at adidas was supported by double-digit sales increases in the training and football categories as well as at adidas Originals and adidas NEO.

At Reebok, sales increases were driven by double-digit growth in the running, training and walking categories as well as high-single-digit sales growth in Classics.

From a market perspective, the segment’s top-line development was driven by double-digit sales growth in Argentina, Mexico, Colombia and Chile.

In Japan, sales in the third quarter returned to solid growth, with revenues up 6%, supported by mid-single-digit sales growth at adidas and double-digit increases at Reebok.

While growth at adidas was driven by double-digit increases in the all-important running category as well as at adidas Originals, sales increases at Reebok were mainly due to significant increases in running as well as in Classics.

As a result of the positive third quarter performance, nine-month revenues in Japan also turned positive, up 2% for the period.

MEAA maintained its positive momentum during the third quarter, with currency-neutral revenues up 14%. This was due to double-digit sales increases at both adidas and Reebok.

Growth at adidas reflects double-digit sales increases at adidas Originals and adidas NEO as well as in the football category. In addition, high-single-digit growth in the running category also contributed to this development.

Growth at Reebok was driven by double-digit sales increases in Classics as well as in the training and running categories.

From a market perspective, the main contributors to the segment's sales increase were South Korea, the United Arab Emirates, South Africa and Australia, where revenues grew at double-digit rates each.

Last but not least, let's have a look at Other Businesses, which also saw an acceleration compared to the previous quarters. Currency-neutral sales increased 10% in the third quarter with revenues up 6% at TaylorMade-adidas Golf, 9% at Reebok-CCM Hockey and 17% in Other centrally managed businesses.

Now, while the performance at TaylorMade-adidas Golf was also supported by the successful launch of our M1 product line, it is important to note that for now the sequential improvements in sales and profitability are mainly due to easier comparisons with the prior year period. As Herbert mentioned already, it is crucial that we continue to make all necessary efforts and investments that are needed to get our golf business back on track.

The gross margin of Other Businesses increased 2.1 percentage points to 34.4% during the third quarter. This is a direct consequence of the strong gross margin improvements at TaylorMade-adidas Golf in Q3, following the robust top-line development as well as lower levels of promotional activity. As a result, the operating margin for Other Businesses improved from a negative 11.8% in the previous year to a negative 6.7% in the third quarter of 2015.

Turning now to our Group performance and starting with the P&L.

Our Group gross margin increased a very strong 100 basis points in the third quarter to 48.4% or 10 basis points in the first nine months to 48.6%, a strong achievement considering the significant pressure we continue to face from currencies and input costs. The gross margin improvement during the third quarter was mainly due to a significantly better pricing mix as well as a more favourable channel mix and reflects margin improvements in most market segments, including Western Europe and North America.

Moving over to operating expenses, which increased 18% in the third quarter or 15% in the first nine months, partly as a result of negative currency effects. This development is due to higher sales and marketing investments as well as higher operating overhead costs, reflecting our commitment to invest into our brands and businesses, as Herbert has already mentioned. While operating expenses as a percentage of sales were up 0.1 percentage points for the third quarter, we were able to achieve significant leverage during the first nine months, with operating expenses down 0.4 percentage points year-over-year.

Sales and marketing investments as a percentage of sales increased 50 basis points to 12.7% for the third quarter and were up 20 basis points to 13.4% for the first nine months.

Taking all the aforementioned factors together, third quarter operating profit increased 26% to 505 million euro, while year-to-date operating profit was up 19% to 1.1 billion euro. This translates into an operating margin of 10.6% for the quarter, up 0.7 percentage points versus the prior year, and 8.6% for the first nine months, an improvement of 0.2 percentage points versus last year’s nine months period.

Turning briefly to the non-operating items of the P&L: In the first nine months of 2015, net financial expenses decreased to 19 million euro versus 35 million euro in the prior year. This development was due to

positive exchange rate variances as well as the non-recurrence of negative exchange rate effects from the prior year.
The first nine months tax rate increased 3.1 percentage points to 31.9%, mainly due to the non-recognition of deferred tax assets related to TaylorMade-adidas Golf for which the realisation of the related tax benefit is not considered probable. As a result of that, we now also expect the full year tax rate to be at around the current level of 32%.
Net income from continuing operations excluding goodwill impairment losses increased 17% to 737 million euro in the first nine months of 2015. This translates into basic and diluted earnings per share of 3 euro 62 cents, up 21% compared to the prior year.

Third quarter net income from continuing operations excluding goodwill impairment losses grew 20% to 337 million euro, translating into diluted earnings per share of 1 euro 67 cents, up 26% versus the prior year.
Looking specifically at the retail part of our business, revenues grew 9% in the third quarter. For the first nine months, sales grew 10% on top of a 21% increase in the prior year period, mainly due to double-digit growth at adidas. Reebok revenues grew at a low-single-digit rate.

While revenues from concept stores and factory outlets both increased versus the prior year, sales generated in concession corners were down due to a reclassification of a number of concession corners into the wholesale business.

Comparable store sales were up a solid 3% during the third quarter with growth across all regions except Russia/CIS. For the first nine months, comparable store sales were up 2%. By brand, adidas comp store sales grew 3%, while Reebok comp store sales were down 5%.

Our eCommerce business continues to grow at strong double-digit rates, with sales up 25% in the third quarter and 44% for the first nine months.

The retail gross margin increased a strong 3.7 percentage points to 61.8% for the third quarter, up 2.4 percentage points to 61.8% in the first nine months. In this regard, the positive effect of a more favourable product and pricing mix more than offset headwinds from the devaluation of the Russian rouble.

As a result, the operating margin for our own-retail operations was up more than 200 basis points to 22.7% during the third quarter and 340 basis points to 21.0% for the first nine months, benefiting from the increase in gross margins and leveraging lower operating expenses as a percentage of sales.

In terms of our store development, at the end of the third quarter, we operated 2,679 stores compared to the prior year level of 2,913. This represents a net decrease of 234 stores, reflecting the reclassification of 154 concession corners to the wholesale channel as well as the net closure of 80 stores, the latter mainly related to Russia/CIS. During the first nine months of 2015, the Group opened 192 new stores, 272 stores were closed and 74 stores were remodelled.

Looking at the remainder of the year, we will continue to rigorously manage our store base. In total, we plan to close around 50 adidas and Reebok stores net in 2015. Around 150 stores will be remodelled. In addition, as already mentioned, around 150 concession corners will be reclassified to the wholesale channel.

Finally, let me spend a minute on our balance sheet and cash flow development. At quarter-end, operating working capital increased 14%, as both inventories and accounts receivable grew on a currency-neutral basis, reflecting our expectations for growth in the coming quarters. As a percentage of sales, however, operating working capital decreased by 1.6 percentage points to 20.7%, as operating working capital grew at a slower pace than the Group’s top line.

In terms of cash flow development, we ended the quarter with net borrowings of 903 million euro, an increase of 359 million euro versus last year. This development is mainly a result of the utilisation of cash for the share buyback programme.

As a result, the ratio of net borrowings to EBITDA increased to 0.6 versus 0.5 in 2014.

Ladies and gentlemen, let me briefly wrap it up: our strong financial performance during the first nine months means we will finish 2015 exceeding our initial expectations for the full year and we are therefore increasing our top- and bottom-line guidance.

Based on the strong momentum at both adidas and Reebok, we now expect sales to increase at a high-single-digit rate on a currency-neutral basis in 2015. Group sales development will be driven by double-digit increases in Western Europe, Greater China and MEAA. Additionally, higher sales expectations in North America and Latin America will further support the Group's revenue growth.

Our Group gross margin is now forecasted to increase to a level between 48.0% and 48.5%. The improvements we saw during the third quarter as a result of a more favourable pricing and product mix at both adidas and Reebok together with the more favourable channel mix are expected to further support our gross margin development for the remainder of the year. This will more than offset the adverse effects from higher input costs and less favourable currency movements.

Given the strong financial performance during the first nine months of the year, we have also decided to further increase the planned marketing and point-of-sale investments for the fourth quarter to leverage the current momentum and drive long-term brand desirability. This, coupled with the measures Herbert has elaborated on to redesign our golf organisation, will result in an increase in the Group's other operating expenses as a percentage of sales, which are now expected to grow moderately in 2015 compared to the prior year level of 42.7%.

Last but certainly not least, we now anticipate net income from continuing operations to increase at a rate of around 10%, thus outpacing the Group's expected top-line development.

So as you can see, ladies and gentlemen, our Group is enjoying very strong top- and bottom-line momentum in 2015 and there are many achievements we can be very proud of.

With this in mind, let me hand back to Herbert who will give you more details on how we plan to build on this momentum and what you can expect from us over the next couple of months.

Herbert Hainer, CEO

Thank you, Robin.
Ladies and gentlemen, I am just as excited as Robin is about the Group's financial performance in the first nine months and the stellar momentum our brands are enjoying across the globe. And I have every confidence that this momentum will continue throughout the coming months.

Let me share my confidence with you by laying out some of the many activities and product launches that will impact not only our fourth quarter but also our future in the long term.

And I have some exciting initiatives and news to share with you here: our product and innovation pipeline is as strong as it can possibly be and we are well prepared as we enter the upcoming holiday season.

Let me start on the innovation side, as innovation is at the heart of everything we do and key to the long-term success of our Group. Just a few weeks back, at the end of September, we launched a game-changing innovation project called ‘Sport Infinity’. Without any doubt, ‘Sport Infinity’ will influence the future of our industry in the most sustainable manner, as it will bring the days of throwing away football boots to an end. Instead, every pair of boots will not only be recycled, but used to produce fully customised sustainable and recyclable products in the future.

‘Sport Infinity’ is led by the adidas brand, supported by our key football asset Lionel Messi and funded by the European Commission. It brings together a variety of industry and academic experts, and combines broken-down sports products with excess materials from other industries. Representing the next step in our commitment to innovation and sustainability, the project will close the sustainability loop, creating a high-performance product that can always be recycled.

Equally exciting is our Futurecraft Series, another initiative launched on the innovation side. Futurecraft is a forward-looking initiative to drive innovation across all elements of the production process.

At the beginning of October, we presented the first ground-breaking innovation of this series: Futurecraft 3D, a unique 3D-printed running shoe midsole which can be tailored to the individual cushioning needs of an athlete’s foot. This is such an important milestone for us in the area of 3D printing. Just think about it – who would have imagined a year ago that we will be able to introduce to the sporting goods industry a 3D-printed functional midsole that will enable athletes to perform at their best?

The second launch under the umbrella of Futurecraft is ‘Futurecraft Leather’ which was unveiled today. It combines a high-tech manufacturing process with traditional materials to create a completely seamless upper that enables ultimate comfort in one single piece of material. With ‘Futurecraft Leather’, consumers will choose their own piece of leather to be tailored into made-to-measure footwear in front of their eyes.

We are all very excited about the ‘Futurecraft Initiative’, as it will drive our innovation pipeline further and strengthen our industry-leading positioning when it comes to innovation.

Now, these are clearly just two examples that show impressively our commitment to creating the future of sport.

The future of sport will for sure also be impacted by our Speedfactory initiative, in which our Group – together with other companies and under the umbrella of the German government – explores the future of manufacturing.

And I am proud that we have just signed a cooperation agreement with German engineering company Manz, one of the world's leading high-tech suppliers of production systems that will help us to explore on that front. The contract builds on the successful development of the new automated production technology for sports equipment. With this technology, the design of custom-tailored shoe components, textiles and accessories can be transitioned into production data and produced on a fully automated basis in the future. This is a huge step towards automated production.

Let me now turn to our categories and share some of the many exciting product launches and upcoming initiatives that will fuel our success over the holiday period. Starting with football, where we will build on the very strong momentum going into Q4.

As I already mentioned earlier, we revolutionised football with the introduction of our new footwear silos ‘ACE’ and ‘X’. We also had tremendous success in reuniting with Manchester United and seeing Juventus playing in 3-Stripes.

And just recently, we launched the Messi 10/10 limited-edition cleat, with just 100 pairs produced worldwide. The release marked the start of a new tradition of collector's edition Messi boot launches, which will drop every October 10th, as homage to Lionel, the greatest number 10 in the history of football. As in the past, these limited editions will continue to create hype for adidas Football.

Last week, we brought our key cities approach to football with the launch of our city pack, including three unique editions of ‘ACE’ and ‘X’, taking design cues from Hackney in London, New York’s Brooklyn and the Berlin district of Kreuzberg.

Our football revolution will also continue in 2016, as we will bring ‘Laceless’, a game-changing design innovation in football, to life. We have seeded first information on our laceless football boot this week and will continue to build desire for these boots in the upcoming weeks and months.

Talking about 2016, I am excited to announce that we are already gearing up to kick off the UEFA EURO 2016, hosting a big launch event next week. We will take over Paris and present to the world's media, influencers, creators and fans the Official Match Ball and the six home and away kits of our main federations including the current World Champions Germany and reigning European Champions Spain. We will start creating huge excitement for the tournament and our football products and make a bold statement underlining our market-leading position.

Let's shift our focus from Europe to the US for a moment, where we will continue to increase our visibility in US sports throughout Q4 and going into 2016. This will be sustained by strong product launches in key categories such as baseball, American football and basketball.

In baseball, we recently presented our adizero Afterburner Uncaged Collection at the beginning of Q4, featuring nine new cleats, created for the game's fastest players.

In American football, October saw the launch of the Dark Ops Cleat Collection, inspired by the footwear and accessories worn by the elite forces of the U.S. military.

And, in basketball, we have just presented a customisable version of the D Rose 6 basketball shoe together with a new signature version of D Rose 6. Inspired by his will to 'never break', the D Rose 6 is designed to elevate Derrick's aggressive game and complement his cold and confident demeanour.

Last but certainly not least, as I already mentioned at the beginning, the fourth quarter marks the beginning of a game-changing partnership for adidas and Houston Rockets superstar James Harden. Without a doubt, the launch of this partnership moves the game forward and bears a message that change is certainly coming and the future in basketball starts right now. Whenever James is on the court, he will lace up the Crazylight Boost 2015 in a variety of Houston Rockets colours.

Let me now turn to lifestyle, where we have every confidence we will maintain the strong momentum thanks to our unrivalled partnerships and product franchises.

Following the very successful launch of Kanye West's Yeezy Boost shoes in the first nine months of 2015, adidas Originals just introduced 'Yeezy Season 1', a collection of apparel and footwear that was presented at New York Fashion Week earlier this year and now hits stores globally. The collection features a line of high-quality essentials that can be freely combined and will be followed by the new Yeezy 350 Boost shoe launch later this month. The collaboration with Kayne West has clearly exceeded our own expectations so far and we are looking forward to bringing the spirit of our partnership to new heights in 2016.

However, at adidas Originals, the best thing is yet to come. At the beginning of December, we will launch a completely new footwear franchise, revolutionising the technical lifestyle running market, subverting the relationship between style and technology. And while I cannot say too much here yet, you can for sure expect the next big thing on the streets globally in just a few weeks from now.

At the same time, and as a result of our thorough lifecycle management, we will limit distribution somewhat for our other highly successful footwear franchises in the fourth quarter. This will allow us to move the focus to the newest kid on the block, while at the same time building the hype for the other four key franchises globally into 2016.

Turning over to Reebok, the brand will continue to pursue its chosen path in Q4, by focusing on key footwear franchises such as CrossFit Nano for functional training, ZPump for running, Cardio Pump Fusion for studio and Skyscape for walking. In addition, Reebok will continue to activate its key collaborations such as the UFC, CrossFit and Spartan Race as well as Les Mills. On the Classics side, Reebok will continue to work with US superstar Kendrick Lamar as its key asset.

Lastly, let me give you a brief outlook for TaylorMade: As mentioned before, TaylorMade successfully launched its M1 franchise during the third quarter, the brand's longest driver and most fittable product line. M1 offers the golfer TaylorMade's first-ever 'unmetalwood' line of drivers, fairways and rescue clubs that enable more ball speed, forgiveness and distance.
Even though M1 was only just launched, the driver immediately became the #1 played model in its first week on both the PGA Tour and the European Tour. Also, TaylorMade asset Justin Rose brought home the third title worldwide for TaylorMade's new M1 driver in

October by winning the UBS Hong Kong Open. The successful launch of M1 will be the foundation for the coming quarters because, as mentioned before, we are moving towards an annual release for metalwoods around the fall satisfying the early adopters, as well as our wider audience looking to buy in the spring. We are absolutely convinced that this launch will be one of our best and will provide golfers of all abilities with a product that really performs.

So, ladies and gentlemen, before I come to an end, let me spend a minute on 2016, for which we expect momentum for our brands and the Group as a whole to continue. Given the strong product line-up and a full marketing calendar, we are confident that we will again be able to increase currency-neutral Group sales at a high-single-digit rate, making 2016 another record year for the adidas Group. And while we expect gross margin to be negatively impacted by significant currency effects, we have all the levers in our hand to generate enough operating leverage to grow our operating profit at a high-single-digit rate as well and to keep our operating margin at least stable compared to the 2015 levels.

We understand that there are quite some uncertainties at your end around next year’s profitability development in general and the gross margin progression in particular. In order to provide you with more insights and to allow you to gain a better understanding of the different drivers and levers, we would like to invite you to our 2nd IR Tutorial Workshop on December 9, 2015, in Herzogenaurach. During this half-day workshop we will tell you more about our global sourcing structure, our hedging policy and how we will be mitigating next year's currency headwinds.

And with that, I thank you for your attention, and Robin and I are ready for your questions.