HUGO BOSS

HUGO BOSS Q4 2016 & FY 2016 Analyst Conference Call

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Transcript – Q&A Session

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Please note that the transcript has been edited to enhance comprehensibility. Please also use the webcast replay to listen to the Q&A session on the day of earnings publication.

Zuzanna Pusz (Berenberg): First of all, on the like-for-like range which is relatively wide, minus 3% to plus 3%. Given that you expect a similar development for the adjusted EBITDA, it looks like you have some additional cost control you could implement should the like-for-like be at the lower end of the expectations. Would you mind commenting on that and where do you see more scope for cost cuts?

Secondly, on the U.S. business, you expect another year of low-double-digit decline in the wholesale channel, could you clarify how much of this is expected to be driven by the ongoing restructuring of the business? What is your expectation for the overall market?

And on CapEx. You have guided €150 million to €170 million this year. What are your expectations for the coming years, could it be in a similar range?

Mark Langer (CEO): Let me start with the CapEx question first. We gave a specific guidance for the current fiscal year which is €150 million to €170 million. On a qualitative level, we outlined our expectations for 2018 and 2019 despite the fact that we will start to have first rollouts of HUGO freestanding stores and no major takeovers and white-space expansion as we have seen in previous periods. So, also for the coming years even though we can't quantify it as precisely as we have done for 2017, we expect that investment levels will be at comparatively lower levels than what we have seen in the period between 2013 and 2015.

On your question for like for like, I think a corridor between minus 3% and plus 3% is also something we have seen as likely outcomes in a difficult-to-forecast market environment, so we feel comfortable to guide the market in this range when it comes to our like-for-like performance in own retail, where the visibility is much more limited, compared to the wholesale business.

You're right. If like-for-like would fall to the lower end of our guidance, this might require additional measures that we have also prepared for in our budget plans in terms of OpEx and CapEx control to deliver our earnings guidance for the full year. However, we would only deploy these contingency measures, if like for like slumps to the lower end of our guidance range.

On the wholesale outlook in the US, part of the decline is due to the full-year effects from discontinuing off-price third-party distribution as this was done over the course of 2016 and will have a full-year impact in 2017. This is one element why our wholesale sales will decline in the US. In addition, the pre-order business is below the previous year due to a very difficult market environment with a decline in footfall for full-price wholesalers.

Zuzanna Pusz (Berenberg): One point to clarify, I understand that in 2016, half of the decline in the US was due to your own actions. Can you give us an idea whether this year it will be more or less the same decline? Or you can't quantify to that extent?

Mark Langer (CEO): It is sizable, but probably less than 50% of the decline will be due to the cleanup. Yet it's still sizable enough to be mentioned as a key factor for the decline on the US wholesale business in 2017.

Thomas Chauvet (Citi): Coming back to the retail guidance of minus 3% to plus 3%, can you tell us what the trend was in January and February, which regions improved versus Q4, and what do you mean when you said at this morning's media conference that you were not sure that the strong double-digit growth in China would continue? Secondly, with regards to your gross margin guidance, slightly up for the year due to channel mix and lower inventory write-downs, can you recap what the Euro amounts of those write-downs were in 2016? And do you expect write-downs towards the end of 2017 or in early 2018 after the integration of Orange and Green into Black and the relaunch of HUGO?

And finally, on womenswear, at the fashion show in New York in February you presented a men's only show and no longer womenswear. You are also reallocating a lot of A&P from men's to womenswear. If you can think of a standalone P&L of the womenswear business for the year ahead, do you feel that you've now downsized it enough, you've reduced the cost base enough and reduced the breakeven point? And can you confirm that Jason Wu without a fashion show is still dedicated to his collection and will still be in charge of womenswear this year?

Mark Langer (CEO): I will answer part of the economic question and then I hand it over to Ingo. We have exciting and relevant news to tell on the womenswear part of our collection, where we are working very closely with Jason to have an exciting not only collection, but also event.

But let me start with the like-for-like trends. We are now, in week nine or ten in 2017, so we have some trading trends, but as in the past we will not comment on current quarter's trading before it is completed. But you're right. Also this morning on Bloomberg, I alluded that we have seen a strong momentum in the Chinese market that continued until the end of the year. And here, we are seeing a continuation on the mainland China strong trends in the double-digit area. This will annualize in the second half of 2017, so this is what I meant with my comment earlier this morning that we would be shy to predict the complete continuation of this trend. We will make sure that we have all the resources in place to ensure that the growing middle class is fully aware of the highly attractive offer that we have developed for the Chinese market. Be assured that we will do whatever we can from our side in terms of better execution, marketing and brand communication to maintain the strong momentum that we have now started to enjoy.

In other parts of the world, we already touched on the US market from a wholesale perspective. We see our full-price business to be under pressure. Some of the improvement that we outlined in Bernd's part of the presentation in terms of merchandising, omnichannel services also for the US market will only be fully implemented during the course of 2017. The big bang in terms of collection, will come with the Spring/Summer 2018 collection that will be presented to wholesale partners in summer this year.

So in terms of our merchandising and pricing decision, we expect financial performance to stabilize, but as our range of like-for-like performance indicates, in the current market environment it is not yet a guarantee to return to positive like-for-like in the current fiscal year, which is a trend we have seen coming out of the fourth quarter and you are aware that we were still in negative territory in like-for-like in the fourth quarter.

Thomas Chauvet (Citi): Just to clarify, so if you elaborate the minus 3% to plus 3% like-for-like guidance, is it reasonable to assume that the trends in January and February, despite China, despite the good performance in the UK, have not improved versus the fourth quarter, which was minus 3% and thus improved from the nine-months 2016?

Mark Langer (CEO): As I said, the first quarter is not over, but clearly we have taken the year-to-date performance into consideration when we defined our full-year guidance, so we just want to highlight some market data underscoring that the retail environment in many core markets, and especially in the Western Hemisphere, has not improved in the first two months of 2017.

To answer the gross margin question before I hand it over in terms of activities on womenswear to Ingo, the write-downs on inventory in particular in the Chinese market and the US market that we booked as part of the inventory clearance were in the mid-single digit euro million amount that we expect not to recur in 2017. This is one element, which will help us to grow gross margin in 2017, adding to a positive channel mix effect.

Ingo Wilts (CBO): The focus on womenswear is still part of our strategy and it is a very, very important part of our business. Even though if we don't do a show for now, we still work and appreciate the work of Jason Wu in Metzingen and in our New York studio.

Besides the collection we built in the New York studio, especially when we don't do a show, we do editorial pieces, so this is also a kind of icing of the cake, which we show to our wholesale partners and in our own retail stores. Besides this, we also work on some capsule collections, where we partner up, for example, with a license partner or a magazine. So there's also a lot of momentum for womenswear in the next season.

Mark Langer (CEO): In terms of the financial performance, I think that was the other part to your womenswear question, we always highlighted that womenswear has a sufficiently sized and a very healthy gross margin due to the fact that it has an industrial scale.

We never really allocated our marketing spending in terms of the P&L specifically to womenswear. We think that the fashion show activities have benefited both genders in our collection; however, as Ingo explained in his presentation, we think the explicit and strong focus on menswear only was needed to confirm to the market and our stakeholders, that we will refocus more resources explicitly on the menswear side of our business. But you will see hardly any changes in terms of space allocation when it comes to womenswear apparel in our retail network and this is purely due to the fact that womenswear continues to be an important and profitable part of our retail business going forward.

Thomas Chauvet (Citi): Just a quick follow-up on the gross margin. Do you expect any inventory write-downs of the old Black, Green, Orange and HUGO collection once you roll out the new products at the end of the year?

Mark Langer (CEO): No, and we have looked into that. From today's perspective, we don't expect any write-downs in the context of the phase-out of the old collection and the launch of the new collection.

John Guy (MainFirst): If I could just stay with the free cash flow and CapEx, Mark, you just mentioned that CapEx would be running below the average of 2013 to 2015. I think it was around EUR166 million. Are you talking about that on an absolute basis or the average percentage of sales, which is around 6.4%?
And then with regards to the free cash flow balancing act in 2017, you talked around, I think, roughly a mid-single digit cash outflow on some of the store closures that impacted the free cash flow in 2016, so maybe EUR25 million or so coming into 2017, but partially being offset by retail or channel mix. When we move forward into 2018, assuming that the CapEx is going to maybe come down a little bit. How far are you away from the EUR300 million cash flow?
Just an additional question around the marketing side. Could you just maybe talk a bit about how much you are going to spend on digital going forward? Marketing fell 6% year on year in 2016. What can we expect as you obviously roll out these changes within the portfolio that you just described?

Mark Langer (CEO): Let's start with the impact of free cash flow on investments. You're right that we have talked about absolute numbers, meaning it has not a major impact on percentage numbers if we are in the phase of flattish topline development, but we expect the current fiscal year 2017 to be similar to what we have seen last year, that the investment as a percentage of sales, but also in absolute terms, will be below the levels we have recorded in the previous years.

And one factor that we do not expect to recur are large franchise takeovers because there are no major franchise operations left to be bought back and as we outlined in London, I'm far more cautious when it comes to to the need to capture further white spaces. There are still opportunities, as Bernd mentioned, but they are much smaller than in previous years and the share that goes into white-space expansion will also be lower in the foreseeable future.

There will be an investment need for renovation, and as we all three described to you, we see exciting opportunities to bring new technology, a new store design not only to BOSS, but also HUGO going forward, so the Group will be highly committed to bringing the latest functionality and services to our own retail network and this will remain a key element of CapEx. But to answer your question more precisely, compared to the peak that we have seen in 2015 and 2014, I expect investments for the Group to be at a slightly lower level as a percentage of sales.

Returning to a cash flow level of EUR300 million and above is clearly not only depending on investments, but first and foremost on a return to sustainable growth, which we guided the market to expect to start in the year 2018. We have not given any specific target on sales and profits for the year, so I would ask for your understanding that this was also the reason why we can't give a specific date when we will be able to reach a EUR300 million free cash flow number. But clearly growing topline and net profit development as of 2018 should also result ultimately in an increase in free cash flow, which can be used to also growing the dividend for our shareholders again.

70% of our marketing spending will go into digital. However, we believe that physical retail will never go away completely, to a lesser degree we think this also applies to magazines, so the classical print advertising, but also out of home advertising, at the airport and in the city will be here, so it's a bit difficult to predict a target value on how much we will spend online. It will grow and it will particularly grow – not so much from banner advertising and search engine optimization – through a much better CRM system that will establish over the course of 2017, we think that we'll use these digital resources to target customers very individually in their needs and interests when it comes to the brand, also with respect to digital marketing, but it will be far more intelligent marketing than what we were able to display in former times. As a result, we do expect a slight increase in digital marketing as a percentage of total marketing spending over the next few years.

Jon Guy (MainFirst): Maybe just one follow-up on the retail business expense line, you mentioned there's fewer white space that you are going to identify and you are taking a more cautious approach there. Can we assume that's going to be relatively stable over the course of the next few years? Or will there be a certain allocation or spike in 2017 and 2018 as you look at the HUGO pilots and you think about that reconfiguration?

Mark Langer (CEO): The HUGO rollout will be driven by just one factor – our degree of conviction that we have found an expandable and profitable business system. We are very confident from where we stand today with HUGO and the feedback we get from many wholesale partners, it's a predominantly shop-in-shop brand in core European markets at the moment, but with the new collection where Ingo is working on and also with the new global price position of HUGO, we will see how high is the limit in terms of growing this business.

We can assure you we will not be limited by resources if we see that this is a highly profitable business to expand, but we are cautious to give you a number of POS for annual investments in HUGO. We want to see a proof of concept by the end of this year in terms of collection. We will have the first results from freestanding stores, and please keep in mind we do have some HUGO stores already, which will allow us to get an immediate feedback from consumers on the success of these formats. Clearly, we need – and all the three of us are aware of that – we need a step change in retail performance, compared to the current HUGO retail performance before we would decide to go into an expansion, but it could and that's why we are cautious not to give the 2019 and 2020 investment of total space expansion number yet. It could be a major driver of retail expansion going forward if, and that's an important if, we see that this is a highly successful retail format for a global rollout.

Antoine Belge (HSBC): First of all in terms of investment in general, so not only marketing, but products, IT, et cetera, my understanding from the capital markets day was that you were in a big phase of changes, so I'm a little bit surprised to see that there is no more impact on the margin from those investments. So isn't it a risk that by trying to protect the margin at all costs you're in a way postponing the timing of the recovery at the ground level?

My second question relates to your order intake for the Fall/Winter collection. I think one of the reasons why you didn't want to provide precise guidance back in November was that you wanted to have a bit more visibility on the order intakes, especially for the German wholesale business. I'm quite keen to understand the reaction, especially as you have done a bit of a price increases with the entry-level suits going from EUR449 to EUR499 and another bigger step planned to EUR599, so any feedback would be appreciated.

And then, I have a very boring question on the depreciation and amortization number, actually impacting the consensus figure. In 2016, the increase was almost 20%, which means the depreciation to sales ratio has increased from 5.1% to 6.3%, and I think that consensus was factoring a big decline in 2017, so were there any exceptionals in those depreciation? Even the Q4 numbers was quite high. So any sort of guidance in terms of a euro number or as a percentage of sales for 2017 will be helpful, because there seems to be a wide array of expectation on those metrics.

Mark Langer (CEO): I think we highlighted that the channel mix effect will benefit our gross margin. Inventory write-downs in the previous year should not recur the current fiscal year. As we highlighted, both factors will have a positive impact. Let's leave currency effects to the side. One element that we highlighted in London is the cost of goods where we said – I think Ingo repeated that today – that we are willing to invest into the quality of our product and value for money. We have done that already with the Fall/Winter collection. We are in full swing developing our Spring/Summer 2018 collection, but we are relatively sure that we can balance efficiencies, be it from other sourcing options, be it from complexity reduction where we take advantage of economies of scale with the investment that we make into the product. So where needed and where we are convinced that consumers rightfully ask for a higher product quality, and, as we said today, we see that in particular for our BOSS casualwear offer, we are willing to invest in that, but we do not expect an impact on our gross margin, at least on the forecast for 2017.

On the order intake, I think we disclose wholesale sales performance by region. We will not disclose performance by market. Yes, the German market has seen some declines in the third quarter, but it recovered very nicely in the fourth quarter, so from our perspective the price adjustment we have done from EUR449 to EUR499 in summer 2016 has been well digested and accepted by many of our wholesale partners and the end consumer.

And then, Bernd already alluded to that, but also the now-announced price harmonization measures that we plan with Spring/Summer 2018, that we will charge in the Eurozone for the same product the same price, has been overall overwhelmingly accepted as an overdue decision by the Group. We will take into consideration some technical elements like we do with our US partners and European partners where pricing pressures are extremely severe, but we assure you that the current price levels in the French market will be the reference also for the rest of Europe as of Spring/Summer 2018.

On depreciation and amortization charges, we expect, based on our current forecast, this to be on a similar level to the fiscal-year 2016, adjusting for the EUR 6 million one-offs recorded in 2016. It's a bit due to the composition in our store base and depreciation of our asset base. There has been an uplift due to the closures of some of our stores, but we expect the D&A expenses to be on a slightly higher level than in 2015 also in 2017.

Antoine Belge (HSBC): When you mean flat, do you mean flat in euro terms?

Mark Langer (CEO): Flat in euro terms.

Antoine Belge (HSBC): My question about the investments was not just linked to the gross margin level, but also in terms of SG&A. There doesn't seem to be a lot of SG&A pressure on your EBITDA margin guidance, so here, again, are you sure that your strategic initiative will not require more SG&A investments? Because my understanding also from your presentation last year was that 2017 would be whatever you want to call it, but then 2018, your return to profitable growth would be actually not happening already, so that's why I understood that you would require some kind of SG&A investment as well.

Mark Langer (CEO): You're right that there are some SG&A investments we have in new teams on the campus that we didn't have two years ago, so I am now also getting my Snapchat and Instagram trainings, so we have now content teams that we didn’t have before, that are fueling this channel with interesting content. And if you think about a change in profession, we are desperately looking for people who can be editors on our Snapchat and Instagram accounts, so clearly in these areas we recognize a need to build more teams.

But keep in mind that we are talking about a 2,500-person headquarter organization and this is now shifting in composition. Certain functions in the organization, in the more general G&A part, have to accept – and this message has been well accepted by the organization now – that with the new norm of the flattish topline, we have to keep our costs in these areas under control, be it our wholesale distribution teams, be it our finance teams, be it our HR and backbone IT teams. This discipline allows us to invest into certain parts of our business which are needed in a more digital world.

I just gave you one example to that, but there are other elements in driving the digital transformation where we are willing and capable to invest, but it's rather a shift in composition than an overall increase in the cost structure. Please keep in mind that this industry has been almost in a state of denial for many years where we have grown our cost base quite excessively. Only as of 2016 we had our sobering moment to come back to a new normal, so this does not mean starving an organization, but it's more resizing and refocusing our resources where they are more needed to grow our business again.

Volker Bosse (Baader Bank): I have two questions on the online segment. Good to hear that digitization is a top priority for 2017, so could you provide us also with a kind of online sales guidance for 2017? And second question is, also, what is your idea about potential partnerships or marketplaces which you might be going to enter?

Mark Langer (CEO):.I think Bernd also touched on this point. We were clearly disappointed with our e-commerce performance overall in 2016, so to some degree we expected a slight downturn with the relaunch of the site, which merged our formerly separate content and commercial sites, but I don't want to repeat what we said as part of the call. We underestimated the importance of the mobile site. Our focus was very much on the desktop solution. And there were other elements, starting with trivial elements you would not think of, like the loading time of the page, having the right depth and amount of merchandising at the relevant price point, so we have to be on a much steeper learning curve to be best practice in the branded retail space.

So, I think we said it very loud and clear. It's one of the key priorities for the management, but we will not cut corners. We will not be excessively pouring market-driving traffic to the page if it's not yet performing at the level that we expect. We will not turn our e-commerce site into a digital off-price channel where you find discounts that you will never find on any other pages, so we know the quick and easy solution to drive e-commerce sales, but we want it to be healthy. As we said, we want to return to a sustainable and profitable growth going forward.

We are fully convinced that there are these opportunities, but there are no quick solutions. So we do expect that the difficult situation of our e-commerce business might also be part of our reporting in the first half year of 2017. We will not guide on a specific number yet as we have not found a quick solution to the difficulties in the fourth quarter. Overall for the full year, we remain committed that the relative share of e-commerce will increase for the full year.

Bernd, do you want to comment a bit on the partners that we are already with and we are planning to have?

Bernd Hake (CSO): So at the moment, there are two partnership formats we are actually looking into. One are our department-store partners who actually operate their own websites. Some of them have managed the merchandise independently in the past; however, at the moment we are in discussions with two partners about a marketplace. The others are the online players, which are, for example, Zalando, Mr. Porter, Asos. However, the highest priority for us at the moment is really to manage our own website first before we are putting resources into marketplace opportunities.

Warwick Okines (Deutsche Bank): On the license segment in your guidance for the year ahead, you talked about it increasing solidly. Can you just frame what that means? Because you describe plus 12% in Q4 as robust and it seemed a bit more robust than that, so do you mean single-digit or double-digit, please?

And secondly, Mark, you began the presentation talking about the operational deleverage that you experienced in 2016. Why are you not expecting any operational leverage or deleverage in 2017?

Mark Langer (CEO): On the license business, we haven't given any more specific guidance also in the past. It's, as you know, a business over which we have even less direct control than over our wholesale business, because the execution lies with our partners, be it Coty now on the fragrance end or Movado when it comes to watches or Safilo for eyewear. So we have to be a bit realistic in our ability to forecast the development in these three categories.

But we see good momentum. We know on all three of them that we have good initiatives in place. We have been very happy how the relationship has started with our new and biggest partner, Coty. We've seen a strong commitment in terms of recent expansions there, attractive opportunities for both of us to capture to a larger degree the US market where we were not as strong as we were in other regions of the world with our fragrance business, and we also see for eyewear and watches good development. Whether it's going to be as strong in 2017 as in 2016 – and this is why we used the stronger term for 2016 – is just too early to tell, but we do, as you rightfully quoted, expect a solid development also in 2017.

In terms of OpEx leverage or deleverage, it clearly depends on your topline development. Right now, we are guiding the market for flat topline, so we have to make sure that we maintain the cost discipline, while also investing into areas that we already discussed as part of the call and, at the same time also have contingency plans in place if the market environment turns more against us than what we see as a baseline now. So, the cost discipline is there. We have some areas like rent negotiations that will have a positive effect, but we also recognize the fact that we will have areas of investment also in SG&A which we will pursue to ensure that we have the capabilities in place also for a recovery of the market and especially with the collection in place with Spring/Summer 2018 that will resonate even stronger with the consumers and have a higher level of desirability than where we are today.

Operational leverage will be in a period of flat topline a difficult task for us. That's why we guided more or less in sync top and bottom line, but clearly we don't want to lose this discipline once we get back to a more stable topline growth momentum, that we're growing structural profitability not only in absolute but also in relative terms going forward.

Melanie Flouquet (JPMorgan): Actually, I have a few questions. The first one is regarding the expectation for the like-for-like guidance for this year and the current trend. I understand you don't want to tell us exactly for the current trend, but it sounds like it has not improved markedly on Q4, which is understandable, given that Germany takes time as I suspect. But my question to you is, if it has not improved, what are you expecting to actually turn it more favorable to get you a more positive outlook for the rest of the year? Because the comparables don't actually help much on that metric after this year. And quite a lot of initiatives seem to be hitting in January 2018, so I was wondering whether you can recap what actually can turn this more favorably later in terms of your initiatives. That's my first question.

My second question is a bit more focused on outlets. The outlets were 19% of sales and 31% of retail sales, if I'm not mistaken. Where do you see this evolving? You've done a lot of work on improving the wholesale channel and improving the promotional activity in wholesale, but what about your own retail side of it?
And then, can you help us, what was the actual price decrease in China and price increase in Germany that took place in Q3 and in Q4? Or, rather, what was the average impact in these quarters and what were the growth and declines of each market in these quarters?

Mark Langer (CEO): In terms of like-for-like sensitivity, we have a range of plus or minus 3% and, of course, if the group sees a prolonged trend at the lower end to this like-for-like development, we have contingency plans already developed as part of our budget plan to ensure that we follow the prioritization and things that we will first reduce, postpone, or do differently to ensure that our OpEx development reflects also the like-for-like development. I think that's a practice we have now learned in 2016 to ensure the discipline that we can only spend the money that we earned in our retail and wholesale business to begin with. But we have to take decisions on which amount of merchandise to buy; that's something that Bernd and his team are working on very carefully, but there is a certain revenue projection we have to work with, and then we need to be smart and agile in how to shift merchandise to these stores' POS where we see the biggest return of these investments.

And the same applies to our projects and investments in OpEx, that we have plans in place also to protect the bottom line when like-for-like falls. However, as you can see from the range we provided in the earnings guidance, if like-for-like will fall to the lower end of the guidance, there are also limited means to avoid a decline in operating profit. That's clearly not our objective, but there will be in a difficult market environment, at some point also an end to the measures that are available to us to counter an overall negative market environment. But we can assure you that we have worked very carefully to ensure that contingency plans are in place to protect also the earnings guidance for 2017.

Melanie Flouquet (JPMorgan): My question was more if the like-for-like was trending around minus 3% in January and February. What will make it turn positive within your range in the rest of the year?

Mark Langer (CEO): First and foremost, we didn't make any comment on the January/February like-for-like retail trends, just to be sure that you don't read too much into my qualitative comments. What we said is that the trends we had seen in the fourth quarter continued also in the first quarter, with the stronger demand in China and especially a difficult market environment in the US.

Our like-for-like guidance is not based on an easier or more difficult comp base. It's rather based on the measures that we have taken in terms of improving one important element of our retail business, which is our e-commerce business, where we expect a more difficult first half year to be followed by a phase where the measures that we have described will have a bigger impact.

In our retail business, there are two major things that will be helping our performance based on the first indication that we see. First, you will see a much stronger shift into entry price points in our own retail operation, where we will drive visitor numbers and conversion rates in our stores, plus – and I think Bernd had this as part of his presentation as well, we had very limited expansion into casualwear offerings with Orange and particularly the Green sides yet, but where we introduced it, we have seen very positive reactions. So we think we have some elements in our portfolio that we would describe as self-help measures independent from the market environment that we work on. Unfortunately, not all of them are available immediately. Also on the e-commerce improvement, some of these measures – for example, loading time on the Web page, merchandise changes that we have executed – need to be understood and recognized by the end consumer. But over the course of the year, we do expect that these measures will have a meaningful impact to help us to maintain and improve our like-for-like development within the range that we guided you to expect for the full-year.

Let's complete your question with the second part in terms of price increases, so the price adjustment we did in the first quarter in China was a price adjustment of around a 20% decline relative to the prior year and the price increase that we did in Germany and some other markets – for example, also the Russian market – was roughly in the low teens. It was not one specific percentage rate, but it varied a bit by product category, but it was in the low teens that we increased prices in Germany. And as I described, it was very well received by our wholesale and retail customers.

Outlets are a preferred way for us to clear excessive inventory. As we described, we have discontinued to use third-party off-price channels. We've never used them in Europe. We have used them extensively in the US. This practice has been discontinued, and we continuously strive also to improve the shopping experience in our factory outlets. Factory outlets with premium luxury tenants are here to stay, particularly in the apparel world, and if there is a high-class set of competitors in that, we have no issues to operate also BOSS outlets there. The prime purpose remains, however, to clear unsold inventory that we have to take back from our full-price businesses. Over the longer term, even though we did not deliver on that one in 2016 yet, our objective is to grow stronger in our full price business than in our off-price business also when it comes to own retail. There are already very encouraging signals in some markets, but it will require a return to positive like-for-like in our full-price business before focusing on that goal. We do not target a specific share of off-price to full price in retail, but we would agree to the point that in some markets, in particular the US market, the share of off-price is slightly excessive and in the longer term, we will take the necessary steps to correct the split between these two sales channels.