HUGO BOSS Conference Call Q3 2017

Transcript – Q&A Session

November 2, 2017

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 gross margin, with such an impressive like-for-like growth, one would have expected a slightly more positive impact from channel mix. Please walk us through any negative factors in the gross margin that would explain that, but also the positive factors.

Secondly, on China, the 5% growth seems slightly weaker compared to the numbers reported by some others in the sector. You said there has been a tougher comparison basis, but it seems that for many other companies the comparison basis didn't really matter. Any additional comment would be helpful.

Finally, on the EBITDA guidance: now with the upgrade on the sales guidance for the full year, what is the main reason for not upgrading the EBITDA guidance? Is it purely related to some additional brand investments or anything like that?

Mark Langer (CEO):
Let me start with the last point, because we will come back to the impact of exchange rate movements also in your first question. We have become more precise on our EBITDA guidance for 2017, which we now expect to be stable. One of the two reasons is that we see the negative impact of exchange rate fluctuations versus the euro. Secondly, we have also seen a quarter with quite some investments, not only from CapEx, but also predominantly from OpEx in upping our game in marketing. This has been a quarter where we had two major fashion events and a smaller one for BOSS womenswear, also demonstrating our commitment to this line. However, it was not only the shows that we did for HUGO and BOSS, we also generated a lot of digital content predominantly to create awareness for our new BOSS offering. This comes together with the introduction of some important new services, taking our CRM execution in-house, which started to pay off very nicely.
These investments are clearly playing a role in improving our like-for-like trends beyond the improvement in collection. They come at a cost and this is what we have seen in the third quarter in our marketing expenditures.

On Greater China: you are right, we received quite some sizable acceleration after the price adjustment in 2016, but we expect this growth trend to moderate.
We continue to see quite a difference in the performances between Mainland China and Hong Kong & Macau an impact we feel. Please keep in mind that our Mainland China business compared to many other of our peers is still relatively small. So the impact that we have seen from downsizing some stores and closing others in Greater China plus the more muted development in Hong Kong and Macau has all dampened a bit the positive momentum we have seen in Mainland China.

The gross margin is also affected by exchange rate fluctuations. This is the explanatory factor why we have not seen what you probably calculated as a pure channel mix effect: the growth differential between retail and wholesale, which clearly was positive. So gross margin was dampened by exchange-rate fluctuations. We don't comment on the quantitative impact, but it has been measurable in its impact on gross margin development in the third quarter.

All other factors were neutral: rebates were neutral, inventory write-downs, which had a slightly dampening effect in previous quarters, didn't play a role in Q3.

Zuzanna Pusz (Berenberg):
Just one follow-up on Hong Kong and Macau: I understand that these were the two regions that have put a little bit of pressure on your performance in China. On the other hand, what we've been hearing is that both Hong Kong and Macau have been improving a little bit. So do you think that the market is still very volatile and the brands' performances very divided or is it something quite specific to your positioning? Is there anything else you could say about Hong Kong and Macau?

Mark Langer (CEO):
We have seen a sequential improvement in both markets, but they are still lagging the Mainland China performance. We have seen a stabilization, even a slight improvement in both markets: in particular in Macau we've seen that visitors are coming back, but we also noticed that in terms of quality of visitors – quality only in the sense of spending power, no other dimension. However, the improvement in visitor numbers to both cities has not translated to, at least for our business and we have heard similar observations from other fashion brands, improvements in buying trends.
Keep in mind that, as part of our strategy, the price differential between Hong Kong and Mainland China is now smaller than it was historically. This also might have played a role in people coming to a lesser degree to Hong Kong and Macau to buy apparel products than in the past.

Thomas Chauvet (Citi):
The first question is on your retail like-for-like: you said it was largely driven by higher volumes, with ASP slightly down. You had some tailwinds, as you said. How do you see the fourth quarter with October trends? It looks like German apparel data was poor, there were quite a lot of negative headlines on the U.S. retail landscape and a mixed China Golden week.

Secondly, on wholesale: you're about to deliver Spring/Summer '18. Are you able to share with us some of the feedback from key wholesale partners in terms of how they think of the product assortment, the style, the quality, the pricing, et cetera?
I know it's early to discuss Fall/Winter '18, but is there anything you would do differently in that campaign to ensure the order book is up rather than flat? So that you can gain market share from the competition in a challenging environment in department stores as your partners seem to budget for next year?

Finally, a question on retail and your new store concepts: can you give us some feedback on what type of sales uplift you are seeing? How do the stores with the new store concept differ in terms of traffic, conversion, ASP, average basket size? What is the overall CapEx budget for next year for implementing new store concepts and perhaps the CapEx per store?

Mark Langer (CEO):
We are quite happy with the first indicated feedback we received on the new store concept. For us it's a positive, it works. It has become somewhat more technical than

the former store concept. Those of you who have a chance to visit us either in Geneva or Birmingham – but more will come – will discover that we have now incorporated what we call a "seamless consumer experience", when it comes to omnichannel services, smart mirrors and others. It doesn't only look flawless in terms of execution but also functionality.
Qualitative feedback from industry experts and first consumer feedback has been positive, but we don't have meaningful data yet on sales uplift to draw any conclusions. We're happy with the build out expenses, it was also an important factor for us. We are confident that investment costs, as we described also at the Investor Day, will be efficient for the new BOSS concept. We will also start now to get the first learnings of the new HUGO store concept. As I said in the call earlier, we only expect the first deployment of the new concept in the first quarter.

On wholesale, actually, there's not too much new flavour to be added. We were quite happy with the Spring/Summer '18 order intake, keeping in mind that our wholesale partners are now buying our collection where they have no reference, especially to the new casualwear and athleisure offering, which we have integrated into the BOSS brand. They do recognize the quality investments that we have done, which clearly increased value. We have been able to increase prices in the Central European markets, Germany, Austria and Benelux, which we also explained to you back in August. We were quite pleased that the European price harmonization was received well, also from our wholesale partners.
We are all waiting now for the first sell out data, be it in our own retail business or on the wholesale side. I guess that when we will meet again for our full year results in March, it will be a good time, also with Fall/Winter '18 orders in our books, to be more precise on our outlook and the feedback from our wholesale partners.

Like-for-like outlook for the fourth quarter: as explained, we upped slightly our full year outlook for like-for-like sales. Not to the Q3 levels, which was also driven by some technical factors, you may call it underlying tailwind conditions in some markets, which we've seen reversing slightly in October, in line with commentary from some German magazines. Our full year guidance of a low to mid-single digit like-for-like development is probably also a healthy proxy for the remainder of the year, but there are still two very important months ahead of us. We are happy with the momentum building in our e-commerce business, which as you remember has been weakening in the fourth quarter last year. This falls probably in the category of "easy comps to beat", but as Zuzanna was asking earlier about the strong momentum in China we have seen last year, it makes it clearly a more challenging comparison base to beat.
Overall, you see us quite confident that we will deliver on the guidance of a slight like-for-like increase, also into the fourth quarter.

Elena Mariani (Morgan Stanley):
Coming back to your margin guidance and upgrade in top line: is it correct to say that effectively you're seeing more investment needs from an OpEx perspective to deliver your top line effectively? Has your operating leverage equation changed a little bit over time? Perhaps now to see some margin improvement, you would need to see a like-

for-like that is mid-single digit or above, given that you need to support that with more marketing expenses and digital investments?
My sense is that what you're doing right now is not really a point-in-time-investment, but it's more like your recurring way of doing business. If so, this basically would imply that also next year you would need a little bit higher like-for-like to see margin expansion.

My second question is on the trends you're seeing in formalwear and casualwear. I was looking at your comments on BOSS and HUGO: what you're saying is that effectively in BOSS, the performance was mostly driven by the Green brand and the athleisure offering. What's going to happen when this line gets discontinued and how was the underlying development of your formalwear lines?

Lastly, a question on online sales: I've noticed that after a bit of volatility they were up just 6%. You seem to be one of the very few players that is not seeing high double-digit increase in online sales. So what do you think is missing there? And what are your expectations for the coming quarters and next year?

Mark Langer (CEO):
The like-for-like minimum to maintain or even grow profitability in our retail business hasn't changed in our view over the last couple of quarters. We've seen a mitigation in rental and inflationary pressures in most markets. Depending on the markets, we need a low to mid-single-digit like-for-like to be margin accretive in our retail business.
All other factors on our overall business are never the same. This has been clearly a dampening factor now in the third quarter. We have two factors we don't expect in the same magnitude going forward: one is the impact on exchange rates. I'll come back to that in a second and also the technical effect I described for our wholesale development in the US market.
So overall, the like-for-like needed to maintain or improve retail profitability hasn't changed much. We are limited in what we can do on the translation impact of the appreciation of the euro versus other major currencies, which had a quite measurable impact on the profitability development in the third quarter. That's why we highlighted this element, dampening the EBITDA development of the third quarter.

I agree with you that there is a new normal in terms of marketing allocation between classical print and online, we are following other industry trends. I agree with you that this is a new level of marketing spending. So we should also plan for - as we guided you and the other participants at the Investor Day - that this is probably the new level to be expected in the outer years.

Moving on to your question on online. After we had a very difficult start to the year, I'm quite pleased that we have now recorded two quarters of return to growth in our e-commerce business, with an even stronger performance in the North American business.
We continue to see strong demand for HUGO BOSS merchandise. We highlighted our cooperation with Zalando and HUGO, where our products are either bought on our own website or from multibrand e-commerce offers.

There are still a number of things that we will have to do to improve the performance of our own e-commerce business, where we are making progress. We expect a further improvement on our e-commerce performance also as we go into the fourth quarter.
We also have to work intelligently with the asset that we have as an advantage relative to online pure players: that is to have an intelligent combination – we call it omnichannel-services – between our physical stores and our online store. Here, we would claim that HUGO BOSS is already leading many others branded players in terms of integration of these services between its physical store network and its e-commerce site.
We are clearly committed to this sales channel where we have an unprecedented control over key steps of the value chain, but I agree with you, we will not be satisfied with the current growth rates. We expect a further acceleration of e-commerce, in terms of growth rates but also in terms of relative share on our business.

In terms of casualwear versus formalwear, just to be clear that you are not falling into a trap. We have no plans to discontinue BOSS Orange and BOSS Green, both lines will be fully integrated into the BOSS overall offering with Spring/Summer '18 deliveries. With the integration, we will even strengthen our offering in the BOSS casualwear and BOSS athleisure offering.
This allows us – and we are very pleased with the first indicated results – to offer these former quite separate brands in our own stores again, and benefit from this trend towards casualization.
We will take a major step forward with the integration of BOSS Green and BOSS Orange with the Spring/Summer '18 collection, which allows us to bring even more of these wearing occasions into our own stores. This fuels our confidence that we have a sustained growth potential in the men casualwear segment also in 2018.

Elena Mariani (Morgan Stanley):
So what you were saying about your operating leverage equation, is that if next year we are going to see a low to mid single digit like-for-like and a normalization of wholesale, this would be enough to see some margin upside?

Mark Langer (CEO):
That depends on some other factors that you ignored now. We see right now that at least for the first six months of 2018, even if you freeze current exchange rates, this will be a depressing factor on earnings development, like we've seen in the third quarter, but if you exclude exchange-rate effects, I would agree with your statement.

John Guy (MainFirst):
Starting with gross margin: If we think about the investments that you are making in price and skewing a little bit more to entry price points, casualwear, et cetera, in the next year, is it fair to say that there is no gross margin uplift effectively for 2018? So at best, we should expect a flat gross margin?

My second question is on CapEx, the capital allocation effectively: you have deferred some of the renovations this year for obvious reasons under the new store concepts. So what sort of meaningful uplift should we expect in terms of CapEx? I think you've talked about not reaching peak levels of EUR 220 million, probably be above the EUR

130 million to EUR 150 million. Could you give us an idea in terms of CapEx growth? Are we talking about a 35% uplift for next year, and then normalizing thereafter?

You mentioned the 15 out of the 20 underperforming stores that you will have closed by the end of this year and the 5 stores that you keep open. You have mentioned that you have sublet some of the space to some other brands in China, in one of the flagship stores at least. Could you let us know which brand has taken some of the space in the stores that you are effectively subletting?

Mark Langer (CEO):
Let's start with the gross margin topic: we tried to shed some light on this topic also at the Investor Day, because you're right when you point towards our Spring/Summer '18 collection. A lot of factors will have an impact on our gross margin development '18 versus '17.
The investment into product quality is one aspect of it, which already started to impact the third quarter 2017. But also keep in mind that we have both, increasing and decreasing prices with the price harmonization in Europe. There is a price adjustment impact from the German market and to a lesser degree from Benelux and Austria, but there are also price decreases in other markets, in particular, the Swiss market and some others. Depending on price volume sensitivity, this can have a neutral or slightly negative impact for our gross margin in 2018.
The same applies to quality investments: not all quality initiatives started with Spring/Summer '18, although this is the first collection that is fully impacted. This might have a stronger impact on gross margin than what we have seen in the third quarter with the Fall/Winter '17 deliveries.
Overall we expect, and this is what we said back in August, the improvement that we do forecast to come from further channel mix improvement to be reinvested into quality, and in a way into price adjustment too.
So in short, we do expect that these factors will have a dampening impact on the channel mix effect and that gross margin might be flattish or only slightly improving in 2018. As always, we'll give you more light on that as we have more visibility on the final COGS at the beginning of 2018, where we also have more data on the volume reaction from our wholesale buying partners and the first market reaction.

It's also a bit difficult to forecast CapEx. So it will be definitely more, as we said, because we lowered our initial CapEx outlook for this year of EUR 150 million to EUR 170 million towards EUR 130 million to EUR 150 million.
I would prefer not to give you an exact range already at this point in time for 2018, because it might limit the necessary flexibility that we need to have. If we see a very positive uplift from the new store concept, we will push and accelerate the rollout of these renovations. If we see that there are certain learnings to be incorporated in terms of improvements to the concepts, then we will pursue with a more normalized speed.
So let's work with a range of between EUR 150 million to EUR 200 million at this point in time, and we will provide you with more details on the CapEx range and needs for 2018 in March next year.

Not all of the five stores we have decided to continue have been reduced in size. We just gave you two examples. Since we never disclose which location we meant to

resize, and as we also have nondisclosure agreements with landlords, we do not provide any more details on who is subletting.
Typically, we do not sublet. We give the space back to our landlords so they can decide on the right tenant for them. I can't give you any more details on that.

John Guy (MainFirst):
One follow up on the gross margin: the flattish guidance in 2018, is that in current currencies?

Mark Langer (CEO):
Currency can play – as we all know – in both directions. It has played against us in 2017 so far, it has been also a dampening effect in 2016 to a lesser degree. So a further appreciation of the euro could change that.
We have so far opted against price adjustments in these markets, the British is a predominantly one. We have no plans to change our price positioning in the U.K. at this point in time. However, further deteriorations in the British pound might change that. We'll monitor very closely what competition is doing. You're right, this is before any further appreciation of the euro versus other currencies.

Piral Dadhania (RBC):
Could you provide a bit more colour on the like-for-like evolution and in particular, the contribution from volumes versus ASP? Obviously, you're saying that ASP is slightly down, but could you just give us some order of magnitude how much ASP's are down and how much volumes are up to drive towards the 5% retail like-for-like?

Mark Langer (CEO):
Typically, we don't break it down in terms of visitors, conversion rate and ASP. The question is, did people buy down or did they finally find the product they were looking for as we were too pricey in our offering before? I wouldn't necessarily say that people down traded, but they took positive advantage of the widening of the offering at the entry price point. With the ability to introduce a broader casualwear offering in own retail, we are now serving these customers. These consumers now have found also attractive casualwear offering in our stores.
You have to be careful, as we are not a one category firm which for example sold less expensive outerwear jackets last year. It can also be a mix, meaning that people have now bought more items to complement their look. So that's why we do not necessarily see lower average selling prices as a negative indicator to the performance of our business, as this comes in the combination of better sales densities in our stores.
Overall, we were, as I said, almost up 5%, in particular in our full price stores. The ASP decline was only marginally negative to an otherwise positive trend.
We are especially pleased that we are able to hold the negative traffic trend in our own stores. This we see as an encouraging sign. If the offer but maybe also the services that we have introduced, the better CM activation, will bring people back to our stores, they will discover the new BOSS store concept, something they will connect even stronger with than in the past.

Piral Dadhania (RBC):
Following up on CapEx, with some of the refurbishments pushed out into 2018 and with the revised CapEx guidance: how many stores do you plan to refurbish on an annualized basis, just thinking about the potential to short-term disruption to the network as you roll out the new concept?

Mark Langer (CEO):
There is a wide range of renovations, but only if a store is closed for at least two weeks it will not be part of our like-for-like going forward, so we try to execute in a smart intelligent way. If you take into consideration not only our freestanding stores but also our shop-in-shops, we will probably have a number of more than 100 POS that we will renovate in 2018.

Jürgen Kolb (Kepler Cheuvreux):
First, a general question on individual projects that you have already worked on that might go into 2018, in terms of your omnichannel activities, in terms of IT logistics, your mobile activities, i.e., a new mobile app for Android. Which of these projects have you already worked on or completed? If you look into 2018, what do you think is an additional work that you need to do here, in terms of OpEx lines that will affect the P&L? And also from the perspective of the lease contracts that you have renegotiated with your landlords: how much of that is already completed? How much of an additional benefit could we expect in 2018?

The second one is on HUGO, where momentum slowed down in the third quarter. Maybe some additional comments as to what led to that slow-down?

Lastly, with respect to the U.S. market: how is your current feeling about the market, especially your business with the department stores? How do you see the development there, especially with your core client Nordstrom for example?

Mark Langer (CEO):
Well, there's not one project where you would say this is completed, be it from a temporary project resource or from a CapEx need, or where you installed the new norm and then basically pause on the merits. That's not how we see it.
The omnichannel rollout, which is happening as we speak will be fully implemented by the end of the first quarter. Then you will see the full effect with hopefully further acceptance from core customers. Our sales associates are getting familiar with it and it will be an integral part of our offering, but clearly, competition doesn't stop there. There are also ideas to use our own retail space at least in major metropolitan areas for a same day delivery option, something we are currently evaluating very carefully to see whether there’s a business case also for HUGO BOSS. There are other elements be it on curated shopping services, which also offers very nice combinations between utilizing our physical store network with our digital capabilities.
I'm just highlighting a very few of a long list of ideas that we see being already present in the market or being developed at HUGO BOSS, that could have a meaningful and positive impact on our retail performance. It is not only front-end, it's also, as you mentioned, logistics and IT. We were very pleased with the first test of our first completely digital HUGO showroom in Berlin, which we completed for the Pre-Fall

2018 collection. This was the first digital showroom for HUGO BOSS where we did not have physical samples available. It was not only about the digital presentation of the collection, but it was also fully integrated into our SAP system, with automatically availability checks for example. When the customer left the showroom he had full visibility of what he bought, with the confirmation that whatever he ordered will be available at the promised delivery day. So fully integrated, with the same functionality like we have with our physical orders. We're clearly now looking at these services to be brought to further showrooms. Here, we clearly have a new and improved benefit, which nicely comes together with savings, as this will over time allow us to reduce our costs associated with physical samples, a quite sizeable cost element in our business.
We try to be smart on where we allocate and which project to work on. First and foremost to be customer-centric, but also keeping in mind that we need to run a lean organization to fund some of the new products, as I have highlighted.
On the retail side, I would not say it is a buyer market right now. Prime retail locations are still in high demand, but we see now when we execute relocations or extend rent agreements, that inflationary pressure has slightly muted. Inflationary pressure is what we need to compensate with an outperformance in like-for-like. Otherwise, we will not improve our retail profitability, just on renegotiated rental terms in some markets.

On HUGO, we are quite pleased on what we have seen so far in order intake and own retail development, in particular, in the European markets. There is a lot of interest in going to shop-in-shops with the brand, or market leaders who have seen our new retail store concept, which is quite CapEx efficient while having some very interesting functionalities. As I said, we will have the first HUGO freestanding stores by the end of the first quarter 2018, and we are really looking forward to that.
At the same time, we'll discontinue the HUGO wholesale distribution in places where we think it's out of sync with the brand mix of this partner. Especially in the U.S., where in some department stores HUGO was just out of sync with the other brand offering.
It was part of our former strategy to use HUGO more on a price entry strategy rather from its fashion statement and this is what we are reversing now. With a strengthening of the BOSS entry price points, we are able to introduce at some accounts the BOSS brand instead, and in others we will discontinue the HUGO business because there's no offer in the HUGO BOSS overall range to be present in these accounts.

I'm pleased with the feedback on the first progress we are making in some categories with Nordstrom. We are far off from former glory that we enjoyed at this account, but the momentum is on our side right now.
We see the need to up our game, be it on the formalwear, be it on the casualwear. But in terms of collection feedback, I'm very happy that with our target accounts we see a return to improved performance as compared to what we have seen the last two or two and a half years in the U.S. market, be it the BOSS core brand or be it HUGO. For example, at Bloomingdale’s we continue to see a very interesting business potential.

Jürgen Kolb (Kepler Cheuvreux):
One follow up: the mobile app that you're going to launch on Android, would that combine BOSS and HUGO, or do you plan to have a separate mobile app for BOSS and HUGO?

Mark Langer (CEO):
No, we are continuing to use the hugoboss.com website. If you go to the page today, we are not quite happy with the brand separation on our website, as in terms of product description, navigation, etc. it's still very much integrated between both brands.
Going forward the new hugoboss.com will basically provide two options to follow – BOSS and HUGO. And we can actually track that. So if you have clicked on a HUGO banner, you will be directed automatically to the HUGO shopping world within hugoboss.com and vice versa. This will make navigation for you even more convenient. We will not separate our website to have a BOSS and a HUGO website, it will continue to be hugoboss.com.

Andreas Inderst (Macquarie Research)
The first question on your comment on capsules. You said that you will increase the number of capsule collections. Could you please quantify the potential impact of these capsule collections as a percentage of sales of the season of collection, maybe for the medium term?

Then my second question is on Europe, quite a pleasing development in the third quarter, better than I hoped for. Clearly, there was a weather support. However, maybe you can elaborate more, in which categories did you outperform, and it which regions beyond the U.K.?

My third question relates to FX. Could you please quantify the FX impact on EBITDA in the third quarter and for the full year, which came in unexpected, as you highlighted?

Mark Langer (CEO):
Capsule collections come in all sizes, shapes and colours. For example, the one we have with the Mercedes AMG Formula One team, we call it the motorsport capsule, it's a commercially quite relevant one, or the one we have with the German national football team, or the one with Bayern Munich, where we have strong commercial buyers to it.
We have similar ideas to utilize our cooperation with the British Open. When it comes to Golfing and to a lesser degree, we're thinking about a Sailing capsule, also as there was strong demand after the success of Alex Thomson in 2016 and 2017.
There are others: take the Gallery Collection we did with Vogue at the Berlin Fashion Week, which clearly had a more aspirational fashion-inspired appeal to it. That one had a smaller commercial impact but helped us to create awareness and gave us editorial coverage.
Capsules will continue to have high commercial relevance, a high editorial fashion relevance and we need to be smart to combine that. I can assure that this is very high on the agenda – with my two Board colleagues, Ingo Wilts creating the ideas and also Bernd Hake balancing market demand regionally and by brand/gender – to have the calendar filled with relevant capsules.

On Europe, as I said, don't get too overexcited with the positive momentum we have seen in wholesale in the single quarter. This was clearly ahead of the underlying trend. We were positively surprised by a very robust like-for-like development, which was especially pleasing as full price stores outperformed outlets. That was high on our agenda and we're very pleased that we achieved that. We clearly now have to stabilize this trend by supporting and growing our highest margin sales channel in own retail. Besides the U.K. market, which clearly stood out, all other European markets also performed very nicely. The German market was in the black numbers, particularly nice. I think it's just a number of factors, be it the collection, be it services, be it maybe a more effective marketing, which has contributed to this positive development.

On the exchange rate, it's something that has burdened our earnings development for almost 18 to 24 months now. In the past, at least on a margin perspective, it has been neutral. The absolute profit level has been down since we guided for an absolute profit development this year. We shed more light on the impact in the third quarter. What we are considering is also to provide you more light – but we will probably do this with our guidance for the full year 2018 in March next year – by giving also a margin projection, be it on the gross margin or be it on EBIT level, on constant exchange rates.
We would do this also going forward, not only to explain if this has a negative impact, because in the last 8 years in my role as CFO, HUGO BOSS benefited from exchange rates when we might not always disclosed a positive impact to you in the same way like we now disclose the negative one.
So, from today's perspective, at least where exchange rates stand today, we'll have a dampening effect on the first half-year of 2018, that's relatively sure. A further deterioration would have an even stronger negative absolute profit impact in 2018.
These are factors which we have to deal with, and besides price adjustments there are only limited ways in order to compensate these exchange-rate effects via hedging.
We will keep you posted, and we'll provide some more information, probably at the analyst conference next March on that topic.

Andreas Inderst (Macquarie Research)
Final question on distribution in the U.S.: Have your off-price adjustments been completed now?

Mark Langer (CEO):
Well, we initiated this process in the first half of 2016. Major accounts were discontinued over Summer 2016. It still had a smaller or decreasing impact in the second and third quarter. We are in 2017 and are now clean. There's no business relation with third-party U.S. off-price businesses, but it was at least partially still in the base from last year. Besides the timing effect that we explained, it also had an impact on an inflated basis of the previous year. So four factors came together: there was an overall lower order intake before winter to begin with. There was a timing and phasing effect in our full price business, there was a timing impact on the delivery and there was non-recurrence of still some smaller off-price business we did in 2016.