Second Quarter 2021 Results
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Christian Stöhr (Vice President Investor Relations)

- The spoken word shall prevail –

Good morning ladies and gentlemen and welcome to our second quarter 2021 financial results presentation. Today's conference call will be hosted by Yves Müller, CFO of HUGO BOSS. In light of our pre-announcement from mid-July, as well as today's upcoming Capital Markets Day, we will keep our Q2 conference call somewhat shorter than usual and focus on the financial performance during the three-month period. Before we get started, allow me to recall that all revenue-related growth rates will be discussed on a currency-adjusted basis, unless otherwise specified. Let me also remind you that during the Q&A session we kindly ask you to limit your questions to a maximum of two. Please also keep any more strategic questions for today's Capital Markets Day. So, let's get started and over to you, Yves.

Thank you Christian, and welcome everybody.

In the next 15 minutes, I will present to you our Q2 operational and financial performance, before discussing our outlook for the 2021 fiscal year. After that, we will open the floor to your questions.

As announced already back in July, we have seen a strong acceleration in our business recovery during the second quarter – both from a top- and bottom-line perspective. In particular, growth was well balanced across all geographies, channels, and both brands, as the gradual easing of pandemic-related restrictions and temporary lockdowns over the course of the quarter, as well as further progress made along vaccination campaigns, fueled consumer sentiment across the globe. On average, around 20% of our global store network was temporarily closed during Q2, with the vast majority of own retail stores back in operation towards the end of the quarter.

Consequently, revenues more than doubled, up 133% as compared to the prior-year period, with Group sales totaling 629 million euros. This represents a strong rebound of our top line, as it translates into Group sales remaining only 4% below the pre-pandemic level of Q2 2019, and a strong acceleration quarter on quarter. As our recovery was broad based and clearly noticeable across all regions, let's take a quick look at our geographies first.

While sales more than doubled in Europe and even more than quintupled in the Americas, revenues in Asia/Pacific were up by more than 50% in Q2.

On a two-year-stack basis, sales in Europe therefore remained only 4% below 2019 levels, as the lifting of lockdowns and temporary store closures over the course of the second quarter supported the business recovery. On average, only 25% of our store base in Europe was closed in Q2, as compared to a closing rate of up to 50% in the first quarter. Performance was particularly strong in the UK, where stores reopened mid-April, enabling our business to even exceed 2019 levels, up 7% on a two-year stack basis. And while both Germany and France also recorded strong sequential improvements, I am all the more encouraged that several markets in Eastern Europe, above all Russia, as well as the Middle East continued their strong double-digit growth trajectory compared to pre-pandemic levels.

Also in the Americas, sales remained only 5% below 2019 levels, with the important U.S. market benefitting from a further uptick in local demand, limiting the market's sales decline to 6%. In this context, it is particularly encouraging that our U.S. retail business returned to growth in Q2, posting mid-single-digit growth versus 2019. This development was strongly supported by our initiatives to change the overall brand perception and product assortment at our points of sale, which is increasingly skewed towards casualwear. In order to complete the picture on the Americas, sales in Latin America accelerated to mid-double-digit growth on a two-year-stack basis, while business in Canada continued to be impacted by temporary store closures also in Q2.

Finally, on Asia/Pacific, where sales were down only 3% as compared to 2019. In particular, mainland China continued its strong double-digit growth trajectory, with revenues up 28% against the prior-year period, and 33% on a two-year-stack basis. This implies a further acceleration as compared to the performance in the first quarter. And while also Australia exceeded pre-pandemic levels by mid-single digits, business recovery in markets such as Japan and Southeast Asia progressed comparatively more slowly, reflecting temporary lockdowns as well as the ongoing lack of international tourism.

Let’s now turn to our sales channels, and starting with own retail, where sales more than doubled as compared to the prior year. Consequently, own retail sales remained only 5% below 2019 levels, with a sequential improvement recorded throughout the quarter. And with the vast majority of own retail stores back in operations towards the end of the quarter, our own retail business even returned to growth in the month of June.

Moving over to our online business, which continued its strong double-digit growth trajectory also in Q2. Sales on hugoboss.com and on partner websites operated in the concession model recorded growth of 27% against a particularly strong comparison base, translating into triple-digit growth on a two-year stack, with revenues up 122% as against 2019.

Finally, on wholesale, where sales also more than doubled, up 170% versus the prior year, translating into a slight decline of 2% against 2019 levels. This performance first and foremost reflects our partners’ strong demand for the Pre-Fall and Fall/Winter 2021 collections of both BOSS and HUGO and is a great testimony to the success of our collections. In addition to that, a considerable share is attributable to additional business generated with a small number of selected high-quality off-price retailers in Europe, amounting to sales in a low double-digit million euro range. Entering into these additional partnerships not only allows us to further improve our inventory situation, but also to introduce our brands to a new, younger consumer.

Now, make no mistake: as with any partner we work with, also here we will ensure that our brands and products are presented in a truly premium brand environment! Carefully selecting the right partners is, and will continue to be, a clear prerequisite also going forward. This is no different in the case of these new partnerships.

Let's conclude on our top-line with a brief review of the performance by brand. Revenues for both BOSS and HUGO more than doubled compared to Q2 2020. On a two-year-stack basis, sales for BOSS declined 5%, while HUGO returned to growth, posting 2% growth versus 2019.

Momentum for both brands' casualwear offerings further accelerated in the three-month period, with revenues up double-digit on a two-year-stack. Formalwear sales also recorded a sequential improvement quarter on quarter, benefitting from some pent-up demand for occasion- and businesswear.

With this, let's now move on to the main P&L items.

Starting with the gross margin, which totaled 61.2% in the second quarter. While this represents an increase of 670 basis points year on year, mainly reflecting the non-recurrence of negative inventory valuation effects recorded in the prior-year quarter, gross margin remained 470 basis points below the level of 2019. In addition to higher sourcing costs as well as some ongoing promotional activities in the marketplace, it was also the aforementioned wholesale off-price business that limited the gross margin recovery to some extent.

Moving over to the operating expenses, which grew by 25% on an underlying basis when excluding the prior year's impairment charges. The increase is mainly attributable to the non-recurrence of rental and payroll cost savings that we realized in the course of last year's global lockdowns. And while selling and distribution expenses increased 33% compared to last year – also reflecting higher marketing expenses – administration expenses were only up 4%. As compared to 2019 levels, however, operating expenses decreased 6%, as we continued to tightly manage our costs in the quarter.

Overall, our strong top-line growth as well as the ongoing strict cost control led to significant bottom-line improvements, with EBIT totaling plus 42 million euros in the second quarter, as compared to minus 250 million euros one year ago. Obviously, and for the sake of transparency, the earnings development was also supported by the non-recurrence of impairment charges as well as negative inventory valuation effects recorded in the prior-year quarter. Finally, net income totaled 25 million euros in the second quarter.

Let's now turn quickly to the balance sheet, starting with trade net working capital, which declined 12% versus the prior year. An increase in trade receivables, mainly reflecting the recovery of our wholesale business in the second quarter, was more than compensated by higher trade payables as well as a lower inventory position. The latter saw a decrease of 3%, reflecting ongoing tight inventory management as well as positive effects resulting from the additional off-price business.

Moving over to capital expenditure, where investment activity picked up noticeably over the course of the quarter. As a result, investments totaled 27 million euros in Q2, which is almost 70% above the prior-year level. As in previous quarters, investments were primarily related to our global store network as well as our digital capabilities. In this context, a particular highlight has been the opening of our first BOSS flagship store in Tokyo’s popular Ginza district back in June.

This brings me to free cash flow. Driven by the strong bottom-line increase as well as the improvements in trade net working capital, free cash flow significantly improved and returned to pre-pandemic levels, totaling 134 million euros in Q2. To finish on our financial position, net financial liabilities decreased 42% to 138 million euros, when excluding lease liabilities in the context of IFRS 16. Finally, I would also like to highlight that the additional loan commitments – totaling 275 million euros – that we secured back in 2020, expired in June without having been drawn at any point in time.

Now, ladies and gentlemen, before opening the floor to your questions, allow me to briefly comment on our outlook for the remainder of the year.

In light of the strong performance in the second quarter, we are confident that our overall business recovery will continue also in the second half of 2021. This said, we must not forget that the environment we operate in continues to be confronted with elevated uncertainty. Accurately predicting the further course of the pandemic and its impact on our business during the next six months is virtually impossible, in particular with regard to the ongoing global spread of the delta virus variant. Right as we speak, the global resurgence of COVID-19 has led to renewed store closures in several markets in Asia/Pacific, and no one knows which markets around the world might experience similar restrictions during the next couple of months.

Now, while our guidance for fiscal year 2021 might be perceived as rather conservative by some of you – it reflects our confidence of continuing our strong business recovery also in the second half of 2021, while at the same time factoring in the uncertainty that remains elevated for the time being.

Overall, we anticipate Group sales in fiscal year 2021 to increase by between 30 and 35%, with a strong contribution expected from all regions. At the same time, EBIT is forecast to amount to between 125 and 175 million euros. To complete the picture, CapEx is set to increase to a level of between 100 and 130 million euros, while we expect trade net working capital as a percentage of sales to improve to between 21 and 23%.

Ladies and gentlemen, this concludes my prepared remarks for today. I am already very much looking forward to welcoming all of you at our virtual HUGO BOSS Investor Day later on today!

But first of all, I am now happy to take your questions.