

## Second Quarter 2023 Results

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Christian Stöhr: Good morning everyone, and welcome to our second quarter 2023 financial results presentation. Today's conference call will be hosted by Yves Müller, CFO and COO of HUGO BOSS. Before we get started, allow me to remind you that all revenue-related growth rates will be discussed on a currency-adjusted basis, unless otherwise specified. And I would also like to remind you that – just like in the past – we kindly ask you to limit your questions during the Q&A session to a maximum of two. So, with this let's kick it off and over to you, Yves.

Yves Müller: Thank you Christian, and also from my side a warm welcome to all of you. Thanks for joining our conference call today and thank you for your interest.

From our press release earlier this morning, you will have noticed that at HUGO BOSS, we look back at an excellent second quarter and first half year performance, respectively. I am therefore very pleased to elaborate in detail in the next 30 minutes on the operational and financial progress achieved in Q2 as well as our increased outlook for the remainder of the year. And all of this, less than two months after we all met at our beautiful campus here in Metzingen.

Back in June, we hosted our 2023 Capital Markets Day, providing you with a comprehensive update on our "CLAIM 5" growth strategy and, as part of that, raising our 2025 financial ambition. So just to get everybody on the same page, let's start with a very brief summary of our raised mid-term targets, which we reaffirm today with even stronger confidence, following our stellar performance in the second quarter of fiscal year 2023.

As laid out in detail during our CMD, at HUGO BOSS we are fully committed to growing our top line to 5 billion euros by 2025, representing a strong reported CAGR of 11% as compared to fiscal year 2022, and thus well above the anticipated industry growth. An ambitious yet very realistic target, particularly when looking at our

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ongoing strong brand momentum and the many business opportunities that lie ahead – no matter whether from a brand, channel, or regional perspective.

Our superior top-line ambition is coupled with significant improvements in EBIT, which we forecast to grow to a level of at least 600 million euros by 2025, representing a strong CAGR of more than 20% compared to 2022. With our bottom-line growing almost twice as fast as our top-line, we are targeting an EBIT margin of at least 12% by 2025.

The main reason for raising our mid-term guidance only two years after its official introduction, was the relentless, consistent, and very successful execution of our various strategic initiatives. At the time of our most recent CMD, we were looking back on seven outstanding quarters for our Company – with a steady, sequential acceleration of brand momentum and broad-based growth across both brands, all regions, and all consumer touchpoints.

On that, I am all the more excited to confirm today that our growth trajectory has continued seamlessly also in the second quarter of 2023. Following our strong start into the year, we maintained our stellar momentum in Q2, recording further significant top- and bottom-line improvements and adding our eighth excellent quarter to the successful track record of "CLAIM 5" strategy execution.

Overall, currency-adjusted revenues increased a strong 20% year over year, or 17% in reported terms, mounting up to more than 1 billion euros and making the three-month period a record second quarter for HUGO BOSS. Importantly, and no different to previous quarters, growth was once more broad-based in nature as reflected by double-digit sales improvements across all brands, regions, and consumer touchpoints. Fueled by the very robust top-line momentum, EBIT increased 21% to 121 million euros in the second quarter, with EBIT margins up 40 basis points to 11.8%.

On the back of these successes, and based on our continued confidence when it comes to the remainder of the year, we are once again raising our top- and bottom-line outlook for fiscal year 2023, following our former guidance increase back in May. I will get into all the details of our increased outlook later in my presentation, but first – and as usual – let's take a closer look at Q2, starting with our top-line performance.

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Without doubt, the second quarter of 2023 fits seamlessly into our "CLAIM 5" success story, as we impressively continued our double-digit growth journey. Building on the latest trends, and no different to previous quarters, it was once again the relentless execution of our numerous brand, product, and omnichannel initiatives that provided substantial tailwinds for both our brands and resulted in a further acceleration in top-line momentum. When compared to pre-pandemic levels, growth accelerated by 8 percentage points to a strong 52% – another clear testament to the strength and resilience of our brands and the power of our winning formula "CLAIM 5."

Speaking about our brands: fueled by the bold Spring/Summer 2023 campaigns, both BOSS and HUGO successfully continued their journey of market share gains, driven by their superior sales trajectory, which continued seamlessly also in the second quarter. Above all, this reflects the ongoing success of our latest collections, fully living up to our 24/7 lifestyle ambition, which once more led to strong sell-through rates across the globe. Consequently, and supported by robust double-digit increases across all wearing occasions, second quarter revenues were up 18% for BOSS Menswear, up 32% for BOSS Womenswear, and up 21% for HUGO, each representing a quarter-on-quarter acceleration compared to 2019 levels.

Let's now move over to our channels, where growth was equally broad-based in nature, as reflected by double-digit sales improvements across all consumer touchpoints.

Starting with our digital business, which recorded a meaningful acceleration quarter over quarter, posting revenue growth of 30%. This development reflects double-digit growth across all our digital touchpoints, including noticeable revenue improvements of our online flagship hugoboss.com, up 27% versus last year. Overall, the revenue share of our global digital business increased to a level of 19% in the second quarter.

Switching gears to our brick-and-mortar business, which also looks back at an excellent second quarter. This is reflected by very robust year-on-year growth of 17% in both physical retail and physical wholesale, each representing a further acceleration on a four-year-stack basis.

In physical wholesale, we continued to enjoy strong demand from partners around the globe, leading to broad-based growth across all regions. Importantly, the buying

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patterns by our key wholesale partners remain very much intact, and we are about to serve robust order books also during the second half of the year. Consequently, and in contrast to some recent emerging industry trends, we remain optimistic when it comes to our ability to maintain our strong momentum in this channel and thus, continuing our market-share-winning trajectory also going forward.

This brings me to brick-and-mortar retail, where the vast majority of our strong performance was once again related to double-digit store productivity improvements, whereas space expansion only had a minor impact. Year on year, store productivity increased a strong 13% to a level of 12,500 euros per square meter, thus well above pre-pandemic levels. This development reflects ongoing robust traffic trends across geographies as well as the continuous optimization and modernization of our global store network, including the rollout of our new store concept.

Speaking of our store universe, and as laid out during our CMD in June, we are making considerable progress in turning our points of sale into true points of experience. In this context, the rollout of our brands' engaging, next-level store concepts plays a decisive role within our omnichannel strategy, with our halo store on London's Regent Street meanwhile shining in new splendor following its grand reopening earlier this year. Overall, we aim to modernize at least 100 own retail points of sale in 2023, turning them into 'the place to be' for our global customers.

But that is far from all: in order to excite and surprise BOSS and HUGO fans all around the globe, we will also keep pushing ahead with engaging pop-up concepts and the seamless integration of inviting hospitality concepts – be it our newly opened BOSS Café on Regent Street, our most recent BOSS pop-up store at Printemps' flagship store in Paris, or BOSS taking over the Dubai AURA Skypool Lounge later this year.

This brings me to our regions, all of which contributed with double-digit growth to our remarkable Q2 performance. And while our business in the Americas and EMEA continued to benefit from both robust local demand and a further pick-up in tourist activity, Asia/Pacific recorded superior growth in Q2.

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Starting with the Americas, where we successfully continued our double-digit growth trajectory. With revenues up 20%, we recorded double-digit improvements across all of the region's markets. When compared to 2019 levels, this translates into a strong growth of 64%, representing a further acceleration of 4 percentage points quarter over quarter. In this context, I am particularly pleased that we managed to also drive robust growth of 16% year over year in the important U.S. market, with all consumer touchpoints contributing. And while our business in Canada performed broadly in line with that in the U.S., we also continued our outstanding momentum in Latin America, as reflected by significant double-digit revenue improvements.

Moving over to EMEA, where sales increased 15% year over year, driven by robust demand across all touchpoints. Here, four-year-stack growth accelerated by 9 percentage points quarter over quarter to 53% and thus even stronger than in the Americas. Momentum remained very robust in key markets such as Germany and France recording revenue growth of 19% and 15%, respectively. At the same time, sales in the UK came in slightly below the prior-year level being up against a particularly strong comparison base. When compared to pre-pandemic levels however, revenues in the UK were up 32% and thus broadly in line with the performance of other key markets. To finish on EMEA, also in the Middle East, we continued to enjoy strong momentum throughout Q2, as reflected by robust double-digit growth year over year.

To conclude on our regions, let's take a look at Asia/Pacific, where momentum sharply accelerated in the second quarter, up 41% versus the prior-year level. This development was driven by robust growth of 28% in South East Asia & Pacific – including yet another outstanding performance in Japan – as well as a further recovery of our business in China following the market's reopening in late 2022. The latter saw revenues up 56% year over year, with strong support also coming from both Hong Kong and Macau. With this, let's now move on to the remaining P&L items.

Starting with our gross margin, which totaled 62.3% in Q2. While this represents a decline of 120 basis points year on year, allow me to recall that our gross margin in Q2 was up against a particularly demanding comparison base from the prior-year period. As a reminder, last year's gross margin was up by 230 basis points to a strong level of 63.5%, following the successful branding refresh and overall supply chain constraints, which drove our full-price business to new heights. Against this backdrop, the gross margin decline in Q2 is mainly due to some unfavorable currency effects, a

negative impact from the channel mix as well as higher product cost levels. The latter reflects both quality investments as part of "CLAIM 5" and general cost inflation, which were only partly offset by our latest round of mid-single-digit price increases successfully implemented for our Fall 2023 collections.

Speaking about our gross margin, let me also reiterate once again that for the full year 2023, we continue to expect gross margins to remain at least stable year over year. This implies an anticipated gross margin expansion in the second half of this year, and particularly in the final quarter of 2023, as we anticipate benefits from additional freight cost relief, product costs lapping an easier comparison base, and a more pronounced impact from our latest pricing initiative.

Moving over to operating expenses, which as a percentage of sales, decreased 160 basis points to a level of 50.5%, thus well below pre-pandemic levels. Our strong operating leverage in the second quarter reflects, first and foremost, further efficiency gains in our brick-and-mortar retail business.

Selling expenses in this important channel improved by a total of 270 basis points to a level of 20.8% of Group sales, supported by our initiatives to continuously optimize and modernize our global store network. In doing so, we were able to more than offset some further investments into our business as part of "CLAIM 5" as well as higher fulfillment, variable rental, and payroll expenses in light of our strong top-line performance. And while marketing investments also increased in Q2, up 16% year over year, at 6.6% of Group sales they came in somewhat below our run-rate for the full year, which we continue to anticipate at around last year's level of just under 8%.

Altogether, and spurred by the strong top-line performance, we recorded a robust increase in EBIT in the second quarter, up 21% to a level of 121 million euros, translating into an EBIT margin expansion of 40 basis points to a level of 11.8%. To conclude on the P&L, net income attributable to shareholders also increased noticeably, up 31% to 75 million euros, with additional support coming from lower financial expenses compared to the prior-year period.

Let's now turn to the balance sheet. Starting with inventories, which increased 53% currency-adjusted. And while we have already discussed the rationale behind our deliberate decision to increase our inventory position in detail on several occasions,

let me once again emphasize that we continue to feel comfortable with our inventory position including its overall composition, quality, and aging structure.

This being said, we have successfully implemented a number of measures to bring down inventory levels, which are starting to take effect: inventory growth has begun to decline in Q2, down 13 percentage points quarter on quarter, and is set to continue decreasing meaningfully also going forward.

We thus anticipate a gradual normalization of inventories starting in the second half of the year and remain confident of bringing inventories down in absolute terms closer to last year's levels by the end of fiscal 2023. In doing so, we will make clear, visible progress towards our mid-term ambition of bringing inventories down to a level of below 20% of Group sales by 2025, as laid out at our CMD in June.

This brings me to trade net working capital, with the moving average of the last four quarters increasing to 17.9% of Group sales. In this context, the higher inventory position and an increase in trade receivables in light of our strong momentum in wholesale were only partly offset by higher trade payables reflecting the ongoing strong reception of our supplier financing program. Also for the full year, we continue to expect our trade net working capital ratio to be somewhat up year over year, now anticipating a level of between 18% and 19%, thus at the upper end of our mid-term target corridor.

Moving on to capital expenditure, which was up 56% on the prior-year level, totaling 66 million euros in Q2. This development reflects a strong uptick in investment activity, aimed at supporting the successful execution of "CLAIM 5" also going forward. While focus areas continued to be our global store network and our digital capabilities, we also began ramping up our investments in logistics. Overall, and based on our latest estimate, we now forecast capital expenditure in fiscal year 2023 to come in at a level of between 250 and 300 million euros, translating into around 6% to 7% of Group sales.

Last but certainly not least, free cash flow amounted to 60 million euros in the second quarter as our strong bottom-line improvements were partly offset by the deliberate build-up in inventories and higher Capex.

This, ladies and gentlemen, concludes my remarks on our second-quarter operational and financial performance. Before opening the floor to your questions, let's take a closer look at our raised top- and bottom-line outlook for the current fiscal year.

Building on our strong growth trajectory during the first six months of the year and sustained brand momentum, at HUGO BOSS, we are very confident when it comes to the second half of 2023. Importantly, our product and brand pipeline is well filled to continue inspiring and exciting customers all over the world. This includes the launch of another two star-studded brand campaigns for Fall/Winter in the coming weeks, once again geared to maximizing buzz for BOSS and HUGO around the globe. On top of that, BOSS will be back in Milan for a spectacular fashion show in September, while at the same time continuing to drive brand relevance by collaborating with strong partners – including the latest product drop together with Porsche.

At the same time, let me be clear in saying that we remain vigilant due to the persistently high levels of macroeconomic and geopolitical uncertainties facing our industry. And, not to forget, the comparison base during the second half of the year is also becoming somewhat more challenging as I am sure you are all aware.

Taking all this into consideration, we now forecast Group revenues in 2023 to increase by between 12% and 15% in reported terms, modestly ahead of our target CAGR of 11% by 2025. This means that we are anticipating revenues of 4.1 to 4.2 billion euros in fiscal year 2023, making it another record-breaking year for HUGO BOSS. Importantly, and fully in line with "CLAIM 5," growth will once again be broad-based in nature, with all parts of our business set to contribute strongly.

Based on our higher top-line expectations, we are now forecasting EBIT to increase within a range of 20% and 25% to a level of between 400 and 420 million euros in 2023. In this context, we remain fully confident of being able to offset ongoing investments in our products, brands, and digital expertise by an at least stable gross margin development as well as further efficiency gains – in particular when it comes to our brick-and-mortar retail store network. Our EBIT margin will thus improve to a level approaching 10% by the end of 2023.



Ladies and Gentlemen: Fiscal year 2023 will inevitably mark another important milestone for our Company towards achieving our increased 2025 financial ambition – both in terms of top- and bottom-line. In this context, it goes without saying that we will not rest, but instead keep pushing the pedal to the metal when it comes to further executing our "CLAIM 5" strategy. In doing so, we will ensure the seamless continuation of our successful growth journey in the second half of 2023 and beyond.

Because one thing is certain: with "CLAIM 5" we have introduced the right strategy at the right time. As laid out in all detail at our CMD in June, sticking to our game plan of rigorous strategy execution enables our Company and our two brands to unleash their full potential in the quarters and years to come, making HUGO BOSS stronger, more profitable, and more sustainable. This, in turn, will enable us to not only achieve our ambition of becoming one of the top 100 global brands, but also ensure sustainable shareholder value creation by 2025 and beyond.