HUGO BOSS

Third Quarter 2023 Results

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Christian Stöhr: Good morning ladies and gentlemen, and welcome to our third quarter 2023 financial results presentation. Hosting our conference call today is Yves Müller, CFO and COO of HUGO BOSS.

Before we get started – and just like in the past – allow me to remind you that all revenue-related growth rates will be discussed on a currency-adjusted basis, unless otherwise specified. I would also like to remind you that we kindly ask you to limit your questions during the Q&A session to a maximum of two. So, with this let's get started 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.

As you have taken notice from our press release earlier this morning, at HUGO BOSS, we look back on a successful third quarter, marked by double-digit top- and bottom-line improvements. This performance is once again proof of our unwavering commitment to "CLAIM 5," because one thing is certain: in an increasingly challenging market environment, sticking to our game plan of consistent strategy execution is, and will remain, absolutely crucial.

I am therefore all the more encouraged that in the third quarter we have made further strong progress along all our five strategic claims. By focusing particularly on those areas of our business that have the biggest impact on today's consumers, we continued to successfully implement several brand, product, and omnichannel initiatives also in Q3.

Most importantly, we further drove brand desirability following the launch of our two highly successful Fall/Winter campaigns as well as spectacular fashion events. This enabled us to propel brand awareness and social engagement to new heights – something I will talk about in more detail in just a few minutes.

Besides that, we also further strengthened the 24/7 lifestyle images of BOSS and HUGO, while always putting strong emphasis on our superior price-value proposition. This also includes having launched several new license categories during the third quarter, including a joint luggage collection of BOSS and Samsonite.

And, last but certainly not least, we made strong strides in pushing ahead with our omnichannel approach to deliver best-in-class retail experiences – both online and offline – and boost store productivity alike. In this context, we continued to drive forward with our comprehensive store optimization and modernization initiatives, which I will discuss in more detail later on.

All this enabled our brands to once again claim their position in consumers' minds and further drive brand heat around the globe. In doing so, we continued to strongly outgrow our broader peer group, thus driving market share gains across key product categories.

I am particularly pleased that in Q3 our broad-based growth trajectory from previous quarters continued across both our brands, all regions, and all channels. We have thus added another strong quarter to the successful track record of our "CLAIM 5" strategy execution.

Overall, Group sales increased by 15% currency-adjusted or 10% in reported terms, mounting up to more than 1 billion euros and making the three-month period a record third quarter for HUGO BOSS. Fueled by our robust top-line growth, EBIT increased 12% to 103 million euros, resulting in an EBIT margin of 10.0%, up 20 basis points year over year.

The strength of our two brands, BOSS and HUGO, was once again the key factor behind our successful operational and financial performance in Q3. Both brands continued to build on the strong momentum of previous quarters, fueled by the launch of the latest Fall/Winter 2023 collections in August.

The accompanying BOSS campaign followed up on the powerful motto "BOSSes aren't born. They're made." The campaign showcases the personal stories of true BOSSes such as Naomi Campbell, Gigi Hadid, Matteo Berrettini, and – for the first time – NFL Superstar Pat Mahomes. More than ever, this campaign propelled brand awareness among BOSS fans globally.

At the same time, HUGO also strongly activated and engaged with its global community, as the brand's latest Fall/Winter campaign spotlights a number of music mavericks. While brand ambassador Bella Poarch headlined as the face of the campaign, HUGO also celebrated the launch of a joint capsule collection in September, specifically targeting Gen Z consumers.

Overall, we increased the number of social engagements by almost ten times compared to the previous-year period, underlining the sustainable success of our ongoing marketing activations.

On top of this, our various fashion events further ignited brand heat for both our brands in the third quarter. Back in September, BOSS showcased its latest collection at a tech-inspired "see now, buy now" event during Milan Fashion Week, featuring a high-profile, diverse all-star cast. Livestreamed on social media and in various BOSS stores around the globe, our event achieved around 30 million views, thus tripling the overall reach when compared to our Miami event in March.

Thanks to all these exciting brand initiatives, BOSS and HUGO continued to succeed in activating new and existing fans worldwide. In particular on social media, our brands have clearly continued their strong dominance – first and foremost on Instagram and TikTok – and outperformed key competitors also in Q3.

As a result, both brands recorded double-digit sales improvements in the third quarter. This development was driven by broad-based growth across all wearing occasions and key product categories, reflecting the improved perception of BOSS and HUGO as true 24/7 lifestyle brands.

Overall, revenues were up 12% for BOSS Menswear, up 24% for BOSS Womenswear, and up 25% for HUGO, with the latter representing a quarter-on-quarter acceleration of 4 percentage points.

With this, let's now move over to our channels, which all contributed to the strong growth in the third quarter.

Starting with our digital business, which successfully continued its double-digit growth trajectory, posting revenue growth of 25%. This development is even more remarkable when considering ongoing double-digit improvements across all our digital touchpoints. In fact, this includes a significant 20% increase in revenue growth of our online flagship hugoboss.com, driven by further enhancements in both traffic and conversion.

With revenues projected to exceed the 700 million euros mark later this year, we are well on track towards our mid-term ambition of driving digital sales to over 1 billion euros by 2025. And with a revenue share approaching 20% of Group sales, the strategic relevance of our digital business keeps growing towards our medium-term ambition.

We now switch gears to our brick-and-mortar wholesale business, which was up 21% in the third quarter. This development was driven by strong demand from partners around the globe, leading to double-digit growth across all regions. Importantly, and alongside a very robust order intake, this performance also reflects double-digit increases in our in-season replenishment business. All this reaffirms our optimism in the ongoing robust sell-out data at our partners' points of sale, enabling us to sustain our trajectory of capturing market share at key department stores.

This brings me to our brick-and-mortar retail business, where revenues expanded by 8% compared to the prior year. Growth in this channel was particularly pronounced in both the Americas and Asia/Pacific, with double-digit increases each. At the same time, also EMEA recorded further revenue improvements in brick-and-mortar retail and posted single-digit growth in the third quarter. Importantly, and despite a particularly strong comparison base year over year, our global brick-and-mortar retail business was still up a very strong 31% on a four-year-stack basis, hence more or less at the levels seen in the prior quarter. This is all the more remarkable given that numerous store renovations took place during the course of Q3.

Speaking of our store network, the vast majority of the overall revenue increase in own retail was once again related to store productivity improvements, whereas space expansion continued to have a minor impact only. Year over year, store productivity increased a strong 7% to a level of 12,400 euros per square meter – well above our mid-term store productivity target of at least 3% per annum. This development underscores our commitment to the ongoing optimization and modernization of our global store universe, including the rollout of our latest store concepts.

On that, we continue to make considerable progress in converting our points of sale into true "points of experience." Most notably, this includes our world's best-selling BOSS store in Dubai Mall, now showcasing the bold and vibrant branding refresh following its grand reopening at the end of September.

In addition to Dubai, several other locations, including key BOSS stores in Amsterdam, Berlin, or Lisbon – to name a few – have been temporarily closed for several weeks and months. And while this also left its mark on our brick-and-mortar retail performance in Q3 to some extent, we consider the upgrade of our store network an important element of our omnichannel strategy, to provide a best-in-class shopping experience for our customers.

This brings me to our regions, all of which contributed with double-digit growth to our third quarter performance.

Let's begin with the Americas, where we successfully continued our superior growth trajectory also in Q3. With revenue growth accelerating to 22%, we once again recorded double-digit improvements across all of the region's markets. In this context, we are particularly pleased that our important U.S. business gained further traction in Q3, posting remarkable growth of 20%. Most importantly, we continued to enjoy broad-based growth across all distribution channels – something that is all the more remarkable in light of the general market trends.

Meanwhile, our business in Canada grew 15%, and we also continued our exceptional growth trajectory in Latin America, as reflected by revenue improvements of over 30%. All this once again demonstrates our many successes when it comes to leveraging business opportunities in the region and anchoring the 24/7 images of BOSS and HUGO in the minds of the North and Latin American consumers.

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Moving over to EMEA, where we posted revenue growth of 12% year over year, thus further strengthening our growing market share across channels. Importantly, our robust momentum persisted throughout much of the third quarter, with all of the region's key markets and all channels contributing to growth. As a result, Germany posted solid growth of 8% in Q3, while revenues in the UK and France were up 5% and 4%, respectively.

Now, with mounting macroeconomic uncertainties as well as an increasingly tough comparison base, allow me to remind you that our mid-term financial ambition for EMEA is looking for a sales CAGR in the mid- to high-single-digits between 2022 and 2025. This, in turn means, that with currency-adjusted growth of 12% in Q3 and 16% after the first nine months, at this stage we are running ahead of our "CLAIM 5" financial ambition, with some further normalization factored in.

To conclude on our geographies, let's take a quick look at Asia/Pacific, where sales expanded by 21% versus the prior-year level. This development was driven by robust growth of 24% in South East Asia & Pacific – including yet another outstanding performance in Japan – as well as a further recovery of our business in China.

The latter saw sales up 17% year over year, with strong support coming from both Hong Kong and Macau. On a two-year-stack basis, revenue growth in China thus accelerated quarter on quarter to low double-digit growth in Q3. Overall, we are therefore quite satisfied with our most recent business performance in China, including robust trading during Golden Week. Equally important, we remain fully committed to exploiting our long-term growth opportunities in China, as we continue to believe in the enormous potential of this important market.

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

Starting with our gross margin, which totaled 60.7% in Q3, thus broadly on the prior-year level. This development is mainly related to a positive impact from lower freight cost levels, which largely compensated for a negative channel mix as well as unfavorable currency effects.

Speaking about our gross margin, let me point out that we continue to anticipate gross margin expansion in the final quarter of 2023. This development will be supported by the anticipated benefits from additional freight cost relief, declining product costs, and further support stemming from our latest pricing initiative. At the same time, we expect currency and channel mix effects to continue to weigh on our gross margin for the time being, while also the overall promotional environment may impact our gross margin to some extent in the short term. Consequently, for full year 2023, we now expect our gross margin to remain broadly stable year over year, and thus at a level of just under 62%.

Moving over to operating expenses, which decreased by 30 basis points to a level of 50.6% of Group sales, mainly reflecting additional operating leverage generated in our brick-and-mortar retail business. The latter saw selling expenses in this important channel improving by a total of 60 basis points to 20.8% of Group sales, supported by our various initiatives to further optimize and modernize our global store network. As a result, we were able to offset ongoing investments in marketing and digital, as well as higher fulfillment, variable rental, and payroll expenses following our robust top-line performance.

Altogether, and as already mentioned, we recorded a double-digit increase in EBIT in the third quarter, up 12% to a level of 103 million euros. This translates into an EBIT margin expansion of 20 basis points to a level of 10.0%. To conclude on the bottom-line, net income after minorities also increased, up 9% to 63 million euros, with the improvements in EBIT more than compensating for somewhat higher interest expenses in the three-month period.

Let's now turn to the balance sheet, starting with inventories, which increased 32% currency-adjusted. As in previous quarters, the vast majority of our inventories comprises core and fresh product for current and upcoming collections, with both playing an important role in supporting future top-line growth.

This being said, and as outlined before, we have meanwhile implemented several measures to reduce overall inventory levels. And while we have seen an initial modest improvement, with inventory levels as a percentage of Group sales having reached their peak in the second quarter, we anticipate a more pronounced, gradual normalization of inventory levels going forward. This progress fully aligns with our mid-term ambition of bringing inventories down to a level of below 20% of Group sales by 2025.

This brings me to trade net working capital, with the moving average of the last four quarters increasing to 20% of Group sales. This development is primarily driven by the higher inventory position, an uptick in trade receivables reflecting our strong performance in wholesale, as well as a 10% decrease in trade payables. The latter primarily reflects the lower order volume as part of our measures to reduce core merchandise inflow going forward.

Looking ahead, also for the full year, we now project our trade net working capital ratio to come in at around 20%. And while this is somewhat above our mid-term target corridor, we are clearly sticking to our ambition of bringing our trade net working capital ratio down to a sustainable level of between 16% and 18% with strong improvements to be made starting in fiscal year 2024.

Let's now shift focus to capital expenditure, which was up 64% on the prior-year level, totaling 70 million euros in Q3. This development reflects the ongoing strong pick-up in investment activity, aimed at supporting the successful execution of "CLAIM 5" also going forward. While focus areas continued to be centered around our global store network and our digital capabilities, we also ramped up our investments in logistics, fully in line with our strategic claim "Organize for Growth."

This also includes the strategic, multiyear expansion of one of our logistic hubs near our headquarters in Metzingen announced only last week – something that will become more visible in our capex from 2024 onwards and will comprise total investments of more than 100 million euros by 2026. For the current fiscal year, however, we continue to forecast capital expenditure within the range of 250 to 300 million euros, translating to around 6% to 7% of Group sales.

Last but certainly not least, free cash flow amounted to minus 22 million euros in the third quarter as our bottom-line improvements were more than offset by the increase in trade net working capital as well as higher capex.

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

In light of our strong growth trajectory during the first nine months of the year and the sustained brand momentum of both BOSS and HUGO during the third quarter, today we confirm our full-year outlook for fiscal 2023, which we have already increased twice this year.

Above all, we will make 2023 another record year for HUGO BOSS, as we continue to expect Group revenues to increase by between 12% and 15% in reported terms, ahead of our target CAGR of 11% by 2025. This means that we continue to anticipate revenues of 4.1 to 4.2 billion euros in fiscal year 2023, despite ongoing FX headwinds, with all parts of our business set to contribute strongly.

In light of the anticipated top-line improvements, we also continue to forecast 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 confident of being able to offset ongoing investments into our business by further efficiency gains – in particular when it comes to our brick-and-mortar retail business. We thus continue to expect our EBIT margin to improve to a level of close to 10% this year.

And while we are looking forward to the important final quarter with confidence, let me also emphasize that at HUGO BOSS, we remain vigilant as the overall market environment has become increasingly challenging, with mounting macroeconomic and geopolitical uncertainties weighing on global consumer sentiment.

Against this backdrop, we will continue to stay focused on what we can influence directly, what has made us strong in recent quarters, and what has enabled us to raise the bar for the medium-term outlook back in June: our "CLAIM 5" growth strategy.

The ongoing successful execution of "CLAIM 5" will therefore continue to take center stage, and remain our top priority, not just in the two final months of 2023 but also in 2024 and beyond. We will not rest but keep pushing the pedal to the metal when it comes to further fueling momentum for BOSS and HUGO, inspiring and captivating fans and consumers worldwide, and investing into our business for long-term success.

Ladies and gentlemen, we are approaching year end with great strides, and remain well on track to achieve our financial targets for 2023. In doing so, we will not only make 2023 another record year for HUGO BOSS, but reach another important milestone along our multiyear growth journey to ultimately deliver on our 2025 financial ambition of 5 billion euros in sales, an EBIT of at least 600 million euros, and thus an EBIT margin of at least 12%.

At HUGO BOSS, we are convinced that we have everything it takes to continue outgrowing our industry and thus capturing further market shares in the months and quarters to come: With our winning formula "CLAIM 5," and our two strong brands BOSS and HUGO, we will ensure that by 2025, HUGO BOSS will not only be a much bigger company, but also a company that is more resilient, more sustainable, and, importantly, more profitable than it is today.

This, ladies and gentlemen, concludes my remarks for today. We are now happy to take your questions.

Christian Stöhr: Okay, everyone, that completes today's conference call. If you have any further questions, please feel free to contact the Investor Relations team anytime. Thank you very much for your participation. Good-bye.