HUGO BOSS

Transcript – Q&A Session

March 7, 2024

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.

Grace Smalley (Morgan Stanley): First, on the 2025 revenue guidance of EUR 5 billion which could be slightly delayed: what has changed relative to your Investor Day in June 2023 in terms of your underlying assumptions and did currency also played a role? Related to that, what do you now assume as a reasonable range of outcome for revenues in 2025? Should we expect this to be materially lower than EUR 5 billion?

Secondly, on margins. You made it clear that you remain optimistic about gross margin and that you are comfortable with the 62% to 64% guidance range, mainly driven by sourcing efficiencies in your product cost. What gross margin level do you expect for 2024? And within this, what is your assumption on the impact of promotions, which were a drag in Q4 2023? How much buffer do you have implemented in your gross margin guide for promotional activity in 2024 and how will this evolve as we move through the year, because the environment still seems quite promotional also today?

Daniel Grieder (CEO of HUGO BOSS): With our "CLAIM 5" strategy in full swing, we are operating out of a position of strength: our brands are stronger than ever, our product offering has clearly enhanced over the past years, we significantly improved customer experience at our points of sale, and we have built a strong and resilient operational platform. This said, we are taking a more cautious stance just because of the difficult macroeconomic environment for 2024, and not because of the power of "CLAIM 5" or the potential of our brands. We will reach the EUR 5 billion revenues, but it could be slightly delayed.

Yves Müller (CFO/COO of HUGO BOSS): On margins: today, we reconfirmed our 2025 EBIT margin target of at least 12%. That's because we see good potential to improve our gross margins. And we are guiding, for 2024 and 2025, in a range of between 62% and 64%, after having recorded 61.5% in 2023. So, there is already kind of inherent uplift in there. We are forecasting notable sourcing efficiency improvements going forward and we have certain visibility for the next six to nine months. That is why we feel quite confident in being able to improve our gross margin from here on. Now, regarding the heightened promotional activity you've highlighted, it's evident that the Q4 season, including the winter sale extending into Q1, has seen increased promotional activity. However, it's worth noting that our promotions remain disciplined compared to our competitors, underscoring the strength of our brands, BOSS and HUGO.

Additionally, we continue to anticipate improvements in operating leverage in 2025, particularly in reducing fixed costs in brick-and-mortar retail. Since the introduction of "CLAIM 5," we've seen a 500 basis point improvement in our brick-and-mortar retail costs as a percentage of sales. With the recent introduction of new brand lines like BOSS Camel and HUGO BLUE, we're actively evaluating and seeking to streamline collection complexity further, which should contribute to increased operating leverage in administrative expenses.

So, our focus is on driving operating margin, especially given the lower top-line visibility due to macroeconomic uncertainties. We're committed to controlling internal factors like sourcing efficiency and cost management without compromising on quality, as these are within our control. While there are assumptions in various macroeconomic

reports suggesting a potentially challenging first half of the year followed by improvement, we're determined to navigate these internal factors to ensure we achieve an operating margin of at least 12% by 2025.

Grace Smalley (Morgan Stanley): To follow up on the revenue side, considering your cautious macro-outlook, are you just being conservative in looking ahead, or are there signs of weakness in current trading and wholesale order books?

Daniel Grieder (CEO of HUGO BOSS): As we said, there is no doubt that we are going to reach our EUR 5 billion revenue target, although this might be slightly delayed. Our performance in the first two months of the new year aligns with our expectations, indicating we're on track. Our order intake is meeting our targets, reflecting satisfactory growth according to our plans. Importantly, we're also gaining market share with our wholesale partners amidst the current market conditions.

Anthony Charchafji (BNP Paribas Exane): First, regarding the 2024 revenue guidance range of 3% to 6%, while I understand the need for conservatism, the lower end of 3% seems quite modest. Are you considering any price increases this year? Additionally, with the introduction of HUGO BLUE potentially contributing around EUR 50 million, representing 1% incremental growth, does HUGO alone account for the 3%?

Secondly, concerning gross margin and EBIT levels: with the anticipation of up to 90 bps EBIT margin improvement in 2024, it seems feasible to achieve a 100 bps gross margin improvement, given potential tailwinds such as lower product costs and

efficiencies, despite promotional activity. However, this would imply operating deleverage. Could you elaborate on this aspect?

Daniel Grieder (CEO of HUGO BOSS): We're experiencing headwinds in certain regions due to macroeconomic challenges, particularly in Europe, notably in Germany with department stores having issues, and in the UK with consumer sentiment being under pressure. Despite these challenges, we see promising momentum in Asia/Pacific, despite a rather flattish performance in China. Also, we see growth opportunities not only across regions but also in all distribution channels. Internally, we're well-positioned and have a strong foundation for growth, but we remain cautious.

Yves Müller (CFO and COO of HUGO BOSS): Our 2024 top-line guidance of 3% to 6% in reported currency doesn't factor in price increases. We're focused on controlling costs amid macroeconomic uncertainties and aim for cost increases to remain lower than sales growth. And on gross margin, while we have visibility on factors like product costs, freight costs, and sourcing efficiency, the promotional environment poses a risk. But there could be some upside risk if overall promotional activity will not as pronounced as everyone might expect. However, initiatives are in place to improve gross margin. And as we also have initiatives in place to elevate our brand, any upside in top-line improvement would further aid operating margin enhancement.

Anthony Charchafji (BNP Paribas Exane): A quick follow-up, it's clear regarding 2024, but looking ahead to 2025, I understand the caution due to the macroeconomic environment. And that it's also too early to talk on top-line expectations for 2025.

However, if you would achieve the high end of your EBIT guidance at EUR 475 million with a 15% increase as guided this year also in 2025, it suggests a 2025 top line closer to EUR 4.6 billion rather than EUR 5 billion. Could you provide further guidance on the 2025 top line to avoid any misconceptions?

Yves Müller (CFO and COO of HUGO BOSS): While it's uncertain, there's potential for stronger performance if the macroeconomic environment improves. We're committed to reaching EUR 5 billion in revenue, albeit there might be a slight delay due to external factors beyond our control. We remain prepared for various scenarios, including geopolitical challenges, but our aim remains steadfast: achieving EUR 5 billion in revenue. That's our clear objective.

Manjari Dhar (RBC Capital Markets): First, could you elaborate on the contribution of new space in department stores to the growth of our wholesale business? And what potential do you see for further growth from this angle?

Secondly, could you provide insight into the various factors affecting gross margin in Q4 2023?

Yves Müller (CFO and COO of HUGO BOSS): Regarding the gross margin in Q4: we achieved a 20 bps improvement compared to the prior year, primarily driven by favorable freight costs. However, this positive impact was partially offset by promotional activity and some elevated product costs during the quarter.

Daniel Grieder (CEO of HUGO BOSS): Regarding our business performance, growth is evident across all channels. In brick-and-mortar wholesale, we achieved 18% growth last year, gaining market share and expanding our presence in all distribution channels. Our products' strong price value proposition has contributed to increased sales. Despite the ongoing macroeconomic challenges, our wholesale business remains on track, demonstrating growth in line with our expectations and forward orders.

Zuzuanna Pusz (UBS): On gross margins: while you've provided valuable insights, could you offer more quantification to contextualize the specific building blocks? Despite your brands' strong performance, the gross margin has remained relatively flat over the past three years, attributed partly to promotional activities and inventory levels. While caution is exercised regarding the top line due to external factors, does the gross margin improvement fully account for these challenges? Could you outline the specific drivers, in terms of basis points, which contribute to achieving the 62% to 64% range, considering the inventory and promotional environment?

Secondly, regarding China, could you elaborate on the areas of weakness? Is it specific categories or a broader consumer sentiment issue, particularly given the lingering effects of COVID-19? Are you confident that this is market-specific, or could it reflect a need for consumers to better understand your brand strategy? Clarification on this would be greatly appreciated.

Yves Müller (CFO and COO of HUGO BOSS): Regarding the gross margin, let's break it down step by step. When we embarked on the journey towards our 2025 financial

ambition, we benchmarked against 2019, the pre-COVID year, where our gross margins stood at around 65%. As part of our "CLAIM 5" strategy, we consciously invested in product quality and brand enhancements, solidifying our position as offering the best price-value proposition in the market. Initially, we aimed for a gross margin range of 60% to 62%, factoring in these quality investments. However, following the successful execution of our branding refresh and witnessing the positive impact on full-price sell-through and brand elevation, we revised our gross margin guidance in June last year. We raised our targets to achieve a range of 62% to 64%, inherently increasing by 200 basis points. This adjustment reflects our confidence in the improving performance of the brand, driven by effective marketing investments and elevated brand perception.

Now, having recorded a gross margin of 61.5% in 2023, our current guidance stands at between 62% and 64% between now and 2025. We anticipate several tailwinds contributing to this improvement. Firstly, we benefit from favorable product costs and sourcing efficiency, leveraging our increased scale with over EUR 4 billion in sales compared to EUR 2 billion at the start of "CLAIM 5." Additionally, industry destocking and favorable freight costs, including a reduction in the share of airfreight, will further support our margin improvement. All this makes us confident that we will improve our gross margins. However, we acknowledge the risk posed by promotional activity, which could potentially offset these gains somewhat. The extent and duration of promotional pressure remain uncertain factors affecting our gross margin. Nevertheless, we reiterate our guidance range of 62% to 64%, reflecting our overall confidence in our strategic direction and the underlying strength of our brands.

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Daniel Grieder (CEO of HUGO BOSS): Regarding China, our performance has remained relatively flattish compared to last year. Although there has been some improvement in domestic and international tourism, the recovery in consumer spending on fashion and apparel has been slower than expected. Notably, there's a trend towards more cautious spending among consumers. Despite this, our brands continue to perform well in the market. While consumer sentiment may appear somewhat weak relative to other regions, we remain optimistic about our brands' prospects in China. We continue to invest in new opportunities and are actively expanding our presence in the market. Overall, while the pace of recovery may be slower than anticipated, we are confident in our strategy and believe it's essential to continue the course and maintain our current approach.

Zuzuanna Pusz (UBS): Just a follow-up: looking at the gross margin bridge between 2022 and 2023, and projecting for 2024, am I correct in assuming that you anticipate freight cost and product cost benefits to collectively contribute over 100 basis points, offsetting any negative impacts from promotions? Is this the current assumption for the year?

Yves Müller (CFO and COO of HUGO BOSS): I can follow your argumentation.

Frederick Wild (Jefferies): First, regarding current trading, you mentioned that the first couple of months of the year are trading in line with expectations. Is this performance aligned with the 3% to 6% revenue growth guidance for 2024? Looking at it from a full-year perspective, does this guidance account for potential increases in

macroeconomic pressures, or does it remain consistent? Additionally, does it anticipate heightened promotional incentives?

Secondly, it appears evident that you're prioritizing margin delivery over sales delivery. While you would have the opportunity to invest more gross margin into promotions and pricing to potentially boost sales, you aren't pursuing this path. Is it accurate to interpret this as your preferred approach to managing the business moving forward?

Daniel Grieder (CEO of HUGO BOSS): On current trading, I can confirm that it's aligned with our internal expectations. We are on track to achieve our desired results, with growth evident across all brands, regions, and distribution channels. So, it's fair to say that our current performance matches our internal projections and is in line with our objectives.

Now, indeed, we're considering prioritizing bottom-line expansion over top-line growth. It's worth noting that we've surpassed our initial mid-term sales target by reaching EUR 4 billion ahead of schedule, two years earlier than anticipated. Therefore, our focus now shifts towards enhancing efficiency and profitability. We have established a strong platform and initiatives in place to drive this agenda forward, emphasizing effectiveness and maximizing profitability, across products, vendors, marketing.

Thomas Chauvet (Citi): First, regarding the casualwear market. Your revenue growth guidance for this year, +3% to +6%, doesn't indicate the same level of outperformance or market share gains seen in previous years, with many peers expecting around 5%

growth. While it's acceptable to grow in line with the market, are you noticing any significant shifts in casualwear market dynamics? Are there specific competitors, large or small, making a comeback? Are consumer preferences veering towards different aesthetics or price points?

Secondly, regarding the growth equation between volume, price, and space. Last year, you increased square footage by 5%. Can we expect a similar increase this year? Assuming no pricing changes, would this imply flat to slightly decreased volumes year-on-year? Additionally, which European countries beyond the UK are of concern in terms of volume pressure for the upcoming year?

Daniel Grieder (CEO of HUGO BOSS): Regarding the casualwear market, as part of our "CLAIM 5" strategy, we are transforming into a 24/7 lifestyle brand. Previously known primarily for suits, we've expanded our offerings over the past two and a half years to include a broader collection catering to various lifestyles. This strategic shift has not only allowed us to gain space in distribution channels but, more importantly, has enabled us to capture market share. By reintroducing brand lines like BOSS Orange and BOSS Green, and by focusing on Womenswear, we've successfully expanded our product portfolio and solidified our presence in the market.

Yves Müller (CFO and COO of HUGO BOSS): On your second question, I can confirm that we anticipate volume growth, particularly in retail and wholesale. At our last CMD, we guided to have approximately 500 freestanding stores, and as of year-end 2024, we had 489. While there may be some limited space growth from retail, such as

occasional shop-in-shop expansions, the primary driver of growth will be volume, besides moderate space expansion.

Jürgen Kolb (Kepler Cheuvreux): First, on wholesale order books: can you provide insight into how the order book is developing throughout the year and the level of visibility you have up to the fourth quarter? Are you noticing any trends in the behavior of your wholesale partners, such as a preference for earlier merchandise shipments? Additionally, what was the in-season order pattern in Q4, and are there any indications for the first quarter?

Secondly, on gross margin: what proportion of your current margin is attributable to airfreight compared to last year? Furthermore, what are your expectations for the trajectory of airfreight expenses in the current year?

Daniel Grieder (CEO of HUGO BOSS): On wholesale, it's evident that we've observed a further positive spin in demand for our products, particularly in the deliveries for August and September. This can be attributed to the perceived improvement in quality and better value proposition across our product range. Consequently, our order base continues to expand, indicating a strong market response across brand lines and potential for further brand penetration in department stores.
In terms of delivery logistics, we've made significant strides in overcoming the challenges posed by the post-COVID supply chain disruptions. While previously experiencing some delays, we've now achieved improved punctuality in our deliveries, which is crucial for optimizing sales performance. Our strategy now emphasizes a more

balanced approach, ensuring timely delivery without compromising the customer experience. Leveraging advanced technologies like our Digital TWIN, we are enhancing transparency in our supply chain operations, resulting in better on-time deliveries and positive feedback from our customers.

Yves Müller (CFO and COO of HUGO BOSS): On airfreight shares: in 2023, our average airfreight share stood at a high-teens level. Looking ahead, our ambition is to progressively reduce this share, aiming for a high-single digit rate by 2025. This reflects our commitment to constant improvement in our logistics operations and overall efficiency.

Michael Kuhn (Deutsche Bank): First, regarding the cash flow guidance, you're projecting a substantial increase from around EUR 100 million in 2023 to around EUR 500 million this year. With operating results expected to rise up to 15% based on guidance, and CapEx remaining relatively stable year-over-year, it suggests a potential EUR 300 million improvement from trade net working capital. However, this seems incongruent with the working capital as a percentage of sales guidance. Could you provide some insight into how you arrived at the EUR 500 million free cash flow guidance?

Secondly, you mentioned the challenging situation with German department stores, with a few companies undergoing insolvency proceedings. How are these clients currently acting, and what are the adjustments you're making in terms of payment terms or business arrangements with them?

Yves Müller (CFO and COO of HUGO BOSS): In 2023, our cash flow was adversely affected by trade net working capital, whereas in 2024, it will be positively impacted. This change represents a significant swing in our cash flow dynamics. Additionally, our trade net working capital guidance is based on the average of the last four quarters, which may result in kind of a "balance sheet effect." Consequently, the positive swing from negative trade net working capital in 2023 to positive in 2024 will be a major contributing factor to our cash flow improvement.

Daniel Grieder (CEO of HUGO BOSS): On German wholesale partners: we maintain a close communication with these customers, especially considering the risk involved. In cases where we perceive a higher risk, we request prepayments. However, we carefully assess each situation and maintain transparent dialogue with our customers to avoid unnecessary risks. So far, we haven't encountered any significant issues as we closely monitor and manage these relationships.