First Quarter 2024 Results

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Christian Stöhr: Good morning, ladies and gentlemen, and welcome to our first quarter 2024 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. And 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. And with that, 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 call today. As you will have seen from our press release this morning, at HUGO BOSS, we look back at a solid start to the year, with further top- and bottom-line improvements in the first three months of 2024.

As in previous quarters, our performance in Q1 is a direct consequence of our relentless focus on executing our "CLAIM 5" strategy. This includes placing particular emphasis on further leveraging our Company's numerous growth opportunities across all business areas. Consequently, revenues increased by 6% year over year to surpass 1 billion euros, with both brands, all regions, and all consumer touchpoints contributing to growth.

Spurred by our top-line momentum, EBIT expanded by 6% to 69 million euros, as further investments into the business were more than compensated by our commitment to further enhancing the effectiveness and efficiency of our global business – be it from an operational but also organizational perspective. This, in turn, enabled us to improve our first-quarter EBIT margin by 10 basis points to a level of 6.8%.

Of particular note is the fact that we achieved these results despite ongoing heightened macroeconomic and geopolitical volatility. I will discuss the external circumstances in more detail later on. But first, let's focus on the various moving parts of our operational and financial performance in Q1, starting with a closer look at our two brands.

Earlier this year, we unveiled our Spring/Summer 2024 collection for BOSS, once again fully embodying the brand's 24/7 lifestyle image. As in the past, the launch was accompanied by a powerful global campaign, featuring renowned celebrities such as top model Gisele Bündchen and Korean superstar Lee Minho. The collection launch was extended by an impressive digital brand campaign, with unique out-of-home activations in iconic locations around the globe, including London's Tower Bridge, New York's Times Square, and the Champs-Élysées in Paris. This is yet another prime example of how we keep driving brand momentum, leveraging the potential of digitalization in marketing and elevating the customer experience. Fueled by the 360-degree activation, BOSS continued to outperform key competitors on Instagram in terms of follower growth in Q1.

Moving over to HUGO, where we also successfully unveiled our Summer collection just a few weeks ago. The launch included the highly anticipated debut of our new brand line HUGO BLUE, aimed at leveraging the full potential of denim in the years to come. We celebrated HUGO BLUE with a big launch event in Berlin, tapping into the worlds of entertainment, metaverse, and gaming – key cultural domains for the brand's Gen Z target audience. And let me also emphasize that we are very happy with the first weeks of selling this new brand line, as it is being well received by both our wholesale partners, as well as our young-minded HUGO consumers.

Finally, high-profile collaborations provided further support to the overall momentum in the first quarter. In this context, we are happy to welcome U.S. athlete Taylor Fritz as a new brand ambassador for our BOSS Menswear business, further strengthening our presence in tennis. And as part of our BOSS Womenswear business, we launched our first capsule collection co-designed with fashion icon Naomi Campbell, recording above-average sell-through rates. HUGO, on the other hand, took a bold step into Formula One, bringing its authentic style to motorsports fans around the world.

Altogether, these initiatives supported brand momentum during the quarter and resulted in further revenue improvements across both our brands. Equally important, and no different to last year, growth was broad-based across all wearing occasions, reflecting our brands' 24/7 lifestyle approach. Overall, sales were up 5% for BOSS Menswear, up 7% for BOSS Womenswear, and up 9% for HUGO.

Let's now move over to our regions, which all recorded further revenue improvements in the first quarter. Growth was led by the Americas, with revenues up 11% in the three-month period. Above all, this reflects double-digit sales increases in the important U.S. market, where our brands drove broad-based growth across all three distribution channels. Also in Latin America and Canada, we maintained our growth trajectory, as reflected by robust sales improvements in both markets.

Shifting focus to EMEA, where sales increased by 5% year over year, with different performances across key European markets. While we recorded robust sales growth in Germany, revenues in the UK remained below the prior-year level, reflecting an overall soft consumer sentiment. Sales in France, on the other hand, remained broadly stable year over year, being up against a particularly strong comparison base from the prior-year period. To finish on EMEA, we continued to enjoy solid momentum in our emerging markets – including Eastern Europe and the Middle East – as reflected by double-digit growth year over year.

Finally, on Asia/Pacific, where sales came in 4% above the prior-year level. Growth was driven by sustained double-digit improvements in Southeast Asia & Pacific – including yet another strong performance in Japan. At the same time, sales in China remained below the prior-year level, reflecting overall muted local demand.

To conclude on our top-line performance, let's move on to our channels, which all contributed to growth in the first quarter, posting further sales improvements.

Starting with our digital business, which successfully continued its double-digit growth trajectory. With sales up 10%, and broad-based momentum across all three regions, both BOSS and HUGO gained further market shares in the digital sphere. Importantly, both our digital flagship hugoboss.com as well as our digital partner business drove further revenue improvements in the first quarter. We are thus continuing to live up to our promise of meeting our customers exactly where they expect us to be.

Moving over to our brick-and-mortar retail business, which grew 3% in the first quarter. This development reflects further store productivity improvements as well as moderate space expansion over the past twelve months. From a regional perspective, momentum in brick-and-mortar retail was particularly robust in the Americas, with sales up at a double-digit rate. And while Asia/Pacific also contributed to growth, brick-and-mortar retail revenues in EMEA remained on the prior-year level.

In brick-and-mortar wholesale, revenues expanded a strong 8% in the first quarter, emphasizing wholesale partners' ongoing robust demand for our brands' collections. This, in turn, enabled both BOSS and HUGO to further improve visibility and penetration at key European and U.S. department stores. At the same time, growth in wholesale was supported by the expansion of our global franchise business over the last twelve months. With this, let's now move on to the remaining P&L items.

Starting with our gross margin, which remained on the prior-year level in Q1, adding up to a level of 61.4%. This development was supported, above all, by enhanced efficiencies in our global sourcing activities. As outlined in detail back in March, these efficiency gains underscore our increased focus on maximizing the potential of our strong operations platform established as part of "CLAIM 5." In Q1, this included achieving even greater economies of scale in sourcing, alongside additional optimization in vendor allocation and freight modes, notably by reducing reliance on airfreight. Coupled with more favorable product costs year over year, these efforts provided substantial tailwinds to gross margin development in the first quarter.

In doing so, we were able to compensate for an adverse channel mix effect as well as ongoing elevated levels of promotional activity. On top of that, we recorded some unfavorable currency effects in Q1.

Moving over to operating expenses, which increased 5% in the first quarter. This development mainly reflects higher selling and marketing expenses, more than offsetting a slight decline in administration expenses. At 54.6%, however, total operating expenses as a percentage of sales came in 10 basis points below the prior-year level. This development largely reflects improvements in organizational effectiveness, which compensated for further investments into the business.

Overall, selling and marketing expenses increased by 7%, mainly due to an increase in variable rental, payroll, and fulfilment expenses in light of our top-line development. Marketing investments, on the other hand, came in somewhat below 2023 levels, reflecting our focus on further enhancing marketing effectiveness as well as some large-scale brand initiatives in the prior-year period. This said, at 7.5% of Group sales, marketing spendings in Q1 were once again fully in line with our mid-term target range of between 7 and 8% as set out in "CLAIM 5." Importantly, also when looking at our expectations for the full year of 2024, we continue to target marketing investments within this corridor, as we remain committed to further investing into brand-building activities. To conclude on the operating expenses, administration expenses decreased 2%, supported by the aforementioned improvements in organizational effectiveness.

Altogether, and spurred by our solid top-line growth in Q1, Group EBIT increased 6%, mounting up to 69 million euros. Accordingly, our EBIT margin expanded by 10 basis points to a level of 6.8%.

Likewise, net income after minorities increased year over year, up 9% to 38 million euros. This also reflects a broadly stable financial result in the three-month period, as higher interest expenses were largely compensated by more favorable FX. Last but not least, and to conclude on the P&L, earnings per share were up 9% to 55 cents in the first quarter.

Let's now turn to the balance sheet, starting with inventories. As you know, tight inventory management is a key priority within "CLAIM 5." And while we continue to be satisfied with the overall composition and quality of inventories, we remain committed to optimizing inventory levels in 2024 and beyond. On that, I am pleased to report that in the first quarter, we were able to bring down inventories by 2% currency-adjusted versus the prior-year period.

Consequently, also as a percentage of Group sales, inventories have seen a further sequential improvement in Q1, coming in at 24.4% and thus well below the prior-year level, while also further improving compared to the end of fiscal year 2023. This progress fully aligns with our mid-term ambition of reducing inventories to below 20% of sales by 2025.

This brings me to trade net working capital, which increased 14% currency-adjusted. This development largely reflects higher trade receivables, mainly related to the robust performance of our wholesale business. In addition, trade payables came in below the prior-year level, primarily reflecting lower order volumes as part of our measures to reduce core merchandise inflow.

Overall, the moving average of trade net working capital as a percentage of sales based on the last four quarters amounted to 21.2%. Going forward, and supported by the anticipated further normalization of inventories, we remain confident in our ability to improve this ratio to a level "approaching 20%" by the end of fiscal year 2024. This, in turn, will be an important milestone towards our mid-term target corridor of 16 to 19%.

Moving over to capital expenditure, which increased 15% year over year to an amount of 47 million euros in the three-month period. This development is fully in line with our CapEx budget of 300 to 350 million euros for the full year 2024. As in previous quarters, in Q1 our focus was also on enhancing our global store network, pushing ahead with digitalizing our business model, and strengthening our global logistics capacities.

Last but not least, free cash flow amounted to 13 million euros, representing a robust improvement of 133 million euros year over year. This performance reflects our EBIT growth in Q1 and, above all, the ongoing optimization of inventory levels, which strongly supported our free cash flow generation in the first quarter.

Now, as laid out in March already, and based on the progress achieved in Q1, we remain committed to further accelerating our cash flow generation throughout 2024. In particular, we expect that the ongoing optimization of trade net working capital as well as our persistent focus on driving CapEx efficiency will keep fueling free cash flow generation in the upcoming quarters. Consequently, we continue to anticipate that our free cash flow will improve to a level of around 500 million euros in 2024, aligning with our overarching annual mid-term goal outlined in "CLAIM 5."

This, ladies and gentlemen, concludes my remarks on our first-quarter operational and financial performance. Let's now move over to our expectations for the remainder of the year.

Based on our solid performance in the first quarter, today we confirm our top- and bottom-line outlook for the full year 2024. Following almost three years of successful strategy execution, our Company and our two iconic brands BOSS and HUGO are in a strong position to keep capitalizing on our various growth opportunities. The ongoing execution of our numerous strategic initiatives will therefore remain our clear priority and continue to guide our way ahead. At the same time, we will build on our robust foundation established in prior years, enabling us to put an even stronger focus on driving effectiveness and efficiencies moving forward.

In doing so, we must not forget that macroeconomic and geopolitical uncertainties remain high. This is particularly true for key European economies, including the UK, where most consumers keep adjusting their purchasing habits. Additionally, China's economy continues to face challenges in recapturing its former momentum, compounded by consumer confidence remaining at historic lows.

And while it is difficult to predict how these trends will emerge, at this point in time we remain vigilant. As things stand today, we must anticipate ongoing implications on global consumer sentiment, which are likely to weigh on industry growth also in the coming weeks and months. This, in turn, may affect our performance in the second quarter, which in addition to ongoing volatile macro trends is confronted with a particularly difficult comparison base.

Overall, we continue forecasting Group revenues in the fiscal year 2024 to increase by around 3 to 6% in reported terms, to a level of around 4.30 to 4.45 billion euros. This includes our expectation of currencies having a slightly negative impact on our top-line development also in the remainder of the year.

At the same time, we continue to anticipate EBIT to grow faster than sales also this year, projecting growth of between 5 and 15% to a level of around 430 to 475 million euros in 2024. This means that our EBIT margin is expected to grow to a level of between 10.0 and 10.7% in the current fiscal year. Our bottom-line target will be driven in particular by realizing further efficiencies in sourcing. These should become increasingly visible starting with the second quarter and provide greater support for our gross margin over the course of the year. As a result, we remain committed to improving our gross margin to a level of between 62 and 64% in the fiscal year 2024.

Ladies and gentlemen, this concludes my remarks for today. Before we get started with the Q&A session, let me summarize in saying that in light of our solid start to fiscal year 2024, we are well positioned to realize further top- and bottom-line improvements in 2024. In a global market environment that continues to be volatile, we remain all the more focused on rigorously executing our "CLAIM 5" strategy, while at the same time putting particular emphasis on driving further efficiencies.

And with this, we are now very happy to take your questions.