Good morning ladies and gentlemen and welcome to our first quarter 2021 financial results presentation. Today’s conference call will be hosted by Yves Müller, CFO of HUGO BOSS and Spokesperson of the Managing Board. 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, to allow everybody to ask his or her questions. So, let’s get started and over to you, Yves.

Thank you Christian, and good morning ladies and gentlemen. In the next twenty minutes, I will elaborate in detail on our operational and financial performance during the first three months of fiscal year 2021. I will also outline our broader expectations for the remainder of the year, and for Q2 in particular, notwithstanding that the environment we are operating in remains uncertain for some areas of our business.

From our quarterly statement earlier this morning, I am sure you have noticed that we have seen a solid and promising start to the year – both from a top- and bottom-line perspective. This is even more worth mentioning as we had to cope with the ongoing implications of the pandemic during the first quarter, especially when it comes to our home territory Europe.

Therefore, let me start by reviewing some of the key developments we have observed around our top line in Q1.
Starting with a quick look at our store closing rate.

With an average of around 25% of our global store network being affected by temporary closures in the first three months of 2021, the lasting implications of the pandemic continued to put a strain on our brick-and-mortar business. This was particularly true for Europe, by far our largest region, where the store closing rate remained elevated at a level of almost 50%. Unsurprisingly, the performance of key markets such as the UK, France, and Germany remained muted in the context of persisting lockdowns.

Against this background, I am all the more encouraged by the further progress we have made in those markets, where stores have already re-opened and where we are witnessing gradual improvements in the overall retail environment and consumer spending, supported by a strong rebound in local demand. First and foremost, this includes a number of markets in Asia/Pacific such as mainland China, Australia, and Taiwan, but also the Americas region, and here in particular our important U.S. business as well as Latin America. In addition, markets such as Russia and the United Arab Emirates are also progressing strongly with their overall business recovery following the COVID-19 restrictions.

I am also pleased to report that momentum has further accelerated along our strategic initiatives. In particular, growth in our online channel has strongly accelerated, with revenues up 72% in Q1, and our casualwear offerings for both brands – BOSS and HUGO – have meanwhile returned to growth. As a consequence, we were able to limit the overall sales decline to only 8%, with Group sales amounting to 497 million euros in the first quarter.

While this represents a further noticeable pick-up in our overall business recovery as compared to previous quarters, let me also be clear that the first quarter benefitted to some extent from wholesale delivery shifts related to our Spring/Summer 2021 collections, something I will elaborate on in detail in a few minutes.
Before we do that, let’s take a closer look at our geographies.

Starting with Europe, where the lasting implications of the pandemic continued to weigh on our business, resulting in an overall sales decline of 17% in Q1. In addition to far-reaching temporary store closures, persisting social distancing measures and travel restrictions continued to limit the region’s overall recovery.

This was particularly visible for markets such as the UK and Germany, which both recorded mid-double-digit sales declines in own retail, reflecting the majority of our brick-and-mortar stores being closed throughout much of Q1. While France and the Benelux countries were able to limit their sales decline in own retail to the low double-digit range, I am pleased to report that several markets in Eastern Europe returned to growth in the first quarter. This was particularly true for our business in Russia, with comp store sales up by mid-double-digits. Finally, we also enjoyed very strong momentum in the Middle East, as reflected by low to mid-double-digit comp store sales growth.

Moving over to our European wholesale business, which was up 6% in the first quarter. Now, as I already mentioned a minute ago, this development mainly reflects the robust order intake for our Spring/Summer 2021 collections, which were delivered to partners during the course of Q1, as well as shifts in the delivery of these collections.

Let’s now move over to the Americas, where the gradual business recovery – which started in the middle of 2020 – has seen a further continuation also in the first quarter of 2021. Thanks to strong sequential improvements in our U.S. business as well as in Latin America, the region’s overall sales decline was limited to minus 11% in Q1.

Also in the U.S. market, sales declined by 11% only, and thus considerably less than in previous quarters. This development was driven by a noticeable pick-up in local demand, reflecting a
robust rebound in consumer sentiment. And while our stores in and around important metropolitan areas such as New York City, Chicago, Los Angeles, and San Francisco were still impacted by the lack of international tourism and the ongoing absence of commuting to and from work, a rebound in local spending helped many of our destinations in states such as Florida and Texas but also in smaller urban shopping centers to return to growth.

Let’s complete the picture of the Americas with a brief look at Canada and Latin America: Revenues in Canada were still down by a low to mid-double-digit percentage rate in Q1, reflecting lasting store closures in the wake of the pandemic, in particular in the province of Ontario. On the other hand, sales in Latin America returned to pre-COVID-19 levels, led by a strong recovery of our business in Brazil and Mexico.

In Asia/Pacific too, we successfully continued our gradual business recovery, with revenues up 39% in the first quarter. This development was primarily driven by mainland China, where sales growth further accelerated to 98%, reflecting ongoing robust local demand and the successful execution of Chinese New Year in February. Compared to the first quarter of 2019, revenues in mainland China were up 29%.

Apart from mainland China, also some of the region’s smaller markets saw sequential improvements. While Japan limited its sales decline to the mid-single-digit range, markets such as Australia, South Korea, and Taiwan even returned to double-digit growth, supported by a strong pick-up in local demand across all store formats. In other markets, such as Hong Kong or Singapore, the ongoing lack of international tourism continued to weigh on the overall business recovery.

Let’s now turn to our sales channels, starting with our own online business, which recorded its 14th consecutive quarter of strong double-digit growth. With sales up 72%, momentum further
accelerated in Q1, driven by strong double-digit improvements at both hugoboss.com as well as at multibrand websites operated in the concession model.

The former benefitted from strong double-digit increases in both traffic and conversion, as well as the further geographical expansion of our flagship hugoboss.com over the last twelve months. In the first quarter only, our digital offerings were expanded into twelve additional markets, including South Korea, Russia, and the United Arab Emirates, thereby increasing our global online reach to 59 markets.

As we are committed to fully exploiting the tremendous potential of .com in the years to come, further rolling out our digital offerings across the globe remains on top of our agenda. In this context, the next wave of new markets to be entered into is already scheduled for later this year.

The strong acceleration in online sales growth partly compensated for lower revenues in brick-and-mortar retail, which were attributable to the negative implications of the pandemic and the corresponding store closures in particular. Overall, revenues in own retail declined 14% in Q1, as compared to minus 24% recorded back in Q4.

Wholesale, on the other side, returned to growth, up 1% in the first three months of the year, supported by the aforementioned order intake for Spring/Summer 2021. In addition, our wholesale business benefitted from shifts in the delivery of these collections from the second quarter into the first quarter, aimed at ensuring product availability after the lifting of lockdowns. Now, excluding these delivery shift effects, wholesale revenues would have declined in Q1 and thus broadly similar to the overall performance recorded in own retail.

And speaking about wholesale, I would like to point out that we expect rather more normalized delivery patterns for the remainder of the year. That said, it will be quite difficult to compare this
year’s delivery schedule with the prior-year period, given the severe disruptions we were facing in 2020 following global lockdowns throughout most of the year.

Also our license business recovered during the first quarter. With revenues up 5%, we recorded a solid rebound in revenues generated from the sale of watches and eyewear. On the other hand, our fragrance business still remained below the prior-year level, as it continued to suffer from the lasting lockdowns in Europe as well as an overall soft travel retail business.

Moving over to our performance by brand, where the positive momentum around our casualwear business continued in Q1. Overall, casualwear sales – which as you know account for around 50% of Group revenues – returned to mid-single-digit growth in the first quarter.

Sales for the BOSS brand were down 8% in total, with revenues for BOSS casualwear up at low single-digits. The latter benefitted in particular from robust demand across all leisure wear categories as well as the strong sell-through of our two latest capsule collections co-designed with the NBA and the sportswear brand Russell Athletic.

Also at HUGO, our casualwear business recorded sequential improvements, with sales up double-digits in Q1, thereby partly compensating for a decline in formalwear sales. Overall, sales for HUGO still remained 6% below the prior-year level.

Now, before moving over to the bottom line, let me shed some light on our Russell Athletic and NBA collaborations, which both kicked-off very successfully during the first quarter. There is no doubt that collaborations like these will not only help us in driving brand desirability but they will also further strengthen our positioning and credibility within the important casualwear segment.

Starting with “BOSS x Russell Athletic,” which was officially launched via a digital event at the end of March. A diverse range of high-profile celebrities and influencers – ranging from American
models Bella Hadid and Ashley Graham to German NBA player Dennis Schröder – created tremendous excitement and awareness for the streetstyle-inspired capsule, in particular on relevant social media channels. For example, on Instagram, we saw a sharp increase in brand awareness and engagement, with more than ten million total campaign impressions, and a strong engagement rate of over 10%, resulting in more than one million interactions with our BOSS brand as part of the campaign.

Speaking of engagement: our partnership with Russell Athletic and our strong focus on streetstyle also help us to gain relevance and drive interaction with younger generations such as gen Z and millennials. In particular in digital, we have witnessed a growing number of young customers making their first purchase ever at hugoboss.com. As a result, several styles and sizes were sold out within only few hours, as demand for the logo-inspired hoodies, sweaters, shirts, and pants exceeded even our own high expectations.

To conclude on our Russell partnership, also from a commercial perspective the co-created collection has quickly proven to be a great success. Through our digital-first approach and our strong focus on .com and social media, sell-through rates in online have been three times higher as compared to other collections since the official launch on March 24th.

In mid-February, we already launched our first “BOSS x NBA” capsule in the Americas, with particular emphasis on our U.S. market. With more than ten weeks on the shelf, feedback has been extremely positive across all channels, with sell-through rates almost three times higher than usual. Also here, the collection has been particularly well received by younger customers, with more than 50% of all customers aged 35 years and below. Feedback was also quite promising from key U.S. department stores, which also recorded strong customer demand for the streetstyle-inspired pieces, following a very successful activation at the point of sale in close collaboration with our partners.
Our collaborations with both the NBA and Russell Athletic will play a crucial role also in the coming months, as we are committed to further growing and strengthening our casualwear business. In this context, I am excited that the second wave of new product drops is already in the pipeline and ready to hit the shelves during the second half of this year.

Now, ladies and gentlemen, this concludes my comments on the top-line development. So, let’s take a closer look at the remaining P&L items for Q1.

Starting with the gross margin, which totaled 60.4% in the first quarter. The decline of 250 basis points is mainly related to ongoing elevated markdown activity, in particular in those markets that are still being impacted by the pandemic. In addition, a less favorable channel mix – reflecting the outperformance of wholesale over retail – as well as higher freight costs weighed on the gross margin development.

Moving over to the operating expenses, which declined by 17% in Q1. In light of the persisting negative implications of COVID-19 on key European markets in particular, we continued with our tight cost management approach. In this context, we once again put particularly strong emphasis on reducing selling and distribution expenses, down 20% in Q1. This development was largely driven by additional rent and payroll savings in own retail, with the magnitude of both effects being quite comparable. We also managed to cut back 10% on general admin costs, reflecting ongoing tight overhead cost control, which led to lower personnel expenses.

Overall, the implemented cost savings compensated for the decline in sales and gross margin. As a result, and despite the negative implications of the pandemic, I am very pleased to report that we were able to record an operating profit also in the first quarter, with EBIT amounting to plus 1 million euros, compared to minus 14 million euros in the prior-year period.
Now, I have already mentioned the positive impact that delivery shifts had on our top-line development in the first quarter. For the sake of transparency, it is only fair to say that this effect also supported our bottom-line development in Q1 to some extent.

Let’s now turn to the balance sheet, starting with trade net working capital, which declined by 7% versus the prior year. An increase in trade receivables, mainly reflecting the growth of our wholesale business in the first quarter, was more than compensated for by higher trade payables. At the same time, our inventories remained stable year over year, first and foremost due to ongoing tight inventory management in the wake of the pandemic.

Moving over to capital expenditure, where we continued our rather prudent approach in the context of the pandemic also in Q1. Consequently, investments totaled 16 million euros and were thus slightly below the prior-year level. As in previous quarters, investments were primarily related to our global store network as well as our worldwide IT platform.

As a result, free cash flow totaled minus 30 million euros in Q1, which compares to minus 86 million euros recorded in the prior-year period. And to finish on our financial position, net financial liabilities decreased 5% to 221 million euros when excluding lease liabilities in the context of IFRS 16.

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

Despite ongoing, short-term uncertainties related to extended lockdowns in key European markets, we remain confident that the global retail environment will continue to gradually improve, supported by the further progress of global vaccination campaigns and the gradual lifting of lockdowns and restrictions on public life. We also remain confident that our business will continue to recover noticeably, especially in the second half of the year. While the further
recovery will be led by Asia/Pacific and the Americas, momentum in Europe is also expected to accelerate strongly in the coming quarters.

Today, we are already experiencing local demand picking up noticeably in those markets where lockdowns and restrictions have been eased. A prime example in this regard is our important UK market, where stores re-opened in mid-April and where local demand has seen a robust uptick since then. This has enabled several of our more than 100 retail points of sale in the UK to exceed pre-pandemic sales levels in the past weeks. While underlying local demand remains strong for our casualwear business, we have also started to witness some first pent-up demand around smart tailoring product categories.

Now, make no mistake: While several markets are clearly showing some encouraging signs of a turnaround, in the short term, our retail business in markets such as Germany, France, and Canada continues to be impacted by ongoing lockdowns and corresponding store closures. Since the beginning of the second quarter, we continue to be confronted with a global store closing rate of more than 20%, something we could not foresee when we spoke back in March. In addition, we must not forget that the delivery shift that I alluded to earlier will also weigh on our wholesale performance to some extent in Q2.

All this being said, and assuming that no new lockdowns, or substantial extensions of current lockdowns beyond what is already known will be implemented, we are very confident that sales in the second quarter will almost double those of the prior-year period, which – as you all know – was severely impacted by the global spread of COVID-19.

In terms of our bottom-line expectations for the second quarter, we remain confident that we will be able to generate a positive EBIT also in Q2. While our EBIT should continue to benefit from the further business recovery and ongoing tight cost management, the lasting lockdowns in some
European markets, as well as the wholesale delivery shift, will most likely limit our bottom-line potential in Q2 to some extent.

Finally, ladies and gentlemen, let me remind you that in less than four weeks from now, our Managing Board will be complete. As I am sure you are all aware, Daniel Grieder will take over his role as the new CEO of HUGO BOSS on June 1st. Together with Daniel, the entire Managing Board is looking forward to entering a new era for our company.

Both our brands – BOSS and HUGO – offer tremendous potential for long-term growth. And we are fully committed to exploiting this great potential together with all HUGO BOSS employees worldwide in the years to come. In this context, we will provide you with a strategic update on our journey for the next several years during the second half of 2021. And with this, I am now happy to take your questions.