Transcript – Q&A Session
November 2, 2023

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.

Susy Tibaldi (UBS): First, please comment on the current trends that you're seeing in the market? Many retailers are pointing to some rebound in November, given that Q3 was a bit softer, impacted by weather. And also, when thinking about the various regions, the guidance update that you provided at Q2 is now looking quite conservative in some markets, especially in the U.S. Any comments around this will be helpful.

Secondly, digging a bit deeper on the building blocks of your Q3 gross margin, has there been any impact from promotional activity? And how should we think about this
factor for Q4? I understand it's still pretty much an unknown, but maybe there are some sentiment indicators that you're seeing from your wholesale partners?

**Yves Müller (CFO and COO of HUGO BOSS):** Starting with current trading, I can confirm that in our retail brick-and-mortar business, we keep trading on the same levels. Regarding retail digital, we are performing even slightly ahead of Q3. So we are overall satisfied how we started into Q4.

On gross margin, there is not much to talk about Q3 when it comes to promotional activity. In general, Q3 is a quarter with a low level of promotional activity. So the promotional environment did only have a minor impact on our gross margin in Q3, which can be more or less neglected. Going into Q4, however, you are right, it is the big unknown what might be happening in terms of promotional activity. For Q4, we expect our gross margin to improve, because of some tailwinds coming from less freight costs, lower product costs, and our implemented pricing initiatives. The big unknown is the promotional activity, but we can react very quickly, be it on Singles' Day or Black Friday. But overall, we expect our gross margin to expand in Q4.

**Jürgen Kolb (Kepler Cheuvreux):** First, please provide some details on your order books for H1/2024, especially the split casual vs. formal wear, but also by region. And maybe some comments on HUGO Blue.

Secondly, on your retail stores that were not renovated in Q3, please provide us with some KPIs, i.e., on traffic and conversion, to better understand what the underlying brick-and-mortar retail performance was.

**Yves Müller (CFO and COO of HUGO BOSS):** First, for the remainder of the year, our order books are strong. Secondly, looking at Q1, I can assure you that our order books are pretty strong across the board, both in Europe and in the Americas. On HUGO Blue,
the first order season exceeded our expectations. Overall, we are thus satisfied with our order books for the upcoming spring/summer season.

On our retail performance, it's worth mentioning that we have meanwhile implemented two rounds of price increases, helping us in terms of the average ticket size. Movements in traffic and conversion, on the other hand, more or less balanced each other out.

**Anthony Charchafji (BNP Paribas Exane):** First, on EMEA, which it's not slowing much, up 12% in Q3. Could you please provide more clarity on the brick-and-mortar retail performance in EMEA? It was up 8% globally for the channel. If APAC and the Americas were driving the growth, is it fair to assume a low single-digit growth rate for EMEA in own retail, if excluding your BOSS store in Dubai Mall, which is the top-selling one, that was closed during Q3 due to renovation? And please provide us with a split between locals and tourists in Europe.

Secondly, on the Americas, which reaccelerated in Q3, again very impressive. In terms of fueling brand heat, could you comment on rumors that BOSS, in 2024, will take over the Formula 1 brand name of the AlphaTauri team? Also, you recently signed Fernando Alonso as a brand ambassador.

**Yves Müller (CFO and COO of HUGO BOSS):** Starting with the second question around the Americas. We are strongly gaining market shares in the Americas, especially in the U.S. Our 20% growth in the U.S. in Q3 demonstrates a strong performance, especially compared to our competitors. First, we have meanwhile established the true 24/7 lifestyle brand images of BOSS and HUGO, underpinned, for example, by our most recent BOSS campaign "BOSSes aren't born, they are made", which resonates extremely well with the U.S. consumer. Secondly, we have been investing a lot in the U.S., for example with our Miami fashion event in March, which particularly brought younger consumers into our fan base. And, only recently, our collaboration with the
NFL, and with Patrick Mahomes, is also a big topic for younger audiences. We are making bold moves in the U.S. market, and this is really helping us. So our customer base continues to grow, with the overall performance in the Americas remaining strong. And, coming back to Susy’s question, I can confirm that our outlook for the Americas for Q4/2023 looks quite conservative.

On your first question. Overall, the EMEA region was up 12% in Q3, with brick-and-mortar retail being up low single-digit. However, excluding all those store renovations, such as in Dubai, Lisbon, Stuttgart, Berlin, or Milan, it would have been up around mid-to high single-digit. Please also consider that on a four-year stack basis, growth in our global brick-and-mortar retail business was up a strong 31%.

**Manjari Dhar (RBC Capital Markets):** First, on your retail store base. Could you please provide some more color on the uplift in performance you’ve been seeing from the most recently refreshed stores?

Secondly, how much of the brick-and-mortar wholesale growth is coming from space. Is it more like-for-like driven?

**Yves Müller (CFO and COO of HUGO BOSS):** Starting with the second question on wholesale. It is around 75% like-for-like and 25% space expansion. Regarding the latter, there are two main factors: first, at some key accounts, we are still gaining additional doors, especially in the U.S. Secondly, we are expanding our franchise business, as laid out at our Capital Markets Day in June, with more to come going forward.

On the first question, which was related to our store renovations. It depends, but for example our Halo stores at Dubai Fashion Valley and Dubai Mall, are recording strong double-digit growth after the renovation. We are changing our point of sales into true points of experience. Overall, our store productivity was plus 7% in Q3, clearly above
our mid-term guidance of a CAGR of at least 3%. By year-end, we will have 40% of our store universe in the new store concept. So we keep on investing.

**Andreas Riemann (ODDO BHF):** First, on retail selling space. Did you say that roughly 5% of your selling space was closed in Q3? Given that Dubai Mall and other stores are open again, this would imply that it’s less than 5% in Q4.

Secondly, on growth and collection complexity. Sales growth was 15% currency-adjusted in Q3. What was the volume growth? And, linked to that, how about complexity? Is the number of SKUs at present decreasing despite 15% sales growth?

**Yves Müller (CFO and COO of HUGO BOSS):** On the second question: our Q3 growth was definitely also driven by volume, as we are gaining market shares. And we achieved this also by reducing the complexity of our business, especially at BOSS Menswear, the biggest part of our business. We keep the complexity under control, and we want to reduce it further. At BOSS Menswear – although we introduced BOSS Camel – with our four brand lines (BOSS Black, Orange, Green, and Camel), we are now at a level that is below prior year’s complexity.

**Christian Stöhr (Vice President Investor Relations at HUGO BOSS):** On the first question, I need to clarify that Yves did not make a comment on how much of our store network was closed during the course of Q3. The point was, when it comes to EMEA, we have definitely seen a number of high-profile stores being under renovation and being temporarily closed, as we called out Dubai, Milan, Lisbon, Berlin, Stuttgart, Amsterdam, just to name a few. Yves' point was that the brick-and-mortar retail growth for EMEA was 2% in the quarter, but adjusted for the store renovations, we would probably be somewhere in the mid-single-digits. There was probably a couple of percentage points impact from these renovations, which should be a little bit less
during Q4 as many of these high-profile stores have now been reopened, first and foremost, Dubai Mall.

**Thomas Chauvet (Citi):** First, on sales productivity, which increased 7% in Q3 to EUR 12,400 per sqm. So you're very close to your 2025 target of 'more than EUR 13,000 per sqm.' That would imply only 2% to 3% gain per annum from here. Isn't there room to do a lot better?

Secondly, on inventories, which were up 32% currency-adjusted at the end of September. You again mentioned a high share of core merchandise, but also potentially greater promotion in the fourth quarter. Would you consider doing a sort of ‘one-off clearance’ of your seasonal inventory in the coming weeks, particularly in Europe given the recent weakness?

Finally, to reconcile the 12% growth for EMEA with France and U.K. both up mid-single-digit, Germany plus 8% in Q3. How much does the Middle East/India/Africa contribute as a percentage of EMEA sales? And, guessing that this business was probably up around 50%, has this been organic growth or is this also reflecting your expansion into franchise stores?

**Yves Müller (CFO and COO of HUGO BOSS):** First, on sales productivity, I can understand that our mid-term ambition rather looks conservative from your perspective. However, we don't know what will be happening macroeconomic-wise next year. We are now at EUR 12,400 per sqm. And we keep focusing on improving our store productivity, as this is strongly driving operating leverage. This means further optimizing and modernizing our retail network will remain one of our key priorities. Especially our Halo stores are generating productivity well beyond the EUR 20,000 mark. So we are very satisfied with how they are performing.
Secondly, on inventories, there will be no one-offs in Q4. As we always said, the aging structure looks good. And we keep on reducing the inflow to get weekly coverage down.

Finally, on the EMEA growth rate of 12%. Our key markets Germany, the U.K., and France account for almost 50% of EMEA sales. In Q3, we have also seen strong growth in markets that are depending on tourists, such as Iberia, Turkey, and the Middle East, and we also strongly grew with our franchise business in Eastern Europe.

**Rogerio Fujimori (Stifel):** First, on BOSS Camel. Please comment on the traction of BOSS Camel in the affordable luxury segment in Asia, specifically China. And how BOSS Camel performs compares to BOSS Black in Europe and the Americas.

Secondly, on pricing, please confirm the level of pricing that we should model for Spring/Summer 2024, and the mid-single-digit price increase implemented for Fall/Winter 2023.

**Yves Müller (CFO and COO of HUGO BOSS):** First, BOSS Camel is our fastest-growing brand line, overall elevating the BOSS brand. Already today, in Asia, only 15 years after its introduction, it accounts for around 20% to 25% of our business. The price value proposition is strong, and we keep on growing – something that will remain one of our focus points also for the next quarters.

Regarding pricing, you’re right. We meanwhile implemented two rounds of mid-single-digit price increases. The first one was for Fall/Winter 2022 and Spring/Summer 2023, and the second one was for Fall/Winter 2023 and Spring/Summer 2024. This means that in total, we implemented a combined increase in the low double-digits across those seasons. This said, we continue to have a superior price value proposition, in
particular as many of our competitors increased prices even further, while they are now
discounting their products. And when looking at Spring/Summer 2024, we now have
most of this increase already in the base.

**Michael Kuhn (Deutsche Bank):** First, on cash flow and inventory reduction. Looking
at the aspired reduction and the implied earnings guidance for Q4, do you still see a
chance to end the year with a neutral or slightly positive free cash flow?

Secondly, on OpEx and specifically on admin costs, which were amounting to more
than EUR 100 million over the past three quarters. What caused that drop in Q3 now
and what run rate should we assume going forward, or in terms of overall OpEx
growth?

**Yves Müller (CFO and COO of HUGO BOSS):** First, I can confirm that we expect to
finish the full year with positive free cash flow, first and foremost as we intend to further
reduce our inventory levels. Besides that, the important holiday season will drive our
retail business and thus also free cash flow.

Regarding OpEx, there are always some timing effects here and there, nothing to worry
about. The best assumption usually would be the inflation rate, while in Q3 it was a
little bit less. I would expect some kind of mid-single-digit rate going forward.

**Thierry Cota (Société Générale):** First, you said that the big unknown in Q4 would be
promotionality. How do you assess promotionality today? Are we starting from a high,
a low, or an average level compared to the past, in order to assess the potential risk?

Secondly, how should we reconcile that brick-and-mortar retail was up 8% in Q3, and
the average ticket up double-digits? Is it the double-digit ticket only in full-price stores,
while outlets are diminishing as a proportion of sales? Or is it the temporary store closures given the renovations, the negative space effect?

Yves Müller (CFO and COO of HUGO BOSS): Starting with the second question, I was talking about our full-price stores. Our shop-in-shops and outlets are different businesses, which means that you cannot compare these numbers.

On promotional activity, Q3 is usually a month without extensive promotionality. So I would view this rather average. However, there is a lot of inventory at some competitors. And as we haven't started into the discount season yet, this remains the big unknown for Q4.

Martin Ben Rada (Goldman Sachs): First, on marketing and your expectations into 2024. Is it fair to assume that, as a percentage of sales, marketing will be relatively consistent with what we saw in 2023 to date, around the 7% to 8% range?

Secondly, on the digital business. You recorded very robust growth in this channel, while some of your peers were normalizing. Is there anything specific you attribute this to, any change in strategy for your digital business?

Yves Müller (CFO and COO of HUGO BOSS): Regarding marketing investments, for the year 2023, we are sitting just below 8%. This has been pretty consistent so far, strongly driving brand momentum. And we will keep pushing the pedal to the metal when it comes to marketing. However, on 2024, please understand that as usual, we will release our guidance for 2024 only in March.

Secondly, on the strong outperformance of our digital business over the last quarters. In previous years, we were always lagging in terms of digital capabilities, which was one of the reasons why we introduced our strong strategic claim "Lead in Digital," and
we invested into our Digital Campus. Our digital flagship hugoboss.com today is much more functional, much more personalized, and also our HUGO BOSS App is received very well. We are constantly improving our digital business, recording further market shares gains. Our digital investments are paying off, translating into strong revenue growth. We are particularly pleased that revenues at hugoboss.com grew 20% in Q3 and that they keep on growing also in Q4.