HUGO BOSS

Full Year 2023 Results

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Christian Stöhr: Good morning everyone, and welcome to our full-year 2023 financial results presentation, hosted by Daniel Grieder, CEO of HUGO BOSS, and Yves Müller, CFO and COO.

Today's conference call will be divided into three parts. Daniel will kick off by discussing our biggest strategic achievements in 2023 and their impact on our growth strategy "CLAIM 5." Afterwards, Yves will present our financial performance in the last fiscal year and walk you through our full-year 2024 outlook. As always, we will conclude with a Q&A session, during which Daniel and Yves will be happy to answer your questions.

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

Daniel Grieder: Thank you, Christian, and good morning everyone. Thanks for joining our call today.

As you could see from our pre-release in mid-January, 2023 was another record year for HUGO BOSS, and it marked a further important milestone along our growth journey. As the CEO of our Company, I am incredibly proud of what we have accomplished since we introduced "CLAIM 5." The second full year of strategy execution brought strong achievements across all business areas and drove the momentum of our two brands, BOSS and HUGO. This enabled us to gain further market shares in 2023.

With 4.2 billion euros in sales, in 2023, we were able to cross the 4 billion euro sales mark for the first time in our history. This means we have exceeded our initial mid-term sales target two years ahead of plan, with broad-based growth across both our brands, all regions, and all consumer touchpoints. And despite further investments into our business, we also recorded notable bottom-line improvements. Operating profit mounted up to 410 million euros – which represents almost 50 million euros more compared to the mid-point of our initial EBIT guidance for the year.

This is a clear testament to the power of "CLAIM 5." Without any doubt, we implemented the right strategy at the right time – a strategy that unleashes the full potential of our brands and drives top- and bottom-line growth. There is also no doubt that our winning formula "CLAIM 5" will continue to guide us in the future, as we see many more business opportunities in the years to come – be it from a brand, channel, or regional perspective.

Against this backdrop, our initial guidance for 2024 might look somewhat conservative at first glance. However, given the prevailing macroeconomic environment and considering it is still early in the year, we firmly believe in our approach. Yves will provide more details on 2024 in a short while.

But before we do that, let's first take a look at our various strategic achievements. They form the basis for our strong operational and financial development in recent years. Moreover, they are a prerequisite for our way forward, providing us with an important foundation for sustainable and profitable growth.

Ever since we introduced "CLAIM 5" in August 2021, we have made strong progress, in particular when it comes to accelerating brand relevance: our brands have gained significant awareness, our product offering has clearly improved, and we have elevated the customer experience at our points of sale.

At the same time, although less visible from the outside, we successfully strengthened our organization over the past two and a half years. Today, we have the right team in place, we have embraced digital transformation, and we have built a flexible yet resilient supply chain. This robust foundation is all the more important as we look into the future. It will foster our operational flexibility and responsiveness and enable profitable growth. Therefore, let's take a deeper look at all these achievements and how 2023 paid into them.

Let's start with what makes me particularly proud: our brands BOSS and HUGO are notably stronger than in the past – a clear testament to our first claim "BOOST BRANDS." This shows that we put consumers at the center of everything we do. Following our successful branding refresh in 2022, we continuously boosted brand relevance also in 2023.

Our 360-degree marketing approach plays a key role in this success. A couple of weeks ago, we launched our latest BOSS campaign, once again featuring a diverse all-star cast – from supermodel Gisele Bündchen to well-known BOSS ambassadors Lee Minho and Matteo Berrettini. And only yesterday, we unveiled Taylor Fritz as our new BOSS ambassador, further strengthening our presence in sports.

Also for HUGO, the last few days were quite eventful: We just launched our Summer 2024 campaign, which embodies the brand's new dual identity around the iconic RED and the new BLUE color codes.

On top of our campaigns, we fueled brand momentum through unique fashion events and high-impact brand initiatives. Our spectacular Miami and Milan fashion shows clearly rank among my personal highlights. Of course, closely followed by strong collaborations such as Formula 1 with BOSS and, most recently, also with HUGO. Thanks to these initiatives, also in 2023, we further activated the narratives of "BeYourOwnBOSS" and "HUGOYourWay."

It is particularly encouraging that all these investments are paying off, as reflected by our strong momentum on social media: In 2023, BOSS was once again the fastest-growing brand on Instagram, while also outperforming in terms of engagement. And HUGO was the most-viewed brand on TikTok among its core peers.

Our numerous efforts to be on top of consumers' minds have once again earned BOSS the first place in our latest Brand Heat ranking, covering key premium apparel brands. It's the second year in a row that we have made it to the top of this ranking.

Also the fact that we are strongly growing our customer base underlines our successes when it comes to turning consumers into fans. In 2023, we were able to grow our member base by more than 30%, with the important U.S. market even seeing an increase of over 40%. This is proof positive that we have meanwhile positioned BOSS and HUGO as true 24/7 lifestyle brands, appealing strongly to both millennials and Gen Z.

Speaking about our 24/7 lifestyle naturally brings us to another accomplishment: Within our second claim "PRODUCT IS KEY," we have redefined our product range. This includes further optimizing our price-value proposition and investing into our product offering to ensure highest quality – always with a particular focus on driving innovation and sustainability.

With our various brand lines, today we are delivering on our promise of perfectly dressing our customers for every occasion. As we speak, our latest addition – HUGO Blue – is just hitting the sales floors, enabling us to leverage the denim opportunity with young generations. And for BOSS, we are rolling out our exclusive BOSS Camel line. Feedback on Camel from our partners and our customers continues to be promising and we are eager to further expand the pinnacle of our product offering.

To anchor our position in consumers' minds, in addition to high-impact collaborations, we continue to strengthen our license business. This includes the expansion into lifestyle areas such as equestrian and cycling, but also the launch of our exclusive suitcase collection with Samsonite. Product initiatives like these are seamlessly extending our 24/7 approach – always with a clear focus on the needs of our customers.

Talking of customer expectations: In today's world, we consider sustainability as a prerequisite to inspire consumers around the globe. We therefore keep pushing product innovation, fully in line with our mission statement "We Love Fashion, We Change Fashion."

As part of our collaboration with HeiQ, in 2023, BOSS successfully launched the first polo shirts made of almost 90% AeoniQ – the world's first sustainable, circular yarn. And at our BOSS fashion show in Milan, we presented a limited-edition capsule, also crafted with the fabric, which sold out quickly.

Now, switching to the sales perspective, which brings us to our fourth claim "DRIVE OMNICHANNEL": we have made great strides in elevating the customer journey and offering a superior brand experience across all touchpoints – from retail, to wholesale, and digital.

Thanks to the rollout of our latest store concepts, surprising pop-ups, and premium hospitality services, we achieved further progress when it comes to turning our own retail store into "THE place to be". Today, 40% of our stores are already offering the new "look and feel," including key BOSS stores in London, Dubai, and New York. Importantly, the enhanced customer experience has led to further productivity improvements in 2023 – up 4% versus the prior year.

With a clear focus on strategic partnerships, we keep leveraging our opportunities in the wholesale channel. This enabled us to successfully improve brand visibility and expand market shares at key department stores. And I am particularly pleased that the feedback we are getting from our partners remains positive, when looking at our order intakes for 2024.

Finally, on digital, where we further improved the digital experience last year. We relaunched and fortified our digital flagship hugoboss.com as well as our dedicated app. In addition, we expanded our digital presence through our partners. By capitalizing on these efforts, we have achieved further market share gains and increased our digital revenue share to almost 20%. As you can see, ladies and gentlemen, since introducing "CLAIM 5," we have made strong progress, particularly along those claims that are directly tangible for the consumer.

Now, let's shift focus and take a look behind the scenes. As I already mentioned, "CLAIM 5" is not just a facelift of HUGO BOSS. It's also about building a robust organizational platform, aimed at further strengthening the operational execution. Our strategic claims "LEAD IN DIGITAL" and "ORGANIZE FOR GROWTH" play a crucial role in this as well as our people and teams.

Our highly committed workforce is key to our success. In 2023, we added more talent to the team, bringing our global workforce to almost 19,000. We empowered our employees to fully embody the bold spirit of "CLAIM 5" and built trust as the basis of our corporate culture. To offer the right environment, we kept investing in our organization, creating the campus of the future here at our headquarters. Now, with the right people and the right mindset in place, we will put an even stronger focus on executional excellence.

Enhancing the resilience and flexibility of our supply chain is another way of strengthening our operational foundation. Thanks to our nearshoring initiatives, we are making further strides towards an even more balanced footprint. Around half of our sourcing volume comes from Europe. This is also a strong commitment to our important own production sites. After successfully expanding our largest production facility in Izmir in late 2022, our new plant dedicated to the production of casualwear, was running at full speed last year.

On top of that, we started to expand one of our major logistics hubs near our headquarters. With investments of more than 100 million euros, we support long-term growth by increasing global shipping and storage capacity by 40% in the medium term.

Now, before handing you over to Yves, let's quickly touch on our digitalization initiatives. Since the introduction of "CLAIM 5," we meaningfully digitalized our business activities – from digital trend detection and product creation to AI-enabled pricing, digital showrooms, and innovative digital marketing.

Our HUGO BOSS Digital Campus is at the heart of this journey. It further expands our digital capabilities and provides meaningful insights as well as efficiencies along our value chain. In addition, in 2023, we further pushed ahead with our important Digital TWIN initiative. By harnessing the power of data, we will be able to better align our various planning activities and drive additional efficiencies in the years to come.

This, ladies and gentlemen, concludes my review of the past fiscal year. As you can see, the execution of "CLAIM 5" is in full swing and has once again enabled us to make further progress. After a successful period of brand renewal and market share gains, our business platform will now allow us to put an even stronger focus on our operational execution. This, in turn, will drive further effectiveness and efficiencies, and is all the more important as we keep navigating a period of heightened macroeconomic volatility. And with this, I am now handing over to Yves, who will elaborate on our operational and financial developments. Yves, over to you.

Yves Müller: Thank you, Daniel, and also from my side, a warm welcome to all of you. In the next 20 minutes, I will guide you through our 2023 operational and financial performance, before outlining in detail our expectations for full-year 2024.
Let's kick off with a closer look at our top- and bottom-line performance in the last fiscal year. Thanks to the determined execution of "CLAIM 5," our revenues grew remarkable 18% to 4.2 billion euros. This equates to record sales for our Company.

Equally as important, we recorded significant bottom-line improvements, with our top-line performance more than offsetting further investments into the business. Overall, EBIT surged 22% to an amount of 410 million euros, which led to an increase in EBIT margin of 60 basis points to 9.8%.

Bolstered by a robust final quarter, we ultimately achieved our full-year 2023 targets, which we had revised upwards twice during the year. This is all the more remarkable considering the high level of macroeconomic and geopolitical uncertainty, which increasingly weighed on consumer sentiment. So let's delve deeper into our top-line performance, starting with our brands.

Fueled by several brand and product initiatives, both BOSS and HUGO experienced double-digit growth, thereby further expanding market shares worldwide. Revenues for BOSS Menswear grew 16%, while our BOSS Womenswear business grew by as much as 24%. HUGO also followed suit, with strong growth of 22%.

What strikes me most is the fact that growth was once again well balanced, with double-digit improvements across all wearing occasions, showcasing our success in fortifying our 24/7 brand images.

Equally important: all regions contributed by posting double-digit sales improvements.

With revenues up 23%, momentum in the Americas remained strong throughout the year, with all key markets continuing their double-digit growth trajectory. This performance is a direct consequence of our enhanced brand perception in the important U.S. market. And it reflects strong progress made when it comes to further expanding our presence in key department stores, resulting in further market share gains. As a result, we have already achieved our 2025 revenue ambition for the Americas of around 1 billion euros two years ahead of plan.

In EMEA, revenues expanded by 13%, fueled by both local demand as well as a pick-up in business with international tourists. Momentum remained solid in key markets such as Germany and France, while we recorded particularly strong growth in Emerging Markets, including in the Middle East.

To finish off on our regions: revenues in Asia/Pacific strongly accelerated in 2023, expanding 32%. This reflects both a stellar performance in Southeast Asia & Pacific, including strong double-digit growth in Japan, as well as a notable recovery of our business in China. In addition to robust improvements in mainland China, our business in Hong Kong and Macau also recovered, reflecting the gradual pick-up in tourism.

Let's conclude on our top line with a quick look at our channels, all growing double-digit in 2023. Sales in brick-and-mortar retail grew 15%, largely driven by comp store sales increases as well as a moderate impact from space expansion.

Brick-and-mortar wholesale revenues grew 18%, fueled by the continued strong reception of our collections among wholesale partners. Also the expansion of our franchise business contributed to growth, as we added around 50 full-price franchise stores in 2023 – with more to come going forward.

Lastly, our digital business successfully continued its double-digit growth trajectory, with sales up 26%. This reflects double-digit increases at hugoboss.com and notable improvements in our digital partner business. With this, let's now turn our attention to the remaining P&L items.

At 61.5%, our gross margin came in 30 basis points below the prior-year level. Gross margin development in 2023 was, first and foremost, supported by the gradual normalization of global freight cost levels, including a reduction in the share of air freight. However, these positive factors were somewhat counterbalanced by higher product costs, unfavorable currency fluctuations, a negative channel mix, and an increasingly promotional environment towards the end of 2023.

Speaking about the gross margin, let me be very explicit in saying that we remain fundamentally optimistic regarding our future gross margin opportunity. Between now and 2025, we continue to forecast our gross margin to range between 62% and 64%, primarily reflecting anticipated efficiency gains in our global sourcing activities – something that I will elaborate on in just a few minutes.

We now move over to operating expenses, which were up 13%. This development was driven by higher fulfillment, variable rental, and payroll expenses in light of the strong top-line momentum as well as our well-flagged investments into the business. The latter also includes our comprehensive marketing investments, up 14% year-on-year, thus maintaining a consistent level of just under 8% of Group sales.

Overall, and supported by our top-line development, we successfully reduced operating expenses by 90 basis points, bringing them down to a level of 51.7%, which is well below pre-pandemic levels. This achievement was mainly driven by further efficiency gains in brick-and-mortar retail, down 140 basis points year-on-year and 500 basis points compared to 2019.

Consequently, our EBIT experienced a robust increase of 22%, resulting in an EBIT margin expansion of 60 basis points to a level of 9.8%. Finally, net income after minorities grew 23%, translating into earnings per share of 3 euros and 74 cents.

Let's now turn to the balance sheet. Starting with inventories, which increased 11% currency-adjusted. As in previous quarters, the vast majority of our inventories comprises core and fresh product for current and upcoming seasons.

This being said, and with measures in place to optimize inventory levels going forward, we recorded a first noticeable decrease of inventories in Q4, down 8% compared to the previous quarter. Also as a percentage of Group sales, inventories have seen a considerable improvement quarter-on-quarter, coming in at 25.4% and thus almost 300 basis points below the levels seen in Q3. 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, with the moving average of the last four quarters adding up to 20.8% of Group sales. Besides the somewhat higher inventory levels during 2023, this also reflects an increase in trade receivables following our strong wholesale performance as well as somewhat lower trade payables. Going forward, and supported by the optimization of inventories, we remain confident in our ability to improve this ratio towards our mid-term target corridor of 16 to 19%. We anticipate the first progress already this year, as we aim to approach a level of 20% in 2024.

Moving over to CapEx, up 55% to a level of almost 300 million euros, with a clear focus on enhancing our global store network, further digitalizing our business model, and strengthening our logistics capacities.

Last but not least, free cash flow amounted to 96 million euros, as improvements in EBIT were more than offset by the increase in trade net working capital as well as our deliberate step-up in CapEx. Speaking about free cash flow, let me clearly emphasize that we are fully committed to re-accelerating cash flow generation starting already this year.

In view of our strong operational performance in 2023, our very robust financial stance, and our confidence in our long-term growth opportunities, we will propose a dividend of 1 euro and 35 cents per share for the 2023 fiscal year, up 35% versus the prior-year period. This represents a payout ratio of 36%, thus fully in line with our target payout range of 30 to 50%.

With this, ladies and gentlemen, let's now take a closer look at our expectations for 2024 and its implications on our mid-term financial ambition.

As Daniel elaborated on in detail, after more than two years of successful strategy execution, we are operating on a significantly stronger foundation, enabling us to drive sustainable and profitable growth in the years to come.

We remain fully committed to rigorously executing "CLAIM 5" – even more so as the macroeconomic environment is likely to remain challenging for the time being. Building on our regained brand momentum, we are convinced that our brands have everything it takes to continue their growth journey. In particular, as we aim to gain further market shares also in the current fiscal year.

Altogether, we are forecasting Group sales in reporting currency to increase within a range of 3 to 6% in 2024. And while Daniel already pointed out that our guidance may appear somewhat conservative at first glance, there are good reasons to remain vigilant. And let me be very clear, the last thing we want to do is promising you something we cannot deliver.

So why are we guiding the way we do? In the second half of 2023, we have experienced a further deterioration of the macroeconomic and geopolitical environment. Most importantly, we have seen inflation cooling more slowly than expected and geopolitical tensions in the Middle East mounting up. This adds to the already high levels of uncertainty and weighs further on global consumer confidence, with individual markets being affected in different ways.

On the one hand, we are seeing consumers keeping up relatively well in markets such as the Americas, Japan, the Middle East, and Southeast Asia. On the other hand, consumer confidence in key European markets, particularly in the UK, remains weak. On top of that, China's economy is still struggling to regain its prior momentum, with consumer confidence hovering around its all-time low. This limits the upside in this strategically important market in the short term.

So clearly, in our sales outlook for 2024 we have taken a rather cautious stance on the macro backdrop, factoring in the various uncertainties. This being said, it goes without saying that all of these aspects have upside potential if they improve faster than expected, yet they remain question marks for the time being.

The varied landscape is also reflected in our regional sales forecast: More specifically, we expect sales in EMEA to grow in the low to mid single-digit range, while revenues in the Americas are forecasted to increase at a mid to high single-digit rate. For Asia/Pacific, we are confident in achieving high single- to low double-digit growth in 2024.

Now, let's take a look at what this implies for our 2025 top-line and bottom-line ambition.

The ongoing uncertainty regarding the macroeconomic and geopolitical landscape, and the corresponding weak consumer sentiment, might in fact cause a slight delay in achieving our 2025 sales ambition of 5 billion euros. Importantly, this does not change our firm belief in "CLAIM 5," nor the fact that we will reach 5 billion euros turnover, even if it may take a little longer. Quite the opposite: We continue to fully believe in the mid- and long-term potential of our business and will follow our route in the most diligent manner.

And while we remain somewhat cautious when it comes to our revenue expectations in 2024, we are all the more confident with regard to our future bottom-line development. We continue to target notable profitability improvements, as we expect EBIT to grow faster than sales also in the coming years. Today, we are therefore confirming our ambition of achieving an EBIT margin of at least 12% by 2025.

Already for the current year, we expect robust earnings growth. We aim to improve our EBIT by between 5 and 15% to a level of around 430 to 475 million euros in 2024. This means that our EBIT margin is set to expand further this year, to a level of between 10.0 and 10.7%.

Now, what makes us so confident? Over the past two and a half years, we have significantly invested into our business: we strengthened our brands and products, strongly elevated customer experience, invested into our digital capabilities, and expanded our production and logistics footprint.

In doing so, we have built an important organizational and operational platform for future top- and bottom-line improvements. While we will keep investing in our organization and our people, more importantly, we will capitalize on our robust foundation and make use of our increased operational flexibility, to realize efficiency gains from here on.

In 2024, above all, it is our gross margin that will support our bottom-line performance. In this context, we remain fully committed to our gross margin ambition of 62 to 64% between now and 2025.

Already this year, we will start benefitting from the ongoing optimization of end-to-end operations activities. In particular, we are targeting efficiency gains by leveraging our global sourcing activities and enhancing effectiveness. This includes achieving greater economies of scale, while at the same time further optimizing vendor allocation and freight modes. The latter will help us in significantly reducing the air freight share compared to previous years. Last but certainly not least, we also expect lower product cost levels in 2024, following a decline in commodity prices.

Also contributing to our 2025 bottom-line ambition will be our ongoing commitment to further optimizing our fixed cost base. In particular, we will further enhance cost efficiency in brick-and-mortar retail, where we have already achieved notable improvements as part of "CLAIM 5."

Also in our headquarter functions, we see potential to leverage our platform approach. This includes, among other things, the reduction of overall collection complexity as well as a constant review of marketing effectiveness together with a diligent review of admin expenses.

Before I hand the floor back to Daniel for his concluding remarks, I'd like to revisit the topic of free cash flow. As mentioned earlier, we are fully committed to accelerating our cash flow generation. Over the past two years, a temporary increase in trade net working capital levels and heightened investment activity, impacted our cash flows to some extent.

Looking ahead, in addition to the anticipated top- and bottom-line improvements, we expect an optimization in trade net working capital as well as our persistent focus on maximizing CapEx efficiency to fuel cash flow generation. Consequently, we anticipate that starting with the 2024 fiscal year, our free cash flow will improve to a level of around 500 million euros. This aligns with our overarching annual mid-term goal outlined in "CLAIM 5." And with that, I now hand over to you again, Daniel.

Daniel Grieder: Thanks, Yves. Ladies and gentlemen, before we start with the Q&A session, let me briefly wrap-up: with our "CLAIM 5" strategy in full swing, today, we are operating out of a position of strength. BOSS and HUGO are stronger than ever before. Our broad-based growth journey until here underpins the potential that lies in our strategy – across brands, consumer touchpoints, and geographical areas. Exploiting these opportunities, in 2024 and beyond, is – and will remain – the top priority for us.

Most importantly, we have built a strong and resilient operational platform. And we will leverage this platform from here to accelerate efficiencies, effectiveness, and profitability. We are fully committed to generating further top- and bottom-line improvements in the years to come.

Personally, I look forward to continuing this journey together with my two fellow board members, Yves and Oliver, in the coming years. Together, we will ensure the consistent execution of "CLAIM 5" also going forward and thus contribute to long-term business success. And with this, let's now move over to the Q&A session.

Christian Stöhr: Okay, everyone, that completes today's conference call. If you have further questions, please feel free to contact the Investor Relations team. Thank you for your participation. Take care and good-bye.