Third Quarter 2024 Results

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Christian Stöhr (SVP Investor Relations): Good morning, ladies and gentlemen, and welcome to our third quarter 2024 results presentation. Hosting our conference call today is Yves Müller, CFO and COO of HUGO BOSS. Before I hand over to Yves, allow me to remind you that all revenue-related growth rates will be discussed on a currency-adjusted basis, unless otherwise specified. Also – and just like in the past – please 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 (CFO/COO): Thank you Christian, and a warm welcome from Metzingen, ladies and gentlemen. As you could see from our press release this morning, at HUGO BOSS, we can look back on a solid third-quarter performance. A quarter, characterized by revenue improvements despite ongoing external challenges due to weak consumer sentiment. This development is a testament to the strength and attractiveness of our brands BOSS and HUGO, which we have built up in recent years by consistently executing our "CLAIM 5" strategy.

Equally important, we have clearly improved cost efficiency, as announced in our last update in August. By leveraging our global sourcing activities and implementing dedicated cost measures, we have increased efficiency and effectiveness across our business. These efforts were instrumental in limiting OpEx growth in Q3 and supported our bottom-line development. Moreover, they strengthen our confidence in our 2024 financial outlook, which we reconfirm today.

In light of the persistent macroeconomic uncertainty, we continue to focus on what we can influence directly: exercising strict cost discipline while strategically investing in our brands, products, and consumer experiences. This fundamental approach will not change in the future. We remain fully committed to safeguarding the long-term strength of BOSS and HUGO, even as we face external challenges in the short term.

Now, before I guide you through the details of our Q3 bottom-line performance and our expectations for the remainder of the year, let's dive into the top-line trends that shaped the quarter.

As you are aware, our industry continued to navigate a highly volatile market environment also in the third quarter, characterized by ongoing macroeconomic and geopolitical headwinds. While these challenges weighed on sector development in most markets, the impact was particularly pronounced in China, where subdued consumer confidence had an even more adverse impact on domestic consumption as compared to Q2.

Against this backdrop, we are pleased that we returned to growth in Q3. Overall, Group sales increased 1% in the three-month period, contributing to our top-line performance over the first nine months, with Group sales now up 2% year on year.

The foundation for this success lies in our ongoing efforts to further enhance the attractiveness of our brands, deepen customer engagement, and deliver compelling product experiences. Initiatives like these remain key to supporting our future top-line momentum, as we are not willing to compromise on brand relevance and our superior price-value proposition. Therefore, let's take a quick look at some of our most recent brand and product highlights.

In August, we introduced our BOSS Fall/Winter 2024 collection, celebrating the launch with an impactful 360-degree campaign. It featured another iconic lineup of personalities including the highly anticipated debut of our strategic partnership with David Beckham. Overall, we were able to more than double the level of engagement on social media as compared to last year's campaign.

Only a few weeks later, BOSS generated headlines at Milan Fashion Week, showcasing the upcoming Spring/Summer 2025 collection in an "out-of-office"-themed show. The event was streamed live globally and reached over 40 million views, setting a new milestone as the most successful fashion show in our history.

Last but certainly not least, HUGO fostered its global presence in the world of Formula 1 with a series of physical and digital activations during Singapore Grand Prix. They were accompanied by the launch of the latest HUGO x Red Bull Fall/Winter capsule, blending contemporary tailoring and performance wear with iconic fan apparel.

Fueled by these successes, both our brands continued their growth trajectory in the third quarter. This includes sales for BOSS Menswear being up 1%, while BOSS Womenswear improved by 2%. HUGO also posted 2% growth, supported by the ongoing rollout of our new denim line HUGO BLUE.

Moving on to our regional performance, and starting with the Americas, where we continued our growth trajectory also in the third quarter. Revenues in the region expanded 4% year over year, supported by further sales improvements in the most important U.S. market. This performance reflects our brands' successful 24/7 lifestyle positioning, which kept fueling momentum, particularly in department stores. In Latin America, momentum remained equally resilient, once again delivering double-digit growth, while Canada remained on the prior-year level. Notably, when looking at the first nine months of 2024, sales in the Americas were up a solid 6%. This is fully in line with our regional guidance range of mid- to high-single-digit growth for the year.

Switching gears to EMEA, where we returned to growth in Q3, with sales up 1%. On the one hand, revenue improvements in Germany largely offset muted consumer sentiment in the UK as well as reduced demand in France during the Summer Olympics. At the same time, we maintained our double-digit growth trajectory in the emerging markets, with ongoing robust trends in the Middle East.

To conclude on our geographies, let's spend a moment on Asia/Pacific, where sales declined by 7% in Q3. While Japan continued to grow double-digits, the region's overall performance was impacted by ongoing subdued consumer confidence in China. This softness intensified quarter-over-quarter, affecting in particular local demand but also international tourism to some extent.

Given the uncertain near-term outlook for consumer sentiment in China, we remain vigilant in the short term. At the same time, it's also worth noting that our exposure to China remains quite limited, currently representing just 5% of Group sales. Therefore, we are also continuing our efforts to enhance the customer experience and drive brand equity in China over the long run. This includes initiatives like the opening of our new BOSS halo store in Shanghai in just a few weeks' time.

To finish off on our top-line performance, let's take a quick look at our distribution channels. I am glad to see that our momentum in brick-and-mortar wholesale continued, with sales up 4% in Q3. This marks our 14th consecutive quarter of revenue growth in physical wholesale. In view of the overall market environment, this is all the more remarkable and serves as evidence that we are continuing to gain market share in the multi-brand environment. Importantly, our growth in this channel not only reflects the fulfilment of our order books for the current Fall/Winter season, but also the resilience of our replenishment business.

On the brick-and-mortar retail side, sales remained 3% below the prior year, and thus broadly on the levels witnessed during the second quarter. As in Q2, this performance was largely due to traffic declines in key retail markets such as the UK and China, which more than offset higher sales per transaction. Excluding these two markets, brick-and-mortar retail sales were broadly stable in the three-month period.

Finally, our digital business returned to growth in Q3, with sales up 6%. This development is mainly due to revenue improvements within our digital partner business, particularly as sales generated with digital pure players in Europe rebounded strongly in the quarter. This renewed momentum highlights our effective digital strategies and partnerships, enabling us to exploit opportunities across multiple touchpoints in the digital landscape.

As we work to enhance the omnichannel experience and strengthen the connection to our brands – both online and offline – we are placing a particular focus on customer loyalty. In this context, we are encouraged that our global membership base has grown by 25% year over year. With half a million new members added in the third quarter alone, we recently surpassed the milestone of 10 million registered customers.

Retaining their long-term loyalty to our brands is of utmost importance, and our new, innovative membership program "HUGO BOSS XP" will be the next catalyst. Following its successful launch in the UK, we are now extending "HUGO BOSS XP" to customers in Germany and France. In the upcoming quarters, we will roll out the program to further markets worldwide, including the U.S. market, as we are committed to expanding our global member base and deepening customer engagement.

This, ladies and gentlemen, concludes my remarks on our top-line performance in the third quarter. Let's now move over to our bottom-line development.

Thanks to our enhanced focus on driving cost efficiencies, we limited the EBIT decline to 7% in the third quarter, reaching 95 million euros. Consequently, and despite a decline in gross margin, our EBIT margin accelerated quarter over quarter, coming in at a level of 9.3%.

But let's go through the profit and loss statement item by item, starting with the gross margin development. On the positive side, we continued to successfully leverage our operations platform by further enhancing the efficiency of our global sourcing activities. This included achieving greater economies of scale, optimizing vendor allocation, and further reducing airfreight usage. Combined with more favorable product costs compared to last year, these initiatives provided a tailwind of around 200 basis points to our gross margin development in Q3.

However, we also faced mounting pressure from several external challenges, which altogether impacted our gross margin by around 250 basis points. These included a renewed spike in global freight rates, a more competitive promotional landscape, as well as adverse currency effects. Coupled with unfavorable channel and regional mix effects, our gross margin ultimately saw a decline of 50 basis points in Q3, thus falling short of our initial expectations. Importantly, when looking at the performance in the first nine months of the year, at 61.5%, our gross margin remained stable compared to last year's levels.

Speaking about the gross margin, let me emphasize once again that we remain committed to sustainably improving our gross margin in the long term. We are convinced of the structural opportunities our gross margin offers. Therefore, our primary focus will remain on driving further sourcing efficiencies by leveraging our operations platform in the quarters to come.

With this, let's now turn to our operating expenses. Thanks to the successful implementation of several cost-saving measures aimed at curbing expense growth and supporting profitability, operating expenses increased by 1% in Q3. This represents a strong improvement compared to the 9% increase recorded in Q2. In addition to lower administration expenses, we were also able to significantly slow down the growth of selling and marketing expenses. The latter were up just 2% year on year, compared to a 10% increase in the second quarter.

In brick-and-mortar retail, selling expenses rose by 6%, mainly driven by inflation- and expansion-related costs. Consequently, this growth was half of what we experienced in the second quarter. Marketing investments, on the other hand, decreased by 3%, reflecting enhanced marketing efficiencies. This entails, among other things, prioritizing high-return initiatives such as our BOSS fashion show in Milan. Importantly, at 7.4% of Group sales, our marketing investments are fully in line with our 7 to 8% target range outlined in "CLAIM 5."

Lastly, we successfully reduced administration expenses by 5%, underscoring our disciplined approach to managing overhead costs. This development resulted from several initiatives aimed at boosting organizational efficiency, including a more restrictive hiring policy and cutting expenses in non-business-critical areas such as travel, consultancy, and hospitality.

To conclude on profit and loss, net income after minorities came in at 55 million euros, down 13% compared to the prior-year level. This development also reflects a modest increase in net financial expenses due to higher interest costs in the third quarter. Consequently, earnings per share also decreased by 13%, totaling 79 cents.

Now, turning to the balance sheet, where we managed to improve trade net working capital by 10% on a currency-adjusted basis. This development primarily reflects a reduction in inventories, down 6% year on year or 300 basis points in relation to sales. Along with higher trade payables, this enabled us to more than offset a moderate increase in trade receivables. The latter is linked to our ongoing robust wholesale performance. As a result, the moving average of trade net working capital as a percentage of sales further improved quarter over quarter. At 20.4%, it is in line with our full-year target of "approaching 20%."

In terms of capital expenditure, investments in the third quarter rose by 28% to 89 million euros, mainly driven by the expansion of one of our key logistics hubs, alongside selective enhancements to our store network and strategic initiatives in digital. Last but not least, free cash flow generation picked up year over year, totaling 40 million euros. Therein, improvements in trade net working capital more than offset the impact of our bottom-line development and the step-up in investment activity.

This, ladies and gentlemen, concludes my remarks on our third-quarter operational and financial performance. Let's now move on to our expectations for the remainder of the year. Building on our solid performance in the third quarter, today we reconfirm our top- and bottom-line outlook for the full year 2024. At the same time, we remain vigilant in the face of ongoing global macroeconomic challenges and short-term uncertainties surrounding consumer sentiment.

Consequently, we continue to expect Group sales in 2024 to increase between 1% and 4% in Group currency, with a slightly negative currency impact.

This outlook is supported by our robust order intake for the upcoming Spring 2025 season, alongside several brand, product, and sales initiatives planned for the remainder of the year. These include, among others, our BOSS holiday campaign, launching tomorrow and featuring our Fall/Winter all-star cast.

With regards to our bottom-line expectations for the year, we remain committed to enhancing efficiencies across all areas of the business also in the final quarter. Just as we did in Q3, we will continue to place a particular focus on areas such as sales, marketing, administration, and operations. Overall, these measures will enable us to limit the growth of our OpEx also in the fourth quarter. This, in turn, will provide important tailwind to our bottom-line development in 2024, for which we are reconfirming our EBIT target range of between 350 and 430 million euros.

Ladies and gentlemen, before I take your questions, let me briefly summarize:

- In the third quarter, we have demonstrated resilience by maintaining a sharp focus on what we can control: driving operational efficiency and cost discipline, while strategically investing in our brands and deepening customer connections.

- As a result, we successfully returned to growth despite a weak consumer backdrop. This achievement is a clear testament to the strength of BOSS and HUGO, while also highlighting the success of our "CLAIM 5" strategy.

- Our intensified focus on cost efficiency has started yielding benefits to our bottom-line development, evident in the significant deceleration of OpEx growth. By maintaining the same level of determination and discipline also going forward, we are confident we will successfully manage short-term macroeconomic headwinds and bring 2024 to a successful end.

- Most importantly, we will continue to balance prudent cost management with strategic investments, to secure short-term profitability and drive long-term profitable growth. Based on this, we are well positioned to not only drive future margin improvements, but also to create lasting value for our shareholders in the years ahead.

And with this, I am now very happy to take your questions.