HUGO BOSS

First Quarter 2025 Results

May 6, 2025

Daniel Grieder (CEO)
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Christian Stöhr (SVP Investor Relations): Good morning, ladies and gentlemen, and welcome to our first quarter 2025 results presentation.

Before we begin, I want to inform you that Yves Müller, CFO and COO of HUGO BOSS, is unfortunately unable to join us today due to a personal matter. In his absence, our CEO Daniel Grieder, who is currently on a business trip in the U.S., will be leading today's presentation. We're also joined by Ivica Maric, Executive Vice President Business Operations, who oversees both our Global Controlling function and our Operations activities. He will participate in the Q&A session, which will be managed out of Metzingen.

Please be reminded that during our presentation all growth rates related to revenue will be discussed on a currency-adjusted basis unless stated otherwise. During the Q&A session, we kindly ask that you limit your questions to two per participant to ensure a smooth and efficient discussion. Now, let's get started and over to you, Daniel.

Daniel Grieder (CEO): Thank you Christian, and good morning everyone. Thank you for joining our call today. Against the backdrop of an increasingly volatile macroeconomic environment, I am pleased to report that we have delivered solid first quarter results. We exceeded market expectations on both revenue and earnings, demonstrating the strength and resilience of our business model.

Following a strong finish to 2024, the start to the new year proved more difficult – as we already pointed out in March. In view of the mounting external challenges affecting global consumer sentiment and industry development, we focused even more on rigorous strategic execution and consistent financial discipline.

Consequently, we limited the revenue decline to 2%, with Group sales reaching nearly 1 billion euros. EBIT totaled 61 million euros, supported by a stable gross margin and flat operating expenses – two key drivers we will discuss in more detail shortly. But first, let's take a step back and examine the broader macro context that shaped the operating environment in the first quarter.

As we have all witnessed, Q1 was marked by significant macroeconomic uncertainty. Geopolitical tensions, rising trade friction, and weak consumer confidence all contributed to softer consumer spending worldwide. Especially in China, demand remained subdued. And in the U.S., declining sentiment impacted discretionary spending. In light of these external headwinds, at HUGO BOSS, we stayed focused on what we can control: executing our strategic initiatives with strong focus on customer centricity and driving further cost efficiency. Our robust organizational and operational platforms form a decisive basis for this. They enable us to navigate the current challenges and position our business for long-term success.

A great example of how we keep fueling consumer excitement is our strategic partnership with David Beckham. We kicked off the year with the successful launch of the BOSS ONE Bodywear campaign – an activation that generated strong media reach and further strengthened brand appeal. And just two weeks ago, we took another major step with the launch of the first co-designed Beckham X BOSS collection – a defining moment for our brand, reinforcing our leadership in modern menswear. While it is still early days, initial feedback points to a strong reception, with above-average sell-through rates. Building on the strong visibility generated by our partnership with David, our Spring/Summer 2025 collections added further momentum and supported our brands across wearing occasions.

That said, in light of the challenging external backdrop, sales for both our brands came in slightly below the prior-year level: BOSS Menswear declined 2%, BOSS Womenswear 1%, and HUGO also 2%.

Let's now take a look at our performance across the regions. We start with EMEA, where sales remained broadly stable, declining by just 1% year over year. Sales in Germany came in at the prior-year level, while the UK and France recorded slight declines. Meanwhile, our important Middle East retail business continued its growth trajectory, further underscoring our potential in the region.

In the Americas, revenues were also down 1%. Double-digit growth in Latin America was more than offset by a moderate decline in the U.S. market. Over there, economic concerns, including recession, tariffs, and immigration policies increasingly weighed on local and tourist demand. This led to softer retail trends due to reduced foot traffic, while brick-and-mortar wholesale recorded further growth.

Moving over to Asia/Pacific. Revenues declined by 8%, as subdued consumer confidence continued to dampen demand in China. In contrast, Southeast Asia & Pacific saw further growth, led by another robust performance in Japan. This underlines the broad-based appeal of our brands across the region.

With this, let's move on to our channels. Brick-and-mortar retail declined by 4%, mainly due to reduced mall and store traffic, as well as some minor adverse calendar effects. This includes one less trading day compared to the prior year, and the shift of Easter into Q2. While we achieved an increase in sales per transaction, this was not enough to offset the overall lower footfall – particularly in the U.S. and China. Enhancing customer engagement and the in-store experience remains crucial for long-term success in this channel. The recent opening of our BOSS halo store in Shanghai, timed with the Formula 1 Grand Prix, is a prime example. We generated strong social media buzz and boosted the appeal of BOSS among Chinese consumers.

Turning to brick-and-mortar wholesale, where revenues declined 3%. This largely reflects broader retail pressures and slight delivery shifts, which should normalize in the coming quarters. Notably, total wholesale – including both physical and digital wholesale – recorded solid growth in Q1. This reflects our robust pre-order business and the strong reception of our latest collections.

To conclude on the channels, digital sales were up 4%, driven by revenues generated with partners. At the same time, hugoboss.com experienced somewhat softer trends, mainly reflecting the subdued consumer environment.

With this, let's now shift our focus to profit and loss, starting with the gross margin. In the first quarter, our gross margin remained stable at 61.4%. Efficiency gains in sourcing, lower product costs, and a reduced airfreight share supported our margin development. In particular, we continued to benefit from structural improvements and higher economies of scale realized through our operational platform. This allowed us to offset adverse impacts from channel and regional mix, currencies, and a more promotional market environment.

Turning to our cost base: In the first quarter, we continued to make progress in driving cost efficiency across key business areas – including marketing, sales, and administration, resulting in flat operating expenses year over year. Selling and marketing expenses remained stable, despite a slight increase in brick-and-mortar retail expenses, as well as a 3% increase in marketing investments, which amounted to 7.9% of sales. This was driven by major brand initiatives such as our campaign with David Beckham and the Shanghai opening event. We anticipate the relative marketing spend to be slightly lower in the coming quarters, while maintaining our focus on driving brand awareness and consumer engagement. Finally, administration expenses declined 1%, underscoring the success of our continued efforts to enhance operational efficiency.

Overall, this resulted in an EBIT decline of 12% to 61 million euros. Consequently, EBIT margin was down 70 basis points to 6.1%. Importantly, this development primarily reflects prior strategic investments aimed at supporting long-term growth. In contrast, our EBITDA margin remained stable at 15.2%, highlighting the underlying strength of our operating model. Last but not least, earnings per share amounted to 51 cents, down 8% versus the prior-year period.

Now, to round off our Q1 review, let's take a brief look at the remaining balance sheet and cash flow items. Trade net working capital increased by 2% currency-adjusted, largely reflecting a 5% rise in inventories year over year. This development was driven by higher goods in transit, along with a planned increase in inventory coverage. The latter relates to the U.S. market, in response to ongoing tariff uncertainty. As a percentage of sales, inventories stood at 25.1%, broadly in line with the level at the end of last year. As a result, trade net working capital relative to sales amounted to 19.7%, thus largely stable compared to last quarter.

Moving over to free cash flow, which came in at minus 66 million euros in Q1. This development mainly reflects the lower EBIT, the higher inventory position, and the anticipated normalization in trade payables. We expect free cash flow generation to accelerate over the course of the year, supported by improved earnings momentum and a more balanced working capital development.

Looking ahead to the remainder of the year, we remain committed to implementing our "CLAIM 5" strategy, while also driving improvements in profitability. Building on the strong foundation built in recent years, we will continue to execute 2025 with discipline, agility, and impact. Importantly, we will continue to invest in key initiatives that strengthen brand momentum and deepen consumer engagement for both BOSS and HUGO. These efforts will be supported by further improvements in sourcing and our ongoing focus on operational efficiency. However, our plans are unfolding within a broader context, shaped by continued macroeconomic uncertainty. A reality, we cannot ignore as we plan and execute in 2025.

In addition to ongoing economic challenges, the potential impact of evolving trade restrictions is a significant source of uncertainty. Global trade dynamics and ongoing tariff discussions are creating an uncertain environment, affecting both supply chains and consumer sentiment, especially in the U.S. Therefore, we continue to closely monitor the volatile environment as we move forward.

Our globally diversified sourcing structure continues to be a resilient backbone of our operations. For several years, we have significantly reduced our dependency on China and lowered its share of global sourcing from around 20% to a mid-single-digit percentage. In addition, around 20% of our total sourcing is done in-house, mainly in Turkey, providing greater flexibility and control. Aside from Turkey, no other country accounts for a significant sourcing share. This underscores the balanced nature of our supply chain.

Also when looking at the U.S. market – which represents around 15% of Group sales – our exposure remains well contained. Goods sourced from China account for only 4% of our U.S. sourcing volume. Meanwhile, roughly one third of inbound sourcing stems from Turkey and Peru – both unaffected by the current tariff discussions.

To actively mitigate the impact of tariffs already in place and absorb potential cost effects, we are pursuing several strategic measures. Besides increasing U.S. inventory coverage, we are taking the following steps to minimize our risk:

Firstly, we redirect products coming from China to the U.S. and replace them with items from other markets. This change aims to minimize the amount of merchandise flowing from China to the U.S. in the short term.

Secondly, we continue to optimize our global sourcing footprint and leverage our flexible supply chain. This enables us to adapt sourcing decisions with relatively short lead times, so we can adjust if new trade-related challenges arise.

Thirdly, we are carefully evaluating potential price adjustments. In any case, we would adopt a demand-sensitive pricing strategy to maintain our strong brand perception and our superior price-value proposition.

Given the ongoing uncertainty around tariffs, it's still too early to draw final conclusions. This said, thanks to our strategic measures, our solid Q1 performance, and our resilient business model, we are confident in confirming our outlook for 2025. In doing so, we are taking the current tariff regime into consideration.

Consequently, we continue to expect Group sales to remain broadly in line with the prior year. This remains a realistic and prudent view, given the current economic landscape.

At the same time, we continue to anticipate improvements on the bottom line. We expect EBIT to increase to a level between 380 and 440 million euros, leading to an EBIT margin of 9 to 10 percent. This development will be driven by ongoing sourcing efficiencies, supporting our gross margin, as well as our continued focus on cost efficiency.

In conclusion, while the road ahead may have its challenges, we remain committed to execute our strategy and improve profitability in 2025. With our powerful brands, resilient supply chain, and strong organizational platform, we are well equipped to address market shifts and tariff-related challenges effectively. As we look forward, we will continue to navigate with steady hands, sharp execution, and a clear focus on delivering against our priorities for the remainder of the year. And with this, we are now very happy to take your questions.

Christian Stöhr (SVP Investor Relations): Okay, everyone, that completes today's conference call. Rest assured, we will follow up with anyone who didn't get the chance to ask their questions today. Also, in case you have any open topics, please feel free to contact the Investor Relations team. Thank you for your participation and look forward seeing many of you at the upcoming conferences. Good-bye.