HUGO BOSS

Transcript – Q&A Session

March 9, 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.

Manjari Dhar (RBC Capital Markets):

First, on the full-price sales mix, are you happy with the current level? Or do you still see potential for this to improve beyond what you saw in 2022? And related to that, given the margin headwinds across 2022, is there now a potential to exceed that 62% upper end of the threshold in the medium term?

Secondly, could you please give some color on the wholesale order books and on the recent trends you've been seeing from partners there?

Yves Müller (CFO and COO of HUGO BOSS):

First of all, to put everything into perspective, we finished the year 2022 with a gross margin at 61.8%, which was on par with the 2021 performance. This means that we are now at the upper end of our midterm guidance between 60% and 62%. Talking about 2022, there was a strong positive impact coming from a higher full price sell-through and less markdowns, compensated by a strong freight cost increase and currency-related headwinds, especially a weaker euro against the U.S. dollar. So going forward for 2023, especially for the second half of the year we see already that the higher freight costs will somehow fade away. We will implement a mid-single-digit price increase for Fall 2023, starting in May. Also, the current rate of the U.S. dollar versus the Euro will give us some relief in the second half. So there are some positive signs that we might go beyond the 62% in terms of gross margin, especially in the second half of the year. Regarding wholesale orders, we said it during our presentation, we are actually very happy with the order intake that we had for the Pre-Fall and for the Fall/Winter.

Jürgen Kolb (Kepler Cheuvreux):

First, on your own production facilities in Izmir. Could you please update us on the current status. Did you already ramp it up to the level you're comfortable with? Or is there more to come this year?

Secondly, on all the campaigns and fashion shows that you did in 2022. Are there additional events and campaigns planned in 2023? Or is that pretty much comparable as to your activities that you had last year?

And thirdly, the collaborations that you called out, could you give us any indication as to how much these contribute to your sales - as you are very strong with that, and that's very brand building.

Yves Müller (CFO and COO of HUGO BOSS):

Regarding production, we hired more than 1,000 additional people across the year in 2022. So there was a clear ramp-up, especially in Izmir, to strengthen own production of casualwear. We have now the full run rate for the year 2023, with more flexibility, especially when it comes to casualwear. This will help us for the year 2023 and there are plans to expand further because we have to digest all these investments that we did and now ramp it up.

Daniel Grieder (CEO of HUGO BOSS):
Regarding the second question on the fashion calendar, the fashion shows and the campaigns, as you know, on the 26th of January, we launched our new campaign. The campaign is as powerful and successful as the first campaign last year and continues through the next months. We activate it through various channels on social media, always fuel it with new content. This is ongoing for the next 3 months. On top of that, next week, on the 15th of March, we have our next fashion event in Miami, where BOSS will host a "See Now Buy Now" event. This is going to be similar as in Milan 2022, a spectacular show, that will further boost our brand. On top of that, we will have several collaborations and activations also by regions this year because today, it's very important that you also have regional and local influencers, no matter if it is in the U.S., in Europe or in Asia. We also have a collaboration with NFL that we will launch in July, especially for the American market.
Collaborations are two parts. It's about increasing brand relevance among younger consumers. But it's also about driving turnover. For example, when you take our Porsche x BOSS collaboration, which is already in place for a few years, and which is getting bigger and bigger. However, the size will never be comparable to the size of our Business Units. So driving brand and marketing power comes first. And I am pleased that we are very successful in doing so. Also, for 2023, we have some exciting collaborations in the pipeline that will further enhance the brand.

Kathryn Parker (Jefferies):
First, on the store network and the freestanding stores. I can see that you opened quite a few in Q4 2022 and you are currently at about 470 as of 2022. In the strategic plan,

you marked a net closure of stores to get down to 400 stores. I wondered if this is still the strategy that you're pursuing and if we'll see a greater number of closures in 2023? Secondly, on the penetration of digital. In 2022, it was 18%. And I know of the strategic target of 25% to 30%. Now, after the relaunch of hugoboss.com in 2022, what's going to drive the uplift in penetration to this higher figure?

Yves Müller (CFO and COO of HUGO BOSS):
The first question is related to the store network. If you look at 2022, there was a high like-for-like growth, because we increased the store productivity by 29% to now close to EUR 12,000 per square meter. The space that we gained overall in 2022 was around 5%. We are now at 470 freestanding stores end of 2022. And we said as part of CLAIM 5 that we might get it reduced to 400. However, we might revisit this number during the course of this year. As a result of our investments into the brand, the products and the remodeling of our stores, we were able to increase productivity and we see that our store concept is working. We therefore might keep the overall freestanding stores more or less stable. The focus on store productivity is the right way. We want to get the brick-and-mortar retail cost in percentage of group sales down by 700 basis points as part of CLAIM 5, from 26% in 2019 down to 19% by 2025. And we are now half the way. So with the productivity gains, the efficiency in brick-and-mortar retail is going up and this helps us in increasing the overall profitability. We are very happy about this development. And in some regions, especially in China or in the South of the U.S., we see additional opportunities to grow our store network.
Your second question was related to our digital sales. In 2022, we were growing broad-based. Every channel, wholesale, retail and digital was growing. We were growing 15% last year in digital in a year where the online market was suffering overall, and other online businesses were more or less flat or even declining. A few years ago, we were still lagging behind in the digital space. That's the reason why we are ramping up our digital investments all over the place, including our digital campus, and there is much more to come. On hugoboss.com, we have seen the fastest growth. So, what are the

drivers? Clearly, we have more markets to launch when it comes to languages. In the second quarter this year, for example, Portugal and Poland, which today are in English, will be launched in their local languages. This will help to increase conversion. And if we compare our numbers to competitors, we still see upside in terms of getting the conversion up. On top of this, we relaunched our new HUGO BOSS app with a mobile-first focus and with some very interesting features regarding CRM capabilities. This will further drive growth. So, we have a lot of ideas to really drive our digital sales, and it is clearly our intention to grow it to a level of at least 25% in the next years. We are well on track with our growth initiatives.

Antoine Belge (BNP Paribas):

First, please comment on current trading. You mentioned China being quite good. So is it fair to say that overall, you're still growing double digit at the end of February? And can you quantify a bit more the wholesale orders beyond the qualitative comments that you made?

Secondly, on wholesale. One of the changes when you joined, Daniel, was this idea that there was nothing bad with wholesale, and you regained a lot of shelf space within department stores. Do you think that you found the right balance? And what are the projects for wholesale in 2023?

Thirdly, regarding the medium-term target of reaching EUR 4 billion in sales and 12% EBIT margin. I think, the EUR 4 billion should be reached if not this year, then next year. So it seems that reaching 12% EBIT might not be coinciding with the EUR 4 billion in sales.

Yves Müller (CFO and COO of HUGO BOSS):

I will start with current trading. We had a very strong start into the year and are happy how we are currently trading. A positive surprise is clearly the reopening in China, which is also spreading out in the Asian region. We see that demand was very strong for the first two months of 2023. We are also happy with the wholesale orders. However, we are still early in the year. And there are some geopolitical and macroeconomic uncertainties out there and that's the reason for our 2023 outlook of mid-single-digit revenue growth.

Daniel Grieder (CEO of HUGO BOSS):
Regarding your second question on wholesale. We have a big opportunity to grow in wholesale as it can be the most profitable business. We have an incredible opportunity since we reintroduced our BOSS brand lines, lately also with BOSS Camel on the highest side, but already with the successful relaunch of BOSS Orange, BOSS Green and BOSS Black. It's clear that we can gain market shares and space in key department stores, no matter if we talk about the U.S., about Europe or about Asia. And we can report today, that a few collections are already sold out. And the results are incredible. Our wholesale customers are still increasing the space in their stores for all the brand lines - lately also BOSS Camel, for both men and women. Because also in womenswear, we did test on BOSS Orange and BOSS Camel. Another area where we can grow in wholesale is with franchisees. We have tremendous requests from franchisees partner for BOSS, but also for HUGO. So that clearly in the past was not a priority. But besides our full-price stores, we can now also expand with franchisee stores for both brands and for both genders and on top also for Shoes&Accessories. So we clearly see wholesale as a big opportunity that we push.
The third question is on our targets for 2025. I can say that we don't yet have an update. We stick with what we said in August 2021 when we introduced CLAIM 5. It's still our aim to reach EUR 4 billion in revenues and an EBIT margin of 12% by 2025. Any update on that we would most likely provide you at an Investor Day over the course of this year, but it's too early now. At the moment, we are confident that we will reach our mid-term targets, which is completely in line with CLAIM 5.

Antoine Belge (BNP Paribas):

Just a clarification: I understand that in the U.S. and Europe you said, it's early in the year, so who knows about the next 10 months. But there is no significant change in your trends in U.S. and Europe short term? Or are you already seeing some kind of moderation on the back of the macroeconomic uncertainties?

Yves Müller (CFO and COO of HUGO BOSS):
No, we can confirm that both regions, Europe and Americas, remained very strong.

Daniel Grieder (CEO of HUGO BOSS):
America was on a strong way last year because we have expanded our distribution, especially in the department stores. We could therefore gain on top line and get more space and market share.

Thomas Chauvet (Citi):
First, on the 2023 EBIT guidance. Could you explain the moving parts that drive the lower end and the higher end of our EBIT guidance? That's growing 5% to 12% on the same mid-single-digit growth forecast. Especially marketing costs have increased towards the higher end of your 7% to 8% mid-term guidance range as a percentage of sales. So I was just trying to understand how you plan to achieve either the lower or higher end on the same top-line growth, what is the delta? And a follow-up on the 2025 EBIT margin target of 12%. You seem to be a little bit behind schedule, and you'll update us this year, so we'll wait for this. Would it be fair to say that as you're probably ahead of schedule on the top line? Maybe you'll reach EUR 4 billion already this year, does this have a consequence on your bottom line? In other words, do you feel that since the beginning of CLAIM 5 you've decided to push top line even further, perhaps at the expense of profitability?
Secondly, a question on profitability by segment. You recorded ~400 bps improvement in profitability for each EMEA and the U.S., which is great. Asia margins a bit under pressure. And then there is this licensing part, with EUR 92 million of sales, and EUR 77

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million of EBIT. Obviously, it's a very profitable business. That's around 10% of group EBIT pre-central cost. But if we were looking at licensing profits as a percentage of your total EBIT of last year. How much would that represent? Would that be a lot higher? I assume there's no real cost associated to that licensing business. So is it fair to say that licensing is maybe close to 20% of your 2022 EBIT?

Yves Müller (CFO and COO of HUGO BOSS):

Talking about the 12% midterm EBIT guidance, I can clearly say that we are fully on track regarding margin expansion. We recorded a strong improvement of 100 basis points in 2022. We are fully committed to generate the 12% in 2025. Regarding our EBIT guidance for this year, we expect mid-single digit top-line growth. We expect the gross margin to be at least stable in comparison to 2022 with a potential to go beyond the 62%, especially in the second half of the year. CLAIM 5 is a clear growth strategy, so we want to invest further into marketing. While we guided a target range of between 7% to 8% for our marketing investments, we were at 7.9% in 2022. This was a strong investment into the brand momentum and brand relevance that played out very well. Next, we have to look at store productivity. We want to achieve further efficiency gains, especially in brick-and-mortar retail, also to compensate for our marketing investments. So these are the big moving factors in our guidance. For the time being, we feel very comfortable with our EBIT guidance for this year.

On the question on licensing, Christian will get back to you after the call.

Chiara Battistini (JP Morgan):

First, if you think about the action taken across the business in the last year and the progress also that you have made so far in terms of the product and marketing campaigns: In what areas do you still see the biggest outstanding opportunities that you are further accelerating this year? And in which areas you found the biggest challenges so far?

Secondly, on the guidance. Could you share what kind of China growth assumptions you have embedded in your mid-single-digit sales guidance for the year, please?

Daniel Grieder (CEO of HUGO BOSS):

I start with the marketing progress. As I mentioned, the opportunities in marketing are immense for us. We are investing a fair amount into marketing. We can go up to 8%. Last year, it was 7.9%. You have seen our marketing activities, which are very, very successful. Actually, it's a case study for many universities, how we were able to turn the brand name and make it more relevant again in that short time. Our first campaign "Be Your Own BOSS". Now the second one "BOSSes aren't born, they're made" which looks at the center of our consumers or actually our fans. And because it's so authentic and it explains the story in such a way that everybody feels like engaging with it - both existing and new consumers - we hit record results on social media. The second campaign is even more successful than the first one, which really helps us to boost the brand. We have an incredible story, which will continue further into the next year all around BOSS.

Not only on the BOSS side, but also on the HUGO side, which is aimed for Gen Z, it looks like we also found exactly the right message. With HUGO, we target a different audience, which is very important because we said HUGO BOSS is not a brand anymore, HUGO BOSS is a platform. And on that platform, we have two brands: BOSS and HUGO and they have distinguished products, campaigns and messages. We are ahead of plan and the whole industry is curious on how this was possible in this short period of time. Our success is supported by our Digital Campus because we now analyse our data and information in a completely different way than we did in the past. So we really can analyse our end consumers and understand *what* they are wearing, *when* they are wearing it and *how* they are wearing it.

Yves Müller (CFO and COO of HUGO BOSS):

Regarding the underlying assumption for China in our top-line guidance: We forecast revenue growth in the teens range for Asia/Pacific, which also includes China.

Chiara Battistini (JP Morgan):
If you look at what has changed over the last year from a marketing, but also from a product and stores perspective or the use of data, where do you think you still have more to go for and where you think you are in the right place at the moment?

Daniel Grieder (CEO of HUGO BOSS):
We are making extremely strong progress across all our strategic initiatives, e.g. "Boost Brands" and "Product is King". "Boost Brands" I explained with the campaigns, but also "Product is King". It's not only the top line that we expanded, but we also improved the price-value proposition of our products. We have put tremendous quality into it. And therefore, we were also able to increase the pricing, which was not a problem because the sell-through rate is as high as ever or actually higher. And that clearly shows that the brand is strong enough to also ask for higher prices. On top of that, sustainability plays a big role. We also try to find a solution to replace polyester and nylon, and we are investing into that and already testing a possibility to replace them.

Yves Müller (CFO and COO of HUGO BOSS):
On top, if you really go through the different growth drivers, if we talk about the marketing campaigns or "Boost Brands", we can clearly say that the new campaign "BOSSes aren't born, they're made" is even more successful than the previous one.
On the business unit side, BOSS Camel gives us more opportunities going forward. And again, wholesale partners are approaching us for more franchise business to expand our business in Saudi Arabia, Vietnam and regions like Eastern Europe which gives us more possibility to grow. So in a lot of aspects, we just have started. For example, looking at the store network, we are in the middle of rolling out the new store concepts. We have to date just renovated 1/4 to 1/3 of our stores. So there is much more to come.

We feel that we have inherent growth opportunities, and we will keep on pushing forward.

Thierry Cota (Société Generale):
First, two follow-up questions on the EBIT guidance for this year. Firstly, do you reiterate what you said at the Q3 call, which is a freight tailwind for the gross margin of 50 to 100 basis points for the year? And secondly, compared to the 7.9% marketing to sales spend last year, do you expect the number to stay more or less the same this year or to go down?
Secondly, on balance sheet KPIs. There was a very rapid inventory rise last year, which you said was voluntary and under control, but the revenue guidance this year is much slower than the inventory rise. And at the same time, you expect the inventory growth to slow materially this year, but also to have a rise of the working capital as a proportion of sales by 2 percentage points between 2022 and 2023.

Yves Müller (CFO and COO of HUGO BOSS):
In 2022, we experienced big supply chain disruptions, and this means that especially the goods in transit or the transportation time was much longer than it used to be. For example, it was double the time for a ship from Asia to Europe. Since we had a lot of situations of products being sold out, especially within core merchandise, we deliberately took the decision to increase the weekly coverage for core merchandise. There is no inherent risk because we don't discount these core merchandise products. We will reduce the weekly coverages now in the course of the year. This will become visible in the second half of 2023.
Looking at the EBIT margin, again, we had 7.9% of marketing spendings in 2022. We said as part of CLAIM 5, we want to be between 7% to 8% of group sales. As of today, we are more or less at the upper end of this guidance also for 2023. On tailwind for freight costs, I can clearly confirm that the freight costs will come down and this will become visible in the second half of the year. It's not just only that the prices of the

different shipments have come down. It's also the effect that due to the supply chain disruptions, we were forced to take more on the air freight and this has normalized now and thus will help the gross margin, especially for the second half of this year.

Thierry Cota (Société Generale):

Just on the anticipated working capital rise as a proportion of sales, any particular factor to highlight?

Daniel Grieder (CEO of HUGO BOSS):

No, we had a very good position regarding the trade payables end of 2022 which was driving TNWC to an all-time low. If you look at the cash conversion cycle, we are now at below 80 days. So, we have the best position during the year, and that was clearly driven by our supplier financing program.