HUGO BOSS


**Transcript – Q&A Session**

**August 4, 2021**

**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.**

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**Elena Mariani (Morgan Stanley):** My first question is on gross margin. For the second quarter, there were quite a few moving parts. Of course, we have had the nonrecurrence of last year's inventory valuation effects. However, could you elaborate a little bit more on the higher sourcing costs and the higher level of markdown activity because gross margin remains quite a lot below 2019 levels. What have been the different weightings for these elements? Is this headwind going to continue in the second half of the year? And is this the reason why your H2 EBIT guidance was not upgraded when you've upgraded your top line?

My second question is also on guidance for the second half of the year, but more on the top line. As you mentioned in your remarks, some of us might have perceived the guidance to be slightly conservative. It implies a slowdown in your top line development in the second half. Is this the result of being quite conservative given the macro picture? Or did you already observe some sequential slowdown in the first weeks of Q3?

**Yves Müller (CFO):** First, on gross margin. The gross margin improvement versus 2020 was clearly driven by the nonrecurrence of last year's inventory valuation effects. Compared to 2019, however, gross margin saw a decline. Around 2/3 of this was related to markdowns, primarily driven by the wholesale channel, and 1/3 is attributable to higher sourcing costs mainly related to higher freight costs.

Regarding the top line development for the second half of the year, let me highlight once again that there are still uncertainties remaining. Especially in the Asia/Pacific region, we have noticed renewed lockdowns in markets like Thailand, Malaysia and some parts of Australia. For the time being, our store opening rate in Asia/Pacific is around 90%. We have to be rather prudent because the pandemic is not yet over, something which we have to consider also in our guidance!

On the other hand, with regard to current trading, performance in retail was positive in the month of June as compared to 2019 levels, in terms of exit rate. And I can confirm today that we kept this kind of momentum also in July.

**Elena Mariani (Morgan Stanley):** One follow-up on the gross margin moving parts. Should we expect the same headwinds to affect the second half of the year as well? And is this incorporated in your guidance?

**Yves Müller (CFO):** For FY 2021, we expect gross margin to come to a level of between that of 2020 and 2019. This has not changed because higher freight costs for example will not disappear in the next six months.

**Thomas Chauvet (Citigroup):** First, on admin expenses. They were down versus 2019 levels in each of the four quarters of last year, and also in Q1. In Q2, they have returned to a level slightly above 2019. Is this the way we should think about H2 and also going forward? Did your admin costs reach the floor now and will they start to increase slightly again, as obviously, the business recovers and you need to also invest in your business?

Secondly, on wholesale performance: Q2 was broadly in line with 2019 levels. You talked about new business with European on- and off-line retailers. Who are these new accounts and how much did they contribute to the EUR 189 million in wholesale sales in Q2?

Finally, a follow-up on Elena's question on gross margin: You've reiterated the guidance halfway between 2019 and 2020 level, which is between around 61% and 65%. Current consensus is at around 63%, while looking at H1 2021, gross margin is marginally above 2020 levels. Consequently, that seems a little bit high. Would you agree?

**Yves Müller (CFO):** First, on admin expenses. During the lockdowns in Q1 and also in the prior-year period in Q2, we made use of short-time work, having helped us back then. On the other hand, rest assured that also going forward, we will continue to focus on tight cost control in administration. From an absolute point of view, we recorded only a slight increase in comparison to the prior-year period. There were some effects related to LTI bonus provisions driven by the recent increase in our share price.

In terms of the additional wholesale business in Q2, it was mainly with BestSecret and Veepee – two off-price wholesalers. Overall, we recorded sales in the low-double-digit-million-euro range with these new partners.

Regarding gross margin, I can only repeat myself: we are guiding FY 2021 gross margin to come to a level of between those recorded in 2019 and 2020. For H2, there are still a lot of moving parts, especially when it comes to the business. We expect a strong holiday season towards the end of the year.

**Jürgen Kolb (Kepler Cheuvreux):** First on the off-price retailers. Is this rather a short-term strategy in order to clear excess inventories, an area where you have done a good job in Q2? Or is that something where you want to be positioned also longer term, as kind of an additional distribution channel?

Secondly, you talked about healthy demand and a strong order book for Fall/Winter. Did you already notice retailers asking for earlier shipments, especially for the Fall/Winter collection?

**Yves Müller (CFO):** On the off-price wholesale business: There are two reasons. One is that we intended to clear excess inventories related to the unexpected long-lasting lockdowns in Europe. Secondly, via these new partners we also have the opportunity to sell our products and introduce our brands to new, younger customers in a good premium brand environment, without having negative repercussions on other parts of our business.

Secondly, regarding wholesale preorders: I can confirm that we recorded strong preorders for the second half. For now, however, we haven't heard from wholesale partners about requesting earlier shipments.

**Antoine Belge (Exane BNP Paribas):** First, I'd like to follow up on the additional wholesale business in Q2. To what extent did it boost your performance? And would that be a reason why you would expect a strong acceleration in the second half of this year? To what extent has it been a way of clearing excess inventory, and will these accounts be used in a more moderate way going forward?

Secondly, on your online performance, up 27% in Q2. Is that a good number? Or does this represent a slowdown, as the conversion of major wholesale accounts to e-concession is now in the base?

**Yves Müller (CFO):** First, regarding BestSecret and Veepee, it was a low double-digit million euro amount of wholesale sales, mainly related to clearing excess inventories. I expect us to continue the cooperation with these partners, but that we will reduce the size of business in the coming quarters.

Regarding online sales: please note that we were running against a very strong comparison base. Q2 2020 was the quarter of global lockdowns, with online more or less having been the only channel where we could sell our products. In Q2 2020, our online business was up 74% versus 2019. Consequently, on a 2-year-stack basis, we recorded only a slight deceleration from 138% in Q1 to 122% in Q2 – still a very strong performance! Rest assured that regarding online, we will continue to put the pedal to the metal. As we always said, we want to grow our online business by a CAGR of at least 40%. We were above this mark in H1 2021 (+46%). There is a great potential regarding online and we are making strong progress. Also during our Capital Markets Day this afternoon, digital sales will be an important topic. Overall, when you include our own online business and also wholesale online, our digital penetration was around 20% of Group sales so far in 2021, thus more than doubling as compared to 2019 levels.

**Antoine Belge (Exane BNP Paribas):** One follow-up question: Regarding July, you said it was positive? Does this mean that total sales in July were above 2019 level?

**Yves Müller (CFO):** I was talking about own retail and I can confirm that this was positive versus 2019.

**Volker Bosse (Baader Bank):** First, on China. Have you seen a sales down-swing in April as some other Western brands did? Are your local influencers promoting your products again as normal? And is current growth momentum in China in line with your expectations?

Secondly, on your partnerships and capsule collections with Russell Athletic and the NBA – not just with regard to sales, but also with regard to brand awareness – is there anything you can provide to underpin the success of these partnerships in terms of strengthening your overall relationship with younger customer groups?

**Yves Müller (CFO):** Regarding mainland China, and as reflected in our Q2 figures, I can clearly confirm that our positive momentum is continuing. On a two-year stack, growth in Q2 (+33%) was even higher as compared to Q1 (+29%). This is above our own expectations, as we regard this as very positive momentum.

On our partnerships with Russell Athletic and the NBA: in the U.S., the capsule collection of BOSS and the NBA had a full price sell-through above 60%, reflecting a very positive commercial success. And there is more to come in the second half of the year, as we will launch a second drop of BOSS x NBA that will not only be sold in the U.S. but also in Europe – as basketball is en vogue among younger customers also over here! With our collections with the NBA and Russell Athletic, we generated more than 2/3 of sales with customers below the age of 35, something which is clearly positive. Particularly the NBA capsule also supported our retail business in the U.S., which returned to growth in Q2, with U.S. own retail sales up mid-single-digit on a two-year stack – while wholesale sales were still below 2019 levels. This demonstrates that in retail, the expansion of our casualwear offering was executed very fast, with both the Russell Athletic and the NBA capsules having supported growth in Q2.

**Rogerio Fujimori (Stifel):** On marketing expenses, which were EUR 86 million in H1 or 7.6% of sales, obviously higher than H1 2020. How should we think about marketing to sales in H2 to drive brand heat and the top line? Would 8% be a reasonable level for the full year? Or should we expect any intensification of marketing activities?

**Yves Müller (CFO):** It is difficult to interpret the marketing-to-sales ratio for the first half of the year, given the long-lasting lockdowns in our European brick-and-mortar business. So it's a question of the denominator. However, in the second half of the year, we will invest into our brands. We will provide more color on where we are going in terms of brand investments during today's Capital Markets Day. Already in the second half of this year, you can expect further marketing investments. And you will see kind of a gradual development from the former 6% towards a level of around 7% to 8% over the next years – but more on this topic this afternoon!

**Philipp Frey (M.M. Warburg):** To what extent did temporary cost savings reduce your cost base in the second quarter? In other words: by how much would your cost base would have gone up, if you exclude temporary savings for store closures, short-term work, temporary rent reductions, etc.?

**Yves Müller (CFO):** Positive effects from short-time work and other short-term related cost savings were already fading out towards the end of Q1 and the beginning of Q2, respectively. Consequently, for Q2, we are talking about a rather neglectable amount, which means that in Q2 we recorded a rather normalized run rate. For example, at our headquarters, we terminated short-time work as of April 1st. In our retail stores in Germany, short-time work was terminated only six weeks later. Overall, positive short-term effects are fading out, getting more and more neglectable.

**Manjari Dhar (RBC):** First, you mentioned the new customer cohorts for the NBA and Russell Athletic collaborations. Did those new customers also buy the main BOSS collection?

Secondly, is there a likelihood of a dividend payment this year?

**Yves Müller (CFO):** Yes, I can confirm that those new, younger customers also put a lot of other items into their baskets, particularly as a lot of this business was done online. Here, we can track exactly how the consumer behaves. After their first purchase, we retargeted them, with a lot of these new customers now becoming very satisfied BOSS customers! We are very happy with this development, as this has been our full intention.

Regarding your question on the dividend: this is something we will talk about this afternoon. So I ask for your patience, as we will put this topic into context of our overall strategy.

**Karina Shooter (Goldman Sachs):** First, you've talked about the U.S. and how your retail business returned to growth in Q2 over there. Can you provide a little bit more color on the trends by category, casualwear versus formalwear? And also an update on the retail conversions that you're doing in the region?

Secondly, on online. You've talked about triple-digit growth on a two-year stack. Can you give us any more color in terms of the performance of your own website versus marketplace partners?

**Yves Müller (CFO):** First, on U.S. retail trends, casualwear versus formalwear. We clearly want to be perceived as a 24/7 brand in the U.S. – and of course also globally. We already changed our product mix in own retail in the U.S. as we reduced our formalwear offering and increased our casualwear offering. There have been really some tectonic shifts as in own retail we reduced our formalwear share from around 50% two years ago to a level of around 25% today, while casualwear is now at around 50%, coming from around 25%. This shift in product mix significantly contributed to the strong performance that we recorded in retail. Wholesale is lagging behind because partners were still buying a higher share of formalwear six to nine months ago. But currently, looking at the sell-in of our PreSpring and Spring/Summer 2022 collections, we are very satisfied with the wholesale order intake, clearly demonstrating that we are on the right track regarding the U.S. market.

Regarding online, I can confirm that, overall, our online business was up by high teens on a comparable basis in Q2 versus the prior-year period.