HUGO BOSS

First Quarter 2023 Results

May 4, 2023

Yves Müller (CFO/COO)
Christian Stöhr (Vice President Investor Relations)

The spoken word shall prevail.

Christian Stöhr: Good morning everyone, and welcome to our first quarter 2023 financial results presentation. Today's conference call will be hosted by 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. And 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, without any further ado, let's get started and over to you, Yves.

Yves Müller: Thank you Christian, and also from my side a warm welcome to all of you. Thanks for joining our call today. As you have taken notice from our press release this morning, at HUGO BOSS we look back on an excellent start to the year.

Building on last year's remarkable momentum, we continued our strong financial and operational performance in the first quarter of 2023, posting significant top- and bottom-line improvements during the three-month period. Our powerful start to the year was once more driven by the continued rigorous execution of our "CLAIM 5" strategy, which continued to provide substantial tailwinds for our brands.

With momentum further accelerating, revenues increased a strong 25% year over year to 968 million euros, making the three-month period a record first quarter for HUGO BOSS. Importantly, growth was again broad-based in nature with double-digit sales increases across both brands, as well as all regions, and consumer touchpoints.

But also from a bottom-line perspective, we are very pleased with the development in the first quarter: driven by our superior top-line performance, and despite further investments into our business, EBIT increased a strong 63% year over year, mounting up to 65 million euros. This, in turn, enabled us to improve our first-quarter EBIT margin by 160 basis points to a level of 6.7%.

Equally, if not more importantly, our strong start to the year puts us in a position to raise our guidance for the full year 2023 already today – and thus at a comparable early stage. This reflects not only our stellar top- and bottom-line performance in the first quarter, but also the continued momentum of our brands BOSS and HUGO as well as our confidence when it comes to the remainder of the year.

In this context, I am particularly pleased that we aim to achieve our mid-term sales target of 4 billion euros as early as this year – and thus two years faster than originally anticipated. This impressively demonstrates the power of "CLAIM 5" – and especially that of our brands. I will elaborate on all details of our lifted outlook towards the end of my presentation, but first, let's take a closer look at our top-line performance in the first quarter.

With revenues up 25%, this translates into strong growth of 44% when compared to pre-pandemic levels, representing yet another meaningful acceleration quarter over quarter.

This is clear evidence that, despite certain market trends, we have not seen any signs of a broader slowdown in global consumer demand during the first quarter. Instead, this is yet another testament to the strength and resilience of our brands and the considerable progress achieved so far when it comes to executing our winning formula "CLAIM 5."

Above all, and no different from last year, it is the relentless execution of our numerous brand, product, and sales initiatives that continued to spur momentum for BOSS and HUGO, thereby boosting brand perception and relevance worldwide. So, let's dive a little deeper into the world of our brands.

Back in January, BOSS and HUGO launched their most recent Spring/Summer collections, building on the tremendous success of our comprehensive branding refresh implemented exactly one year earlier.

The global collection launch was once again accompanied by two star-studded brand campaigns, featuring yet another high-profile and diverse all-star cast, including superstars such as Naomi Campbell, Gigi Hadid, Maluma, and Bella Poarch. This, in turn, enabled both our brands to continue to drive brand heat on social media, and thus win over younger generations.

Supported by our highly successful brand campaigns, our Spring/Summer collections were very well received by consumers and wholesale partners alike. Similarly, they once again formed the basis for sustained strong and high-quality sell-through in the first quarter.

In addition to our global brand campaigns, numerous marketing and product initiatives continued to fuel brand heat in Q1, with the undisputed highlight being the star-studded BOSS "see now, buy now" event in Miami.

Top-notch celebrities including Naomi Campbell, Pamela Anderson, Khaby Lame, and DJ Khaled walked the runway, while major influencers ensured impactful digital traction, with a particular emphasis on Instagram and TikTok. Overall, the show was streamed by around 10 million BOSS fans around the globe. And on hugoboss.com, customers from more than 60 markets worldwide were able to instantly shop selected items from the fashion event.

Following these achievements, both our brands continued their double-digit growth trajectory also in the first quarter. Supported by robust double-digit increases across all wearing occasions, sales were up 23% for BOSS Menswear, up 28% for BOSS Womenswear, and up 31% for HUGO.

Let's now move over to our channels, where growth in Q1 was once again broad-based in nature with double-digit sales improvements across all consumer touchpoints.

Starting with our digital business, which successfully continued its double-digit growth trajectory. With sales up 22%, reflecting broad-based momentum across all online touchpoints, our digital business continued to resist rather restrained market trends. In particular, revenues generated via our digital flagship hugoboss.com expanded noticeably, up 34% versus last year, supported by the successful relaunch of our HUGO BOSS app in February.

Moving over to our brick-and-mortar business, which also looks back at an excellent start to the year. This is reflected by very robust year on year growth of 26% in both physical retail and physical wholesale, each representing a further acceleration on a four-year-stack basis.

Across all regions, our brick-and-mortar retail business recorded double-digit revenue improvements year over year. This performance continued to be driven by the strength of our brands, leading to a strong uptick in traffic, as well as further improvements in store productivity.

In physical wholesale, on the other hand, we continued to enjoy strong demand from partners all around the globe, leading to broad-based growth across regions. That also includes important wholesale markets such as Germany and the U.S., where we continued to enjoy healthy demand from our partners.
Speaking about the U.S. – and thus moving on to our regions – we are all the more encouraged, that the overall momentum in the Americas further accelerated in the first quarter. Supported by significant double-digit sales increases across markets, revenues in the Americas were up 38% year over year. This translates into four-year-stack growth of 60%, reflecting a strong uptick of 15 percentage points as compared to the final quarter of 2022.

In the U.S. market, sales expanded by 31% year over year, supported by double-digit revenue improvements across all channels. Most importantly, and in contrast to some other industry players and certain macroeconomic indicators, we were able to maintain our underlying momentum throughout the entire first quarter, as we have not witnessed any signs of a regional slowdown in consumer demand. And while trends were similar in Canada, we also continued our outstanding momentum in Latin America, as reflected by high double-digit sales growth.

Moving over to EMEA, where sales increased by 21% year over year, driven by ongoing robust demand across all consumer touchpoints. Also here, four-year-stack growth accelerated quarter over quarter, albeit to a lesser extent. Momentum remained very robust in key markets such as Germany and France, recording revenue growth of 28% and 17%, respectively. At the same time, sales in the UK came in at the prior-year level, being up against a particularly strong comparison base from the prior-year period. Importantly, when compared to pre-pandemic levels, revenues in the UK were up 33% and thus even slightly outperforming Germany and France. To finish on EMEA, also in the Middle East, we continued to enjoy exceptionally strong momentum throughout Q1, as reflected by significant double-digit growth year over year.

Finally, on Asia/Pacific, where we successfully returned to double-digit growth. Sales came in 31% above the prior-year level, driven by both sustained double-digit improvements in South East Asia & Pacific – including an outstanding performance in Japan – as well as a significant uptick in consumer sentiment in China following the lifting of COVID-19-related restrictions. As a result, sales in Greater China expanded 25% year over year and also returned to double-digit growth when compared to pre-pandemic levels, with strong support coming from both Hong Kong and Macau.

With this, let's now move on to the remaining P&L items. Starting with our gross margin, which totaled 61.4% in Q1, representing a slight decline of 30 basis points compared to the first quarter 2022. This development is largely attributable to some negative FX effects in light of the strengthening of the U.S. dollar versus the euro year over year. At the same time, in Q1 we succeeded in broadly compensating for ongoing elevated sourcing costs thanks to our pricing initiative, which we had implemented in the second half of last year.

Speaking about the gross margin, let me also reiterate that the underlying momentum in our full-price business remained strong throughout the first quarter, as we were able to successfully continue our high-quality top-line growth. In particular, and thanks to our regained brand power, our business has not been impacted by any signs of elevated promotional activity in Q1.

Moving over to operating expenses, which increased 21%, largely reflecting ongoing investments into the business as part of "CLAIM 5." As a percentage of sales, however, total operating expenses decreased 180 basis points to a level of 54.6%.

Selling and marketing expenses increased 20%, mainly due to an increase in variable rental, payroll, and fulfilment expenses. Besides that, we also stepped up our marketing investments – up 12% year over year – driven by our comprehensive branding campaigns and our successful Miami event in mid-March. Consequently, at 9.3% of Group sales, marketing spendings in Q1 came in somewhat above our run-rate for the full year, which we continue to anticipate being broadly in line with last year's level of just under 8%. And while selling expenses in brick-and-mortar retail increased by 16% in Q1, as a percentage of sales they improved further to a level of 20.1%, supported by our ongoing initiatives to optimize our store network. To conclude on the operating expenses, administration expenses increased 24%, largely attributable to higher payroll and digital investments.

Altogether, and spurred by the strong top-line performance in the first quarter, we recorded a significant increase in EBIT, up 63% to a level of 65 million euros, thereby more than compensating for the slight decline in gross margin as well as the aforementioned investments into our business. This translates into an EBIT margin expansion of 160 basis points to a level of 6.7%. And, last but not least, also net income attributable to shareholders increased noticeably, up 44% to 35 million euros.

Let's now turn to the balance sheet. Starting with inventories, which increased 66% currency-adjusted. In this context, let me clearly emphasize once again that we continue to feel comfortable with our inventory position:

- First of all, in light of our excellent start to 2023 and our confidence for the remainder of the year, our inventory position lays an important foundation to continue our strong top-line momentum across channels. This also includes serving robust wholesale order books for the second half of this year.
- Secondly, we remain pleased with the overall composition and quality of our inventories, as the aging structure has improved year over year. As already flagged back in March, the vast majority of our inventory is either related to core merchandise that can be sold over several future seasons or fresh merchandise for current and upcoming collections.
- Thirdly, and in light of the most recent easing of global supply chain disruptions as well as our measures to reduce core merchandise buy-in for the remainder of the year, we will bring down inventories as a percentage of sales as the year progresses.

Consequently, we continue to anticipate a gradual normalization of inventories by the end of fiscal year 2023.

This brings me to trade net working capital, with the moving average of the last four quarters summing up to 16.4% of Group sales, thus moderately above the prior-year level. In this context, the higher inventory position and an increase in trade receivables were partly offset by higher trade payables, reflecting the ongoing strong reception of our supplier financing program. Also for the full year, we continue to expect our trade net working capital ratio to modestly increase to a level of around 17%, fully in line with our mid-term target range of between 16% and 19% as laid out in "CLAIM 5."

Moving on to capital expenditure, which more than doubled as compared to last year, totaling 42 million euros. In line with our outlook for the full year, we have accelerated investments in our global store network and in digital, to support the successful execution of "CLAIM 5" also going forward. As a result, we continue to forecast capital expenditure to come in at a level between 200 and 250 million euros in fiscal 2023.

Last but certainly not least, free cash flow amounted to minus 120 million euros in the first quarter, as our strong bottom-line improvements were more than offset by the deliberate build-up in inventory and higher capex.

This, ladies and gentlemen, concludes my remarks on our first-quarter operational and financial performance. Let's now move over to our expectations for the remainder of the year.

In light of our strong performance in Q1, at HUGO BOSS, we have every confidence that 2023 will mark another successful year for our Company and a further important milestone along our mid-term growth journey. We are fully committed to further leveraging the broad-based momentum of BOSS and HUGO in the quarters to come. In this context, the successful execution of "CLAIM 5" will continue to take center stage and provide ongoing tailwinds along our way.

At the same time, we remain vigilant due to the persistently high levels of macroeconomic and geopolitical uncertainties facing our industry, as well as a comparison base that is getting increasingly challenging as the year progresses

Consequently, regarding our top line, we now forecast Group revenues in fiscal year 2023 to increase by around 10% in reported terms. This means nothing less than making 2023 yet another record-breaking year for our Company, as we are anticipating achieving 4 billion euros in revenues already this year!

Importantly, and fully in line with "CLAIM 5," growth will once again be broad-based in nature, with both brands, all regions, and all channels set to contribute.

Based on the anticipated top-line growth, we are now forecasting EBIT to increase within a range of 10% and 20% to a level of between 370 and 400 million euros in fiscal year 2023. Ongoing investments in our products, brands, and digital expertise are set to be more than offset by an at least stable gross margin development as well as further efficiency gains – in particular when it comes to our brick-and-mortar retail store network.

Ladies and gentlemen, following our strong start to the year, we remain all the more confident in the continued momentum of our "CLAIM 5" growth strategy. In particular, we will continue to do our utmost in delivering sustainable revenue growth and operating leverage, to support our top- and bottom-line ambitions also going forward.

On June 14 and 15, we will therefore present an update on "CLAIM 5" and our mid-term financial ambition as part of this year's Investor Day. We are already very much looking forward to welcoming many of you in person at our headquarters here in Metzingen, as our Investor Day will also include a guided tour of our newly refurbished BOSS and HUGO showrooms.

Ladies and gentlemen, this concludes my remarks for today. We are now very happy to take your questions.