HUGO BOSS

Transcript – Q&A Session

August 2, 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.

Grace Smalley (Morgan Stanley): First, on Q2 gross margin: could you please comment on what you saw in terms of promotional activity during the quarter and where that fits into your gross margin bridge? Should we think about the pricing impact as being net of promotions? And could you also explain what is driving the negative channel mix impact in Q2 and also whether there was any impact from regional mix? Secondly, looking ahead, you've reiterated your guidance for an at least stable gross margin for the full year, despite the decline you saw in the first half. Could you break down the drivers of the positive inflection you expect in gross margin in a bit more detail? You called out that you expect that inflection to come through particularly in Q4. Could you comment if you also already expect to see gross margin expansion year-over-year in Q3 as well?

Yves Müller (CFO and COO of HUGO BOSS): First, regarding the negative channel mix effect, it's related to the fact that digital wholesale was growing faster than digital retail, whereas brick-and-mortar grew more or less in line. Promotional activity only had a minor effect on Q2 gross margin, and can be neglected overall.
In terms of the at least stable gross margin outlook for FY/23, we are now standing at minus 70 basis points in the first half year. But we are fully convinced and very confident that we will achieve an at least stable gross margin level in comparison to last year. The second half will see support coming from product costs, freight costs, FX, and pricing. These are all tailwinds, and they will go through especially in Q4.

Susy Tibaldi (UBS): First, on your updated sales outlook, which implies high single-digit growth for H2, i.e. a deceleration as compared to H1. Of course, you will be facing tougher comps, but did also trends in the month of July give you a reason to be more cautious for H2? And can you provide some observations by region?
Secondly, on OpEx, you recorded strong leverage on your brick-and-mortar retail costs in Q2. Do you think this is sustainable going forward? Or should we expect some normalization in H2?

Yves Müller (CFO and COO of HUGO BOSS): First, please keep in mind that our revenue guidance is in reported terms, and in Q2 for instance there has been a deviation of 3 percentage points between reported and currency-adjusted growth. Overall, you are right that the implied H2 revenue outlook is around high single digit. We are very pleased with the performance in July as we have seen no change in consumer demand for our two brands or across any of our channels or geographies.
And yes, while the comparison base is increasing in the second half of the year, we are also factoring in some macroeconomic uncertainties.
On OpEx, we are pleased with the operating leverage achieved so far, in particular within brick-and-mortar retail. As laid out in "CLAIM 5", we want to bring the latter

down to 20% of Group sales by 2025, and we were already standing at 20.8% in Q2. In particular, we are making strong progress in optimizing our store network, and a main driver of the OpEx leverage is the improvements that we are making in terms of store productivity, which we increased by 13% year over year.

Thomas Chauvet (Citi): First, on wholesale: could you provide us more color on the shape of the order book and also tell us, within that 22% brick-and-mortar wholesale growth in H1, how much was roughly due to new space with existing or new partners?
Secondly, on the CapEx budget for 2023, increased by EUR 50 million versus the May update: is that mainly due to phasing effects of store and digital projects between H2 and next year? Or is it a deliberate decision to spend more? If so, where are those incremental investments located?
Finally, coming back to your July comments: the top end of your revenue guidance implies like 12% to 13% constant FX growth in H2. You said no change in trends in July. Can you be more specific and indicate maybe whether July is above or below that kind of 12% to 13% constant FX growth and comment on key geographies and channels?

Yves Müller (CFO and COO of HUGO BOSS): First, on the July performance: while I won't be any more specific on this, I can assure you that we're really happy with the first month of trading in Q3.
Overall, we are very happy with the wholesale order intake, as we are growing constantly. We are gaining market shares, getting into more doors, getting more visibility, more penetration, plus, on a product-by-product basis, we are also improving on a like-for-like basis, just as with store productivity gains in retail.
And regarding investments, we see tremendous success with our new store concept. By the end of this year, we aim to have around 40% of our store universe being remodeled. So, we are pushing the pedal to the metal in terms of investing into the store network by remodeling, but also relocating in order to bring our branding refresh to life at our points of sale, turning them into points of experience. As laid out at our

CMD in June, we are beginning to also step up our investments into logistics in order to drive and to support future growth. So, overall, the increased CapEx outlook for FY/23 is more phasing related.

Anthony Charchafji (BNP Paribas Exane): First, on margins: EBIT margin is up 40 bps in Q2, but at the EBITDA level, it's down 210 bps with D&A down 11% in Q2. Could you give some color on the components in between?
Secondly, on pricing: please remind us of what price increases you did this year and what you are targeting for '24 and '25?

Yves Müller (CFO and COO of HUGO BOSS): First, on pricing: we have successfully executed two mid-single-digit price increases. One was for Fall/Winter 2022, and the other one was for our Fall 2023 collections, which began hitting the sales floors in May. With regard to '24 and '25, we have not yet decided on any further price increases as we are fully focused on offering a superior price value proposition. We are gaining market shares, and we take the pricing decision collection by collection.
On EBIT and EBITDA: first, I'd like to emphasize that we improved our EBIT margin in Q2 by 40 basis points. And as part of our increased FY/23 guidance, we now aim to improve our EBIT margin towards a level of 10%. Last year, we already added 100 basis points. So, we are growing our top-line above industry growth and still improve our operating margins, which is crucial on the way to our at least 12% EBIT margin target for 2025. The decline in EBITDA margin is mainly attributable to the fact that our most recent step up in CapEx will only be reflected in D&A with some delay.

Manjari Dhar (RBC Capital Markets): First, on womenswear: could you provide some color on what has driven the outperformance there and any learnings you've made in womenswear over the last couple of quarters?
Secondly, on net financial expenses: could you give some color on your planning assumptions for the lease interest versus the FX impact for H2?

Yves Müller (CFO and COO of HUGO BOSS): First, on womenswear, which recorded another quarter of outperformance. We always said that we start with the product. You have all seen at our CMD that we have put lots of effort into enhancing the collection for BOSS Womenswear and that we're going to further expand this collection towards reflecting the 24/7 lifestyle for Spring/Summer 2024. Overall, we are very happy with the current performance of BOSS Womenswear. The order books look good as well. And we are taking bold moves: since the most recent reopening of our BOSS store at Regent Street, the ground floor is now dedicated to BOSS Womenswear, as we are improving our BOSS Womenswear offering and allocate more space in order to outgrow the market.

Regarding net financial expenses, we recorded some positive FX effects year over year in H1. But it's very volatile and difficult to anticipate for H2. Overall, however, we of course also focus on driving earnings per share, and we are very pleased that in H1 and Q2 in particular our net income grew even stronger than EBIT.

Rogerio Fujimori (Stifel): First, on China. In Q2, you were up 56%, lapping a 34% decline in Q2 '22, so up 3% on a 2-year basis. Is this a good proxy for H2? And any color on exit rates in China?

Secondly, a follow-up on the guidance, focusing on the Americas. Sales were up 27% in H1, and you are guiding 10% to 15% for the full year. So, the midpoint implies a small sales decline in H2. What are the key headwinds you are seeing for H2 beyond the tough comparison base and the buffer for macro uncertainty?

Yves Müller (CFO and COO of HUGO BOSS): First, regarding the U.S., the remaining piece is a sense of conservatism that is built into the numbers. But, overall, we are very happy.

Regarding China, it's worth mentioning that we were growing against 2021 record levels. We are thus very happy with the market's performance in Q2. And we expect this trend to continue also in H2. Please also be aware that due to COVID-19-related restrictions in China in Q4/22, the comparison base will be getting somewhat easier.

Jürgen Kolb (Kepler Cheuvreux): First, any updates on your production facility that you're planning to set up in Latin America? Have you made progress in finding the right destination and/or the right partner?
Secondly, on your productivity gains of 13% in brick-and-mortar retail year over year. Could you break that down into conversion, pricing, average ticket and traffic?

Yves Müller (CFO and COO of HUGO BOSS): First, on production facilities, as there is a lot going on regarding sourcing. First of all, and as laid out at our CMD in June, we are de-risking China, moving more towards Vietnam, Pakistan, Sri Lanka, Turkey and some other sourcing markets. Regarding Latin America, we are currently onboarding a new supplier in Mexico, who is expected to start producing in H2. It always takes some time, as obviously we also need to perform proper sustainability audits, among other things.
Regarding productivity, it's first and foremost higher traffic and higher prices that are driving productivity gains. This, in turn, means that conversion and average units sold were more or less stable. And of course, the branding refresh is driving productivity as remodeling and opening new stores always generates curiosity, especially as we also include now BOSS Cafés in some of our Halo stores.

Andreas Riemann (ODDO BHF): On trade net working capital, where you have increased your FY/23 guidance from around 17% towards 18% to 19% of Group sales. As you also increased your sales guidance, this implies a disproportionate increase that you are expecting in terms of absolute trade net working capital. Will that be driven by inventories predominantly or are there any other items? What has changed over the last couple of weeks that made you move up the guidance?

Yves Müller (CFO and COO of HUGO BOSS): One major driver is our supplier financing program, as we are changing from a single bank to an independent platform. Converting the existing suppliers takes more time than originally expected, thus affecting trade payables which are expected to grow stronger in 2024 than in 2023.

Jörg Philipp Frey (Warburg): First, on your license business and its strong growth of 33% in Q2. Is there anything aperiodic in this number? How much of this growth is driven by the fragrance business? And are there any particular launches planned for the second half?
Secondly, touching on 2024. You've had such a long period of really outstanding growth now. Apart from brick-and-mortar retail, looking at other areas, to what extent are you experiencing economies of scale? And is this a driving factor for even higher margin growth to be expected in the face of probably slower growth in 2024?

Yves Müller (CFO and COO of HUGO BOSS): First, on our license business: yes, it was growing 33% in Q2, and we are very happy how this part of our business is performing. We have a very close relationship with Coty, Safilo, and Movado. Overall, underlying trends are more or less comparable to those of our apparel business. This said, growth in Q2 was also supported by a low single-digit million euro amount in connection with the prolongation of our contract with Coty. So underlying growth was more or less around 20%, with the other 10% related to the prolongation of the contract.
Regarding economies of scale, and as seen already in Q2, we are on a very good track to generate operating leverage also going forward, as we are fully committed to our mid-term target of achieving an EBIT margin of at least 12% by 2025. We are firing on all cylinders at HUGO BOSS and remain strongly focused on executing "CLAIM 5." And we are on a very good track towards achieving our mid-term goals.

Chiara Battistini (JP Morgan): First, on wholesale: can you provide more color on how to think about space growth like more shelf space at department stores where you are

already present and new doors versus replenishment and sort of like-for-like organic growth within wholesale?
Secondly, on ASP: Can you comment on how much mix has actually been contributing to growth in Q2 and what you expect for the year?

Yves Müller (CFO and COO of HUGO BOSS): First, the impact from product mix is more or less neglectable. Of course, in H2 we will be selling more outerwear than in H1, which will drive ASP somewhat higher. But overall, formalwear, casualwear, as well as shoes and accessories are all more or less growing at the same pace. This means the impact from mix on store productivity is more or less neutral.
Regarding wholesale, and as we are still gaining additional doors and more penetration, and are also doing some pop-ups, around half of the growth is like-for-like on a product basis, with the other half coming from space and additional doors and customers.