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Transcript – Q&A Session

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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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Grace Smalley (J.P. Morgan): You mentioned that you have not yet seen any changes in consumer behavior, yet your guidance does embed a slowdown in revenue growth in H2. Can you give us some more details in terms of what you're seeing on current trading as well as order books?

Secondly, you mentioned that the inventory growth has been driven by your decision to ensure product availability for the upcoming season. Can you please elaborate on the actions you have taken? And do you feel comfortable with the inventory levels at your wholesale partners? Do you see any changes in broader inventories across the market as well as promotional activity?

Yves Müller (CFO and COO of HUGO BOSS): On current trading, we are very happy with current developments and how we started into Q3. So far, we have seen no material change in consumer behavior, and no slowdown in overall consumer demand.

The 17% fx-adjusted increase in inventories is driven by ensuring product availability for the upcoming season, reflecting our strong sales momentum. So I'm not concerned at all. Regarding the quality of the inventories, we even improved the aging structure. From a supply perspective, we are capable to serve the ongoing robust demand. Regarding wholesale, as you are aware, our order books for Fall/Winter 2022 increased 40% versus pre-pandemic levels. This is also reflected in our inventory levels. And so far, sell-out is strong also in wholesale. And orders for Pre-Spring 2023 are also up double digit. We regard this as a clear positive sign: sell-out rates are strong, and wholesale partners are increasing their orders for the upcoming collections.

Thomas Chauvet (Citi): First, on China and your full-year guidance: in light of what you were seeing in China in July, what is your growth assumption for H2 in this market?

Secondly, what was the split in H1 between casualwear, formalwear, and shoes & accessories? Within formalwear, what is now the share of traditional business attire versus more modern formalwear that you've been pushing?

Finally, on womenswear, which has underperformed menswear in H1: has this been in line with your expectations? And what are you doing differently on womenswear from a strategical point of view to ensure growth?

Yves Müller (CFO and COO of HUGO BOSS): Regarding China, we are very happy with the fast recovery of our business after the end of the lockdowns, as reflected by double-digit growth in June and July versus 2019. On the other hand, we remain somewhat cautious with the further development because we don't know what will happen in terms of potential further lockdowns given China's no-COVID strategy.

As we are positioning BOSS as a true 24/7 lifestyle brand, we are no longer distinguishing between formalwear and casualwear. On the other hand, if one were to do so after all, the current split would be around 25% formalwear, 50% casualwear, and 25% shoes & accessories incl. bodywear and hosiery. In particular casualwear as well as shoes and accessory – especially sneakers – is growing strongly, while in Q2 the formalwear business of BOSS has also returned to growth vs. 2019 levels. Looking ahead, we see strong wholesale orders for smart casualwear in particular.

The performance of womenswear is fully in line with our expectations. As part of "CLAIM 5", we want to double the business. Our new brand management is on a good path to execute this, as reflected by strong order books. So we are happy with the current development of our womenswear business.

Antoine Belge (BNP Paribas): First, on wholesale: within your 2022 Fall/Winter order, up 40%, what is the impact from "space", especially given the reintroduction of brand lines such as BOSS Orange and BOSS Green, versus like-for-like growth?

Secondly, on the U.S. market, for which you confirmed no tangible signs of a potential slowdown and no change in shopping behavior. Can you elaborate on what is behind your success in the U.S., especially with regard to H1, in terms of major areas of improvement?

Finally, sales growth in China was up double-digit in June and July, versus 2019. What was the growth rate versus 2021?

Yves Müller (CFO and COO of HUGO BOSS): In own retail, comp store sales growth is no longer an ideal KPI to measure our underlying performance due to our various ongoing store optimization initiatives, in particular when it comes to relocating, rightsizing, and remodeling our store network, as well as due to the COVID-related long-lasting temporary store closures. Instead, we look at reported figures. This said, we have recorded a mid-single-digit positive impact from space in retail in H1. Regarding wholesale, around half of the incremental business is coming from additional space, particularly in terms of having launched BOSS Orange, BOSS Green and BOSS Camel.

On the U.S., where we are very encouraged by the current development: our self-managed comeback of BOSS is clearly visible as we have changed brand perception, fostering a 24/7 brand image. We have reduced the formalwear share in our product offering. We are doing collaborations like BOSS x NBA that resonate extremely well with younger consumers. So it's the right product offering together with the branding refresh, that is driving our U.S. business, as we are growing broad-based across all channels, be it wholesale, retail or digital.

Regarding China, I can confirm that we are back to growth in July versus 2021.

Antoine Belge (BNP Paribas): Are you seeing a "back to normal" or is there also pent-up demand in China?

Yves Müller (CFO and COO of HUGO BOSS): Our business in China is getting back to normal. We are currently witnessing constant improvements week over week. But there can also be new lockdowns in H2, so we remain a rather cautious view for H2, which is also reflected in our guidance.

Michael Kuhn (Deutsche Bank): First, on your guidance: the midpoint of the EBIT guidance implies around EUR 160 million for H2, which is around 14% below the prior-year level. And even at the upper end, it would be down 10%. I understand that you take a rather cautious stance, but can you provide some more thoughts on why you guided that way? What are the key risk factors for H2?

Secondly, on the impairment of EUR 17 million related to your business in Russia. Is your asset base in Russia now written off completely? Or are there any remaining risks?

Yves Müller (CFO and COO of HUGO BOSS): Regarding the guidance, let me clearly emphasize the following: we demonstrated that, thanks to our broad-based, accelerating and 'high quality' top-line growth, our improvement in gross margin, and the operating expense leverage that, in Q2, we already got close to our 12% EBIT margin target that we want to achieve in 2025. So we proofed that our business model is capable of delivering that kind of margin. On the other hand, we not only continue to face elevated macroeconomic uncertainties but we will also continue to execute our "CLAIM 5" strategy, which means that we will further invest into our business, in particular into our brands and products, into digital and into our store network, which is reflected in our guidance. On the other hand, freight costs and general cost inflation remain high, which is also reflected in our guidance for H2. And, by the way, if you compare our implied H2 forecast with H1, we intend to slightly increase our EBIT margin in the second half of the year.

In H1, we recorded EUR 17 million of impairments related to our business in Russia, which means EUR 2 million in Q1 and EUR 15 million in Q2. This means that, as of today, and given current exchange rates, we have already impaired around half of our asset base in Russia, consisting of right-of-use assets and fixed assets. Going forward, the development also heavily depends on the development of the Russian ruble.

Manjari Dhar (RBC): Firstly, given the supply chain disruption, has this changed how you're thinking about your geographic sourcing profile longer term?

Secondly, building on the earlier question on the split between casualwear and formalwear: is the current split a level that you're happy with? Or do you see potential for that to change further?

Yves Müller (CFO and COO of HUGO BOSS): At HUGO BOSS, we have a well-balanced sourcing mix, with 50% of our merchandise being sourced in Europe, including Turkey – something which we also regard as a competitive advantage. Going forward, we intend to 'near-shore' even more. In line with our mid-term target of a regional sales mix of around 60% Europe, 20% Americas, and 15% Asia/Pacific, we will also strategically optimize our supplier setup. This means, for example, that we will also onboard new suppliers in the Americas. Secondly, we regard our largest own production site in Izmir, Turkey, as a key asset in times of ongoing supply chain disruptions. Our expansion over there is in full swing, as we are hiring around 1,000 people in Izmir in order to increase our production of casualwear. As of today, our own production accounts for a solid sourcing share of 17%. Going forward, we will probably increase this share by another 2 to 3 percentage points, ensuring additional flexibility with regard to our supply chain.

On formalwear vs. casualwear, we are very happy with the current split. We want to be a 24/7 lifestyle brand and there are a lot of initiatives coming up to support growth across all wearing occasions. So we expect the split to be rather similar near-term.

Philipp Frey (M.M. Warburg): On your guidance: other than risks with regard to full-price sell-through, do you have visibility on anything deteriorating substantially relative to H1 in your margin structure?

Can you quantify your current level of full-price sell-through? And in order to judge the sustainability in a normal economic environment, are you currently at a level where you have increased your price-value proposition meaning that this could also be the new normal in an 'average' economy?

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Yves Müller (CFO and COO of HUGO BOSS): First, regarding our top line, we have seen no change in consumer demand as of today and we are very happy with our start into Q3. However, the macroeconomic uncertainties are very high, including elevated freight cost levels and general cost inflation driven by higher energy costs. There might be risk coming from the demand side as well, but we haven't seen it materialize so far. We will continue to invest into our business in line with our "CLAIM 5" strategy and we feel very comfortable with our guidance.

We are enjoying very good brand momentum. The share of full-price sales has clearly increased year over year, particularly in terms of having granted significantly less discounts. Going forward, of course, we want to keep building on this momentum.

Kathryn Parker (Jefferies): Can you share the impact of the higher full-price sell-through on gross margin?

Secondly, also on gross margin: you provided a 60% to 62% mid-term range back at your 2021 Capital Markets Day. Did this include any impact from higher full-price sell-through? Or should we now add a certain percentage to account for the higher share of full-price sales?

Yves Müller (CFO and COO of HUGO BOSS): In Q2, the net improvement in gross margin was 230 basis points year over year. With higher freight costs and an unfavorable regional and currency mix on the negative side, the higher share of full-price sales was the major positive driver, accounting for around 400 basis points.

Regarding the mid-term outlook for gross margin, one major driver are the quality investments in our products. But we have also included some assumptions regarding the share of full-price sales in our mid-term gross margin guidance.

Kathryn Parker (Jefferies): What are your expectations for H2 in terms of the impact of the full-price business? Will we also see an elevated gross margin in H2?

Yves Müller (CFO and COO of HUGO BOSS): We have updated our outlook on gross margin for fiscal 2022 as we now expect it will be at least on the prior-year level. Freight costs will remain elevated in H2. Looking at H1, we have a good tailwind in terms of gross margin. So let's take it from here.

Andreas Riemann (ODDO BHF): First, on the strong wholesale performance. You mentioned better sell-through, but do you also gain more shelf space with existing partners? Or do you establish new partnerships?

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Secondly, on China: are you suffering to some extent from last year's general consumer boycott on Western brands? And how about marketing, are you again collaborating with local influencers?

Yves Müller (CFO and COO of HUGO BOSS): As part of "CLAIM 5", we want to 'grow more with less'. So we are focusing on the key accounts. Currently, every account on our top 20 list is growing its business. So it's a very broad-based growth in wholesale. And as I already said, around half of the growth is coming from 'additional space'.

We are not suffering from boycotts or anything and we are able to team up with local influencers. Our business in China is back to normal after the lockdowns.