

# HUGO BOSS Third Quarter 2022 Results

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

**- The spoken word shall prevail -**

Christian Stöhr: Good morning everyone and welcome to our third quarter 2022 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 – just like in the past – all revenue-related growth rates will be discussed on a currency-adjusted basis. 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. As you have taken notice from our press release this morning, at HUGO BOSS we look back on a very successful third quarter. A quarter in which the strong top-line momentum continued seamlessly – spurred by the relentless execution of several brand, product and distribution initiatives as part of our "CLAIM 5" strategy.

Revenues increased a strong 18% year over year to 933 million euros, which means yet another record quarter for our Company in terms of sales! Importantly, momentum was once more broad-based in nature, with double-digit growth across both our brands, as well as all regions and all channels. But also from a bottom-line perspective, we are very pleased with the development in the third quarter: At 92 million euros, EBIT was up 8% year over year, driven by our strong top-line performance. In achieving this, we were able to more than

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compensate for a moderate decline in gross margin as well as further important investments into our business – both of which I will talk about in detail in just a few minutes.

But first, let's take a closer look at our top-line performance: With revenues up 18% in Q3, this translates into strong three-year-stack growth of 27%, thus virtually on par with the stellar momentum recorded during the second quarter. This is clear evidence that, against some market trends, we have not perceived any signs of a slowdown in global consumer demand or shopping behavior during the third quarter. Instead, it impressively demonstrates the strength and resilience of our brands and the significant progress achieved over the past few quarters when it comes to relentlessly executing our winning formula – "CLAIM 5".

Above all, and no different to the first half of the year, it is the successful implementation of our branding refresh that has continued to spur momentum for BOSS and HUGO, thereby propelling brand perception and brand relevance all around the globe.

So, let's dive a little bit deeper into the world of our brands. Starting with BOSS, where the global launch of the Fall/Winter 2022 collection was accompanied by another star-studded campaign, building on the huge success of our comprehensive branding refresh initiated at the beginning of the year.

The high-profile and diverse all-star cast of BOSS – including celebrities like Kendall Jenner, Naomi Campbell, Khaby Lame, and Lee Min-ho – has continued to fuel brand heat on social media and strongly contributed to our brand's increasing relevance among younger generations and millennials in particular.

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As we have highlighted in the past, we regard Instagram as one of our key communication channels to win over the next generation of consumers and I am particularly pleased to report that BOSS has been the fastest-growing brand on Instagram among key premium apparel brands for several quarters in a row. This strong trend has also continued during the third quarter.

In addition to our global brand campaign, numerous marketing and product initiatives have further fueled brand heat for BOSS in Q3. This includes the launch of several exciting collaborations, such as those with BOSS brand ambassadors Alica and Matteo, as well as a star-studded fashion event at Milan Fashion Week in September. The spectacular show was live streamed across multiple social media platforms, with selected styles instantly shoppable on hugoboss.com as well as via a live stream on TikTok. It was yet another stunning social media moment for BOSS, propelling brand awareness and further tapping into a younger demographic.

In the wake of these successes, and supported by a strong increase in sell-through rates of the current Fall/Winter collection, BOSS posted double-digit top-line improvements in the third quarter. While revenues for BOSS Menswear were up 20% compared to the prior-year level, sales for BOSS Womenswear increased 13%, thus strongly accelerating to double-digit growth on a three-year-stack basis. And with double-digit growth across all wearing occasions, BOSS made further progress when it comes to fostering its 24/7 lifestyle image. Moving over to HUGO, where the Fall/Winter 2022 campaign once more emphasized the brand's strategic focus on contemporary and commercial styles. Stars and influencers of the Gen Z – among others Big Matthew and Saint John – have created further buzz on social

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media, and on TikTok in particular. The latter is the perfect platform of self-expression for HUGO's target audience and it is exciting to see that in 2022 HUGO has strongly outperformed its direct competitors on that channel!

Similar to BOSS, Q3 has also been an extremely busy quarter for HUGO, with several marketing and product initiatives taking front and center stage. Back in September, HUGO joined forces with Replay for a truly unique denim collection. Bringing together a mix of classic and trend-driven denim styles with easy-wear jersey pieces, the collaboration is strongly contributing to HUGO's strategic ambition of strengthening its denim offering. Also in September, HUGO showcased its latest Fall/Winter 2022 collection during Milan Fashion Week. In an urban setting inspired by rave culture, HUGO unveiled the latest statement styles of the season and made them instantly available online via a live shopping tool.

And, last but certainly not least, only a couple of weeks ago, HUGO launched its first-ever NFT collection in close collaboration with Imaginary Ones, diving into the exciting virtual world of metaverse. And let me say, the hype is real: our 500 phygital shirts specially designed for this purpose were sold out within minutes!

Thanks to all these initiatives, HUGO has not only further increased relevance among younger consumers, but also successfully continued its double-digit growth trajectory in the third quarter. With revenues up 13% year over year, this translates into robust three-year-stack growth of 29%, once more led by strong double-digit improvements in HUGO's important casualwear as well as shoes and accessories business.

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Let's now move over to our channels, where growth in Q3 was once again broad-based in nature with double-digit sales improvements across all consumer touchpoints.

Starting with brick-and-mortar retail, where momentum was particularly strong throughout all of Q3, enabling us to drive robust growth of 18% year over year. Consequently, on a three-year-stack basis, growth in brick-and-mortar retail accelerated to 25%, up 6 percentage points as compared to the second quarter, with all three regions recording sequential revenue improvements. This strong performance was fueled by a strong uptick in traffic, leading to double-digit improvements in store productivity compared to the full year 2021.

Moving over to physical wholesale, where year-over-year revenue growth also came in at 18%. While we continue to enjoy strong underlying demand from wholesale partners around the globe, we recorded some delivery shift effects from Q3 into Q4. Overall, the adverse impact on third quarter revenues amounted to around 30 million euros, hence limiting growth in Q3 to some extent. As a result, on a three-year-stack basis, sales in physical wholesale expanded by 10%.

Finally, on our digital business, which successfully continued its double-digit growth trajectory year on year. In fact, growth in our digital channels re-accelerated to 20% in Q3, reflecting both double-digit sales increases in our digital flagship hugoboss.com as well as in digital revenues generated with our partners. Compared to pre-pandemic levels, revenues even doubled, leading to a digital sales share of 17% in the third quarter.

Let's conclude on our top line with a review of the performance by region. Fueled by our successful branding refresh and supported by ongoing robust consumer demand, we recorded double-digit sales improvements across all regions in the third quarter.

In Europe, sales increased 17% year over year and 28% compared to 2019, with momentum in our brick-and-mortar retail business further accelerating on a three-year-stack basis, up 21% versus 2019 levels. At the same time, the aforementioned delivery shift effects limited revenue growth in brick-and-mortar wholesale to some extent. Overall, sales in Germany were up 19% year over year, while the UK and France posted growth of 9% and 8%, respectively. In addition, we continued to enjoy strong momentum in both Eastern Europe as well as the Middle East, as reflected by strong double-digit growth year over year.

Also in the Americas, our business performance remained strong throughout the third quarter, with sales up 18% year over year. Compared to 2019 levels, momentum in the Americas therefore remained virtually at the level of the second quarter, with sales expanding by 35%, and strong support coming from all of the region's markets. I am particularly pleased that we recorded yet another quarter of sequential improvement in our brick-and-mortar retail sales trajectory in the region. Compared to 2019 levels, momentum in this channel accelerated by 4 percentage points quarter over quarter, leading to three-year-stack growth of 48%. In the important U.S. market – where we continue to successfully foster the 24/7 brand image of BOSS and HUGO – momentum in brick-and-mortar retail also accelerated as compared to the second quarter.

Finally, on Asia/Pacific, where momentum strongly picked up in the third quarter, enabling us to return to double-digit growth with revenues up 33% year over year and 15% compared

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to pre-pandemic levels. Significant double-digit revenue improvements in South East Asia & Pacific spurred momentum in the region, led by a strong recovery in markets such as Australia, Japan, and South Korea. While our brands also recorded a promising start to the third quarter in mainland China – with July revenues up high-single digits year on year – pandemic related restrictions weighed on the performance during the remainder of Q3. This is particularly true for the month of September, where around 15% of our stores in mainland China had to either temporarily close their doors or significantly reduce their opening hours. As a result, our business in mainland China ended the quarter 3% below the prior-year level, translating into three-year-stack growth of 12%.

With this, let's now move on to the remaining P&L items. Starting with our gross margin, which totaled 60.8% in the third quarter, representing a moderate decline of 90 basis points compared to last year. This development is mainly related to the persistently high level of global freight costs as well as unfavorable currency movements, with the U.S. dollar further strengthening during the third quarter. In addition to that, we also recorded some negative channel and regional mix effects, both of which weighed on our gross margin development in Q3.

Overall, this more than offset the positive impact from a higher share of full-price sales in Q3, with the latter reflecting the significant uptick in brand momentum following the successful branding refresh. In this context, let me clearly emphasize that the underlying momentum in our full-price business was just as strong as it was during the second quarter, with no signs of a slowdown in Q3. In particular, our business has not been impacted by any signs of elevated promotional activity that some industry players have been mentioning lately.

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Instead, compared to the prior-year period, we managed to reduce total price reductions by a mid-single-digit percentage range year over year.

Moving over to operating expenses, which increased 25%, largely reflecting our well-flagged, ongoing investments into the business as part of our "CLAIM 5" strategy. As a percentage of sales, however, and supported by the strong top-line development, total operating expenses increased only moderately by 50 basis points to a level of 50.9%, well below pre-pandemic levels.

In particular, selling and distribution expenses were up 28% year over year, driven by an increase in variable rents and fulfillment costs in light of our strong revenue growth. In addition, we stepped up our marketing investments by 39%, largely reflecting the two successful brand campaigns and fashion events of BOSS and HUGO. At 7.6% of Group sales, marketing investments were thus within our target range of 7% to 8% as laid out in "CLAIM 5". Administration expenses, on the other hand, increased 15%, largely attributable to a step-up in digital investments as well as higher payroll costs, both aimed at supporting the successful execution of our two strategic priorities "Lead in Digital" and "Organize for Growth".

Now, spurred by the strong top-line performance, we recorded a robust increase in EBIT in the third quarter, thereby more than compensating for the moderate decline in gross margin as well as the aforementioned investments into our business. Overall, EBIT was up 8% to a level of 92 million euros, resulting in an EBIT margin of 9.9% in Q3.



Let's now turn to the balance sheet. Starting with inventories, which increased 41% on a currency-adjusted basis. There are a few factors driving this increase all worth noting, so let me put things into perspective:

Above all, the increase in inventories in the third quarter reflects our aim to support our strong top-line momentum across all channels. This also includes serving our record-breaking wholesale order books for Fall/Winter 2022 and Pre-Spring 2023. In addition, to mitigate ongoing supply chain risks as best as possible and to ensure product availability for upcoming seasons, we intentionally increased our inventory coverage by accepting earlier receipts of core merchandise. Finally, we also recorded a more pronounced increase of goods in transit, largely reflecting the ongoing situation when it comes to global freight and transportation capacities.

Importantly: the vast majority of the intentional build-up in inventories is related to either core merchandise that can be sold over several future seasons or products related to the current Fall/Winter and upcoming Pre-Spring collections. And let me be also very clear in saying that the overall inventory turn continues to look very good, as reflected by a further improvement in the aging of inventories.

To summarize: We continue to feel comfortable with regards to our inventory position, in particular when looking at its overall composition. Our inventory mix is not only healthy, but also of "high quality," thus paving the way for future top-line improvements at full price.

This brings me to trade net working capital, with the moving average of the last four quarters summing up to 14% of Group sales, thus once again well below the prior-year level. In this

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context, the higher inventory position was largely offset by a strong increase in trade payables year over year, mainly reflecting a higher utilization of our supplier financing program.

Capital expenditure, in turn, was up 64% as compared to last year, with investment activity once more focused on the continuous optimization of our global store network – including the renovation of key locations in New York City and Vienna, as well as new openings in the Middle East and on London's Oxford Street.

Consequently, free cash flow amounted to minus 5 million euros in the third quarter, as the bottom-line improvements were more than offset by the increase in inventory and the step-up in capital expenditure.

Now, this concludes my remarks on our third quarter operational and financial performance. Let's now move over to our expectations for the full year and the fourth quarter in particular.

As you have noticed from our press release, we increased our 2022 full-year outlook for the second time this year. In doing so, we took account of the strong top-line momentum in the third quarter and first nine months, respectively, the considerable uptick in brand momentum, as well as our confidence when it comes to the important final quarter. The successful execution of our "CLAIM 5" strategy will continue to be our clear focus also in Q4 and provide ongoing tailwinds during the upcoming holiday season.

At the same time, our updated outlook continues to reflect the persistently high levels of macroeconomic uncertainty – as the overall conditions in the market are far from normal.

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Besides that, we must not ignore the fact that also the comparison base is getting more challenging, having returned to double-digit growth versus pre-pandemic levels in Q4 last year.

Consequently, regarding our top line, we now forecast Group revenues in fiscal year 2022 to increase by between 25% and 30% to a new record level of 3.5 to 3.6 billion euros. Importantly, and fully in line with "CLAIM 5," growth this year will be broad-based in nature, with both our brands as well as all regions and all channels set to contribute with double-digit increases. Our confidence is underpinned by the persisting strong brand momentum of BOSS and HUGO and the fact that we have not witnessed any material change in consumer shopping behavior, nor a broader slowdown in overall consumer demand at this point in time.

Based on the anticipated strong top-line growth and an at least stable gross margin development year on year, we are now forecasting EBIT to increase within a range of 35% and 45% to a level of between 310 and 330 million euros in fiscal year 2022. This holds true despite the step-up in product, brand, and digital investments, which are a firm element of "CLAIM 5" and which will also be visible in the final quarter.

At the same time, we have also factored in some of the ongoing macro uncertainties, in particular when it comes to elevated freight and energy cost levels as well as general cost inflation, with the latter expected to have a more pronounced impact on our fix cost development in the short term.

Ladies and gentlemen, this concludes my remarks for today. Before we start with the Q&A session, let me conclude by briefly recapping on our performance to date and our expectations going forward.

- Above all, at HUGO BOSS, we are all the more encouraged with how our business has gained traction over the past nine months. Our strong top-line momentum in Q3 – with no signs of a potential slowdown – impressively demonstrates the power of “CLAIM 5” and the many successes related to our comprehensive branding refresh!
- Both brands – BOSS and HUGO – are enjoying tremendous momentum, thereby winning over younger consumers. Our business model is stronger and more resilient than ever before and built on a broad and robust foundation.
- At HUGO BOSS, we are therefore well prepared to continue our success story – in Q4 and beyond. Over the last several quarters, we have laid the basis to continue serving our customers as best as possible, thereby exploiting our global sales opportunities in a high-quality manner.
- By sticking to our game plan and continuing to execute “CLAIM 5” in the most determined manner, we will not only make 2022 a record year for HUGO BOSS, but also achieve an important milestone along our way towards our 2025 financial ambition.

And with this, I am now very happy to take your questions.