

26th February 2016

Luxury & Consumer Goods

Hugo Boss

Price EUR51.68

CEO Claus-Dietrich Lahrs resigns and will leave at the end of the month

Fair Value EUR87 (+68%)

NEUTRAL

Bloomberg	BOSS GR
Reuters	BOSG_p.DE
12-month High / Low (EUR)	120.0 / 51.3
Market Cap (EUR)	3,638
Avg. 6m daily volume (000)	328.1

	1 M	3 M	6 M	31/12/15
Absolute perf.	-29.1%	-36.0%	-48.8%	-32.5%
Pers & H/H				
Gds	0.9%	-7.5%	3.4%	-3.4%
DJ Stoxx 600	-2.9%	-14.3%	-8.4%	-10.7%
	2014	2015e	2016e	2017e
P/E	10.2x	11.0x	12.6x	11.2x
Div yield (%)	7.0%	7.3%	8.1%	9.0%

ANALYSIS

- Yesterday Hugo Boss announced the resignation of its CEO Claus-Dietrich Lahrs who will leave the helm on 29th February. Naturally no successor has been appointed but the Supervisory Board will now find him/her "without delay". In the meantime, Mr Lahrs' responsibilities are taken over by the other members of the Managing Board which should welcome a new member as of 1st March: Bernd Hake, currently Senior VP EMEA, Middle East and India who should be appointed as member of the Managing Board responsible for sales and Retail.
- Following the two PWs announced in less than six months (15th October and 23th February), which wiped approx. 50% of the share price, his departure does not totally come as a surprise in our view. Despite successful achievements during his tenure (over 2008-15: retail channel rose from 27% to 60% of sales, revenue increased by 67% and adj. EBITDA expanded ~400bp), 2015 proved to be a very difficult year, the group being swept away by challenging US and Chinese markets.
- Beyond Hugo Boss, the recent PW of Ralph Lauren (4th February) shows that this premium positioning is more and more difficult to hold, as they are caught between the pure-luxury brands and the "fast-fashion" brands (e.g. Sandro, Maje, The Kooples, Ted Baker, etc.), which have an opportunistic affordable positioning in apparel markets that are heavily promotional like the US or in some European countries. Moreover these high-street brands have a cost structure suitable for this positioning.

VALUATION

- In our opinion, the departure of Mr Lahrs leaves more questions than answers. In order to regain some brand control and pricing power in these deflationary markets, the new CEO will have to: **(i)** decide whether to accelerate the category migration in the US (i.e. replace BOSS brand by HUGO and BOSS Green) or to simply stop the partnerships with department store chains that are participating to this price war and **(ii)** carry on the price harmonization between China and Europe without endangering the high brand's image amid Chinese customers. Last but not least, the new CEO might call into question some targets of the 2020 Strategic Plan.

NEXT CATALYSTS

- FY15 Results and Analysts' Conference on 10th March 2016

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