5th August 2016

Luxury & Consumer Goods

Hugo Boss

Price EUR53.14

Q2 results topped expectations, but FY guidance revised down slightly

Fair Value EUR77 (+45%) **NEUTRAL**

Bloomberg	BOSS GR
Reuters	BOSG_p.DE
12-month High / Low (EUR)	113.8 / 46.4
Market Cap (EURm)	3,741
Ev (BG Estimates) (EURm)	3,824
Avg. 6m daily volume (000)	459.0
3y EPS CAGR	-5.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.8%	-7.8%	-24.6%	-30.6%
Pers & H/H Gds	-0.6%	3.5%	3.2%	1.2%
DJ Stoxx 600	1.0%	0.0%	1.9%	-8.3%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	2,572	2,809	2,803	2,956
% change		*9.2%*	*-0.2%*	*5.5%*
EBITDA	571	590	495	544
EBIT	448.7	447.7	349.8	393.3
% change		*-0.2%*	*-21.9%*	*12.5%*
Net income	333.3	319.3	257.5	295.4
% change		*-4.2%*	*-19.4%*	*14.7%*

	2014	2015e	2016e	2017e
Operating margin	17.4	15.9	12.5	13.3
Net margin	13.0	11.4	9.2	10.0
ROE	39.5	34.0	25.4	25.4
ROCE	33.2	29.1	22.3	23.9
Gearing	5.1	8.8	4.2	-4.2

(EUR)	2014	2015e	2016e	2017e
EPS	5.04	4.67	3.82	4.32
% change	-	*-7.3%*	*-18.3%*	*13.2%*
P/E	10.5x	11.4x	13.9x	12.3x
FCF yield (%)	7.6%	7.8%	8.3%	8.9%
Dividends (EUR)	3.62	3.62	3.20	3.65
Div yield (%)	6.8%	6.8%	6.0%	6.9%
EV/Sales	1.5x	1.4x	1.4x	1.2x
EV/EBITDA	6.6x	6.5x	7.6x	6.8x
EV/EBIT	8.4x	8.5x	10.8x	9.4x

In Q2 alone, sales reached EUR622m (CS: EUR612m), down 4% as reported and 1% FX-n (CS: -3%) after -3% FX-n in Q1, with a nice rebound in Europe (+7% vs. -1% in Q1). The adj. EBITDA dropped by 13% to EUR108m ahead of CS forecast (EUR87m), representing a 180bp-margin decline to 17.3% (Q1: -520bp). Given the lingering sluggish market conditions, Hugo Boss is revising down its FY16 targets but looking at the CS expectations for 2016, these downwards revisions were mostly anticipated by the market. Conference call today at 1:00pm (CET).

ANALYSIS

- **Q2 sales contracted 1% FX-n, Retail was flat (Q1: +1%).** This channel suffered from a slowdown in Europe given fewer tourists (terror attacks, reduction in the price gap) over the quarter. Consequently, the **SSSG** declined 8% (Q1: -6%) offset by a positive contribution from new space of 8pp (vs. ~7pp in Q1). The **wholesale** channel only declined by 1% (Q1: -9%) as it benefited from a positive timing of deliveries in Europe but it declined significantly in the US market (category migration underway).
- By region and in Q2 alone, **Europe** rebounded to 7% vs. -1% in Q1, but it is mostly driven by the positive timing of wholesale deliveries mentioned above. Sales in the UK grew in the double-digits but the lack of traction from tourists and local customers weighed on the performance in France and the Benelux countries. Unsurprisingly the performance in the **Americas** remained quite weak (-14% FX-n vs. -8% in Q1), mostly due to the US (-21%), which is explained by negative underlying trends (deflationary trends, declines in traffic, lack of tourists) and the category migration strategy. Last but not least, the business in **Asia-Pacific** declined by 6% after -5% in Q1, largely caused by Greater China (-16%) while S-K, Singapore or Australia performed well.
- **Limited decline in the adj. EBITDA: -180bp to 17.3% (CS: 14.3%) after -520bp in Q1.** This performance was mainly driven by the 110bp expansion in the GM to 67.6% (Q1: -140bp) since the negative impact from markdowns and inventory write-downs has eased off. Moreover, the tight opex cost management enabled Hugo Boss to partly offset the inflation in costs related to retail expansion and the operating deleverage given the same-store decline of 8%. Hence the adj. EBITDA margin fell 180bp to 17.3% (CS: 14.3%) after -520bp in Q1.

Hugo Boss Q2 and H1 16 Results:

EURm	Q2 16	*% change*	H1 16	*% change*
Sales	622.1	*-4*	1,264.7	*-4*
Gross Profit	420.3	*-2*	832.2	*-4*
Gross Margin (%)	67.6	*+110bp*	65.8	*-20bp*
Adjusted EBITDA	107.7	*-13*	201.2	*-21*
Adjusted EBITDA margin (%)	17.3	*-180bp*	15.9	*-350bp*
EBIT	15.4	*-84*	69.1	*-65*
EBIT margin (%)	2.5	*ns*	5.5	*-950bp*

Source: Company Data

- **FY16 outlook revised down.** Hugo Boss now expects: **(i)** sales to decrease between 0 and 3% after -2% in H1 (BG and CS: ~0%e) and **(ii)** adj. EBITDA to decline between 17% and 23% after -21% in H1, the CS and ourselves were already expecting a 18% drop prior to the publication. In our view, the market had already anticipated this lowered guidance, but it proves that the visibility is clearly blurred.

VALUATION

- These better-than-expected Q2 results show that some initiatives implemented by the Group are starting to pay off, but the turnaround also relies largely on improving market trends, which have not materialized yet. Hence we remain Neutral with a FV of EUR77.

NEXT CATALYSTS

- Conference call today at 1.00pm (CET) / Q3 16 Results on 2nd November.

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