

## Hugo Boss

Price EUR56.69

## Q3 results: sequential earnings improvement, FY outlook confirmed

Fair Value EUR74 (+31%)

NEUTRAL

Bloomberg	BOSS GR
Reuters	BOSG_p.DE
12-month High / Low (EUR)	93.7 / 46.4
Market Cap (EURm)	3,991
Ev (BG Estimates) (EURm)	4,073
Avg. 6m daily volume (000)	402.0
3y EPS CAGR	-7.7%

Sales reached EUR703m in Q3 (CS: EUR704m), down 6% as reported and 3% FX-n (CS: -3%) after -2% FX-n in H1. Adjusted EBITDA dropped by 14% to EUR144.5m ahead of CS forecast (EUR136m), representing a 200bp-margin decline to 20.6%. Hugo Boss confirmed its FY16 sales and earnings targets. Conference call today at 2:00pm (CET).

## ANALYSIS

- Q3 sales contracted 3% FX-n, with Retail up 2% (H1: +1%). This channel suffered from a slowdown in Europe, leading to comparable growth down 6% this quarter, a touch better than Q2 (-8%) and H1 (-7%) though. As expected, the **wholesale** channel dropped by 11% (Q2: -1% / H1: -6%) after the positive phasing effect that occurred in Europe in Q2 (+15% FX-n) and the distribution clean-up in the US.
- By region and in Q3 alone: as expected, growth in **Europe** decelerated to -2% from +7% in Q2 (H1: +3%) enjoying the positive timing of wholesale deliveries. Sales in the **UK** grew 5%, offset by mid to high single-digit declines in **Benelux** and **France**. Unsurprisingly the performance in the **Americas** remained in negative territory (-9% FX-n vs. -11% in H1), mostly due to the US market (-14% vs. -19% in H1) following a combination of the group's own initiatives (category migration and distribution upgrade) and poor traffic trends. **Asia-Pacific** only fell by 3% after -5% in H1 with a promising improvement in China (-4% vs. -14% in H1). Sales in Mainland China were certainly positive but HK and Macau continued drag (Hugo Boss mentioned some store closures there).
- Adj. EBITDA topped expectations (EUR144.5m vs. CS of EUR136m) thanks to effective cost reductions. GM improved 20bp to 64.7% (lower share of markdowns) and SG&A remained broadly flat in Q3 thanks to tight opex cost management. As such, adj. EBITDA margin "only" narrowed by 14% after -21% in H1, representing a 200bp-contraction in the margin to 20.6% (CS: 19.3%) but marking a sequential improvement vs. H1 (-350bp).

## Hugo Boss Q3 and 9M 2016 results:

EURm	Q3 2016	% change	9M 2016	% change
Sales	703.0	-6	1,967.7	-4
Gross Profit	454.6	-5	1,286.8	-4
Gross Margin (%)	64.7	+20bp	65.4	=
Adjusted EBITDA	144.5	-14	345.7	-18
Adjusted EBITDA margin (%)	20.6	-200bp	17.6	-290bp
EBIT	109.5	-17	178.6	-46
EBIT margin (%)	15.6	-220bp	9.1	-690bp

Source: Company Data

- FY16 outlook confirmed.** Hugo Boss expects: (i) sales to decrease between 0 and 3% vs. -2% in 9M (BG and CS: ~-2%) and (ii) adj. EBITDA to decline between 17% and 23% after -18% over 9M, the CS and ourselves are expecting a 20% decrease for 2016 prior to today's publication.

## VALUATION

- In our view, this reassuring publication (i.e. sales performance in line, profitability above expectations and FY outlook reconfirmed) should validate the share price rally seen over the past month (+15%).
- Investor attention will now mostly focus on the Investors' Day (16th Nov) where the group's management will present more details on the re-set strategy and set new MT-LT targets that take into account the new apparel market paradigm.

## NEXT CATALYSTS

- Conference call today at 2:00pm (CET) // Investors' Day in London on 16th November 2016.

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NEUTRAL ratings 31,2%

SELL ratings 12,1%

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