

**PUMA SE**

**Q2 2023 Earnings Call**

Edited Transcript

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**Adam Cochrane** – Deutsche Bank

**Anne-Laure Bismuth** - HSBC

**David Roux** – Bank of America

**Edouard Aubin** – Morgan Stanley

**Graham Renwick** - Berenberg Bank

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**Simon Irwin** – Credit Suisse

**Warwick Okines** – Exane BNP Paribas

**Zuzanna Pusz** – UBS

Please note that the transcript has been edited to enhance comprehensibility.

## PRESENTATION

Gottfried Hoppe

Thank you very much, Francy. Dear ladies and gentlemen, also from my side, a warm welcome to PUMA's second quarter 2023 earnings call. Our presenters today are Arne Freundt, PUMA Group CEO, and Hubert Hinterseher, PUMA Group CFO. We'll start with a presentation by Arne and Hubert, followed by a Q&A session. Now, without any further ado, over to you, Arne.

Arne Freundt

Thank you, Gottfried. Ladies and gentlemen, also good afternoon from my side. I have the pleasure to guide you through today's earnings call for Q2. I will start with a quick business update, before I hand over to Hubert to guide you through our financials and then I'll close with an update on our strategic priorities before we give an outlook on the remainder of the year 2023.

When we look at Q2, it's clear that we have celebrated a great brand and product momentums in the last quarter. The most important for us was for sure the victory of Manchester City winning for the first time the treble. It's the first time the club has won the treble, and it's also the first time in PUMA history, in our 75 years of being in the industry, that we were the proud partners of the team winning the treble.

But it's not only on the club side, it's also on the federation side where we were having great momentum and celebrating great success. The next generation of champions from Uruguay won the U20 World Cup in Argentina and our Israeli team became a strong number three.

Talking about next generation, we also had an exciting signing of Xavi Simons, who's currently one of the Dutch national players and will join Red Bull Leipzig as of next season. He's only 20 years old. For us it's one of the most exciting players and one of the true kings on the pitch.

Currently we're in the Women's World Cup. For us it's a great moment not only to celebrate the beauty of the game, but also to push the boundaries for equality in football. We're the only brand who offer a women-specific fit in all three football siloes, making sure we support our female athletes in the best way. We believe women's fit is so important for an athlete, not only to enhance their performance, but also to prevent injuries in female football. 90% of our 90 players are endorsing product and it shows that there is a real demand for women-specific football shoes in football business.

But also outside the pitch we were celebrating great successes with our athletes. Our para athletes during the World Champs in Paris were winning gold medals, most importantly Omara, with three gold medals, underlining that she's one of the greatest para athletes. But also, our normal track and field athletes were celebrating great successes during the Diamond League

competitions. Also here we were able to strengthen further our roster of strong ambassadors by signing our sprint sensation, Julien Alfred. She already competed in our PUMA shoes at Budapest World Champs and has a clear chance to win the 100m gold medal.

But it's not only about the professional athletes, it's also about the everyday runners. And here we continue to focus on road running and further elevating and establishing our strong NITRO position in the market. It is clear that with NITRO we have one of the best foam technologies out there in the market, and now it's about creating awareness and consideration among the everyday runner. This is why we need to be present and visible where the runners are at the running events world-wide.

On the golf side, we were celebrating another victory with Rickie Fowler, celebrating his sixth PGA Tour victory in total, and on the basketball side, we were taking LaMelo on a European tour to celebrate and activate him among our European fans. We took him to Milan, Berlin, Paris and London, and made it a great moment of engagement together with our retailers, like Foot Locker and Basket4Ballers.

But it's not only about the current stars, it's also here about the future generation and for us, the future is Scoot. Scoot is one of the key rookies, he was the number three Draft in the NBA and is now playing in the next season for Portland. He's our face for All-Pro NITRO and he will also receive as the first rookie a dedicated signature boot launching December 21, right on time for the Christmas business.

Also in Formula 1 and motorsport we made huge strides. We announced our landmark deal with Formula 1, giving us the opportunity not only to equip the officials, but also to produce exciting collections for the fans. This further underlines our dominant position in the emerging F1 category.

When you look at all this strong brand and product momentums, it is clear that we are continuing to gain market share in all important performance categories. In football, in performance running, in basketball and golf, we are continuing to gain market share across the board.

But it's not only on the performance side where exciting stuff is happening, also on the sports style side. Sneaker Freaker is publishing every single week their hottest five drops in the market. Only in the first six months PUMA had already eight mentions. This is a strong lineup, which we have never ever had before and it shows the real hype which is building up around the PUMA products. One of the very important shoes, which was also highlighted by Sneaker Freaker, is our Palermo, speaking exactly to the emerging terrace trend which is currently in the

market. For us it is a clear model which we're positioning also with the female consumer, in vibrant colours, and we have Dua Lipa as the face of that shoe. The first products have already dropped in July and saw a strong sell-through, and we will follow up with this one in the course of the second half of this year.

Talking about strong sell-throughs, we also had a great collaboration with Noah, which went live in the last few weeks. It was for Noah one of the strongest collaborations they ever had, resulting in immediate sell-out. Then in terms of collaboration, I think everybody is excited for seeing the first Rihanna product coming to market in Q3. In September we will drop her point of view on the emerging terrace trend, then we will follow up in November and later on in December with a third drop, but then we are going to bring back an icon through the lens of skate. I think it's been a great partnership so far and in only six months from design development, we are able to bring it live to the market.

This was the past six months. If we look at the next six months ahead, I think we're very confident about the lineup and I think the best is yet to come. We have LaMelo Ball launching its MBO.03 boot, we have Fenty coming up in September, and we have Las Vegas coming up with the first Grand Prix race in Las Vegas in November. I cannot remember that we had such a strong lineup ever for the second half of the year.

Also on the partnership side we continue to make further progress of establishing ourselves as the best partner, not only for the retailers, but also for the suppliers. We conducted in June a supplier summit and had more than 80 suppliers, tier-one and tier-two suppliers, here in Herzogenaurach. It was the first time for them to come to Herzogenaurach in more than ten years. It was very important for us to underline that they are an integral part our PUMA family and to share our strategy with them and make sure we are continuing to evolve our partnership going forward.

Also on the retailer side, we continued to strengthen our partnership. We had a big select summit together with 70 customers around the Paris Fashion Show, and these select customers are our highest tier of opinion-leading accounts, and combined that with a very successful seller meeting.

When we take all these brand and product moments together, it is clear that we are well on track to achieve our full-year outlook after our Q2 numbers. Q2 came in with an 11.1% currency adjusted net sales growth, and let me go down in a bit more detail how we achieved the growth.

Wholesale was showing a growth of 7%. This is perfectly in line with our ambition to be the best partner to retail. We are working

with them through the elevated inventory levels in the market and also realised the opportunities which were there in the reorder business, coming up on the immediate business opportunities. On the Direct-to-Consumer channel showed a strong growth of 26.5%. And we saw especially in the brick and mortar growth of 30%, which was also partially contributed by the reopening of stores in China and the addition of new stores.

On a divisional level we see that Footwear continued to lead the growth with 18% growth, but we also see Apparel and Accessories returning back to growth. And we see that the gap between Footwear, Apparel and Accessories further narrowing, which also speaks to the further normalisation of the behaviour in the market.

On the regional side we see that our regions EMEA and APAC were continuing to drive the growth, both growing in the mid-20s. Americas was down by minus 4%, solely driven by the soft US business, while Latin America continue to be up.

Talking about H1, we closed top line with 12.7% growth. The on the channel division and regional level were quite similar. Wholesale continued to post a growth of 10%, Direct-to-Consumer of 25%. On the divisional level, we saw Footwear contributing 24% of the growth and on the regional level we saw that EMEA and APAC are equally contributing to the growth, while Americas is declining with 3%.

On a bit more granular level, here we see all the regions split up by quarter. I would like to point out two regions specifically. One, North America. Here we saw business decline of minus 17%, which is more or less in line with our Q1 trend. This is also how we see the full year continuing to trend. Then Greater China, we continued to see resurgence of the business and recorded 36% growth. It's important to note that also the comp base in Q2 was low because that was the moment in time when China was under zero-COVID policy and a lot of stores were locked down. Overall, it puts us on a trajectory of 20% for Greater China, which we also see as a trajectory going forward into the second half. I think the most important message on that page is that despite a soft US market, you see double-digit growth of PUMA which speaks to the strong diversification of our business across all the different regions. Let me know hand over to Hubert, to guide you through our operating performance.

Hubert Hinterseher

Thank you, Arne, and also a warm welcome from my side. Let's have a look at the operating performance of the second quarter 2023. Q2 was another quarter with double-digit sales growth, demonstrating PUMA's ongoing brand momentum. Sales were up 11.1%, currency adjusted, or 5.9% in reported currency, to 2.1 billion. Especially continued strong sales growth in DTC proved

again strong demand for PUMA products. Gross profit margin declined 170 basis points to 44.8%. Compared to last year, strong headwinds from currency effect, especially from the US dollar, ongoing pressure from sourcing prices, freight and industry-wide promotional activities continued to weigh on gross profit margin, while pricing and impact from regional and distribution channel mix were beneficial. In the second quarter our promotional activities improved already, compared to the first quarter.

Opex increased 6.4% to 835 million or 39.3% of sales. A moderate increase in operating expenses based on growth in DTC channel, ongoing investments in marketing, and higher sales-related distribution costs, while other cost areas provided operating leverage. EBIT ended at 115 million or 5.4% of net sales. The decline of 21% was mainly due to a lower gross profit margin related to unfavourable currency development. As a consequence of the lower EBIT, EBITDA was down 15% and net income ended at 55 million, down 35%.

Let's have a look at the operating performance of the first half-year 2023. Overall, also in the first half year, strong sales development. Sales were up 12.7%, currency adjusted, or 10.1% in reported currency to 4.3 billion. In spite of a very volatile market environment, PUMA sales in the first half year trending above our full-year guidance, showing our ability to compensate external headwinds. Gross profit margin declined 120 basis points to 45.7%, due to unfavourable currency development, higher sourcing cost and freight cost, as well as higher industry-wide promotional activities. However, the negative impacts were partially offset by price adjustments and the favourable geographical and distribution channel mix.

Opex increased 12.4% to 1 billion 676 million or 38.9% of net sales. The opex increase was due to sales-related distribution cost, DTC growth and investments in marketing, while also in the first half year other cost areas also provided operating leverage. EBIT declined 15% to 291 million, due to the unfavourable currency impact on gross profit margin and higher operating expenses. The EBIT trend in the first half year is fully in line with our expectation, given the pressure on gross profit margin, especially from currencies. As a consequence of the EBIT trend, EBITDA was down 9% and net income was down 16% at 172 million.

Let's now have a look at the balance sheet KPIs. Inventory levels normalised in line with expectation, with an increase of 8.1%. Looking at the quarter-by-quarter trend, we see a strong improvement on inventory, coming from 32.7% end of Q1 to now 8.1% end of Q2. This clearly shows we achieved our objective to normalise inventory levels by middle of the year. The positive

trend includes also improvements in North America and China. Trade receivables were up 13.3%, pretty much in line with business development and trade payables were down 12.1%, mainly reflecting the change in timing of purchase and adjusted purchase volumes. As a consequence, working capital increased 59%. Cash and cash equivalents ended at 308 million. As a consequence of higher working capital, cash flow ended at minus 341 million.

To sum it up, PUMA is well on track to achieve its full-year outlook. We see continued brand momentum. Our sales and EBIT is on track and our inventory levels are back to normal. With that, I would like to hand back to Arne.

Arne Freundt

Thank you, Hubert. Let me now give you an update about the strategic priorities and how we progressed. The last few quarters we already updated you about our strategic framework. About elevating the brand, enhancing the product excellence and improving our distribution quality and especially in the two focus markets, US and China. This is all built on our foundational pillars of putting the people first, evolving sustainability and digitalising our infrastructure.

Let's talk about elevating the brand first. We outlined a clear plan how we want to elevate the brand. We want to build further relevancy of our brand with the consumers and anchor it more deeply in the mindset and heart of the consumers. We need to become more consumer centric by putting the consumer at the heart of everything we do, and we said we will also continue to invest in the brand, further elevate PUMA's positioning and start to execute fewer, bigger, better campaigns to make sure we're really cutting through with our initiatives to today's mediums.

To execute against that strategic priorities, we of course needed to lay the organisational foundation, and this is what we announced in June. In June we announced that the global marketing hub going forward will be based here in Herzogenaurach. This is crucial because global marketing needs to sit next to the product engine, together with our global go-to-market engine and the creative direction, to make sure everything is lined up. In addition, we also announced that we are strengthening the US marketing hub because we need to focus on the US market in itself, and make sure we are speaking to the US consumer in the way they're expecting. The US marketing hub got more accountability and more resources, to execute against that strategy.

We complemented it by our China marketing hub in Shanghai. It was not affected by the move, but it has the same accountabilities and responsibilities as Boston because we do believe that the China market deserves a lot of focus and own



recipe to succeed.

The whole setup is rounded up by our global entertainment marketing setup being based in Los Angeles and London. Here the new addition is Seoul because we also believe in the influence and impact of the K-culture, especially K-Pop, not only in Asia but also for the western world.

To lead that new organisation, I'm very happy that Richard Teyssier will lead the Global Marketing organisation. For me he's the perfect candidate, having 17 years of leading brand and marketing functions for the Mars Corporation, in some of the most iconic brands, and now 12 years with PUMA as a general manager at PUMA France and PUMA Europe. That combination of the expertise in marketing and general management makes him for me the perfect fit to lead our brand and our global marketing to the next level.

Let's talk about the US. The US continues to be a challenging market with a lot of softness. We did see that the overall market was trading less units in the first half than the year before. We also continue to see that the consumer sentiment stays muted. In that environment we closed Q2 in line with our Q1 trend. As PUMA, we're over-proportionally hit in that soft environment due to our dependency of our off-price business.

But we also laid out a clear strategy how we will win in the US in the future. We said we will elevate the brand and reposition it as a clear sports brand. We said we need to elevate the brand and reposition it as a clear sports brand. We said we need to empower our local product creation centre to create more US-specific products. And we said we need to rebalance our distribution quality to get less dependent on the off-price channels and we need to strengthen our organisation. In the last month we already made progress on this one. Although brand positioning and repositioning elevation and the right balancing of distribution takes time, we were making progress on this one. With Scoot Henderson and the activation of other ambassadors, we consider these good moments on the brand elevation side.

In the performance category we continue to see strong growth and we're gaining market share in the football business, as well as the basketball business, in a very difficult environment. Then on the distribution side we did see continued growth in our Direct-to-Consumer business and we're able to continue to build on our strong partnership with our retailers. I think one of the most important notes is our inventory reduction. Our normalisation of the inventory levels is on track, so this is key because what we see in this difficult environment is that newness sells, so getting our old inventory cleared is one of the most important duties, and that is what we're doing very well.

When I now look at the strong lineup which I presented to you earlier on, I think everybody is clear that this lineup is pointing exactly at the US market. LaMelo Ball, Rihanna, Las Vegas F1 has all high US relevance and I cannot remember that we have ever had such a strong lineup in the second half, all pointing at the US. I'm very confident that it will give us a lot of brand heat and brand buzz in the second half.

Lastly, let's talk about China. Also the Chinese market continues to stay muted. We do see that the consumer sentiment is better than last year, but for sure, it's not at the level which we know from pre-crisis. But still, in that muted environment we continue to see a gradual improvement of our business. Also for the strong rebound in China we laid out a clear strategy. We said we also need to strengthen our credibility as global sports brand, we're too dependent as a lifestyle brand. We have the resources local-for-local on the design development and sourcing side and we need to use it more to design and develop the right product for the Chinese consumer. And we said we need to re-engage and re-excite our consumers online and offline, and strengthen our organization.

Also in China we were able to make progress in the last quarter. I already shared with you last time that we did the first steps of working with key opinion leaders again and last time I shared with you that we were working together with Cheng Xiao as an actress. The latest signing has been ICE, a rapper, with whom we're working since last month. These are only the endorsements on the entertainment side. As I said, it's important for us to strengthen our performance credibility, so the focus is also to sign and endorse more athletes. Here we have some exciting signings coming up, which we'll announce in Q3, on the basketball side, as well in Q3 on the breakdancing side, because also breakdancing is becoming an Olympic sport as of next year.

In terms of strengthening the organisation, we did this by putting new leadership in place. We have now Shirley Li, who joined the PUMA family about six months ago as a new general manager for PUMA China Mainland. I'm very confident that she will be the right person to take China to the next level. Next to her we have David Lu as our commercial director, overseeing all three channels, and he has also just joined the PUMA family six months ago.

I think despite us already recoding 20% growth in China in the first half of the year, it is important that we see and understand that 2023 is a transitional year. A year where we are focusing on executing our strategy and laying the foundation for success in 2024 and beyond. Because we still need to put the right foundation in place, we still need to work on our inventory, as

Hubert has talked around, the values are already significantly down. We're doing great progress, and now we also need to work further on the ageing. We're on a perfect track to have everything well shaped until the end of the year. Then we have the optimisation of the store portfolio because our partners are still consolidating stores on the lower-tier cities, which show low productivity, while they are reopening stores in higher tier cities with higher productivity.

When we now look at 2023 for the remainder of the year, I think it's clear when we look at the market, the market remains challenging. The macroeconomic are still what it is, the volatility in the retail environment is also there, and I think despite China's economic recovery, it's clear from a direction, the speed and the path it's taking is not clear. These are the same challenges and risks which we already saw in H1, and in that H1 we were able to show at PUMA that we have a continued brand momentum, are able to deliver sales and EBIT on expectation, and were able to normalise our inventory back to normal levels.

Thus, we are reconfirming our outlook for 2023, that we will clock in high single digits on the top line, and on the bottom line between 590 and 670 million in EBIT. While the industry and market is uncertain, I think one thing is certain, and that is our attitude. PUMA continues to be the best partner in the industry and we continue to grab market share because we're the most hungry team out there. With that, I'd like to hand it back to Gottfried.

Gottfried Hoppe

Thank you, Arne, thank you, Hubert. We're now ready to take your questions.

## QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star, followed by one. If you wish to remove yourself from the question queue, you may press star, followed by two. Anyone who has a question may press star, followed by one, at this time. Our first question from David Roux from Bank of America. Please go ahead.

David Roux

Hi, guys, and well done on the very good set of results. There's three question from my side. Firstly, on the US, could you tell us what Wholesale and DTC growth was in Q2 versus Q1? The second is on opex. In terms of the 6% inflation in Q2, can you give us the inflation for the main components, marketing R&D and sales? Then lastly, on gross margin. If we look at the sequential 120 basis points fall from Q1, how much of this was driven by FX

becoming more of a headwind? Thank you.

Arne Freundt

Thank you, David, for your three questions. Let me take the first one and then hand over to Hubert for the opex and gross profit margin. In regards to it, yes, we saw a similar trajectory on the Direct-to-Consumer channel as in Q1, which means we're continuing to grow at double digit. And Wholesale continued on the same trajectory as we had in Q1, so basically no changes on the trajectory on the channel level. Hubert.

Hubert Hinterseher

Hello, David. To your opex question, inflation in the different components in the second quarter. The 6.6% was clearly improvement compared to the 19% increase we have seen in Q1. The main driver for this growth is DTC growth, meaning the retail channel. We've seen a strong growth in Q2 in DTC, we've also operated more stores and this increase in the DTC channel is double digit. We have also seen certain increase in marketing and selling cost. This is somehow in line with the overall increase in the opex in Q2. And then we have seen, as mentioned, leverage on the other cost areas in the second quarter, and that sums up to the overall increase.

Looking at the gross profit margin, the decline compared to Q1, we had a Q1 decline of 70bps, now we're 170bps. This is the FX impact. We saw acceleration of the FX impact as forecast and expected in the second quarter. We've also seen that this pressure from currency translation, but also from the hedging positions. We addressed the hedging positions getting weaker and this is creating pressure from the FX side, and that's what we have seen now in the second quarter. This 100 basis points' lowering in the trend versus Q1 can be attributed to the hedging.

Also a very important one, if we look at the other factors, we saw improvement in the promotional activities. The other areas somehow remains almost stable and going forward this stable trend in different areas from the product mix, regional mix is remaining somewhat the same. We will see a little bit of improvement then from the sourcing side going forward because of better input cost and better freight rates.

David Roux

Thanks, Hubert. Just to confirm, FX accounted for a bit more than the incremental 100 basis points' deterioration in gross margin.

Hubert Hinterseher

Exactly.

David Roux

Okay, thank you.

Operator

Ladies and gentlemen, please limit yourself only to two questions in the interest of time. Our next question comes from Anne-Laure Bismuth from HSBC. Please go ahead with your question.

Anne-Laure Bismuth

Hi, this is actually Erwan Rambourg dialling in for Anne-Laure. Just wanted a follow-up on that gross margin question because it's quite surprising to see a sharp decline, given the DTC outperformance and better pricing. I'm just wondering how we should think about the gross margin drivers for H2 in terms of promotions, freight, sourcing FX? What can we hope for in terms of the type of level that you can extract in H2?

Secondly, more of a general observation. You have made the case that Q2 and Q3 would be relatively soft, in a year where Q1 and Q4 will be stronger. Q2 ended up pretty strong, actually, you have low double digit. I'm just wondering if there are any timing issues in terms of invoicing between Q2 and Q3 or, if all things being equal, we should expect Q3 to not be as soft as maybe you had originally had in mind.

If I can add a very short third one, Rihanna coming back, starting in September and then future drops. I'm just wondering what type of distribution will have access to Rihanna products and what type of impact you had on sales in 15 and 16 when you initially had a first gig with her at the time? Thank you.

Hubert Hinterseher

Hello. I will take the gross profit margin question before Arne will answer the other two. The outlook on the second half-year gross profit margin overall, in the second half-year, we see improvement in gross profit margin. From a trend point of view, it's clear that this will kick in mainly towards Q4. If we look at the building blocks, we see pressure from the currency going on. We see that also the regional and the channel mix should contribute positively in the next two quarters. Then we should see improving sourcing prices and freight rates, which will help us to lower and improve the trends compared to Q2. So, in the second half year, improvement overall in gross profit margin, but more towards the end of the year.

Anne-Laure Bismuth

Sorry, just to be sure, you're saying improvement relative to Q2, you're not saying improvement year-on-year?

Hubert Hinterseher

I mean improvement year-over-year for the second half-year.

Anne-Laure Bismuth

Great, thank you.

Arne Freundt

Then let me take over the last two questions. I've got two more questions, it was on Q2 and Rihanna. You referred back to our initial outlook, low single digit to mid-single digit and why we came in stronger. I think, first of all, we need to look at the volatile environment which we currently have, which makes it very challenging to project, as a general context statement. But then, when we look at the drivers, you also see it in our numbers, Direct-to-Consumer came in stronger than in Q1. There was one driver. And on the Wholesale side, we also saw more recorders, meaning immediate business opportunities that raise more due

to a strong sellout of our product, so we needed to replenish and capture these reorder opportunities. Then there was also on the demand of some of the customers, some forward effects from Q3 because they are to deliver earlier due to the strong product demand. I think putting these factors together, they led us to a higher sales performance in Q2 than initially expected.

Coming to Rihanna, when we have the first two drops happening in September and November, we will have discipline to go to market really focusing on the opinion-leading accounts with clear allocation of the units. Then when we go into December with our skate-inspired drop, we will have a broader distribution, also focusing on the athletic specialty. Thank you.

Anne-Laure Bismuth

Excellent. Many thanks, best of luck.

Operator

The next question comes from Zuzanna Pusz from UBS. Please go ahead.

Zuzanna Pusz

Thank you for taking my questions. For me, first of all on the outlook that you were just discussing, the reasons why Q2 came a bit better than was expected. There were some pull forwards and some of the orders in the Wholesale channel. Is there any chance you could give us some indication of the cadence of growth we should see in Q3 and Q4. And in light of that, if you could quantify what was the impact of that pull forward, or maybe a better wholesale order than you have expected. That's my first question.

Secondly, on DTC, you're seeing really nice growth in that channel. I think you've mentioned there were many drivers beyond it, but also some new store openings. Now I don't think you've disclosed number of stores in general, but also not quarterly. Is there any indication you could give us within the DTC growth, how much of it was the expansion of the distribution and what was roughly the like-for-like growth, just an indication. Is it mid-single digit, low single digit?

Just one more question, a very quick one. I noticed when you split out the regional growth, which shows that EEMEA was actually plus 111%, which is quite high in Q2, but I'm guessing maybe there's some countries with hyperinflation in there, like Turkey. Can you explain what was behind that growth and if you're applying hyperinflation accounting. Thank you.

Arne Freundt

Thank you, Zuzanna, for your questions. Let me take one by one, first starting out with the cadence for the second half of the year. We do expect that we will have a stronger Q4 than a Q3, that is what we see currently and our order books also reflected it. When it comes down to quantifying the effect of pull-forwards, this is very challenging because every single year we do have pull-forwards, so difficult to really quantify. We were

anticipating that there aren't so many pull-forward requests because of the inventory in the market, but due to the strong sell-through of our product, the customer still requested it to deliver earlier already in Q2. If I need to quantify, I think it would be maximum 1 to 2% was driven by the pull-forwards.

That was your first question. Your second question, on the Direct-to-Consumer. You're right that we're enjoying a good trend currently on Direct-to-Consumer, and I think it's driven by multiple factors. One, for sure, is the continued better product availability because in the lack of product in the last year, we did prioritise Wholesale and now we can tap into the full potential of our product availability. But also, things like the app, which does show a higher productivity in terms of conversation and ATVs is contributing positively to our Direct-to-Consumer growth.

You asked us in terms of store base. We don't disclose the exact number, but we are now beyond that 1,000-mark thresholds. We have more than 1,000 owned and operated retail stores. In terms of the composition of our growth, the plus 30%, I think there are three sectors in this one. Obviously there's a comp growth base, secondly there's a reopening, especially of China, because China in Q2 was basically completely closed. And thirdly, it was the new store addition. While we don't disclose exact comp growth numbers, I can give you that it was around high single digit to low double digit, the comp growth which we were realising in our Direct-to-Consumer, and then the rest was contributed to non-comp effects, like reopening of stores in China and new stores addition.

Lastly, you asked in regards to EEMEA. I think one of the reasons you already pointed out is hyperinflation, and in Turkey that's correct. It's a market where we're also seeing a strong growth overall, also in units. The other factors, what I think is very important, and this is not only true for EEMEA, but everything and also for China, is that the quarter-by-quarter comparison for 2023 is very difficult due to the distorted year of 2022. I would more focus always on the H1 trajectory and not so much on the shape of every single quarter. Things like Turkey, a strong business also in Middle East, also reopening of our business in Ukraine all played into that growth course. And obviously we're also lower base than in Q2 2022. Thank you, Zuzanna.

Zuzanna Pusz

Thank you, that was very helpful. Just to follow up on the outlook. You mentioned you expect Q4 to be stronger, but what should we expect for Q3? Is it going to be similar to what you have guided to Q2, so low to mid-single digit or to high single-digit growth. How should we think of Q3, given that, as you mentioned, there was a bit of pull forward of those orders, just so we can get our head around that.

Arne Freundt We had a good start into July, in the first three weeks, so we are seeing a continued strong demand. But in this volatile environment I think the best estimate which we can give is, as I said, that we're expecting a stronger Q4 than a Q3. As I said, Q3 was also, we tapped into the order book by pulling forward some of the orders into Q2 on the demand of the consumers. I think that is giving you roughly the shape for the second half of the year.

Zuzanna Pusz That makes sense. Thank you.

Operator The next question is from Edouard Aubin from Morgan Stanley. Please go ahead.

Edouard Aubin Hi, guys. Two, three questions from me. On opex, you had actually only a 6% increase on opex, despite the higher DTC penetration. If you could explain why, is it because of the geographic mix and it was driven by China? But there are questions about your market expand level in Q2 and for the year. Have you cut marketing to achieve that? That's question number one.

Number two, Arne, on Wholesale, PUMA enjoyed the last few years growing, getting share of the shelves, as some of the market leaders were retrenching from Wholesale and focusing on DTC. they are obviously now doing a U-turn in their strategy, their distribution strategy. To what extent you're seeing that already in Q2 and you expect that to intensify H2 and beyond. Is that one of the reasons for your cautiousness on the US, despite the easier comps you're getting on the US in the second half.

Then, sorry, just to clarify on the US, just a follow-up. Arne, you have talked in the recent past about the fact that in terms of your quest to elevate the brand in the US, that you went a bit off-piste as a brand and in terms of your distribution in off-price. What was the size of your off-price business last year? It was about 10% of your sales in the US and how far are you in terms of downsizing that distribution channel? Thank you.

Hubert Hinterseher Hello, Edouard. I will take the question regarding the opex and the retail growth asset, DTC growth is the main driver for the increase. Maybe to add on that, the 6.6% is a value which is of course reported currency, so in constant currency those increases are a little bit higher. And everyone looks a little bit surprised that it's only 6.6% increase. In Q1 we already said the base is very low, that's why we've got quite high increase, now we're normalising. Of course, we're also managing the different areas, aside from demand creation, quite tight in order to control our opex, and that is adding up. Marketing is growing in line with the average growth, so there was no cut on marketing spending. This is what I can add to the overall increase in opex. Does that answer your question?



Edouard Aubin

Yes, that's great, thank you.

Arne Freundt

Yes, Edouard, I will take over your other two questions on Wholesale and the US. When it comes down to Wholesale and your question of competition refocusing on wholesale. Firstly, I'm very confident about our partnership strategy with our wholesale partners because this is something which built over multiple years and it's a whole business model, how we are collaborating from joint product development, down to joining marketing campaigns. I think that strategy and that partnership goes way beyond that they're just a simple relationship.

Secondly, when I look at wholesale, what I do observe is, let's say, that more the wholesalers are trying to diversify their portfolio. You also see that with the entrance of new brands into the market or fairly new brands into the market. So I do see that there is a more diversification trend also happening on the wholesale side.

And lastly, when we talk about wholesale, for us, it's clearly not a defence game. It's an attack game, because we still believe, let's say, our market share is significantly too low in most of the distribution channels which we have. And based on the good sell-throughs and profitability which we are contributing, we also feel very confident about this one.

And I think because it's such a good and illustrative example, let me just refer back again to football boots, because it's only six years ago when PUMA had only mid-single market share. And let me take as a reference market Europe.

And since, in the last six years, we were able to gain more than ten percentage points in market share in Europe and are now trending somewhere around 16-18% of market share. And that was a market which was dominated only by two brands.

And by consistently working on improving the product, putting product as king, improving, let's say, our positioning also with the consumers and also having the right players and the right athletes on the pitch, and also obviously working very closely with our distribution partner, we were the only brand which was able to really cut through and get market share. And there is, I think, exactly the recipe and also the confidence which we have also for the remaining channels and the remaining categories.

Your last question was around the US and the off-price business. I think it's important to say again there is nothing wrong about off-price, and off-price are also great partners to us. It is just, let's say, the question of how dependent you are on that channel and how much it makes of your mix.

And our strategy is clearly on containment, because we believe, let's say, our future growth trajectory needs to come from the

higher distribution family footwear, athletic specialties, sporting goods and all the specialist stores, and not from the off-price business. So our strategy is clearly a strategy of containment.

But when you look into the current market, and I explained that, the majority of our decline is coming from that off-price business. That means, organically, you already have a reduction currently of that off-price business. So we have a slight improvement already this year in terms of how much the off-price business is in our total distribution mix. Thanks, Edouard.

Edouard Aubin

But Arne, sorry, without being too specific, but is about 10% last year a rough figure, or was it higher than that?

Arne Freundt

We're not specifying the numbers, because I think it also would not help you. Because I think there are moments in time when you have more excess inventory when, let's say, something would... We would also then slash through more inventory. So I think any number which I would give you, let's say, would be a wrong indication, but it has for sure been more than 10%.

Edouard Aubin

Got it. Thank you.

Operator

The next question is from Graham Renwick from Berenberg. Please go ahead.

Graham Renwick

Hello. Good afternoon. Thanks for taking my questions. Just firstly on inventories. They're now normalised on your own balance sheet. But can I just check whether they're now clean in the channel with your partners as well? And to what extent do you expect the market to remain promotional in the second half? Or should we be expecting a much improved promotional environment now?

And secondly, on the US. So you talked about share gains in performance categories on a global level. I was just wondering how market share is developing so far in 23 in key performance categories in the US specifically, such as running and basketball, more in the full-price business. Are you taking share in those key categories? And do you think you are already winning greater shelf space in higher quality distribution channels in the US? Thank you.

Arne Freundt

Thanks, Graham. I think the first question on inventory in the market and the channel is a very challenging one because of our huge geographic diversification. So the situation is different, market by market. Some markets are very clean, also in wholesale. Others are still, let's say, overstocked.

I think let's maybe quickly talk about the US. I think now, we are currently entering back to school, as you know. We are only two weeks into back to school, and back to school will be a very important period to get the read of the remainder of this year

and also get a first read, let's say, of how 2024 will go.

And I think especially when it comes to the US, we still continue to see promotion going on, and as I said, also by the reports which we are getting, we see also that the units in the US are currently trading down in the market overall and across all the different channels.

Then the second question was in regards to the US and if we are gaining market share in key performance categories. I think the short answer is yes. We saw market share gains especially on the basketball side and also on the football boot side. So we are making good strides here to further strengthen our positioning and gaining market share. Thanks, Graham.

Operator

The next question is from Piral Dadhania from RBC. Please go ahead.

Piral Dadhania

Okay. Thank you. Afternoon, everyone. Firstly, could I just ask about the pull-forward of demand. Which categories or specifically which products are you seeing that strong demand in? Is it the terrace shoe and the low-top sneaker in lifestyle or is it specific areas across the performance portfolio? That was my first question.

And then my second one is just on China. I think, Arne, in the press briefing earlier today, you talked about expectations for a growth in China of the second half similar to the first. Can I just confirm that that's on a year-on-year basis? I think the first half growth rate was around 19%, 19% or 20%. So is that the type of growth we should be expecting in China in the back half of the year?

And just on China, while we're on the topic, could you maybe just give us an operational update in terms of what you're seeing there? Obviously, we're seeing progress in terms of your ability to work with brand ambassadors, but how much longer until your inventory position, you are completely happy with that and the ability to sell in becomes a lot cleaner? Thank you.

Arne Freundt

Thanks, Piral. When you talk about, in your first question, around the pull-forward, basically we saw it across the board, especially on the performance side and when it comes to football, I think we showed excellent sell-throughs and a huge product demand. So I think if there is one category I need to point out, it is for sure our football boots.

In terms of China, yes, correct, the growth trajectory which we have seen in H1 was 20%. This is also the growth trajectory which we're anticipating for the second half of this year. And then in terms of inventory, I think it's important to note we have done significantly steps in terms of improving our inventory positions, and we are significantly down in units as well as in

value.

The only thing where we still need to work through is the aging. And the way we are currently progressing puts us perfectly on time that by year end, also our aging structure is back to our historic normal and good shape. So again, I think we are moving ahead very good. Obviously, also the clearance of the older inventory goes along with some promotion in the current market environment.

I was myself in China just, what is it now, two months ago and was also able to walk the streets of Shanghai, Beijing and Wuhan to get a feeling of the consumer sentiment. And I think it is clear, let's say, that traffic is coming back. You see a lot of people back on the streets again. But it's also clear, let's say, that the shopping behaviour which we have seen before COVID is not, let's say, back to old levels yet. So the consumer sits on a lot of spending, but it's not going one-on-one into retail, as we have seen it in the US and Europe after Corona.

Piral Dadhania

Okay, thank you.

Arne Freundt

Thank you, Piral.

Piral Dadhania

Sorry, just a follow-up, Arne.

Arne Freundt

Yes, please.

Piral Dadhania

So you've had pull-forward in Q3 to Q2, a couple of percentage points, I understood. If the momentum continues, and obviously Q3 is a big back-to-school quarter, more wholesale than retail, is there the potential that that could happen again in the third quarter, so you make up for anything that you delivered in Q2 in your Q3 print?

And the reason I ask that is because you made a comment in the press release around wanting to see what the Q3 trading looks like before you commit to raising the guidance. So we just want to understand what you need to see in order for that guidance to be raised. Thanks.

Arne Freundt

Sure. Typically, you would see, let's say, more pull-forward in Q2, coming from Q3, because that is the main newness coming in. That is, let's say, just the nature of our industry. So the newness of Q4 in terms of drops is always less than in Q3. But obviously, we will always react to the consumer demand, and we will execute then as they wish, and we will then deliver the goods.

When it comes down to Q3, as I said earlier, we had a very good start into July, but this current environment stays very volatile, and we are really managing currently quarter by quarter. I think that is the recipe which also was good in the last quarters, and we will continue to do so. And if Q3 continues, let's say, to trade

in positive, then we will adjust our guidance afterwards. Thank you.

Piral Dadhania

Thank you.

Operator

The next question comes from Warwick Okines from BNP. Please go ahead with your question.

Warwick Okines

Thanks. Good afternoon. Two questions, please, the first on pricing. Could you talk about the price increases in H1 and H2? I think, in the past, you said you expected high single digit in H1 and mid- to high single digit in H2. Is that still the case? Because I saw some headlines from the media call that you're reversing some of your price increases.

And second question, looking at currency impact on the gross margin. Given what you know now about currency hedges and FX rates, when does currency turn into a year-on-year positive? Could that be as soon as Q4, or is it next year? Thank you.

Arne Freundt

Thank you, Warwick, for your two questions. Let me take the first one on pricing and then hand over to Hubert. You are absolutely right in terms of the pricing. It was high single digit for H1 and then mid-single to high single digit for the second half of the year.

When it comes down to revising some of the prices, I think it's important to highlight again our pricing strategy, because we always look into the market and look, let's say, how comparable products are being sold. And if we see any movements from number one or number two currently in the market happening, then we are reacting.

And this is true, let's say, on a few products and mostly focused on the entry price level or on some kids' shoes, which are very price sensitive. And here, let's say, we are remaining always very agile and revisiting our pricing if we see the necessity in the trades that are happening based on the competitor's move. Hubert, maybe you take the second one.

Hubert Hinterseher

Yes. So on the gross profit margin, definitely for the remainder of the year, we will see ongoing pressure from the hedging on the gross profit margin side. Going beyond 23, of course, it's getting more difficult to forecast. But we also had in the year 23, in the first half year, hedging rates which were above the current actual rate level of 1.11. So I don't see tailwind on the first half year 24 at the moment, but of course, this is very early to tell.

Warwick Okines

That's really helpful. Thank you very much.

Operator

The next question is from Cedric Lecasble from Stifel. Please go ahead with your question. I'm not hearing you. Maybe unmute your line, sir. We will continue with the next question, which comes from Simon Irwin from Credit Suisse. Please go ahead.

Simon Irwin

Yes, hi. Just talking about the US again, as we go into next year, do you think you'll have effectively completed the rebalancing of your distribution in the US in terms of the channels? And how quickly would you expect to see a response in terms of the order flow from the premium distributors and from the better product and the kind of repositioning that you're putting particularly into the brand in the US?

Arne Freundt

Thank you, Simon, for your question. In terms of a rebalancing of distribution, I think that will take longer than just one year, for sure. But I think it is about setting the strategy, setting the focus also for the teams and also making sure that they are working on the right priorities. So the complete focus is on elevating the brand and thus also making sure the right product is sitting in the right distribution channel, which is more, yes, higher than the off-price segments.

When it comes down to the order flow, I think the back-to-school season is very important. I think, in the current environment, we do see that all US retailers are basically waiting until the last order window to make their Spring/Summer 24 commitments. And there, let's say, the read of the market is still to be held after back-to-school season or after more, let's say, weeks have passed by. So it's a bit too early to tell. Thank you.

Simon Irwin

And just on China, in terms of the repositioning there, firstly, is the growth that you've seen so far matched by similar levels of sell-out, or has there been wholesale restocking? And again, how far advanced are you in terms of the repositioning that you want to put through in China?

Arne Freundt

In terms of growth trajectories, we saw both channels contributing well to our recovery, on the direct-to-consumer as well as on the wholesale channel. When it comes down to the repositioning of the brand, also this one will take time. A brand is, let's say, how something is anchored in the mind of the consumer and that is built by consistent behaviour over a long period of time.

So also here, let's say, it's a journey. We have started the journey, and you will also see, let's say, that the teams are now more focusing also on showcasing our performance product in our stores, making a clear message to the consumer that we are a global sports brand. Because I think that's very important.

Because if you also see, let's say, how we have lost market share in China, it is clear that we have been hurt more because, let's say, we were more in the lifestyle segment and not anchored sufficiently enough in sports. So I think sports is very important to also show the resilience, and this is, let's say, something which we did not have. Thank you, Simon.

Simon Irwin Thank you very much.

Operator The next question is from Krista Zuber from TD Cowen. Please go ahead with your question.

Krista Zuber Good afternoon. Thank you for taking our questions. Just first on freight, can you share with us how the freight contract negotiations went in June and what you're contemplating for in terms of a reduction in freight costs and over what kind of duration into fiscal 24?

And then just secondly, a point of clarification on the North American revenue guide for fiscal 23. Is it still in that down mid-to high teens? I didn't quite catch that earlier on the call.

And back to another person's question in terms of how you see the US market progressing beyond fiscal 23, and do you think it's reasonable to assume that the region could return to growth in fiscal 24? Thank you.

Arne Freundt Thank you, Krista, for your three questions. When it comes down to freight, we did close a new freight contract which comes into place or which went into place after July 1st, and now we're benefiting again, let's say, from low freight rates on historic levels.

I think it's again important to note that until we see the P&L impact of the lower freight rates, it will take around three to four months. That is the time which we need on the boat, which is almost two months, and then until it's inbounded and outbound again. So the translation from balance sheet to P&L takes around three to four months. So we will for sure see the effects coming into Q4, coming from the off rates.

On the US, yes, correct, we are still projecting the US being down in the mid- to high teens. That is basically the same trajectory as we have seen in H1. And then on the US market for 2024, honestly, I think it's a challenging question, because we are all looking now at back to school, which is such an important shopping period and is also seen as one of the major indicators for the remainder of the year as well as the outlook for 2024.

I think the read which we are getting so far, after two weeks, is a mixed one, but I think there is some commonality. I think one thing which is clear is that sports continues to sell, kits continues to sell, newness continues to sell, and there's a clear behaviour of need now, buy now. So the consumer is really, let's say, acting on the needed requirements they have and are doing less opportunistic buys of things they didn't know they need in the future. I hope that was helpful.

Krista Zuber Thank you.

Operator The next question is from Adam Cochrane from Deutsche Bank.

Please go ahead.

Adam Cochrane

Hi. Good afternoon. Just a couple of questions. Firstly, on maintaining the full year guidance, 2Q came in slightly better than certainly we expected and maybe the guidance that you gave previously. Is the fact that you didn't change the full year sales guidance a view, internally, that the second half is going to be weaker than you thought, or is it just a higher level of prudence, of saying there could be some uncertainty there, hence we're not changing it?

And then the second question is you've got a... You talked about all the US focus with the launches of products that you've got in the second half of the year, at the same time as talking about the tough outlook for the US market. So how confident are you in these launches being successful if the underlying market is not that strong? And then added to that, how much marketing or A&P are you going to have to put behind all of these new launches? Could we expect a step-up in opex as all of these launches hit the consumer? Thanks.

Arne Freundt

Thank you for your questions. When it comes down to the full year guidance, as I said, in this currently very volatile environment, we are really steering quarter by quarter and focus on our controllables, because the macroeconomic and the recession risks are just out there.

I think it's also important to note that Q3 was a very elevated quarter last year, because there, the supply chain was still disrupted and shipments from Q2 and even Q1 were dropping in Q3. So this is for sure, let's say, a higher comp base against which we are working in Q3.

So this is, let's say, why we also said we will see how Q3 goes. As said, July started strong so far. We have two and a half or two months more to go. But we really, let's say, would like to further observe trade before we take any adjustments on the guidance on the top line and the EBIT line.

In terms of US launches, I think in terms of marketing buzzes, I think the three launches I alluded to, I think, will be very strong marketing moments for us and will also show very strong sell-throughs, because I believe exactly this is the newness also the consumer is looking for in this current market, and we'll also be able to deliver full-price sales.

But these are, let's say, pockets. These are pockets of success which we will celebrate which also can have a halo effect. But I don't believe, let's say, that it will immediately turn the trend of our big ship in the US. But it's, let's say, the right start of the redirection of the journey.

In terms of A&P spend, we are very confident with our 10% opex



ratio. And again, let's say, this is back to fewer, bigger, better. This is exactly the focus which we are having, making sure that we make the big moments count. And I think the three big moments I've already talked about, and they will be also backed up with the right A&P. And this is all coming out of our 10% opex ratio.

Adam Cochrane

That's great. Thank you.

Arne Freundt

Thank you.

Operator

The next question comes from Jürgen Kolb from Kepler. Please go ahead.

Jürgen Kolb

Yes, thank you very much. Two questions, more housekeeping, in fact. On the inventory side, I was wondering if you could maybe break the inventories down into goods on hand and goods in transit, just to better understand the traffic trends and where the goods are currently sitting.

And then secondly, on the account payables, we saw that in H1, they actually declined 12% year on year, and you indicated that there was a timing effect and also lower purchase volumes. Could we see that this was the trough, and from here onwards, we're seeing trade payables going up again, so that it improves the cash flow generation in the second half? And with that, maybe a word on what you expect in terms of free cash flow generation in the year 2023. Thank you.

Arne Freundt

Hey, Jürgen. Thanks for your two questions. On the inventory side, basically the inventory on hands are up while the inventory in transit are down. I think it's important to understand the reasoning behind.

As we saw a quicker normalisation of the supply chain, it's very difficult to compare. So things which used to be in transit are now already on hand, and obviously we also adjusted our purchase orders accordingly to make sure we are, yes, rightsizing our inventories and getting back to normalised levels. Hubert will take the question on the payables.

Hubert Hinterseher

Yes. Hello, Jürgen. On the payables, as said, we have timing impacts. We have also adjusted our purchase volumes. Of course, this goes hand-in-hand with the reduction of the inventory level. So as we have purchased less, we have also lower payables. And that's, of course, connected. And if we look into the second half year, of course, we will see a change in the trend. This will normalise again, and that will also help in the second half year to push cash flow for the second half year and also for the full year.

Jürgen Kolb

And sorry to go a bit deeper, but do you expect free cash flow to be positive for the full year, or will it still be somewhat negative?

Hubert Hinterseher No, definitely positive. The first half year is always a low half year for cash flow, and the second half year is always a quite positive one. That's the structure of the business. And this is also expected then for 2023, second half year, so we expect free cash flow clearly to be positive.

Jürgen Kolb Understood. Very good. Thanks very much, guys.

Operator Our next question is from Philipp from Warburg Research, Philipp, please go ahead.

Jörg Philipp Frey Hi, guys. A couple of short ones from my side. First of all, can you talk a bit about the terrace trend right now? It's the talk of town. Do you see it more as an opportunity to gain market share for you, or as a challenge?

Secondly, a bit on women's football. You mentioned the women-specific fit. On the non-professional player side, how important is that for you right now as a revenue opportunity?

And lastly, well, looking at your relative valuation to peers of your stock, it looks to me that providing more colour on the long-term brand potential would be a good opportunity. And are you planning, in that context, a Capital Markets Day in the foreseeable future?

Arne Freundt Thank you, Philipp, for your three questions. When it comes to the terrace trend, the answer is very clear. It's an opportunity for us. I think the number of brands who can play or have a credibility in that field is very, very limited, and we are one of them. We have our huge, yes, history and archive of being 75 years in the business, and I think the pick-up which we have already seen on the models we have dropped is strong. So we are very confident about that one.

Your second question on women's football, honestly, it's a journey. I think it starts with awareness which we need to build. And we've started to build that among our professional athletes, which are endorsing our shoes very much. But obviously, the commercial business will then be more on the amateur level and the everyday football player. And here, let's say, we still need to build the awareness for the women that we have women-specific shoes.

And we're also working very closely with our retailers, because if you currently go into a store, at the end, you still see a unisex football wall. There is no retailer who really, let's say, dedicates specific footwear walls to women's football.

And this is also something that's a journey. We're starting it. I think it has started last year with the Euro Cup. Now, the Women's World Cup is a great platform where we are further pushing the message further, and with some great reputational

feedback already on this one in the first launches so far. So we are working on this one.

And the last one refers back to our planned Capital Markets Day. We do expect to release our results for Q4 and the full year at the end of February. As it stands today, probably the most likely date will be February 28th.

And we do plan to have a Capital Markets Day either on the same day or right after, to have it here in Herzo in our headquarters, because I think it's so important to really see our company and see our people and see our showrooms. So this is why the idea is that we conduct it here in our headquarters in Herzogenaurach. But we will provide then more information in the course of our Q3 earnings call. Thank you, Philipp.

Jörg Philipp Frey

Great. Looking forward to that.

Operator

There are no further questions at this time, and I hand back to Gottfried for closing comments.

Gottfried Hoppe

Thank you very much, Arne. Thank you very much, Hubert. Ladies and gentlemen, thanks for taking the time to participate in our today's earnings call. We'll be meeting and talking to many of you over the next few days, and really looking forward to it. For those of you who shouldn't have the opportunity to join one of our meetings, you know where to find me. Meanwhile, have a nice day. Speak to you soon.