PUMA

Q2 2024 EARNINGS CALL TRANSCRIPT

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

Gottfried Hoppe

Thank you very much, Moira. Dear ladies and gentlemen, welcome to PUMA's Q2 and first half 2024 earnings call. As usual, I'm here today with Arne Freundt, PUMA Group CEO, and Hubert Hinterseher, PUMA Group CFO. We'll start with some opening remarks and a presentation by Arne and Hubert, which will be then followed by a Q&A session. Now, without further ado, over to you, Arne.

Arne Freundt

Thank you, Gottfried. Hello, everyone. And a warm welcome from my side to our Q2 earnings call. We're currently here in Paris to celebrate the Olympic Games with our athletes and federations, and I'm very grateful for all the amazing moments which we could already share together. Before we get started with the brand,product and financial update for Q2, let me please start with some opening remarks.

Our Q2 financials came exactly in line with the expectations which we have set out for Q2. We closed Q2 with an acceleration of sales versus Q1 and recorded 2% constant currency growth, improved our gross profit margin strongly and also improved our operating results slightly above last year. We also saw sequential improvement of our sales in all regions, except for the subregion EEMEA, which had an extraordinarily high comp base, with 110% growth in Q2 last year, and which experiences also currently geopolitical headwinds in this region, especially in the Middle East. We also saw sequential improvement of our Wholesale sales for the full quarter in all regions, except for this specific region EEMEA. And if we would exclude all the one-off effects this year and last year, also our underlying wholesale business would have been slightly flattish.

July trading has been in line with our quarterly projections and with our H2 order book, we can clearly anticipate a further quarter-over-quarter improvement with Q4 order book looking particularly strong. As you know, we continue to operate in a volatile environment characterised by muted consumer sentiment globally, but also especially in China, a stressed supply chain with certain capacity constraints and higher rates and currency headwinds. With our strong order book, we reiterate our sales outlook to grow mid-single digit and narrow our outlook for the EBIT within our band to EUR 620 to EUR 670 [million] for the full year.

In summary, we had a good exit rate from June. We had a good gross profit margin improvement. We have a good order book for the second half. I feel we are in a good shape for the rest of the year. Now, let's look what we have been up to in the last few months.

I think the key messages from a brand and product perspective can be summarised as follows. We continue to gain market share in our performance categories, and this is so important because it's the foundation of everything we do as a sports brand. And we continue to make further progress, as we have laid out in our Sportstyle transition, getting less dependent on our old best sellers, and scaling up our new business. And further on, we drive continued progress in our brand elevation strategy.

With the Euros coming to Germany in the last months, in June, we gained strong brand visibility. We had around 100 players wearing our unmissable fireglow shoes, and also with four national teams, we were very visible with the PUMA cat on their chest. With millions of consumers already also wearing our Check24 fan T-shirt, we had probably the best visibility throughout the tournament ever.

Also, on the Copa América side we created great visibility. We are the official sponsor of the CONMEBOL, and that gave us the opportunity to be visible in every single game with the PUMA ball. But also, our key players, like [Christian] Pulisic and Neymar, made great buzz on and off the pitch. We used the Copa América to create some great in-store activations, together with our wholesale partners like Dick's Sporting Goods, but also in our own flagship store, to create the buzz in the country.

Now, when we look back to the normal league, we were extremely happy with the performance of our teams. Manchester City became a four-time in a row Premier League champion and wrote history as the first club ever to achieve this. And also, Dortmund became a Champions League finalist after more than a decade.

We continue to activate our teams across the US. It's very important for us, as we would like to further build on our brand positioning as a strong performance brand in the US. And what better occasion than to maximise our clubs like Man City and AC Milan. In PUMA style, we took them to our flagship store and combined it with a hoop activation. And also to give it some additional spice, we were able to welcome Rihanna there, together with [Jack] Grealish and [Christian] Pulisic. Also, on the product side, we created a great newness and innovation. We've just recently dropped the ULTRA 5, our leading shoe for the speed side, being PUMA's fastest football boot so far, and established a complete new price point for ourselves at EUR 290 with immediate sell-out. When you look at the great activations and in-store presence with our key retail partners, it's not a surprise that we had such a strong sell-through and were able to further gain market share in this highly competitive market environment.

We also gained further market share when it comes down to performance running. Here we dropped just recently great innovations with Deviate NITRO Elite 3, our fastest shoe to date, and also with the strongest sell-through to date. You also see that this shoe is very well perceived by the consumers, if you look at the attention it's drawing on social media, as well as in-store. We continue to win with the running speciality accounts, because it's very important that we win on the grassroots level the consumers for our new technologies.

On the consumer side, we also want to excite our consumers with great innovations. And the Fast Rule Breaker, which challenges all the existing rules and imagines what the best running shoe would look like with three plates, also generates great interest with the consumers on social media.

Coming from the rule breaker to the record breaker. We're extremely happy about the performance of our athletes during the Olympics so far and up to date, we are already able to celebrate four gold medals together with them. We need, of course, to highlight the outstanding performance of Mondo, creating a new world record with 6.25m in the pole vault, and also Julien Alfred. It's her first Olympics ever, and she immediately became the fastest woman in the world on the 100m.

If you're following the Olympics closely, you can see that in track and field we are probably the most visible brand out there and make a strong statement about the superiority of our NITRO technology and its foam, supporting our athletes to perform at their best level and to win their records. And it's the same technology which also the everyday athletes can use in our shoes.

And finally, in Q2, we finally revealed our global partnership with HYROX. And the hype is continuing to build with now more than 200,000 participants in 25 countries. We were extremely happy that also in the US, we saw a great hype with a lot of people queuing up in front of our stores to register for the event in New York.

Talking about newness, we also introduced on the golf side some exciting newness with our 3D-printed steel iron, also at an elevated price point of USD 3,000, which resulted in immediate sell-out and celebrated wins, together with Justin and Ewen on the DP World Tour.

The wins we can also celebrate in motorsport with Charles [Leclerc], Lewis [Hamilton] and George Russell, winning the Grand Prixes. We have already four Grand Prix wins in the season. We are very excited that in Q3 we will be able to announce one of the new teams joining PUMA. What we're always very good at is to activate our ambassadors. And this is what we've done, together with Lewis and George, in our London flagship store in the lead-up of the Silverstone Grand Prix, and created a lot of excitement and hype in the city around this.

We also took Scoot Henderson on a tour to China to continue to build our performance perception in the country from a basketball angle, and are happy that also this continues in the US, with now more than 1,000 teams wearing in the amateur leagues, the PUMA cat on their chest, as well as more than 11,000 players wearing our shoes. It's very important to further broaden our basketball business, that we create a greater visibility and stand in this amateur league level.

On the top level in basketball, we will have newness coming in September with the MB.04, which will be the fourth iteration of LaMelo's bestselling signature shoe, MB. As well as we have newness coming in on the off-court side with the LaFrancé. The second and the third iteration just dropped in May, also with great sell-through to date.

To create further excitement on the performance side, we've just announced last week our cooperation on the design side with Salehe Bembury, the award-winning designer, who will support us on the performance side, especially on the hoop side, to create exciting newness to stirup the market for the future.

As you see, we had great progress on the performance side, and as I said, this is key for us, because we are a sports brand and we need to make sure we have the foundation in place, that we can also leverage our Sportstyle side. On the Sportstyle side, we are continuing to make progress.

We can build on an ongoing momentum in the family footwear space, where we have great success with existing and new franchises. In that channel, the trend cycles are a bit longer, so we can continue to count on the success of our bestsellers like Caven and Carina and Rebound, but also bring in new versions of our best sellers, like the Voltaic and Enzo, but are also building newness with the PUMA Club, which is a terrace point of view, as well as the Park Lifestyle on the skate side. We have also big hopes on the running silhouette Skyrocket, as it's shown from the get-go that it will become one of our best-selling silhouettes going forward.

On the Sportstyle prime side, we said we will focus in 2024 to maximise the current trends, which we see on the Terrace side, as well as the Skate side, together with our Palermo, Suede XL, and the Easy Rider, and complemented with an offer on the FENTY side. We're happy that in Q2 we were able to significantly increase the volume sold through on the Palermo side in Q2 versus Q1, and that was fuelled by more newness, more colours coming into the market, the nice in-store visibility, as you can see on the right, and also a nice view on the new campaign which we launched with the Rewrite the Classics.

The same also applies to the Suede XL, where we were also able to increase our volume significantly in Q2 versus Q1, also driven by newness in terms of colours and materials and great in-store activations together with our trusted retail partners. The newness which we have just brought to market is the Easy Rider, a vintage running silhouette, also speaking to the T-Toe trend in the market. With Rihanna, we continue to drive great brand awareness. And when you look at the engagement and impressions she's generating with her posts on our newness, it is just unmatchable.

Now, let's move from maximising the trend to how we are progressing on building up the next trend. We have said for multiple quarters now that we want to create the demand for the low-profile silhouette, and that has been the focus for the last 12 to 18 months. And we also said, now going into H2, we will shift the focus to igniting it and have significantly higher quantities coming into the market, before we go at the end of the year into the maximising of the franchise. The lead model for us will be the Speedcat, which takes inspiration from our racing silhouette shoes. In the drops which we have just recently brought to market, they were significantly above our expectations.

The pre-launches which we had in Asia immediately sold out in China, South Korea and Japan. And for the first time, for a very long time, we also saw that people are queuing up again in front of our stores to get a pair of the sought-after Speedcat. This strong sell-through we also were able to see in the elevated distribution in Europe, where we just brought the shoe into the market. For me, being 13 years with PUMA now, it's the strongest performance which we have ever seen on a shoe in this channel. And I'm very encouraged that this is a great indicator for the heat coming up on the shoe in the bigger distribution.

To further fuel that demand, we also welcomed the new ambassador for the Speedcat as well as the Palermo, with Rosé, the iconic pop star from the K-Pop side. Also, her posts joining the PUMA family had created the biggest social media stir in China for multiple years for the PUMA brand. Next to her, we also have Dua Lipa endorsing our Speedcat, so we have two amazing ambassadors as face of our shoe.

On the men's side, we continue to build the hype around the Mostro and Inhale together with A$AP Rocky. And what better location than the Paris fashion show to show the newness which is coming into the market soon. If you take all of this together and look at what kind of newness we brought to the market in the last 12 months, you can clearly see that we are lessening our dependence from the old best sellers and significantly now building up new franchises, which we are dropping to the market with a clear intention to excite the consumer with newness and also scale them going forward. All of these shoes have not been in the market 12 months ago.

To create newness and excite the consumers is also the objective of the new retail formats which we have launched in China. The Field of Play [retail format] we are continuing to roll out, and let me remind you, it has been a design project which has been created in China for China, and also now the Sneaker Box, which is a smaller scale format for sneakers, which we bring to market into the elevated malls to make sure we are also elevating our brand. If we take that together, we were able to gain further market share in our performance categories, especially in football and running. We made further progress in the transition of Sportstyle, with a continued momentum in family footwear, and introducing newness and scaling up newness in the Sportstyle prime sector. And we also made progress on the brand elevation side.

Where we also made progress was in investing into our infrastructure to build the capacity for future growth. We told you in the beginning of the year that we have major warehouse projects going live in the first half of this year in Mexico, Chile, and US are the three projects which went live in the last three to six months.

We're also extremely thrilled that the Time magazine has nominated PUMA as one of the most sustainable companies in 2024 just recently. And we are the only sporting goods company who is in the top 500.

Now, let's talk about the financial performance. We've achieved 2.1% currency adjusted sales growth in Q2 versus last year, and have been fully in line with the expectation which we set out from 2% to 3% constant currency growth. On a channel level, we achieved the strong growth in Direct-to-Consumer being up almost 20%, with e-commerce leading the growth and on the back of reduced promotions. Wholesale was down with minus 3%, but it's important for me that I shed some further light on that number.

First of all, all regions improved the wholesale business except the subregion, EEMEA. Secondly, in Q2, overall, we had headwinds from one-offs versus last year. Yes, the Euros and the Check24 was a positive one-off, but last year we had even more one-offs than this year. Net, that means a headwind for us in Q2. That also means that the underlying business has been better than the reported one. And lastly, also the ramp-up of our Latin American warehouses also impacted our Wholesale trajectory as the warehouse ramp-up is slightly below the plan. Here we see a month-over-month improvement, thus it's a temporary effect until we are reaching the expected capacity. If you take all of this together, you can see that in Wholesale we are almost flattish. And the effects, both from the one-offs as well as from the warehouse, is to be considered a temporary effect.

On the division side, we saw that the growth was driven by Apparel, supported by the Euros, and we saw that Footwear came in flattish, that on the back of a very strong double-digit comp base from last year. But with our order book being strongly up for the H2, we anticipate that Footwear will also support our mid-single-digit growth in that area. Accessories were slightly down with minus 5%, driven by socks and bodywear business in the US, which we also consider more a timing effect.

On the regional level, I would talk to that a bit more on a detailed level afterwards, but I think the key messages are US has come in flattish with 1%, supporting the growth in Americas with 9% [growth]. Greater China has been high single-digit up, and a sequential improvement in all the other APAC countries. And EMEA has been down with minus 4%, with Europe returning back to growth. And EEMEA, as I said, being soft on the back of a very high comp base.

I don't want to talk through all the details on H1 because I think the messages are quite repetitive. Overall, we grew 1.3% in H1 and are fully in line with the expectations which we have laid out. On the division side we see that the Apparel and Footwear have equally contributed to the growth, while Accessories was down minus 4%. And on a regional level, we see that Americas and APAC were contributing to the growth, while EMEA was slightly down.

Let me now come down to the sales breakdown on a market level. As I told you, number one, Europe has been up by 3% and has been slightly above expectations here. EEMEA, on the back of a very strong Q2 2023, also impacted by certain one-off impacts, has been down by minus 23%. And then North America, after five quarters of declining business, has returned back to a flattish, slightly positive growth of 1%. Latin America, with a strong 24%, and Greater China came in with 7.6%. Here, we saw a stronger business in Mainland China, while Hong Kong and Taiwan were softer, playing on the overall achievement in that region. Finally, APAC came in with a sequential improvement versus the prior quarter, closing almost flattish to the prior year.

Now, let me hand over to Hubert, to guide you through the operating performance.

Hubert Hinterseher

Thank you, Arne. Overall, PUMA's second quarter ended in line with expectations. Our gross profit margin improved, despite major currency headwinds, and this reflects, together with our strong DTC growth, PUMA's brand heat, and the demand for the product. OPEX remained controlled and inventories are healthy. Let's have a look at the operating performance of the second quarter and the first half year 2024.

Q2 sales improved 2.1% currency adjusted to 2 billion, 117 million. Currency headwinds amounted to approximately EUR 15 million and led to a decline in reported currency of 0.2 percent. This Q2 performance is fully in line with our expectations and confirms the full-year outlook of a currency adjusted sales growth at a mid-single-digit level.

Gross profit margin improved 200 basis points to 46.8%. Given the major currency headwinds, a very strong trend, which confirms the progress in our strategy to elevate the brand, and underlines the well-managed inventory. If we have a closer look at the gross profit margin, we can see a significant negative impact from currencies of more than 250 basis points. We see improvements in sourcing and freight. And in line with prior quarter, we continue to scale back promotions in our DTC channel, while the promotional environment remains persistent in the trade. In total, promotions remained broadly stable.

The improvement from product mix is reflecting the progress in brand elevation, as we were able to sell more product at a higher price point. And we see a positive impact from the channel mix. Overall, we're seeing a very good progress in the gross profit margin. OPEX increased in the second quarter by 4.7% to 873 million. The increase was primarily driven due to the continued growth of the DTC business, as well as ramp-up costs for warehouse and digital infrastructure projects.

In the more detailed view on the OPEX ratio, we see that the OPEX ratio in marketing remains flattish, as the investment in our brand campaign was offset mainly by lower performance-related payments. As expected, the channel mix had a negative impact on the overall OPEX ratio, as DTC grew faster than Wholesale. The DTC OPEX as a percentage of DTC sales improved, which reflects the progress in the improved general profitability. In other OPEX, we saw an effect from ramp-up costs, from new warehouses and digital infrastructure, as well as inflationary pressure. These effects were partially neutralised by strict cost control.

EBIT increased by 1.6% to 117 million, despite negative currency effects on sales, gross profit margin, and OPEX ratio. Overall, the EBIT in the second quarter was fully in line with our expectations. EBITDA was up 5.3%, almost in line with EBIT, and net income was down 23.8% to 42 million. Also in the second quarter, we saw ongoing negative impact from FX and higher interest in the financial results. However, this effect will reverse in the fourth quarter. We will see more details later on in the outlook. The operating results and the net income of the second quarter ended in line with our expectations, given the negative impact from currencies in sales and profitability.

Let's have a look at the performance of the first half year. Sales increased 1.3% currency adjusted to 4 billion, 220 million. This was supported by strong DTC performance in both stores and e-commerce. Reported sales were down 2.1%, as currencies had a significant negative impact. In the third quarter we expect FX headwinds in sales to continue approximately at the percentage range of the first half year. In Q4, FX should become a tailwind, as last year's Q4 was negatively impacted by the extraordinary devaluation of the Argentinean peso.

Gross profit margin improved 250 basis points to 47.2%. Given the major currency headwinds, a very positive trend. We could more than offset FX headwinds by favourable product and distribution channel mix, as well as tailwinds from sourcing and freight. OPEX was up 2.2% to 1 billion, 713 million. OPEX was managed tightly during the first half year, and increase primarily due to continued growth of the DTC business. We did not compromise on marketing investments, while lower performance related marketing expenses contributed to reach a stable marketing ratio of around 10%. On top, we continue to invest in our product innovation and infrastructure projects, such as warehouses and digital solutions. Our effort in automation, digitalisation, and organisational improvements help to gain efficiency and control over all costs. All in all, I'm very happy with what the teams have achieved when it comes to OPEX discipline.

EBIT decreased by 5.1% to 276 million, mainly due to the negative currency effects on sales, gross profit margin, and OPEX ratio. EBITDA was down 2.2, in line with EBIT. Net income was down 25% to 129 million as a consequence of negative impacts from FX during the first half year on EBIT and the financial result. Inventories were down 8.6% to a healthy level of 1 billion, 961 million. During Q2, we were able to further improve our inventory quality, while we started to increase purchases of new products, given the positive order book trend. This is also reflected in the quarter-over-quarter increase of our inventory. Trade receivables increased by 3.4% to 1 billion, 395 million, also a healthy trend in the trade receivables side. Trade payables increased by 13% to 1 billion, 658 million. The increase is connected to higher purchases, as well as earlier buying. As a consequence, working capital decreased slightly by 3% to 1 billion, 644 million. Cash and cash equivalents ended at 272 million. And free cash flow showed a nice improvement of 40% to minus 204 million.

Overall, in Q2 we delivered a sales and EBIT in line with expectations, a strong gross profit margin improvement, and a strong cash flow improvement. During the second quarter performance and the current order book trend, we feel confident to achieve the full-year outlook and improve EBIT. And with that being said, I hand back to Arne for the outlook. Thank you.

Arne Freundt

Thank you, Hubert. Let's move on to the outlook. As I said in the opening remarks, we continue to operate in a challenging market environment. Unfortunately, the geopolitical situation is not improving, and the freight market has also become more challenging than what we anticipated at the beginning of the year, resulting in higher costs for the second half of the year. On the consumer sentiment side, we continue to see that the major markets are not showing any significant improvements. Thus, we continue to focus on bringing newness and innovation to the market to excite our consumers and retailers, because we know that this is working.

Finally, we also see ongoing headwinds of currencies, which have an impact on sales translation into reported currencies, as well as on our gross profit margin and OPEX. We've guided for around 200 million translation headwinds in our sales for the full year, and this also remains a valid assumption going forward. In this challenging environment, we continue to focus on our controllables and to deliver on our outlook, which we provided you in the prior quarters. We landed at Q1 and Q2 exactly in line with the indications which we have provided to you.

Let me shed a bit more light on Q2, as we have guided it to you for 2 to 3% growth and have come in at 2.1%, i.e., at the lower end of this one. There are a few factors which contributed to this. Number one, I said already in the beginning that our ramp-up of the Latin American warehouses is slightly below the plan, but we see a month-over-month improvement of our outbound, so we have a temporary effect being a slight headwind on our Q2 here. Secondly, also some supply chain delays due to the Red Sea course that we could not deliver some of the orders in Q2 and will be only delivered in Q3. And furthermore, we already talked about the China sentiment not being currently very great. And the EEMEA one-off effects which contributed to our growth [last year], that we consider as being on plan with our 2.1% growth.

Also, going forward, we have the ambition to provide you with a realistic outlook. We believe Q3, the best way to think about it is a mid-single-digit growth, until we then return in the Q4 to a double-digit growth. These growth ambitions are fully backed with our order books, which also see indications of strongly up in Q3 and Q4 versus last year. As Q4 2023 was characterised by significant one-time effects from the Argentinian peso devaluation, I feel it's important that we guide you through in detail how the effect has impacted Q4 last year's result, and how you should think about the shape of Q3 and Q4 for this year. As I said in the beginning, Q3 we expect mid-single-digit growth currency adjusted, and we also expect that the FX headwinds will be in line with what we have seen in H1.

When we talk about our Q4 expectations for the sales, it's important to remember that the Argentine peso devaluation has offset the organic improvement in sales, resulting in a decline of minus 4% currency adjusted. Without the devaluation, we also shared that early this year with you, we would have been growing low single digits in Q4 [2023]. For Q4 this year, we expect to grow currency adjusted sales in the double-digit range. The majority will come from the organic improvement on the back of a strong Wholesale order book and ongoing DTC momentum. But also, there will be some contribution from the non-recurring impact of the Argentinian peso devaluation on the reported sales.

When it comes down to the EBIT, we expect an EBIT slightly below our previous year's level for Q3. While we expect Q4 EBIT to be at least 40% above last year's level. Q3 will be a quarter where we expect some gross profit margin improvements, but to a lower extent than in H1. This will be driven by some external factors, like higher freight costs, changing duties and muted consumer sentiment, especially in China. But in addition, also the increases on the back of a stronger base than in the prior quarters Q1 and Q2. Despite strict cost control on non-demand creating costs, operating expenses and DTC and continued marketing investments will lead to a slight increase in overall OPEX. Consequently, we expect our Q3 EBIT to be slightly below or at last year's levels.

In Q4 last year, as you for sure remember, there was a significant impact of the Argentinian peso devaluation. Our very strong organic improvement was partially compensated by the Argentinian peso devaluation. We were still able to improve Q4 EBIT by approximately EUR 50 million, but it would have been significantly more without this devaluation. There will be a significant benefit this year from the non-recurring impact of the devaluation, and there will be a further organic improvement driven by top line growth. Naturally, the biggest impact of the Argentinian peso devaluation was on the net income, due to the impact of the financial results. Thus, it is to be anticipated that the non-recurring impact of the Argentinian peso devaluation, together with the organic improvement from EBIT, will lead to a strong improvement in net income than the EBIT in Q4. For Q3, we anticipate that the net income would change fully in line with EBIT.

Now, if we take all of this together, we would like to reiterate our sales outlook for the full year to grow mid-single digit. And the midd point is, for sure, the best way to think about our ambitions. On the EBIT side, we are narrowing our EBIT guidance fully in line with the initial range of 620 to 700 [million €]. We are narrowing it to 620 to 670 [million €], because the likelihood to achieve the top end of the outlook has become less likely with the headwinds on the freight side, as well as on the changing duties [and consumer sentiment]. But we feel very comfortable to show and report at the end of the year more profit than we for sure realised last year. And net income, we feel very confident that for the full year, the net income will be fully in line with the EBIT change in 2024.

Now, looking at the second half of the year and beyond, I'm very confident about the growth trajectory of PUMA. We will continue to focus on building the foundation for sustainable and strong growth by continuing to focus on building brand desirability. We're continuing to focus to bring newness and innovation to the market. And here's a short recap of all the shoes on the performance side and the Sportstyle side which we are about to bring to the market, or have just recently launched less than 12 months ago. And also, on the distribution side, I think we are in a very good shape. We see an ongoing momentum in DTC, and we have a very strong order book for the second half of the year.

Talking about strategic priorities. We said we would like to rebound strongly in China and win in the US. And here we see that despite the soft environment, we continue to show strong growth in China. And also, our Q2 results in the US clearly sets us up to return to growth in the US in the second half of the year.

Now, with the remaining days of the Olympics, we've put all eyes on Paris. We have here 450 athletes, all wearing our PUMA fireglow shoes. We have 17 track federations with the cat on the chest. And together with our more than 70 retailers, we are celebrating the beauty of the games, as well as discussing the growth of our future partnerships. Rest assured, we continue to be the challenger in the market and want to grow our market share further in the future. With that, let me hand back to Gottfried.

Gottfried Hoppe

Thank you very much, Arne. We are now ready to take your questions.

Q&A

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 on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press star, followed by two. If you're using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star, followed by one at this time. In the interest of time, please limit yourself to two questions only. One moment for the first question, please.

	The first question is from Warwick Okines from BNP Paribas Exane. Please go ahead.
Warwick Okines	Thanks very much for taking my questions. First question is around the off-price channel in the US. Could you just give us an update on your progress in making adjustments in that channel? And in particular, you talked about Accessories being weak in the quarter because of socks and bodywear, but you said that was a timing issue. Just wondering if you could explain that a little bit more.
	And then my second question is just a bit of housekeeping, but you've restated your subsegment revenues between EEMEA and Asia Pacific. I was just wondering which countries moved and whether that change is last year's growth rate that you reported for EEMEA? Thank you.
Arne Freundt	Thank you, Warwick for your three questions. I was counting. Let me start with the US first. In terms of the off-price segment, we continue to focus on elevating also our distribution quality. And I think we're making good progress, especially on the performance side, to grow our market share here. I also said the step away, or the less dependency of our value channels will take some time, and it's not a question to manage that quarter by quarter, but more year over year. Overall, we feel that we are making the right progress on the distribution quality, and especially driven by the progress on the performance side.
	The Accessories question, the outlook and the order book which we have for the full year in the US on bodywear and socks shows us that we should see some growth in that area. But obviously, there are sometimes big orders which then have a certain timing difference between the different quarters. And here, we believe the second half we should return back to growth in the bodywear and socks business in the US.
	For the third question, I would like to refer back to Hubert in terms of the segment reporting.
Hubert Hinterseher	Just quick, we moved the Oceania region into the responsibility of the EEMEA management, and that was the restatement of last year.
Warwick Okines	That's great. Thank you very much.
Operator	The next question is from Grace Smalley from Morgan Stanley. Please go ahead.

Grace Smalley

Hi. Thank you. This is Grace Smalley from Morgan Stanley. My first question would just be, I think, in terms of the slightly lowered guidance, or at least lowering the top end of the range on EBIT, one of the key variables that you've mentioned is just the consumer environment, and in particular in China. Could you just help us understand why you lowered on the EBIT side, but you felt comfortable keeping the mid-single-digit top line growth, given those comments on the still muted consumer environment?

And then my second question would just be specifically on China and just how you're now thinking about, I believe back at your CMD you'd outlined a mid to high teens growth CAGR target. Just how you're thinking about that now, given what you're seeing in terms of the China consumer backdrop. Thank you very much.

Arne Freundt

Thank you, Grace, for your questions. The first question was about the consumer sentiment in China and why we are seeing the impact on the EBIT, but not on the top line. I think, overall, we feel very strong about our top line because we have the transparency on our order book. And consumer sentiment, when that is muted, it also means that we continue to see certain promotions ongoing. And in Q2, as Hubert laid out, we have only seen flattish promotions, so we could not step away further and have tailwind from the promotion side. That clearly explains why we only see the impact on the top end of our EBIT outlook and not on the sales side.

And additionally, it was only one of multiple factors coming into play, changing duties, and one of our key countries is Mexico, will come into fruition for the second half of the year. Again, that's only a temporary effect, because we just need a few seasons' time until we are changing the country of origins, so we can react and make sure we are avoiding these new duties from certain country of origins. And finally, also, we have increased freight rates. Overall, these were the three major effects which led us to the assumption that the higher end of our outlook becomes less likely.

The second question was on China and how we look at China. I think we all know that the sentiment there is not that great currently, but we are very proud that in a tough environment, we continue to grow and we are posting high-single-digit growth. And again, Mainland China was even stronger than this, because the softness was coming particularly from Taiwan and

	Hong Kong. Look, I don't have also a glass ball on China. We know there's a lot of money, the saving rates are at a record high. And we all know that once the confidence will come back, there will be a lot of money coming back into the Chinese market, especially on the retail side. We believe that for the remainder of the year, high single digit to low double digit is the best way to think about the Chinese market in this current environment.
Grace Smalley	Thank you very much.
Arne Freundt	Off course, pleasure.
Operator	The next question is from Monique Pollard from Citi. Please go ahead.
Monique Pollard	Hi, afternoon, thank you for taking my questions. I have two. The first was, Arne, I think you talked about the Wholesale growth in the second quarter would actually have been flattish if you exclude the one-off. But I'm wondering if you could give us, quantify the Wholesale growth for 2Q, excluding EEMEA. And if you could just tell us whether the Wholesale channel is now back in growth come the end of the quarter? And then one other questions was just trying to understand how things have exited as we've gone through. Obviously, March, April, at the 1Q call we were told, obviously, the growth was mid-to-high-single digit. But clearly, in May and June, we must have seen some deceleration. Is that mainly the comp in EEMEA coming through later in the quarter? Or is there something else specifically that drove that deceleration as we went through the quarter? Thank you.
Arne Freundt	Thank you, Monique, for your questions. When it comes to the Wholesale business, as I said, all the regions have shown a sequential improvement in the Wholesale business, excluding the region EEMEA. That also means if we exclude EEMEA, we would have been at least flattish for the rest of the world, excluding EEMEA. When it comes to the exit rate on Wholesale, I can also confirm that this has been positive for Q2. The next question, you need to remind me. I remember, sorry, it was about the Q2 start of the year, where we said in the beginning we were a mid-single to high-single digit up. Look, when I said that, I was very explicit to say that Easter had moved from April into March, and that's why we need to consider these two

	months together. That was the very strong March and then also a slight growth in April. Together, we have seen that this has resulted in that high-single-digit growth for March and April together. This is also why there has been not a de-acceleration in Q2., But with Easter moving into March, obviously we had a special effect which we needed to call out in the last release.
Monique Pollard	Understood. Thank you.
Operator	The next question is from Piral Dadhania from RBC. Please go ahead.
Piral Dadhania	Good afternoon, everybody. My first question is just on the supply chain bottlenecks, Arne, I think you mentioned quite early on in this call. Could you perhaps just elaborate on what you are expecting to see for the second half of the year, especially as it relates to supply capacity in factories in Asia? Our understanding is capacity is filling up quite aggressively. Do you think you'll be able to supply the market with the magnitude of the Wholesale orders that you currently have on your books? Or is there a risk that maybe there might be some bottlenecks from that perspective? And then my second question just relates to 2025 margin targets. Obviously, with a slightly lower implied margin for the midpoint this year, appreciate it's not material, is there any change to the thinking around what may or may not be possible in relation to the 8 to 8.5% margin target for FY 2025? Thank you.
Arne Freundt	Thank you, Piral, for your questions, and thanks for asking on the supply chain side, so I can precise on that further. What we see currently is certain capacity constraints,more on the freight side. And we also see that reflected at both in the increase in costs, which are nearly back to COVID level when you look at the spot price, as well as on the reliability in terms of on time delivery, which is caused because of a certain congestion on the port side. That is the main constraint to be called out. And then secondly, also, when we see the moving parts with the BIS regulations in India, also here there are certain challenges to overcome. We have a lot of local sourcing infrastructure in place, probably the most across all the different brands to cater for the demands. But the ever-changing regulations in India does not make it very easy to plan for this one in terms of imports and local production.

	When we talk about 2025, we feel that we are in a very good position to achieve exactly what we have laid out. We see the Q1 order book is coming in very strong. And also, in terms of the margins, we feel what we have said is exactly the right way to continue to think about it.
Piral Dadhania	Thank you.
Operator	The next question is from Liv Townsend from JP Morgan. Please go ahead.
Liv Townsend	Hi. Thanks for taking my questions. Just firstly, on Footwear, you mentioned that you saw very solid trends in performance and Sportstyle core during Q2. I'm just wondering, what product or range was it that countered this growth to mean that sales in the segment were flat during the quarter? And then secondly, just on freight. How much freight cost pressure are you expecting to see in H2? And in the event that rates remain high through the rest of this year, how would you expect to respond to this for 2025? Thank you.
Arne Freundt	Thank you very much for your questions. Just to make sure I did not misunderstood your first question. Do you want to talk on a on a style level, what kind of shoes drove the growth on the performance and the Sportstyle core side?
Liv Townsend	No, it was just about since performance performed very well and Sportstyle core also performed well, what was it that was still down during the quarter?
Arne Freundt	Got it. I think it's, again, two different things which you need to differentiate. The one thing is sell-through and the other one is sell-in. And obviously, there's a certain time lag between that. The missing part is for sure Sportstyle prime, where we're going through the transition. As I said, the [former] best sellers, we are getting less dependent on these ones, and we have newness and are trying to scale that. And as we are successfully scaling that, I showed you with the example Palermo and Suede XL, where we had significantly increased our Q2 volumes versus our Q1 volume. And then obviously, the biggest newness we are working towards is scaling further demand for the Speedcat, which will be the big one for us then starting end of this year and then going into 2025. And then on the freight side, in terms of how we think about this, we closed a new freight contract. We always

	do that for 12 months, now in June, for the next 12 months, so mid until next year. We anticipate that we will see a higher rate for the next 12 months hitting us. But it will not be the significant increases we have seen during COVID times, but it will be versus the all-time low, which we had in the last 12 months, it will be some impact on our gross profit margin.
Liv Townsend	Thank you. Just to clarify on that, all of your freight has now been contracted, and you won't be doing further as we go through the rest of this year?
Arne Freundt	We have a frame contract with our strategic partner, Maersk. And, again, in this kind of volatile environment, the strategic partnership, making sure that your goods get priorities and get shipped is the most important for us. And that's why we continue to be very strong partners of Maersk and are also contracting our volumes for the next 12 months with them.
Liv Townsend	Thank you.
Operator	The next question is from Cedric Lecasble from Stifel. Please go ahead.
Cedric Lecasble	Thank you for taking my questions. I have two also. The first one, in your previous comments, you said that some orders, because of some delays, would spill over from Q2 to Q3. And my question is quite straightforward. You were, if I remember correctly, already hoping for mid-single-digit sales growth in Q3. With the spillover, the guide seems to be the same. How do we explain this? And the second one is on the low-profile category, interested in any colour on how the category as a whole is growing? And if you start to see more competition or newcomers in the fieldThank you.
Arne Freundt	Thank you, Cedric, for your two questions. When I explained that we were at the lower end of our indication, 2 to 3%, I said there were multiple reasons, and I had four of them. And one was that in certain regions the goods came in one week delayed, but in the end, it's multiple pieces which led that we were at the low end and not at the higher end. Also, that's why it does not have a material impact on our Q3 perspective in terms of the mid-single-digit growth. In terms of low-profile, again, I can only say for the 13 years I've been with PUMA, I have not seen such a strong demand in the elevated distribution, which

	makes me very confident about the success or future success of that key franchise of ours. I think I take it also as a compliment that competition starts to talk about this one, because they clearly see that the market is moving into that direction. But again, we have worked the last 12 to 18 months on this one, and we believe it's for sure a franchise where we can lead the trend and be the leading silhouette for this one.
Cedric Lecasble	Thank you, Arne.
Arne Freundt	Thanks, Cedric.
Operator	The next question is from Jürgen Kolb from Kepler Cheuvreux. Please go ahead.
Jürgen Kolb	Thank you very much. First one, coming back on the Footwear side. I'm still surprised to see the flattish number there, given all the marketing campaigns. See the game like we do, all the football initiatives, all the Olympics. Certainly that was a little bit later, but all the marketing campaigns around the football shoes were ahead of the tournament. You indicated, obviously, you're in a transition phase, but I was hoping to get a little bit more details as to why this was just a flattish Footwear performance, given that you see the Speedcat and all your new franchises in at least some regions already gaining momentum. Maybe you can help us here with more details as to why this was just flat and how maybe we should look at the development specifically on the Footwear side in Q3 and Q4? That's the first one. And the second one, a little bit around costs. Maybe you can remind us again on the ramp-up costs for the logistics and infrastructure and digital costs, how long they will be there, or when we should expect a declining effect here? And maybe in this context, as well, do you see any need to maybe be a little bit more aggressive on cost management, even though you mentioned that Q2 came in pretty much as you expected. But maybe is there a thinking in this direction just to cover maybe an ongoing weak consumer environment? Thank you very much.
Arne Freundt	Thank you, Jürgen. Your first question was on Footwear and some more colour on the flattish development Q2 year over year. I think, again, there are multiple factors coming into play. Number one was that we had a very, very strong quarter last year, which set a high base to comp against. But I think if you take it on a broader perspective, we are almost 2% up for

the H1, and we said that for the full year, the mid-single-digit growth for the whole company is also the best way to think about the full-year projection for Footwear. I think that gives you also a clear indication that we have a very strong order book also for the second half of the year.

I also said in the first half, the main focus remains on continued strong sell-through and disciplined sell-in, that we make room for the second half of the year for our new, fresh product to flow in. This is, I think, exactly what we have achieved. And I think, again, the quarter-by-quarter perspective doesn't give you a lot of indication. But I think when you look at that we had low single-digit growth in Footwear in the first half of the year and would like to further accelerate it to achieve our mid-single-digit growth guidance, and that's all backed by our order book. I think that should give you, hopefully, sufficient confidence on that trajectory.

In terms of costs, I would like to hand over to Hubert, to share more comments on this.

Hubert Hinterseher

Hello, Jürgen. Talking about ramp-up costs, we see, especially from the DC side with the ramp-up of the new DCs in Mexico, in Chile, but also in the US, that, of course, transition costs are moving from one DC to another are hitting us. Then it's always a little bit more inefficient to start a new operation, a new DC. We expect that Q2, Q3 is isolated impacted by this, but it will fade out then throughout the rest of the year, especially in the fourth quarter.

What we are doing right now, and we did that also during the last quarters, we specifically target areas of the business with a lower profitability, and here we’re taking actions, looking into the structure, reorganising things in order to control the cost base and improve the cost base. That are ongoing actions, together with actions on the automation side, which will help us to gain efficiency. We're actively mitigating the inflation impacts, and that is helping us to control the cost base. This will continue throughout the year and also next year, as we outlined in our capital market strategy. And if we look into the OPEX ratios, of course, with the growth in Q3 and Q4, we also see then a better trend in the OPEX ratios until the end of the year, driven by a higher top line growth, which gives us the opportunity to create leverage again.

Jürgen Kolb

Very helpful. Thank you very much, guys.

Operator	The next question is from Wendy Liu from Barclays. Please go ahead.
Wendy Liu	Hi. Thanks for taking my questions. I have two as well. One is on low-profile and Speedcat. You mentioned very strong momentum there. And, indeed, we are also hearing some of the very, very good feedback, especially in Asia. I was wondering if the strong feedback maybe make you think about accelerating the scale of Speedcat? Can you maybe remind us about the timeline of the scaling of Speedcat and how should we think about the impact expected in 2025? And my second question is on Greater China. I think we are indeed hearing some of the very muted sell-out numbers from the retailers there. You're still growing, I think, 7% and even better in Mainland China. Can you comment on your own sell-through and what are the levels of inventories that you're seeing in the channel, please?
Arne Freundt	Thank you for your two questions, and I'm very glad that you're observing the same thing and the same excitement on the Speedcat as we are doing. In terms of reminder, we said that we are now in phase two, which is igniting to make sure we continue to fuel the excitement around the shoes with some exciting newness and some exciting ambassadors, but also more units in the market for the end of this year, starting end of November. We will then open up in terms of distribution to our normal Sportstyle accounts around Footlocker, JD Sports, and also SNIPES, just to name three examples. And then we will look into further scaling in the year 2025. In terms of pairs in the market, it will be a six-digit number for 2024, and then for 2025 there's a clear trajectory that this will become a seven-digit number. And this is also backed up with the early commitments which we have from the retailers, because they feel very confident about what we are currently doing to get it right for the consumer and about that strong product proposition. The second question was on China. You want to ask sell-through and inventory levels. I think what we see here in the Chinese market is that overall, the softer sentiment, but also it differs by channel. Online, we see continued very strong sales. And also, our 6/18 performance has been strong and stronger than

industry average, so we're able to get that consumer. But we also see, as the whole industry, that our store traffic for us, as well as for our store partners on the bricks and mortar side continues to be soft. The inventory on that bricks and mortar side is slightly above our normal average, but on an overall level, for our own, and also for the online channels, we feel we are in a good shape for this.

Wendy Liu: That's super helpful. Thanks very much.

Arne Freundt: Of course.

Operator: The next question is from James Grzinic from Jefferies International. Please go ahead.

James Grzinic: Thank you and good afternoon, everybody. Just had a couple of quick ones. The first one, Arne, the three factors that you mentioned as reasons for cutting the high end of your EBIT expectations, do they have an equal weighting on that 30 million reduction? Can you help us scale up each of the three factors?

Arne Freundt: James, the second part of the question, if they have an equal impact on what? I missed you there.

James Grzinic: On the 30 million reduction, the high end of the guidance range.

Arne Freundt: Got it, clear. And the second question?

James Grzinic: The second question is can you help us understand that, and of course, I know that it is difficult for you to size it specifically, but can you make us understand how much of a progress you would have seen in the US off-price channel in terms of your inventory availability in that channel right now? How much of a clean-up is still left to be done on that side, please?

Arne Freundt: Thank you, James, for your two questions. In terms of the impact of the three headwinds on the top end of our outlook, which is 30 million, where we think the likelihood has decreased. I think the best way to think about it is there's an equal contribution. I think it's very important that we understand that Mexico is one of our key countries, thus, we have a big business there, and also very profitable business. The increase of duties for Mexico, which starts to hit us in the second [half] year, does have a material impact on our gross profit margin for the second half of the year. And that plays into this, the same as the freight and the other ones.

In terms of the off-price channel, I continue to say the same thing, that we want to step back further from the off-price business to make sure we can have it right-sized. We also said that, absolute [in USD], we would like to keep it flattish and make sure we are growing on the top end of the business. And it will also continue to take some time until we are reducing our dependency of that channel. We don't want to sell more than what we had done in the baseline 2022 and make sure we are growing the upper part of the distribution. I feel also that going into 2025, from the early indications which we get from our order book, that we will do further progress also in 2025, as also our Sportstyle prime business then is set up to grow again for the year 2025. And we also count on ongoing momentum in our performance business, as well as on the footwear family channel.

James Grzinic: Thank you.

Operator: The next question is from Adam Cochrane from Deutsche Bank. Please go ahead.

Adam Cochrane: Thanks for the detailed guidance in the presentation, it makes our life a little bit easier for the rest of the year. Two questions. Is the order book strength that you're talking about for the Q3, Q4, and into 2025, is that related to your product being sold in more retailers, more doors for the retailers? Is it, do you think, more space in the existing retailers or just retailers expecting a better sell-through of the PUMA products?

And the second question is related to the DTC strength that you saw in 2Q. Was this a planned level of sales in the period? I know that you said that the 2%, it was largely in line with your plan. Was that DTC strength planned? And is there anything unusual in that number to call out, to explain why it was strong? Thanks.

Arne Freundt: Thanks, Adam, for your questions. On the order book side, we have business with all of the important retailers, so they are not new retailers. That also means, in consequence, that we are having more business with them and higher penetration. And the combination of improved sell-through and also more shelf space are the two factors playing into that order book development.

And then in terms of Q2, the DTC development, I think that has been in line with our expectations. As said, I think the Wholesale business, driven by the factors which I have called out earlier, that our ramp-up in the Latin American warehouses is slightly below the plan, that had one negative impact on our Wholesale development. And then also that we had not as many positive one-off effects in Q2 2024 as we had in Q2 2023 also played into fruition. I think that's the two main ones to be called out for the Wholesale side.

Adam Cochrane — There's no element of Wholesale sales being weak, so you then distribute it through your DTC channel. This was always the plan to do 20% plus DTC in 2Q.

Arne Freundt — Yes, we had always planned for very strong in DTC. And I think if you look as the trajectory of DTC also in the past quarters, that is something which we have seen. I think if you also consider that we were able to scale back our promotions in the DTC channel which we fully control, it's evidence that the brand momentum is further building up.

Adam Cochrane — That's great, thank you.

Arne Freundt — And I think the last one, as you mentioned again on Wholesale, I think it's important to stress the underlying Wholesale business, if we take out the one-off effects which we had in Q2 last year and also this year, then our Wholesale business would have almost been flattish. You could see that like-for-like, there would have been a sequential improvement. I think it's very important to stress that again.

Adam Cochrane — Thanks.

Operator — Ladies and gentlemen, that was the last question. I hand back to Gottfried Hoppe for closing comments.

Gottfried Hoppe — Thank you very much, Arne and Hubert. Ladies and gentlemen, thanks for taking the time to participate in our conference call today. If there are any questions left, I'll be there to follow up. Please don't hesitate to reach out. In the meantime, have a nice day and talk to you soon.