PUMA SE
Q3 2023 Earnings Call

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

PRESENTATION

Gottfried Hoppe

Welcome to PUMA's Third Quarter 2023 Earnings Call. Our speakers today are Arne Freundt, PUMA Group's CEO, and Hubert Hinterseher, PUMA Group's CFO.

We will start with a presentation by Arne and Hubert, and after that we'll take your questions. And now, without further ado, over to you, Arne.

Arne Freundt

Thank you, Gottfried. Also from my side, warm welcome to our Q3 Earnings Call.

As always in the past, I will first guide you through a business update of Q3, updating you on our latest progress which we did on the brand and the priority side, and then I will hand over to Hubert for a financial update, before I then take over again to provide you an outlook for the remainder of the year.

The last quarter was also an important one for us internally, because we celebrated an important internal milestone, PUMA's 75th anniversary.

In 1948, our founder, Rudolf Dassler, had created the company with the idea to create the best sports products for the athletes, always with a vision that his products help the athletes to become like a puma, fast, nimble and agile.

And look where we are today, celebrating that special anniversary with our 20,000 employees and some of the biggest icons of our athletes and ambassadors, who have joined us in the 75 years of PUMA.

What makes me very proud is that we took that anniversary across all the different locations and all of us celebrated it, PUMA's 75, along with our PUMA families in all the different locations, globally.

Let's move on to the brand momentum. Q3 was another quarter with exciting brand and product highlights. Let me guide you through them.

In the summer, we did celebrate the Women's World Cup. It was an important moment for us, to make a strong statement that we are the sports brand who really takes care of them.

We are the sports brand who really supports our female athletes by providing them women-specific fits on their football shoes. We're the only brand who does so across all the different silos.

The fact that 95% of our players are endorsing that women's fit, does show that there's a clear demand for the women's products. And we also use the platform to celebrate the trailblazing women from 1975.

These women in 1975 formed the first national team of Australia and New Zealand, and were never recognised before for their trailblazing efforts. We gave them a stage and celebrated them for inspiring all the future generations of female football players to come.

Already in the past calls, I shared with you that we have big ambitions in football, and that we are gaining market share very strongly. I'm very happy to share with you, that we made further important findings to further accelerate our growth when it comes down to football.

For me, these are two gamechangers. We're now the partners of the CONMEBOL, the South American Football Confederation, and the CAF, the African Federation for Football.

Now we are the proud sponsors, and we'll be very visible at all the different tournaments. The most important tournament coming up next year is the Copa América, happening in the US, which is also fully in line with our strategy to further elevate the brand and anchor ourselves in the US more as a performance brand.

But also, on the players side, we have important signings. The most important one was Kai Havertz now joining the PUMA family.

The German midfielder is currently playing for Arsenal, and is also part of the German National Team. So, the perfect addition to our strong roster of FUTURE players, and also perfectly in line with the leadup to the Euro Cup happening in Germany, next year.

The other player which made a lot of headlines was Neymar. He scored his 78th goal for Brazil in a national game, and now breaking Pelé's historic record, who held 77 goals. Pelé was also a PUMA player, and now his record was broken by Neymar. The future.

On the track and field side, we celebrated it, the World Athletics Championship in Budapest. It was a very successful championship for us, because we were able to win and celebrate together with our athletes, the 22 medals, six of them gold medals.

And we were very visible when it came down to the athletes and the federations. 180 athletes were competing in all the competitions, and 18 federations.

So, PUMA was really the dominant and very visible brand, when it came down to the championship. We also welcomed all of our athletes and federations in the PUMA House during when they didn't need to compete, and also used the occasion to celebrate their medals in the PUMA House.

It was also a great moment for them to interact with our Product Teams, Sourcing Team, and Innovation Teams, to discuss further product adjustments and developments to further enhance their performance.

This is totally in line with our founder, Rudolf Dassler, how he had created it back then, 75 years ago, the company, always with the attitude to service the athletes best.

But track and field is the innovation and credibility hub. Where we do see the commercial opportunity is in road running. I told you, since only two years we are back into road running, and we released one of the best running shoes out there, based on one of the best foams, the NITRO Foam.

I also told you, now we feel very confident about the product, but we need to increase the awareness and the consideration of PUMA as a road running brand with the consumers.

And this is why we are more present now in all the different races, like at the Cologne Marathon which just happened last month. And we partnered up with Sport Scheck, as you see on the right-hand side, to really make a strong signal and blow out our NITRO franchises.

But we also used the opportunity to build up the credibility and trust with our Running Specialty Account, because PUMA has been in and out of road running, but now we are back for the long run, with an Innovation Pipeline going beyond the next four or five years.

And we wanted to convince them that we are back into road running for the long term, and we have all the means which it takes to succeed to become one of the top five road running brands, globally.

On the basketball side, we celebrated two MVP titles with our players. On the female side, with Breanna Stewart becoming the MVP, the Most Valuable Player of the WNBA, and then Dennis Schröder becoming the MVP of the Basketball World Championship in Southeast Asia, leading our German basketball team to the first gold medal, ever, in basketball.

But also on the product side, it was an important moment for basketball in the last month, because we launched the third iteration of our signature basketball shoe, together with LaMelo Ball. It's called MB.03, and it's already launched in two colourways, LaFrancé and Toxic, and has provided a great sell-through from the get-go.

If you take all the brand momentum and product highlights together, it is not surprising that we're continuing to gain market share in all the performance categories.

We're continuing to win in football, continuing to win in performance running, continuing to win in basketball, as well as in golf. The market environment remains very volatile, but we are winning.

The other sport we are very confident about, is motorsport. I told you also in the past quarters, this sport is gaining in popularity and the fanbase is further increasing. It's becoming younger and also more female.

PUMA already does have a very strong position in that sport, because we are the partner of the best teams and of the most aspirational cups . We further strengthened our position in motorsport by signing a long-term contract extension with Ferrari, and entering a new contract with Williams Racing.

Probably the most exciting news in motorsport we just broke this morning, or sorry, yesterday evening. We announced A$AP Rocky to join the PUMA family as Creative Director of our PUMA F1 Collection. I think A$AP Rocky does not need any further introduction.

He's probably the biggest cultural influencer of today, and he's just a creative force when it comes down in turning his vision into new products. He really has the talent to shake up the category and provide a complete new perspective on motorsport, that nobody has ever seen before.

We are all very excited to see his first cultural collection coming to life, already, during the Las Vegas Grand Prix next month.

Talking about gamechangers, in record time, we have also created the first product together with Rihanna, and have launched it in September. The product we launched was the AVANTI. AVANTI were the shoes, 25 years ago, where Jill Sander has taken her hit on bringing fashion into sport. It was a revolution back in the days.

Now Rihanna, the fashion icon of today, she took her take on the AVANTI and brought it back, to provide her perspective of the existing Terrace trend.

As you can see, the team did an excellent job of a great marketing interpretation, and provided a nice art installation in New York. And virtually, we took the balls also to all the important spaces, globally.

As you see on the right-hand side, our reintroduction and relaunch of Rihanna, we also celebrated very confidently in all the important, big out-of-home places in the world.

You could see us at the New York Times Square, or London Piccadilly. And also, the first launch has resulted into great sell-through, selling out immediately on our dot-com on day one.

Talking about football-inspired footwear, we also need to talk about our Palermo, our answer to the Terrace trend. With Jack Grealish, we have just kicked off the campaign last week, and are having our global launch with our female face for the campaign, later in November.

Jack Grealish is, for me, on the male side, the perfect ambassador. He's a fashion icon as well as one of the best football players. The perfect person to wear our Palermo and be the face of our shoes, on the men's side.

And also, on the brand elevation side, we're continuing to make a great progress. I shared with you that last year, we had zero mentions in Sneaker Freaker as one of the most important external validators when it comes down to brand heat and product heat.

Now, in this year, we have already 12 mentions among their top five ranking choices, and six of them only happened in the last quarter. So, I feel, let's say, we are really doing huge progress in building up more brand desirability and heat and product heat, when it comes down to our launches.

Although we are already coming close to the end of October, I believe the best brand moments are yet to come. We're super excited to see the Las Vegas Grand Prix happening in Formula 1.

We are very excited to see our big drops for Terrace and the Skate trend, with the PALERMO and the SUEDE XL. And we are super excited that Rihanna will bring further drops of our Fenty collaboration, to the market, in the leadup of Christmas.

Now let me move on to give you a brief update, how we're progressing on our strategic priorities. I think the strategic framework is well familiar to everybody, so I don't need to reiterate it again.

But I would like to emphasise, again, that our top priority is to elevate the brand, win in the US and win in China. On the brand elevation side, I told you, we need to further increase the relevancy of our brand for the consumers.

We need to anchor ourselves more deeply in the mindset and in the heart, and explain them how Forever Faster is an emotional benefit for them, and makes them a better version of themselves.

And the whole way we're working, we need to become more consumer-centric, putting the consumer at the heart of everything we do, and focus our investments on the triple-A ambassadors, to really make an impact with our Gen Z consumers. And finally, I told you, we need to implement fewer, bigger, better campaigns, to cut through the media noise of today.

Looking at the first nine months of this year, I feel we have done a great progress on the marketing side. We established a new marketing organisation under new leadership.

And when you look at A$AP Rocky and Rihanna, I believe we have really signed the most important brand ambassadors on the female, as on the male side, with global appeal and high cultural relevance.

And now we are working, as we speak, on the brand campaign to be launched in 2024. As I said, we're working on building more emotional connection, what Forever Faster really means for our consumers. So, stay tuned, more is here to come.

On our strategy to win in the US, it was important to further strengthen our organisation. I'm very happy that we are welcoming now Rudi as our new Senior Vice President for Sales, and he already started two weeks ago.

With him, we feel as though we have exactly the right person to further elevate our brand and also increase the distribution quality in our American market, fully in line with the strategic priorities I've laid out in the past calls.

In the past calls, I also talked about the need to further increase the performance credibility of PUMA in the American market, and that basketball does play a crucial role in this one.

I'm very happy that we are now the strategic partner of NXTPRO. NXTPRO is one of the top three basketball circuits in the US, and gives us access to more than 35 tournaments and 15,000 players which will all wear head-to-toe PUMA.

This is a very important step for us to further broaden our reach and our visibility, to exactly make that connection to our target consumers.

And also on the China side, we continue to strengthen our roster of athletes. In the last quarter, I shared with you the news on Cheng Xiao and on ICE.

And now in Q3, we are able to disclose that we have signed Zhang Ru as a basketball player on the female side, and Qi Xiangyu as a breakdancer of the Chinese National Team. And please remember that breakdancing is also a competition in the Olympics coming up in Paris, next year.

But it's not only about the athletes, it's also about using the important launches to further underline that we're a sports brand, that we're a performance brand, which is a credibility which we are still lacking currently in China.

So, we're using our important launches on the product side, like the MB.03, like the Q3 Pack on football, to really activate it together with our consumers, and explain them our depth and competence when it comes down to performance.

But we also used the opportunities like the launch of the AVANTI, to really make buzz in China, and here you see a nice activation of the team locally in Shanghai, where we had a nice profile, which also, as you see, had a great reception by the Chinese consumers.

As we have also laid out in our strategic framework, we also have the ambition to continue to be the best service provider and partner to our wholesalers.

I'm very happy that this has been also recognised, and for the first time in history, a sporting company like us has been awarded with the prestigious Schuhkurier Award here in Germany, recognising our excellent service to the wholesalers in the industry. Very happy about that award.

Now let me move on to the financials of Q3, and I will take the top line before Hubert will guide you through the details of the P&L and the balance sheet.

We closed Q3 with 6% growth, currency adjusted. With the 6%, we are outgrowing the market and continue to gain market share. And this is not only true for Q3 with 6%, but also year-to-date, as we're growing more than 10% for the first nine months.

Let us look at the composition of the growth. On a channel level, you see that we continue to grow in wholesale with 3%.

This is, again, fully in line with our strategy to be the best partner of wholesale, and working with them together through the high levels or elevated levels of inventory in the trade.

If you exclude our currently soft US market, then our wholesale number would even be up high single-digit. And you see continued sustained brand momentum and demand in direct-to-consumer, which continues to grow with 17% year-over-year.

On the divisional side, you continue to see the same shape as in the previous quarter, with footwear growing, leading the growth with 11%, while apparel is flattish, and accessories showing a small growth of 4%.

And then on the regional side, EMEA is growing 10%, APAC is growing 5%, and Americas is growing by 2.5%. The strong growth in Latin America is overcompensating our soft growth here in the US, so we are able to post a positive on the Americas.

When we look at the year-to-date trend, as said, we are now growing 10.3%, wholesale grows 7%, so high single-digit, followed by direct-to-consumer growth being up by a strong 22%.

The divisional shape is the same as I mentioned, footwear being up 19%, and apparel and accessories both growing at the same pace of almost 2%.

And then on the regional level, you see on a year-to-date trend, that EMEA and APAC are clearly leading the growth, with 19%, respectively, and 18% growth, while the Americas is flattish.

Let us have a bit more detailed view on the regional level, really region by region. Europe, we see flattish, coming in with minus 1.4%. This is fully in line with our expectation, and also was further fuelled by a soft September, on the back of very warm weather.

When you look at EMEA and Latin America, you see that they are coming exactly in as the year-to-date trend, with 60, or mid-60s and mid-30s growth range, so no further need for explanation here.

On the North American side, we see minus 12%. Again, I would say we should not take an interpretation quarter by quarter, but look at the year-to-date trend. And we exactly see North America on the year-to-date trend, as we've always told you, softening in the mid to high teens for the full year.

Greater China is coming in with 8.6% growth. Again, same story here. We should not look at it on quarter by quarter, because in the baseline year 2020, there have been so many one-off effects which make the quarterly comparison very difficult. The trajectory for the year-to-date in China is 16%, and we do believe we will finish China for the full year around 20%.

And then on the Asia side, we have a year-to-date trend of 19%, and clocked in Q3 with 3% growth, on the back of growth in Japan and India as our strategic markets, but with a softer environment in Korea as well as in Oceania.

And with that overview, I hand over to Hubert to guide you through the detailed P&L.

Hubert Hinterseher

Thank you, Arne. Let's have a look at the operating performance of the third quarter 2023.

Q3 was another strong quarter in a volatile market environment, which shows the ongoing brand momentum and PUMA's ability to gain market share.

Sales increased 6%, currency adjusted, to EUR 2,311 million. Unfavourable currency translation effects led to a decline of 1.8% in reported currency. After Q3, we're well on track to achieve the full-year outlook.

Gross profit margin increased 30 BPS to 47.1%, which is a strong result, given the significant currency headwinds. As you know, in Q2, we had quite some negative impacts on the gross profit margin.

Looking into the overall trend, we can see we've made very good progress, from a Q2 decline of 170 BPS to an increase of 30 BPS in Q3.

If you look into the detail, strong headwinds from currency effects, especially from the US dollar, industrywide promotional activities, continue to weigh on the gross profit margin, while pricing, sourcing prices and impacts from regional and distribution channel mix, were beneficial.

It's worth to outline that Q3 23 was the first quarter since the beginning of 22 with a gross profit margin improvement. This turnaround in the trend is, for us, a very encouraging signal that our actions to elevate the brand and control the inventories are paying off.

OPEX increased only 0.9% to 853 million or 36.9% of sales. The small increase was driven by a continuous momentum on the DTC channel, and related cost increases and marketing investments, while continued cost discipline and currency effects were favourable.

Coming from a strong increase in Q1, and an already improved trend in Q2, the small increase in Q3 is showing our cost discipline.

EBIT ended at 236 million or 10.2% of net sales. Overall, an encouraging EBIT trend, given the pressure from the currencies, especially on sales and gross profit margin in the volatile market environment.

Including these currency impacts, the EBIT trend would have been already positive in Q3. As a consequence of the lower EBIT, EBITDA was down 5.5% and net income ended at 132 million, down 10%.

Let's have now a look at the balance sheet KPIs. Inventories were down 20.3% to an appropriate level of EUR 1,874 million. This development is a result of the actions we have taken to rightsize the inventories and last year's high inventory levels.

Trade receivables increased 12.9% to EUR 1,457 million. Overall, the receivables increase was slightly higher than sales growth, as sales grew faster in regions that payment terms are usually longer, like in Latin America and EMEA.

Trade payables decreased 32% to EUR 1,230 million , and this decline goes hand in hand with the reduction of the inventory levels. As a consequence, working capital increased 34% to EUR 1,795 million.

So, in a nutshell, after Q3, our sales and EBIT are in line with expectations, the inventories are back to normal, and PUMA is well on track to achieve the full-year outlook. And with that, I hand it back to Arne.

Arne Freundt

Thank you, Hubert. Let me now turn to the outlook for 2023. Again, as Hubert has laid out, we grew 6% for the third quarter and 10% year-to-date, putting us into a position where we are outgrowing the market and continuing to gain market share.

I think it's important to highlight in what environment we are currently operating in. We do see a continued and further increased geopolitical risk. The situation in Ukraine is not improving, and the conflict in the Middle East is worrying us bigtime, especially on the humanitarian side.

The macroeconomic headwinds continue to show a persistent high inflation, and also, we see a revision downwards of some GDPs of some of the most important countries.

On the back of that, we do see the consumer sentiment continues to stay muted, as there is an ongoing fear of recession, and the inflation is putting constraints on the consumer spending.

As Hubert has already laid out, the currencies remain very volatile, and quarter-over-quarter actually the volatility is further increasing, putting pressure on our P&L.

And finally, although, let's say, there's no dispute that China and US will recover, I think there's some uncertainty on the speed of recovery of these two major markets.

But look, we're not here to complain about the environment. We are always focus on our controllables, and we have a very simple attitude when it comes down to the challenges. We just need to do better than our competitors.

And talking about our controllables, we will continue to focus to increase our brand heat and visibility, as I've laid out in my first update around Q3 and our future signings and investments to come.

I'm super excited when we look into all the product newness going into Q4 and next year. I cannot remember, in my 12 years with PUMA, that we have ever had so much newness dropping into the market.

With the Palermo, the AVANTI, the MB.03, the SUEDE XL, and we have a new iteration of FUTURE, ULTRA, VELOCITY and the DEVIATE, all newness which the market has never seen before, and I think the market urgently needs.

And we continue in that environment to focus on our strengths. We'll continue to be the best service partner to wholesale, and work with them through the elevated levels of inventory. And you can always bank on, that we are the fastest and most agile team in the industry, working through that volatile environment.

With our year-to-date performance, we are fully on track to achieve our outlook, so we are here to reconfirm that we will clock in high single-digit growth for the full year, and land between 590 and 670 million in the bottom line.

We are clear, let's say, in Q4, we need to realise around 100 million to achieve around the midpoint for our EBIT guidance, and I feel confident of doing so. And this comes mostly on the back of a significant improvement of the gross profit margin, and that we have the turnaround on the gross profit margin,Hubert has already explained to you.

Finally, I'm very happy to share with you that we will now send out the save-the-dates for our Capital Markets Day in 2024.

We look forward to welcoming you here in our headquarters on 29th and 1st March. It will be two half days, the Thursday afternoon and the Friday morning, allowing you to come in on the Thursday morning and take off after the Friday lunch.

And we believe it's important that you come to our headquarters, so you get a feeling of our spirit of the PUMA family, as well as see our product lineup for the years to come, and can directly interact also with our Management Team. We look forward to seeing you here in Herzogenaurach.

And finally, let me conclude. The environment remains volatile, and so we remain very hungry, and we are up here in the game to gain more market share. And with that, let me hand over back to Gottfried.

Gottfried Hoppe

Thank you very much, Arne and Hubert. We're now happy 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 on their touchtone telephone.

In the interest of time, please limit yourself to two questions only. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections.

Anyone with a question may press star and one at this time. The first question comes from David Roux from Bank of America. Please go ahead.

David Roux

Afternoon, gents. Thanks for taking my questions. I just have two. The first one is on North America. In relation to the 12% decline we saw in Q3 for growth, what did DTC grow and wholesale grow for the region in the quarter?

And then my second question just relates to SG&A. I think it's implied that SG&A saw about 1% growth during the quarter. What was the growth in the underlying marketing and overheads components? Thank you.

Arne Freundt

Thank you, David, for your questions. Let me take the first on the US, and then hand over to Hubert for the SG&A.

In North America, the minus 12% was driven by a decline in

	wholesale, while our direct-to-consumer business continued to show a growth in the high single-digits.
	When it comes down to the decline in wholesale, the same message as in the previous quarters continues to be true. It was mainly driven by a decline in the off-price segment. Hubert, over to you for the SG&A question.
Hubert Hinterseher	Hello, David. Yes, looking into the SG&A development, we saw especially in the DTC further increase, given the growth in the DTC channel. This had also a slight deleverage impact on the overall SG&A ratio.
	We also continue to invest in marketing, driving future growth, and in all the other areas, we try to gain leverage and we stay cost conscious.
	Those are the main building blocks for the SG&A, and the trend to stay cost conscious will also continue going forward in Q4, as we of course want to stay focused on OPEX control in the current market environment.
David Roux	Okay, thank you very much.
Operator	The next question comes from Aubin Edouard from Morgan Stanley. Please go ahead.
Edouard Aubin	Yes. Good afternoon, guys. So, two from me as well. So, inventory, Arne. In the past few months, you had indicated that the issue was not just the total amount of the inventory which was a problem, but also the aging.
	So, if you could please update us on that, that would be helpful. And also, in terms of inventory in the trade, to what extent it's in the right place or not, now?
	The second question is on the gross margin. So, you alluded to obviously some progress, reiterated some expected progress in Q4.
	So, should we assume, do you still anticipate the gross margin to be about flat in Q4? Sorry, for the full year after a decline of about 70 BPS in the first nine months?
	Or could you even envisage a situation where the gross margin could expand year-over-year, given some of the headwinds turning into tailwinds? Thank you.
Arne Freundt	Thank you for your questions. Let me first take the aging of the inventory, and then Hubert takes the gross profit margin again.
	On the aging, let me please correct, because my earlier statements were only that the aging is an issue in Greater China, not globally. So, in Greater China, we are progressing

as planned, actually a bit faster than planned, of correcting the aging.

So, we have significantly improved the aging structure of the inventory. And why did we run into the aging issue in China specifically? There was still the COVID effect of the closed-down stores, which resulted into, yes, more aged product in the country.

But we have taken the corrective measures, and we have put the product into our outlets and liquidated it to them accordingly.

So, we also did see some pressure on the gross profit margins, year-to-date, in our outlets in China, but we made huge progress, and feel that we are in a very good position to start the next year in a very clean and fresh manner, in China.

On the overall inventory improvement, Hubert already talked, that we are down minus 20% on a very elevated level. I think the best way always to look at it, is also on a monthly coverage point of view. And here, as Hubert has said, we are now at an appropriate level as we have also operated in the past. Hubert, over to the gross profit margin.

Hubert Hinterseher

Yes, good question regarding gross profit margin. Maybe first starting with the Q2 situation, as mentioned, we had 170 BPS pressure in Q2, and there was significant pressure on the FX side, but also pressure from the promotions in the second quarter.

There was also impact from sourcing cost and freight, were still providing headwinds in the second quarter. So, looking into Q3, you have seen that we have made a lot of improvements.

Sourcing costs, with the help of our Sourcing Team, are now turning from a headwind into a tailwind. This was expected and gives us also confidence going forward, to see a stronger improvement in Q4 in the gross profit margin.

The same is valid for freight. Also here, we came from a headwind, now having a slight tailwind in Q3, but this tailwind should accelerate in Q4, also providing a beneficial trend going forward.

What is remaining is a lot of pressure from the FX side. I said it. Overall, we have a pressure on the top line, but also from the hedging. We have approximately 10-cent pressure on our US dollar hedging in Q3, and this will also continue in Q4.

So, ongoing pressure from the FX side, but we are able in

	that environment to compensate for that pressure with pricing adjustments. And overall, that led to the trend change in Q3, where for the first time we were able to improve gross profit margin since the beginning of 2022.
	So, I'm pretty pleased with that trend because it came to a large extent as expected, and with a little improvement at the end, with the 30 BPS. And we're confident, going forward into Q4, that this positive trend will accelerate.
	What exactly is then the gross profit margin number for the full year, it depends also on the DTC trend and the channel mix in the fourth quarter.
	So, it's not so easy to give you an exact number on that, but the underlying trends I think are pretty clear, and Q3 confirmed our assessment, how gross profit margin will develop in the future.
Edouard Aubin	Great. Thank you, both.
Operator	The next question comes from Liv Townsend from JP Morgan. Please go ahead.
Liv Townsend	Hi. Thanks for taking my questions. The first one's just on DTC and the growth that you're still seeing there. I was wondering if you could give us a comment on like-for-like growth and then non-like-for-like, and also space as well.
	And then, secondly, just on your comment on the performance of China, the speed of recovery, having some uncertainty around it. I'm just wondering, could you expand on that?
	Is this related to the macro, or is this something also that you see as being sport specific, such as consumer preference for domestic brands not changing maybe as quickly as had been expected? Thank you.
Arne Freundt	Thank you for your two questions. On direct-to-consumer, as you know, we are not sharing like-for-like growth numbers. But the growth of the direct-to-consumer has, for sure, been continued to be driven by our ongoing brand momentum, increased store productivity, as well as store expansion.
	When it comes down to China, my comment was purely related to the macroeconomics, and it was one of the countries I referred to, when I talked about a revision of the GDP forecast downwards.
	So, we do see, let's say, that the market is gradually improving, but not to the speed I think we also in the macroeconomics were suggesting earlier.

As said, it's a year where we're returning back to growth. I said that we expect China to be up by around 20% for the full year, so we're looking at a very strong Q4 also in China. When you look at our current year-to-date trend, around 16%, it means that we are further accelerating in China. But again, the quarter-by-quarter view on China is super challenging to take any conclusion of this one.

I think the year-to-date trend is the one to look at, because there've been so many effects from store closure and when we delivered goods. So, please look at the year-to-date trend, when you look at China.

Operator

The next question comes from Erwan Rambourg from HSBC. Please go ahead.

Erwan Rambourg

Yes. Good afternoon, gentlemen, and thanks for taking my questions. I'll keep it to two as well, one for Hubert, one for Arne.

So, for Hubert, I'm wondering if you could detail maybe the different buckets in terms of the gross margin components that are reversing.

What's the weight of the freight costs versus input costs, versus promotional activity calming down? Maybe both for Q4 and how you project maybe next year, in terms of what will be more meaningful out of the three and maybe other buckets that I'm forgetting.

The second one, for Arne. I'm just looking at the US, and my understanding is the weakness in the US has more to do with channel restructuring and demand, so this is more of a voluntary cut to get a better business for you, for the long term.

I'm wondering when that stops hitting, i.e., when do you think you will have done the work, and you can have a better alignment between sell-in and sell-through rates in the US? Thank you.

Hubert Hinterseher

Yes, I will start with the gross profit margin question. Looking into Q4, as said, the FX trend in Q4 stays quite negative for us at the 10-cent headwind.

I mentioned the same trend then in Q3 is, of course, impacting gross profit margin quite significantly. It was much more than in Q2. And to give you a rough idea, we expect that to be clearly about 300 BPS from the FX side in Q4. And that was also the same neighbourhood in Q3.

If we look into the sourcing costs, there is not a lot of different trends. As mentioned before, strong improvements also supported by the improvement in the raw material prices, but I think our team, which I would consider as the best team in the industry, did a fantastic job to gather with our suppliers, to improve FOBs.

That trend will continue. And what's also fair to say is, of course for the freight, we see clearly an acceleration. We had until mid of the year 23, a contract which came from 22 with higher freight costs, and then newly negotiated freight costs started to kick in from 1st July onwards.

Of course, that takes a little bit until it translates into the P&L, but the full impact we will see in Q4 and then going forward, as our contract is running until middle of 24. But that will be clearly a tailwind for us.

And then, we shouldn't forget that Q4 22 was a very low level in terms of gross profit margin. The 44% we had last year in Q4 was significantly impacted by very high promotional activities during the quarter.

And here, of course, the baseline gets easier for us, and that should also translate then in Q4 23 into an improved trend in gross profit margin. As said before, giving you exact numbers is, because of the DTC growth, not so easy.

But the DTC growth, of course, then also has an offset on the OPEX side, so I don't think that will change a lot the total EBIT expectation for the full year. And looking into 24…

Erwan Rambourg	Sorry, but without getting into too much detail, I'm just wondering, if you were to rank freight versus input costs, versus lower promotional activity, what's the most important bucket out of the three in terms of the improvement?
Hubert Hinterseher	If we look at the trends, the major impacts are coming on the negative side definitely from the FX, and to compensate that, we're working on the price adjustments, that are the major parts, the rest are small impacts. But we saw quite a good improvement in Q3 from the sourcing costs, coming from headwinds in the first half-year.
Erwan Rambourg	Okay, thank you. Thanks.
Arne Freundt	Then I will take your question. I think… Sorry. Now I'll take your second question on the US. I think there are three different parts to the answer. First, we need to recognise that the US market continues to be a soft market, overall. Therefore, for the year 2023, not only for PUMA, but for the whole industry, we have less units are being sold than in the year before.

In that soft environment, now to the second point, we were too much exposed to this off-price segment, which was a purely opportunistic move in the past, where we would like to rebalance our distribution quality.

In that environment where so much inventory is available from all the different brands, even if I would, I could not realise that same business opportunity as we have done in the past.

And then, lastly, I think always focusing on our controllables, and I think you also see it in what we have implemented in the last nine months. We need to further amplify the brand heat, elevate the brand, further anchor ourselves in performance.

And I think when you look at what steps we have initiated, I think we are exactly on the right way to do so.

And when I look at the recovery of the US, I look at it, that in the course of the year 2024, we should return back to growth in the US.

Erwan Rambourg	Thank you so much. Best of luck.
Arne Freundt	Thanks for your questions.
Operator	The next question comes from Cédric Lecasble from Stifel. Please go ahead.
Cédric Lecasble	Yes, thank you very much. Good evening, Arne, Hubert, and Gottfried. I have two questions.

So, the first one is a follow up on the US. When you say rebalancing the off-price, can you maybe help us understand what the weight was before you touched base to this earlier this year?

Where do you stand today? And when you will get rid of this issue, knowing that you expect growth in 24? So, just for us to understand, out of the 12% decline, how much is due to this off-price rebalancing.

And the second question would be on running. You highlighted running as a plus, as a positive. It's a very crowded and competitive category, so could you maybe help us understand what have been the main inroads?

What's your market share, maybe, today? You said you want to be in the top five. What would be needed to get there? Thank you very much.

Arne Freundt	Thank you for your questions. Let's start with the US first, and then the off-price segment. To clarify again our strategy, our strategy is to contain going forward the

	business, in the off-price business, and make sure we are not making it an equal part of the growth trajectory going forward.
	Sharing with you any number specifically would lead you to a wrong conclusion, because the off-price business is an important mix in our and also in everybody's, in the industry, distribution model, because it's a great way also to liquidate any potential excess inventory.
	But as said, I think the majority of the hit we have taken in 2023, and I believe in 2024, we will go back to recovery in the US, and then it's the right moment to contain the off-price business, where we have seen it now.
	Talking about running, it's a very attractive market and, indeed, it's a very competitive market. I think it's different from football, which is very consolidated.
	But if you look at football, in a very consolidated market, we were able to break through and gain significant market share. We basically quadrupled our market share in football in the last six years, and now we are attacking in running.
	As said, we are only two years back into running. We have one of the best products out there, and this is where it starts. Product is king.
	The runners tend to be not brand-loyal because they're very interested in the latest technology, the best fit for their feet. And this is also why in our running strategy, we're focusing a lot on the running specialty, because at the point of sale is currently where we are winning.
	When we started the journey, we were not among the top ten running brands, but we have a very strong growth trajectory and, in certain countries, we have already entered the top ten.
	And we feel, let's say, very motivated by that success, that we have the ambition and the realistic opportunity to become one of the top five brands.
	But it's clear, when it comes to running, we are the newcomer, we are the challengers, but we have the innovation and also the financial means, and the competence, to get there.
Cédric Lecasble	Thank you.
Operator	The next question comes from Piral Dadhania from RBC. Please go ahead.
Piral Dadhania	Good afternoon, everyone. Thank you for taking my

questions.

So, the first one is just on the current trading. I think, Arne, you said in your media conference earlier today, that September was soft because of warm weather.

Could you just give us an update as to how October has progressed in key markets? And maybe just on the back of that, how do you see the order book?

You said you've got a very strong pipeline of new products, and the PALERMO in particular as it relates to the Terrace trend. I imagine you will scale going into spring, summer 24. Could you just give us an indication of what the customer, the wholesale customer response to that has been, and how you see that evolving?

And then my second question is just on supporting that growth from a marketing spend perspective. In 24, there are three major tournaments or professional competitions, as we all know.

As you scale up some of those new product launches, could we expect a step-up in the marketing investment over and above the 10% ratio that you typically target? Thank you.

Arne Freundt

Thank you, Piral. I've actually counted three questions, but I will take them all. Let's start with September. September, indeed, was a bit of a slower month because, on the back of the warm weather.

And for us, let's say, we clearly saw the impact for around three weeks, where traffic was slower than before, and also after. Because immediately as the temperature got to the right level again, i.e., it got colder again, we saw that the traffic picked up again, and thus also the trade picked up again.

So, we are very happy with the continued growth which we currently see, and direct-to-consumer being up again, double-digit, going into October, and also continuing to see good sell-through on the wholesale side.

On the second one, on the order book and on the PALERMO, as said, we feel very confident on the PALERMO. This is also reflected in the preorder volumes from our wholesale accounts.

When we look at the exact shape of the order book, I think it's important again to note that the order book is very difficult to compare year-over-year. There are two major effects. One is the preorder behaviour has changed from our wholesale customers, and secondly, the timing has changed. And both are consequences out of the COVID or the Corona time.

There was a certain pattern, before Corona, when you placed the orders and how you placed the orders in terms of the balance between preorder commitments and then in-season buys, i.e., reorders.

And that has significantly changed during Corona because, in the lack of supply being available, the wholesalers significantly stepped up their preorder commitments, and also placed significantly earlier.

Because of the disrupted supply chain, where the ports were congested, we had challenges to get also space on the container boats, and also there was a backlog of the suppliers, most of the retailers really ordered earlier. So, the order book, like-for-like, is very challenging to compare.

And lastly, on your marketing question, yes, we are super excited about the year of sports to come. And I think it's exactly the right moment for us to launch our brand campaign, to really make that emotional connection between our brand and the consumer, and build up that relevancy.

With all the three events taking place, we believe that our marketing spend is exactly the right one with around 10%, so we don't see a further increase beyond the normal bandwidth which we are having in marketing.

Operator

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

Warwick Okines

Thanks very much. Good afternoon. I've got two questions. The first is on DTC.

The growth was strong in Q3, and it was more driven by bricks and mortar than online. Perhaps you could talk a bit more about online and your strategy there? You've not talked much about the PUMA App, for example, recently, so an update on online, please.

And then the second question is just a boring one for Hubert, I'm afraid. It's quite a step-up in the financial result charges. I think it was the biggest-ever quarterly charge that you booked. Could you just talk around about the drivers of that increase, please?

Arne Freundt

I think I'll take the more exciting one on DTC first, before Hubert takes the one on the financial income.

On direct-to-consumer, the strategy remains the same. We have a complementary strategy to wholesale, so DTC plays the storytelling role, and this fulfils a role our wholesale partners cannot play.

I would also say, despite the market share space which we have in wholesale, we don't, let's say… Or we need the direct-to-consumer to tell the story, the width of our involvement and the depth of our credibility which we have.

E-commerce and the app play a pivotal role in that whole mix. We're very happy how the app has resulted for us, as we have rolled it out to a lot of countries already, because we do see that the consumer is spending more time on the app.

We see, let's say, the conversion being better than in the web, and we also see that the AOV as well as the gross profit margin being improved versus the web. So, we are very happy about our app, so far, and we are looking to further roll it out in the course of the next year to the other e-commerce countries.

Hubert Hinterseher

Hello, Warwick. Yes, boring question about the financial result. There are two components. One, definitely interest expenses went up, due to high interest rates and also higher bank liabilities, which we had given the increase in the working capital.

But there is also in the current market environment quite some FX fluctuation, and that is also adding to the increase we have seen in the third quarter.

FX is difficult to predict. Currencies are going in some countries wild, so sometimes it's up, sometimes it's down, so necessarily not something you can use to predict the future. But for Q3, these have been the major trends.

Warwick Okines

Great. Thanks very much.

Operator

The next question comes from Volker Bosse from Baader Bank. Please go ahead.

Volker Bosse

Yes, hello. Just one question. What's the bottom-line consensus? I think a lot of questions were answered already, so I would like to look on the consensus for 24.

Of course, it's far too early to give guidance here, but given the macro challenges which you've mentioned, and all the geopolitical tensions which we see, how do you look at consensus expectations for 24, with 9% sales growth, 100 BPS in gross profit, and yes, more growth on EBIT margin? Could you just share your thoughts on that, looking on consensus? Thank you.

Arne Freundt

Thank you for your question. Indeed, it's a bit early to talk about 2024, as we are fully focused to bring home 2023, and

	all of our efforts are focusing on this one, to bring home 2023 exactly as we have also provided you in the outlook. I think what needs to be told is, let's say, how the volatile environment further evolves. I think it is clear that the Middle East conflict is concerning us, both, let's say, most importantly of course from a humanitarian perspective, but secondly, also from an economic perspective. So, we need to see how that further unveils, and also how the further factors will evolve in the course of the next upcoming months. By the time we are disclosing then our financial results for the full-year 2023, we will give you a clear perspective on how we look at 2024. But with all the volatility, I think it's too early to talk about 2024.
Volker Bosse	Okay, thank you.
Operator	The next question comes Jürgen Kolb from Kepler Cheuvreux. Please go ahead.
Jürgen Kolb	Thanks very much. Just two questions left from my side. First of all, you touched on the order book. I was wondering if you could provide us with some insights about pricing in the order book, depending on how far you can look into 2024. And then, also on the reorder business, how did you see the reorder business performing in Q3? And also, were there any pull-forward orders that you witnessed in Q3? Thank you.
Arne Freundt	Hey, Jürgen. Thank you for your two questions. When we look into pricing, what is clear is that we don't see the steep price increases that we have seen on the back of inflationary pressure in the past season, but we see gradual changes in prices, also as a result of the structure of the products the wholesalers are ordering from us. But no big outliers as we have had in the past, where we had significant pricing increases of mid to high single-digit. When it comes down to the reorder business, we continue to see a strong demand in Q3, so we were able in the Q3 to realise more reorders than what we have done in the year before, and also that we had realised in Q2. And when it comes down to pull-forwards, we did not recognise any pull-forwards from Q4 and Q3.
Jürgen Kolb	Very good, thank you.
Operator	The next question comes from James Grzinic from Jefferies International. Please go ahead.

James Grzinic

Yes, good afternoon and thank you. And thank you, team. I was just going to ask Arne a couple of questions.

The first one is, I take on board your point on 24, but I was wondering why you're really quite confident about the 100 million mark in EBIT in Q4. I think you've given a number of reasons why that should be the case. Why not narrow the range for the EBIT guidance?

And the second one, just a verification for you, Arne. Did you say that you're back to double-digit growth in October? And was that a comment for a global comment, or was it a comment for EMEA specifically, please?

Arne Freundt

Thank you for your two questions. When I talk about Q4, yes, I'm very confident that we'll achieve our midpoint of our guidance and the profitability, based on today's market reality and based on today's currencies.

And I think that is a very important remark which we need to make, because I think the world is just very volatile as we speak. But if I take today's reality, today's currencies, we are very confident that we will achieve the midpoint of our guidance.

Why? Because we believe that the trend in the gross profit margin will further continue. Please also bear in mind, in the last year, we had had a very low gross profit margin of only around 44%.

And then, when you historically look at our gross profit margin, you know it has always been around 47% to 48%, so I believe that the most improvement will come out of the gross profit margin.

And then, when it comes down to October, let me please precise it. I talked about, that the direct-to-consumer went back to double-digit growth, because it's always the most immediate reaction which we have at hand for information, because obviously we don't have the lag-in between sell-in and sell-out.

So, when I gave you the indication for October, that direct-to-consumer is back to double-digit growth, that is the channel I talked about. And that was in the context of, September has been softer because the traffic was down, because the consumer chose different leisure activities when it was very warm, than going shopping.

But we could immediately see, when the temperature had dropped again, that the traffic came up, and the business is back to where we expected it to be.

James Grzinic

Understood, Arne. But just to confirm, that's the global DTC

	channel that has gone back to double-digit?
Arne Freundt	Correct.
James Grzinic	Great, thank you.
Operator	The last question for today's call comes from Andreas Riemann from ODDO. Please go ahead.
Riemann Andreas	Yes, hello, gentlemen. In the second quarter, Arne, you hinted at a potential top-line guidance increase. Yes, we know it didn't happen, but was it mainly the September in Europe, or was there anything else you were hoping for to happen, but which eventually did not happen? So, any insight on this would be appreciated. And then on running, again, would you say you meet different competitors in individual regions, or are they the same worldwide? And what are the price points which you see as the sweet spots for PUMA? Thanks.
Arne Freundt	Thank you, Andreas. On your first question regarding the guidance, let me please clarify. Also in the press release, we never talked about a guidance increase, we talked about a potential guidance adjustment, and we also did not further specify on this. I think when we talk about the guidance, it's always important to see that we're not operating in a bubble, but we are operating as a whole industry and also as an economy in an environment which is very volatile. And I already highlighted it during my presentation, the challenges which we see. We see the geopolitical challenges, which further have worsened with the conflict in the Middle East coming up. We saw the macroeconomic headwinds which are very persistent, and also here we see continued high inflation, and we also see a revision of some GDPs. And we see also the currency volatility, again, which is something which quarter-over-quarter has further deteriorated, if you compare Q3 versus Q2, and Q2 versus Q1. But I think there's no doubt about the change about our underlying strengths as a company, and all of the reasons for our cautiousness are 100% attributable to the external challenges. But despite all these headwinds, I think our 6% constant currency growth is a very strong performance, where we are able to outperform the market and gain market share.

	When we talk about running, mostly we see the same global competitors in the market environment. There're always some local flavours, some local additions, which are then local national players coming into play. And the sweet spot for us is around €140 to €160 price point.
Riemann Andreas	Okay, thank you very much.
Operator	Ladies and gentlemen, there are no further questions.
Gottfried Hoppe	Thank you very much, Arne. Thank you very much, Hubert. Thank you very much, Sandra, for reminding us that there are no further questions. Ladies and gentlemen, thank you for taking the time to participate in our today's earnings call. If you have any further questions, you know where to find us. In the meantime, have a nice day. Talk to you soon, and see you soon. Bye bye.