

PUMA

Q1 2024

EARNINGS CALL

TRANSCRIPT



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

PRESENTATION

Gottfried Hoppe

Thank you very much. Dear ladies and gentlemen, welcome to PUMA's Q1 2024 earnings call. Our speakers today are Arne Freundt, PUMA Group CEO, and Hubert Hinterseher, PUMA Group CFO. As usual, we will start with a presentation and some opening remarks by Arne and Hubert, which will be followed by a Q&A session. Now, without further ado, over to you, Arne.

Arne Freundt

Thank you, Gottfried. Hello, everybody. Also a warm welcome from my side to today's Q1 earnings call. I think it's a perfect timing, I could not imagine a better day to hold our Q1 earnings call than the day after yesterday's Champions League game. It was an unbelievable game and Dortmund won against PSG and now we're in the final. I still remember I was there in 2013 in Wembley, when Dortmund for the last time played in the Champions League final against Bayern Munich. So who knows, but maybe we can see the same game happening exactly 11 years later.

Before we get started with the brand, product and financial update for Q1, let me just do some opening remarks.

As anticipated during our full year earnings call, we knew that Q1 will be the most challenging quarter of this year. We expected Q1 to be flattish with a sequential improvement quarter-over-quarter to achieve our full-year 2024 outlook for mid-single-digit currency adjusted sales growth. This is exactly what we've achieved in Q1. We closed Q1 with a slight sales growth and an improved gross profit margin. After a soft January, we saw a sequential improvement month-over-month and ended Q1 with a strong March. As Easter shifted into March from April, I think we always should look at March and April together, which puts us as mid-to-high single-digit sales growth for both months together.

Overall, I feel we're off to a good start into Q2, to achieve exactly the expected sequential improvement in terms of sales growth. And now with the majority of our H2 order book also being finalised, we can clearly anticipate the quarter-over-quarter improvement with our Q4 order book looking particularly strong. I feel very confident about the outlook to grow mid-single digits this year.

In summary, good exit rate from March/April, good gross profit margin improvement and good H2 order book. I think overall we are in good shape.

Now let's take a look at what we've been up to on the brand

side in the last quarter. I think to summarise it in three buckets, it is about we showed in the last quarter an ongoing momentum in performance. We showed that we are changing the game in Sportstyle and building up traction with the newness which we're bringing to the market, and we made progress in the brand elevation. Let's look into more detail.

On the product side we introduced exciting newness around all of our shoes, Future, Ultra and King, with innovation and update of Future being the lead model. Here we saw that the Future continued to be the strongest growing performance in the market, with the highest market share gain against all the competitive franchises in Q1, another strong testament to the strength of that footwear franchise. But all of that success would not be possible without our retail partners, where we continue to show very strong and continuing to grow our shelves as we speak.

Also on the club side we had some exciting newness. We brought the fourth kit, an exciting design, the Year of the Dragon for Man City and in the PLEASURES collaboration with AC Milan. Both caught a lot of interest from the consumer and sold out in record time.

In preparation of the Euros and Copa América, we further strengthened our PUMA squad. We're very happy to welcome Theo Hernández from AC Milan, also playing for the French national team, as well as Weston McKennie playing for Juventus and the American national team, to the PUMA team. And together with Christian Pulisic as the captain of the American team and Musah, I think we are in a very good position to represent PUMA during the Copa América in the US.

On the basketball side we also dropped exciting newness on both sides, the signature shoe business around LaMelo, Stewie and Scoot Henderson, as well as on the performance side. Obviously the biggest one and continuing to be our best seller is LaMelo and here with the exciting newness around Spark, and you see also on the right-hand side how strong we are showing up with his franchises in our Wholesale distribution.

As I've already indicated during the Capital Markets Day, we feel it's the right moment in time now to bring the heat of LaMelo also off-court. This is exactly what we're doing later this month. We're introducing the first signature off-court silhouette with LaFrancé, the middle name of LaMelo. We believe that this can be a very strong shoe for

the consumers.

But I also talked about that we need now to broaden our footprint in basketball. We made big steps forward in the signature boot business and now we need to broaden also our footprint. This is why we have partnered up with NCTPRO, one of the leading amateur circuits in basketball in the US. And all of the players are now wearing our All-Pro NITRO franchise, giving us not only the visibility, but also the credibility in the amateur basketball league.

The newest kid on the block, as I always call it, is running, as we're only back into road running since 2021. We're continuing to bring exciting newness around our NITRO technology to the market, both on the race day for the elite athletes, as well for the everyday running athlete around the Velocity, Deviate and the ForeverRun. We're very happy that our improvements and continuous innovation also being recognised. Just recently we have received the important CORREDOR award in Spain for the Fast-R 2. And when you look at Hendrik Pfeiffer's constant improvement of his personal best running in the Fast-R 2, you can really see how PUMA's NITRO franchises help you to perform and improve your personal best.

Improving your personal best and being back on the podium is also the story of the Deviate NITRO Elite 3, which we pre-released at some of the important races this year, and we go to market later this year. I mentioned to you earlier we had some big wins in the US with Fiona and Dakota becoming number one and number three at the US Olympic trials. And later followed by some podiums at majors from Vivian and Edna in Boston and Paris. Just to put it into perspective again, since more than two decades, 1998 was the last time PUMA runners were at the podium. I think it shows how strong of an improvement we are now making and how serious we are about gaining shelf space and market share in road running.

I also told you that we want to make steps forward of becoming more of a performance brand and changing the perception of the brand in China. This is also why we are engaging more and more in running. One of the most important races in China, the Wuxi Marathon, one of the largest in China and one of the largest worldwide, we are now for the first time also amongst the top ten brands of the sub-three hour runners. So, also good progress here.

And as we want to build further momentum in China and also Grand Prix, the F1 Grand Prix came for the first time back to Shanghai after the COVID crisis. We used that

opportunity to create some excitement and hype with the Chinese consumer around motorsport and F1. We pulled up a catwalk, we engaged with important influencers, we partnered up with TMALL, one of our important distribution partners. And also for the first time in PUMA's history, we were able to secure one of the important super brand days with TMALL, giving us high visibility on their platform and offering a live stream and live shopping experience for the consumer.

Last weekend all eyes were on Miami. Again one of the most important races in this year and we used this to celebrate our collaboration and partnership with Ferrari and brought an unexpected blue for the race collection to the market. Again, if you take all of this together, I think you can clearly see that we have an ongoing momentum and performance and continuing to grow from strength to strength.

Now let's talk about Sportstyle. I told you we need to do two things. We need to maximise the current trends and we need to build and nurture the future trends. We need to do two things in parallel. For maximising the current trends we're focusing on terrace and skate. We have been launching the Palermo in November, so we are now about six months in the market and are seeing month over month that the franchise is continuing to accelerate and more celebrities, as well as more everyday consumers are endorsing this shoe, which is great for us. We're continuing to fuel that acceleration with newness which we bring to the market, especially on colours, especially for her, going into the spring and the summer.

Also the Suede XL seeing further acceleration in the skate trend area. And especially when you look on social media, you see our soccer players as well as our basketball players, it's becoming their go-to shoe, which gives the shoe a great visibility to the consumer, which obviously also helps the acceleration of the trend. Again, all that would not be possible without the great contribution from our retail partners, which give us a great point of sale excellence.

In Q2 we will now launch a new franchise called the Easy Rider, which is a T-toe shoe also, but more from a vintage running silhouette perspective. It's another iteration which we will start to build and scale up in course of this year. If you take all of this together, you see that we will have three lead communication styles, the Palermo, the Suede XL, and now also the Easy Rider. But these are all in terms of marketing and communication the lead style. When you

look behind, there's a huge portfolio of other shoes which will then benefit from the halo which we are generating on these shoes.

Less from a commercial perspective, more from an innovation and sustainability perspective, another important launch was the RE:SUEDE. You know that we are very serious about our efforts in sustainability and we believe that circularity is the only real answer to sustainability. One of the pilot projects in the past years was RE:SUEDE and now we have a small capsule collection which we launched commercially, together with one of our retail partners who is also very serious about sustainability.

With Rihanna we are continuing to create hype and heat in the market with FENTY Avanti Pony Hair. It had the best resonance so far and is building up further great consumer engagement, so is also the Creeper Phatty, where we had a launch event in April in London, two to three weeks ago, and we're continuing to build up heat and halo, together with FENTY and Rihanna.

I said this is what we do about maximising the current trend, to make sure we're scaling up the business, but I said in parallel we also need to prepare for the future. And I always told you we need to own and lead in low profile, and we have three of the most exciting silhouettes in that field from Speedcat, the Inhale and the Mostro.

If you go back in time to one of our first calls together, you will remember some of these pictures because I already told you 12 months ago that we are incubating low profile. It's not enough just to put the shoe on the shelves, we need to make sure the consumer gets familiarised with that style. We can educate them on the different ways how to style with that new silhouette. And I think this is what we have done very well in the last 12 months. Being at the different fashion weeks, endorsing the right ambassadors, like A\$AP Rocky, and also fuelling it with our own fashion show in New York, and most lately now at our F1 catwalk. You do see that also important media, like the Vogue, GQ, Highsnobiety, they are picking up on the efforts which we are doing and it clearly speaks into our favour that the trend seems to be moving into a low profile direction.

We always said one of our early indicators in terms of timing is Korea. This is where we always see trends starting. We had another exciting collaboration with OPEN YY, which we had dropped in Q1. And same story as for the first activation, this sold out immediately in one day.

Also Mostro, we continue to provide newness to the market with the Ecstasy drop with Ottolinger. And then last weekend was a big day for us during Miami because A\$AP Rocky unveiled his first PUMA collection, the Inhale shoe, another very progressive low profile shoe speaking to a different consumer. Again, great resonance from the consumer resulted in immediate sell-out.

On the Chinese side we are very happy that we can now welcome Henry Lau as our new face of the brand, as our tier one ambassador, to the PUMA family. He has a great reach, reaching multiple millions of Chinese with his videos, so it's great for us that we can go back to the normal endorsement of ambassadors. Again, when you look at what we have been up to, we clearly see that we are building up traction with the newness which we are dropping in the segment of Sportstyle.

Finally, let's talk about the Year of Sport, which is very important for us from a brand perspective. It's a very exciting year, with some of the most exciting competitions going on, from the Euros, the Copa, the Olympics and Paralympics. And we already told you earlier in the year, the Year of Sport will be the year of speed for PUMA because we want to make a strong statement that PUMA is the fastest sports brand in the world. At the competitions we will have a great visibility. During the Euros we will show up with four different teams. From a competition point of view they will more be an underdog, but as we have seen also with Morocco, these underdogs have the potential to surely go to the semi-final of the World Cup, this is football. And also during the Copa América we will have good visibility with our recently signed CONMEBOL ball, as well as with our Paraguayan team.

In terms of visibility, the Olympics will be significantly bigger for us. We have one of the most exciting teams with Jamaica under contract. But it's not only Jamaica, we have 16 more federations under contract, all endorsing PUMA's kits. Also next to them we have some of the most exciting athletes. Some of them you see here on the picture, always the fastest and the highest jumpers of their competitions. What you will also see during Olympics, is that they will all show up with the Fireglow colourway. In the summer of sports, regardless of the competition, in Euros, in Copa América or Olympics or be it the NBA start of the season, you will see the PUMA athletes performing in the Fireglow colourway across all the different sports. From track and field, road running, handball, basketball, road running, as well as soccer. I'm very sure that we will have a great visibility and we will be very easily recognised by the

consumer on track, on pitch, on court.

What a better time than the Year of Sport to launch our first global brand campaign in ten years. We are using that moment and that brand campaign to really showcase that PUMA is the fastest sports brand in the world and that we have one superpower, which is speed. Exactly that superpower is also what unites us and our superheroes, our athletes, is the speed of their moves in their respective worlds. That speed makes them move so fast, the whole environment, the whole surrounding becomes blurred, as you can see also from the creative directions with this lenticular effect coming to play. But as we know that speed is a universal superpower and it's relevant for everybody in everyday life, we're inviting all the consumers to participate and see the game like we do.

On this brand campaign you will also see that we are very consistently executing it across all the different sports, regardless if it's basketball, football, road running, handball or track and field, you will see us always talking along the same communication platform with the same effect. Because again, speed is a universal superpower, relevant for all the different sports. Again it's something very new for us, it's the first time we're executing the same creative direction for all of our performance categories.

Consistency is also the name of the game of our media mix strategy. You will see us on video, social media, out-of-home, e-commerce, very consistent execution. For the ones who watched yesterday the Champions League semi-final, I hope you also enjoyed our brand campaign being broadcast there. So far we're very happy with the results. We're less than a month into the game, but in terms of reach, impression, engagement, we're really reaching new heights which we have never had before. And also, as we're doing pre- and post-consumer testing, we're seeing that the campaign has exactly the right effect in terms of building up the right associations in the consumer mindset.

We are also making progress on the brand elevation side and, in summary, I think we can say we are continuing to have a momentum in performance. We are starting to change the game on the Sportstyle side. And with the newness which we are bringing to the market, we're building up traction and we are also making progress on the brand elevation side, so I feel we're making good progress step by step with our strategy.

Let me give you on the financial side a quick overview about the top line, before I then hand over the Hubert on the full

operating performance. As I said, we finished Q1 with a slight growth of 0.5% and here we have seen, as I said initially, a month-over-month acceleration with a soft January, a better February, and then a strong March, overall leading up to the 0.5%.

In terms of channels, we see that Wholesale has been soft with minus 3%. Again, same story, we focused on sell-through, focused on prudent sell-in, to make sure we are right-sizing the inventory levels in the trade, to have a healthy basis for the future sell-in, for the newness to come and for less promotion that we expect to improve our sell-in in Q2 going onwards.

Then on the Direct-to-Consumer side we see a continued strong momentum growing 14%. Here it's the best reflection of the ongoing brand demand which we are seeing, also good sell-through. And it's important in our own Direct-to-Consumer we already started to scale back promotion in Q1, to put more context behind these numbers.

On the division side, same story as in the past quarters. Footwear continues to lead the growth with 3% and then we had a softer Apparel and Accessory business. On the Apparel business, for sure, weather played a certain role as it was a bit wanky in Q1. When we talk about the inventory levels in the market, also here we need to acknowledge that the competitive set is significantly larger. We're competing against more, thus also more inventory was in the market. When I look at our own number in DTC, Apparel was high single digit up, which shows the continued momentum also in Apparel for us, but also reflecting that there's still a lot of inventory in the market on the Apparel side.

But I always think we need to be self-critical. We also need to up our game on the Apparel side. I think we need to provide more exciting innovation, also our training apparel, as I described during the Capital Markets Day, needs a revamp and we need a new product architecture to make sure we are building up a successful product line, to really make sure we're participating more from the momentum overall in the market on the training apparel side. For sure, I think we're doing the right steps here and then in the course of 2025 the first product in that direction will also drop in the market.

On the regional side, I will be very quick on that page. You see that the three regions classified in that overview are all flattish to slightly up. I think it's important to note that

Americas is for the first time up now after four quarters being negative. I know you're more interested in a more granular split, so here we go.

In Europe we saw downward minus 3%, which was slightly better than what we have expected it. We had said that we anticipated more or less on Q4 levels, so this is slightly better than what we expected it. When we look at our DTC operations, we continue to see a high single-digit growth in Europe, underlying the ongoing demand. And with the progress which we are making reducing the inventory levels in the trade, we already expect a better Q2 than what we have seen in Q1.

North America, I think same story, sequentially we're improving quarter-over-quarter and we feel that we're in a good position, that we will return back to growth in the second half of the year. Latin America comes in with 8% growth. I think it's important to remind you that I talked at the full-year result about the operational constraints which we have in Latin America in Q1. We have five subsidiaries there, but in two out of the five we are changing warehouse, which comes along with certain capacity constraints on the outbound. We are making progress here. April was already double digit up again, but the warehouse moves are not yet fully completed, but April makes me very confident that we will see a stronger Q2 for sure. Again, when I look at our DTC performance, we saw very strong double-digit growth, so this is in the sell-out data, really showing you that we are continuing to have nice traction.

Greater China came in with 7%. I think it's important to call out Mainland China was slightly stronger and then the performance has been pulled down by a softer Taiwanese business. And then also the other APAC market saw a sequential improvement versus last quarter, with all countries being flat to a low single digit up, except for Oceania and our distributor business in South East Asia has also been softer.

To wrap up, I think we had shown a strong improvement month-over-month in Q1, finished on a strong March. And if I take March and April together, we had seen a mid-single digit to high single-digit growth. And when we look at the trajectory of China and the US, I feel we're on the right path of making progress of executing our strategy and turning around the business. With that said, let me please hand over to Hubert.

Hubert Hinterseher

Thank you, Arne. The year 2024 started fully in line with our expectations, despite the currency headwinds and the

volatile market environment. We were able to grow on top of a very strong Q1 2023. Our gross profit margin improved, despite the significant currency headwinds. OPEX remained controlled and inventories are healthy. Let's have a look at the operating performance of the first quarter of 2024.

Sales improved 0.5% currency adjusted to 2 billion 102 million. Significant currency headwinds amounted to almost €100 million and led to a decline in reported currency of 3.9%. After Q1 we are fully on track to achieve our full-year outlook. Gross profit margin improved 100 basis points to 47.5%. Given the significant currency headwinds, a very positive trend and even a little better than anticipated.

Let's have a closer look into the building blocks of the gross profit margin. We can see a significant negative impact from currencies of more than 300 basis points. Improvements in sourcing and freight. The promotions remained stable overall, with improvements in EMEA and APAC, while Americas was in general a market where we remained promotional and the market overall remained promotional. The improvement from the product mix is reflecting a progress in brand elevation, as we were able to sell more product at a higher price point and we saw positive impact from the channel mix.

Overall, we see a good progress on the gross profit margin side, which is expected to accelerate in Q2, given a little less headwind from currencies and a little tailwind from promotions, given the healthy inventory levels. OPEX remained well controlled, being flat versus last year. If we look closer into the trend of the OPEX ratio, we see the increase is mainly related to the channel mix. The OPEX ratio in marketing and other OPEX remain flattish, including a small negative impact from currencies. In other OPEX we were able to compensate the ramp-up cost from warehouse and digital infrastructure, as well as inflationary pressure, by a continued focus on cost discipline. This is in line with our expectations and underlines the strong achievement of the group.

As a consequence of currency headwinds in sales, gross profit margin and OPEX ratio, EBIT decreased by 9.4% to 159 million. Overall, the EBIT in Q1 was fully in line with our expectations. EBITDA was down 7.7%, approximately in line with EBIT. Net income was down 25.5% to 87 million. The financial result declined as last year's gains from hedging did not repeat this year, while interest expenses increased due to higher interest rates.

Let's have a look at the balance sheet. Inventories were down 16.8% to a healthy level of 1 billion 786 million. During Q1 we were able to further improve our inventory level and the quality of our inventory. Trade receivables increased by 12.2% to 1 billion 433 million. Overall, the receivables increase was related to the regional mix, as well as timing effects from a stronger growth towards the end of the quarter. The trade payables decreased by 5% to 1 billion 223 million. The decline was in line with the improved inventory levels. As a consequence the working capital increased by 5% to 1 billion 846 million.

To sum it up, sales and EBIT were fully in line with our expectations. We saw a gross profit margin which improved nicely and we're operating on healthy inventory levels. With this summary, back to Arne.

Arne Freundt

Thank you, Hubert. Let me go through the outlook. As I said in my opening remarks, we knew that Q1 will be the most challenging quarter of this year and we expected Q1 to be flattish and to see a sequential improvement quarter-over-quarter, and it's exactly what we have seen so far. We started Q2 with an acceleration versus Q1 and I'm very confident that we're well on track to achieve our currency adjusted sales growth target of mid-single digit and an operating profit of 620 to 700 million.

As you know, we are continuing to operate in a volatile market environment with a lot of uncertainties, but when I look at the current Q2 consensus of 2 to 3% sales growth in constant currencies for Q2 and a profitability at last year's level, I feel it's a very good way to think about our expectations for Q2. Please remember we have always said that we expect a slight growth in H1 and then a stronger growth in H2. And with our Q2 we will take another step in that direction.

Now going into Q2, we continue to expect currency headwinds on the sales and gross profit margin side, as well as on the OPEX ratio. As the currency headwinds will start to turn from a headwind in H1 to a tailwind in H2, we also expect that the profitability will improve versus last year in the second half.

In terms of newness coming into the next three quarters, we have some exciting momentum to be further built on the performance side. We have some exciting launches around football, basketball and running coming, new innovations to the market. But not only on the product side, also on the brand ambassador side we have some exciting new partners to announce. After the EuroCup we are

allowed to unveil our new leading tier one ambassador team on the national side, then we will have another Champions League team joining the PUMA squad, and finally the partnership with another leading league in Europe will be announced in the second half of this year.

On the Sportstyle side we will continue to see that 2024 is a transitional year. A year where we continue to show our strength in our core assortment with our family footwear channels. It'll also be a year where we are making further progress to prepare for an improved business in the elevated distribution channels, select and prime, as we call them. Again, the biggest opportunity in the industry is prime and this is the sector where we've been under-indexing for a long time and we're now changing the strategy and the game.

In 2024 we'll continue to focus the scale of our existing franchises around terrace and skate, and also building momentum around the newness which we are now dropping around the Easy Rider. As I said, at the same time we need to also focus on building and nurturing the new trend and we are very happy that based on the request from our retailers, we now slightly advance our plans for the low profile shoes and bring them already to the market at the end of this year. We take this as a very positive sign, the incubation phase seems to work well and the market seems to be ready for the new silhouettes earlier than what we have anticipated at the beginning of the year.

But again, we won't rely only on low profile. It's important that we build up a strong portfolio of newness with multiple franchises, to make sure we have the right shoes for the right trends. We will also introduce newness on the court side, with the GV Special and another silhouette to be dropped later this year. As well as on the progressive running side, we have a very exciting new silhouette which we have just shown to our retailers, creating a lot of interest, and now we're working hard to bring that shoe also to the market at the end of the year.

Finally, on the brand elevation side we will continue to focus on rolling out our brand campaign as we speak, in this year. And we will also work hard on bringing to life our new communication strategy in Sportstyle, which goes along with our elevation strategy on the Sportstyle side, so we also see a new creative direction here, as well as we are going to implement and elevate our influence strategy going forward.

Again, all of that strategy would not be possible to be implemented without the best team. Here I feel very proud and very privileged to work with this amazing set of people, showing every day 0% complacency and 100% commitment, the true spirit of the challenger. With that, I would like to hand back to Gottfried.

Gottfried Hoppe

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

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 are 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.

The first question is from Grace Smalley from Morgan Stanley. Please go ahead.

Grace Smalley

Good afternoon. Thank you very much for taking my questions. My first one would just be on the Wholesale order books. You mentioned that you are seeing those sequentially accelerate. I think Arne, you said particularly in Q4 and you mentioned also about the low profile trend and some of that demand being pulled forward. Given your focus on the Sportstyle prime channel, in particular, so I assume the likes of Foot Locker and JD Sports, could you just comment in terms of what you're seeing from Wholesale demand, in particular, from that key Sportstyle prime section, given your strategic focus on that category? And then when we should really expect that the scaling of the low profile trend speak out through those channels to meaningfully scale and come through in terms of strong top line growth?

And then my second question, thank you for all the information on Q2 and all the detail, it's very helpful. If you could just help us clarify on the current trading what you are seeing perhaps by region? And just squaring, I think you said, if I heard correctly, taking March and April together, current trends are up mid-to-high single. But then you're also comfortable with Q2 consensus of up 2 to 3% constant currency sales growth, if I understood that correctly. If you could just clarify the Q2 guidance, that would be helpful. Thank you very much.

Arne Freundt

Hey, Grace. Thank you very much for your questions. It's 100% correct how you understood it, the order book is

building quarter-over-quarter, with the second half looking very good, particularly on the Q4 side.

When we're launching our low profile silhouettes, the leading retailers in that segment around JD Sports, Foot Locker, as you have named them, and Snipes are playing a very important role also in that launch strategy. When you asked to say how quickly can you scale up things, I think most important when we are launching franchises is really that we take the right pace because it's the fine art of demand and supply to really build up trends and also keep up that longevity. I think it's always important that we take the right steps. The first step was about incubation, that was the name of the game in the last 12 months, and we will also start now in the next month to see it in even higher distribution channel sitting above the called out accounts. Then believe that the first steps of bigger commercialisation we will start then, as I said, end of this year.

And then again, we have that agility that when we see something is picking up quick, that we can always react. But it's always important that we are not outpacing. This is always very healthy, to keep the trend integrity and the life cycles of the franchises right.

On the Q2 projections, which we have confirmed that 2 to 3% sales growth is the right way to think about this. I think there's one learning from the last weeks and the months, as the market continues to be very volatile. I always feel very comfortable to commit to what I can see banked up in the order book, and a lot will obviously depend on different factors, which are not in my control. This is why I feel as of today very comfortable with our 2 to 3% outlook for Q2.

Grace Smalley

Thank you.

Operator

The next question is from Jürgen Kolb from Kepler Cheuvreux. Please go ahead.

Jürgen Kolb

Yes, gentlemen, thanks very much for all the detailed comments and encouraging comments, in fact. Two questions, first on DTC 13.5% up. I was wondering if you could maybe talk a little bit about the pricing, what you've seen there, the level of promotions that you needed to do in order to get people into store if there's basically no or very low pricing necessary in order to get this motivation up?

Secondly, on China specifically, Q1 in terms of stores, are we back to net store growth or is this more flattish still? And what are your plans for this year? Thank you very

much.

Arne Freundt

Hey, Jürgen. Thank you a lot for your questions. On DTC, the global answer is that we achieved the 13.5% growth on the back of less promotion in our DTC business, that's the global message across all countries, all different channels. If we then go a bit more into detail, I think I need to call out that the promotional level in the US stayed on the same level as in Q1 in 2023. So here we continued also to see industry wide that the promotional level in fact, to our sources of information, has been actually higher in Q1 2024 than in Q1 2023. That's why we were not in the position also to scale back our promotion in the US in Q1.

Then on China, I think the question was in regards to the store count. Overall, it was more a flattish store count in Q1. We anticipate by end of the year we will have an increase in the store count, so that will also help us in terms of growth, in terms of scale growth next to the comp growth. But in Q1 overall with the openings and the closing, it was more flattish development.

Jürgen Kolb

Excellent. Thank you very much.

Operator

The next question is from Anne-Laure Bismuth from HSBC. Please go ahead. Ms Bismuth, your line is open.

Anne-Laure Bismuth

Good afternoon, sorry for the delay. Thank you for taking my question. My first question is about the performance by channel. With Retail massively outperforming Wholesale. When do you think Wholesale catches up and what will be the trigger?

Then in order to better understand the shaping of the growth over the next quarters, can you help us to understand how meaningful can the football EuroCup be, could represent for the business, and also the Olympics? Thank you.

Arne Freundt

Hey, Anne-Laure. Thank you very much for your questions. On the second question I need to have clarification. I think the question was if EuroCup and Olympia is also a commercial upside for us. Maybe I'll start with this one. For us the EuroCup, as well as the Olympics is more important from the brand perspective than from a commercial opportunity perspective. When you also look at our teams which are representing PUMA also during the Euros, these are great teams, also on the underdog perspective, but they are not the teams which sell millions of replicas. This is currently not part of the PUMA squad.

Again, when we have seen that deficiency, we put a new tier one national team under contract, so we think we have a

bigger commercial opportunity in the World Cup and in the EuroCups to follow. We're very happy to announce that strengthening, but unlike other competitors in the field, we do not see an uplift in that event here due to the commercial opportunity because the effect from these four teams is rather non-material on our H1 numbers overall.

From a channel perspective rightfully, Direct-to-Consumer continues to outperform Wholesale. Again, Direct-to-Consumer is the most direct reflection of the demand, as we don't have a time lag between sell-in and sell-through. As I mentioned, we are making continuous progress in correcting the inventory levels in our Wholesale accounts. And we believe already our sell-in will improve in course of Q2 and then backed also with our orders, further improvements in terms of acceleration, in terms of sell-in being done in the second half of this year.

Operator

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

Piral Dadhania

Good afternoon, everybody, thank you. My first question is just on the DTC growth, again, apologies. Could you help us perhaps understand the contribution from full-price channels versus off-price channels? Was there any big differences in that 14% blended number between full price and off price, including outlet/e-comm?

Then secondly, my question is just on the phasing of gross margin. I think Hubert said that the gross margin in the second quarter is expected to accelerate on a year-on-year basis for two reasons, which is well understood. Could I just confirm that you expect the first half gross margin to grow more year-on-year than the second half, despite the fact that the FX headwind turns into a tailwind? Just trying to understand how we should model that. Thank you.

Arne Freundt

Thank you, Piral, for your question. Let me take your DTC question, while Hubert will then elaborate on your gross profit margin question.

Overall, we see a nice dynamic across all channels, full price, outlet and e-commerce. I think what is important for outlet, to say that we have now a fresh assortment again, so we see also better gross profit margins. Last year our outlets were really focused on liquidating the excess stock. I think what is to be called out in terms of the channel differences is that we're expecting further uplifts in the gross profit margins in our outlet channels, on the back of fresh product with a full-size run, which was not the case, as we cleared the excess stock in the last quarter. Hubert, over to you for the gross profit margin question.

Hubert Hinterseher

Hello, Piral. Regarding the gross profit margin trend, absolutely right. Q2 is expected to be a little better than Q1 in the trend, meaning the 100 basis points improvement of Q1, we should see a little better number in Q2 year-over-year. A currency should not be that much a headwind than in Q1, in Q2. And then also given our healthy inventory levels, we expect at the promotion level should become a little bit better and create a little tailwind in the second quarter.

Looking into the second half year, overall I would not say there is such a huge deviation in the trend, despite the tailwind from the currency impact. But of course there are uncertainties at the moment. Freight is an uncertainty, we see a little bit changes in the duty rates and of course then what in detail the promotions in the second half year will be we'll also need to see, depending on the market environment. But overall, not that much a difference, I would say, compared to the H1 trend.

Piral Dadhanian

Thank you, very clear.

Operator

The next question is from Monique Pollard from Citi. Please go ahead.

Monique Pollard

Hi, afternoon, everyone. Thanks for taking my questions. The first question I had was just on the comment, Arne, you made about sell-in's going to improve during Q2. I'm just wondering if you think it could already be back in growth in 2Q particularly, given the comments you've made about March/April up mid-to-high single digit?

Then just was wondering if we could get a little bit of colour on growth in APAC. Obviously you mentioned strong growth in China that was pulled out and Mainland doing better than the overall Greater China region. But in the rest of APAC, if you could just give an update on what markets are doing better, worse. I know Japan, Oceania had been pulled out last quarter.

Arne Freundt

Thank you, Monique, for your questions. In terms of sell-in acceleration starting in Q2 and if there's potential to be up back to growth, again we had a volatile environment and it is difficult to project two months ahead. I think the positive growth in terms of Wholesale would be at the upper side of our own expectations. I think a more flattish way is a good way to think about our current expectations for Wholesale. But again, there are a lot of moving parts still and I think we're looking more at the trend and the acceleration, so I think that's the way we prefer to look at it, at PUMA.

When you talk about APAC and the different trajectories, as

I mentioned, we have seen that our key markets are all flattish to slightly positive. The two markets which need to be called out which had a softer development was Oceania, which is for sure going through a certain transition currently now. And then our distributor markets also had a soft business overall. Other than that, I think there's nothing to be called out. Japan, India is two of the major countries all in this bracket of slightly positive to low single-digit growth.

I think also what is important, every Q1 number we also need to look back on the Q1 2023, and there we also had a particularly strong growth overall in other APAC, which obviously makes the comp basis very high, with 27% I think we had posted at APAC overall last year.

Monique Pollard

Thank you.

Operator

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

Adam Cochrane

Good afternoon, guys. Thanks for taking my questions. First question I've got is relating to the global rebrand. Can you just give us some idea of the reception that you had there, whether it's customers, wholesale partners, effect on anyone else? Just really some idea of how successful you think that's been.

Then secondly, does the trading you're seeing in March and April and the order book for the second half make you more confident on the guidance than you were previously? I know you've kept it the same, but are you feeling happier with where you are on the progress to that guidance? Thank you.

Arne Freundt

Thanks for your question. The first one on the brand campaign, I think we are measuring success always with the end consumer because that's where they're targeted to, that we're anchoring ourselves further as a performance brand in the consumer's mindset. I think we have different KPIs at which we're looking in terms of how many views, how many impressions, how much reach we get. But even more importantly, what are the engagement rates. And these engagement rates are very strong, so that shows that our campaign on these metrics is performing very well.

The second thing is also the qualitative assessment, and here we did a lot of pre-testing, where we really saw how well the campaign is testing. As well as we are now in the post-testing, after being three weeks live. The first indication that we have is that we see exactly the positive

associations which we are intending to build up with the consumer. Also what is very interesting for us, especially one association, is the spike in happiness, so on joy. I think that's also due to the strong music which we are using in that campaign, it is building up.

In terms of confidence with the outlook, I think I was always confident that we will achieve our outlook, but when I set the outlook we did not have yet our full bookings in Q4 there. So, I've got to rely on the positive feedback which we had during our pre-line meetings, but then obviously when the orders are on your books, then obviously you feel a bit more confident than you had the verbal commitment from the retailers. This is why it's a fair assessment to say that the level of confidence has increased because the verbal commitments has turned into the orders into Q4, which we didn't take at the moment in time when we communicated the outlook.

Adam Cochrane

Great, thank you.

Operator

The next question is from John Kernan from CD Column. Please go ahead.

John Kernan

Hello. Thanks for taking my question. Can you talk to the state of the Wholesale channel in both EMEA and Americas, and also your balance of growth within DTC within both EMEA and Americas? Thank you.

Arne Freundt

For sure. I think there are certain similarities in the two markets, but also from a different base. I think when we talk about the big regions, EMEA as well as America, I think what we do see is the strength which we have in performance is helping us to gain market share, as well as shelf space in both regions. So, we are continuing to grow our strength in football. We are opening more doors, especially also on the running specialist side. In America there's a lot of doors, as we have said, 90% of the doors which we have not yet targeted. So we are making progress there. In Basketball, we continue to sell very well.

On the performance side, that's the similarity. I think we are doing very good in both regions. Then as I said on the Sportstyle side, we can bank on our strong core business on the family footwear side, it's a strength where we are continuing to grow very nicely. Which is also the common story in terms of Sportstyle. As I said, we are going through a transition phase where we are phasing out our older franchises, which are softening, and building up our new franchises which are showing a very nice traction and are continuing to accelerate. I think that is the bigger shape of the different regions.

And then secondly on marketing costs, given the events this year, should we assume any seasonality through the quarters or are we more expecting a flattish level as we go through the year? Thank you very much.

Arne Freundt

Thank you very much for your questions. In Q2, for sure, we are off to a good start with what we have seen in March and April together. But again, we have two months to go, there's a lot of volatility in the market. This is why we feel very confident with the consensus sitting around 2 to 3% growth. Also, remember the comp base from 2023 with 11% growth is also very, very strong, against which we need to comp. I think these are two important things to keep in mind when we think about our own Q2.

In terms of marketing, we said 10% is our annual ambition that we spend as a marketing ratio of sales. Of course there's a certain shift in timing. We started our brand campaign now in mid of April and obviously in lead-up to the important sporting events, we will have most of the marketing investment of our brand campaign. So timing wise, there's also a bit more shift from the marketing expenses into Q2. Again, this does not mean that overall we are spending more than the 10%, but timing wise it will be slightly more in Q2 this year than it had been last year.

Olivia Townsend

Thanks.

Operator

The next question is from Geoff Lowery from Redburn Atlantic. Please go ahead.

Geoff Lowery

Good afternoon, team. Just one question, really, around wholesaler behaviour. You were quite vocal last year that the ordering patterns post-COVID and inventory build and then inventory unwinds haven't fully normalised in terms of pre-orders versus in-season business. Do you think that has stabilised now? I'm really trying to get at how relevant the Wholesale order book being strong for half-two or better for half-two, I should say, is at this point in terms of your overall Wholesale business. Thank you.

Arne Freundt

Thank you, Geoff. We have seen that it has largely normalised. I think for sure, there's also the one or the other retailer probably who has been a bit more conservative going into H2, so there might be also the opportunities for immediate business. But with our large Wholesale business share of 75% and then having that order book, which we do have, again we feel that our sales expectations are well covered by the order book, so we feel comfortable where we are today.

Geoff Lowery

Great, thank you. Can I just ask one quick one on inventory?

Are you happy with the composition of inventory in our big markets, as well as the level, or are there still some issues with ageing, for example in China, at this point?

Arne Freundt

I think that's exactly the job which we have focused on in the last 12 to 15 months, that we not only get the right size, but also the right quality in place. We feel very well equipped where we sit in terms of size and age.

Geoff Lowery

Great, thank you.

Operator

The next question is from Wendy Liu from Barclays. Please go ahead.

Wendy Liu

Hi, thanks for taking my questions. I have two, both on China, please. One is I wonder if you could share a bit of colour about what you're seeing in the market today. Our channels checks seem to indicate that consumer demand remains soft and we continue to see a bit of a trading down happening there. But you still delivered a good growth in Q1 of 7% and I note that you have a goal of mid-to-high teens average growth for 24 and 25. Is it a fair assumption to assume that you're expecting teens growth from Q2 onwards?

And then the second question, also on China. I recall that in your Capital Markets Day earlier this year you said that you expect to increase this space by 50% by 2026. I was wondering how much do you expect space expansion to contribute to your top line in 2024 and 2025, please? Thanks.

Arne Freundt

Thank you, Wendy, for your questions. I think you sneaked in a third question, but it's totally fine. Number one, in terms of consumer sentiment, it is the same what we experienced. It's not an easy market, it's clear the consumer sentiment continues to be soft. But again, I think that's a bit of the beauty where we are, with only 1.5% market share, so we're not so dependent on the overall recovery of the market. I think we need to focus on grabbing market share from the others. But I can confirm also from our team that the market environment is still muted, but incrementally improving.

In terms of the way to think about China, I think the teens is a very good way to think about as the growth for the full year. We don't want to get into a situation that we are guiding on a country level per quarter, so I think I would like to leave it that these are the growth ambitious which we see also as very realistic for China, for the full year for 2024.

Also on the scale breakdown of the store expansion, for

sure, scale growth in terms of stores will also contribute to our growth ambitions, but it's too early now to break down the plans, as we are still in the beginning of the year and are having some expansions ahead of us.

Wendy Liu

Understood, thanks very much.

Operator

That was the last question. I would like to turn the conference over 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 earnings call today. If you have any questions left, you know where to find us, so do not hesitate to contact us. In the meantime, have a nice day and talk to you soon. Bye-bye.