

PUMA

Q4 & FY 2023

EARNINGS CALL

TRANSCRIPT



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

PRESENTATION

Gottfried Hoppe

Dear ladies and gentlemen, also from my side, welcome to PUMA's Q4 and full year 2023 earnings call. Our speakers today are Arne Freundt, PUMA Group CEO, and Hubert Hinterseher, PUMA Group CFO. We will start with the presentation and some opening remarks by Arne and Hubert, followed by a Q&A session. Now, without further ado, over to you, Arne.

Arne Freundt

Thank you, Gottfried, and also a warm welcome from my side. Today I will give you an update about how we progressed as a brand and from a product perspective in 2023, before I hand over to Hubert, to give you a financial overview about the year 2023. And then I finish with an outlook for 2024. With view to our Capital Market Day which is coming up, we'll try to keep today's update very compact and really focus on 2023 and 2024. While in the Capital Market Day we look forward also to present more on our strategic outlook going forward.

Without further due, let's dive into 2023. When we look at 2023, we clearly see that 2023 was a success for us. That because despite macroeconomic and geopolitical volatility, we delivered on our numbers. And I also believe when you look at our success, we once again demonstrated that PUMA is the challenger in the world of sports and sports culture.

Let me guide you through the successes which we had in the past year. In football we continued to gain market share across all markets. Only a few weeks ago we were able to celebrate together with the Ivory Coast the African Cup. And they won, clearly becoming the best team in Africa. When you look at 2023, we also need to mention once again Manchester City and winning its treble. Clearly with that title they were demonstrating that they are currently the best team in the world, also with the UEFA award which Pep was winning, it also demonstrated that he's currently the best coach in the world.

But our success on the club side is not only limited to Manchester City. If you look into every single league and world-wide, you do see that PUMA is the proud sponsor of either the number one club, the number two club or the third-best club in all the respective leagues. Be it the Premier League in England or be it the Serie A in Brazil or Netherlands, we have very, very strong teams. When you look at LaLiga, you currently see that we have Valencia and don't yet currently a club which is among the top three. But in this season Girona is playing an unbelievable season and

is the number two club in the LaLiga, which is a fantastic achievement for our PUMA team.

Today, earlier on the press call, we also announced that we further strengthen our strong set of clubs in the Bundesliga and welcome RasenBall Leipzig officially as of next season to the PUMA family. When you take all of this together, you see that we have become a very strong force in the Champions League. Seven out of 32 clubs are currently equipped by PUMA and the visibility and credibility is just growing stronger and stronger every single season. With all the current performance of our clubs and further strengthening, we've even the opportunity to become the number two or number one in the next season.

But that strengthening, which is important to us from a visibility and credibility point of view, we're not only doing on the license side from the clubs, but also on the player side. In 2023 we welcomed great players, like Jack Grealish, Xavi Simons, Cody Gakpo and Kai Havertz, all also great representatives in their national teams for the Euro Cup, as well as for the female side, Alex and Laia, joined the PUMA family. These players are so important for us because they're the face of our football silos for the playmakers, for the fastest players, or the new kings, like Xavi Simons. With that strategy, we've been hugely successful and further increased our market share in 2023 versus 2022.

Let's talk about basketball. 2023 was an important year for basketball, as we became the top three brand in signature and performance shoes in the US. It's an outstanding achievement, after only six years being back in US basketball. The reason why we achieved it, is that we really were able to provide a new angle and newness to the American basketball market. When you look at the NBA All-Star weekend, which only happened two weeks ago, you saw the way we do it, the PUMA way. We partnered up with Cheetos, with an exciting collaboration which was a great marketing activation, but also nice collaboration on the product side, providing great sell-through. Once again, Mac McClung was showing the great performance of our All-Pro Nitro shoe, winning one more time the dunk contest.

When you look at the roster of strong players which we have, you see that we have the next generation of the champs, the MVPs and world champs under our contract. And the most important one, especially from a commercial perspective, remains LaMelo Ball, with whom we have just launched in Q4 the third iteration of our LaMelo Ball shoe. Complex is rightfully also celebrating this one as one of the best sneaker designs in 2023, which also translates into the

commercial success of that franchise. To broaden our portfolio of signature shoes, in December we introduced our Scoot 1, the signature shoe from Scoot Henderson, and also introduced in 2023 our All-Pro Nitro, one of the best basketball shoes in the industry.

When we talk about running, we always need to remember that PUMA is only back into road running as of 2021. Before that, we did not have a credible road running shoe, but now with our new introduction of Nitro as of 2021, we have one of the best foams out there in the market. That foam enables you to beat your personal best. This is true, as also shown by Fiona and Dakotah two weeks ago at the US Marathon trials. Both of them qualified in the super-important competition as number one and number three. And Fiona had an unbelievable race, having the fastest ever debut and it was her first professional marathon ever, running the Deviate Nitro Elite.

When you look at our product assortment on the running side, we believe we have a very strong roster of shoes, not only for the professional runners on race days, with the Fast-R 2 and the Deviate Nitro Elite 3, but also for the everyday runners around the Velocity, Deviate and Forever Run.

With product being in very good shape for the running, what we do need to continue to build is the brand consideration for the runners. We have been out for such a long time, we need to build awareness and consideration with the consumers, both the athletes, as well as the everyday runners, that PUMA is a very strong, credible road running brand. The way we do it is to increase our visibility among the races and on grassroot activities, to get the shoes on our consumers. We're very happy with the success we have been seeing in the last few months.

Let's go onto golf. Golf saw a softer market in 2023, going out of the COVID crisis, where it regained strong popularity. In that soft market we were able to continue to grow our market share in the US and Europe. Our faces for PUMA Golf Cobra, as well as PUMA Golf, remained very strong, with Rickie Fowler and Lexi Thompson being the number one faces. And Rickie once again in 2023 was winning the PGA Tour, the sixth in his history. And we continue to provide great newness, also all in line with the fastest sports brand in the world, the AEROJET in 2023 and now the DARKSPEED in 2024.

When we talk about speed, we also need to talk about motorsport. In 2023 we used the opportunity to further

strengthen our number one position in Formula 1. When you look at the team standing at the end of the year, you saw that PUMA teams Mercedes and Ferrari were coming in as a strong number two and number three, and we further strengthened our presence in Formula 1 with the exciting Williams team. The Williams team is a young, fresh team and have the only American driver in Formula 1, so very interesting for us for the American market.

With Formula 1 coming for the first time in history to Las Vegas, we also used that moment to celebrate the Super Bowl on wheels. We had a lot of celebrities over there and also had a great pop-up shop with A\$AP Rocky, to bring our first capsule collection to life. But it was not only on the capsule collection side, also with Ferrari, together we had a strong offering around all the stores in Las Vegas, celebrating our Joshua Vides x Scuderia Ferrari collection.

When you take all of this together, how we have progressed on the performance side, it's clear that 2023 was another year where we strengthened our credibility in performance. And that is so important for us because that creates the basis for us to have the authenticity to also win in sports culture. Sportstyle is the segment where we are celebrating the different culture of sports. Be it basketball, be it football, be it running, this all comes together and we merge it together through interesting propositions for our consumers on the street.

On the Sportstyle side in 2023 we welcomed Rihanna, A\$AP Rocky on a global ambassador side, but we also strengthened our portfolio on the Korean side with IVE, the girl band. Which is also not only resonating very well in the Korean market, but also in the whole Asian market. When we talk about sports culture and Sportstyle, 2023 was all about making sure that we are corresponding to the trend which is currently terrace and skater out there, and then also prepare the ground for the new trends.

When we talk about the terrace trend, we have launched in November 2023 our Palermo proposition and put great faces like Dua Lipa, Jack Grealish and in Korea and Asia the IVE band, as endorsement for the shoes. I'm especially excited about the success which we have seen in Korea. In Korea we have only launched the shoe on 1 February, and it showed very strong sales from the get-go.

Also on the skate side, we took a new interpretation of our iconic Suede, made it chunkier to correspond to the ongoing skate trend in the market. While it's important that we continue to maximise what is currently on trend, and this is

what we're doing with the Suede XL and Palermo as the lead shoes among our offer for terrace and skate, it's even more important that we're also focusing on what will be the next big thing which will come. We all know that trend always goes in cycles and that the cycles for the ongoing trends of terrace and skate have already started way back in 2022. It's now already the time for us to focus on the next big thing and incubate what we believe will grow significantly in the years to come.

This is what we did at the end of 2023 and also started to do at the beginning of this year. With Fenty, together we brought new interpretations, new point of views for skate and terrace to the market. Then you saw we went to the New York Fashion Show happening earlier this month, where we put all the focus on Mostro, which we believe that this will be our lead shoe into igniting low profile again. And with A\$AP Rocky, we have one of the best, credible ambassadors for that shoe. Also, it will be time to ignite our low profile shoe around the Speedcat with a launch event in Korea, which we all know is very trend setting. And after that launch event, the sell-out has been just amazing for us, reconfirming that the time is right to incubate and scale later our famous Speedcat shoe.

Also speaking about motorsport and F1, A\$AP Rocky will also continue with a third silhouette on the low profile side, the Inhale, together with us. If you take all of that together, we saw exciting brand and product progress in 2023. Looking at this, it's not surprising that this translated in a very strong financial performance for the year 2023.

When we talk about 2023, we always need to look at the year from two numbers. 6.6% is the growth which we have reported, currency adjusted, and more than 8% is the underlying operational performance which we have shown in the last year. The gap, as we have explained to you also in our preliminary result, was due to the strong devaluation of the Argentinian peso by more than 50% in the mid of December. Obviously this had a major impact, using the hyperinflation accounting on Q4, as we needed to retranslate the full year of Argentina in only one quarter.

As this distorts a lot the channel and division analysis for Q4, we will focus on the following to explain Q4 on the regional side, as well as on the P&L side, and then discuss the channel, as well as the division mix on the full year perspective. Now let's go into the details for the full year of 2023. We posted a 6.6% growth, currency adjusted, with Wholesale coming in at 3.5%. Without the Argentinian impact, we would have shown a growth in Wholesale of

more than 5%. Direct-to-Consumer continued to show strong demand of being up by 17.5%, which is also driven mainly by the effect that you don't see the time lag between sell-in and sell-out in Direct-to-Consumer, as you have seen in Wholesale, where you clearly have that time lag.

On the division side it's the same picture as we have seen in the previous quarter. Footwear was driving the growth with 12% and Apparel came in flattish. It would have been slightly positive without Argentina, and Accessories came in with 3%. Then on the regional perspective, you see that our two regions, EMEA and APAC were posting similar growth around 13%, where the Americas came in slightly negative with minus 2%. Again, here we had two effects. One, the Argentinian devaluation, otherwise we would've been slightly positive, low single digits up, and obviously our biggest market, US, accounting for one-third of our revenue, has been soft for the full year 2023.

I think it's again something I would like to highlight, that despite the biggest market with one-third of our net sales being soft with minus 15%, we were able to achieve a growth of 6.6% for the full year. I think that speaks for the strength of PUMA and its very well diversified setup.

Now let's go through the quarter on a more granular regional perspective. Europe saw in Q4 a soft quarter with minus 9%. When we look at the minus 9%, we need to be aware that Q4 2022 was a very strong growth quarter, with plus 29%, so the base was very high to comp against. Secondly, we also saw in Europe a very soft environment with muted consumer sentiment and ongoing elevated inventory in the trade. At the same time, we continued to see a nice momentum of our Direct-to-Consumer channel, which we're posting high mid-single digit growth numbers. Again, here you see directly the ongoing momentum of our brand. EMEA came in nicely with 52% growth for the full year and North America ended the full year with 15% decline. This is slightly better than what we have expected because the outlook which we have provided was a high-teen decline.

Let's talk about Latin America, which finished the year with 29%. Obviously with Argentina being in Latin America, the fourth quarter was only showing 5% growth. Without the Argentinian devaluation impact, it would have been more than 40%. I think what's important when we talk about Latin America, let us look at the strong growth rates which we have realised in the last eight quarters. That also leads to the fact that we have achieved our mid-term plans for Latin America two years ahead of the plans. We're now working

on improving our warehouse capacities because with that increased level of sales, we need to prepare for the next level of growth. In H1 we're already moving into bigger warehouse to prepare for that one.

Greater China came in exactly as we had planned, around 20%, and APAC came in with 11%, with a softer Q4. The softer Q4 has been driven mainly by soft business in Japan and Oceania. In Japan the main impact was a soft Apparel business on the back of too-warm weather, while in Oceania it was more the muted consumer sentiment. India continued to provide very good growth at the high mid-single digits in a challenged quarter Q4.

Let me now hand over to Hubert, who will guide you through the operating performance, both for Q4 as well as the full year.

Hubert Hinterseher

Thank you, Arne. 2023 was for sure another year of high volatility in the business environment. Nevertheless, PUMA stayed on track and provided strong growth and profitability in line with expectation. So, overall, a successful year. Let's now have a look at the operating performance of the fourth quarter and the full year 2023.

As you know, Q4 was significantly impacted by the devaluation of the Argentinian peso in December 2023. Due to the peso devaluation, but also other unfavourable currency effects, reported sales were down 9.8% or 4% currency adjusted, and ended at 1 billion 982 million. Excluding the devaluation impact, the underlying growth, as Arne said, in the fourth quarter was up low single digits, on top of a record quarter last year. The gross profit margin trend in the fourth quarter was very strong and increased by 290 basis points to 47%. Overall, this increase is a consequence of the improved inventory levels, but also reflects the strength of our brand.

If we look into the underlying drivers, we faced strong headwinds from currencies, especially from the US dollar. These headwinds were more than offset by improved level of promotion, favourable pricing, improved sourcing prices and freight and the tailwinds from the distribution channel mix. Overall, strong achievement in the fourth quarter.

OPEX decreased by 9.7% to 837 million. This positive trend reflects the ongoing cost discipline, despite the negative impact from the continued growth of our DTC channel. EBIT more than doubled to 94 million. The strong gross profit margin improvement, together with our strict cost control led to the significant EBIT improvement. This improvement was realised, despite negative impact from the Argentinian

peso devaluation. Without the devaluation, the EBIT would have been even above 115 million, so a very strong result overall and this shows again our ability to succeed in a volatile environment and compensate external headwinds.

As you have seen, currencies created a significant negative impact in 2023. Therefore, I want to give a little bit more detail how currency exchange rates impacted our results before we look into the full year. There are in general three areas, sales, gross profit margin, but also to a lower extent OPEX, where we can see the impact. In sales we had in 2023 a negative impact of more than €400 million related to sales translation as we translate the local currency P&Ls into euro.

On the gross profit margin we saw negative impact of around 250 basis points, mainly related to US dollar hedging positions, but also small other currency impacts. We usually hedge 12 months forward and this is why we had to compensate this negative gross profit margin impact from the US dollar, as the US dollar hedging rates deteriorated. On the OPEX side, we can see a small impact of approximately 20 basis points and this is due to the fact that we are more exposed to foreign currencies in sales than in OPEX and with a negative trend on the top line, that as a consequence also had a negative impact on the OPEX ratio.

Let's now have a look at the operating result of the year 2023. Sales increased 6.6% currency adjusted to 8,602 million, driven by the brand's continued brand momentum and robust demand for our product, especially in the DTC channel. Reported sales increased 1.6% and negative currency translation effects amounted, as said, to more than 400 million. Excluding the additional negative devaluation impact of the Argentinian peso, underlying operating growth was more than 8%. Despite the volatile environment, we delivered strong growth in 2023.

Gross profit margin improved by 20 basis points to 46.3% which is a strong result, given the significant currency headwinds. Looking at the overall trends, we can see we made further progress in Q4, which helped to improve the gross profit margin on a full-year basis. If we look into the breakdown of the full year, we can see again strong headwinds from currency effects, as mentioned, especially from the US dollar. Headwinds from the ongoing industry-wide promotional activities which weighed gross profit margin, especially in the first three quarters. A positive impact from pricing, sourcing prices and freight were neutral on a full-year basis, while regional and channel mix had a positive impact, as well.

The OPEX increased 3.2% to 3,365 million. OPEX ratio increased by 60 basis points to 39.1% of sales. The increase was driven mainly due to sales related distribution and variable sales cost, the growth of our DTC channel and continued investment in marketing. This was partially offset by operating leverage and other cost areas, due to the strict cost discipline.

EBIT decreased slightly by 3% to 622 million. A strong performance, considering the significant pressure from the exchange rates, with a negative impact on sales, but also the negative impact on gross profit margin. Excluding the devaluation impact of the Argentinian peso, we would have ended even above last year's level. As a consequence of the lower EBIT, EBITDA was down 3.2% and net income ended at 305 million, down 14%, also impacted by the negative peso devaluation in December 2023. Excluding this impact, net income would've ended approximately at last year's level.

Let's now have a look at the balance sheet KPIs. Inventories were down 20% to an appropriate level of 1.8 billion. The development was a result of our actions taken to manage inventories, but also due to last year's high comparative base. Trade receivables increased 5% to 1,118 million. Overall, the receivable increase was slightly higher than sales growth, as sales grew faster in regions where we have usually longer payment terms, like EMEA and Latin America. Trade payables decreased 14% to 1.5 billion. The decline goes hand-in-hand with the reduction of the inventory levels. As a consequence, working capital was up 8% to 1,177 million. Cash and cash equivalents increased by 19% to 553 million and, as a result of the actions taken to manage the inventory, the free cash flow more than doubled to 369 million, a very strong achievement.

So, in a nutshell, in 2023 we were able to achieve sales broadly in line with expectations. EBIT was fully in line with our expectation. We were able to bring back inventory to a normal level and we're also able to deliver a strong increase in the free cash flow. Because of the strong underlying operating business development and the strong free cash flow development, the management board and the supervisory board will propose a dividend of 82 cents to the AGM, which equals 40.3% payout ratio. With that, I would like to hand back to Arne.

Arne Freundt

Thank you, Hubert. Let me now provide the outlook for 2024. As we have already indicated during our preliminary results, we are aiming to achieve mid-single-digit growth for the year 2024 on a currency adjusted basis and improve our

profitability to 620 to 700 million for the full year. Now let me guide you through the environment, how we see 2024 shaping up, what are the assumptions which we're taking.

Number one, we assume that there's no further escalation of the geopolitical conflict, as we see it today. We're assuming also that the macroeconomic headwinds are continuing to stay as they are, same on the consumer sentiment side. On the economy side we assume that the Chinese economy will see a steady recovery, while the US and the European economy will stay broadly unchanged. The same is true for the adverse currency effects.

The main drivers for us to achieve our mid-single-digit growth for 2024 are the following. We continue to see a strong momentum in our performance category and we also see a strong momentum continuing in our foundation of our Sportstyle business, what we call Core. The over-proportional growth from a regional perspective will come from China, as well as our other emerging markets. And we see also the US returning back to growth in the second half of this year.

On a channel level, we anticipate that Direct-to-Consumer is continuing to drive the growth. Again, there's no change in strategy, but it's more driven by regional trajectory. As we said, Direct-to-Consumer is more present in the emerging markets and if they are growing over-proportionately, so will also Direct-to-Consumer. Secondly, we continue to see that there is no time lag between sell-in and sell-out in Direct-to-Consumer. And thirdly, as we also have a significant outlet fleet in our Direct-to-Consumer channels, which are now enjoying in 2024 fresh inventory, while in 2023 they focused mostly on clearing the excess stock, we also will see a better momentum than in the outlets for 2024.

As we already mentioned for on the assumption side, we continue to expect adverse currencies in 2024. Similar as Hubert has guided you through the 2023 impact, let me quickly guide you through the impact, as we see for 2024. There's going to be a sales translation effect of up to 200 million on the top line from the local currencies into Euro. On the gross profit margin side, we're expecting pressure of around 100 basis points. This is not coming from the euro/USD hedge, as we're expecting this broadly to be in line or neutral versus last year. This is coming more from the other currencies, like the Japanese yen, the Chinese renminbi, as well as the South African rand. As a consequence to the adverse currency pressuring on the top line and the exposure that we have on the OPEX side on the

euro currency, we expect a similar decline of 20 basis points on the OPEX side.

Let me shed a bit more light on how we see the gross profit margin evolving and improving in 2024. As already mentioned, we continue to expect headwinds on the currency side, which are going to be pressure of up to 100 basis points. Then we expect an improvement on the gross profit margin side from channel mix, which is basically a swap between the OPEX and the gross profit margin side on DTC versus Wholesale.

When we go down to the other improvements which will drive our improved profitability on the gross profit margin side, number one is promotions, number two pricing and, lastly, it's the regional mix. On the promotions side, we're expecting Q1 still to be more flattish versus last year and then see an improved promotion, so they will turn into tailwinds as of Q2 this year. On the pricing side, we're expecting higher ASPs on average as a result of the favourable product mix, selling more high-price price point.

Then I also should talk about the freight, as we only anticipate a flattish contribution in 2024. In H1 we should realise some savings on the freight side, as despite the surcharges, we are comparing against a higher freight rate in H1 2023. When we go into H2, we were realising historically low freight rates and we anticipate that in light of the Red Sea crisis, there might be higher freight rates again for the second half of the year. Overall, taking these two effects together, we expect the freight will have a flat contribution to the gross profit margin.

Now let me shed some light on the OPEX side. As I said, the channel mix has a swap effect between gross profit margin, where we see an improvement, and a deterioration then on the OPEX side. Marketing and other OPEX we expect to be flat, with marketing around 10%, and other OPEX is also flattish. But the other OPEX, what is the composition of that? We see basically four effects. Number one, we see a negative inflation effect. The high inflation of high single digits in the year 2022 and 2023 are obviously providing some cost pressure on our OPEX line.

Then we also see some one-off ramp-up costs, as we are going live, as I mentioned earlier, in Latin America with major new warehouses, like in Mexico. But also in the US, we are preparing for the next level of growth with new warehouses going live, which will then lead to some certain inefficiencies in the first months due to double operations of the warehouses, as well as ERP systems will go live in the

first half of the year.

The FX impact I already mentioned and then obviously we'll try to compensate that, and will compensate these negative effects by productivity gains, so that we overall see flat other OPEX for the year 2024.

If we take all of this together, you see the outlook comes in at mid-single digit for the top line with an improved gross profit margin and increased OPEX ratio, and then an EBIT between 620 and 700 million. I think what is important to note again, that in 2024 we continue to operate in a challenging trading environment. We expect that quarter-over-quarter we will see an improvement both on the top line, as well as on this bottom line. On the top line we are expecting a softer first half with a flattish Q1 and then on the bottom line we will also see a quarter-over-quarter improvement. It's important to highlight again that the first half of the year we'll still see some negative pressure from the euro/USD hedge, as it's broadly neutral on the full year, but we see the pressures in the first half of the year.

When we look at the mid-single-digit growth, we feel very confident of achieving that because it's fully backed up with our pre-orders going into this year. That was the outlook for 2024 from a financial perspective. Looking at 2024 from a product and brand perspective, we are very excited about this year of sport to come, with great product newness and the first brand campaign of PUMA in the last ten years. We will for sure celebrate the year of sport as the year of speed. For all of you who will join us physically later this week, we'll also share with you a first teaser of our brand campaign, as well as open our showroom for a confidential preview of our spring/summer 25 collection.

Now let me wrap it up. 2023 was a year where we progressed. It was a year where we delivered strong financials on the sales and EBIT side, and improved significantly our inventory, as well as our free cash flow. It was a year where we progressed well in executing our strategy and laid the foundation for future growth. It was a year where we continued to gain performance credibility and where we built a pipeline full of exciting newness for the year to come. This would all not be possible without the strong support and trust from our supervisory board, as well as the best team in the industry, so I would like to take the opportunity to thank the PUMA team, as well as the supervisory board for their great work in 2023.

Also for 2024, I can rest assure you that PUMA will continue to be the challenger, to push sports and sports culture

forward. And now I look forward to our Capital Market Day that's coming up on Thursday and Friday, to welcome you in Herzogenaurach and guide you through all our strategic priorities in detail. Thank you very much for your attention and now I hand back to Gottfried.

Gottfried Hoppe

Thank you very much, Arne and Hubert. We're now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you're using speaker equipment today, please lift the handset before making your selection. Anyone who has a question may press star followed by one at this time. In the interest of time, please limit yourself to two questions only. One moment for the first question, please. Our first question comes from Adam Cochrane, Deutsche Bank. Please go ahead.

Adam Cochrane

Good afternoon. Thanks, guys, for the detailed outlook comment. A couple of questions, if I may. You talked briefly about the performance in EMEA suffering from some industry over-stocking. Would you be able to talk a little bit more about that, how far through any destocking we are and how that progressed as we've gone into the first quarter of this year?

And then secondly, in terms of the US, I know we talked before about the potential change in some of your distribution mix away from outlets and lower price point areas. How far has that progressed and where are we on that journey? Thanks.

Arne Freundt

Hi, Adam, thank you for your questions. Let me start with your question on Europe. What we see currently in Europe is for that the consumer sentiment is also muted on the back of the inflation and the overall economic situation. That we anticipate that the consumer sentiment is also carrying forward into Q1. I think we saw that in January, that the trade and the traffic overall in the market have been quite soft, but we already saw an improvement in February, so overall, we project that Q1 should be more in line with what we have seen in Q4. And then from there on, we see quarter-over-quarter and improvement.

When we talk about the US and our off-price business, when you look at our minus 15% decline, I think it's important to highlight again that the Direct-to-Consumer continued to provide the growth in that challenging market. Wholesale was over-proportionately challenged and the main contribution of that decline in Wholesale was coming from off-price. Let's say our off-price business is significantly smaller than it has been the year before, but it will take more time, multiple years, until we have right-sized our off-price business to what I regard as a healthy level. Again, how we will achieve it, we will maintain our current exposure which we have in the off-price business, and then grow our more elevated distribution. Then over time that will lead that relatively the off-price business has the right share it should have. I hope that has answered your question.

Adam Cochrane

On EMEA, you talked about over-stocking. Was that in relation to the industry, rather than a PUMA-specific point or both?

Arne Freundt

What we have seen in Europe, that we had continued high promotions, which always is a clear indicator that there is a lot of inventory in the market and continues to be. So, that's something which I would regard for the whole industry.

Adam Cochrane

Great, thank you.

Operator

The next question comes from the line of Jürgen Kolb, Kepler Cheuvreux. Please go ahead.

Jürgen Kolb

Thank you very much, guys, and indeed also a big thank you for the detailed outlook for 2024. Two questions. First of all, I think on the Reuters interviews or in the press conference, you mentioned that you were not able in the last few years to build brand strength around PUMA. I was wondering, A, what has gone wrong or what didn't work and, B, how are you planning to make that work in the next couple of years?

The secondly, especially on the running side, as this is obviously quite a large category, how far do you think you are currently with making your way into the specialty run shops? Where are you from this whole perspective of making the PUMA brand viewed and seen again in the running scene? Thank you.

Arne Freundt

Hey, Jürgen, thank you very much for your questions. In regards to brand strength, I was showing earlier the brand funnel in the press conference and we will also have a full session on this one during the Capital Market Day, to exactly guide you through where we are from a brand perspective and also guide you through the root causes. If I simplify

overall, we can exactly measure always our brand strength by looking at our brand funnel. There we do see that we have from a brand funnel perspective, you look from the top of the funnel, which is the awareness, and then in the mid funnel you're about the consideration, the purchase intent of the consumer, and it ends up in the loyalty.

We can exactly measure, and it's something which we do across all the countries, every single quarter where we are. And we do see globally speaking that the brand awareness of the consumer is on par or slightly below the competition. But when we go down further in the brand funnel, we see that we are losing versus the competition. That means that in the past we were not able to grow the brand strength in line with our commercial success. When we talk about the consideration and the purchase intent, the key factors are how clearly were we able to build the brand in terms of the distinctiveness, the association, the familiarity with the consumer. And here we still have a lot of areas of improvement and we will guide you through in the Capital Market Day exactly of our gameplan, how we will achieve this.

To simplify a bit on the big-level messages, our consumer effectiveness has not been there where it needs to be. And to improve the consumer effectiveness, also we need a different approach from product campaigns to brand campaigns. Product campaigns which we have done in the last ten years are great to drive commercial, short-term success. But you need to balance that with brand campaigns because that is the only way how you can long-term build the equity and the asset of a brand for the sustainable growth trajectory.

On your second question on running, we are progressing very well. As I said, we're only back since three years into the running sphere. We sincerely believe that we have one of the best running shoes out there. Again, I mentioned already the marathon trials in the US. I think it's a remarkable success that number one and number three were PUMA athletes running the Deviate Nitro Elite 3. From a performance perspective, we are there, but it's also very encouraging for us that now, after three years, we have re-entered the top ten of performance running brand. Again, I need to remind you, before 2021 we did not have a credible running shoe, so we were not in the top ten, so now we have re-entered it.

The other exciting news is we've become the fastest-growing performance running brand in Europe in 2023. We feel that we are making huge waves there. Again, it is

important that we build the consideration among our consumers. And I already told you that we're very active on increasing the visibility not only at the professional races, but also at the everyday races. Thank you.

Jürgen Kolb

Very good, thank you.

Operator

Our next question comes from the line of Warwick Okines with BNP Paribas Exane. Please go ahead.

Warwick Okines

Thanks very much. Good afternoon. Two questions, please. The first is how do you expect your China margin to develop in 2024? You're still a long way below 2019 levels and it didn't really progress perhaps as far as I thought it might do in the second half of last year.

Then second question is in your annual report you show total commitments from license and advertising agreements went up by around 50% last year to 1.9 billion. Could you just explain why they increased so much? Thank you.

Arne Freundt

Thank you. Let me take the first one on China and the profitability. Yes, I think we already took steps forward in increasing the profitability, but I think it's also important to recognise, and that is something which we did see, also during Chinese New Year, that the market continues to stay very promotional. I think it's also an equation of when the whole market has reached clean levels. I think when we look at our brand side, we feel very comfortable with the inventory levels which we have. When we talk also to our wholesale partners which are running our partner stores, we know that there's still elevated inventory levels on their books, which is putting certain pressure on the promotions, on the gross profit margins. I think the improvement of the profitability will for sure be an equation of a cleaner market. And then for us, it will also depend on the speed of recovery because we need to generate a lot of operational leverage in China going forward. I think Hubert will take the second question.

Hubert Hinterseher

Regarding the license obligations, I think you're referring to the amount in the annual report. We have extended quite an amount of long-term contract yields, so signed new long-term contracts with new partners. You have seen the amount of new ambassadors we have added, signed Formula 1 as a contract, prolonged with Ferrari. So, there were a large number of contracts which were extended and this is leading to the increase of the license and promotional contracts. I cannot disclose details, of course, but that was the driver.

Thirdly, on our partnership with Rihanna, I think when you look at the past few months it was all about preparing the buzz and the hype, so it was very focused on creating great marketing moments, to prepare the market for the newness to come. We are very happy with the first month of our collaboration and have already plans lined up for 2024 and beyond. We are very excited about the newness to be dropped later this year.

Cedric Lecasble

Thank you, Arne.

Arne Freundt

Thank you.

Operator

The next question comes from the line of Anne-Laure Bismuth, HSBC. Please go ahead.

Anne-Laure Bismuth

Hi, I have three questions, please. The first one is on the current trading. You mentioned that Q1 could be probably flattish. Would it be possible to have a bit of guide variety by region of the current trading?

The second one is about the inventories. You flagged in the press release that you cleared the inventories to healthy levels, so is it also including the US? Have you clean level of inventories in the US and is it for PUMA also, with other distributors?

And the final one is about the Speedcat. That has been relaunched in South Korea recently and when is it going to be launched globally? Thank you.

Arne Freundt

Hey, Anne-Laure, thank you for your questions. Current trading, let me share few information. Let's start with the US, which for sure saw a very soft start into the year of 2024. Let me first talk about the market and then I can shed a bit of light for PUMA. I think what we have seen, it has been even more promotional than January 2023. What we know from our market information is that that was a month where traffic was down and also sales in units were down up to high single digits, what has been reported in the market intelligence what we received. When we look into the US market, we continue, as I said, to see their H1 to be softer, while their H2 we plan to return back to growth. In that environment, we will continue to see some softness in the Wholesale side, but on the Direct-to-Consumer side we continue to see that we are able to realise some growth. While it's important, also, on the Direct-to-Consumer we are focusing on improving our gross profit margin and trying to step away from promotions, as we are seeing that our inventory levels are now back to normal.

Also, January was for the European market a soft start into 2024. I think when we look now going into February, we see

that the trade has become significantly better. But the start into January has been soft across basically the whole board, the countries, as well as the categories, both Performance as well as Sportstyle. In that environment, also we continue to realise growth on the Direct-to-Consumer side, both in bricks and mortar, as well as in e-commerce. But we see continued first softness in Q1. Then based also on our order book, we believe quarter-over-quarter there will be an improvement in Europe going into this year.

On the China side, I mentioned it already earlier, Chinese New Year continued to be very promotional. As you know, we always need to take January and February together, we still need to clock in three more days from February, so I don't have the full picture. But also here, from a Direct-to-Consumer perspective, we have the best data available, we see that we can continue to grow in that environment.

Talking about the inventories, yes, Hubert mentioned we are down minus 20%, so on the coverage basis we feel we're on a normalised level. Again, there are still some retailers on more elevated stock levels. China, I mentioned as one example, there's still a few accounts in US sitting on elevated inventory levels, but from a brand perspective, as a brand company, we are where we need to be.

The last question from you was around the Speedcat, where we saw very strong success with our relaunch of the Speedcat in Korea. I think we all know about how important Korea is when it comes down to trend setting, that we always see it earlier there. The current plans are that we are introducing the Speedcat in a broader distribution in early 2025, but obviously we are always keeping ourselves on our toes, to see how fast that trend evolves. So that if something happens, that we can always react very quickly. But the current plans is that in course of 2025 we'll go and do a broader distribution with the Speedcat. So, current focus is on incubation, and that is exactly what it needs to prepare the consumer and the ground for that franchise. Thank you, Anne-Laure.

Anne-Laure Bismuth

Thank you.

Gottfried Hoppe

Anne-Laure and Cedric, thank you very much for sneaking in the three-question approach. In the interest of time, let's maybe stick to two questions only.

Operator

Our next question comes from the line of Piral Dadhania with RBC. Please go ahead.

Piral Dadhania

Thank you. Afternoon, everybody. My first question is on whether you can provide a Q4 revenue growth rate for

Footwear, Apparel, if you exclude IAS 29?

And then my second question is on the outlet channel and product that is made for outlet. I think, Arne, you just said that one of the focuses for you in 2024 is to improve the gross profit margin in your US DTC business. Is that driven in part by you now have product that's being made for outlet, which carries a more attractive margin, versus using it as a clearance channel? As well as just reducing the absolute level of promotions. Thank you.

Arne Freundt

Thank you, Piral, for your questions. On the second question you almost answered yourself. Exactly, so yes, the gross profit margin improvement from outlet will partially come from a better stock position. Because if we can buy for outlet, then we can decide better than if we just need to digest the excess stock, so it can make it a better fit for all consumers, so that will for sure be one driver of sales and gross profit margin improvement. The second one, we just need to be honest, that we saw elevated promotion across the whole industry, affecting all the outlets. We also assume that the more we progress into the year, that we can also step away further from the promotions. This is also something which we started to do earlier this year, so you already see the gross profit margin improvement in our Direct-to-Consumer. Hubert will take your question on Q4.

Hubert Hinterseher

Hello, Piral. You asked the sales breakdown excluding the peso impact. Footwear was up low- to mid-single digit, approximately 4%, slightly decline in Apparel in the fourth quarter, and Accessories was high single digit up, and that is totally a low single digit, excluding Argentina.

Piral Dadhania

Perfect, thank you.

Operator

Our next question comes from the line of Andreas Riemann, ODDO BHF. Please go ahead.

Andreas Riemann

Good afternoon. Two questions. First one on your guidance for 24, you said mid-single-digit sales growth and that is covered by pre-orders. Can you give an indication how much of the Wholesale business is roughly covered by pre-orders? Question number one.

And number two, coming back to LaLiga, you mentioned Girona in a comment. Was it meant to be a hint, that you don't want to sign Barcelona?

Arne Freundt

Nice try. I was just trying to celebrate the success of Girona, which played an unbelievable season. I think there's always that love for the underdogs and I think we need to give them the recognition they also deserve.

Going back on the pre-order level commitments which we are having, let me just shed some light. We now have a fixed basically Q2 and Q3 fully in our order book. The order taking for Q4 basically starts mid of February, roughly, and then goes up to mid of April. But when we talk about the coverage, that also varies country by country. But broadly, you can say that 70 to 80% of our business has been always covered by the pre-orders in the Wholesale channel.

Andreas Riemann

Okay, thank you. And I'll try on Barca in two days again.

Arne Freundt

Are you a Barca fan?

Andreas Riemann

Not really. The question actually would be from a technical perspective, if you do such a deal, you've got 100% cost immediately. Whether you also have 100% of business immediately or whether that has maybe a potential [58:58 unclear] I think is the real question behind it, not whether you're going to sign it or not.

Arne Freundt

When you just in general sign these kind of deals, you can always assume that the first half of the season you always see a higher sales due to the units you're selling on replica. It's just natural because when the season starts is the peak when you are selling the jerseys. And then you would see a more equal split of the costs, so I think the split of the sales and the cost is slightly distorted with the first half of a season, not of the financial year, with the first half seeing higher sales and then only an equal share of the cost. Just technically speaking, how these kind of deals work, just driven by the demand of the fan, which is very natural, based on the excitement of the season start.

Andreas Riemann

Okay, thanks. And sorry to Gottfried for asking a third question.

Gottfried Hoppe

That's all right.

Operator

The next question comes from the line of Monique Pollard with Citi. Please go ahead.

Monique Pollard

Hi, afternoon, everyone. Thanks for taking my questions. Just two, the first one, when I'm looking at the regional results, I see you mentioned India fourth quarter mid- to high-single-digit growth. That's pretty big slowdown versus what we've been seeing, really strong sales of 50% plus in India more recently. Is that all macro and the impact of food inflation, etc., spiking in December? Or is there anything else going on in India, in terms of the competitive landscape, for instance? That's the first question.

Second question was just around the commentary you made in the results release, that you're expecting for 2024 the net

income change to be in line with the operating results. But just wanted to understand whether that's on an ex-hyperinflation basis because obviously there's a negative impact on net income this year from hyperinflation, and presumably that should reverse out as we go into 2024?

Arne Freundt

Hey, Monique, thank you for your question. I take your India question and then I refer to Hubert for the net income. Let me shed a bit more light on India because I think we need to be all clear of what's going on currently. The Bureau of Indian Standard has issued a new legislation, which means that every footwear being sold in India going forward need to be BIS certified. That means there can be no import into the Indian market anymore if you are not BIS certified anymore. The current situation is, to our knowledge, mostly the local factories are being BIS certified and there's a certain time delay in the certification of international factories. With our strong presence in India, we have always focused on local-for-local, not only from the sourcing perspective, but also from the design and develop perspective. So, we are in the fortunate situation that we have a very strong local-for-local setup, complying to that regulation, already coming into fruition in 2024.

I think with the volatility in the legislation and the clarity of what is allowed and not allowed, there was some uncertainties, also pressuring the consumer sentiment and the trade in the course of the second half of this year. But overall, I continue to be very confident on the Indian market. Again, that BIS regulation for 2024, it will for sure play into our cards because we have locally the strongest setup with design, development and sourcing, in terms of capacities. Now let me refer to Hubert, to talk you through the net income.

Hubert Hinterseher

Talking net income quick, the assumption for 24 being in line with the EBIT development, includes further hyperinflation impact. Of course, depending on the timing when inflation really happens, it's very difficult to project what will be the outcome. Other currency effects, also not so easy to plan, and that's why we kept the net income in line with the EBIT. Overall, it's fair to say that maybe the one-time hit we had in 23 will not completely anniversary in 2024. I would call it more a prudent assumption for the net income outlook.

Monique Pollard

Understood. Thank you very much.

Operator

The next question comes from the line of David Roux with Bank of America. Please go ahead.

David Roux

Good afternoon, gentlemen. Just one question from my

side. Just a bit of clarity on the US Wholesale business. Based on what you see in your order books, when do you expect the US Wholesale business to return to growth? Thank you.

Arne Freundt Thanks for your question. I expect to return back to growth latest in Q3.

David Roux Very clear, thank you.

Operator The next question comes from the line of John Kernan, TD Cowen. Please go ahead.

John Kernan Excellent. Thanks for taking my question. Maybe a bit of a follow-up on the previous question. How would you characterise the competitive environment, particularly in US Wholesale? Here in the States we've seen competition for space and consumer preference really pick up recently. Just curious how you're reacting and navigating the competitive environment in the US, particularly in the Wholesale channel.

Arne Freundt Thank you very much for your question. I think what is always important is that we are clear about where we currently stand in terms of our competitive position in the US. We have a market share which is currently below 3%, so that means that we have a lot of room to improve. Obviously we see that we have been over-proportionately challenged in 2023, for multiple reasons, in the US. And we will further talk about this one also in the course of the Capital Market Day. But it has always been a highly competitive market and I think we have not fully played out our strength to the market. I think when you look at the market share of below 3%, there's only one country where we have even less market share, and that is China. That's why I said with this low market share, we need to change the strategies because the success and the sustainable success which we have seen in the other countries, we were not able to realise in these two markets. So, now me, taking over these countries in my new role, that's why I called for a new China-for-China and US-first strategy, to change this and realise the opportunities which are ahead of us.

John Kernan Understood. Maybe just one quick follow-up to that. How would you characterise the risk tolerance of your Wholesale partners? It feels like inventory levels are fairly lean right now, certainly for spring/summer. What's the opportunity as we get into the back half of the year, particularly around back to school and holiday, if demand ends up maybe exceeding plan for a lot of folks? Is there opportunity for a significant amount of reorders and for an improved environment in the back half of the year?

Arne Freundt

Unfortunately, I don't have that glass ball to see how the demand situation further evolves in the US. But from a factual point of view, obviously you're right, the whole industry has been over-inventoried. Also, the retailers are confirming that they believe also on their side until end of Q1 they should be in a cleaner state. And then it's more a question on how the demand has been picking up. As said from the demand perspective, January was soft in the US, also with the high promotions, traffic down, less units being sold. Also the projections currently from external sources are projecting a more flattish US market. I don't have better information than that market intelligence yet, so I don't want to speculate too much about potential reorders. But if this happens, you can always trust that we are the fastest and most agile team out there, to react and realise these reorders.

John Kernan

Excellent. Thanks for taking our questions.

Operator

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

Gottfried Hoppe

Thank you very much, Arne and Hubert. Ladies and gentlemen, thank you also very much for taking the time to participate in today's conference call. For those of you who will participate in our CMD in person, we're really excited to welcome you in Herzo on Thursday and Friday. As a quick reminder, for those of you who will not be able to attend the CMD in person, you will be able to follow the events online via webcast. The dial-ins can be found on our IR website in the CMD section. In the meantime, have a nice day, safe travels and see you soon.