

Hugo Boss

Personal & Household Goods

2007-11-06

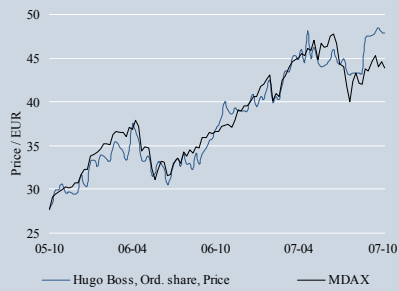
Applied disclosures can be found in the appendix

Buy

Fair Value EUR53.00

Price EUR47.90 (Closing price as of 2007-11-02)

Price and rel. Performance



Market Data

Reuters	BOSG_p.DE
Bloomberg	BOS3 GR
Market cap €bn	3.2
Free float %	26.1

Key Data

Yr.end 12/31	2006	2007e	2008e
Revenues m	1,495.5	1,652.6	1,801.3
Net profit m	128.7	150.2	177.7
Adj. EPS	1.85	2.17	2.57
PER	18.6	22.0	18.6
EV/EBIT	13.9	15.5	12.9
EBIT mgn. %	12.3	12.9	14.0

EPS CAGR 06-09e: 16 %

Next Events

Quarterly results	2007-11-06
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MARGINS ON THE MOVE

INVESTMENT CASE AND PERFORMANCE TRIGGER

Comparing Boss' operating margin level to peers, as well as to its own history, we see tremendous margin potential for the company. The fact that in the year 2000 Boss already achieved 17.7% EBIT margin (i.e. more than 500 bp more than in 2006), despite a lower gross margin (!), illustrates this fact. The new majority shareholder Permira should increase the pressure to tap the margin potential of the Columbus program and the strategic growth drivers Boss Woman, accessories', and directly operated stores. We therefore rate the stock **buy** with a fair value of €53.

FACTS

___ Q3 figures have slightly beaten consensus. Management confirmed its guidance of 10-12% sales growth and 12-15% EBT growth for the full year.

ASSESSMENT

___ The figures confirm our scenario of meaningful potential in EBIT margins going forward. Group EBIT margins in the quarter improved some 120bp. The main driver was Boss woman. In the first nine months, Boss woman generated a 500bp improvement in EBIT margin.

___ After Q3 results, our full year results look rather conservative and we put them under review for an increase. We fully confirm our buy recommendation.

VALUATION

___ Boss currently trades at a premium of about 10% to its peers, which we consider justified given the higher growth rates we forecast for Boss.

in EURm	cons	Q3 2007a	Q3 2007e	% change
Sales	539.3	534	539.3	6%
Gross-profit		305.7	301.9	11%
Gross-margin		57.2%	56.0%	
EBIT	123.0	124.7	119.5	14%
EBIT-margin		23.4%	22.2%	
EBT	122.0	122.2	117.5	14%
Net income	88.6	89.2	85.3	14%
EPS (in €)		1.31	1.23	17%

Hugo Boss - P&L (Total Costs)

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Sales	1,309.4	1,495.5	1,652.6	1,801.3	1,963.4
Invent. changes & intern. prod. Assets	19.5	22.0	0.0	0.0	0.0
Cost of material	-597.2	-663.0	-694.1	-751.1	-812.8
thereof: Personnel costs	-238.2	-277.8	-314.0	-345.8	-380.9
Other operating income/expenses (net)	-289.3	-343.4	-376.9	-394.5	-424.1
EBITDA	204.2	233.4	267.5	309.8	345.6
thereof: Depreciation	-41.3	-49.0	-54.0	-58.0	-61.5
EBIT	162.9	184.4	213.5	251.8	284.1
Interest result	-4.8	-4.9	-5.0	-5.0	-5.0
Profit or loss on ordinary activities	157.2	179.9	208.5	246.8	279.1
EBT	157.2	179.9	208.5	246.8	279.1
Taxes	-49.0	-51.2	-58.4	-69.1	-78.4
Profit / loss for the year (cont. operations)	108.2	128.7	150.2	177.7	200.6
Net profit	108.2	128.7	150.2	177.7	200.6
Adjusted net profit	108.2	128.7	150.2	177.7	200.6

Key ratios and figures

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Valuation					
PER	17.1	18.6	22.0	18.6	16.5
P/BV	4.0	4.8	5.9	5.2	4.5
Dividend yield %	3.2	2.9	2.5	2.9	3.1
EV/Sales	1.5	1.7	2.0	1.8	1.6
EV/EBITDA	9.6	11.0	12.4	10.5	9.2
Sustainable FCF yield %	7.1	4.3	4.3	4.6	5.2
Data per share					
EPS (reported)	1.54	1.85	2.17	2.57	2.90
adj. EPS	1.54	1.85	2.17	2.57	2.90
Dividend	1.01	1.20	1.40	1.50	1.50
Book value per share	6.68	7.10	8.12	9.30	10.71
Growth rates %					
Sales	12.1	14.2	10.5	9.0	9.0
EBITDA	18.3	14.3	14.6	15.8	11.5
EBIT	20.4	13.2	15.8	17.9	12.8
Net profit	22.7	18.9	16.7	18.4	12.9
adj. EPS	23.1	19.7	17.5	18.4	12.9
Margins %					
Gross	55.9	57.1	58.0	58.3	58.6
EBITDA	15.6	15.6	16.2	17.2	17.6
EBIT	12.4	12.3	12.9	14.0	14.5
Net profit	8.3	8.6	9.1	9.9	10.2
Expense ratios %					
Personnel cost to sales	18.2	18.6	19.0	19.2	19.4
Cost of material to sales	45.6	44.3	42.0	41.7	41.4
Depreciation to sales (Total Cost)	3.2	3.3	3.3	3.2	3.1
Tax rate	31.2	28.5	28.0	28.0	28.1
Other ratios					
EVA @ SOP	76.1	81.5	86.2	87.6	90.0
Interest cover	-30.7	-30.5	-41.2	-47.7	-53.2

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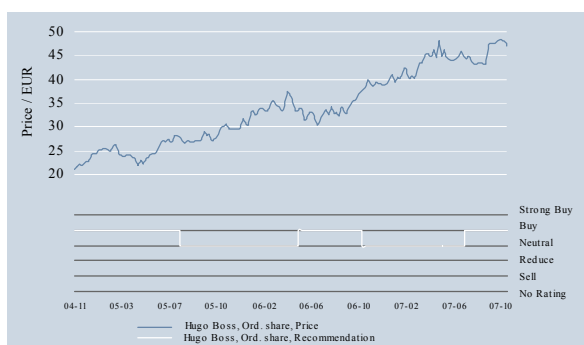
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Buy	174	45.4	34	59.6
Neutral	140	36.6	16	28.1
Reduce	26	6.8	0	0.0
Sell	1	0.3	0	0.0
No rating	24	6.3	2	3.5

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