# A critical analysis of how companies in Germany finance themselves – using the example of Hugo Boss AG

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# Contents

# Financing in Germany

- **Family and friends:**

Friends and family are the most readily available source of equity finance for young companies.

- **Business Angels:**

Business Angels are wealthy private individuals, who are often successful entrepreneurs and businessmen in their own right.

- **Venture Capitalists:**

Venture Capitalist funds invest in early-stage companies with high growth potential and projecting high investment returns.
They usually have active roles in the companies they invest.

- **Crowd Funding:**

Crowd funding is the use of small amounts of capital from a large number of individuals to finance a new business venture.

- **Government Grants:**

Government grant is a financial award given by a federal, state, or local government authority for a beneficial project.

https://www.afme.eu/portals/0/globalassets/downloads/publications/afme_growth2015_sme-1.pdf page 7, 12, 20, 22, accessed on 29.04.2021 at 09:00 A.M.
https://www.investopedia.com/terms/c/crowdfunding.asp (29.04.2021); https://www.investopedia.com/terms/g/government-grant.asp (29.04.2021), accessed at 19:00 PM.

# Financing in Germany

- **Initial Public Offerings:**

An IPO is an initial public offering where a privately owned company lists its shares on a stock exchange, making them available for purchase by the general public.

- **Bank Loan:**

Bank loans are the most common form of finance. A bank issues a loan for a company after understanding the business needs.

- **Leasing:**

Companies use leasing as means of financing assets purchases.

With lease financing, the finance company purchases an asset (for example vehicles, IT equipment, property) and the company has a right to use the asset during the term of lease.

- **Dividends and Share Repurchases:**

Dividends are a share of profits that a company pays at regular intervals to its shareholders.

A share buyback refers to a company where it buys back its own shares from the marketplace.

- **Bonds:**

Bonds are investment securities where an investor lends money to a company or a government for a set period of time, in exchange for regular interest payments.

https://www.afme.eu/portals/0/globalassets/downloads/publications/afme_growth2015_sme-1.pdf), page 7, 12, 20, 22, accessed on 29.04.2021 at 09:00 A.M.
https://www.forbes.com/advisor/investing/what-is-a-bond/ accessed on 30.04.2021 at 15:30 PM.
https://www.investopedia.com/articles/active-trading/073015/dividend-versus-buyback-which-better.asp accessed on 30.04.2021 at 16:00 PM.
https://www.forbes.com/advisor/investing/initial-public-offering-what-is-an-ipo/ accessed on 30.04.2021 at 19:00 PM.


# Introduction: Hugo Boss AG

- The purpose of HUGO BOSS AG and its subsidiaries is the development, marketing and distribution of **high-end men's and women's fashion and accessories in the premium segment**.

- In fiscal year 2020, the rapid spread of COVID-19 led to a significant impact on the global business of HUGO BOSS.

- The measures taken were mainly aimed at reducing operating expenses, postponing non-business-critical investments, reducing the merchandise inflow.

Source: Annuel report, 2020, Hugo Boss AG, page 152, accessed on 24.04.2021 at 09:00 A.M.

# Why Hugo Boss?

## 1.) Changes in the textile industry

- New players like H&M, Zara or Amazon are changing the way clothes are produced, distributed, and even perceived by the customers

"The apparel and luxury goods industry is facing several challenges and opportunities in the upcoming years. The biggest trends are a **sales shift to emerging markets** – especially China, **digitalization**, expansion of **omnichannel presence** and last but not least attracting **millennials and generation z**."

- Dennis Zimmerman.

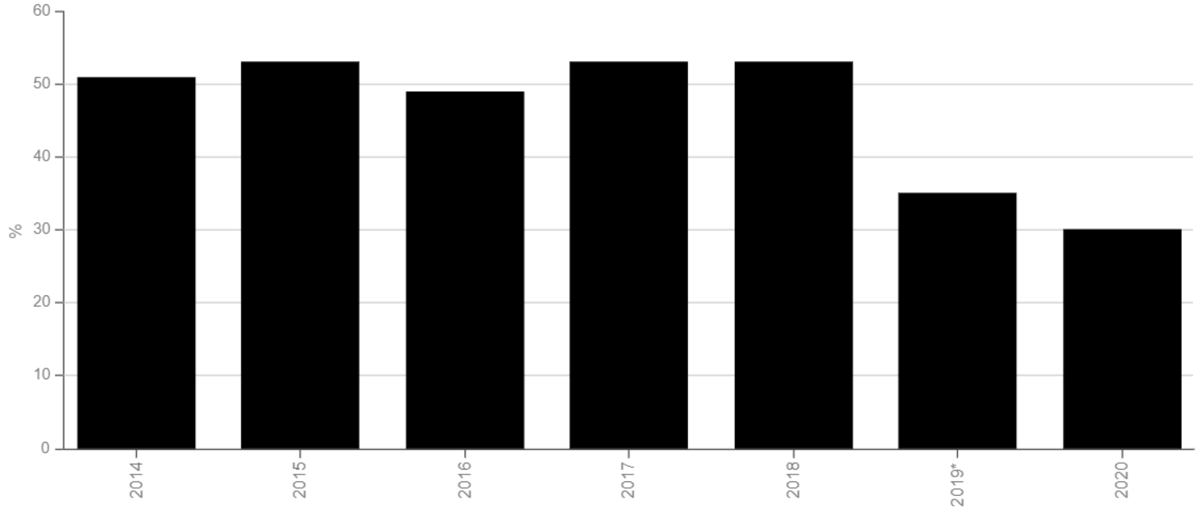
- The group's strategic focus is to increase the appeal of its brands with personalization and speed based on the following four pillars: Digital, Global, Agile and Sustainable.

Source: Zimmerer, Denis. "Equity valuation of Hugo Boss AG." PhD diss., 2019, accessed on (30.04.2021) at 20:59 PM.
Lourenço, Emanuel António Barbosa. "Equity research-Hugo Boss AG." PhD diss., Instituto Superior de Economia e Gestão, 2019., acessed on (30.04.2021) at 13:00. PM.

# 2.) Changes in Hugo Boss‘ Financing

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Sales** | 2,884 | 2,796 | 2,733 | 2,693 | 2,809 |
| Gross profit | 1,875 | 1,824 | 1,808 | 1,777 | 1,853 |
| Gross profit margin in % | 65.0 | 65.2 | 66.2 | 66.0 | 66.0 |
| EBITDA | 467 | 476 | 499 | 433 | 590 |
| EBIT | 333 | 347 | 341 | 263 | 448 |
| EBIT margin in % | 11.5 | 12.4 | 12.5 | 9.8 | 15.9 |

- Hugo Boss gross profit margin has been stable at 65% - 66% over the past 5 years (2015 - 2019) .
- Nevertheless, its EBIT and adjusted EBITDA margins have both declined since 2014 due to the development of a new IT infrastructure for better online-distribution and the roll out of a new store concept for its retail stores.
- **Equity ratio has decreased** from around 50-55% until 2018 to 30% between 2019 and now



# Why Hugo Boss?

## 3.) Impact of Covid-19

- Business in Europe impacted by store closures and decline in tourism.
- Lockdown and demonstrations weigh on business in the Americas.
- Sales in mainland China return to double-digit growth trajectory.
- Momentum in own online business - Strong double-digit sales improvements across all three regions.
- Millennials represent the fastest-growing customer group online.
- WFH Model: Leveraging strength in casualwear to capture consumer behavior.

Source: Investor Meeting Presentation October 2020, Hugo Boss AG., Accessed on 29.04.2021 at 19:00 PM.

# Equity based financing

- Total equity has decreased due to less retained earnings and accumulated other comprehensive income by ca. 250,000 €.

- The Management Board of HUGO BOSS AG may with the Supervisory Board’s consent increase the share capital by up to EUR 35,200 thousand until May 15, 2024, by issuing 35,200,000 new registered shares on a cash and/or non-cash basis once or repeatedly (authorized capital).

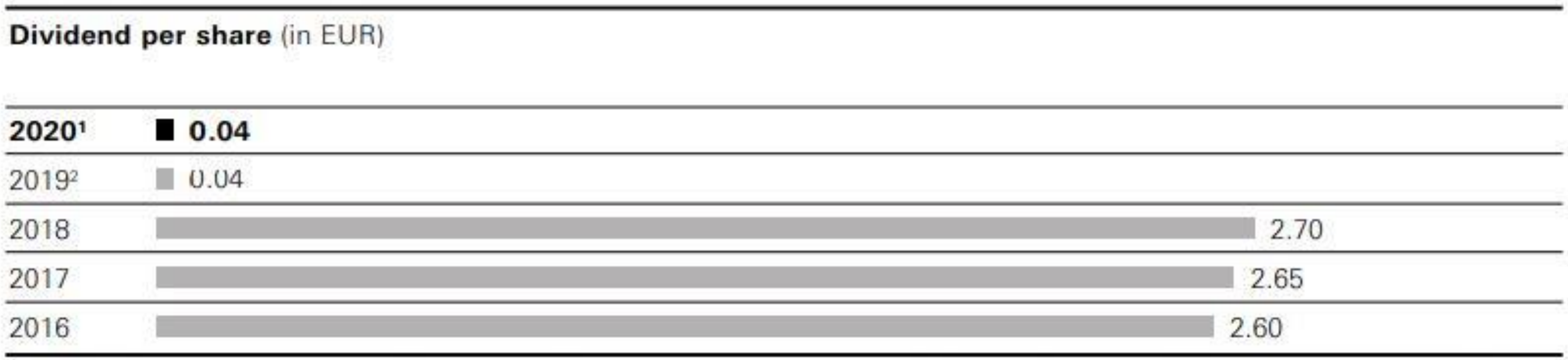
| **Equity** | | | |
|---|---|---|---|
| Subscribed capital | (15) | 70,400 | 70,400 |
| Own shares | (15) | (42,363) | (42,363) |
| Capital reserve | | 399 | 399 |
| Retained earnings | | 706,391 | 932,817 |
| Accumulated other comprehensive income | | 18,984 | 40,374 |
| **Equity attributable to equity holders of the parent company** | | **753,811** | **1,001,627** |

*all numbers in thousand €

# Equity based financing

## Dividends

- **The Company aims at further strengthening its internal financing capability.**
- Suspending the dividend for fiscal year 2019 and 2020, with the exception of the legal minimum dividend of EUR 0.04 per share.
- The retention of net profit has strengthened the financial flexibility by almost **190 million euros** in 2020.




Source: Müller, Stöhr Full Year 2020 Results, Metzingen, March 11, 2021, accessed on 30.04.2021 at 18:00
Annual report, 2020, Hugo Boss AG , page 21, 22 accessed on 27.04.21 at 15:00.

# Equity based financing

## Investor Relations

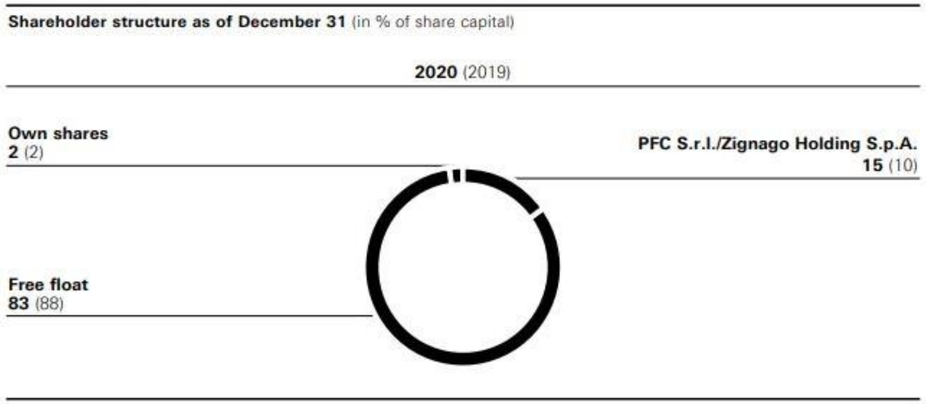

- High transparency and accessibility of information: On the website, if you go to “Investors” there is a direct pop-up menu on the side
- Easily accessible service & contact options
- In 2020 Hugo Boss won the “**Best IR website (mid-cap)**” category at the IR Magazine Awards (Europe) and the iNOVA Silver Award in the category “Online Annual Reports: Premium Apparel”


Sources: https://edge.media-server.com/mmc/p/zz4nh47q/lan/en , minute 41.35 (01.05.2021), https://annualreport-2020.hugoboss.com/shareholders/hugo-boss-on-the-capital-market.html accessed on 29.04.21 at 16:00 PM.

# Equity based financing

## Shareholder structure

- 2% of shares: own shares purchased in a share buyback scheme between 2004 and 2007
- 15% of shares: **PFC S.r.l. and Zignago Holding S.p.A**
  - **Strategic major shareholder** since 1991, Minority shareholder since 2007
  - In 2020 increased shares from 10.13% to 15.45%
- 83% of shares: free float
  - Majority: institutional investors from Europe and the Americas
  - 15,2% through stocks and derivates: **Mike Ashley (Frasers Group Plc)**




"This investment reflects Frasers Group's growing relationship with Hugo Boss and **belief in Hugo Boss's long-term future**. Frasers Group intends to be a supportive stakeholder and create value in the interests of both Frasers Group's and Hugo Boss' shareholders."

Started with 2 sports businesses and in 2018 bought "House of Fraser" to convert it into the "Harrods of High Street" together with his "Flannels" **luxury department stores**: There he sells Hugo Boss products and through his investment might increase his bargaining power.

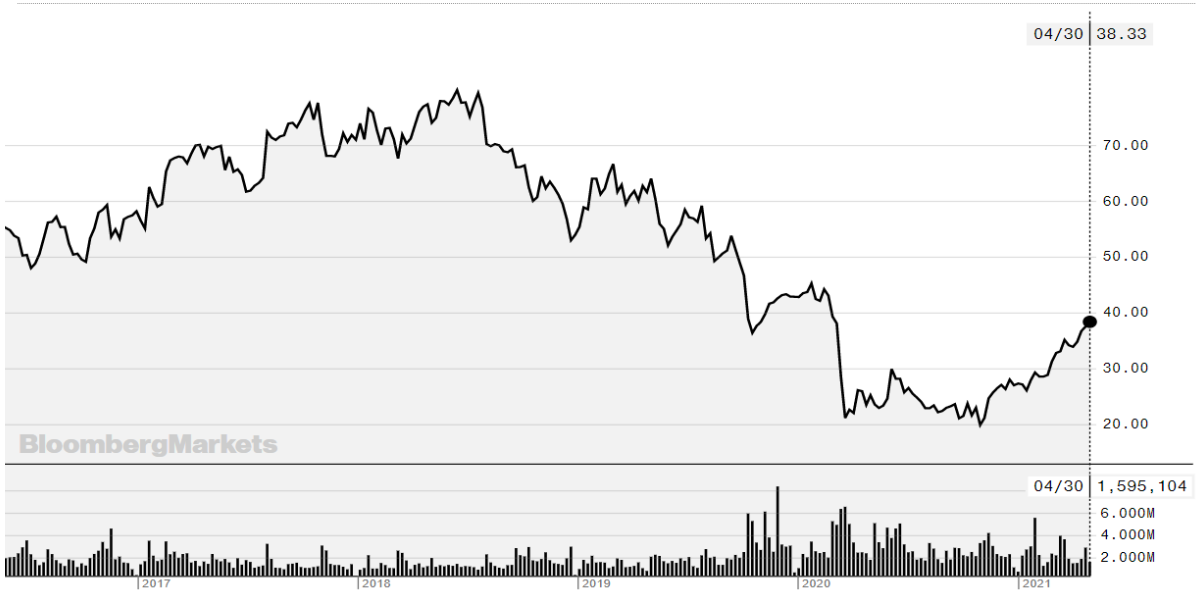
Sources: Annual report, 2020, Hugo Boss AG ,page 20, accessed on 29.04.2021 at 20:15, https://group.hugoboss.com/en/investors/share/shareholder-structure (24.04.21) on 20:45., https://www.welt.de/wirtschaft/article145260154/Hugo-Boss-hat-eine-grosse-Zukunft-vor-sich.html accessed on 29.04.21 at 14:00 PM.

https://group.hugoboss.com/en/investors/publications/financial-releases/publication/pfc-srl-und-zignago-holding-spa-weiten-strategische-investition-in-hugo-boss-ag-aus accessed on 29.04.21 at 13:00 PM.
, https://www.bloomberg.com/news/articles/2021-01-20/mike-ashley-bets-on-hugo-boss-as-frasers-increases-its-stake accessed on 29.04.21 at 13:30 PM.
https://www.reuters.com/article/us-frasers-hugo-boss-stake-idUSKBN29O2EO accessed on 29.04.21 at 19:00 PM.
, https://www.textilwirtschaft.de/business/sports/bewundert-und-gefuerchtet-mike-will-nacmike%20ashley-oben-226043 accessed on 29.04.21 at 08:00 AM.

# Equity based financing

## Repurchase of shares

- ➢ Repurchase of shares took place 2004-2007: With former authorization to now 1,97%
- ➢ Renewal of authorization extended until 2025: Hugo Boss allowed to buy back up to a 10% proportion of the outstanding equity capital. By now: no use of this authorization.




- ➢ Right now, the share price is recovering from the Covid-19 impact but still lower than the actual estimated value of the company
- ➢ This can be a reason for repurchasing shares: The board believes in the long-term positive development of the company

https://group.hugoboss.com/en/investors/share accessed on 24.04.21 at 19:00 pm, Source: https://www.bloomberg.com/quote/BOSS:GR accessed on 01.05.2021 at 13:00 pm, https://www.finanzen.net/nachricht/aktien/euro-am-sonntag-exklusiv-frankfurt-intern-hugo-boss-profitiert-von-uebernahmeinteresse-10047950 accessed on 01.05.2021 at 16:00 pm, https://www.investopedia.com/ask/answers/042015/why-would-company-buyback-its-own-shares.asp accessed on 01.05.2021 at 07:30 am, Bessler, Drobetz (2016): Corporate Finance in Germany: Structural Adjustments and Current Developments , pp. 19-23, accessed on 01.05.2021 at 08:30 am.

# Debt based financing

## Syndicated loan

A **syndicated loan**, is financing offered by a group of lenders called a syndicate ,who work together to provide funds for a borrower. The borrower can be a corporation, a large project, or a sovereign government.

- HUGO BOSS has secured its financial flexibility by means of a revolving syndicated loan with a term up to September 30, 2022.
- In fiscal year 2020, HUGO BOSS exercised the option to increase its revolving syndicated loan to EUR 633 million in order to ensure additional financial flexibility during the COVID-19 pandemic (December 31, 2019: EUR 450 million).
- At the end of the fiscal year 2020, EUR 105 million of the syndicated loan had been drawn (December 31, 2019: EUR 0 million)

Source: Annual report, 2020, Hugo Boss AG, page 86, 196, accessed on 24.04.2021 at 11:00 AM; https://www.investopedia.com/terms/s/syndicatedloan.asp , accessed on 30.04.21 at 20:00 PM.

# Debt based financing

## Credit lines

**A credit line** is a monetary spending loan balance offered by a financial institutions, that cannot be suspended without notifying the borrower. A credit line is a legal agreement outlining the conditions of the credit line between the financial institution and the borrower.

- The Group has bilateral credit lines at its disposal with a total volume of EUR 198 million (December 31, 2019: EUR 337 million), of which EUR 161 million had been drawn at the end of the reporting period (December 31, 2019: EUR 215 million).
- HUGO BOSS also secured further loan commitments totaling EUR 275 million in fiscal year 2020.
- These are provided by six international banks and are partially backed by KfW, Germany's state-owned development bank.
- At the end of the reporting period, these credit facilities were not drawn. Any loans claimed up to the end of the drawdown period on June 9, 2021, would be due on June 30, 2022.

Source: Annual report, 2020, Hugo Boss AG ,page 85-86, accessed on 30.04,21 at 10:30 AM.

https://www.investopedia.com/terms/c/committed-credit-line.asp , accessed on 30.04,21 at 11:30 AM.

# Debt based financing

## Lease Liability

(in EUR thousand)

| | Stores | Warehouse | Offices and others | Total |
|---|---|---|---|---|
| **Carrying amount as of January 1, 2020** | **781,015** | **34,296** | **83,056** | **898,367** |
| Change in the basis of consolidation | 17,498 | 0 | 0 | 17,498 |
| Additions | 167,022 | 5,154 | 9,000 | 181,176 |
| Depreciation | (208,023) | (6,070) | (14,767) | (228,860) |
| Impairment | (48,098) | (4) | 0 | (48,102) |
| Disposal | (34,872) | (1,065) | (194) | (36,131) |
| Transfers | 0 | (789) | 0 | (789) |
| FX differences | (33,663) | (1,478) | (3,580) | (38,721) |
| **Carrying amount as of December 31, 2020** | **640,879** | **30,044** | **73,515** | **744,438** |
| **Carrying amount as of January 1, 2019[1]** | **832,037** | **86,237** | **90,095** | **1,008,369** |
| Additions | 141,604 | 6,330 | 9,728 | 157,662 |
| Depreciation | (205,129) | (6,771) | (18,152) | (230,052) |
| Impairment | (1,063) | 0 | 0 | (1,063) |
| Write-up | 1,976 | 0 | 0 | 1,976 |
| Disposal | (2,980) | (53,010) | (193) | (56,183) |
| FX differences | 14,570 | 1,510 | 1,578 | 17,658 |
| **Carrying amount as of December 31, 2019** | **781,015** | **34,296** | **83,056** | **898,367** |

[1] Amounts shown differ from those reported in the previous year due to reclassifications.

## Lease

A lease is a contract outlining the terms under which one party agrees to rent property owned by another party.

## Right to use assets

The right-of-use asset is a lessee's right to use an asset over the life of a lease.

- HUGO BOSS has entered into a significant number of leases for the rental of retail stores, office and warehouse space with an average remaining term of five years.

Source: Annual report, 2020, Hugo Boss AG, page 176, accessed on 24.04.2021 at 11:00 AM.

https://www.investopedia.com/terms/l/lease.asp , accessed on 30.04.21 at 13:00 PM.

# Conclusion

- HUGO BOSS has **secured its financial flexibility** by means of a revolving syndicated loan and bilateral credit lines.
- The Company aims at further **strengthening its internal financing capability** by paying only the legal minimum dividend of EUR 0.04 per share for fiscal year 2020.
- **Inhouse bank concept**: To cover the financing needs of the Group companies, funds are made available in the form of intercompany loans. Group companies transfer excess liquidity to the "inhouse bank", e.g., as part of a cash-pooling procedure.
- The focus of investments is expected to be on the Group's own retail business and the further **digitization** of its business model.

Source: Annual report, 2020, Hugo Boss AG , page 95, 107, accessed on 24.04.2021 at 16:00 PM.

# Outlook

Is Hugo Boss typical for the financing of German companies?

What do we think about the financial engineering?

What might be the shortcomings?

Future scenarios?

# Thank you!