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TRANSCRIPT

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Adam Cochrane – Deutsche Bank

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

PRESENTATION

Gottfried Hoppe

Ladies and gentlemen, welcome to PUMA's Q1 2025 Earnings Call. Today, I'm joined by our Group CFO, Markus Neubrand. Markus will take you through a short presentation, and then we will open up for the Q&A session. Now, let's kick it off. Over to you, Markus.

Markus Neubrand

Thank you, Gottfried. Good afternoon, also from my side. Before I guide you through the agenda of today's investor call, I would like to start with some opening remarks about the first quarter of 2025. Our overall, financial results were broadly in line with expectations, with our sales and adjusted operating results slightly ahead of our expectations for Q1. Our sales achieved last year's level in constant currencies. Our DTC business grew by 12%, led by e-commerce at 17%, while our wholesale business was down by 4%, primarily because of the US and China. Our adjusted operating results amounted to €76 million, and we are pleased to report good progress on our nextlevel cost efficiency programme. Please note that the situation relating to the new US tariffs will be addressed at the end of the presentation.

As you are aware, we are currently in a transition period. We would like to thank Arne for all his achievements, commitment, and dedication to the PUMA brand over the past 15 years. We are pleased to have Matthias as Chief Commercial Officer on the managing board since 1 April. During the transition period, Maria, Matthias and myself are jointly leading the company. And we are looking forward to welcoming Arthur as new CEO of PUMA starting on 1 July.

Now, let me present to you a business and financial update, followed by an operational update, including nextlevel, and an update on the new US tariffs, our maintained outlook for 2025, before opening up the call for the Q&A.

On 20 March, we launched Go Wild, our biggest brand campaign to date, the first chapter dedicated to running. We are very encouraged by the initial results of this campaign. The short video film that accompanied the start of the campaign was viewed millions of times. We successfully leveraged and activated to Go Wild messaging at the recent marathons in Boston and London, while launching the Fast-R 3, our fastest ever running shoe. Six weeks into the campaign, we have seen strong visibility globally with paid, earned and social media. We expect this trend of strong visibility to continue in the coming weeks with the launch of our Go Wild podcast and more brand activation events.

We introduced exciting product newness and innovation in the first quarter. In running, we launched the PUMA Deviate NITRO Elite 3 in the context of our Go Wild running campaign. It is a high performance, carbon plated racing shoe, designed for speed and efficiency, targeting runners from 5K to marathon distances. At the Boston Marathon weekend, we launched the PUMA Fast-R 3 that is engineered for maximum running economy and elite level performance.

In football, we launched the PUMA FUTURE 8, the latest evolution in our flagship line of the football boots. It is engineered for creative, dynamic players to demand both comfort and high performance on the pitch, and is worn by top professionals, such as Jack Grealish.

In basketball, we released LaMelo Ball signature shoe, PUMA MB.04 Golden Child, the latest and most eye-catching entry in our ongoing collaboration with the basketball star. Released in March, the Golden Child edition cements LaMelo's reputation for bold, statement-making footwear in both basketball and sneaker culture.

In February, PUMA and Scuderia Ferrari launched a special replica collection to celebrate the 20th anniversary of our partnership. This milestone collection, which is worn by the team throughout the 2025 season, reinterprets classic Ferrari teamwear with a bold, fashion forward-approach, blending motorsport heritage with contemporary streetwear influences. The collection was officially unveiled at an exclusive event, Maranello, Italy, attended by Ferrari drivers Lewis Hamilton and Charles Leclerc, as well as legendary figures from Ferrari's racing history. And we saw a fantastic sell through of this collection.

With our Speedcat franchise, we have continued to capitalise on the low-profile trend, which has picked up more momentum in the first quarter of 2025. Our Speedcat has again been highlighted by fashion platforms and trend reports as a must-have, and its slim silhouette, retro appeal and versatility have made it very popular among fashionistas and celebrities, especially in Asia. It is consistently named as a top trend sneaker for 2025. On the back of our Speedcat popularity, we introduced the Speedcat Ballet with K-Pop star Rosé being the face of the campaign.

Now, let's have a look at the financials. We ended the first quarter of 2025 with sales of €2.1 billion. We were flat compared to last year in constant currencies. Wholesale was in line with our expectations, down 3.6%. And as anticipated, the decline was mainly driven by the US and China. Overall, DTC was up 12%, led by robust e-commerce growth of 17.3%, and with broad-based participation from all regions, while sales in brick and mortar increased by 8.9%.

By product divisions, we saw good contributions from footwear with a 2.4% growth, driven by running, basketball and Sportstyle categories. Our Sportstyle categories benefited from an increase in core business. And in our select prime business, particularly the Speedcat franchises, with Asia leading the low-profile trend. Sales in apparel and accessories softened with minus 1.5% and 5.7%, respectively. Apparel was broadly in line with our initial expectations of a low single-digit decline for the group, while the decline in accessories was a little bit higher, mainly due to golf.

By regions, EMEA grew 5.1%. Americas decreased by 2.7%, mainly due to North America [US], and APAC came in at minus 4.7%, mainly due to Greater China.

Now, let me provide you with a more granular view of our quarterly sales performance by market. As anticipated, emerging markets EEMEA and Latin America remained growth drivers, contributing with double-digit growth rates, while North America, particularly the US and Greater China, where the markets both declined in the double-digit range. This was driven by the wholesale distribution channel, while DTC continued to grow, driven by e-com. This was already highlighted earlier this year. To close on a positive note, Europe came in with a low single-digit growth, and other APAC recorded a mid-single digit growth.

Let's continue with the operating performance. In a nutshell, sales were slightly better than initially expected. Our gross profit margin decreased by 60 basis points, mainly due to inventory valuation effects last year, and our adjusted EBIT came in slightly above our expectations, however, below last year's level. Let me take you through our first quarter results for 2025 in more detail.

Our first quarter of 2025 sales remained with 0.1% on a currency adjusted basis at €2.1 billion. Sales in euro terms decreased by 1.3%, and include negative currency effects on our sales, mainly from the Mexican and Argentinian peso, as well as the Turkish lira. As mentioned, the gross profit margin decreased by 60 basis points to 47%.

Taking a closer look at our gross margin. Our gross profit margin was impacted by several offsetting factors this quarter. While we benefited from favourable sourcing prices and an improved product and channel mix, these gains were more than offset by currency headwinds and the absence of last year's positive inventory valuation effects. Our promotional activity remained consistent with the prior-year levels. For better comparability, if we exclude last year's inventory valuation benefit, our gross profit margin would actually show a slight improvement year over year.

Operating expenses increased by 7.1%. This includes any nextlevel related one-time costs. Let's take a look at the OpEx drivers. The overall increase was primarily driven by continued growth of our DTC business, especially e-commerce. Along with higher depreciation and amortisation, resulting from investments in DTC and infrastructure. As anticipated, the timing of marketing activities contributed to a slightly higher OpEx ratio, something that is also anticipated for the second quarter. Additionally, currency related effects were headwinds to the OpEx ratio, which increased by 340 basis points to 43% in the first quarter. Consequently, the adjusted EBIT decreased by 52% to €76 million as a result of a lower gross profit margin and higher OpEx. PUMA incurred one-time costs totalling €18 million in the first quarter, attributable to its nextlevel cost efficiency programme. These expenses were primarily related to personnel costs and other one-time non-operating expenditures, such as consulting costs, as well as impairment of intangible assets related to digital infrastructure.

The EBITDA after these special items decreased by 35% to €156 million. The financial result decreased by 57% to €42 million, mainly due to higher net interest expenses. This was primarily driven by a lower interest income from a normalising environment in the hyperinflationary country Argentina. This is something that we anticipate also to impact the financial results in the remainder of the year. In addition, interest expenses were up due to higher borrowings. Taking into account taxes on income and the non-controlling interests, the net income came in at €0.5 million.

Now, let's have a look at some of our balance sheet KPIs, starting with the inventory development. Our inventories increased by 21%, currency adjusted, and 16% in euro terms, to €2.1 billion, driven by a strong increase of goods in transit, which represent approximately half of the increase in absolute terms. One of the drivers was accelerated deliveries to the US, ahead of the cut-off for the new tariffs at the beginning of April. Trade receivables increased by 6% to €1.5 billion. Trade payables increased by 17% to 1.4 billion, in line with the increase in purchase volume and inventories. The operating working capital came in at €2.4 billion, up 7%. The working capital increased by 13% to €2.1 billion.

Let's continue with the operational update. At the beginning of this year, we initiated the nextlevel cost efficiency programme. We are focusing on three building blocks, improve gross profit margin by decreasing product complexity and improving sourcing efficiencies. This also includes improvements in pricing and promotions. Decrease OpEx ratio by further reviewing effectiveness and efficiency across all functional areas, which includes the review and closure of unprofitable owned and operated retail stores. Improve free cash flow by focusing on capital employed and cash conversion cycle. This includes improvements in receivables and inventory management, as well as optimising our payment terms, especially for indirect procurement. Improve our capital allocation towards strategic investments that drive growth and return on capital.

Let me give you an update on the progress on the next slide. nextlevel is expected to have an EBIT contribution of up to €100 million in 2025. Let me give you an update on our progress. The global reduction of 500 corporate positions, which is about 5% [of total corporate and regional positions], is progressing as planned, with numerous positions already processed at our corporate headquarters and regional offices. We anticipate completing the personnel measures in the second quarter of 2025. Through comprehensive review sessions, we have identified and initiated key initiatives, primarily in general administrative and logistics, to reduce costs. We conducted a review of our retail portfolio and identified around 30 unprofitable stores that we are planning to close, mostly in 2025. We've also achieved initial sourcing efficiencies that have led to first contributions realised at the end of the first quarter.

For the second quarter, one-time costs are expected to be higher than in the first quarter. It shouldn't be a surprise if the one-time costs double between Q1 and Q2. For the third quarter, the one-time costs are expected to be around the same level as in Q1. And in the fourth quarter, we anticipate less one-time costs. Overall, one-time costs related to nextlevel should reach up to €75 million in 2025. When it comes up to the €100 million additional EBIT contribution, we expect to see benefits increasing from the second quarter onwards in 2025. This is a rough early indication to help you with modelling at this stage. However, this is also subject to changes and will be updated in the course of 2025, as we see progress with the respective measures.

The US market represents around 20% of our global sales. In other words, the majority of around 80% of our global sales is not exposed to the US tariff situation. The vast majority of our US imports originate from Asia. It is important to note that we optimise the overall landed costs, which mainly includes the product cost, FOB, logistics and customs duties when deciding on where to produce. Duties are one component of these costs. The new and additional US tariffs announced in April impact China, as well as other sourcing countries, which may lead to higher sourcing costs for the US market. The uncertainty around the negotiations between the US and the sourcing countries remains high, which makes it difficult to quantify the direct effects.

We've been reducing our US imports from China over the last two years. For the US, China sourcing is around 10% and further decreasing, and even at zero for some of the product categories already today, with Vietnam, Cambodia and Indonesia accounting for the majority of the US production.

We acted swiftly. Deliveries to the US were further accelerated and cleared with customs before April 9th. We optimised sourcing for autumn/winter 25, including rerouting of products out of China to other markets. We evaluated different scenarios and continue to do so as the news flow changes almost on a daily basis. And we constantly review pricing adjustments. We are taking a strategic approach to potential tariff impacts. Our team is actively analysing the specific tariff outcomes by sourcing country, evaluating our competitive product strengths, and tracking evolving consumer behaviours. Thanks to our proactive inventory management that I mentioned earlier, we have flexibility to carefully assess market conditions before implementing any pricing changes, allowing us to respond with both agility and precision as the situation develops.

Furthermore, we are considering additional measures, including cost optimisation of our product cost and general cost structures in the US. We have an agile, global supply chain, long-standing vendor relationships, and a strong balance sheet. All of which positions us to navigate us well, to navigate this time of uncertainty. However, I hope you'll understand that at this moment in time, given the highly volatile and changing environment for US tariffs regulations, we can't make meaningful changes and statements to the outlook.

Which brings me to the next topic on our agenda. Let me take you through the 2025 outlook. In the evolving global trade landscape and immense macroeconomic volatility, we concentrate on the controllable factors and diligently serve our retail partners, consumers, and brand ambassadors. We maintain our outlook for the fiscal year 2025, while the potential impact of the new US tariffs announced in April 2025 remains under review and is subject to change.

Now, let me first provide you with some indication on the second quarter. With Q1 behind us, we expect sales development in Q2 to improve to a low single-digit growth in constant currencies. Mainly due to a recent devaluation of the US dollar, we expect headwinds on our top line to increase to approximately three percentage points. When it comes to adjusted EBIT, it is expected to come in above the first quarter of 2025, however, still below the prior year's second quarter level. As mentioned before, the highest share of one-time costs related to our nextlevel efficiency programme will be incurred in the second quarter.

For the full year 2025, we maintain our outlook, which excludes potential implications from US tariffs announced after PUMA's initial outlook was provided on 11 March 2025. Let me remind you about our outlook. Currency adjusted sales growth of low to mid-single digit. Given the current US dollar weakness, we anticipate the FX headwind to increase to around three percentage points at an EUR/US dollar rate of 1.11. An adjusted EBIT before one-time cost between €520 and €600 million. One-time costs of up to €75 million related to our nextlevel efficiency programme. As always, we as a management team, are committed to addressing short-term challenges, while continuing to do the right thing for the mid-to-the-long-term success of the brand and the company.

Let me summarise. We are leveraging the momentum across running and Sportstyle categories. We are executing our nextlevel programme to right-size our cost base. We are closely monitoring the US tariff situation and are taking decisive actions. And we are looking forward to welcoming Arthur as new CEO of PUMA starting on July 1st. And with that, I'll hand it back to Gottfried for the Q&A session.

Gottfried Hoppe	Thanks very much, Markus. Moira, we are now ready to take the questions.

Q&A

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. You will hear a tone to confirm that you've entered the queue. 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 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. One moment for the first question, please. The first question comes from Grace Smalley from Morgan Stanley. Please go ahead.
Grace Smalley	Hi. Thank you for taking my questions. The first one would just be on tariffs, please. Appreciate it's very uncertain, but anything you could help us with just on the gross impact of tariffs, if it was to remain where it is today, I understand you don't really have the full picture on how much you can mitigate, but just the worst case scenario on the gross impact, if tariffs were to remain as they were today through the rest of the year. And then similarly to that, given you have put forward some inventories into the US, if you could just help us from a timing perspective, when we would expect the impact of the current tariffs to start to come

through in your P&L?

And then my second question would be on the Q2 guidance for low single-digit constant currency growth. Clearly, an acceleration versus what you have done in Q1. Could you just help us with what gives you confidence in that acceleration, what you're seeing in current trading, any particular region or product categories that are accelerating as you enter Q2? Thank you very much.

Markus Neubrand

Thank you, Grace, for your questions. Let me first start with the US tariff situation. As I mentioned in my prepared remarks, the outcome of the US tariff situation is still very uncertain, so it's difficult to make meaningful statements and conclusions on this. Also, this question does not consider the different measures that we are working on, as elaborated earlier in my prepared remarks. Some potential measures will become effective once there's more clarity about the tariffs. Rest assured, we are prepared with different scenarios and will execute if necessary, at the right time. But what can't be compensated will be communicated at the right time. I hope you'll understand that now is not the right time to do so. Also, let me remind you that 80% of our business is outside of the US, so we should not forget and neglect other markets.

I know you touched on several aspects, when would potentially also then the first tariff impact hit our P&L. Based on the current [regulations], we pulled forward inventories, as I mentioned earlier, we cleared them also for customs. And we would expect, based on the current inventory situation, that the first [impact] may be a slight impact on the second quarter. But then more so on the second half of this year.

Talking about the second part of the question regarding the Q2 outlook of low single-digit growth. If we look at wholesale, we're expecting a sequential improvement going into the second quarter. And this is backed up also by the order book that we have on hand.

Grace Smalley

Thank you.

Operator

The next question comes from Anne-Laure Bismuth from HSBC. Please go ahead.

Anne-Laure Bismuth

Hi. I have two questions, please. The first one is on the group strategy. Can you come back on the disagreement that was between the CEO, Arne, and the board on which aspect of the strategy, the disagreement were, and if you can give us the few elements, let's say two to three points, on where this disagreement was?

And the second question is about the US. Have you seen since the tariff announcement any change in terms of traffic, or change in terms of from the wholesaler in the US? Thank you.

Markus Neubrand: Thank you, Anne-Laure, for your questions regarding the overall strategy, Arne Freundt has left the company. The supervisory board and Arne have mutually agreed to part ways due to differences regarding the strategy execution, and, as was also shared in the announcement, the supervisory board wishes Arne all the best for the future.

What is important, and if I may add also to your question, we're looking forward, as I talked also in my prepared remarks, to welcome Arthur on board on 1 July. During the transition period, Matthias, Maria and myself are jointly leading the company. And our priorities are driving the business, executing nextlevel as I shared with you earlier the good progress that we've made, and also addressing the US tariff situation. And also, very importantly, as we've been going through a period of significant changes for the company. I was just talking about also the changes in terms of the corporate positions where we reduced, it's our focus now to bring a sense of calmness and stability to the organisation. And then we will welcome Arthur on board soon, on 1 July.

The second question, the answer regarding the US and what we are seeing currently in terms of the state of the consumer and the trend? It's difficult to have a clear view on the state of the US consumer right now. If you read and hear the news, you might get the impression that the consumer is not in a healthy state, but the consumer keeps buying. The major question is how the consumer will react to the tariffs. Looking at the data and the traffic that we have in our own brick-and-mortar channels, February was the worst month, and since then, we have seen an improvement to date.

Anne-Laure Bismuth: Thank you.

Operator: The next question comes from Monique Pollard from Citi. Please go ahead.

Monique Pollard: Hello, afternoon. Thank you for taking my questions. I had two questions, if I can. The first was just whether you could give a little bit more colour on the outlook for the order book. I understand your comment that you're expecting sequential improvement, and that's backed up by the order book. But I remember at the full-year results, Arne had commented that the reorders had been worse than expected in the fourth quarter. I just wondered if you could give a breakdown on how the reorder trends are doing as well within that order book.

And then the second question is just on the EEMEA sales. That's a pretty good performance in that region. I just wondered if there's anything you'd want to call out specifically, and if you could give us an indication on whether there was much pricing in there, specifically offsetting things like FX. Thank you.

Markus Neubrand

Thank you, Monique, for your questions. Let me start first, also with the outlook for wholesale. What we provided when we gave the outlook at the beginning of March for the full year '25, that we're expecting in wholesale, overall, flat to low single-digit growth in constant currencies. And that is also backed up by the order book that we had at that time on hand. And also now, as we are maintaining our outlook, that's also the current expectations. Overall, in terms of providing specific quantification on the order book, I think that's where we would like always to make sure that we provide you the best information, as the wholesale business is composed between pre-orders being delivered and also reorder business. We've decided going forward, that we provide you always with the total effect in terms of providing the best guidance, what we see in terms of the total wholesale channel. That has always been the combination between the order book and also the reorder business.

If we look at the second question that you asked regarding the EEMEA region, the improvement was broad based. Also here, pricing contributed, but we also saw good volume growth.

Monique Pollard

And just to follow up on the reorders, though, the trend has improved also since the fourth quarter?

Markus Neubrand

Monique, please understand also, we're commenting always on the wholesale business in total, and we're not splitting out order and reorders, because it's important that we provide you, and also that's how we look at the wholesale business, how much ultimately are customers buying from us? And that gives you the best indication. We are not providing a split between the pre-order and reorder. We have learned our lessons from the past and decided also to give you indications always about the total wholesale business, as we've donewhen we provided the full year outlook for this year, where we expect flat to low single-digit improvement in constant currencies.

Monique Pollard

Understood. Thank you.

Operator

The next question comes from Thierry Cota from Bank of America. Please go ahead.

Thierry Cota

Good afternoon. Thank you very much for taking my questions. I have two, please. First, could you elaborate on the group's net debtex leasing? I believe it has risen from 600 million to 1 billion in one year, quarter on quarter, Q1 versus Q1. I wonder if the rise that we've seen would be maintained along the year in your estimates?

And second, OpEx up 7% in Q1. Can you give us an idea of the run rate that you expect at constant currency for the year, please?

Markus Neubrand

Thank you, Thierry, for your questions. As you noted, our net debt increased at the end of the first quarter. What I shared earlier, if we look at the nextlevel programme, and the third building block is free cash flow. Clearly, this is also our key priority that we are focussed on in terms of improving our cash conversion cycle, managing our working capital, while also being very disciplined on the capital expenditure and focus on improving our return on capital employed. We have not provided, also your question, in terms of now for the end of the year, we have not provided a specific guidance for our free cash flow expectations. That's where I will leave you with that, that clearly, this is also one of the key building blocks that we are focusing on as part of our nextlevel programme, and drive to improve our cash flow generation.

If we look at the OpEx run rate, in your question, where we've been up 7% in the first quarter, we have factored in, we've given you, when we provided the guidance also for the full year 2025, we've given you also some indication in terms of what are we expecting in terms of the gross profit margin, as well as the adjusted EBIT before one-time costs between €520 to €600 million. That gives you, in terms of math, then also what we expect in terms of OpEx. What’s important to note, in terms of the OpEx, and I was just talking about also the nextlevel progress that we've made, and especially on the personnel side, where we're making good progress with our reduction of 500 corporate positions that we expect to complete at the end of the second quarter. This will clearly benefit our OpEx base run rate going forward. And you've seen also in the charts that we shared with you earlier, in terms of the EBIT contribution, we gave you an indication in terms of also where those benefits, in which quarter they will fall.

Thierry Cota

Great. Thank you. Just maybe as a small follow-up. Again, going back to the first question, the debt was up for 400 million, approximately 400 to 500 million. Would you consider that this is the worst it can be? And very presumably, that gap year-on-year is going to shrink along the year, given the extra bit coming from the cost savings that you expect, or not?

Markus Neubrand

Going back to what I just said, we're not providing a specific guidance for the net debt development. If you look at the pattern, also if you look at our cash flow development, and you analyse the debt development over quarter by quarter over the past. If you look at the past development, that gives you a good indication in terms of overall, what we have with the wholesale and of course also delivery cycles. You see also where we have in terms of the cash flow generation, when there are quarters where we typically have positive contributions, which clearly, if you look at in the past, the fourth quarter always being the strongest by far. But that's also where I can give you the reference in terms of looking at a pattern of the previous years. That gives you a good indication in terms of how to model and how to predict the net debt then for the year end.

Thierry Cota — Great. Thank you very much.

Operator — The next question comes from Piral Dadhania from RBC. Please go ahead.

Piral Dadhania — Thank you. I have two as well, please. The first one is just on the low-profile trend. I think you mentioned it once in your prepared remarks, Markus. Could you just give us an update on how that product category is performing, particularly franchises like Palermo and Speedcat, and whether they continue to scale? And within the context of that, I think at the end of last year, Arne mentioned that you expect to do something like a mid-single digit million number of units for Speedcat in 2025. Is that target still on the table?

And my second question just relates to the North American market. I appreciate that there's a lot of noise around tariffs, but within the Q1 number, which was, I think, a minus 11, there's clearly some company-specific issues taking place there. Could you give us an update on what strategic actions PUMA are taking within your control to address the relative weakness in the North American market? And perhaps what the drivers of that weakness are as well? Thank you.

Markus Neubrand — Thank you, Piral, for your questions. Let me start first with the low profile and the Speedcat, specifically. If you look at the Speedcat franchise and its family, such as Ballet, they continue to build demand. For our Speedcat franchise, we've continued to capitalise on the low-profile trend, which has picked up more momentum in the first quarter of 2025. Our Speedcat, again, as I mentioned before, has been highlighted by different fashion platforms and trend reports as a must-have item. And as I also called out, that we have been leading the trend in Asia. We've been very successful and [Asia] has been leading the low-profile trend.

On the back of the Speedcat popularity, we introduced the Ballet with K-Pop star Rosé as the face of our campaign. We're also seeing positive traction from fashion-focused retail partners in Europe and the US, alongside performance in our own DTC channels. Looking at in terms of Europe, clearly, as I just called out the fashion-focused retail partners, there are other retail partners where we've seen also a slower start and consumer reaction, specifically in Europe on the Speedcat. If we then look at the Speedcat and also the nature of the product, is the spring/summer season and warmer weather across most the markets are both favourable for the Speedcat and low-profile trends. We maintain our initial assumption of mid-single digit million pairs of the Speedcat family for 2025, based on what we've seen so far, and we remain focussed on the execution.

On the Palermo, and also part of your question, Palermo, as we shared in terms of our strategy, in terms of go to market, is currently in the maximisation phase. And of course, we'll continue to maximise also on the terrace trend and pursue the strategy with our Palermo franchise.

Talking about the US, and I talked about what we've seen in the first quarter, I called out the softness that we see specifically in wholesale. I shared just in an answer that we've seen, especially in February, weak traffic to our brick-and-mortar stores. While in e-commerce, we've seen improvements in the first quarter, also supported by new product launches, product innovation, where we've seen growth in the US. Clearly, we'll be focussed on what we have under our control. We know that the US tariff situation that we're facing, and I think we know the state of the consumer that I talked about earlier. As always, we focus on what is under our control and continue to drive the business in the US market.

Piral Dadhania

Great. Thank you.

Operator

Next question comes from Robert Krankowski from UBS. Please go ahead.

Robert Krankowski

Hi. Thanks. I've got also two questions. We heard a lot about the OpEx, and thanks for the colour from the nextlevel programme, a bit on gross margin. I just wanted to ask, because historically, your full-year gross margin has usually been slightly lower than the one in Q1. How you're thinking about the gross margin development throughout the year? And do you think that this kind of trend will continue?

And the second question will be just around the Speedcat. Again, coming to this mid-million units assumption. I think we started to talk about it back in November, or the second half of 2024, when the market was in a very different place, especially in the US. Where do you see the biggest opportunity for the Speedcat as a region, and what gives you the confidence that other markets can be as successful? We also saw a bit more promotional activity in the quarter. Do you think it may continue to drive the growth in some of the channels? Thanks.

Markus Neubrand

Thank you very much for your questions. Let me first start with the Speedcat. In terms of the regional demand that we're seeing. I called out earlier the Speedcat. And I think here, as we talk about the Speedcat family, as I mentioned, it includes the original, also the Ballet as well. We've seen very strong demand in Asian markets, and I think this is clearly leading overall. Then followed by North America and Europe. I think that's also in terms of giving you an indication in terms of overall what we currently see in terms of where the Speedcat franchise family resonates with our consumers.

In terms of then going to your last point, the third question, promotions. Promotional level, or, as I mentioned before in the prepared remarks, has been on a similar level to last year in the first quarter. On the gross margin side, here it's important to call out when you model, and that's where we've given you also in the prepared remarks, the indication in terms of the inventory valuation effects from the prior year that have now in terms of the year-over-year comparison, make it difficult. That's where we added also, if you exclude also this inventory valuation effect from the prior year, our gross margin in the first quarter would have been slightly improved compared to the prior year.

Robert Krankowski — Thanks.

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

Warwick Okines — Thanks. Hi, Markus. Question about inventory. You flagged the timing effects and bringing inventory in early. But inventory already last year was high by historic standards. Just conceptually, how much of an opportunity do you see in lowering inventory? And if so, do you think you'll make some progress with that this year, or is that too much to expect?

Markus Neubrand — Thank you very much, Warwick. If we look at our inventory at the end of the year, but also the Q1, yes, you're right, it was higher. How much opportunity do we have to lower it in 2025? If we look at, and if you recall also how we've been going into 2025, we had more ambitious sales plans for 2025, which also has increased our inventory. This is one of the reasons why our inventory levels are higher. If we look at the composition of the inventories and the nature of our business, where it's mainly driven by footwear as the most important product category, we are currently working on rephasing our purchase orders, and reviewing the open to buy, to adjust our inventory levels and to improve our inventory turns.

Warwick Okines — Thank you.

Markus Neubrand — You're welcome.

Operator — The next question is from Andreas Riemann from ODDO BHF. Please go ahead.

Andreas Riemann — Good afternoon. Two questions. Coming back to the second quarter and the improving momentum, maybe I missed that, but should the improvement versus Q1 be broad based in terms of regions? Or is it one particular region that should drive this acceleration?

And the second topic, nextlevel. Part of that is complexity reduction. Can you speak about the number of SKUs today? And is there a target for the number of SKUs going forward? And does it mean that you simply sell fewer products, or does it mean the product gets more global, less local? Any insight on complexity reduction would be appreciated. Thanks.

Markus Neubrand	Thank you much, Andreas, for your questions. Let me start with the second part first, nextlevel and product complexity. Product complexity is a part of nextlevel. We're working on optimising these SKU offers across all our global, as well as our regional lines. Besides that, we also looking at our material complexity. How we can better use and streamline the use of materials across our different business units. We have, in terms of the progress that we are making and what we're working on, together with Maria and our business units, we're working in terms of going forward, how we plan to optimise the range plan to achieve this target. And ultimately with the complexity reduction then as a result, also then benefiting our overall gross margin development. We don't have a specific SKU cuts percentage in mind. That's also where we make sure that we always have the right product in our collection thatappeals to our consumers, and that we can continue to drive demand. Then, if we look at the question that you had regarding the second quarter, we're expecting low single-digit growth in constant currencies in the second quarter. And I made a comment earlier also that for the wholesale business, we're expecting sequential improvement compared to the first quarter. In terms of the colour of the regions, also please understand, that's where we have not provided a breakdown. We have given some guidance for the full year, that especially our emerging markets, EEMEA and LatAm, will be the fastest growing regions. And this is something that's a fair assumption, that for the second quarter you could expect that these regions contribute more to the growth and for the total company.
Andreas Riemann	Thanks.
Operator	The next question comes from Geoff Lowery from Redburn Atlantic. Please go ahead.
Geoff Lowery	Hi, team. Just one question, really. Could you talk a little bit more about LatAm and the competitive dynamics you're feeling in the market? I appreciate the growth rate remains relatively strong there, but it is slower than you've been delivering in recent years, and it feels like those markets may be getting more competitive. Any colour there would be much appreciated. Thank you.

Markus Neubrand	Thank you very much, Geoff, for your question. If we look at the first quarter, we saw in Latin America, we saw growth in terms of value, as well as in volume in Latin America in the first quarter. As everyone else, the growth rate was supported by the inflationary situation in Argentina, which in the past moderated recently. What we shared in terms of Latin America is still contributing to the growth. We also shared with you in the past that we were facing operational issues due to the DC transitions. We shared with you in the past that we've been able to make progress in terms of the quantities that we are able to deliver, to cater for the demand across different markets. But we are continuing to work on improving the quality and the efficiencies of our operations to support the Latin American market.
Geoff Lowery	Thank you.
Markus Neubrand	You're welcome.
Operator	The next question comes from Jürgen Kolb from Kepler Cheuvreux. Please go ahead.
Jürgen Kolb	Thank you very much. First one is on gross margin, again. Given the current trends in the currency, especially US dollar-euro, obviously. And if I remember it correctly, at the end of 2024, you guide, or your charts on the gross profit margin had just one arrow down because of the currency effects. Based on the current rates, do you think the unhedged portion will be enough to maybe drive the gross profit margin into a more positive territory than you estimated at the end of 2024? That's the first one. And then secondly, also, a little bit of looking back into 2024. I noticed the factoring has increased quite significantly in 2024. Is that the same trend that you've seen in Q1? And also, the question is, why did it increase so materially? Thank you very much.
Markus Neubrand	Thank you, Jürgen, for your questions. Let me take the first one regarding the US dollar weakness that you see in 2025 so far. For 2025 US dollar exposure, we are fully hedged for 2025. Based on what we currently see from a transactional perspective, we see no or very limited upside from a transactional perspective, from the US dollar weakness on our gross profit margin. Let me remind you always what our hedging policy is. We hedge 12 to 15 months forward, according to our hedging policies, and that's were 2025 and also prior to the US dollar weakness started, we have been fully hedged already for 2025. Your second question regarding factoring. Factoring, if we look at year-over-year, has increased. Why? First, let me answer where we're doing hedging [factoring]. It's an alternative

	financing and for risk management in markets like Japan, India, Mexico, and also in Europe we've done some factoring in 2024. Has it increased in the first quarter? The factoring levels have slightly increased also in the first quarter of 2025.
Jürgen Kolb	Thank you very much.
Markus Neubrand	You're welcome.
Operator	The next question comes from Adam Cochrane from Deutsche Bank. Please go ahead.
Adam Cochrane	A couple of questions from me. Firstly, with regards to the guidance, when you gave it for the full year, I think at that time, you said it incorporated the tariff changes up to 11 March. And if I recall, by that point, there had been some initial tariffs placed on China by that point. Can you just confirm how much, when you gave the guidance, you took into account, what was the euro millions number from the China tariffs, as they were, that you put into your guidance? I can't really remember exactly what the quantum of that was. And then secondly, in terms of the profit progression through the year, we're looking at a reasonable recovery and then hopefully sequential improvement in EBIT as the second half progresses. Are there any other re-evaluations to be aware of, as you talked about in the first quarter, as the year goes on, positive or negative, that we should know about? Or is this more related to just the benefit of the cost savings coming through as the year progresses to help support your profit growth? Thanks.
Markus Neubrand	Thank you, Adam, for your questions. When we provided guidance for the full year on 11 March 2025, we incorporated two times 10% tariffs on Chinese imports to the US, and that was what we shared in our conversations. In terms of the absolute amount, I think we are not providing quantification of the additional duties, but that's also where an indication this has been factored in when we provided the guidance for the full year. The second part of your question, looking at the profit progression. What we have factored into both our guidance, and that's where we've been giving you the slide where you can see what we are expecting in terms of the EBIT contribution, the up to €100 million in 2025, and how we expect them to develop. That's where you can see all the nextlevel contributions will help to improve our adjusted operating profit. Also, you can see nothing from the full-year guidance and the implied, what we just provided for second quarter, what is implied for the second half, that we expect further improvements in the second half.
Adam Cochrane	There's nothing in terms of the revaluation impact on gross margin that we saw in the first quarter. Nothing like that, that we need to know about for the rest of the year?

Markus Neubrand	We have incorporated all effects that we know about, that we are aware about, including operational, improvements driven by nextlevel. In the comparison base, we have incorporated everything into our full-year guidance for 2025.
Adam Cochrane	Thanks.
Operator	There are no further questions at this time. I hand back to Gottfried Hoppe for closing comments.
Gottfried Hoppe	Thank you, Moira. Thank you, ladies and gentlemen, for participating our Q1 2025 earnings call today. Thank you also for sticking to the two questions rule, with the exception of Rob, but we'll take that. In case there are further questions left, please feel free to reach out. In the meantime, have a nice day, talk to you soon, and bye-bye.