A-	ISSUER RATING Long-Term
Outlook	Stable
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RATING ACTION AND RATIONALE

- EthiFinance Ratings has reaffirmed its long-term corporate rating of A- for PUMA SE, with a Stable outlook.
- The rating reaffirmation is founded on Puma's sustainable topline growth and profitability metrics along with a prudent financial policy. Puma indeed reported robust top-line growth of 24.4% for FY22, primarily driven by an effective pricing strategy and successful launch of new footwear collections. Puma is a mid-sized industry player that differentiates itself by being present in several sports: (motorsport, football, basketball, running and golf). This diversification not only enhances the group's brand image but also enables a broader product offering, despite the strong competition from large industry players such as Nike and Adidas. Our adjusted net leverage ratio has risen slightly, from 0.9x to 1.2x, mainly due to a higher net debt resulting from a negative FCF, which is further impacted by a restricted cash of €93m factored in the net debt at end-2022. It is, however, expected to gradually improve over our forecast period.
- Our rating is, however, constrained by industry dynamics. In FY22, the main players faced a common headwind from an exceptionally high inventory level due to weakening consumer sentiment in some markets (North America and Greater China). Puma is now faced with the challenge of improving its profitability margins after it has succeeded in stabilizing its inventory level in 1H23.
- In line with our methodology, the consumer durables & apparel industry has medium ESG risks (heatmap score of between 2 and 3.5), which is neutral for our industry assessment. Our assessment of the company's ESG policy is neutral (company ESG score of between 1 and 4), resulting in no adjustments based on ESG considerations.

ISSUER DESCRIPTION

Puma is a German multinational that designs and distributes sporting goods (athletic and casual footwear, clothing and accessories) through a network of (i) around 66 wholesale distributors (Amazon, Foot Locker, Zalando, etc.), (ii) more than 1000 Puma-branded flagships and outlet stores worldwide, and (iii) its e-commerce platform (incl. shopping app). The production process is mostly outsourced to third-parties located in low-cost countries. Puma is the 3th largest sportswear manufacturer after Nike and adidas and it employs more than 20,000 employees worldwide.

For FY22, Puma reported sales of €8.4bn and EBITDA of €1.0bn with an EthiFinance Ratings-adjusted net leverage ratio of 1.2x at end-2022. As of August 1st,2023, Puma's market capitalization is c. €9.06 bn.

FUNDAMENTALS

BUSINESS PROFILE

INDUSTRY RISK ASSESSMENT

- **Sportswear industry: Moderate growth in 2022**

In 2022, global demand for the sportswear and apparel benefited from large-scale sporting events such as the FIFA World Cup in Qatar and the Winter Olympics Games in China. However, this market growth was curtailed by pressure on input costs and supply chains as well as lower discretionary spending amid rising inflation rates. In parallel, the Covid-19 related lockdowns that occurred in 1H22 have impacted global supply chains, which led in turn to higher inventory levels in 2H22 and 1Q23. Marketing expenses have risen accordingly in an attempt to convert the inventories into sales, albeit risking profitability margin down the line.

- **Brand image & size are effective barriers to entry**

The sportswear industry has rather low barriers to entry and niche brands can emerge quite rapidly. Nevertheless, it is quite challenging for a new entrant to compete with the leading industry incumbents. That is due to the cost of building an efficient supply chain coupled with a significant marketing budget needed to develop global brand awareness. Consequently, we consider that barriers to entry in this industry are rather significant.

- **Moderate degree of volatility**

Industry players (including the entire value chain) have exposure to price increases for commodities such as cotton or petroleum derivatives which are a significant component in manufacturing and transportation costs. High volatility of the price of petroleum products can therefore adversely affect margins. Additionally, the industry faces challenges arising from recession fears in various markets, persistently high inflation, and rising interest rates, which are all leading to a muted consumer sentiment and reduced demand. Elevated inventory levels further exacerbate the situation, pressuring the companies to resort to discounting outdated products for inventory rightsizing, negatively impacting EBIT margins.

- **Outsourcing to low-cost countries exposes the industry to some ESG risks**

The industry is organized through a long supply chain, from cotton harvest to spinning, cloth making and retailing, generating high carbon emissions while also raising questions about human rights (treatment of labour in some countries). As the companies have weak control over the global supply chain, potential ESG risks could arise, especially with distant suppliers.

COMPANY'S COMPETITIVE POSITIONING

- **Puma is renowned for its global and widely recognized brand image**

Puma is the number 3 worldwide sporting goods company (albeit a long way behind the top two, Nike and Adidas), in terms of revenues. Brand image is an important distinctive factor which is built through sponsoring & partnership with influential celebrities mostly in the sporting and entertainment areas, such as Neymar (football player) or Rihanna (singer). Puma is mostly dependent on one brand, although the group also owns and operates Cobra (a premium golf gear brand), while adidas and Nike are also mostly dependent on their own brand.

- **Good geographic diversification**

Puma's rating is supported by the company's good geographical diversification with a strong presence in Europe (23% of FY22 sales), the Americas (43%). Greater China is considered as a strategic market for Puma where it expects a rebound of its activity from 2023 onwards. This resurgence is anticipated to be driven by the end of zero-covid policy enabling an upswing in economic activity.

GOVERNANCE

- **Shareholders**

Puma's main shareholder is Artemis (c. 28.7%), the family office vehicle of the Pinault family, which is also the parent company of Kering with a c. 41% stake. Kering has also a c. 4.0% remaining stake in Puma.

Puma was from 2007 until 2018 a subsidiary of Kering. In 2018, Kering decided to spin-off 70% of Puma, retaining a 30% stake. Since then, Kering has gradually sold down its retained stake, to currently c. 4.0%. We understand that Artemis issued in June 2020 5Y €500m bonds exchangeable for Puma shares, at the issuer's option. At full conversion, Artemis expects its stake in Puma to shrink to approximately 25%.

In May 2021, Kering divested a 5.9% stake in PUMA through an accelerated book building process.

- **Management quality**

The management has a very good track record. We consider that so far Puma has pursued a prudent financial policy, one in line with its growth profile. Puma's dividend payout, as announced by the management is between 25% and 35%. We expect that Puma will likely not deleverage below 0.5x and will use its excess cash-flow either for dividends (as forecast), acquisitions, or to invest in its brand image or to expand its operations. In November 2022, it was announced that the CEO of Puma would leave the company at the end of the year (when his contract expired) to join Adidas. Chief commercial officer Arne Freundt was appointed to replace him. Considering the guidance reaffirmation for 2023, we consider that this risk, and transition, remain manageable.

- **ESG policy**

For FY22, Puma scope 1 & 2 emissions have increased at a constant perimeter by 12.8% with almost same amount of energy consumption as in FY21. Overall, our updated ESG score has a neutral impact our anchor rating. Puma aims at reducing by 2030, in absolute terms, its greenhouse gas emissions from its own entities (Scope 1 and 2) by 35% compared to a 2017 baseline (12.5% reduction to end-2022). It also targets to reduce the emissions from its supply chain by 60% relative to sales (Scope 3: purchased goods and services). In its 2025 plan, Puma targets to move 100% of its own entities to renewable electricity and to expand the use of renewable energy at its core suppliers to 25%.

FINANCIAL PROFILE

CASH-FLOW AND LEVERAGE

- **Record-high revenue and operating profit in FY22 hampered by a high level of inventories**

In FY22, Puma achieved sales growth of 18.9% yoy currency adjusted (CA), reaching a record-high level of €8.5bn. However, the gross profit margin decreased to 46.1% (FY21: 47.9%), mainly due to an unfavourable geographical and channel mix as well as higher freight rates and sourcing costs. EBITDA reached €1.0bn (vs c. €863m in FY21) supported by around €85m of cost efficiencies in SG&A. Puma generated, in 2022, a negative FCF of €238m, impacted by a high level of changes in inventory €747m (vs €304m in FY21) along with dividend payments of €108m in FY22 (vs €24m in FY21). In 1H23, Puma continued its growth trajectory, achieving sales of €4.3bn, up a 10.1% compared to 1H22. However, the profit margin has decreased from 8.7% to 6.8% due to higher sales, marketing and distribution costs. Inventories have been maintained at a stable level of €2.14bn (vs c. €2.0bn in 1H22). Over 2023-25, we expect Puma's EBITDA margin to decline to 11.3% in 2023 before rebounding to 11.5% and 12.0% in 2024 and 2025, respectively.

- **Strong cash-flow generation and a solid financial profile**

The credit rating is underpinned by Puma's solid financial profile with an EthiFinance Ratings-adjusted leverage ratio which is expected to gradually decrease to below 1.0x and then be kept below that mark over the remainder of our forecast period. This improvement is expected to be on the back of steady EBITDA improvement resulting from supply and freight costs and inventory level normalization along with effective regional and channel mix. Over 2023-25, we expect Puma to deliver good free cash-flow after dividends equivalent to a yearly average of €160m.

SOLVENCY AND LIQUIDITY PROFILE

- **A steady solvency ratio, expected to improve as the company continues to deleverage**

Total reported debt reached €1.56bn at end-2022. Most of Puma's debt (78% at end-2022) stems from IFRS 16 leases liabilities, which correspond to the rent of retail shops & warehouses. Debt adjustments were employee benefits for an amount of €22m. Total net adjusted debt reached €1.2bn at end-2022, corresponding to a net adjusted leverage of 1.2x (excluding a restricted cash of €93m). In addition, the group's liquidity is reinforced by an unutilized RCF line of €800m.

To sustain the cash position hampered by a high working capital change (€604m) in 1H23, Puma has issued fresh debt totalling €460m, mainly comprising a promissory note for €300m. Our interest coverage ratio will be impacted by this 20% debt increase as well as the rising interest rates, resulting in a decline from 18.6x in FY22 to 14.6x in FY23 and 12.9x in FY24 before rebounding to 14.9x in FY25.

Puma partially owns its North American business, at 51%. This division is fully consolidated and there is some cash leakage linked to the dividend distributed to minorities (€73m in FY22), even though we have not identified strong structuring/subordination issues.

- **Good liquidity profile with strong refinancing profile**

We consider Puma's liquidity profile to be "Adequate" as the company can repay all its upcoming debt maturities without refinancing for more than two years. The company can also get financing relatively easily, given its strong financial profile (As shown below in the rating snapshot).

MODIFIERS

- **Controversies**

We have not identified any controversy regarding PUMA SE or any of its subsidiaries in the past financial year.

- **Country risk**

Puma is rather well diversified geographically, and therefore does not have significant country risk exposure.

MAIN FINANCIAL FIGURES AND FORECASTS

Main financial figures. €m	2021	2022	2023E	2024E	2025E	*22vs21*
Turnover	6 805	8 465	9 076	9 714	10 397	*24.4%*
EBITDA (Adjusted)	863	1 000	1 026	1 118	1 249	*15.8%*
EBITDA Margin	12.7%	11.8%	11.3%	11.5%	12.0%	-0.9pp
EBIT	557	641	652	717	819	*15.0%*
EBIT Margin	8.2%	7.6%	7.2%	7.4%	7.9%	-0.6pp
Interest expenses	(44)	(54)	(70)	(87)	(84)	*21.2%*
EBT	602	695	722	804	903	*15.5%*
Total Assets	5 728	6 773	7 577	7 935	8 355	*18.2%*
Equity (Adjusted)	2 279	2 539	2 816	3 106	3 449	*11.4%*
Total Financial Debt (Adjusted) (1)	1 502	1 582	1 983	1 921	1 858	*5.3%*
Net Financial Debt (Adjusted) (1)	745	1 212	1 150	999	781	*62.7%*
Equity/TFD (1)	151.7%	160.5%	142.0%	161.7%	185.6%	8.9pp
NFD/EBITDA (1)	0.9x	1.2x	1.1x	0.9x	0.6x	*0.4x*
Funds From Operations	594	666	715	768	865	*12.2%*
FFO/NFD (1)	79.8%	55.0%	62.1%	76.9%	110.7%	-24.8pp
EBITDA/Interest	19.4x	18.6x	14.6x	12.9x	14.9x	*-0.9x*

(1) The adjusted net debt is exclusive of €93.3m of restricted cash for FY22 and the forecast years.

RATING SNAPSHOT

CREDIT RATING	
Business Risk Profile	***BBB***
Industry Risk Assessment	*BBB*
Industry 's ESG	***Neutral***
Competitive Positioning	*BBB+*
Governance	*BBB+*
Financial Risk Profile	***A***
Cash flow and leverage	*A*
Solvency	*A-*
Company's ESG	***Neutral***
Anchor Rating	**A-**
Modifiers	-
Final Rating	**A-**

RATING SENSITIVITY

Detailed below are the factors that individually or collectively could impact the company's rating:

- **Long-term rating positive factors (↑).**

We could upgrade our rating should Puma's credit metrics improve further on a sustainable basis. Specifically, a potential catalyst for such upgrade could be an EthiFinance interest coverage ratio above 25.0x (in addition to a sustainable net adjusted leverage). Also, an upgrade is subject to stable prospects for the whole fashion and apparel industry, which is closely tied to market sentiment and brand image.

- **Long-term rating negative factors (↓).**

We may consider downgrading our long-term rating in the event of a significant deterioration in Puma's credit metrics, such as an EthiFinance adjusted net leverage exceeding 2.0x on a sustainable basis and/or an interest coverage ratio falling below 10.0x. Additionally, industry headwinds such as high operating costs or controversies tied to one of the brand's partnerships could result in a rating downgrade in the event of a significant material impact on the company's financials.

REGULATORY DISCLOSURES

LEI: 529900GRZ2BQY5ZM9N49

Initiation report: No

Rating initiation: A- on 29 November 2022

Latest rating action: A- on 29 November 2022

Name of the Rating Committee chair: Marc Pierron, Senior Director

Rating nature: Unsolicited long-term credit rating (this report is paid by investors, not the issuer).

With rated entity or related third party participation: Yes, this rating report was published with having been reviewed by the issuer.

With access to internal documents: No

With access to management: No

Ancillary services sold to the rated entity: No

Material sources used to support the Rating decision:

- Annual reports, quarterly results, conference call and presentation: 2018, 2019, 2020, 2021 and 2022
- Bloomberg

Limitation of the Rating action: EthiFinance Ratings believes the quality and quantity of information available on the rated entity is sufficient to provide a rating. EthiFinance Ratings has no obligation to audit or verify the accuracy of data provided.

Principal methodology used in this research available at:

https://files.ethifinance.net/documents/methodologies/CRA_190_V3.CorporateRatingMethodology_Long_Term.pdf

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