Retail & consumer. Brand revival

Patience a virtue on Puma's road to recovery

Sportswear company has won back customers, but there is a long way to go, says chief

OLAF STORBECK — HERZOGENAURACH

Björn Gulden describes Puma as "the fastest sports brand in the world". Yet when it comes to his company's performance, the chief executive stresses one thing above all else: patience.

The smaller rival to Germany's other sportswear giant Adidas is in the throes of a revival. After years of lacklustre sales growth and plunging profits, sales in the first nine months of 2017 jumped 16 per cent, while the operating margin almost doubled to just below 7 per cent.

The shares are up almost a third over a year, twice as much as Adidas.

But Mr Gulden, a Norwegian former professional footballer, says: "Our turnround is a long journey, and it is far from over."

The recovery is entering a new era as the current majority shareholder, the French luxury group Kering, sells down its stake in Puma. Kering, the owner of Gucci, announced this month that it would lower its holding from 86.3 per cent to 16 per cent.

A decade after becoming Puma's majority shareholder, it plans to hand over 70 per cent of Puma stock to its investors. The non-cash transaction, worth €3.5bn at current prices, would turn Kering's controlling investor, the billionaire French family Pinault, into Puma's biggest single shareholder. The family's holding company, Artémis, will have a 29 per cent stake and sees itself as a "long-term strategic shareholder of Puma", whose free float would almost quadruple to 55 per cent.

A day after the announcement, Puma shares tumbled. A fall, analysts say, that was driven by fading hopes of a takeover premium, because speculation about a sale to a strategic buyer or to private equity had inflated the stock, rather than any concern over the change of ownership.

"Kering's exit opens a window of opportunity" for outside investors, says Jörg Philipp Frey, an analyst with Warburg Research. "The turnround of Puma is now visible and in full swing."

Mr Frey adds that the higher free float should tempt external investors. Others say Puma's valuation seems rich. The stock is trading at close to 28 times forecast earnings, compared with Adidas's multiple of about 22 times, according to S&P Global Market Intelligence.

The brand was founded in 1948, after brothers Adolf and Rudolf Dassler, who owned a shoe factory, fell out and set up alone. Adolf launched Adidas, while Rudolf created Puma. To this day, both companies are in Herzogenaurach, a sleepy Bavarian town of 24,000 people 20km north-west of Nuremberg. Over the past decade, Puma has fallen further behind its rival. Sales at Adidas are five times larger than Puma's €4bn, compared with 4.3 times in 2007.

Analysts expect the gap to widen over the next three years. According to S&P Global Market Intelligence consensus forecasts, they predict average annual sales growth of 9.6 per cent at Adidas, compared with 8.7 per cent at Puma.

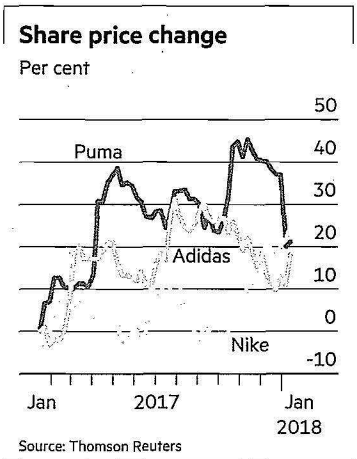
Nike, the world's largest sportswear maker with annual sales of $34.7bn, is seven times larger and cranks out an operating profit margin twice as big as Puma's. While Puma's margin has improved, it is still no match for the 9.3 per cent analysts forecast for Adidas. Mr Gulden says: "Our financial ratios are still unimpressive. We have a lot of room for improvement."

He adds: "Well-managed companies in our sector earn operating margins between 8 per cent and 12 per cent. This is a level of profitability that Puma should also be able to achieve."

Mr Gulden says the change in ownership will bring no disruption to operations. "For Puma and its employees, Kering's decision is by far the best possible outcome," he says. The cost synergies Kering envisaged when buying into

Puma a decade ago never materialised, he adds. Under Mr Gulden's leadership, the gap between Puma and Kering's other business has grown, as he steered the group away from lifestyle fashion back to its roots in sports, investing in product innovation and marketing.

In 2014 it became the kit supplier of the Premier League football club Arsenal. A year later the company, which had sponsored the Jamaican sprinter Usain Bolt, launched a new generation of running shoes that use foam technology, which it says "maximises energy return". Puma started to focus on female customers earlier than its larger rivals, signing the Barbadian pop singer Rihanna as creative director for Fenty, its women's collection, and this month launching a marketing push featuring the actress Selena Gomez.



"Thanks to new products, Puma managed to win back retailers and consumers," says Andreas Riemann, a Commerzbank analyst.

Mr Gulden, who raised his 2017 guidance three times last year, says Puma could have grown even faster, "but there is only so much growth a company can digest at a time", adding that delivering high-quality products on time is a challenge.

The Puma chief refuses to specify how long investors will have to wait before seeing the level of returns that its domestic rival achieves.

However, he says one missing link is Puma's lack of presence in big American sports such as football, baseball and basketball.

"As a global sports brand, we need to be there," says Mr Gulden.

So far, the group has lacked the financial strength for such an investment but as the turnround gains pace, "it is logical that the point where we can make the move is coming closer".

On the front foot: sales at Puma climbed 16 per cent in the first nine months of 2017 and shares are up nearly a third over a year
Krisztian Bocsi/Bloomberg