HUGO BOSS Annual Shareholders' Meeting 2013
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Messe Stuttgart
Speech by Claus-Dietrich Lahrs, CEO

- The spoken word shall prevail -

Good afternoon Ladies and Gentlemen, dear Shareholders,

On behalf of the Managing Board, I would like to wish you all a warm welcome to this year's Annual Shareholders' Meeting of HUGO BOSS AG.

2012 was another record year for our Group. Despite a difficult economic environment, we maintained the momentum of previous years.

Let me start by touching on the highlights of the past financial year. Subsequently, I will look at the strategic and financial outlook for the current year in more detail.

In 2012, sales grew by 10% in local currencies or 14% in euro terms to more than 2.3 billion euro. Operating profit, measured as EBITDA before special items, increased by 13%. At the same time, we gradually improved our working capital to finish the year with further reduced net debt.

These results underline that we are firmly on track to achieve our medium-term targets.

Growth was broad based across all brands, regions and distribution channels, highlighting the success of our medium-term growth strategy: sales were up for all brands, all regions contributed to the increases and all distribution channels grew compared with the prior year.

The economic success of HUGO BOSS is also reflected in the development of staff numbers. In the past financial year, some 850 new jobs were created throughout the Group. The expansion of own retail played an important role here.

HUGO BOSS also grew its workforce in Germany, particularly at its headquarters location. As such, Metzingen very clearly still forms the heart of the company.

In 2012, we kept step with the growth of our Group headquarters with the construction of a new, modern administrative building that will commence operations this summer. With its innovative construction and design concept that meets the highest standards in energy efficiency, it fits perfectly in the existing campus.

The Beijing fashion show was the clear highlight of the year for our core BOSS brand. Never before had the Group staged a bigger, more impressive event on the Asian continent.

In celebration of the 30th anniversary of our market presence in the country, the National Agriculture Exhibition Centre in Beijing was turned into a giant catwalk. Illuminated arcs along the more than hundred meter long runway created a unique setting for the spectacular presentation of the BOSS brand's 2012 Fall and Winter collections entitled "New Dimension Beijing". More than 1,500 guests on site plus an additional 70,000 website visitors followed the live show.

The BOSS brand continued to resonate extremely well with consumers in both clothing and sportswear.

In 2012, the clothing offering was the strongest growing element within the brand. A high-quality, classic product with a modern twist that addresses the fashion-conscious consumer continues to be the cornerstone of our success in our heritage business.

In addition, the sportswear category grew at double-digit rates as well. Accounting for roughly 40% of the brand's total menswear offering, BOSS Sportswear scores with a sophisticated, high-quality product. In the past years, we have made good progress, in particular, in strengthening our luxury sportswear offering – an area that we will focus even more on with the integration of BOSS Selection.

The HUGO brand made further inroads in 2012 refining its position as the home of avant-garde design.

The HUGO show is a highlight of the Berlin Fashion Week every season. HUGO again received a lot of applause at its latest appearance in January. This was true for the setting – an abandoned industrial building in the city center of Berlin formerly hosting the studios of the Berlin Opera – but even more so the collection.

With unique surfaces, innovative details and fresh silhouettes, HUGO demonstrated it is able to reinvent itself season after season, updating iconic style for a contemporary feel.

HUGO was also the standout brand in terms of womenswear growth in 2012. Across our portfolio, womenswear grew 8% in euro terms.

As a result, our womenswear is now a 250 million euro business. This makes us an important player in the highly fragmented tailored apparel market, especially in Europe. The growing momentum we have witnessed over the course of the year is a clear confirmation of our decision to strengthen our womenswear business organizationally. The creation of a separate entity, with a single brand and creative director assuming full responsibility for our entire womenswear business, has already helped us to pursue the significant growth opportunities we have identified.

The launch of our new signature scent for women 'BOSS Nuit pour femme' in July was extremely effective in creating awareness of our women's business.

Promoted by American actress Gwyneth Paltrow, 'BOSS Nuit pour femme' became a hit in key European markets very quickly and Germany's top-selling female fragrance in the second half of 2012. The launch was hence an important step in establishing

BOSS as a leading player also in the female global fragrance market. We will bring further innovations to market in 2013 in order to cement that position.

Aside from ‘BOSS Nuit pour femme’, we enjoyed successful male fragrance launches also with BOSS Bottled Night and BOSS Bottled Sport, which helped building an entire “BOSS Bottled House of Fragrances”. And just a few weeks ago, we launched HUGO Red in the stores. This fragrance is the latest offering in the successful partnership with US singer and actor Jared Leto to perfectly complement HUGO’s core fashion offering.

Ladies and gentlemen, 2012 constituted a milestone for our own retail activities. For the first time in our history and earlier than we had initially expected, sales at stores directly operated by HUGO BOSS exceeded those we generated with our wholesale partners. Just a few years ago this would have been unthinkable.

Still, this development is a logical result of the transformation the Group has undergone to become an increasingly consumer-centric, retail-oriented company.

Accordingly, we remain absolutely committed to building up our own retail universe. In 2012, we increased the number of stores and shop-in-shops we manage ourselves by 218 to a total of 840 points-of-sale.

Expansion has been multi-faceted: in addition to the opening of 122 new stores and shops-in-shops in all three regions, we have taken over 17 stores from franchise partners in Taiwan and mainland China as we strive to take full control of our distribution in high-growth markets. And finally, we assumed responsibility for around 100 HUGO BOSS shop-in-shops which department store partners had previously run independently from us.

One of the most important openings in 2012 was a new store on the Boulevard de Waterloo in Brussels, the home of luxury retailing in the city. Situated in a completely refurbished ancient building, the BOSS menswear and womenswear offering spans three floors.

In the U.S., we opened a new store in Manhasset on the north coast of Long Island. The area is one of the most popular shopping destinations for premium and luxury fashion among New Yorkers.

Additions to our store network in Asia in the past year included a new store in Taipei 101, Taiwan’s most spectacular skyscraper. The store has an outstanding location on the first floor of the popular shopping mall.

We also made significant investments in the renovation of our existing store base.

Our flagship store on Champs-Elysées in Paris was the prime example in this respect. It reopened in June last year. The store inaugurated our next generation B7 store concept to create a “modern classic” retail space. The same concept has been applied to all flagship openings and renovations since then. Major projects included our Regent Street store in London, where renovation finished in April, and our Sydney flagship store in King Street, which reopened after an extensive refurbishment at the end of October.

In 2013, we plan to renovate around another 50 stores and shops, amongst them one of our key stores in London in Sloane Square and our New York flagship store at Columbus Circle.

However, before I look at our strategic initiatives for 2013 in more detail, I would like to explain the financial development of the HUGO BOSS Group in the past year to you in somewhat more depth.

Sales were up 14% on the previous year's level and reached 2.346 billion euro in 2012. On a currency-adjusted basis, the increase amounted to 10%. As a result, we reached the top end of the guidance we had presented twelve months ago.

All regions contributed to growth.

Sales in Europe were up 10% in local currencies. The UK was the standout performer with sales climbing 19% year-over-year. The other European key markets Germany, Benelux and France also achieved solid growth rates, and even in markets such as Spain and Italy, in which the economic environment was extraordinarily difficult, we achieved double-digit increases.

In the Americas, the 14% currency-adjusted revenue growth was driven by the strength of the U.S. market. This made it the Group's single biggest market in 2012, overtaking Germany.

In Asia, Group sales were 4% higher compared to the prior year excluding currency effects. Compared with the previous year, growth rates slowed most notably in China where the premium and luxury clothing segment suffered from consumers' reluctance to spend.

Considered in terms of distribution channels, wholesale sales increased by 2% after adjustment for currency effects. While wholesale sales in Europe remained stable, reflecting a more difficult trading environment, we recorded double-digit growth in the Americas.

In line with the Group's medium-term strategy, own retail continued to grow robustly. Full year retail sales were up 19% on a currency-adjusted basis.

Last but not least, our royalties business had a very strong year with sales growing by 15%. As mentioned previously, this was primarily attributable to our fragrances.

The increases in sales described were reflected in corresponding improvements in net income.

Strong growth in our high margin retail and royalties business was the main driver behind the increase in the gross profit margin to just under 62%. Continued improvements in the efficiency of our purchasing process also contributed to compensating for larger discounts in the retail and wholesale business.

Sales growth and the improved gross profit margin compensated for the increase in operating expenses, which was related to the expansion in the Group's own store network, in particular. Operating profit, measured as EBITDA before special items, grew by 13% year-on-year to 529 million euro. As a result, it exceeded our forecast made in the middle of last year. However, the adjusted EBITDA margin decreased slightly year-on-year to 22.6%.

Increased depreciation and a more negative financial result meant that the Group profit attributable to shareholders ultimately increased by 8% to 307 million euro.

In 2012, we invested more than ever in the long-term growth of the Group. Capital expenditures increased by 54% to 166 million euro.

Own retail continues to be at the forefront of our activities in this respect as well. We also focused closely on the expansion of our operational infrastructure. In this context, we must mention the construction of our new flat-packed goods distribution center in Filderstadt-Bonlanden in particular, which entailed expenditure of 30 million euro last year.

Despite the increase of investments, free cash flow improved by 13% to 221 million euro. The increase in Group operating profit as well as strict working capital discipline drove this development.

As a result, we further reduced net debt to 130 million euro at the end of the financial year.

We are therefore in a comfortable position to continue following our shareholder-friendly dividend policy. For the financial year 2012, we propose paying you, our shareholders, a dividend of 3.12 euro per share. That’s an increase of 8% compared with the year before. The implied payout ratio of 70% is right in the middle of our target corridor between 60% and 80% of Group net income, reflecting our confidence in future profitable growth.

The share’s performance also underlines the success of HUGO BOSS AG in the past financial year. With a rise of 45% in total, our share outperformed the market as a whole in 2012. This means that we have now outperformed the DAX for the third year in succession.

In the first few months of 2013, the share continued to perform well with growth of around 12% since the beginning of the year.

2013 promises to become another successful year for HUGO BOSS.

I’m confident we will be able to grow sales and earnings in a meaningful way despite the weak economic backdrop.

In 2013, we will concentrate on further building our proven strengths:

- All our brands and lines provide ample opportunities for further growth as we have refined the setup of our brand portfolio.
- We will make further progress in the transformation from a wholesale-driven company to one which is increasingly consumer- and retail-centric.

- We will expand our business across all regions with a particular focus on continuing our strong momentum in the Americas and accelerating growth in Asia.
- And finally, we will invest in infrastructure and processes as operational excellence drives commercial success.

Let’s start with our first growth pillar – our brands.

In the past year, we have decided to optimize and streamline our brand portfolio in order to further strengthen the market position of our core BOSS brand as well as to simplify our messages.

Our core BOSS brand will enter a new growth stage in 2013 with the integration of the former BOSS Selection offering. The decision to combine both brands documents our commitment to increase our relevance in luxury clothing and sportswear. It also addresses the needs of customers looking for the highest standards in terms of quality and design. We are convinced that the entire brand will benefit from this. In particular, our own retail business offers us an outstanding environment today to emphasize the significance of our offering even more clearly in future.

At the same time, we shall remain an attractive partner for our wholesale customers. In the premium segment, BOSS Orange will play an increasingly important role here. This brand is an ideal entry to the HUGO BOSS world for a younger consumer who is focused on casualwear and premium clothing rather than luxury.

Let me now give you a better idea of how we will fill the brand framework with life in 2013.

In recent months, we presented our BOSS 2013 Fall and Winter Collections to the market. They reflected the integration of BOSS Black and BOSS Selection for the first time. We have taken great care to upgrade the overall offering by adhering to the highest levels of workmanship, quality, and taste that were key to BOSS Selection’s success. This is expressed particularly clearly in Made to Measure, which combines modern technology and uncompromising quality that is "handmade in Germany". The feedback from our own retail teams as well as wholesale partners has accordingly been highly positive.

In the BOSS brand in particular, we are dedicated to building a bigger and better womenswear business.

Today, we resonate very strongly with our female audience when it comes to tailored apparel, offering feminine, elegant outfits to the fashion-minded woman. Building on this strength, we want to become the brand of choice for all women who want to succeed in their personal priorities, whether they strive for a professional career or manage a busy family life. These customers are looking for versatile outfits that can be flexibly combined for a fresh new look day after day. We will adjust to this need even more effectively going forward. This includes the design of our collections, their presentation as well as the quality of advice and service customers receive in our retail network. Consequently, we will make sure all Group stores beyond a certain size feature an attractive womenswear offering – on the sales floor and in the shop windows.

Our conviction with regard to the future of womenswear can also be seen in the large role it plays in our brand communication. For example, our womenswear will be even more visible than menswear at our fashion show in Shanghai.

Equally importantly, we have just launched our first ever dedicated womenswear advertising campaign. This is the perfect stage for the balance of sovereignty and sensuality that BOSS stands for.

At HUGO, we will celebrate the brand's 20th anniversary this summer. For this occasion we shall launch 20 products capturing the essence of the HUGO brand in July. This special collection encompasses both menswear and womenswear and includes the core HUGO colors black, white, and signature red. The launch will be highlighted by an extensive marketing campaign.

In 2013, we will strengthen HUGO's presence in particular in larger own retail stores where its sharper fashion statement perfectly complements our core BOSS offering. We will also selectively expand HUGO's stand-alone retail presence, especially in the U.S.

At BOSS Orange, we are focusing on refining the brand's casual, urban character targeting men and women with a very individual definition of lifestyle and personal success.

The current campaign projects the BOSS Orange typical retro feeling very intuitively.

Finally, we will continue to build BOSS Green's market position as the brand where active, functional sportswear and golfwear meets premium fashion.

German world-class golfer Martin Kaymer, who secured a place in golf history with his winning put at last year's Ryder Cup, again features prominently in our current communication, conveying the dynamic, energetic nature of the brand.

In our second strategic growth pillar retail, the focus is as much on growing this business through store expansion and productivity improvements as on further enhancing our retail capabilities.

Based on an analysis of our global market penetration, we see significant scope for further expansion in our retail network. In 2013, we will open around 50 new stores and shop-in-shops in all relevant markets.

We will focus above all on elevating the HUGO BOSS retail experience in key metropolitan areas around the world. Our new flagship stores in Shanghai, Hong Kong, Tokyo, Amsterdam, Berlin and Stuttgart will shape the perception of our brands in the years to come.

The two stores in Shanghai, scheduled to open over the next few months, will establish a true brand statement in one of Greater China's key metropolitan areas. These openings will be followed by an additional two stores in Hong Kong towards the end of this and the beginning of next year. And in Tokyo we will establish a presence in Omotesando, the city's most attractive shopping district, towards the end of the year.

In Europe, we opened our flagship store in Amsterdam at the end of March. In the second half of 2013, we plan to start business at our Berlin flagship, where we will occupy two levels of close to 600 square meters. Finally, here in Stuttgart, we will relocate less than a kilometer down Königstrasse, the main shopping street, to open a new, significantly larger and more visible location.

While the openings I just mentioned represent truly new locations, we will also continue taking over shop-in-shops from retail partners. In 2012, we have firmly established this business model with more than 100 locations we now manage at El Corte Inglés in Spain, Globus in Switzerland, and Holt Renfrew in Canada.

In most cases, we have been able to grow sales beyond the levels achieved by our partners. As a result, we generated a positive sales and earnings contribution even in challenging market environments.

In 2013, we shall bring this concession model to Germany – to the Karstadt Weltstadt stores and to Wöhrl. In Spain, we took over about 25 additional locations from El Corte Inglés in the first quarter.

Online is becoming an increasingly important part of our retail business as well. In 2012, we increased our sales in this distribution channel by almost 50%.

Today and even more so in the future, we are addressing customers who expect to experience our brands seamlessly across different distribution channels. Especially for new consumers, our online store is often the first point of contact with HUGO BOSS. In order to further elevate the store to represent the HUGO BOSS flagship in the online world, we will invest in the further upgrade of brand presentation and user experience in 2013.

At the same time, we are broadening the geographic reach of our online activities. We launched our new Chinese e-commerce website just a few weeks ago. We will also expand our universe of European online stores with the launch of new sites in Belgium, Italy and Spain.

While the initiatives I just went through will be very visible to our customers, we will continuously work on strengthening the operational backbone of our organization as well.

One example is the further roll-out of SAP throughout the Group. As one of the very last retail markets missing, we are now in the midst of implementation in Japan. Once finalized, this means we will capture close to 100% of global retail sales in SAP, offering almost real-time insight into our performance around the globe.

Another focus this year will be the implementation of a true end-to-end IT platform, providing our retail operations with a fully integrated view of merchandise performance. This will allow us to optimize collection planning based on actual consumer demand to optimize sales, margin, and stock levels.

And finally, the construction of our new distribution center for flat-packed goods in Filderstadt near our Group headquarters is fully underway. Given the good progress we have made in the last few months, we are on schedule for the planned opening in 2014.

Before I detail our expectations for 2013, let me spend some more time on the dynamics in the three regions.

In Europe, we see good opportunities for further growth. Without a doubt, the environment has not become any easier compared to 2012. Regardless of this, we have demonstrated our ability to outperform difficult retail markets in the past as well. The further expansion of own retail activities and the increased control of brand presentation including in multi-brand environments will play an important role in offsetting more subdued wholesale development.

We are confident we can further expand our market position in the Americas also. In the year ahead, we will continue to focus on playing out our key competitive advantages in terms of style, quality, and price that have built our European lifestyle brand value. In addition, we will make even better use of the full strength of our brand portfolio beyond the core BOSS brand.

Finally, we are cautiously optimistic that we will see better development in Asia in 2013 as compared to the prior year. In China, in particular, we expect a gradual improvement over the year against the backdrop of our brand and retail investments. However, we are still faced with a difficult market environment in mainland China in particular. In 2013, we will continue to improve brand awareness and perception as well as further strengthen our retail network to close the gap to some of our competitors who continue to benefit from an earlier direct market entry. Our fashion show taking place in Shanghai in a good two weeks will be an important platform in this context.

Tying all our comments together, we expect another year of solid profitable growth at HUGO BOSS to achieve new record levels of sales and profit in 2013.

We are confident that we can achieve sales growth excluding currency effects in the high single digits. All regions will contribute to this. Considered in terms of distribution channels, own retail will remain the growth engine with double-digit growth. As a result, we shall probably outperform the growth rates of the global economy as well as the broader luxury goods industry, which should grow at a maximum of 6% according to industry estimates.

In the year 2013, our expectation is that EBITDA before special items will increase at a high-single-digit rate like sales. The unprecedented upgrade of our retail universe will have a dilutive impact on Group profitability in 2013 as high start-up costs for new projects and the short-term negative sales and cost impacts from renovations weigh on EBITDA growth.

Store expansion and renovations will also require higher investments. On a comparable basis – that means excluding expenditures related to the construction of our new flat-packed goods distribution center, for which we aim to obtain off-balance sheet financing – the Group's investment will therefore increase.

In our outlook for the year as a whole, we anticipated a continued challenging economic environment, particularly at the beginning of the year, and a weaker development in the first quarter compared to the year as a whole. The quarterly results we published two weeks ago confirm these assessments.

Overall, sales declined by 2% to 593 million euro in the first quarter. This drop was due primarily to different phasing in our wholesale business, which was down 14%. For instance, at the end of 2012 we had already delivered a much higher proportion of the spring collection in comparison to the previous year, in line with demand from our wholesale partners. In addition, our wholesale partners shifted more of their sales volumes to the previously very small summer collection. We therefore expect to see a return to positive growth rates in the wholesale business and for the Group as a whole in the second quarter already. This will also be supported by continued double-digit sales increases in own retail, which posted currency-adjusted growth of 15% in the first quarter.

The increase in our gross profit margin by another 80 basis points was not enough to offset the decline in sales and the rise in operating expenses, primarily due to further expansion of own retail. EBITDA before special items accordingly fell by 11% to 133 million euro, with consolidated net income attributable to shareholders down 13% at 82 million euro.

However, we improved our key balance sheet ratios again. Our strict inventory management was the main factor driving the reduction in our trade net working capital. We therefore generated a positive free cash flow still in spite of considerably higher investments.

Ladies and gentlemen, it should have become clear that we have a good but busy year in front of us.

Undoubtedly, we would have hoped for a better macroeconomic backdrop when we announced our medium-term targets at the end of 2011. Still, we have adjusted to adverse conditions very effectively and constantly outperformed difficult retail environments.

We will therefore continue to carry out our proven medium-term strategy. HUGO BOSS has an enormous potential which is still far from being exploited. With a further refined brand portfolio and unprecedented retail expertise, we are in an ideal position to grow further. This is particularly true for regions such as Asia, the Americas, and Eastern Europe, where we still do not have enough market penetration. The entire organization is passionate in contributing further to the growth story that HUGO BOSS represents today.

We therefore confirm our 2015 goals today. We will grow our business to 3 billion euro in sales and generate an EBITDA of 750 million euro. 2013 will mark an important step forward in this direction.

Ladies and gentlemen, thank you for your attention.