First Quarter Results 2014 Presentation
Metzingen, May 7, 2014
Mark Langer (CFO)

- The spoken word shall prevail -

Good afternoon, Ladies and Gentlemen, and welcome to the presentation of our First Quarter Results 2014.

HUGO BOSS has been off to a good start in 2014. In the first quarter, Group sales increased 6% year-on-year on a currency-adjusted basis. Currency translation effects had a negative impact on this development. In euro terms, revenues were up 3% and reached 613 million euro. Operating profit remained broadly stable compared to the prior year as we invested in long-term sustainable growth.

In line with our strategic priorities for the year presented just a few weeks ago, our womenswear business recorded a stand-out performance in the first quarter. Womenswear sales were up 16% in local currencies, further supporting our expectation of double-digit sales growth in this part of our business this year.

The presentation of the BOSS Womenswear Fall 2014 collection, the first designed by Artistic Director Jason Wu, during the New York Fashion Week and supporting brand communication has clearly resulted in a step change in terms of brand awareness. As a result, sales benefitted even before the collection will be available at retail from June onwards.

Performance was particularly strong in Europe, where our womenswear market position is the strongest relative to the two other regions. But also in the Americas, our Fashion Week appearance created a lot of headlines and drove consumers to our stores. In Asia, womenswear is growing from a small base. Our newly opened flagship stores offer tremendous potential to showcase our womenswear offer far more prominently than this had been the case before. That's why it was an obvious choice to make Jason Wu one of the special guests attending the official ribbon-cutting ceremony of our new flagship store in Hong Kong Central District at the end of March.

This store is one of two stores that opened doors in Hong Kong just recently. In addition to the Central District store, we established a strong presence also on Canton Road. Across 570 square meters and four levels, the store is located at the very beginning of the street, where numerous new store developments currently redefine Asia's highest retail standards.

In Europe, our new flagship on Via Frattini in Rome will mark the region's most prominent opening this year. At a net size of close to 400 square meters, we present the BOSS and HUGO brands across three floors. Our BOSS Womenswear offering is presented very prominently right on the ground floor, including a dedicated shoes & accessories area.

Finally, we established an attractive presence in the Richmond Centre close to Vancouver.
In total, we opened thirteen new stores across the three regions. An additional twelve takeovers related primarily to our Australian department store partner David Jones.

These 25 additions contrast 28 closures of predominantly smaller locations of minor strategic and commercial importance. The latter for example includes shop-in-shop closures at retail partners in Germany, Poland, the US, Japan and Australia. As a result, we continued to grow our retail universe from a floor space perspective also in the first quarter.

Let's take a closer look at quarterly sales development by region.

Europe was the strongest growing region with revenues increasing 8% in local currencies. This was driven by double-digit own retail sales growth across the region. The UK and Germany were the best performing major markets with revenues climbing 17% and 13% excluding currency effects, respectively. France and the Benelux markets suffered sales declines due to a weaker wholesale business and some timing effects.

In the Americas, revenues decreased 2% on a currency-adjusted basis. The U.S. market alone was down 3%. Demand remained soft throughout the period, affected by general consumer uncertainty, impacting consumer traffic, and a very promotional market environment. In addition, the earlier delivery of some parts of the Spring collection already in the fourth quarter penalized results. In contrast, Central and South America grew at double-digit rates.

In Asia, Group sales were 7% higher than the prior year in local currencies. In China, revenues were up 1% as increased brand communication and effective customer relationship activities supported sales. Unchanged to prior quarters, Hong Kong performed visibly stronger than the Mainland. The region's two other major markets, Australia and Japan, enjoyed good momentum and grew at double-digit rates.

Sales development by distribution channel continued to reflect the Group's ongoing business model transformation.

First quarter retail sales were up 19% on a currency-adjusted basis. On a comparable store basis, that means adjusting for the effect of retail expansion, sales were 6% higher. While traffic levels declined year-over-year, albeit at more moderate levels compared to the past several quarters, conversion rates and basket sizes developed very positively. By region, Europe grew above the Group average. Together with a mildly positive development in Asia, this compensated for declining comp store sales in the Americas.

Within the retail channel, online continued to outperform with revenues increasing by 25%. Outlet sales grew 10%, reflecting limited expansion activity.

Wholesale sales were down 6% after adjustment for currency effects. This is indicative of a negative pre-order development reflecting cautious sentiment among partners at the time of order taking last autumn. In addition, the takeover of stores and shop-in-shops previously run by franchisees and department store partners accounted for almost half of the overall sales decline. Finally, a different timing of deliveries had a minor negative impact as briefly mentioned before.

Last but not least, our royalties business was stable compared to the prior year. While eyewear and watches grew solidly, the overall fragrance business remained stable.

Moving below the top line, the Group's gross profit margin increased by 360 basis points to 65.4%.

Continuing the trend from last year, a sharp reduction of markdowns across our DOS and outlet businesses in all regions supported this development. In sum, this factor contributed around a third of the overall gross margin increase.

The remainder was attributable to a positive distribution channel mix, benefitting from the outperformance of the own retail channel, as well as several other factors, including some positive inventory valuation effects.

In the first quarter, gross margin progress was offset by significant investments in the Group's future growth potential.

The expansion of the Group's own retail network was again the largest single factor behind operating expense growth. Primarily as a result of new store openings and takeovers over the last twelve months, overall selling and distribution expenditures were up 18%. Marketing expenditures even grew by more than 20% to support brand momentum and drive store traffic. Logistics expenditures increased by around 5 million euro in the period. As the commissioning of our flat-packed goods distribution center in Filderstadt progresses as planned, we are confident we will successfully conclude the migration process by the end of the second quarter.

While we continue to be prepared to spend on value-adding projects, we remain very disciplined in the management of operating overheads. G&A cost growth of just 3% underlines that very clearly also this quarter.

Nonetheless, EBITDA before special items declined 1% year-on-year to 131 million euro, reflecting a margin decline of 90 basis points to 21.4%. Profit would have been stable taking into consideration extraordinary income of 2 million euro related to the sale of our Strasbourg showroom.

Group EBIT decreased by 2% to 109 million euro, negatively affected by higher depreciation expenditures following the step up in investment activity in 2013.

Turning to the non-operational items of the P&L, the Group's net financial result improved due to lower interest expenditures. The Group's tax rate remained stable at 23%, so that net income attributable to shareholders was down marginally at 81 million euro, translating into earnings per share of 1.17 euro.

Regional operating profit development mirrored top line momentum in the period.

In Europe, operating margin was up a solid 100 basis points. Good sales productivity improvements in own retail coupled with less mark downs supported healthy operating leverage despite a declining wholesale business. In the Americas, segment profit suffered from the sales shortfall which a robust gross margin increase could not

compensate. In Asia/Pacific, finally, higher retail and marketing expenditures more than offset good gross margin benefits from lower markdowns and a better inventory situation.

Let's turn to the balance sheet.

At the end of March, trade net working capital was up 4%. This reflects a 10% inventory increase driven primarily by the effects of retail expansion as well as future growth expectations. Significantly improved write-down quotas compared to the prior year are indicative of the favourable age structure of inventories at the end of the period.

Receivables were down 7%, primarily due to the declines in our wholesale business. Finally, trade payables were up 2%.

In line with our guidance also for the full year, investment activity moderated in the first quarter. This was mainly a consequence of the non-recurrence of large infrastructure investments in the prior year period related to the new distribution center in particular. Own retail investments, however, increased. In addition to the new openings I presented earlier, this was a result of several store renovations predominantly in the US.

Nonetheless, lower investments and a reduced working capital outflow supported healthy free cash flow development so that net debt declined to 27 million euro. While this figure will be higher again at the end of the next quarter, in line with the seasonality of our business and following the dividend cash outflow, we are confident in the achievement of a positive net cash position at the end of the year.

Today's results confirm our full year expectations.

We are confident Group sales will increase at a high single-digit rate on a currency-adjusted basis. Own retail will continue to generate double-digit growth driven by healthy like-for-like increases and strong sales contribution from new space. Unchanged to the past, we forecast around 50 new store openings over the course of the year. Wholesale sales will be stimulated by the positive reception of the Fall collection which we will start delivering from June onwards. As a result, the channel's revenues will remain around the prior year level in 2014.

Group operating profit is projected to increase at a high-single-digit rate. Gross profit margin will continue to support this development, although the extent of increases will moderate somewhat going forward compared to the first quarter. Net-net, rising own retail and marketing expenditures will result in an approximately stable operating margin in the full year.

Finally, good profit growth, disciplined working capital management and value-enhancing investments amounting to between 110 and 130 million euro will support ongoing strong free cash flow generation and capital returns.

Ladies and Gentlemen, HUGO BOSS is on course for the achievement of full year targets. We have pulled the right levers to accelerate our momentum in Europe which served as an engine of growth the first quarter. As a result of our strength in our home

region, retail comp store sales increases are back in line with our medium-term growth assumptions.
Undoubtedly, however, the overall industry environment hasn't become any easier. The American market has turned far more challenging towards the end of last year and at the beginning of this year. And in China, we have not seen a fundamental recovery yet, although the market is certainly trending in the right direction at least for HUGO BOSS.

We will address these challenges as we have addressed other challenges in the past: We will build the brand and exploit our potential in areas we are underrepresented. We will drive retail to offer consumers an outstanding experience wherever they get in touch with HUGO BOSS. And we will further solidify our best-in-class position when it comes to operational excellence. As we continue to drive the transformation of our business model and expect the wholesale business to improve, we will achieve accelerated top and bottom line growth over the remainder of 2014.

Thank you for your attention. I'll now be happy to answer your questions.