HUGO BOSS Analysts' Conference 2014

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- The spoken word shall prevail -

Good afternoon, ladies and gentlemen,…

…and welcome to our 2013 Financial Results presentation.

Over the last twelve months, HUGO BOSS achieved solid top and bottom line results, delivering on the targets we had set ourselves. Mark Langer will analyze our financials in more detail in his part of the presentation.

We also worked intensively on the execution of our medium-term strategy with major progress in all areas as I'll demonstrate in the first part of our presentation. Beyond this, we have identified some key long-term focus areas for the Group that I will touch on together with our outlook for 2014.

But let's start with a brief summary of 2013…

2013 proved very challenging for the premium and luxury goods industry overall. In hindsight, the economic and industry-specific backdrop was clearly worse than we had expected when we met here twelve months ago.

Of course, our Group was not immune to the challenges posed by a recessionary environment in Europe, uncertainty surrounding the U.S. budget and significantly lower industry growth in Asia compared to prior years. Considering these conditions, we can be satisfied with what we achieved: Adjusted for currency effects, HUGO BOSS consolidated sales increased by 6%. As a result, Group revenues amounted to more than 2.4 billion euro. This means we have more than doubled sales within a ten-year period. The operating result grew by 7% to 565 million euro – also obviously a new record mark.

Apart from the good financial performance, implementation of important strategic measures shaped the past year.

For instance, we streamlined and sharpened our brand portfolio by integrating the previously independent luxury business under BOSS Selection in the BOSS core brand. Looking back, this was clearly the right decision. The move has allowed us to upgrade our complete offering and to accentuate our competence in high-end tailoring. Implemented for the first time in the 2013 fall collection, sell-throughs of our BOSS Tailored luxury business have been consistently above the previous BOSS Selection business since then. As a result, we do expect the importance of luxury to grow, supplementing our historical strength in the premium segment.

Expanding our offering in the higher price brackets as well as focusing on the BOSS brand has placed us in a strong position to effectively present our product range in larger stores as well.

That’s why flagship stores accounted for a considerable part of 2013 retail expansion. In total, we added a net 170 locations to our universe which amounts to 1,010 locations now. Nine openings in the most relevant global shopping destinations meant we now operate 25 flagships around the world.

Asia was the key region in this respect. Highlight openings included Shanghai, where we now have stores in both Kerry Centre and APM, Tokyo, where our building in Omotesando is an architectural highlight in itself, and Hong Kong. Here, we opened new stores in the Central district at the very end of the year as well as on Canton Road in January.

The Central district store, located in the famous Landmark complex, is split across two levels. Measuring slightly above 1,000 square meters in total, the ground floor is dedicated exclusively to BOSS Woman. An oversized screen fills an impressive staircase void, guiding the customers down to the lower level, where we showcase our menswear brands BOSS and HUGO as well as HUGO Womenswear. A prominent display of womens bags on the ground floor as well as a shoes & accessories area of more than 100 square meters on the lower level underline the importance we place on this product group especially in Asia.

At a total size of close to 600 square meters, the Canton Road store is by no means less impressive. Situated right next to the soon to be opened store of an American consumer electronics giant, we are confident we are located at an absolute hot spot of Hong Kong’s most frequented shopping destination.

Flagships are beacons that shine far beyond local markets to shape global brand perception. While these locations are ideally suited to live and breathe our brand, it is equally important that our presentation at all other consumer touch points lives up to our standards as well.

Especially with regard to our distribution in multi-brand environments, we have made considerable progress over the past two years. The takeover of more than 230 shop-in-shops from wholesale partners over the past twenty-four months, including 115 in 2013, has meant that the image of HUGO BOSS has become far more coherent across different distribution channels.

Going forward, we will continue to assume active management of HUGO BOSS shop-in-shops operated by department store partners where this is financially attractive and we believe that we are the better owners of the asset. While by no means all of our department store partners are willing to hand over responsibility, our representation in more than 5,000 wholesale doors indicates the size of this opportunity. In the short term, however, our clear focus is on maximizing productivity of the shops taken over most recently.

As a result of openings, takeovers and comp store sales growth, retail accounts for a significantly larger share of our business today compared to our initial expectations. Growing further from the 54% level in 2013, we will be comfortably above the 60% mark in 2015. And of course, we will not stop here so that own retail will account for an even larger share of sales in the medium- and long-term.

Ladies and gentlemen, in 2010 we launched Project D.R.I.V.E. to fundamentally change the Group's strategic orientation and key operational processes. After a successful 2013 we can consider the most important building blocks implemented: We streamlined and sharpened our brand portfolio. We significantly upgraded and expanded our store universe. Brand presentation at wholesale has started to see a step change following the expansion of the concession business model. The Group's retail competence is growing steadily and we have further solidified our best-in-class position when it comes to operational excellence. Finally, we have made progress in better balancing our regional exposure and steered Europe through a long recession very successfully.

The proven key elements of our strategy will remain relevant also in coming years. But, of course, we will never stand still. That's why we have defined some new initiatives and focus areas that will open another chapter in the HUGO BOSS growth story. I'll present them in more detail when I return. But first over to Mark, who will summarize the Group's financial results development in 2013.

In 2013, 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 4% and reached more than 2.4 billion euro.

All regions contributed to growth. Europe was the strongest growing region with sales increasing 7% in local currencies. The UK and France performed particularly well with revenues climbing 14% and 13% excluding currency effects, respectively. Thanks to the ongoing business model transformation towards own retail, Spain grew at a high single-digit rate as well. Germany was up a solid 4%. While sales in Scandinavia remained stable as compared to the prior year, the Benelux were the only European market suffering from declines, primarily as a result of a challenging market situation in wholesale.

In the Americas, the 6% currency-adjusted revenue growth was mainly due to solid growth in the U.S. market. The U.S. alone was up 7% despite some weak trends towards the end of the year. Central and South America grew at a double-digit rate, while the Canadian market declined predominantly as a result of tough wholesale trading.

In Asia, Group sales were 4% higher than the prior year excluding currency effects. In China, the effect from new store openings more than offset a negative sales development in existing stores for an overall growth rate of 2%. Within Greater China, Hong Kong and, to a lesser extent, Macau performed visibly stronger than the Mainland. The region's two other major markets, Australia and Japan, grew at mid-single-digit rates, underlining the operational improvements we implemented over the past 24 months.

In the fourth quarter, Europe stood out with a double-digit revenue increase as momentum gathered across the region. Growth in the Americas was supported by good wholesale sales, also benefiting from the early delivery of some Spring merchandise. Finally, in Asia trends remained broadly stable compared to earlier in the year.

In line with our Group strategy, retail continued to be the main engine of sales growth also in 2013.

Full year retail sales were up 18% on a currency-adjusted basis. On a comparable store basis, that means adjusting for the effect of retail expansion, sales were 2% higher excluding currency movements. Traffic was the clear drag in this respect while conversion rates and transaction values developed very positively. By region, Europe and the Americas grew above the Group average, whereas Asia remained in negative territory despite a visible improvement over the course of the second half year.

Within the retail channel, online continued to outperform with revenues increasing by 26% on a full year basis. As a result, online now accounts for 5% of own retail sales.

Wholesale sales were down 6% after adjustment for currency effects. This primarily reflects a tough overall market situation in Europe as well as in the U.S. In addition, the takeover of stores and shop-in-shops previously run by franchisees and department store partners accounted for around three percentage points of the sales decline. Short-term replenishment sales were stable, indicating solid underlying demand and healthy inventory levels among our partners.

Last but not least, our royalties business grew 2% against a very tough prior year comparison base. While our largest single category, fragrances, remained stable, eyewear recorded robust double-digit increases.

In the fourth quarter, wholesale sales increased 1%. Retail revenues were up 17%. The latter were supported by comp store sales growth of 3%. The contribution from new space remained at double-digit levels despite the anniversary of some larger takeovers from the prior year.

In the full year 2013, we expanded our own retail universe by a net 170 locations to 1,010. 115 additions represent takeovers of shop-in-shops from department store partners. The most important projects in this respect were Saks in the U.S. and El Corte Ingles in Spain from whom we took over 37 and 23 shops, respectively.

Truly new openings – of which Claus showed you some of the most important examples – came to 91. Obviously, these stores were much more important than the takeovers just mentioned from a floor space perspective, contributing around 80% of the overall square meter addition. 36 stores and shop-in-shops, the majority of which located in Asia, were closed over the period.

Before I discuss our profit and loss in more detail, let me briefly outline some adjustments and corrections we made to prior year figures. In addition to the first-time adoption of IAS 19 revised, changes primarily relate to the allocation of certain cost items to either cost of sales or operating expenses. Following the closer organizational integration of the product development and sourcing and production processes commenced in 2012, design and pattern making related expenses are no longer treated as cost of sales. In addition, direct selling expenses such as sales-linked commission are now reported as operating expenses as well. Vice versa, some technical development and sourcing related costs so far included in operating expenses are now allocated to cost of sales. In sum, the overall effect on prior year financial results is hence only minimal.

In 2013, the Group's gross profit margin increased by 330 basis points to 64.9%. Three almost equally weighted drivers were behind this development:

- A positive distribution channel mix owing to the above average growth of the own retail channel,
- The sharp reduction of markdowns as compared to the prior year, and,
- The non-recurrence of inventory devaluation effects that had impacted gross margin in the prior year period. This is a reflection of significantly lower stock levels achieved over the course of 2013.

In the fourth quarter, gross profit margin improved even more strongly. In addition to the factors just mentioned, this reflects strict pricing discipline in a highly promotional market environment, in particular in the U.S.

The expansion of the Group's own retail network was again the key factor influencing full year operating expense development. Primarily as a result of new store openings and takeovers, which are usually margin dilutive in the first year of operation, selling and distribution expenses were 13% above the prior year's figure. Administration expenses, however, increased at a rate similar to Group sales growth, demonstrating ongoing discipline in managing overhead costs.

EBITDA before special items rose 7% year-on-year to 565 million euro. As the improvement in the gross profit margin more than offset higher operating expenses as a percentage of sales, the adjusted EBITDA margin increased by 70 basis points to 23.2%.

Group EBIT increased by 6% to 456 million euro, negatively affected by higher depreciation expenditures following the step up in retail investments.

Turning to the non-operational items of the P&L, the Group's net financial result remained broadly stable as compared to the prior year. A decrease in net interest expenses following the reduction of net debt was offset by more negative exchange rate effects.

Supported by a further tax rate improvement, net income attributable to shareholders grew by 7% to 329 million euro, translating into earnings per share of 4.77 euro.

The Group's operating profit growth was driven by increases in Europe and the Americas.

In Europe, segment profit development benefited from the comprehensive retail network expansion, lower rebates and good inventory control. Higher selling and distribution expenses, however, led to a slight margin decline. Nonetheless, Europe remained the Group's most profitable region.

In the Americas, good progress in terms of further limiting markdowns in particular had a strong positive impact on regional profitability. As a result, the Americas further narrowed the margin gap versus the two other regions.

Finally, profitability in Asia/Pacific remained at high levels. Lower markdowns and good inventory management helped to compensate higher overhead expenditures. As a result, the region's operating margin remained stable despite the muted sales development in some of the region's key markets.

Let's turn to the balance sheet where 2013 was another year of major progress.

At 17.9% of last twelve months sales, the Group's average trade net working capital position reached an all-time low at the end of the year. In particular, inventory management benefited from operational process and systems improvements enhancing the Group's reactivity to market developments.

At the end of the period, the year-on-year development of the different working capital items has quite obviously returned to more normalized levels following extraordinary declines in prior quarters. Nonetheless, the overall position continues to be very healthy.

Inventories are up 5% reflecting past retail expansion as well as our growth expectations for the coming months. The increase of receivables primarily relates to the expansion of the concession business model where cash is collected by our department store partners, constituting a receivable initially. Cash collection from wholesale partners remains healthy, with improving days sales outstanding in most markets. Last but not least, trade payables were up 3%.

In 2013, we made unparalleled investments in the long-term growth potential of the Group. Capital expenditures increased a further 12% compared to the prior year level and reached 185 million euro.

Accounting for more than 60% of the overall investment volume, own retail continues to be at the forefront of our activities. Costs for expansion, in particular in the form of new flagship stores, as well as renovation totalled 113 million euro. The remainder primarily relates to the construction of our new flat-packed goods distribution center in Filderstadt as well as IT investments.

Despite the increase in capital expenditures, free cash flow improved to 230 million euro. The increase in Group operating profit as well as strict working capital discipline drove this development. Together with the effects from the distribution center deconsolidation, this supported a further reduction of net debt to 57 million euro at the end of the financial year.

In light of the company's strong financial position and positive outlook for the coming year, we will continue following our profit-oriented dividend policy of paying out between 60% and 80% of consolidated net income. For the financial year 2013, we will propose paying a dividend of 3.34 euro per share. That's an increase of 7% compared with the year before, in line with net income growth. The implied payout ratio therefore remains unchanged at 70%.

Our 2013 financial performance is a testament to the successful execution of our Group strategy of maximizing brand strength, building own retail, exploiting global growth opportunities and perfecting operational excellence.

While our overall strategy will not change, the fact that we have ticked a lot of boxes across the different pillars allows us to set new priorities to secure long-term sustainable growth. Let me go through our plans for 2014 as well as some initiatives that will shape the Group's future, also beyond 2015.

HUGO BOSS enjoys strong consumer perception around the world. Especially in menswear, consumers place high trust in us and our products. Our collections deliver on the promise of impeccable quality, superb craftsmanship and modern designs season after season. Our industrial scale and flawless operational processes give us a lead over many others in the industry, allowing us to offer a price-value-relationship that is second to none.

Yet, we know that fashion is a very emotional product. Our customers do not only want to get dressed for their next day in the office, but they strive to express attitude, style and a distinct way of life. For them, a brand is not a product with a name but a promise. Individuality plays a much greater role today. This is particularly true for fashion. It's Made to Measure instead of the "off-the-shelf" suit. It's personal service rather than anonymous shopping. It's customized communication instead of mass marketing. It's about emotionalizing to sell, it's about emotionalizing the brand.

Going forward, we will build even more strongly on our heritage, our unmistakable DNA and the power of our brand to engage with customers around the world. The customer is BOSS.

Womenswear gives us great opportunities in this respect.

In mid-2013, we appointed Jason Wu as new Artistic Director BOSS Womenswear. Undisputedly, Jason is one the world's biggest design talents in the high-end womens fashion arena. Having established his own label from scratch in only a few years, he is a go-to name in the elite circle of New York fashion designers.

After a good half year at the company, it has become clear that Jason was very quick to understand the essence of HUGO BOSS. His sense for quality and his love of detail are an ideal fit for the brand's values. Jason has quickly established the fusion of clear lines and precise cuts referencing our menswear clothing heritage with sophisticated, highly feminine elements as an unmistakable signature of BOSS Woman.

In his inaugural Fall collection this feminine interpretation of modern business shines through all styles. Our company's debut at the New York Fashion Week was the perfect setting for its presentation, upgrading brand perception and establishing BOSS credibility as a women's fashion destination.

Inspired by our headquarters, the fusion of architecture set the tone of the show. Featuring a star-studded front row including Gwyneth Paltrow, Diane Kruger, Gerard Butler and Benedict Cumberbatch, our appearance clearly made a lot of waves and attracted the who-is-who of fashion editors. Based on unprecedented levels of press coverage and the overwhelmingly positive feedback, the "Jason Wu effect" we targeted has already materialized.

Further fuelled by this increasing consumer awareness, the visibility of womenswear is clearly growing among department store partners and in own retail.

In wholesale, we enjoy strong shop-in-shop presentations at Selfridges, Galeries Lafayette and Matsuya, just to name a few examples. Opened only recently, BOSS Woman was also significantly upgraded at Paris department store Printemps. And based on initial customer feedback on the Fall collection, we certainly expect to win further floor space.

In own retail, we have meaningfully expanded womenswear in all larger stores with a strong womenswear retail environment. In these stores, womenswear usually occupies up to 30% of space, either close to the entrance area or on a dedicated, separate floor. In order to cater even more specifically to the needs of the female consumer, we have also modified our B7 store concept to bring more femininity to materials and the seating area.

While the Fall collection designed by Jason Wu will only be available in the stores from June onwards, we expect to achieve double-digit sales growth in womenswear this year also fuelled by a strong first half year.

It is this confidence in our brand proposition that has driven our decision to allocate half of our 2014 communication budget to womenswear with print and digital being the two most important media.

Our womenswear activities will also add spice and emotion to our core menswear business. Here, BOSS will continue to stand for refined modern luxury, promising that the consumer will be impeccably dressed in every situation.

In our communication, we will focus all our above-the-line activities on the BOSS core brand in order to send a clear, globally consistent message. Media support for BOSS Green and BOSS Orange will be exclusively focused on in-store presentation.

HUGO will be strictly communicated as a separate brand, underlining the distinct role it plays in our portfolio. The new campaign, shot on the salt flats in Utah, again very effectively expresses the brand’s role as fashion spearhead.

Ladies and gentlemen, over the past couple of years, we have comprehensively geared the organization towards own retail as the leading distribution channel. The implementation of the D.R.I.V.E. project has played a major role in this respect. As a result, HUGO BOSS has become significantly more agile and flexible in serving consumers in our growing own retail network.

As the number of openings over the past few years demonstrates, we have been extremely successful in conquering white space through the rollout of new stores. We are committed to opening around another fifty stores this year. While this will mean a slight deceleration as compared to 2013, this expansion pace continues to be considerable for an organization such as ours.

Given the sheer size our network has reached, however, it is obvious that our focus will need to shift even more to driving productivity in existing space. In this context, we will work on different fronts in 2014 and beyond.

Above all, it is in-store experience that forges close ties with consumers – or breaks them forever.

Our stores and our collections are in itself a promise of superior service and a luxurious buying experience. We need to make sure we live up to this promise and the expectations of our consumers. Excellent service resonates far beyond the single store visit. It turns customers into loyal clients, connecting them with the brand ideally for life.

In 2014, we will continue to put great emphasis on ensuring globally consistent, high store operation standards. In doing so, we will further facilitate the sharing of best practices between the different markets. Based on the result of structured consumer surveys initiated directly at the point-of-sale as well as around 6,000 annual mystery shopping visits, we have an excellent basis to define training needs and potential for service quality improvements. One such area is the use of mobile in-store technology to facilitate the payment process, for example. Corresponding to the demands of our customers, we are currently piloting a mobile cash desk solution.

Consumers clearly expect online and physical retailing to become two sides of the same coin. I would even go as far as saying that fewer and fewer consumers will make a difference between both worlds going forward as they experience brands through multiple channels anywhere, anytime. Online is here to stay – and we better use this fact to our advantage.

In light of the strength of our operational processes, our success in building e-Commerce as well as the entire mindset of our organization embracing change, I do see HUGO BOSS as ideally positioned to benefit from this megatrend. In the past, we have had considerable success in both channels. Going forward, we'll drive omnichannel to make the whole more than the sum of its parts.

Admittedly, we do have a way to go in this respect.

In a first step, we will redefine our e-Commerce offering this year: we will break the barriers between commerce and content by marrying our online store with our hugoboss.com brand world. The creation of a holistic offering will seamlessly integrate editorial content, community offerings and product. In the wake of this, we will evaluate our entire online and social media presence in order to effectively channel traffic to hugoboss.com. At the same time, we will pave the way for a closer integration of e-Commerce and offline retail, addressing the challenges primarily related to existing organizational and technical barriers.

The rollout of myhugoboss.com represents a first step in precisely this direction. Creating one centralized customer account integrated with all brand touchpoints – physical, mobile and online stores as well as social and digital media – will offer our consumers a personalized service across all channels. In the future, she will be able check online whether a particular product spotted in our e-Commerce offering or twittered by one of our brand ambassadors is on stock in her favourite store chosen as default. What still sounds a long way off, will become reality step-by-step as we pilot myhugoboss.com in selected markets for a further rollout in Europe later this year and in 2015.

This process will be facilitated by the further enhancement of key merchandise planning and merchandise management processes.

The enablement of a true end-to-end solution will optimize sales and inventory planning through an integrated view on both. Upon full implementation, this tool will significantly enhance transparency of stock levels and merchandise flows to manage markdowns and returns more flexible and on a far more granular level compared to today. The potential uplift for full-price sell-through and gross profit margin are certainly significant in the long term. However, the effect will only unfold over time as the solution's global rollout will be carried out in phases until the end of 2015.

Far more short-term is the go-live of our new flat-packed goods distribution center in Filderstadt which will replace two, technologically outdated facilities. Around six weeks ago, we successfully completed all tests, so that the migration process is fully underway and expected to be completed by the end of June.

The advantages of the new setup are clear cut: On the one hand, the distribution center will cater to the expected growth in our business and significantly improve the speed and quality with which we can replenish our European own retail universe with floor-ready merchandise. Going forward, we will supply the whole of Europe within twenty-four hours and on a daily basis. On the other hand, we also project the center to support efficiency gains through more comprehensive and state-of-the-art automation and close upstream integration with sourcing and transportation processes.

Before I come to our financial outlook, let briefly outline my expectations for our three regions.

In Europe, we have seen encouraging trends over the course of the second half year 2013. Now that the region has overcome recession, sentiment is improving across customers and retail partners. While we are certainly not back to boom levels, we regard Europe as a source of good growth also in 2014. This is true for core markets such as the UK, France and Germany, but also Southern European markets such as Iberia.

Our strategy is two-pronged: On the one hand, we will grow our network of own stores, strengthening homogeneity and quality of brand presentation. We are thereby raising our appeal both for local consumers as well as the growing number of non-Europeans who visit the region as tourists. On the other hand, we will work towards further lifting brand presence in multi-brand environments by intensifying cooperation with wholesale partners and expanding controlled space. In this context, we have reached an agreement with our department store partner Peek & Cloppenburg to establish more than 150 shop-in-shops in Germany, Austria and several Eastern European markets in the second half of 2014. While P&C will continue to manage these POS, the implementation of our furniture concepts will visibly lift the quality of in-store presentation.

The American market is currently going through a more difficult period of subdued growth coupled with extensive promotional activity, dampening also our performance after years of outstanding growth. Going forward, our position is very clear: we are not willing to sacrifice margin and consumer trust for short-term sales. We are convinced this is right for brand equity as well as financial results.

There shouldn't be reason to be overly pessimistic though: in light of an overall favourable macroeconomic backdrop, all pieces are in place for the American premium and luxury apparel market to regain momentum. We are prepared to capitalize on this on the back of our proven strength in menswear clothing where HUGO BOSS stands for sharp and modern fit. Building on the reputation Jason Wu enjoys in the U.S., we are also confident womenswear can develop into a relevant growth driver. Based on initial collection feedback, our offering resonates very well with wholesale partners. In own retail, the visibility of womenswear has increased anyway as a visit to our Columbus Circle flagship store in New York as just one example will demonstrate.

Finally, we intensively work on re-accelerating trends in Asia. Some might argue that the Group's relatively small emerging market exposure is an advantage in times of shaky growth and tumbling currencies in many markets falling under this definition. I do see this differently. Based on the strength of our business model and the global recognition of our brand, HUGO BOSS should generate a much bigger share of its business outside of developed markets.

China remains an obvious opportunity in this respect. Investing in the quality of our retail presence and brand perception remain cornerstones of our regional strategy. From Shanghai to Hong Kong, we now have a flagship store portfolio demonstrating the full strength of the brand very visibly. Our determination and commitment also underlined by two large-scale fashion shows over the past twenty-four months has opened up additional doors for growth: only a few weeks ago, for example, we succeeded in a highly competitive tender process to secure a location at Hong Kong Airport's Terminal One – something barely possible only a short while ago.

Yet, we know there is more work to do. We are literally working through our franchise legacy store by store with another around twenty locations to be renovated, relocated or closed this year. At the same time, we are concentrating on building retail excellence with the ultimate goal of creating a world-class customer service experience across our network.

In 2014, we will in particular emphasize our unmatched competence in suiting and strong European heritage to exploit the full potential of this rapidly developing market segment.

Starting in April, we will tour key Chinese and other Asian cities with a mobile exhibition called Art of Tailoring. Consumers will have the opportunity to experience first-hand the craftsmanship and sartorial artistry that go into a HUGO BOSS suit. Equally relevant, the exhibition provides us with a platform to showcase the BOSS brand in its entirety, shaping brand attitude on a very emotional level.

Made to Measure will be another important concept in this respect. Starting in Shanghai, Hong Kong and Beijing, we are now about to establish our most up-market suit offering also in Asia.

Representing the fusion of artisanal love of detail with German engineering skills, Made to Measure stands for highest wearing comfort and the absolute high end of the BOSS brand. Its launch will help us satisfying the demand of an increasingly sophisticated and growing consumer base for whom style, quality and uniqueness drive the purchasing decision. Of even greater relevance will be the halo effect that is going to spill over to the brand as a whole.

Ladies and Gentlemen, tying all our comments together, we expect growth to accelerate in 2014.

Group sales will rise at a high-single-digit rate on a currency-adjusted basis, thereby outperforming the overall economy as well as the luxury goods industry. All regions are forecasted to contribute to the overall Group sales increase.

By distribution channel, retail will grow at a double-digit rate driven by comp store sales increases and around 50 new store openings. Wholesale sales are expected to remain broadly stable on a currency-adjusted basis. Based on preorder development, we expect performance in this distribution channel to pick up after a more difficult first quarter.

Gross margin is projected to increase primarily as a result of a positive distribution channel mix. In addition, we remain confident in our ability to offset rising labor costs through efficiency gains in our production and sourcing activities. Operating expenses will increase mainly on account of the ongoing own retail expansion. Moreover, we will raise marketing expenditures to a level of more than 6% of Group sales. Logistics expenses will grow due to the new flat-packed goods distribution center going into operation. This impact will be weighted towards the first half year, reflecting the migration of existing locations.

As a result, we forecast EBITDA before special items to grow similar to sales at a high single-digit rate in 2014. Therefore, EBITDA margin is projected to remain on approximately the prior year level.

Retail expansion and renovation will continue to be at the forefront of investment activity. Nonetheless, capital expenditures will decline to a level between 110 and 130 million euro. This will be mainly a consequence of the non-recurrence of prior year infrastructure and flagship store investments. On the back of good profit growth and tight working capital management, we forecast further net debt reductions and the achievement of a positive financial position by the end of this year.

Ladies and Gentlemen, 2013 has been a year of solid financial performance and good strategic progress. In 2014, we will concentrate on further exploiting our brand potential in areas we feel greatly underrepresented. We will drive retail to offer consumers an outstanding experience wherever they get in touch with HUGO BOSS. And for sure, we will tackle the challenges in Asia and address the more demanding market environment in the Americas.

However, focus on short-term opportunities will not distract us from building the business for the long-term:

- I see great potential in further elevating the brand, in creating desirability and emotions that are key to build long-term relationships with our consumers.
- I see enormous opportunities in tearing down the walls that still separate online and offline today to offer consumers a seamless brand world across all distribution channels.
- And finally, I'm convinced that our pursue of retail excellence will go hand in hand with operational and process improvements yielding very attractive financial results.

Over the coming months and quarters, we will report back on how we fill these focus areas with life, opening up the next chapter of the success story that HUGO BOSS represents today.