HUGO BOSS

HUGO BOSS Annual Shareholders' Meeting 2014
Stuttgart Trade Fair Center, May 13, 2014
Claus-Dietrich Lahrs (CEO and Chairman of the Managing Board)

- The spoken word shall prevail -

Good morning Ladies and Gentlemen.

On behalf of my colleagues on the Managing Board I would like to welcome you to this year's Annual Shareholders' Meeting of HUGO BOSS AG at the Stuttgart Trade Fair Center. I would also like to welcome those of you who are following this event live on the internet.

2013 was a challenging year for the entire premium and luxury goods sector. Looking back, it is clear that the economic and sector-specific framework conditions were more challenging than we expected 12 months ago.

And our Company was not immune to the challenges posed by a recessionary environment in Europe, uncertainty surrounding the US budget dispute and significantly lower industry growth in Asia compared with the prior year. In light of these circumstances we are satisfied with our achievements: HUGO BOSS once again experienced an increase in profits and we achieved our set goals. Adjusted for currency effects, consolidated sales increased by 6% to reach more than EUR 2.4 billion. Operating profit improved by 7% to EUR 565 million. Both these values represent new records for the Group.

These results would not have been possible without the dedication of our employees and their passion for HUGO BOSS. That is why I would like to take the opportunity to thank them sincerely today.

I will now provide some more detail on the development of our financial results.

All regions contributed towards growth in sales. Europe reported the strongest increase, with sales rising by 7% in local currencies. The UK and France performed particularly well, posting double-digit growth. However, the Group was also able to achieve significant growth in markets such as Spain, where public perception was influenced primarily by the European debt crisis, thanks to the change in the business model towards own retail. Sound growth of 4% was reported in Germany.

In the Americas the currency-adjusted sales increase was 6%; this was primarily attributable to good growth in the US.

Sales before currency effects grew by 4% in Asia. The negative revenue development at existing stores in China was more than offset by the effects of new openings, and so we recorded slight growth overall. The two other large markets in the region – Australia and Japan – experienced slightly higher increases, which is testament to the operational improvements in these markets over the past two years.

In terms of sales channels, our own retail business continued to be the decisive growth driver in 2013.

Adjusted for currency effects, sales in the own retail business increased by 18% over the entire year. Comp store sales, adjusted for the effects of retail expansion, increased by 2%. Within the own retail business, the online sales channel continued to record above-average growth. The percentage of own retail sales generated through the online channel now stands at 5%.

Currency-adjusted wholesale sales fell by 6%. This primarily reflects the difficult overall market situation in Europe and the US. The decline in revenues was also due to the acquisition of stores and shop-in-shops from franchise partners and department store partners.

A high increase in gross profit margin was the key to the improvement in profitability that we achieved last year. The gross profit margin grew to almost 65% thanks to the above-average growth in the Group's own retail business, a considerable reduction in markdowns and non-recurring effects from inventory devaluations in the previous year. This enabled us to offset the increase in operating expenses resulting from the continued expansion of the Group's own retail business, and achieve an increase in the operating margin to over 23% and growth of 7% in consolidated net income.

Let us take a look now at the balance sheet. We made a great deal of progress once again in 2013.

The Group made unprecedented investments in its long-term growth potential. Investments rose 12% year on year, amounting to EUR 185 million. Investment in the Group's own retail business continued to be the main priority, but there was also a focus on the construction of our new distribution center for flat-packed goods in Filderstadt and the enhancement of our IT infrastructure.

However, free cash flow continued to increase thanks to strict inventory management and the increase in earnings. We were able to reduce net debt to EUR 57 million by the end of the fiscal year. With an equity ratio of almost 50% at the year-end, HUGO BOSS is in an extremely healthy financial situation.

Against this background and in light of the positive outlook for 2014, we intend to pursue our profits-based dividend policy, which provides for the distribution of 60% to 80% of consolidated net income. We therefore propose to pay to you, our shareholders, a dividend of EUR 3.34 per share for fiscal year 2013. This represents a 7% increase compared with the previous year and is in line with the growth in consolidated net income. The payout ratio will remain unchanged at 70%.

As a company shareholder you have also benefited from the positive development of our share price over the last year. Our share price increased by 30% overall and closed the year at an all-time high of EUR 103.50. This growth exceeded that of the DAX, which improved by 25%, and the MSCI Index, which comprises the relevant competitors within our sector. Only the MDAX, due to its high percentage of highly cyclical stocks, recorded slightly higher growth than our share.

Ladies and gentlemen, the Group's good financial development reflects the successful implementation of important strategic initiatives.

We have streamlined and sharpened our brand portfolio by integrating the previously independent BOSS Selection luxury business into the BOSS core brand. It is clear today that this was absolutely the right decision. It has allowed us to upgrade our complete offering and to emphasize our expertise in high-quality tailoring. The sales growth for the BOSS Tailored luxury business clearly underlines this. The impact of our luxury offering will continue to increase in future, thereby strengthening our positioning also within the premium segment.

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

Against this background, our flagship stores in particular made a considerable contribution to the expansion of the Company’s own retail business in 2013. We enhanced our presence in the most important global metropolitan locations by opening nine new stores, taking the total number of flagship stores to 25.

Asia was key in this regard. Highlights in this region included new openings in Shanghai, where we are now represented at two very prominent locations, Tokyo and Hong Kong. In the latter, we opened new stores in the Central District just before the end of the year and on Canton Road in January.

The Central District store is housed in the very famous Landmark complex and stretches over two floors, covering a surface area of more than 1,000 square meters. The ground floor is occupied exclusively by BOSS womenswear.

However, we also expanded our presence in Germany with a number of impressive openings. You can see one of them for yourselves not far from here, on Königstrasse in Stuttgart city center. We now have a presence on the city’s most important shopping mile in a store covering around 600 square meters. It is particularly worth paying a visit to the womenswear section on the ground floor, which is considerably bigger than the equivalent section in the old store.

Our flagship stores are like beacons that shine far beyond the local markets and shape the global perception of our brand. These locations enable us to present our brand in the best possible light. However, it is still essential that we live up to our standards at all other locations where our customers come into contact with our brand.

Over the last couple of years we have seen marked progress, particularly with regard to our distribution in multi-brand environments. The acquisition of more than 230 shop-in-shops from wholesale partners over the past two years has enabled us to make the image of HUGO BOSS far more consistent across the different sales channels.

We will also continue to take responsibility for the active management of HUGO BOSS shop-in-shops that were previously operated by our department store partners – on the condition that this pays off financially and we believe that we are better placed to manage these spaces ourselves. In addition, not all our trading partners are prepared to hand over control. However, our presence in more than 5,000 points of sale in the wholesale business around the world demonstrates the huge potential.

In 2013 as a whole, acquisitions were the main reason for the sharp increase in the number of own stores to a total of 1,010. Of the new stores, 115 were acquisitions of shop-in-shops from trading partners. The most important of these projects were Saks in the US and El Corte Ingles in Spain. The number of actual new openings was 91. Of course, these stores were far more significant in terms of selling space than the mentioned acquisitions. Overall truly new openings accounted for around 80% of the additional retail space.

As a result of our expansion and growth in like-for-like sales, the share of retail in the Group's overall business grew considerably more quickly than we originally anticipated. Based on the 54% share in 2013, we expect to exceed the 60% mark in 2015. In the long term the share of the Group's own retail business will increase even further.

Ladies and gentlemen, in 2010 we initiated the D.R.I.V.E. project in order to change the strategic direction of the Group and our central operating processes.

After a successful year in 2013, we can consider the key measures of this project to have been successfully implemented: We have streamlined and sharpened our brand portfolio. We have upgraded and expanded our own retail store network. The Group's retail expertise continues to grow. Our brand presentation in the wholesale environment has improved considerably thanks to the expansion of the concession model. We have better balanced our regional sales distribution and have successfully steered our European business through the long recession. Finally, we have further cemented our leading position with regard to operational excellence.

Our overall strategy will not change in the future. However, the fact that we have already achieved a great deal in many areas enables us to set new priorities in order to ensure sustainable growth. I will therefore now present our plans for 2014 and also look at a number of initiatives that we intend to implement to shape the future of the Group over the current year and beyond.

HUGO BOSS is perceived very positively by its customers around the world. Confidence in our menswear products is especially high. We deliver on our brand promise in our collections season after season: excellent quality, high-quality tailoring and outstanding design. Our industrial size and strong operating processes give us an edge over many of our competitors and enable us to offer unrivaled cost effectiveness.

However, we are aware that fashion is a very emotional product. Our customers do not just want to buy beautiful clothes; they also want to express their attitude, style and personal lifestyle. For our customers, a brand is not just a product with a name, it is a promise. Individuality is far more important in today's world, particularly when it comes to fashion. More and more customers appreciate a made-to-measure suit. Personal advice and a personalized shopping experience are what counts. Customers wish to be addressed on a personal level rather than through mass marketing. The art of selling is becoming emotionalized.

In the future our dialog with customers will focus even more upon our tradition, our distinctive DNA and the strengths of our brand. The customer is BOSS.

Womenswear is opening up major opportunities for us in this respect.

In mid-2013 Jason Wu was appointed as the new Artistic Director of BOSS Womenswear. He is undoubtedly one of the world's most talented designers in our market segment. In just a few years he established his eponymous label from nothing, and he is one of the upcoming names among New York fashion designers.

After almost a year it is clear that Jason Wu has internalized the essence of HUGO BOSS. His appreciation of quality and love of detail are an ideal fit for our brand values. In his first collection he succeeded in combining clear lines with precise cuts and established an unmistakable BOSS Womenswear identity with sophisticated, highly feminine elements.

This feminine interpretation of the modern business look was revealed in his inaugural Fall collection. Our debut at New York Fashion Week was the perfect setting for the collection. The Group’s presence at this event significantly increased brand awareness and underlined BOSS’s position as a high-fashion womenswear brand.

With celebrities on the front row including Gwyneth Paltrow, Diane Kruger, Gerard Butler and Benedict Cumberbatch, our appearance garnered much attention and attracted many of the best-known fashion editors. The positive reception in the press showed that the “Jason Wu effect” we had been aiming for was already starting to work.

The increased awareness of womenswear is also very noticeable at department store partners and in the Group’s own retail stores.

In the department store channel we have an impressive shop-in-shop presence at Matsuya, Selfridges and Galeries Lafayette, to name just a few examples. The recent opening of a BOSS womenswear section in the Parisian department store Printemps has also considerably increased the attractiveness of our brand. In view of the initial customer feedback on the fall collection, we are likely to add additional sales areas.

In the Group’s own retail business we have significantly expanded the presence of BOSS womenswear in all the larger stores. Womenswear in these stores usually occupies 30% of the selling space, and is situated either directly near the entrance or on a separate floor. To address our customers’ needs more specifically, we have modified our B7 store concept and given it a more feminine design by incorporating various elements.

Although the fall collection designed by Jason Wu will only be available in stores from next month, we are expecting double-digit growth in this area this year. The clear increase in the first quarter has further strengthened our confidence in this regard. Our decision to assign half of our communication budget to womenswear this year has therefore proved successful so far.

Our activities in the womenswear business will also have a positive impact on the menswear business. In this segment, BOSS will continue to stand for modern luxury and the certainty of being suitably dressed for every occasion.

Our brand communication will be focused on the core BOSS brand when it comes to traditional means of advertising, in order to send out a clear and consistent message worldwide. Media support for BOSS Green and BOSS Orange will focus on in-store presentation.

We will consistently communicate HUGO as a separate brand, emphasizing the special role that it plays in our portfolio. In the current campaign, the role of HUGO as the fashion spearhead in our brand world is once again reflected.

Ladies and gentlemen, throughout last year we focused the company fully on the Group’s own retail business in order to make this the leading sales channel. As a result, HUGO BOSS can now address customers effectively and far more quickly and flexibly through own stores.

The number of new openings in recent years demonstrates that we have been extremely successful in exploiting new sales potential. This year we plan to open another 50 or so new stores. As a result, expansion will be slightly slower than in 2013, although for a company of our size it will still be at a remarkable pace.

However, considering the scope of our retail network, it is clear that we will need to focus even more on improving productivity in existing selling space in future. With this in mind, we will focus on various points in 2014 and beyond.

It goes without saying that the in-store experience has a major influence on the customer relationship.

Our stores and collections stand for premium quality and a luxurious shopping experience. When offering our customers advice we must ensure that we deliver on this promise. Customers remember excellent service after visiting a store. This is the key to tying our customers to our brand in the long term.

In 2014 we will continue to place great importance on ensuring consistently high service standards at all our stores around the world. Based on the results of structured consumer surveys conducted directly at our points of sale and around 6,000 mystery shopper visits, we have been able to define very specific areas where training is required and there is potential for service improvements. One such example is the use of mobile technology to simplify the payment process. In response to our customers' wishes, we are currently piloting the use of a mobile cash register system.

E-commerce and bricks-and-mortar retail, that means online and offline, are increasingly becoming two sides of the same coin. In the future, fewer and fewer customers will distinguish between the two worlds as they experience brands across different channels in all locations and at all times of day. The online channel will become more important and we should seize and exploit this as an opportunity.

Bearing in mind our strong operating processes, our successful e-commerce expansion and the willingness to change that is firmly anchored within the company, HUGO BOSS is ideally positioned to benefit from this trend. In the past we have been extremely successful in both channels. In the future, we will link the various sales channels together more closely, making the whole greater than the sum of its parts.

Of course we still have a long way to go.

As a first step this year, we will redefine our e-commerce offering: we will break down the walls between commerce and content and bring together our online store and our hugoboss.com brand world. This will enable us to seamlessly integrate editorial content, community features and our product offering. In this context, we will optimize our entire online presence and our activities in social networks, in order to guide customers more effectively to our own website, hugoboss.com. At the same time, we will pave the way for closer integration between the e-commerce business and the offline retail business, and address the challenges that result from existing organizational and technical barriers.

The rollout of myhugoboss.com is an initial step in this very direction. In the future there will be a central customer account for all brand touch points – bricks-and-mortar stores, mobile stores, the online store and social and digital media. In this way we are providing our customers with a personalized service across all sales channels. In the future they will be able to check online whether a particular product they have seen in our online store, or that one of our brand ambassadors has tweeted about, is in stock at their preferred store. What might sound like dreams of the future are slowly becoming reality. We are currently piloting myhugoboss.com in selected markets in view of the continued rollout across Europe later in the year and into 2015.

This process is being supported through the continued improvement of important merchandise planning and merchandise management processes.

The implementation of a solution that maps the entire merchandise management process will optimize our planning activities through an integrated view of sales and inventory. Once fully implemented, the tool will increase the transparency of inventory levels and the flow of goods. It will be possible to manage discounts and returns more flexibly and in far greater detail than currently. The long-term potential with regard to growth in sell-through at full price and the gross profit margin is undoubtedly significant. However, the effects will only materialize over time, as the rollout will not be completed until the end of 2015.

The operational start of our new distribution center for flat-packed goods in Filderstadt, replacing the outdated technology at the facilities in Wendlingen and Frickenhausen, will be far earlier. We anticipate finishing the migration process by the end of June, when all tests have been successfully completed.

The benefits of the new setup are clear: the distribution center will contribute towards our Company's forecast growth and significantly increase the speed and quality at which we are able to supply floor-ready merchandise to our network of retail stores in Europe. In the future we will be able to deliver to the whole of Europe within 24 hours. We are also expecting increased efficiency through more comprehensive automation and close vertical integration with the upstream procurement and transport processes.

Ladies and gentlemen, we are anticipating growth in all regions in 2014.

In Europe, the trend was already moving in the right direction in the second half of 2013. Now that the recession in the region has been overcome, the mood among customers and retail trade partners is improving. We are therefore expecting good growth for Europe in 2014 too. In view of this, we will expand our network of own stores and strengthen the homogeneity and quality of our brand presentation. We are also working towards further improvement of the brand presence in the multi-brand environment, by intensifying collaboration with wholesale partners and expanding the areas that we control.

Our outlook for the American market also remains positive, in view of the good overall economic outlook for the year as a whole. However, the region has gone through a difficult phase in the past few months. The impact of the US budget dispute and an unusually harsh winter slowed growth and resulted in intensive price wars. We did not participate in these wars: we are not prepared to sacrifice margins and the trust that consumers place in our brand for the sake of short-term sales.

Finally, we are working intensively to ensure that the growth trend in Asia picks up pace again. One could argue that the relatively low share of Group sales in emerging markets during times of unstable growth rates and depreciating currencies in many markets that fall under this definition is an advantage. We refute this, however: on the basis of our strong business model and global awareness of the brand, HUGO BOSS must generate a much larger proportion of its sales outside established markets.

China is still a clear opportunity in this respect. Investments in the quality of our retail store presence and brand perception remain the cornerstones of our regional strategy. From Shanghai to Hong Kong, we now have a portfolio of flagship stores that clearly showcases the strengths of our brand. These strengths historically lie in menswear clothing. With the expansion of our offering for tailored suits through "Made to

Measure" and the mobile "Art of Tailoring" exhibition, we will be able to further emphasize this expertise in an emotional way in future, in order to fully exploit the market potential of this fast-growing market segment.

The developments I have mentioned are clearly reflected in the improved results for the first quarter.

Consolidated sales increased by 6% overall, without taking into account negative currency effects. Growth in euro terms was 3%. Europe was the greatest contributor to this result, although in Asia good results in Japan and Australia also supported above-average growth. On the other hand, business in the Americas declined slightly at the start of the year.

We are very satisfied with the improved sales growth in the Group's own retail business. In terms of like-for-like sales, which exclude the effects of store openings and acquisitions, we reported a 6% increase – which is a significant improvement compared with last year. Overall growth would have been even higher had it not been for the decline in the wholesale business, which was still suffering from the cautious purchasing behavior of our customers last year and the effects of acquisitions. The operating result for the quarter fell despite the once again very strong gross profit margin expansion. Considerable investments in the areas of retail, marketing and logistics impacted this development.

Compared with the first quarter, we are confident to increase the rate of growth over the rest of the year. Based on our forecasts, consolidated sales adjusted for currency effects will increase in the high single-digit range in 2014. We therefore anticipate that we will exceed the growth rates of the overall economy and the luxury goods sector.

From a sales channel perspective, the growth rate in our own retail business will be in the double-digit range. The main drivers behind this will be comp store sales increases and the opening of around 50 new stores. Development of the wholesale business will be broadly stable on a currency-adjusted basis.

Similarly to consolidated sales, the operating result, measured as EBITDA before special items, will also record growth in the high single-digit range. Further increases in the gross profit margin should compensate for additional costs resulting from the ongoing expansion of the Group's own retail business, higher marketing expenditure and the impact of the start-up of the new distribution center. According to our forecasts, the EBITDA margin in 2014 will therefore be more or less stable compared to last year.

Finally, we anticipate investments of between EUR 110 million and EUR 130 million. In light of the positive results outlook and the strict management of working capital, we envisage a further reduction in net debt and a positive net financial position at the end of this year.

Ladies and gentlemen, 2013 was characterized by solid financial results and good strategic progress. In 2014 we will focus on further exploiting our potential in areas where we are currently underrepresented. We will continue to expand the retail business and offer our customers a first-class shopping experience whenever they come into contact with HUGO BOSS. And of course, we will address the challenges in Asia and find solutions to the difficult environment in the Americas region.

However, this focus on short-term sales opportunities will not prevent us from steering our company towards long-term growth.

- We see great potential in further upgrading our brand by stirring the desire and emotions of our customers. This is the key to long-term customer relationships.
- We see great opportunities in breaking down the walls that still separate online and offline business in order that we can offer our customers a seamless brand world across all distribution channels.
- Finally, we are fully convinced that our striving for retail excellence will lead to operational improvements and stronger processes, and therefore to attractive financial results.

Over the coming months and quarters we will report on how we are injecting life into these key areas of focus. In doing so we will add another chapter to the success story of HUGO BOSS.

Ladies and gentlemen, I would like to thank you for your attention.