

# First Quarter Results 2015 Presentation

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- The spoken word shall prevail -

Good afternoon, Ladies and Gentlemen, and welcome to the presentation of our First Quarter Results 2015.

Together with our CEO Claus-Dietrich Lahrs...

...I'll be happy to update you on Group development in the first three months and our plans for the rest of the year.

Let's start with a recap of Q1 financial performance.

In line with our expectations outlined in mid-March, performance in the first quarter was burdened by a continuously difficult market environment in many parts of the world. As a result, top and bottom line development was below our full year projections.

Supported by positive currency translation effects, Group sales increased 9% in the first quarter and reached 668 million euro. On a currency-adjusted basis, they were up 3%. Operating profit remained virtually unchanged compared to the prior year as a result of only moderate underlying top line growth, stable gross margin development and investments in long-term sustainable growth.

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

Sales in Europe grew 3% in local currencies. This was driven by high-single-digit increases in own retail, whereas wholesale remained flat. The UK and Germany were the best performing major markets with revenues climbing 11% and 5% excluding currency effects, respectively. France, where performance had decelerated in the later parts of 2014 already, reported a sales increase of 2%. In the Benelux markets, ongoing wholesale rationalisation resulted in a 3% sales decline. The smaller markets saw a mixed development with solid increases in Spain, the Nordics and Russia contrasting with declines in Italy and Switzerland.

In the Americas, revenues increased 2% on a currency-adjusted basis. The U.S. market alone was up 4%, although still affected by a promotional market environment at retail. While Canada grew solidly, revenues in Central and South America declined at a double-digit rate.

In Asia, Group sales were 1% higher than the prior year in local currencies. In China, revenues decreased 3% as the further deceleration in overall economic growth as well as the challenging industry environment affected our business. Unchanged to prior quarters, Hong Kong performed better than the Mainland despite the overall market deterioration. In the rest of the region, Oceania grew at double-digit rates and also Japan expanded sales against a tough prior year comparison base.

By distribution channel, first quarter retail sales were up 6% on a currency-adjusted basis. On a comparable store basis, that means adjusting for the effect of retail expansion, sales were 3% higher in local currencies. This represents an acceleration compared to the end of 2014 driven by all three regions against an even tougher prior year comparison base.

While traffic levels in our full-price retail business declined year-over-year in particular in Europe and China, conversion rates and, above all, basket sizes developed positively. The latter underlines our success in trading up consumers to higher price points. Nonetheless, growth was higher in the outlet channel compared to full price distribution. By region, comp store sales development was very consistent, with Asia being only slightly weaker compared to Europe and the Americas.

Wholesale sales were down 2% after adjustment for currency effects, in line with our expectations for the full year. This is indicative of cautious ordering by department stores as well as ongoing market consolidation among smaller partners. In addition, takeovers had a negative impact on sales in this distribution channel.

Last but not least, our license business was up 6% compared to the prior year, driven by solid increases in eyewear and watches.

Moving below the top line, the Group's gross profit margin increased by 10 basis points to 65.5%. This improvement was generated against a tough prior year comparison base, as gross margin in the prior year quarter had benefitted from a sharp reduction of rebates in own retail in particular.

In this year's quarter, rebates were a neutral factor for gross margin development as a negative mix effect from above-average growth in outlets was offset by lower rebates in this distribution channel. Instead, gross margin benefitted from a positive overall distribution channel mix. However, this was partly offset by negative inventory valuation effects, reflecting some write-downs following the recent build-up of inventories.

Negative currency translation effects were the single largest factor behind the operating expense increase in the first quarter. In addition, retail costs increased due to expansion and higher rental expenditures which we were not able to fully offset by sales productivity improvements. Including a double-digit increase of marketing expenses, selling and distribution expenses were up 14% year-to-date.

G&A expense growth amounted to 12%. This primarily reflects higher costs related to our R&D operations in Switzerland, the expansion into new markets such as Korea as well as investments taken to strengthen our organization in strategic focus areas. This includes omnichannel in particular.

As a result, EBITDA before special items remained stable year-on-year, reaching 132 million euro. This reflects a margin decline of 170 basis points to 19.7%. Including a negative swing in special items and higher depreciation charges, Group EBIT decreased by 5% to 103 million euro.

Turning to the non-operational items of the P&L, the Group's net financial result amounted to negative 5 million euro, affected by unhedged currency movements. The

Group's tax rate remained stable at 23%, so that net income attributable to shareholders was down 6% at 76 million euro, translating into earnings per share of 1.10 euro.

In the first quarter of 2015, the explanatory power of our segment reporting has been limited by currency effects, significantly influencing the single regions while being an only minor factor on Group level. The Americas and Asia benefitted from currency translation effects, whereas Europe suffered from the share of sourcing denominated in currencies other than the Euro.

As a result, operating margin declined by 260 basis points in Europe. In addition to currency, higher selling and distribution expenditures played a role here. In contrast, operating margin improved by 140 basis points in the Americas, supported by significantly positive translation effects in the gross profit margin. In Asia/Pacific, finally, higher retail expenditures partly offset currency-driven gross profit margin improvements, so that operating margin advanced 30 basis points.

Let's turn to the balance sheet.

At the end of March, trade net working capital was up 23%. This was primarily driven by a higher inventory position. Inventories increased by 25% to 539 million euro. Excluding currency effects, the increase still amounted to 12%, driven by retail expansion as well as a slower than expected own retail sell-through in the last six months. We are confident we will be able to significantly improve the inventory position going forward, in particular in the second half of the year. In doing so, we build on the strength of our outlet network, enabling clearance of excess merchandise in a margin protective way.

Just to finish my discussion of working capital, receivables were down 3% on a currency-adjusted basis, similar to sales development in wholesale. Finally, trade payables were up 1%.

In line with our guidance also for the full year, investments increased significantly in the first quarter, almost doubling compared to prior year levels. This was driven by higher own retail expenditures, including the takeover of our Korean franchise store base, as well as the relocation of our New York showroom.

As a result, free cash flow turned negative in the quarter so that net debt increased to 43 million euro. While net debt will be higher than this at the end of the next quarter, in line with the seasonality of our business and following the dividend payment, we are confident in the achievement of a positive net cash position at the end of the year.

I'll now hand over to Claus, who will discuss the strategic initiatives we are working on at the moment as well as our financial outlook for 2015.

Thank you, Mark...

...and good afternoon, Ladies and Gentlemen.

Let me take the opportunity to update you on the most recent developments within the key areas of our 2020 growth strategy.

As a quick reminder, our strategy rests on elevating the BOSS core brand, leveraging our potential in womenswear, building omnichannel to drive growth in retail online and offline as well as exploiting the Group's opportunities in underpenetrated markets. All of this will be supported by the maximization of operational strength.

Starting with the first pillar, the changes we have outlined for our brand portfolio are progressing as planned. However, before I go into detail, let me correct some misperceptions: This is not about turning BOSS into a pure luxury brand. It is not about simply raising prices. And it is not about leaving entry price points and the wholesale business to some of our competitors.

It is rather about elevating BOSS in order to exploit the brand's potential at the high end of the market and to make sure the brand's presentation is consistent across all geographies and all distribution channels. As a result, we are elevating the BOSS offer in terms of product and price, including the discontinuation of some entry price points which have historically been important in price-sensitive wholesale markets such as the US and Germany.

Still, we are not willing to simply leave the wholesale business to others. Instead, we are adjusting our approach. In Europe, we have just initiated the substitution of BOSS with HUGO and BOSS Green in multi-brand category spaces, this means selling spaces where we have little opportunity to brand our offering. From June onwards, this change will be visible at key wholesale partners in Germany, Switzerland and Austria. By the end of the year the new HUGO Business and BOSS Green offerings will be available to consumers European-wide. The progressive fashion statement and contemporary appeal of HUGO as well as its superior price-value-relationship have resulted in a strong reception by key wholesale partners. The same is true for BOSS Green, with which we are targeting the growing number of consumers looking for a fusion of fashion, lifestyle and performance in their leisurewear outfits.

Trading up the BOSS brand in Europe and the Americas is also an important element of our global pricing strategy.

Industry-wide, global price gaps have widened most recently as a result of the depreciation of the euro against most other currencies, adding to a global price difference that is already larger in apparel than, for example, in hard luxury today. While we have not seen any uptick in grey market sales or parallel imports in our business in the last few months, we acknowledge the growing importance of tourism and the increased global price transparency the internet provides. Both factors contribute to the need to narrow price gaps between the regions.

We are doing so not only by elevating BOSS in Europe and the Americas, but also by upgrading our offering in China. Effective with the Fall/Winter 2015 collection coming to our stores in late summer, we will offer better qualities at unchanged price points, hence further improving the brand's favorable value proposition as well as its credibility in premium and luxury. This move will be followed by further gradual refinements of our global pricing architecture over the next few years. In doing so, we will focus on adjusting collection frameworks rather than straight price changes.

At the same time, however, we don't see a need to introduce globally uniform prices anytime soon. Instead, we are convinced that the majority of consumers will prefer to

buy apparel in their home market, first and foremost owing to the importance of sizing and fitting and a preference for being served in their own language.

In womenswear, BOSS' brand momentum remains strong. A year ago, the excitement around Artistic Director Jason Wu translated in a visible pick-up of sales even before his first collection hit the stores. The collections we have introduced since then, our fashion shows and campaigns have all contributed to a step up in awareness and brand recognition that is driving new consumers to our stores.

In the first three months of the year, BOSS womenswear sales increased by 11% in currency-adjusted terms, in line with our target of double-digit growth. Strong demand by wholesale partners, in particular in the US, added to robust performance in own retail. Our overall womenswear business, however, grew by just 4% in the quarter, reflecting sales declines at BOSS Orange driven by a reduced space allocation in own retail.

Speaking of own retail, we opened 21 new locations in the first quarter of 2015, including 12 shop-in-shops. Most importantly, we gained further space at two of the leading department stores in France and Spain, Galeries Lafayette and El Corte Ingles. Taking into account an additional 28 takeovers and 30 closings, this meant we operated 1,060 own retail points of sale at the end of the period.

Closures related predominantly to small shop-in-shops, accounting for more than half of the total 30. This reflects some rationalization of our department store presence in the Benelux in particular. In the remainder of the year, we expect some more closures to follow. Often, these closures will be related to relocations. To pick just one example, the recent store closure in Chengdu in China reflects a relocation from the Yandlord Landmark complex to a bigger and better located store in the newly built Taikoo Li mall.

Takeovers related to South Korea and China.

In Korea, we have assumed direct control of the entire HUGO BOSS business from our former franchise partner. Effective March 1, we took over 17 freestanding stores. This includes a location on Seoul's Rodeo Drive, the country's most luxurious shopping street. As a trendsetter in terms of culture and fashion in the Asia Pacific region, Korea has become an important tourist destination not least for Chinese travelers. We account for this with the direct management of our presence in six duty free stores, too, considering the importance of this retail format in South Korea.

In China, we have taken over the last remaining 21 franchise stores in the market on April 1. Following on from our joint venture buyout in 2014, the harmonization of our distribution structure will add to the consistency of our brand and retail presentation.

Retail will remain a key pillar of growth also going forward. However, this means much more than just store expansion and takeovers. Retail is all about like-for-like growth and that's what we are focusing on.

One important means to this is online and omnichannel. In this context, we are encouraged by the pick-up in online sales growth, reaching 14% in the quarter. Performance benefitted from the innovations we implemented last year. In particular,

traffic was boosted by the relaunch of hugoboss.com implemented last September. The close integration of commercial and editorial content coupled with a far more transactional focus of our digital marketing activities resulted in a strong double-digit increase in site visitors.

In 2015, we will further enhance hugoboss.com: In the second half of the year, we will launch myHUGOBOSS, offering various options to personalize the online experience. In addition, we will introduce a new photo and text concept, upgrading the look and feel of product presentation. We are hence confident we will have an increasingly stronger online platform to build upon with the rollout of omnichannel services in 2016.

Before turning to our financial outlook, let me give you some more flavor on regional trends.

In Europe, the market environment remained challenging as Mark outlined earlier. Trends improved only gradually between the end of the prior year and the first quarter of 2015. While private consumption seems to improve in many European countries, the apparel industry – unlike other consumer segments - is not benefitting from this. In Germany, for example, the industry has now declined for seven months in a row according to retail panels and market research. While we are obviously doing much better than that, a tough prior year comparison base as well as the overall market backdrop affected our regional performance in the last six months. Keep in mind as well that tourism is less of a tailwind for us compared to others, given that the vast majority of our European business is with domestic customers.

In the Americas, we remain committed to protecting brand equity and upgrading our presentation amidst a continuously promotional apparel retail environment in the US. In our own operations, we are focusing on improving the quality of retail execution as well the operational backbone. The new management team has initiated several projects in this regard which we expect to yield positive results over the next few quarters. This includes, for example, the roll out of a new cash register system across our stores as well as a comprehensive technical upgrade of the regional distribution center in Savannah.

Finally, the Asian region shows a mixed picture. In Australia, Japan and most of the region's smaller markets, we enjoy good momentum. In China, however, declining store traffic continues to be a drag on our performance. We attribute this to the further weakening of overall economic trends, an ongoing oversupply of retail space as well as the deteriorating social acceptance of premium and luxury goods – all factors which are unlikely to disappear anytime soon. In contrast, we are reasonably satisfied with our performance in Hong Kong where our new flagships in Central and on Canton Road ramp up well in a market environment which has clearly turned more difficult as of late.

To sum up,...

...Group sales are expected to grow at a mid-single-digit rate on a currency-adjusted basis in 2015. Thanks to positive currency translation effects, increases will be higher in euro terms. While wholesale sales are forecasted to decline slightly, our own retail business will grow stronger than the Group average. This outlook is based on the assumption of low-single-digit comp store sales growth, reflecting the currently challenging market environment I just outlined, and the revenue contribution from new

space. We expect the latter to accelerate compared to first quarter levels predominantly as a result of the two takeovers in Asia.

Adjusted EBITDA is expected to grow by 5% to 7% in reported terms. The improvement will be supported by gross margin increases thanks to channel mix and tight operating overhead cost management. As a consequence of retail expansion, however, selling expenditures will increase more sharply than sales. We will also continue to invest in brand communication, so that marketing expenditures are expected to grow at least as quickly as the top line. Currency translation effects will only play a minor positive role for EBITDA development. They will be offset by deleverage caused by only moderate retail like-for-like growth. As a result, EBITDA margin is projected to decline in 2015.

Finally, investments will amount to between 200 and 220 million euro, related to own retail expansion and refurbishments as well as the two franchise takeovers, omnichannel investments, the expansion of our production facility in Turkey and the relocation of our US headquarters within New York City.

Ladies and Gentlemen, the first quarter was by no means an easy one for HUGO BOSS. While economic indicators signal an improving consumption climate, the overall apparel industry has not felt much of an effect from this yet. I strongly believe that apparel is in a tough competition with other consumption areas – be it automotives, consumer electronics or housing. That's why we need to work hard to secure our share of the consumer's wallet. For HUGO BOSS this means driving the emotional appeal of the brand across menswear and womenswear. It means offering flawless service through perfect retail execution and a maximum of convenience through omnichannel. In this environment, strong, innovative brands being able to offer a superior shopping experience will win. And I'm sure we will be one of them.

Thank you very much for your participation in today's conference call. We look forward to speaking with you again at the time of the publication of Half Year Results on August 4. Please also save the date of our upcoming Investor Day to be held on Tuesday, November 24, at the Group's headquarters in Metzingen. We will share more information on this event in the few weeks. Have a good day.