

**H U G O   B O S S**

# Kepler Cheuvreux German Corporate Conference 2017

Frankfurt, January 17/18, 2017

Mark Langer, CEO

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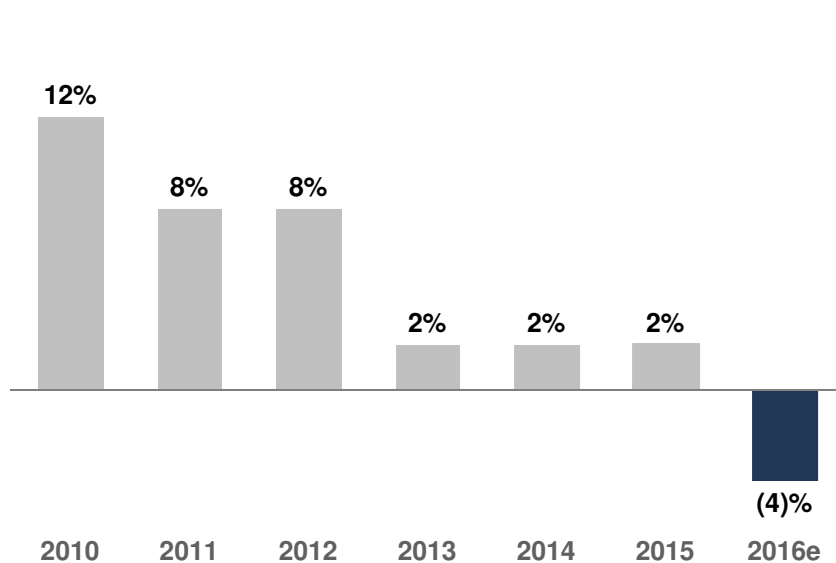
## HUGO BOSS has been impacted by some profound changes in the industry

- **Premium and luxury apparel markets** have weakened in all regions
- **Global price transparency** has rendered large price imbalances unsustainable
- **Changing customer behavior** requires adjustments to the route to market
- **Growing importance of e-commerce** provides challenges and opportunities

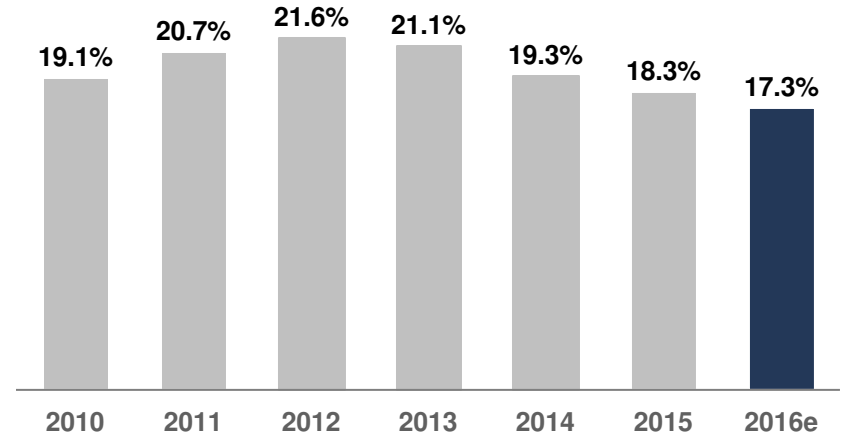


## These changes have affected financial performance across the market...

Luxury apparel market growth<sup>1</sup> (fx-adjusted)



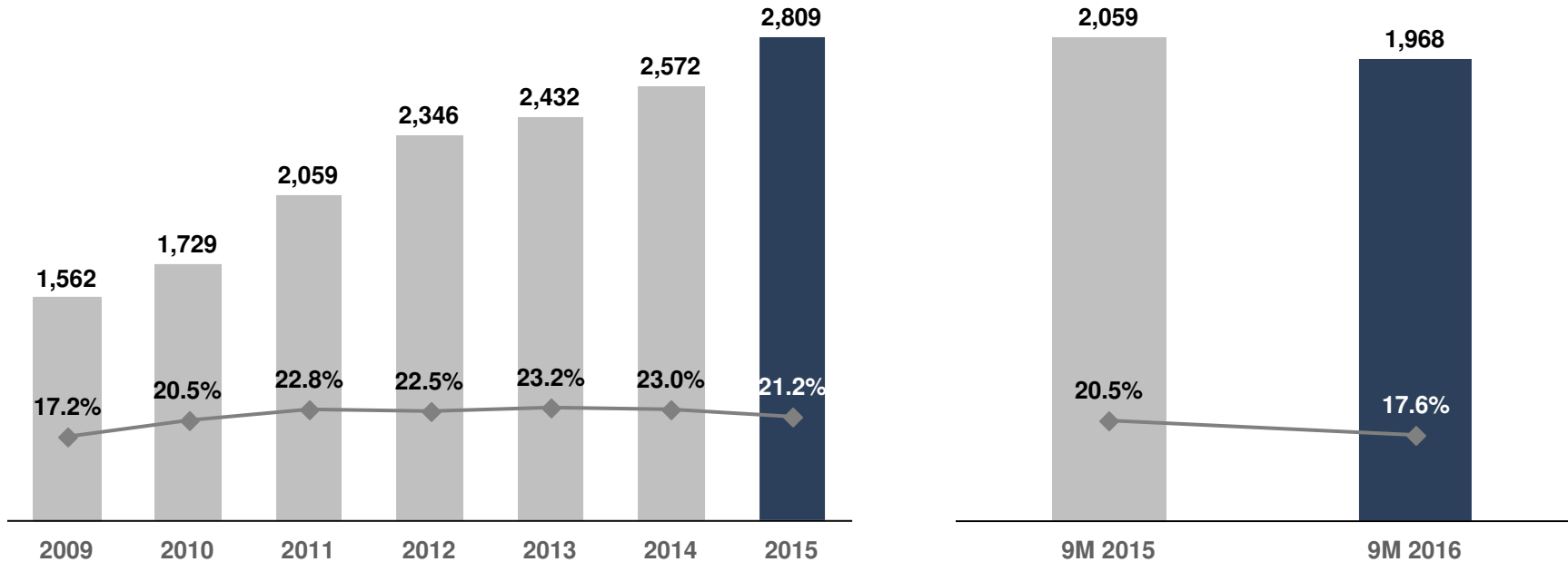
Mean adjusted EBITDA margin in premium and luxury apparel & footwear peer group<sup>2</sup>



<sup>1</sup> Source: Bain & Altagamma <sup>2</sup> Peers include Brunello Cucinelli, Burberry, Ralph Lauren, Prada, PVH, Ted Baker and Tod's. Source: Bloomberg

## ...and the Group's financial performance has also deteriorated

Sales (in EUR million), adj. EBITDA margin (in %)



## In addition to these industry pressures HUGO BOSS faces four key challenges

Current brand positioning is unclear

Go-to-market approaches differ by market



Current business model neglects the potential of digital

Organizational inertia affects the speed of decision-making and key operational processes

## HUGO BOSS has taken immediate actions



- 1 Cost savings**  
Reduced operating expense growth and investments significantly
- 2 Consolidation of store network**  
Initiated program to close unprofitable stores
- 3 Restructuring of US wholesale business**  
Discontinued distribution formats not in line with brand positioning
- 4 Global price harmonization**  
Aligned global price levels more closely
- 5 Digitization of business model**  
Insourced online fulfillment, redesigned online store and launched mobile app

## Overall objective

The return to  
profitable and  
sustainable growth





## Vision

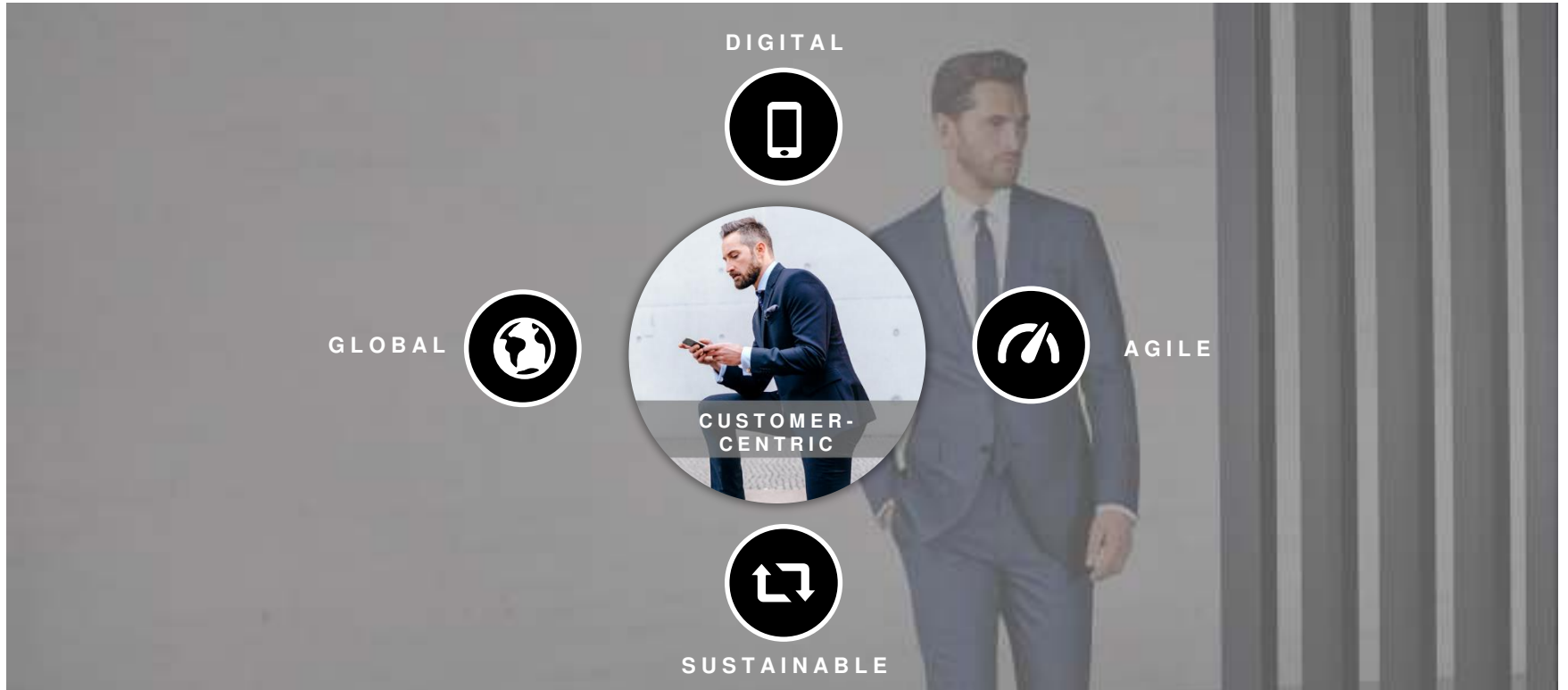
Be the most  
desirable premium  
fashion & lifestyle brand



## Corporate goals



## Strategic and operational framework



## Fields of action





Refocus the brand | Refine the way we sell | Drive the digital transformation | Innovate the way we operate

## What has made our current brand positioning unclear?



**Brand's DNA diluted**  
by an over-ambitious push into  
the luxury segment and neglect of  
the core menswear business



**Brand lines miss clear  
positioning and  
differentiation**



**Pricing strategy  
inconsistent between markets  
and regions**



Refocus the brand | Refine the way we sell | Drive the digital transformation | Innovate the way we operate

# From a product & distribution-led brand portfolio to a customer-centric approach

Fashion level

A large variety of customers with different expectations, needs and shopping behavior

Extravagant

Edgy

Fashionable

Modern

Classic



Formal

Business

Business  
Casual

Smart  
Casual

Casual

Athleisure

Occasion

Refocus the brand | Refine the way we sell | Drive the digital transformation | Innovate the way we operate

## From a product & distribution-led brand portfolio to a customer-centric approach

Fashion level

Focus on **2** strategically relevant customer segments

Extravagant

Edgy

Fashionable

Modern

Classic



Formal

Business

Business  
Casual

Smart  
Casual

Casual

Athleisure

Occasion



Refocus the brand | Refine the way we sell | Drive the digital transformation | Innovate the way we operate

## Demanding Quality Seeker



<b>Attitude</b>	Status-oriented, traditional, rational
<b>Style</b>	Classic, modern, sophisticated
<b>Expectations</b>	Top quality, personal assistance
<b>Shopping</b>	Retail & department stores, online
<b>Purchase frequency</b>	Low - Medium
<b>Price per unit</b>	High

## Open-Minded Life Enthusiast



<b>Attitude</b>	Open-minded, individual, spontaneous
<b>Style</b>	Fashionable, progressive, contemporary
<b>Expectations</b>	Latest fashion trends, urban atmosphere
<b>Shopping</b>	Online, mobile, retail & department stores
<b>Purchase frequency</b>	High
<b>Price per unit</b>	Medium

## Demanding Quality Seeker



Estimated number of consumers:  
**50-70 Mill.**

Estimated market size:  
**€ 230-320 Bill.**

## Open-Minded Life Enthusiast



Estimated number of consumers:  
**90-110 Mill.**

Estimated market size:  
**€ 210-250 Bill.**

**BOSS**  
HUGO BOSS

**Be relevant and desirable for  
demanding quality seekers**

**HUGO**  
HUGO BOSS

**Establish HUGO as a strong brand  
for open-minded life enthusiasts**

Refocus the brand | Refine the way we sell | Drive the digital transformation | Innovate the way we operate

## Focus on two clearly positioned brands



TWO brands | TWO brand identities | TWO target customers

Refocus the brand | Refine the way we sell | Drive the digital transformation | Innovate the way we operate

## Focus on two clearly positioned brands



Refocus the brand | Refine the way we sell | Drive the digital transformation | Innovate the way we operate

## Two competitive environments

Upper  
Premium



Premium



Refocus the brand | Refine the way we sell | Drive the digital transformation | Innovate the way we operate

## BOSS: Impeccably dressed whatever the occasion



BUSINESS



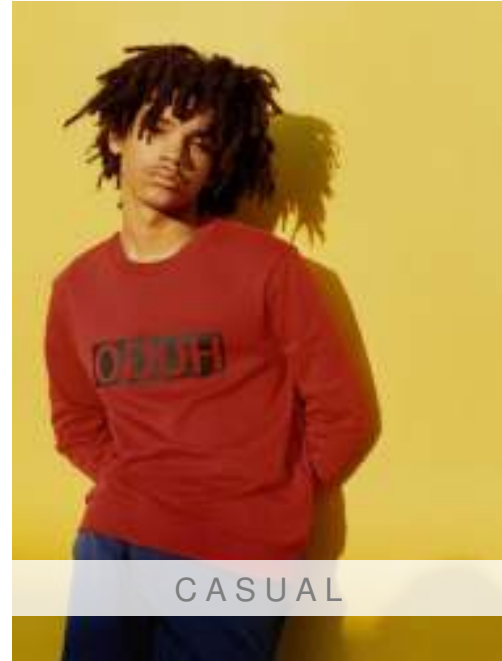
SMART CASUAL



ATHLEISURE

Refocus the brand | Refine the way we sell | Drive the digital transformation | Innovate the way we operate

## HUGO: Designer clothes at an affordable price

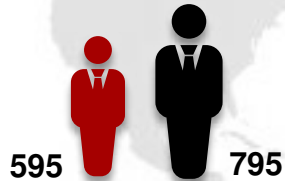


Refocus the brand | Refine the way we sell | Drive the digital transformation | Innovate the way we operate

## Attractive pricing will contribute to the expansion of HUGO across all regions

### Entry price point for suits

#### United States (in USD)



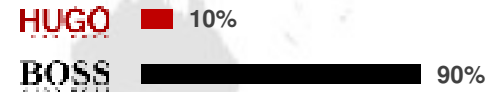
#### Euro Countries (in EUR)



#### China (in CNY)



Global sales share by brand, FY 2015 (in %)



▶ Average HUGO prices are around 30% below BOSS

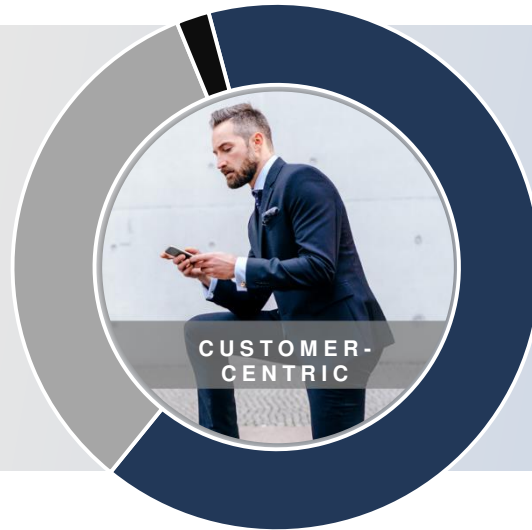




## Our distribution strategy places equal importance on all channels

### Wholesale

- Both brands
- Focus on strengthening the core
- Grow online, consolidate offline where necessary



### Retail

- Both brands
- Focus on strengthening the core
- Grow online and integrate with offline

► **Our distribution strategy is solely focused on serving the needs of our customers**

## Ongoing evolution of the store network



### Openings

- Selective white space opportunities
- Relocations
- First HUGO pilot stores



### Takeovers

- No further major franchise acquisitions planned
- Selective shop-in-shop takeovers in department stores



### Renovations

- Renovation of around 100 retail points-of-sale per year



### Closures

- Closure of 20 underperforming stores worldwide progressing as planned
- Rightsizing of Chinese store base completed
- Selected shop-in-shop closures/return to partners
- Rental contracts extended on a case-by-case basis

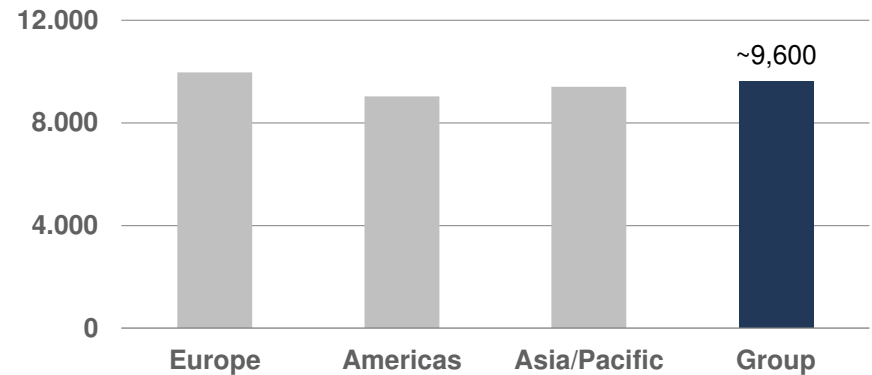
► **The pace of expansion in retail space will moderate significantly compared to historic levels**

## Increasing sales productivity the key focus of retail management

**Sales productivity by retail format, FY 2015**  
(in EUR/m<sup>2</sup>)

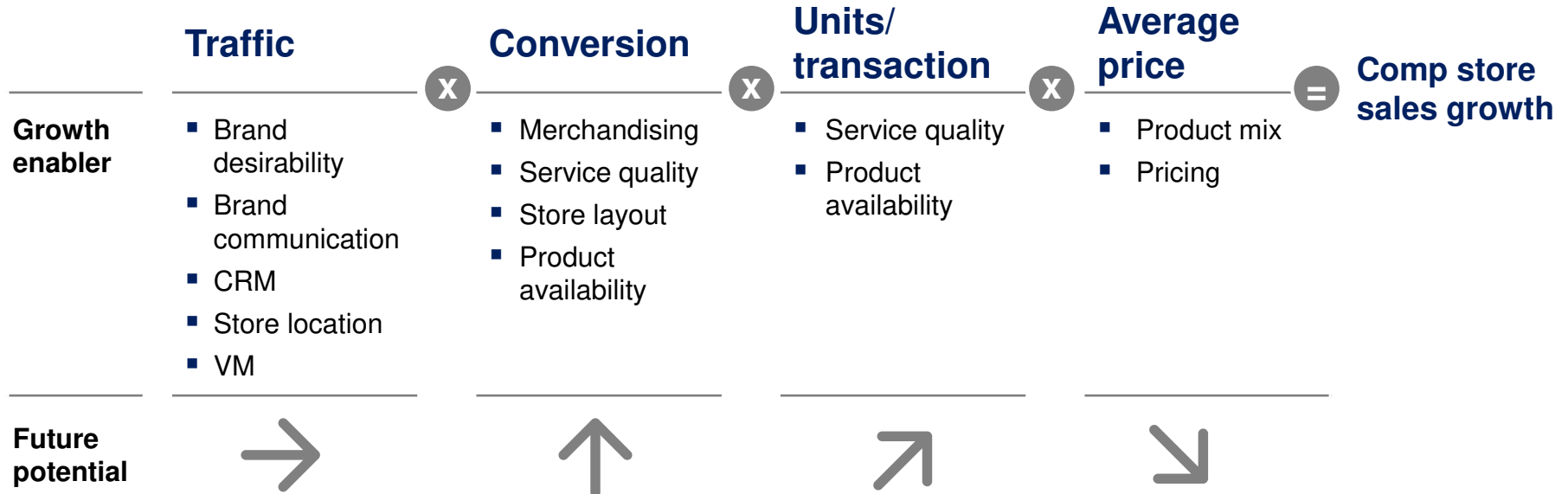


**Sales productivity by region, FY 2015**  
(in EUR/m<sup>2</sup>)



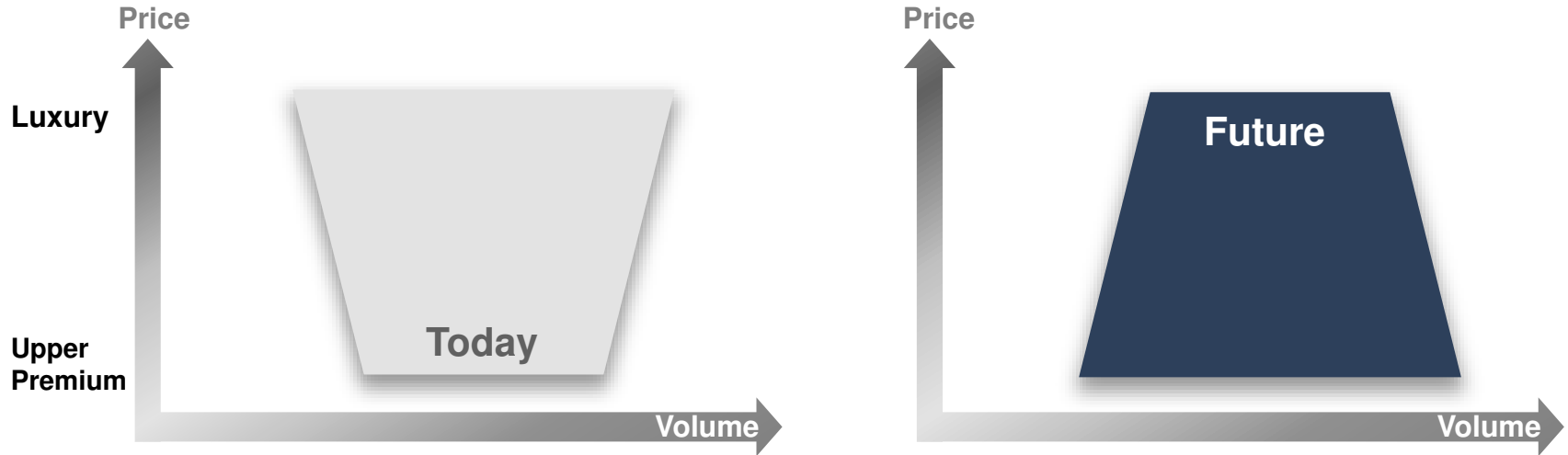
► **Target of increasing the Group's sales productivity by 20% over the next few years**

# Adjustment of brand and merchandising strategy expected to increase sales volumes



## In-store merchandising changes will better balance offerings across price points...

### Illustration of composition of product assortment in directly operated stores



- Offering of traffic-driving premium price points to be broadened
- Breadth of luxury offerings to be reduced
- Selected high-end luxury products to support desirability of brand through halo effect on rest of product range

Refocus the brand | **Refine the way we sell** | Drive the digital transformation | Innovate the way we operate

## ...and different wearing occasions

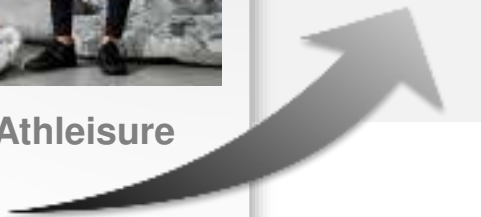
To be added to the product range



Smart casual



Athleisure



In-store today



Business



Womenswear



S&A

## New BOSS pricing architecture clears up historical imbalances

Maximum  
price difference  
between  
two markets

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**30%**  
by end of 2018

### Americas →

- ▶ BOSS prices to remain virtually unchanged
- ▶ Around 20% above European levels

### Europe ↗

- ▶ Single-digit % increase overall
- ▶ All Euro countries fully aligned

### Asia ↘

- ▶ Mid-teens % decline overall
- ▶ Max. 30% above European levels

▶ **The effect of BOSS price adjustments will be neutral on a global level**





DRIVE THE DIGITAL  
TRANSFORMATION

# The Group's digital roadmap

## Enable the cultural transformation

### Set the foundations

- Takeover of website frontend management
- Insourcing of European online fulfilment
- hugoboss.com and app (re)launches
- Omnichannel pilots

### Improve performance

- Rollout of omnichannel services
- Commercial optimization of hugoboss.com and app

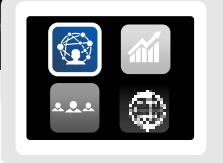
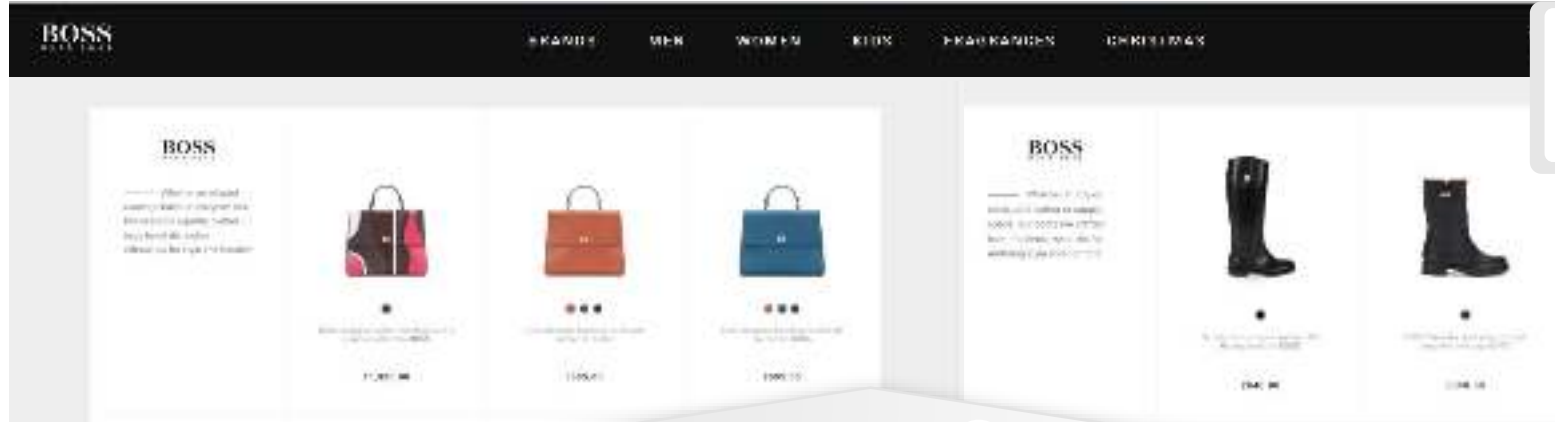
### Develop the model

- Digitization of existing business model
- Addition of new business models

Nov 2016

Refocus the brand | Refine the way we sell | **Drive the digital transformation** | Innovate the way we operate

# 2017 will be about the commercial optimization of our website



## Net Sales =

### Traffic

- SEO improvements



### Conversion

- Product availability
- Usability
- Page speed
- Customer-centric information architecture
- Improved content linking



### # of Units

- Cross-selling recommendations
- Extend LiveChat to Style Advice



### Avg Price

- Assortment optimization



INNOVATE THE  
WAY WE OPERATE

## Agility is the basis of innovation



**Establish flexible structures**

**Empower our people**

**Foster entrepreneurial thinking**

## Speed drives commercial success

**Replenish  
sold-out  
bestsellers  
in-season**

**Adjust collection  
content based on  
short-term trends**

**Become more  
flexible in our  
approach  
towards seasons**

**Demand-driven supply**

Supplement the regular collection  
development process with a fast track concept  
which reduces the time to market to weeks  
rather than months

## Wrap-Up

# Financial & Operational Outlook





## HUGO BOSS continues to be focused on profitable and sustainable growth



► **Low- to mid-single-digit retail comp store sales growth needed to expand operating margin**



## Disciplined cost management will support profitability

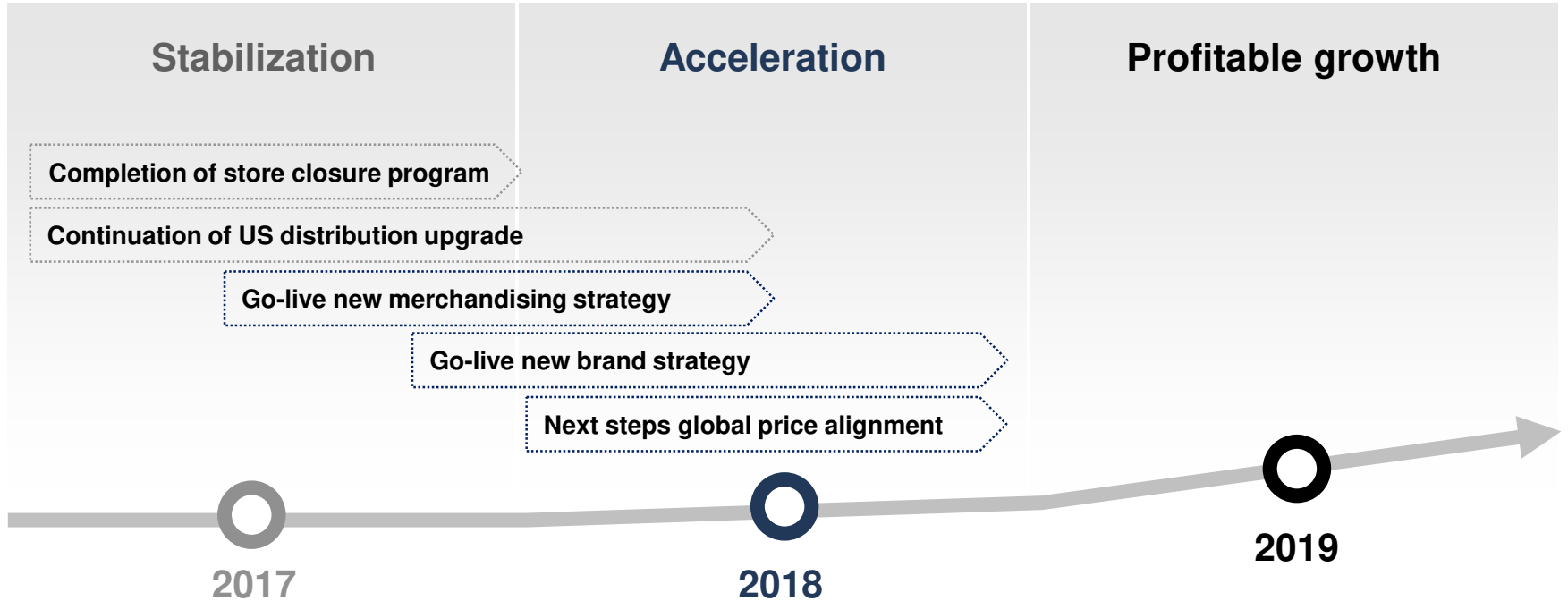
Key influencing factors on gross margin and major cost items, medium-term trend as a % sales

	Gross profit margin	OPEX		
		Retail costs	Marketing & CX <sup>1</sup>	G&A
↑	<ul style="list-style-type: none"> <li>Channel mix</li> <li>Reduction of rebates</li> <li>Reduction of collection complexity</li> </ul>	<ul style="list-style-type: none"> <li>Wage cost inflation</li> </ul>	<ul style="list-style-type: none"> <li>Brand investments</li> <li>Growing share of online</li> <li>CX investments</li> </ul>	<ul style="list-style-type: none"> <li>IT and digital</li> <li>Wage cost inflation</li> </ul>
↓	<ul style="list-style-type: none"> <li>Quality investments</li> </ul>	<ul style="list-style-type: none"> <li>Easing rent pressures</li> <li>Growing share of online</li> </ul>	<ul style="list-style-type: none"> <li>Increased effectiveness</li> </ul>	<ul style="list-style-type: none"> <li>Reduction of organizational complexity</li> <li>Strict overhead cost management</li> </ul>
<b>Future trend</b>	→	↘	↗	→

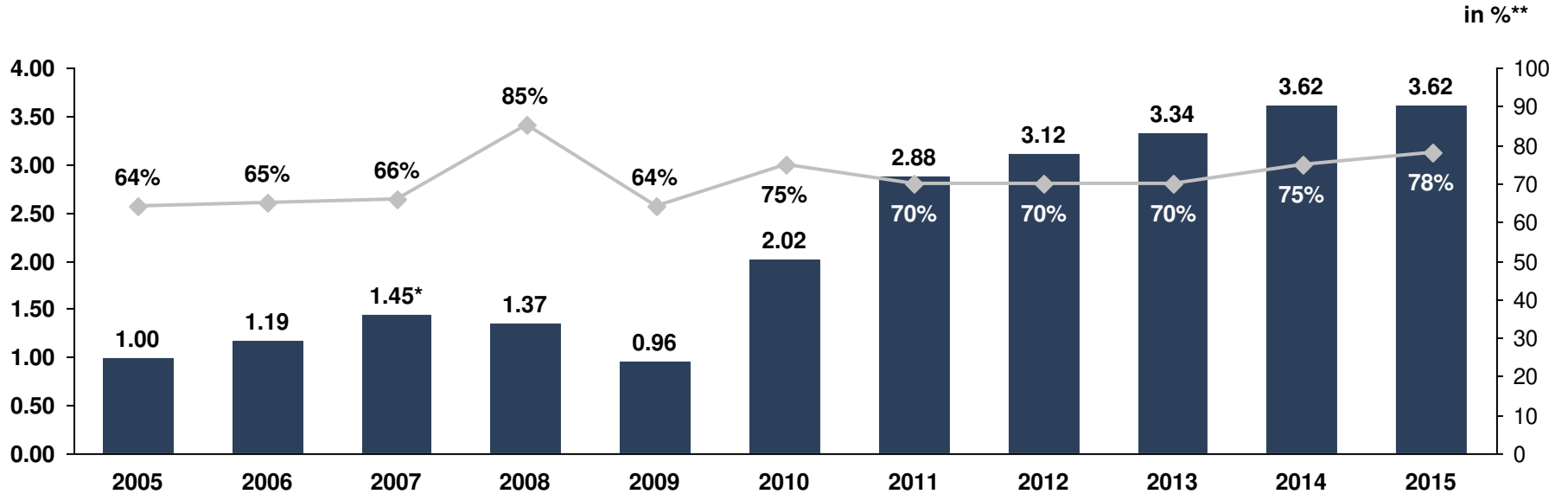
▶ **Group confident to maintain current gross margin level and limit future cost inflation**

<sup>1</sup> CX = Customer Experience

## Our return path to profitable and sustainable growth



## Continuously strong free cash flow generation supports shareholder returns



► Group reconfirms dividend policy of paying out between 60% and 80% of net income

\*Excluding special dividend of €5.00 per share \*\*As a percentage of net income attributable to shareholders

## HUGO BOSS reconfirms sales and profit outlook for 2016

### Outlook 2016

Sales (currency adjusted)	Stable or decline by up to 3%
Gross margin	Stable
EBITDA before special items	Decrease between 17% and 23%
Capex	EUR 160 million to EUR 180 million
Free cash flow	Stable

- Wholesale sales decline of up to 10% to weigh on Group sales performance
- Greater benefit from cost savings supports earnings and free cash flow outlook



## 2016 – A year of change

Strategic adjustments gear  
HUGO BOSS towards the  
return to profitable and  
sustainable growth



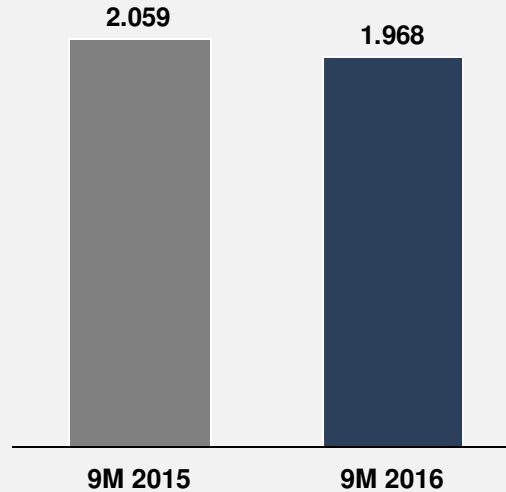


## Nine Months Results 2016 - Summary



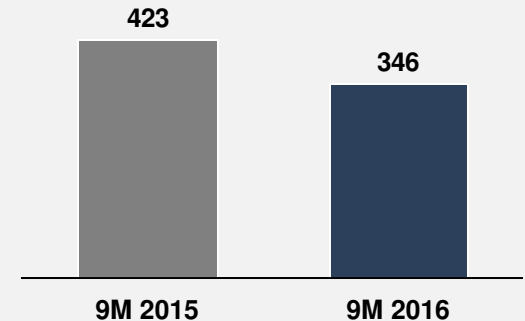
**Sales**  
(in EUR million)

**(4) %**  
(2) % fx-adjusted



**EBITDA before special items**  
(in EUR million)

**(18) %**



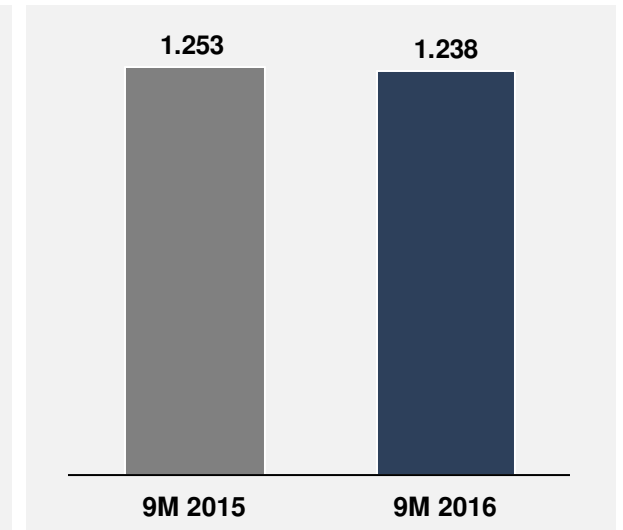
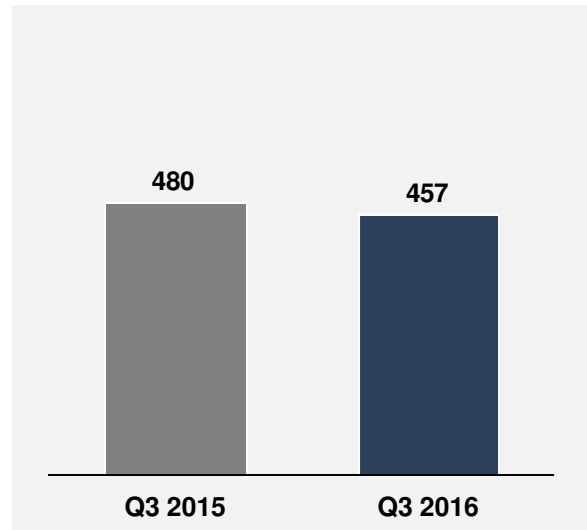
## Nine Months Results 2016 – Region Europe

- Overall apparel market very weak in August and September
- Business with tourists declines in all major markets except for the UK
- Negative timing effect in wholesale affects sales in the third quarter

### HUGO BOSS Europe sales (in EUR million)

**(5) %**  
(2) % fx-adjusted

**(1) %**  
+1 % fx-adjusted





## Nine Months Results 2016 – Region Americas

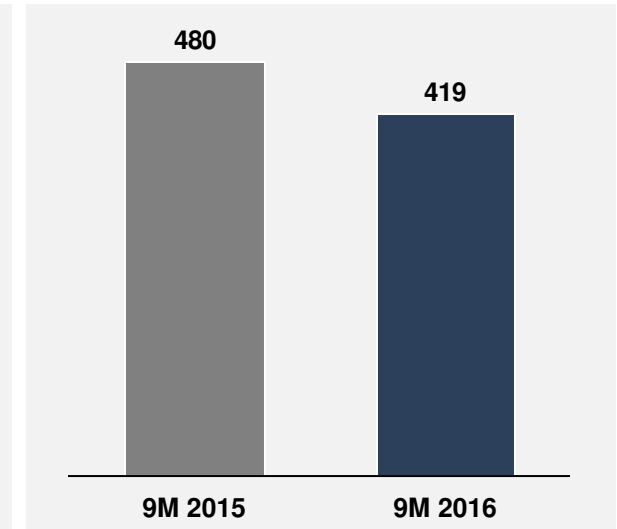
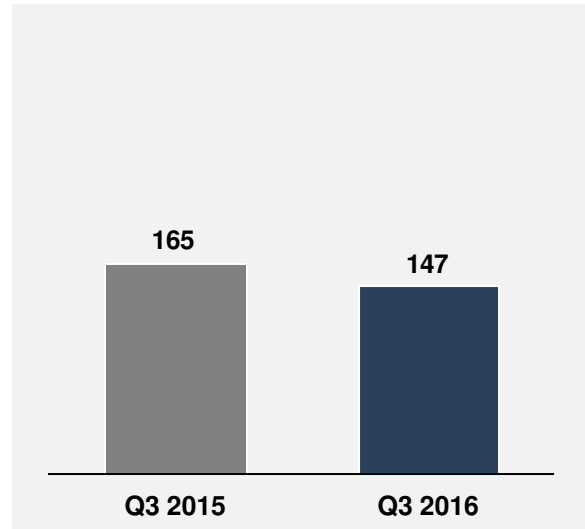
- 9M sales in the US down 17% currency-adjusted, wholesale down 24%
- Measures taken to structurally improve the quality of the wholesale business account for around half of the sales decline in the channel
- US own retail sales under pressure from traffic shortfalls

### HUGO BOSS Americas sales

(in EUR million)

**(11) %**  
(9) % fx-adjusted

**(13) %**  
(10) % fx-adjusted



## Nine Months Results 2016 – Region Asia/Pacific

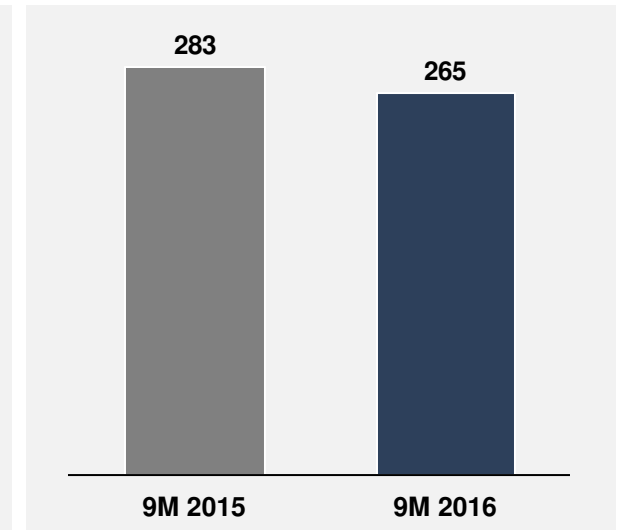
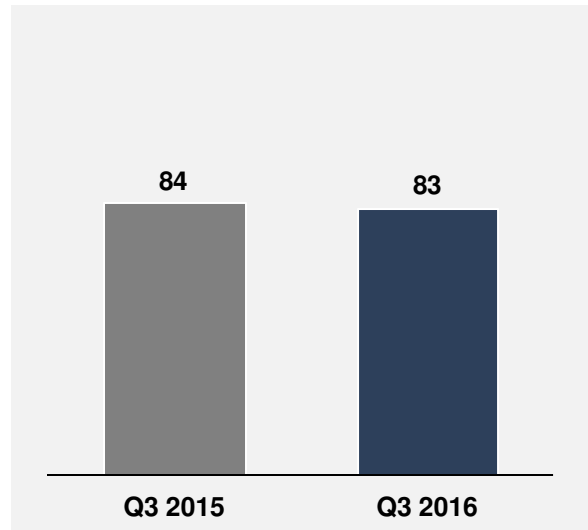
- Sales in Greater China decline 4% in Q3, down 11% year-to-date
- Store closures and decreases in Hong Kong and Macau continue to impact overall market sales
- Comp store sales performance in Mainland China improves strongly in August and September, positive in the quarter

### HUGO BOSS Asia/Pacific sales

(in EUR million)

**(2) %**  
(3) % fx-adjusted

**(6) %**  
(5) % fx-adjusted



## Nine Months Results 2016 – Own retail

- Sales contribution from new space more than offsets comp store sales decline of 6% in Q3 (negative 7% in 9M)
- Comp store sales performance in Europe and Asia/Pacific better than the Group average
- Website relaunch and new mobile app to support online sales performance going forward

### HUGO BOSS Retail sales

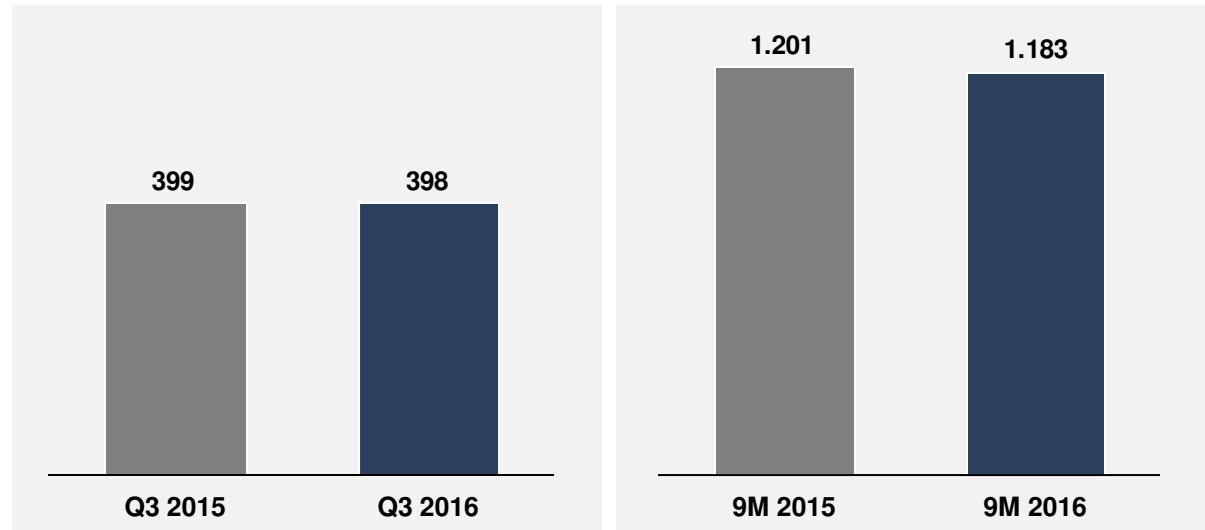
(in EUR million)

0 %

+2 % fx-adjusted

(1) %

+1 % fx-adjusted



## Nine Months Results 2016 – Wholesale

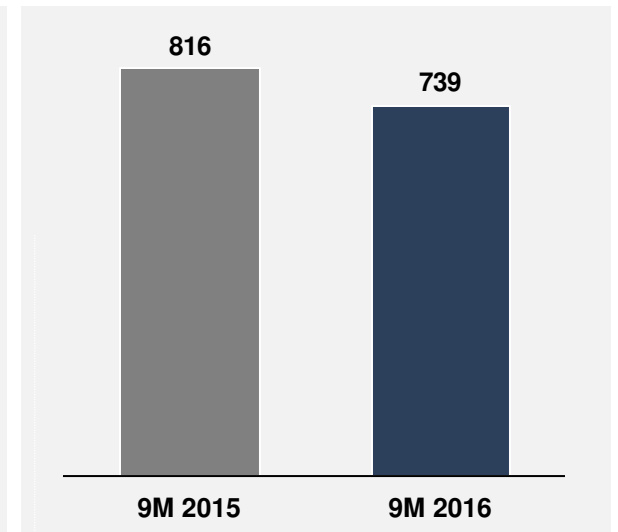
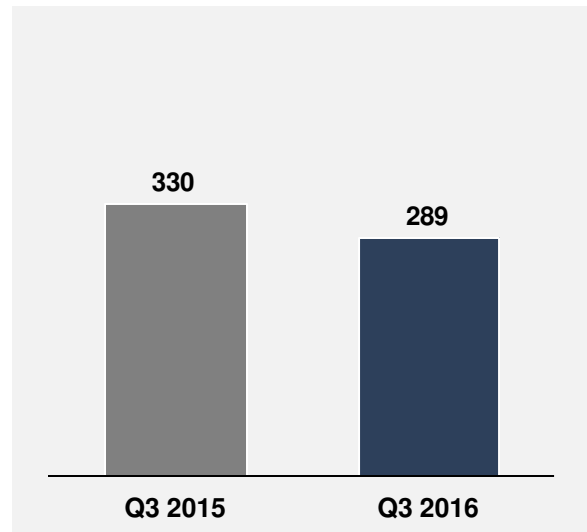
- Distribution changes in the US key driver of declines
- Demand from retail partners weak globally
- Negative timing effect impacts third quarter revenues

### HUGO BOSS Wholesale sales

(in EUR million)

**(12) %**  
(11) % fx-adjusted

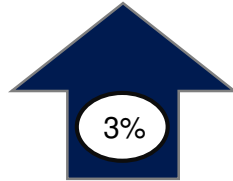
**(9) %**  
(8) % fx-adjusted



## Nine Months Results 2016 – Costs and profit

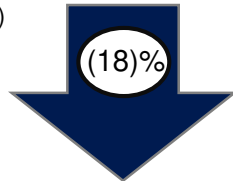
Selling & Distribution expenses

**839** EUR million



EBITDA (before special items)

**346** EUR million



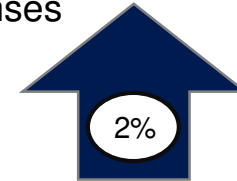
EBIT

**179** EUR million



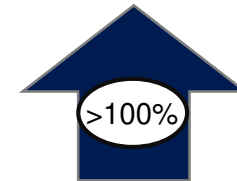
Administration expenses

**204** EUR million



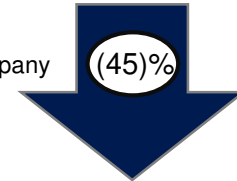
Special Items

**66** EUR million



Net income attributable to equity holders of the parent company

**130** EUR million



## Nine Months Results 2016 – Segment profit

### Segment profit

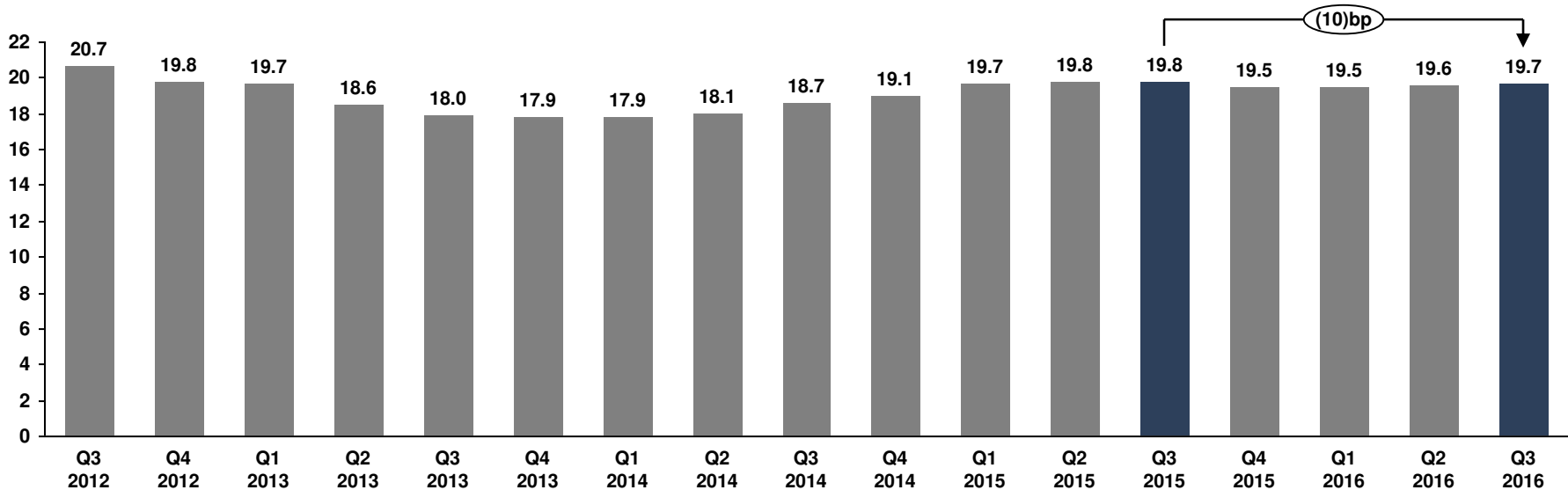
In EUR million	9M 2016	In % of sales	9M 2015	In % of sales	Change in %
Europe*	379.5	30.7	403.9	32.2	(6)
Americas	95.1	22.7	130.1	27.1	(27)
Asia/Pacific	48.0	18.1	70.3	24.8	(32)
Licenses	38.3	81.8	34.6	83.6	11
<b>Segment profit operating segments</b>	<b>560.9</b>	<b>28.5</b>	<b>638.9</b>	<b>31.0</b>	<b>(12)</b>
<b>Corporate units/consolidation</b>	<b>(215.2)</b>		<b>(216.0)</b>		<b>0</b>
<b>EBITDA before special items</b>	<b>345.7</b>	<b>17.6</b>	<b>422.9</b>	<b>20.5</b>	<b>(18)</b>

\*Incl. Middle East and Africa

## Trade net working capital in relation to sales

Average trade net working capital as a percentage of sales by quarter\*

(in %)

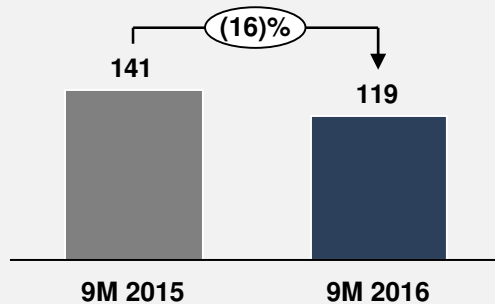


\*Certain amounts shown here do not correspond to the figures published in prior years and reflect adjustments made

## Nine Months Results 2016 – Cash flow and balance sheet

### Investments

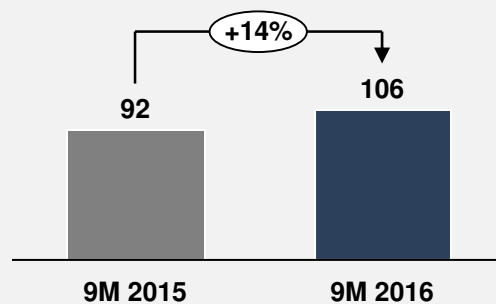
(in EUR million)



- Moderation of retail expansion and non-recurrence of prior year one-time projects

### Free cash flow

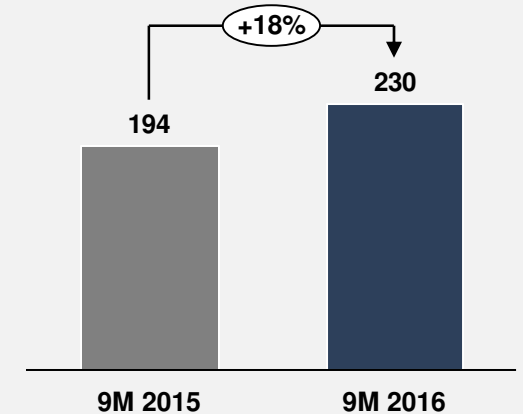
(in EUR million)



- Lower capex and working capital improvements more than offset earnings decline

### Net debt

(in EUR million)



- Increase due to earnings decline and dividend payment in May



## Sales by region and major markets

Share of Group sales\*



### Europe

(incl. Middle East/Africa)

**60%**

Germany:	17%
Great Britain:	12%
France:	6%
Benelux:	5%
Other:	20%



### Americas

**24%**

U.S.:	19%
Canada:	3%
Central & South America:	2%



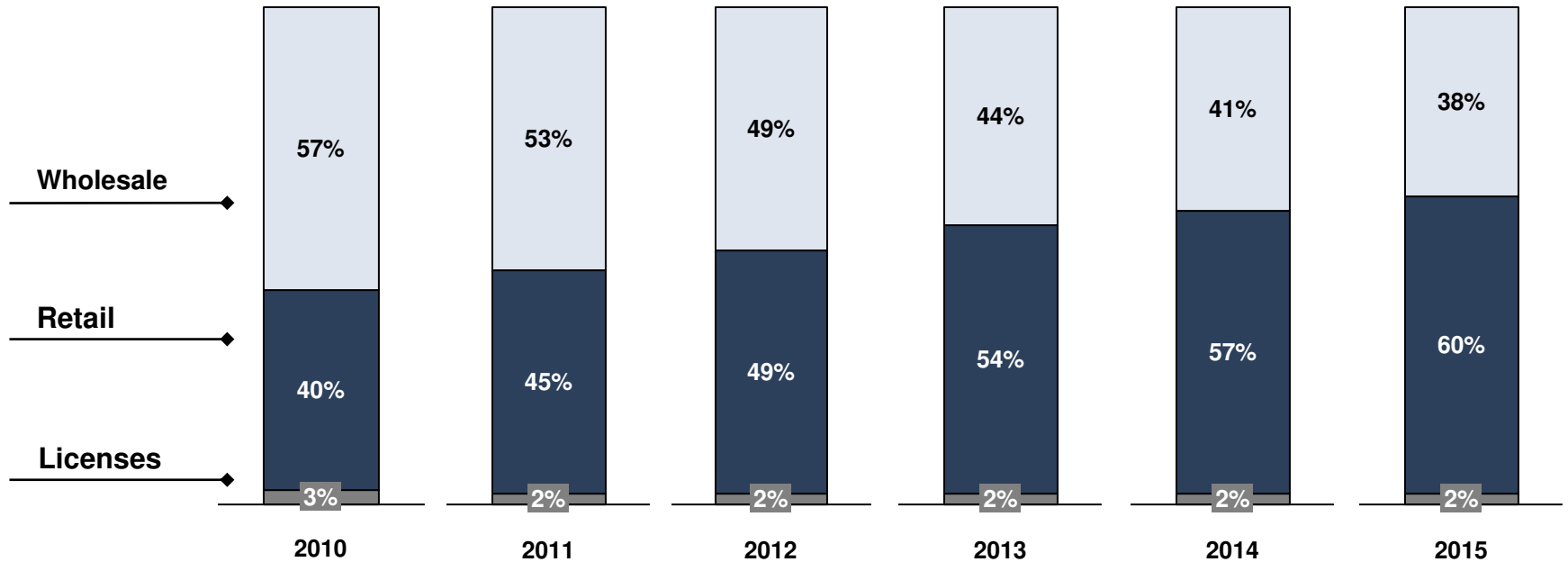
### Asia/Pacific

**14%**

China:	8%
Oceania:	2%
Japan:	2%
Other:	2%

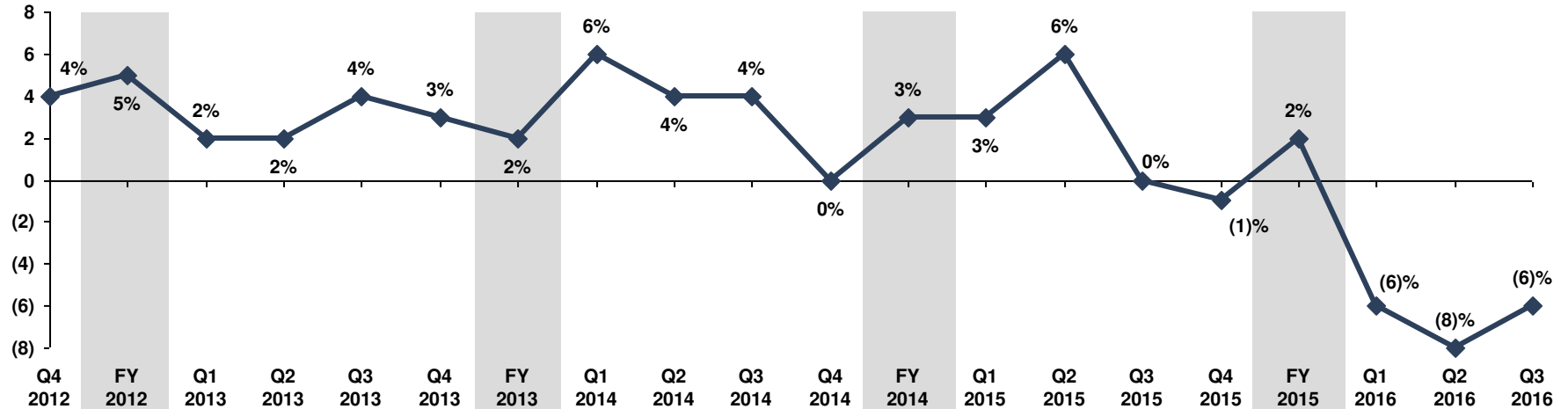
\*as of 2015, +2% Licenses

## Sales by distribution channel



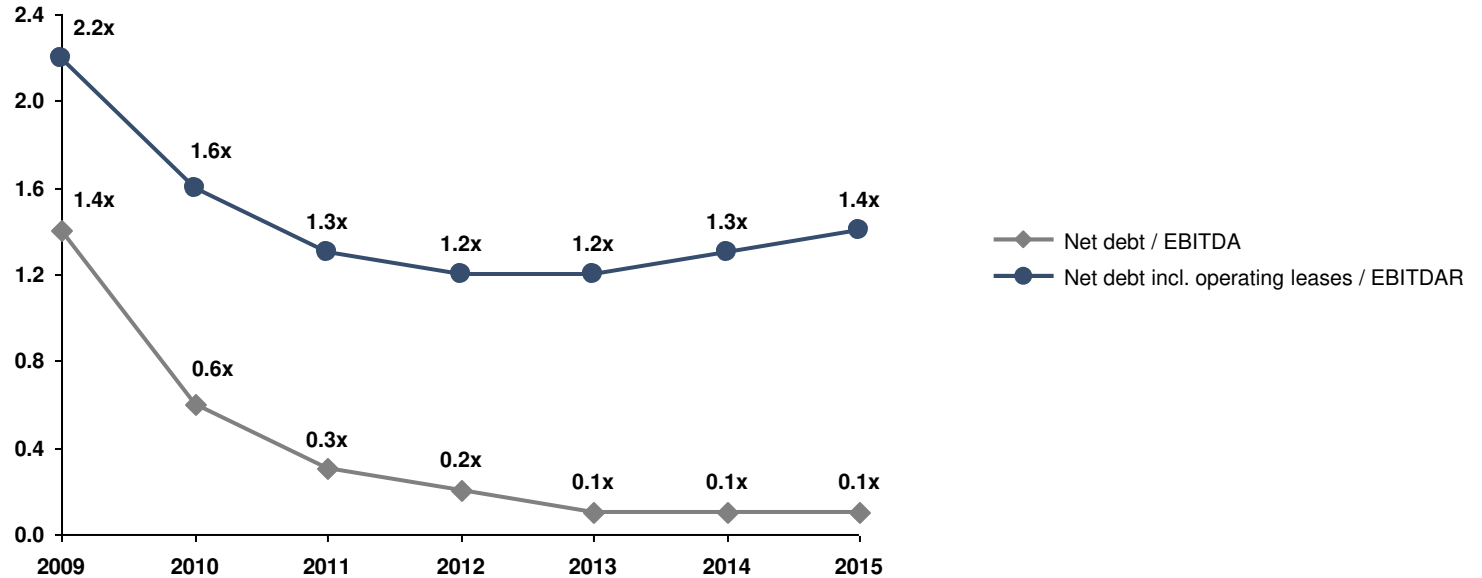
# Retail comp stores sales

## Retail I-f-I sales development\*



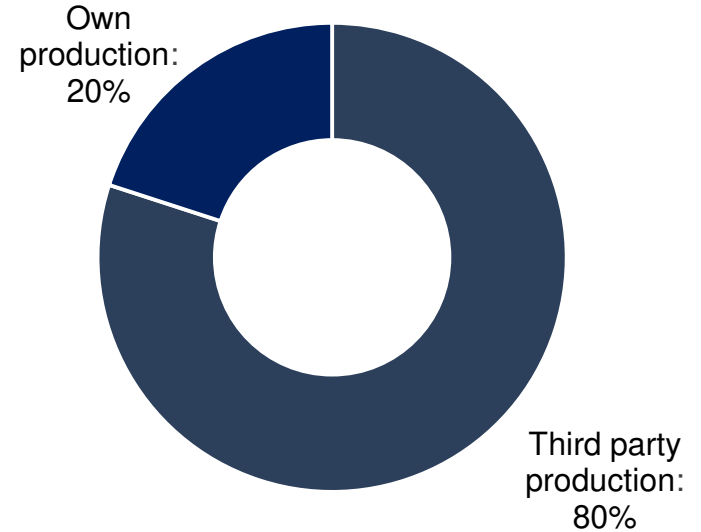
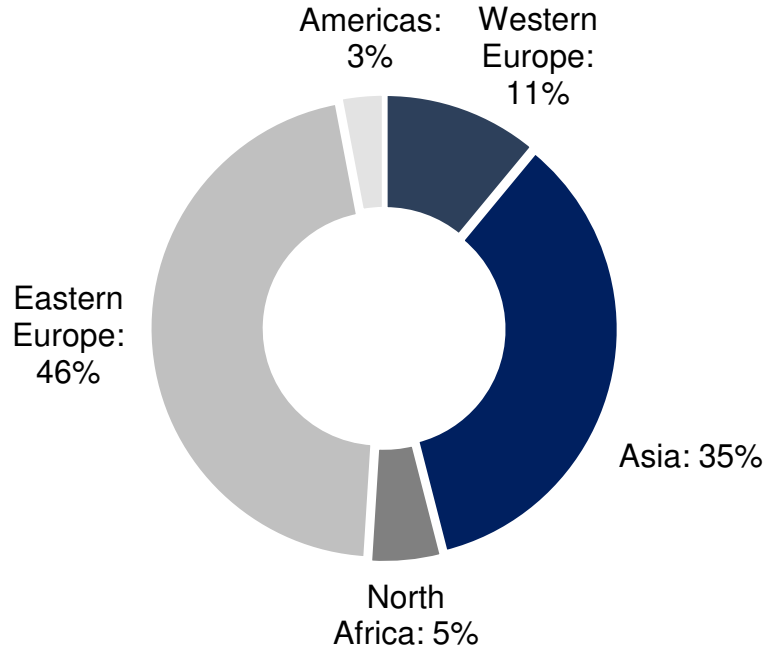
\*FX-adjusted

## (Adjusted) financial leverage



Operating leases = Future committed operating lease obligations capitalized according to S&P methodology  
 EBITDAR = EBITDA + minimum rents + contingent rents

## Sourcing and production structure\*

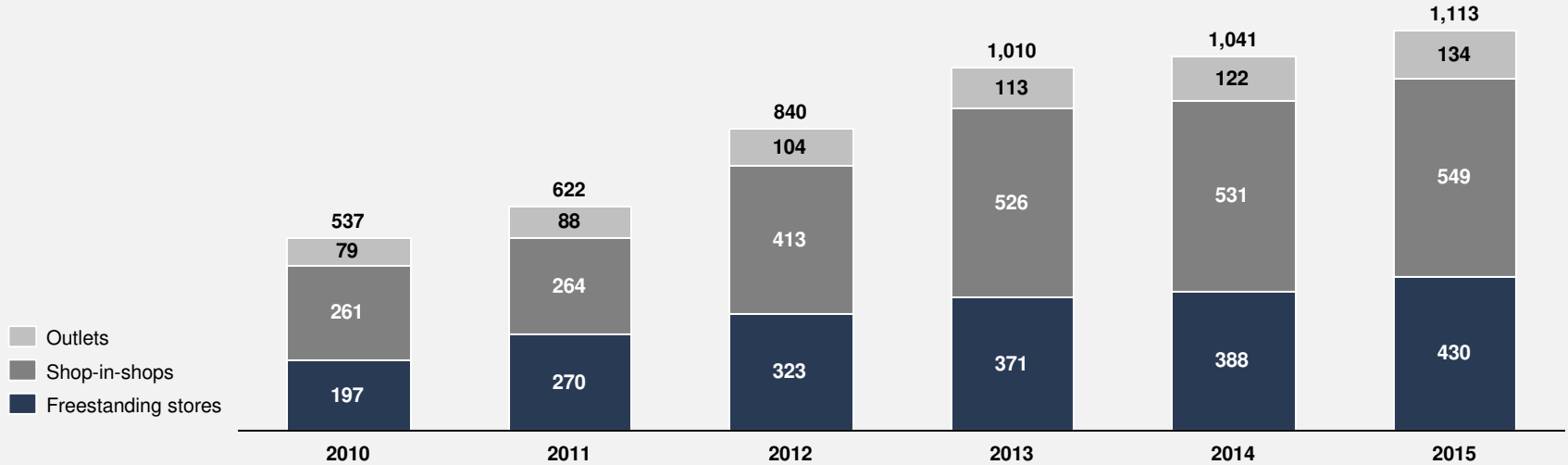


\*As of 2015, in value terms

## Retail network

### Number of own retail stores

as of December 31

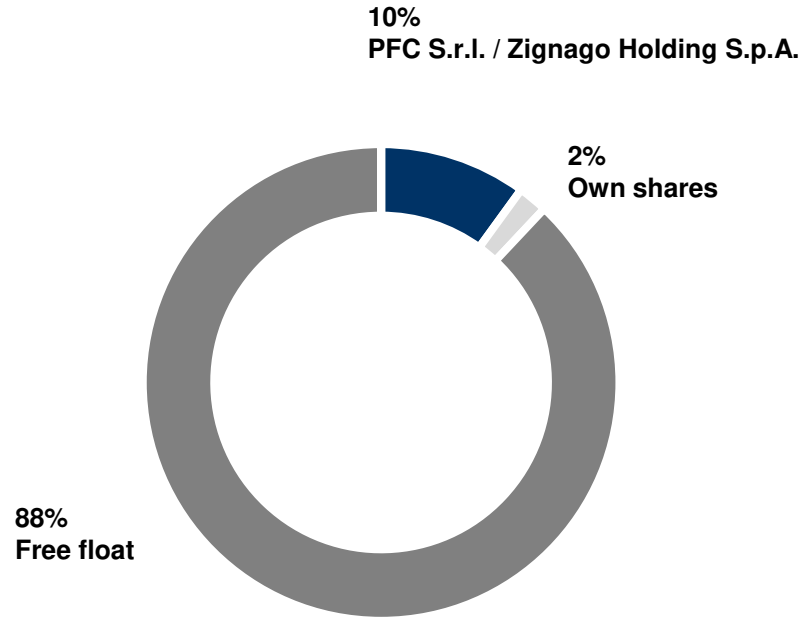


## Multi-Year overview

In EUR million	2015	2014	2013	2012	2011	2010
Sales	<b>2,808.7</b>	2,571.6	2,432.1	2,345.9	2,058.8	1,729.4
Gross profit	<b>1,852.8</b>	1,699.1	1,579.6	1,444.1	1,252.0	1,022.4
EBITDA	<b>589.9</b>	571.5	561.4	523.9	468.0	340.1
EBITDA before special items	<b>594.1</b>	590.8	564.7	528.1	469.5	353.7
EBIT	<b>447.7</b>	448.7	456.2	432.0	394.6	267.9
Net income	<b>319.4</b>	333.3	329.0	306.5	284.9	188.9
Free cash flow	<b>207.6</b>	268.4	230.0	220.6	194.9	246.3
Net debt	<b>82.2</b>	35.7	57.0	130.4	149.1	201.1
Capex	<b>220.3</b>	134.7	185.3	165.8	108.5	55.6
Depreciation/amortization	<b>142.1</b>	122.8	105.3	91.9	73.4	72.2
Dividend	<b>249.8***</b>	249.8	230.5	215.3	199.1	139.7
Total assets	<b>1,800.3</b>	1,661.8	1,501.3	1,577.2	1,419.6	1,342.8
Shareholders equity	<b>955.7</b>	843.9	740.3	631.6	517.3	361.2
Trade net working capital	<b>527.6</b>	503.0	431.8	408.5	399.6	322.7
Non-current assets	<b>764.6</b>	660.3	611.5	587.7	503.2	454.5
Gross profit margin in %	<b>66.0</b>	66.1	64.9	61.6	60.8	59.1
Adjusted EBITDA margin in %*	<b>21.2</b>	23.0	23.2	22.5	22.8	20.5
Total leverage**	<b>0.1</b>	0.1	0.1	0.2	0.3	0.6
Equity ratio in %	<b>53.1</b>	50.8	49.3	40.0	36.4	26.9

\*EBITDA before special items/Sales \*\*Net financial liabilities/EBITDA before special items \*\*\*Based on dividend proposal of €3.62 per share  
Kepler Cheuvreux German Corporate Conference 2017 HUGO BOSS ©

## Shareholder structure\*



\*Source: Share register, voting rights notifications (as of December 2016)



## Financial Calendar 2017 and Investor Relations contact

Date	Event
March 9, 2017	Press and Analysts' Conference
May 3, 2017	Publication of the First Quarter Results
May 23, 2017	Annual Shareholders' Meeting
August 2, 2017	Publication of the First Half Year Results
November 2, 2017	Publication of the Nine Months Results

## Investor Relations Contact

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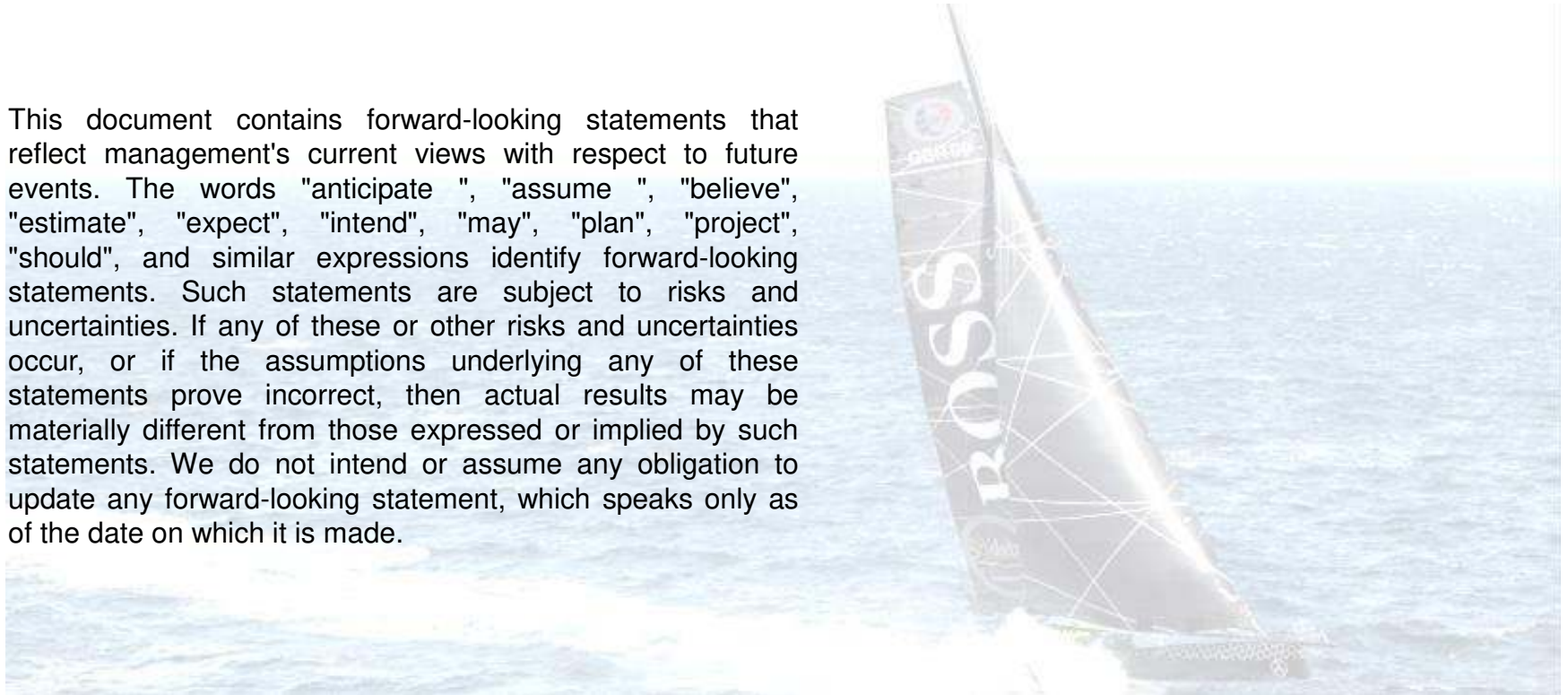
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## Forward looking statements contain risks

This document contains forward-looking statements that reflect management's current views with respect to future events. The words "anticipate ", "assume ", "believe", "estimate", "expect", "intend", "may", "plan", "project", "should", and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. We do not intend or assume any obligation to update any forward-looking statement, which speaks only as of the date on which it is made.



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