H U G O   B O S S

HUGO BOSS FY 2017 Analyst Conference Call

Transcript – Q&A Session

March 8, 2018

Please note that the transcript has been edited to enhance comprehensibility. Please also use the webcast replay to listen to the Q&A session on the day of earnings publication.

Luca Solca (Exane BNP Paribas): I am interested in understanding more how the off-price portion of your business is shaping up: its contribution to top-line and operating profit, as well as its contribution to organic growth that you recorded this year at record levels. Thank you.

Mark Langer (CEO): What has changed in 2017 is that any off-price business is now under our direct control. If you remember, this was something that we had to address, and already back in 2016 we took the decision not to allow any third party to operate off-price pure-play distribution.

Of course, the importance of our off-price business varies by market. Relative to group average it is still under proportional in Asian markets. Europe is more or less on group average and we still have a higher share in the U.S. However, we consider stronger growth in our online and full price business as important metrics to assess brand desirability and brand strength. We are very pleased that for the last two quarters on a global scale, in particular in the U.S., we have seen stronger growth in the full price business and in our own online business.

Clearly, there is no right balance between off price and full price business. We acknowledge the fact that as an apparel company, we will not be able to implement similar strategies like some accessories pure-plays. However, we are pleased with the progress we have seen. We have not given the market a target number of split between full price and off price. Today we reconfirm our commitment to drive our overall retail growth, of course, in like-for-like, also in absolute numbers, rather by full price distribution and online, than off price, recognizing that this is an integral part of our business.

In terms of profit, just to complete your question: it varies. It is not that our full price or online business is by definition more profitable than our off price business because we just have higher gross margins predominately at full price. This is being offset at least partially by the lower cost of operation with factory outlets' and sales densities also play a role. It is not a major difference in sales channel profitability that drives our decision. It is purely driven from the eye of the consumers to have them well balanced between these two sales channels.

Volker Bosse (Baader Bank): I would like to start with your online business: Congratulations to your online improvements. Nevertheless, I see a bit reluctance to join third-party websites, be it with your online wholesale or be it with your own online activities on marketplaces. Could you please give a bit more strategic insight on what you plan to do here and what you have achieved, to have a bit more vision in that field of your online strategy?

My second question would be on your store expansion: you guide for 15 to 20 new freestanding stores in 2018. Can you give us an idea where we can expect the openings, regional-wise? Also the included 10 HUGO stores: where can we expect those?

Welcome Mr. Müller on-stage. What is your first impression? What was your strategic focus in your first days? Where do you see fields for improvement?

Perhaps one final question for clarification on the tax rate that you mentioned already in your presentation. Just as a reminder: what is the tax rate we should put in our model for 2018? Thanks.

Mark Langer (CEO): On the online distribution: we recognized that in certain markets multi-brand online distribution is an important distribution platform for us. Basically, the same principles apply in the online field and in the physical world. If the brand mix is right and if the brand presentation is what we like to see from these partners, we are very committed to these partnerships. You might have seen that we were one of the key brands to participate at the Zalando Bread & Butter event last summer in Berlin, demonstrating the very close and beneficial relationship we have with this multi-brand online pure-play for example.

We also work very closely with many department stores that are coming from a more physical background, but which are now making progress also to serve their customer base via their e-commerce offering. We are very happy to be present on a Nordstrom or Selfridges website.

So there is a customer who has found BOSS as her or his prime source for all wearing occasions in the physical retail world. This customer will probably also use our enhanced and improved e-commerce platform. You rightly pointed out that, coming from an admittedly lower base, we have seen strong momentum in the second half of the year. So that is one customer group.

For the ones who are not that brand loyal yet, we need to introduce them to the superior offer of both HUGO and BOSS via multi-brand sites. However, these need to be the right ones in terms of content that we provide. So many of our partners ask us for providing them with our picture material, our storytelling, as we have such a great story to tell with all our sponsorship activities. We are willing to share these in an efficient way with our partners also online, same like we do in the physical world of the department stores to grow this business.

We have not announced any of these deals yet, but we are in advanced negotiations with many partners. We believe that with our build competencies - operating e-commerce at least in the U.S. and the European market - it could be now also an opportunity to go into digital concession agreements, where we basically just tap into the traffic of the partners and operate the business. We would not speak of such business models if we don't see a likelihood of realization. But it's not as concrete to be announced yet.

On the expansion: we expect 15 to 20 gross openings of freestanding stores in 2018. The 10 HUGO stores will predominately be based where HUGO is known best. That is the key western European markets and the U.S. There we see the biggest potential for HUGO as it is established via today's presence, but also via our license business.

Yves Müller (CFO): I will start with the specific question on the tax rate. 26% should be the right tax rate for the future. As I pointed out, four percentage points of the

increase in 2017 are non-recurring, stemming from the US tax reform. But the remaining two percentage points, causing the increase from 24% to 26%, are due to a new taxation law regarding licensing costs in Germany.

Secondly, I am really glad to be here. I talked about my first 100 days, and I really get into the strategy as has been pointed out. I am really up to the strategy now and supporting this. Taking one example, I think one big issue in retail in the future is retail productivity. This is what we are driving for. I think the big driver in the P&L will be increasing sales density, euros per square meter.

There will be, of course, some white-spots. There will be, of course, some new openings here and there. The real focus will be on remodeling. Remodeling has two big advantages. One is you know the location already. You know if it is running or not. Secondly, remodeling costs are much more efficient and lower as compared to new investments. So I'm very much in favor of increasing retail productivity. We will accelerate this in 2018 and going forward.

Finally, we will speed up, as Mark pointed out, our online growth. There is a lot of potential that we have here. Being a new rookie on the Board and being responsible for IT, I was really impressed what we offer in omnichannel services. Since October, for example, we are able to offer customers the order from store service. We have the IT capabilities to have real-time access to our inventories. I think this gives us a competitive advantage. With rolling out Omnichannel services to further countries this has good potential for the future as well.

Andreas Riemann (Commerzbank): My first question is on the U.S. business: the business is doing much better now. Can you please explain if this is just due to the market recovery or if there are BOSS specific reasons, e.g. super sell-through rates?

Second one: For 2018 you speak about 150 store renovations and digital investments. So it seems like 2018 will be a year where OpEx- and CapEx-to-sales ratios could peak. In 2019, profits and cash flow should start to grow again. Is that the right observation or would you say that these increased investments could become permanent investments?

Mark Langer (CEO): Let me start with the second question: even though it is clearly more difficult to predict all details for the year 2019 as compared to 2018, it is clear that we expect to return to absolute and relative profit growth as of the year 2019, and we strongly reconfirm this target. We need to do the right things. We can't delay necessary investments, neither on the CapEx or the OpEx side, to build a superior business model. Especially since we are seeing even stronger proof than we initially expected from the changes that we have implemented already.

We have a winning business model. We have done the right adjustments with our new strategy. You still remember that 18 months ago this was initially met with some slight skepticism. Now, as consumers discover this collection, as we are seeing the strong like-for-like acceleration, we see this is something that is superior to many other apparel players that we compete with.

So as we recognize that this is now a business model, with the capabilities that we had already for a longer period - in terms of IT backbone system, logistic, strength of the brand. Now with omnichannel capabilities, the sharpened brand strategy and many of our competitions struggling, I am confident that this is now the time to take market share. This is what many wholesale partners also provide us with their feedback, in particular in these markets where we have staged an impressive come back such as China and North America. The time is now to retake market share. And where needed, be it on the marketing side, be it in the roll-out of omnichannel services, we are willing to step-up our approach. Because other than market participants that might be in a downward spiral, we now have the top line momentum to report on these investments.

Unfortunately this comes together with a time of significant FX headwind. You know that we have been reluctant in the past to provide you with the upside or the downside of currency fluctuations on the bottom line, because the impact was much smaller back then. Now we are talking about a combined €30 million negative impact for 2017 and 2018, compared to when we first highlighted our financial targets back in November 2016.

The pendulum will swing both ways, we have to accept it. We actively opted against aggressive price adjustments to compensate that. Yves explained this very well today. So there is a dampening factor that we have not envisioned to this extent 12 or 18 months ago. We have to deal with that. We will also look carefully into price adjustments over the next 12 to 18 months, while we believe - with this momentum - that we will see a further acceleration not only in the top line, but also in the EBIT or EBITDA development in 2019 and beyond. How high is high? That’s too early to tell. But clearly, we have stabilized the business at the current profitability level. But we are committed to drive higher profitability levels going forward.

What I now described on a more global scale, can especially be translated back to the U.S. business, where we came back to important entry price points - something where we lost U.S. consumers in the past as our offering on retail was just too expensive to what U.S. consumers were expecting from us.

We have placed a much stronger focus on the casualwear segment, which was a positive globally, but which was even more important in the U.S., where the smart casual trend is even stronger than in any other market. So we were in need to introduce these categories to our business. The U.S. comeback was the strongest market surprise that we reported in 2017, because for the second half of 2017 it was still the old collection. We reintroduced some of the styles, in particular athleisure. Casualwear not at all, just only feasible as of now, 2018.

Let's see how high is high. We are just off a few weeks of trading, but we see the momentum in the U.S. on our side, but Luca is right, the U.S. is clearly a market with high promotional activities. You have to be sure that you are not breaking any risk to your full price business by the actions of your wholesale partners. So it is not an easy market, even though I would say the market is bottoming out in terms of promotional activity.

And we also have to say that we have probably benefited from the business environment that has not further deteriorated in the U.S. in the second half of the year.

You have probably seen some of the data, also for the holiday season, which was better than initially expected.

Alberto D'Agnano (Goldman Sachs): On your store portfolio: The total number of stores will remain pretty much flat, but there will be some HUGO openings. I expect the HUGO stores to be a bit smaller than the BOSS stores. So are you implying that you are going to close some larger stores and is your selling surface overall going down?

Another question refers to online concessions: you appreciate the advantages that these provide in terms of not having unsold inventories with your retailers, and a better presentation of your products. Just a question on the economics: is it better than wholesale, once you allocate the costs? Thanks.

Yves Müller (CFO): Regarding online concessions: I am very much in favor of online concessions, because you control the brand, the prices, the offerings and the assets. In our business model, this is crucial. Especially in online, when it comes to mark-downs you can control. I think, this is crucial and has strategic importance.

When it comes to margins, as you are in existing wholesale partnerships, it is more or less a give and take and a risk and return issue: If you are responsible for your own inventory you have a higher risk. So this is a kind of risk and return issue and point of negotiation actually.

Mark Langer (CEO): It should be win-win situation. If we could not run this business with higher productivity then we probably should not touch it. But, as we have demonstrated in the physical retail world, where we have seen some tremendous increases due to the capabilities that we brought to the party, it can be beneficial for both sides, if we bring it from 100 to 100 plus X.

In terms of number of our stores and space, you pointed out a very important part. On a half-year base, we provide an update on the size of our retail network in terms of square footage. Of course, if we see an increase of e-commerce it becomes a bit distorted. But part of the restructuring that we started in Summer 2016 was also to either close down stores that were beyond repair or just oversized. That was not always easy, but the significant improvement that you saw in our profitability in Asia was at least to some degree also because we were able to give back some spaces that were just too excessive. So we right sized stores of 600 and more square meter to something that's more fitting to our capability, i.e. 350 to 400 square meter.

So it is not reflected in the number of stores, because it is still counted as one POS. But it's a dampening factor for square footage. However, there is still white space expansion, like with the smaller HUGO stores that we will open. On average, they will be smaller than our BOSS stores.

At a small scale, we continue to have some concession takeovers. There has been one example in Canada in 2017, but on a much smaller scale than in the period between 2012 and 2015, where we benefited to a larger degree from concession takeovers. We

expect takeovers and white space expansion to contribute only a low single-digit amount to retail momentum in the years to come.

Jürgen Kolb (Kepler Cheuvreux): Mark, let me challenge you again a little bit on the further outlook. You have a benefit, as you have been with this company for some time. How has, first of all, the business and the operating model changed from the days before, when BOSS was obviously differently organized, to now, as you try to bring back a little bit of the old BOSS going forward. And the cost of doing this business, how has that developed?

Looking at your projects and investments: do you think that by the end of 2018, some of these projects will be cut-off and that is it? Then, are we now coming to a level where the operating expenses can be better leveraged, with 5% like-for-like and all of a sudden the margin kicks-in? Or do you think that the ongoing investments into digital and into store renovations will continue to have a dampening effect on the margin progression going forward?

Last question: you said that your wholesale business will return to growth in 2018. Where will this growth come from? Will it come also come from pure online players or will it come from HUGO maybe?

Lastly, please comment on customer traffic in your stores.

Mark Langer (CEO): So let's start with customer traffic. In some markets we have already seen a stabilization in traffic. But it was not a positive contribution from traffic that has driven our like-for-like acceleration. When looking at traffic numbers over longer period of time, you see that it is a structural change of the business. When you compare today to the peaks of a few years back, that is a permanent decline of probably 20% of traffic to all stores, which will not come back.

So I am already hinting a bit to your first part of your question: history will not repeat itself. We are now in a completely different industry setup than we were five or ten years ago. So our aim is to attract customers via omnichannel services and via customization. We are now also testing HUGO pop-up stores, where we bring music, and entertainment also in the stores. This is something that you might have already seen in some multi brand environment.

We need to give a reason beyond seeing the product to drive people to our stores. Because today a lot of the educational and the inspirational part is happening via Instagram or other platforms. So this traffic, to discover the collection, will never come back. How the new generation of millennial customers is discovering brands is completely different.

Regarding your question on the midterm outlook: We sharply pointed to driving sales densities, because we know that this is the first and most important metric to maintain and to drive group profitability in absolute and relative terms.

That is why we are highlighting this so much and are outlining it in our strategy. Ultimately all has to go through the filter: does this add to our retail sales productivity? In terms of expansion, in terms of services, be it our collection or space allocation between brands: it is all determined by just one factor: is this contributing to sales densities?

For our goal of EUR 13,000 per square meter, as I said, it is a way to go. We need to accelerate. It was also a strong boost to morale internally that we delivered 7% like-for-like growth in 2017. It has been five years since we were at these levels - a very long period in the world of fashion. In this difficult market environment this gives us a lot of confidence that we can maintain this momentum. Will every quarter deliver 7% or more? Clearly, not and it is not needed to hit the EUR 13,000 per square meter, but it demonstrates that a lot of things are in place.

We will not get more concrete in our answer, we just do not know how high is high. We know that 18% EBITDA margin is already good metrics in our industry. We know that there are other apparel players that are higher. Nobody is right now operating at the level of 25% that some years back - and I was part of the team – we thought was feasible. I think it was you or some colleague who said in 2013, where we improved 500 bps within two years: isn't 25% even a modest target? Well, we learned our lessons. We are not at 22% or 23% anymore. We have worked very hard to maintain an 18% profitability over the last two years.

As we indicate in our guidance, and this will be seen by some investors as a disappointment. However, we are not managing this business for an exit at the end of 2018. We want to be here for the long-term and we want to have a superior business model that outperforms our industry. We have clear indication that we are outperforming many of our peers now, and are taking market shares from the top line.

We have already a very strong operational model. If you look at our gross margin levels, if you look at our cost efficiency there is nothing where you could point at being excessive in function A, B or C, but we need to maintain this momentum. We have a strong focus to implement certain measures in 2018.

Clearly, we are also depending on the normalization of the exchange rates. I am not saying that we expect this to happen. We just have to deal with that. clearly, if these effects will come back to neutral levels, we will already see progression in structural profitability.

First, we have to report back on the level of progress. We have the strong commitment from the full management team that we will be back to absolute structural growth as of 2019. It will be not a revolution like the two of us experienced between 2011 and 2013, where we have seen 200 bps improvement in structural profitability. These times are gone, because it is a different market environment now.

There is no more cheap franchise businesses to acquire like there were in the past, e.g. in China. There is no huge gap now of 30% or 40% sales densities. When we started our retail journey, we were at EUR 6,000 and less per square meter. We almost doubled

this value right now. To take it now to EUR 13,000 – which is a very high number compared to most of our peers – we require the best business model in the world. How this will ultimately translate into growth of EBIT or EBITDA margin, we can't project at this point in time.

On the U.S. business: We see that in some accounts it is not that the winner takes it all, but there are still strong and successful wholesale partners out there. Not only online pure players, but also the once who are very good in combining these formats. We are highly committed to grow our business with these wholesale partners. We have been back more into the listening mode, I would say, than we were a couple of years back.

So in terms of our collection offering to the specific needs of the U.S. market, Bernd Hake and Ingo Wilts are now in a very close collaboration to ensure that our offering is the right to retake market share at important wholesale accounts, be it specific market requirements or be it specific price points.

Where we expect accounts to be successful in business for the next five to 10 years – with online pure players as the leading platforms of course, but also the partners that are weathering the storm that's still raging in the U.S. – we expect to be with these partners. For example, we are rebuilding strongly our relationship with Nordstrom in the U.S. as a leading department store, but similar efforts are on the way with other leading partners in the Western Hemisphere as well.

At the end, my target and objective to Bernd Hake is: you have to take market share. You have to grow stronger than the overall wholesale business and we have the collection that provides to achieve this target.

Mark Josefson (equinet): I like to dig a bit deeper in terms of these investments in 2018 that will hold back profitability. You have highlighted a number of areas: there is the investment in gross profit. There are P&L costs in IT, there are costs in extra services and elsewhere. Can you give us some feel for the relative importance of those different areas that are impacting this year, and which of those might fall away in 2019?

My second question relates to the balance sheet structure: you are practically at zero debt now. What is the current thinking on this and the optimal debt structure going forward, please?

Mark Langer (CEO): There is not the one silver bullet that you might look for: like "please tell me when this specific project is completed and give me the exact amount, because then I can plug this into my model, and I will see that at least X percent margin improvement will come from that". There are some effects. Let me just quickly summarize them.

On the dilutive impact on the gross margin, I would highlight the quality investments that we have done across the board. Of course, as I said earlier, we are committed, we have the superior business model and product to offer to the customer.

And honestly, what I see now in Q1 trading, where now the first casualwear collection is being received, a lot of wholesale customers even called us and said: "well, I was so surprised of the superior quality you offer at these prices. You will give a very hard time to competition X,Y,Z". I said: "well, that's a nice call - apart from your order numbers, which are not as high as I initially hoped for". And he would say: "well, my overall business is unfortunately flat, but I just want to call you to tell you, okay, this is a significant step-up. Now we see what you told us to expect: that BOSS Green, BOSS Orange and BOSS Black became one. Now we see it in real and that there has been really a significant investment to it."

To a smaller scale, it is the European price alignment of HUGO, which was not been beneficial for our German consumers, but for our French consumers. There, the Spring/Summer 2018 collection of HUGO reflects a 15% to 20% price reduction. We are now very aggressively pursuing the contemporary fashion market. We highlighted that to you as part of the strategy that selling prices in the own retail business in the Eurozone have been harmonized completely. We increased prices in Germany to bring the BOSS prices closer to the French level, but we decided deliberately to lower the HUGO prices outside of Germany.

HUGO is still not the most known brand in Paris yet, because our network is not the same and HUGO was very much perceived as a suit brand in the past. I can tell you that with HUGO's focus on casualwear, it is now creating a lot of buzz and excitement. These investments into the gross margin will be embedded in the base as of 2019 and beyond. In terms of size and impact this is probably something that basically feeds itself, because it will then grow on a superior value proposition.

On the OpEx side, I think the most important one – I just mentioned it is not one specific IT project that we highlight – but the upgrade in e-commerce and omnichannel services is something that we expect to further normalize. It is not to the same degree that we say "okay, it's a one-time and that's why we didn't quantify this". It is an X million investment in OpEx that will be part of the base. We expect to achieve what we call "OpEx leverage" as of 2019 and beyond.

There is a part we do not know. It is not necessarily the U.S. dollar, as Yves explained to you, it is rather the fluctuation in the Chinese Yuan, and the British Pound. At some time we have to decide, if we have to increase prices again – that is what I would call "the operational hedging" – or to what degree we will still digest these in our profitability.

I would expect the negative FX impact that we have for the years 2017 and 2018, to diminish in 2019 and beyond. On average, it will be neutral. Do not give us credit, when it will help us. That is why we guide you to some degree on our profit development also ex-currency, which is a bit more difficult to do than on the top line. We think it is also fair not to basically pocket this improvement once fluctuation will work in our favor.

Yves Müller (CFO): Regarding the balance sheet: At the moment, we feel comfortable with our balance sheet structure. This has one big reason: as the IFRS reporting will

change with the beginning of January 2019, where we will have to put all our lease obligations onto the balance sheet. These will be on the passive side, and the assets will be on the active side. Therefore, as a retailer, our balance sheet will grow tremendously, as you might know. If you look at the notes you see that we are talking about the amount of EUR 1.4 billion that we have in terms of lease obligations. We will have them in our books in the future due to the big change with IFRS 16. We call this actually "adjusted leverage". The adjusted leverage is 1.3 at the moment and we feel comfortable with this.

Mark Josefson (equinet): May I follow up on the answer please: Do you have an idea at this stage in terms of what the impact from IFRS 16 will have on your EBITDA for next year once it kicks in?

Yves Müller (CFO): At this stage. I won't give the exact figures. We will have this exercise finished in the mid of the year and will disclose once we have those figures. We have, of course, estimates but I think every estimate I give now is wrong at the end. I just want to be more reliable with the answer.

Jörg Philipp Frey (M.M. Warburg): How much of the impact from the collection changes was already reflected in the like-for-like acceleration we saw from Q2 2017 onwards? You mentioned 80 stores and shops where athleisure has been added recently. Can you just give us a number of how much this was at the year-end? And will every store carry the athleisure offering in 2018, just some idea of these changes?

Secondly, you mentioned space to be flattish, also in terms of sales impact. With 15-20 stores openings, will this be more like 0-point-something or 1% like we had last year? Or are there some 30 store closures still to come?

Thirdly, it looks a bit like within the mid-single-digit guidance for retail growth you factored in something like 4% to 5% like-for-like growth, which is more or less the nine months average that we saw from Q2 to Q4. It does not seems to imply any specific, very positive reaction from the consumer to the improved quality. Would that be a fair assessment?

And then an easy question, the last one: if I get you right you would say that the currencies have done recently the heavy-lifting in terms of price adjustment and that you currently wouldn't see any need to change prices or particularly not lower them anywhere.

Mark Langer (CEO): To start with last one: we consider doing some tactical price adjustments in some markets in the second half of 2018. We are monitoring the FX fluctuation very closely. It is important that we do this now within the principles that we highlighted to you. So the maximum between high and low has to be within certain ranges. We will not go back to price differences within the Eurozone. This is the principle we would adhere to. It is more on a tactical level. That is something we do also on a regular basis, to adjust for high inflation markets.

Of course, if we see that the U.S. dollar stays at USD 1.24 or higher, we would of course, not miss on opportunities on certain product heavyweights where we see price increase opportunities in the U.S. It is always a balance between maintaining the top-line momentum and maximizing the margin, but it won't be the same structural fundamental changes that we discussed.

On your first question on the inclusion of athleisure wear: we opted for athleisure in particular in the second half of 2017 for two reasons. One was the strong underlying demand for these categories in the industry, something which of course is not HUGO BOSS specific. It was an easy win because it concerned product categories that we are anyway super strong in. We were extremely successful in introducing some more technical outerwear jackets, strong polos, chinos, but also sneakers - in terms of price points, in terms of design. And the twist was the technical component to it. So that's why we gave you these numbers. And clearly, it has helped us doing the performance. However, since former BOSS Green was not yet integrated in the BOSS core brand in 2017, we could only do this in stores above a certain size.

Now with the new collection that is coming to our stores in 2018 – not only from a labeling perspective, as it is now all with the BOSS label – but, with the quality investments: casualwear is now on the same quality level. So no matter if you look at the BOSS formalwear, casualwear or athleisure collection: it is now the same setting, the same mood, the same color story.

So what is happening, as we speak – and that is something you can now test increasingly also in smaller stores of just 120 or 140 square meters – is that these stores are now capable to offer casualwear, athleisure wear and also smarter business wear.

In terms of price points, this now gives our merchandising teams far more capabilities to offer these opportunities. Last but not least, Yves hinted at that: Now with these overlaps – because former BOSS Orange and BOSS Black are now on the same price points – we are also clearly looking into efficiencies. We will also going to look quite aggressively into where we can take all the economies of scale by consolidating these offers.

There are not three brand lines anymore, with BOSS, it is just one. We have been cautious not to radically cut complexity. We did not discontinue BOSS Orange and BOSS Green, but we have intelligently integrated them into the BOSS brand. It was the right move, if you might point it out, to accelerate like for like sales growth.

Now, with new branding, we will bring it to much more and also smaller stores. We will not give you exact numbers because that is something we do rather on a tactical base, but when we report back on the first quarter, you can be sure that there will be positive news from the full integration of casual- and athleisure wear in more retail space.

Coming back to your other question, everything that we do, I repeat myself, has one purpose: drive sales densities. If, for example, we see that in certain stores a higher share of casualwear will drive sales density, we will adjust the offer towards it.

Peter Steiner (Bankhaus Lampe): My first question is on current trading, or actually what have you seen in the first couple of weeks this year? Last week, Zalando has been a little bit cautious in their comments with regard to current trading. What is the state of the fashion consumer at the moment? What are you observing, maybe also split a little bit between the certain markets, you are active in?

My second question goes to the new CFO, Mr. Müller. On one of your slides you also mentioned that efficiency improvements are one puzzle piece for further profitable growth. Are there any certain projects you would have in mind? At other listed companies in our sector it is very common to have some kind of efficiency programs, like shared services or something like that. If there is anything that would be in your expertise from your past? Something you see that would suit also for HUGO BOSS to drive profitability going further?

Mark Langer (CEO): On current trading: as always the quarter is not over until it is finished. There are still important weeks of trading ahead of us, but we are past the halftime bell with just three weeks now ahead of us until the end of March. We are quite pleased with the momentum that we see: Pickup, which was so important to me in full price business – as that is something which I still see as a brand health indicator – that this momentum continues.

Of course, there are sometimes repercussions. I am not sure how closely you follow us. We have continued to shorten our sales period again in the first quarter. Of course, if you then look on a weekly trading, you will say, "oh, that looks a bit reddish". But then you have to go into it and you say "well, last year, we were still on sale. So, come on, nothing in life is for free."

We have a clean inventory situation. TNWC in percentage of net sales is at a very good 18.6%. We have to maintain that, of course, but it is a super-clean inventory situation. We are not forced to be extensive on our sales. Of course, that has some implications, especially also in e-commerce, where people clearly react to sales incentives even stronger than in physical retailing. We know that the underlying momentum continues to be strong.

Today, early March 2018, it is difficult to predict full year like-for-like sales growth. It is better to have a +7% in Q4 last year and not in Q2. Whether we can repeat and keep the momentum throughout the year, it is still too early to tell. We need to be realistic, and in the end we have to look at the underlying market.

If the underlying market in one of our categories is growing at 2% to 3%, and we are the market leader, we need to be realistic to what degree we can outperform that. Where we see winning formulas we will reapply them.

So in short: we are very pleased with the development in the first weeks, but we have to be cautious to read even the full quarter or full year estimation from that. We continue to feel very comfortable with the implicit like-for-like guidance, also top-line growth we have seen for the year.

Yves Müller (CFO): First of all, it is crucial to point out that the cost program that has been initiated in 2016 has been very effective and very good. We are right on track, especially touching the right issues.

Secondly, I was hired, I am here, I stand and I am committed for efficiency improvements. And I will go for this. With the retail experience I have, I will of course challenge and try to contribute best to have efficiency improvements.

To be honest, in the first 100 days, I have seen a lot of things and I have a lot of ideas, but right now it is too early to call and to give you kind of what we are really doing in specific. You can rely on me that we will have efficiency improvements in due course.

If you look at the year 2018, it will be a year of investments as well. As the CFO, my task will be to get the maximum out of every euro that we are spending, in CapEx or in OpEx. This will be the efficiency drivers that we see.

Volker Bosse (Baader Bank): Please one follow-up on your visibility, looking deeper into fiscal year 2018. So speaking about the pre-order situation – and I know you won't give the exact figures – but to get at least a kind of sense: how does formalwear stand vs. casualwear, for example, or HUGO versus? Thanks.

Mark Langer (CEO): So we have increased our wholesale guidance for the year 2018 relative to 2017. This is based on the visibility we have in terms of pre-order, although not all pre-orders are done yet. You are right: the heavy-lifting is done: Fall/Winter 2018 is in our books, and we were pleased with the feedback.

This also reflects what we mentioned earlier: that the changes to our offering, the quality investments, the focus on entry price points, the focus on specific customer demands in certain markets without going excessively in complexity are seen and recognized by our wholesale partners.

Some of them are still in rough waters and might highlight that menswear apparel is a category that has been flattish or negative. So, yes, you have a higher share of one buy, but this might be still in a single account base with flat development. That is okay, but as I said, this is my yardstick to measure the performance of our wholesale team: are you taking market share in a clean way. That means, no return agreements, no margin agreements, we want to win clean in terms of market share.

This is happening. We are benefitting clearly with Ingo Wilts' strong focus now on the smart casualwear element. Our competencies have now been demonstrated with three menswear shows, something we did not do for almost three years. We took a pause on it. Now, this is now clearly being recognized by fashion editors, and by buyers. That they say, "there is not only a new sheriff in town, but somebody who places a strong focus in particularly on the fusion". That is what we call "sports tailoring", a fusion between our tailoring and casualwear competencies.

This fusion will be the sweet spot from my perspective, where we basically can take market-share on casualwear pure-plays and suit-only companies. This is where we will

have a strong hold on the menswear market and this is also what we see in the numbers. There are a lot of innovative products, be it the washable suit, or the garment-dyed suit. It is also the capsules that we have done on the sporting side or we have the FIFA World Cup coming up, or with the outfits that we have provided to Real Madrid or Bayern Munich or the German national football team.

Of course, these are super strong stories to tell, which resonates and benefits also our wholesale business. It will be, like overall, a gradual acceleration in sales momentum in wholesale, but most important, as I said, will be the acceleration from the retail side of our business. So it is based on…

Volker Bosse (Baader Bank): Driven by casualwear?

Mark Langer (CEO): Yes.

Volker Bosse (Baader Bank): So formalwear flat, casualwear is up?

Mark Langer (CEO): Relatively better, as always we will just give you relative data. HUGO casualwear is extremely positive. HUGO casualwear has probably the strongest momentum, which just demonstrates that we see a strong reaction to contemporary fashion, which is growing stronger than the overall apparel segment. This shows that our decision to have a stronger focus on HUGO is right.

On the other hand, we will clean up some of the HUGO distribution in formalwear. This will be a temporary impact that will dampen HUGO over the course of 2018, because there will be some discontinuation of certain wholesale businesses on the HUGO side.

But on the ones that we see as long-term growth drivers: HUGO's casualwear offering at far more attractive price points, or the sophisticated BOSS wear offering coming from the integration of all three wearing occasions, are proving themselves to be sustainable growth factors.

Now, Womenswear has go to the next stage. Womenswear, as I said, has suffered slightly from the reallocation of retail selling space. Not dramatically, but it is a healthy internal competition. It is a joint battle. It is the combination in our strength in Menswear and Womenswear that we are committed to. I expect also Womenswear to return to growth in the mid-term, but it might be a bit more muted in 2018 relative to menswear. Again, maybe it will be positively surprised here as well.

Final words: I would like to thank you for paying us the honor to visit us here onsite. I also want to thank those of you, who followed us on the webcast or over the phone. Thanks for your interest in HUGO BOSS and we are looking forward to see you again at our next reporting, or at one of our other capital market activities in the future. Thank you very much.

Yves Müller (CFO): Thank you.