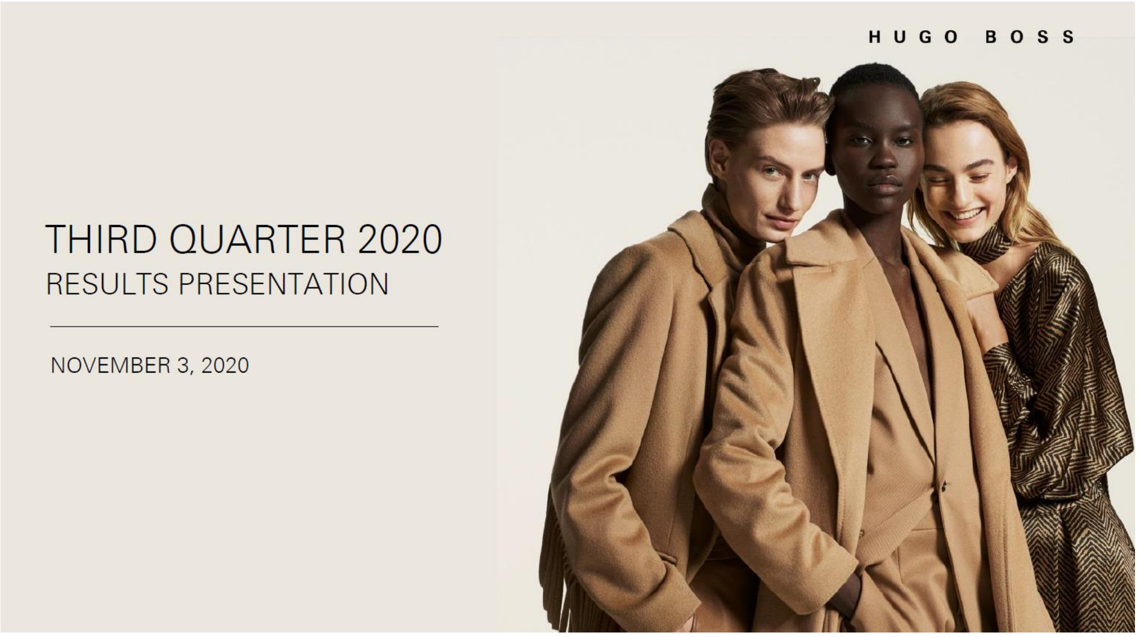
HUGO BOSS




**Transcript – Q&A Session**

**November 3, 2020**

**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.**

**Edouard Aubin (Morgan Stanley):** My first question is on current trading. Can you please elaborate on your sales performance throughout the third quarter? And what you've seen so far in October, versus the sales decline of minus 24 % in Q3?

My second question is on the impact of lockdowns in the fourth quarter. The UK will be going into lockdown by Thursday. So, by the end of this week, what percentage of your store base will be closed?

Finally, in order to get to a sensitivity analysis for Q4: assuming sales would decline by the same magnitude in Q4 than they did in Q3, would the EBIT decline also be comparable to that in Q3?

**Yves Müller (CFO and Spokesperson of the Managing Board):** First, on current trading: we have seen a gradual improvement also in October. To give you a better idea, let's have a look by region. Starting with Asia, were we had a very strong business around Chinese Golden Week in mainland China. Consequently, the region as a whole returned to growth in October, versus the prior year. Also in the Americas, we saw a further improvement in comparison to our performance in Q3. In Europe, business in the first two weeks was also good. However, the renewed surge in infections weighed on consumer behavior, muting sales development in the second half of the month to some extent.

Now, beginning of November, we are entering into a situation of renewed lockdowns, as you are aware of. Including our store base in the UK, we expect to have a global store operating rate at the end of this week of around 75%.

Regarding the sensitivity, please note that the environment remains highly uncertain for the time being. That is why it is very difficult to provide a forecast on sales. The surge in infections strongly influences consumer behavior. On top of this, it's hard to predict how the governments will react in terms of counter measures. However, as proven already in Q2, we have the right measures in place to act accordingly, like engaging strongly with the consumer via different CRM measures, properly managing rebate levels and most importantly, ensuring tight cost control. As a result, we managed our EBIT to rebound into positive territory in Q3, and we are doing everything we can to stay there also in Q4.

**Thomas Chauvet (Citigroup):** My first question is on the lockdowns in the UK, in France and in Belgium – all significant markets for Europe. Your retail brick-and-mortar as well as your wholesale POS will be closed for the month of November, possibly parts of December. How does this impact your inventory management for the current Fall/Winter 2020 collection, but also the sourcing of the Spring/Summer 2021 collection that you have just presented in Milan? Please elaborate on gross margin development in Q4 assuming four, five, or maybe six weeks of closures.

Secondly, a broader question on casualwear and athleisure wear. Obviously you have made further strides towards those segments this year. Most recently, we could witness the BOSS fashion show in Milan, and collaborations with Anthony Joshua and Russell Athletic. What are the key drivers of success? And, in the highly competitive segment of casualwear and athleisure wear, where do BOSS and HUGO still need to improve?

**Yves Müller (CFO and Spokesperson of the Managing Board):** First, on the lockdowns in Q4. Around 25% of our stores will be affected, which will result in a store opening rate of around 75%. During summer we proved that we are capable of managing our inventories well. Our Spring/Summer 2020 sell-thru rates were almost on the prior-year level, reflecting efficient inventory management. That is why for now, we don't see tremendous impacts. Also, it is still too early to call, because there are also big opportunities in the months ahead, for example in online. Regarding our own retail buy, we have the flexibility of an open-to-buy budget, where we can react fast and flexibly, thus limiting the risk to some extent. Overall, there is a lot of flexibility to manage inventories also in Q4.

On casualwear and athleisure wear, and the key drivers of success: clearly, it starts with the product! On the product side, we made very good progress and big steps forward in recent collections. We have to convey the message around casualization to the consumer. Therefore, we are engaging with key opinion leaders and influential personalities and brands just like Anthony Joshua and Russell Athletic. This said, Russell Athletic will not be just one push, as we will have a second capsule collection in the second half of 2021, in order to underline our clear focus on casualization. Something that is also very important for the U.S. market. Even beyond that, there is much more to come to further push casualization, so stay curious!

**Thomas Chauvet (Citigroup):** Regarding distribution, you talked about product and communication in the past, saying that there are differences between selling casualwear and formalwear, particularly with regard to suits. You also alluded that in online, it is easier to sell casualwear and athleisure wear than selling formalwear. So how does your push towards casual categories impact the way you distribute your products?

**Yves Müller (CFO and Spokesperson of the Managing Board):** We expect our online channel to contribute to further growth of our casualwear and athleisure wear as we will tap further online markets and add new partners to our online concession business. Also in brick-and-mortar retail, we will further break up barriers to easily combine different wearing occasions, as already today it is about combining a suit with a T-shirt or sweatshirt, and sneakers. By explicitly showing and offering different looks, we clearly want to fuse all different wearing occasions going forward.

**Jürgen Kolb (Kepler Cheuvreux)**: First, on the collaborations that you've mentioned: what is the sales potential for these collaborations, be it Russell Athletics or be it any of your brand ambassadors going forward? Please also tell us where we are currently standing in order to put into perspective how relevant this will become?

Secondly, with respect to inventories: how high is the current share of your never-out-of-stock (NOS) products?

**Yves Müller (CFO and Spokesperson of the Managing Board):** Our collaborations, just like that one with Anthony Joshua, usually provide for sales opportunities in the mid-single-digit million euro range. On top of that, there are also spill-over effects, as for example the cooperation with Anthony Joshua also helped us pushing our general athleisure wear. Our collaboration with Russell Athletic will be bigger as this collection will be sold globally – in own retail and in wholesale. That is why we expect sales in a good double-digit million euro range, as well as strong push from a marketing perspective. In order to make these collaborations commercially successful and relevant for our consumer, the respective products will be available for all consumers, be it online or offline, be it retail or wholesale.

On your second question: the NOS share within our inventory position is around 25%.

**Antoine Belge (HSBC):** First, you mentioned that you aim at expanding net selling space in China by around 10% per annum. Where do you see the white space? How confident are you about this potential without putting like-for-like growth at risk?

My second question relates to the strong free cash flow generation in Q3. Yet, at the same time, your CapEx is down 65%. So, again, congratulations on the cost cutting. However, in times where you are highlighting several areas of growth, i.e. Casualization, China and Online, what is the right balance between your tight control approach and the need to reinvest?

**Yves Müller (CFO and Spokesperson of the Managing Board):** We clearly want to expand our brick-and-mortar footprint in mainland China. Today, we have around 135 POS. But we still see a lot of white spots in Tier 1, Tier 2 and Tier 3 cities. This said, we are convinced that we will not have significant negative cannibalization effects on other stores. So this will be a clear possibility to grow our business in mainland China. Please also do not underestimate the effect of also upsizing several of our store, as in some cases, our stores and shop-in-shops are pretty small.

Regarding free cash flow generation, overall, you are right. On the other hand, we won't hold back any investments regarding our strategic priorities China, Online, and Casualization. We are convinced that these are the right areas to invest, pushing the pedal to the metal in this regard, having enough resources available.

**Christian Stöhr (Senior Head of Investor Relations and Corporate Communications):** During Q2, we reduced our initial CapEx budget by around one-third, or EUR 50 million, to around EUR 100 million for full year 2020. Now, after the first nine months, CapEx stands at EUR 53 million. Therefore, you can expect us to approach EUR 100 million by year-end.

**Kathryn Parker (Jefferies):** My first question is on casualwear. In Q3, your HUGO brand outperformed BOSS. What caused the divergence and are there any lessons to be learned? Can you also provide the casualwear/formalwear split per brand?

Secondly, on the store network in China, which is 135 points of sale. What is the current balance between Tier 1, 2 and 3 cities?

**Yves Müller (CFO and Spokesperson of the Managing Board):** For the BOSS brand, it's around 40% formalwear, 50% casualwear and 10% shoes and accessories.

For HUGO, it's approximately 50% formalwear and 50% casualwear. The outperformance of HUGO was related to the brand’s great performance in the important contemporary fashion segment as well as in casualwear, which even outperformed the respective offering of BOSS, also reflecting the increase in casualwear within the overall HUGO offering.

Regarding our store network in mainland China: currently, this is clearly still skewed towards Tier-1 cities with around 75% of our stores in those cities.

**Thierry Cota (Société Générale):** First, on the 15% OpEx decline in Q3. How much of this is directly related to the lower sales, and how much is due to cost cuts? Also in this context, what should we expect for OpEx in Q4, regardless of sales trends?

Secondly, on the promotional environment: given your plans today, do you expect rebates in Q4 to impact your gross margin to the same extent as in Q3?

**Yves Müller (CFO and Spokesperson of the Managing Board):** Currently, the uncertainty with regard to the lockdowns remains highly elevated. We are still in the midst of making final decisions when it comes to 11/11, cyber week and further sale activities. So it's too early to call on the impact on rebates on gross margin in Q4. This said, we expect the overall environment to stay rather promotional in light of the special situation surrounding COVID-19.

On your second question, be assure that the majority of the cost savings of around EUR 150 million have now been implemented and are now in the books. This said, we of course will continue to strictly control our costs and manage them well also in Q4. In this regard, we obviously do everything we can to maximize the sustainability of those savings, especially when it comes to structural effects as well as rental expenses. We touch up to 150 rental contracts each and every year and we were very active in getting down rental expenses in the light of COVID-19. And those achievements also apply for next year.