Annual Shareholders' Meeting 2016 - Speech
Mark Langer (Chief Executive Officer)
Stuttgart, May 19, 2016

- The spoken word shall prevail -

Ladies and Gentlemen, dear shareholders, on behalf of the entire Managing Board I warmly welcome you to this year's Annual Shareholders' Meeting of HUGO BOSS AG. I am pleased to present to you in my new function as Chief Executive Officer today.

The film you have just seen highlights: HUGO BOSS has strong brands with great charisma. HUGO BOSS fascinates and inspires millions of customers around the world.

There's no doubt that we face major challenges, which I will discuss in detail during my speech. I am sure you will have many questions following the development over the last months and – in some cases – you may even have some doubts. However, we do not need be afraid of the future of HUGO BOSS because we have strong assets to build upon for a successful future:

- Our attractive brands are well-established around the globe
- We have a very effective operating platform
- And above all, employees who work for HUGO BOSS with proud and great passion.

The entire HUGO BOSS team is dedicated to bring the company back to sustainable and profitable long-term growth. First important steps have already been taken, but before I will discuss them, let me have a brief backward glance.

The year 2015 was the sixth consecutive year of growth for HUGO BOSS. The Group increased its sales to over EUR 2.8 billion. Operating profit rose slightly to EUR 594 million. However, the trends weakened during the course of the year. Due to the difficult second half, sales and earnings growth for the full year were lower than initially expected.

Last year, we were facing a difficult market environment in many markets. The clothing sector hardly benefited from the generally favorable level of consumer confidence in many places. High-priced goods in particular benefitted from the prevailing low interest rate environment. Moreover, consumers spent a larger proportion of their disposable income on services, such as traveling or visiting restaurants, and other product categories.

In our core market Germany, the clothing market showed a stable development. In the United States, our largest individual market worldwide, the discount business proved to be a high-growth sales channel, putting pressure on the full-price business. Additionally, the strong US dollar had a negative impact on the business with tourists. In the case of China, market researchers estimate that the market for luxury menswear in 2015 fell by 12%. We were not able to delude from this trend.

Despite the mixed market conditions, we achieved good results again last year in Europe. The continent remained the Group's growth engine in 2015 as in the previous year, with currency-adjusted growth of 6%.

The transformation of our business model towards own retail continued to show good results. As part of this change process, we agreed with our wholesale partners to limit the distribution of the BOSS core brand solely in shop-in-shops going forward. Together with the expansion of our store network, this change has helped to improve the presentation of our core brand in a more consistent and high-quality manner. As a result, the brand's appeal increased significantly both for local clients and for the growing number of tourists who visit our stores during the stay in Europe.

2015 was a successful year for our womenswear business. Under the direction of Artistic Director Jason Wu, we successfully developed further our BOSS Womenswear business. The brand's double-digit sales growth in 2015 underscores clearly this development.

Impressive fashion shows during the New York Fashion Week supported the further development of BOSS Womenswear as a brand with a recognizable design expertise. The most recent collection, which was presented in February, was again very positively received by the international fashion press.

The show was accompanied by an interactive digital campaign, in which we offered our viewers across the world various live streams of the show from different perspectives. The whole show, including back-stage reporting, was transmitted live on Instagram, where the HUGO BOSS account now has over a million followers.

Ladies and gentlemen, let me briefly summarize the year 2015 from a financial perspective.

Group sales rose by 9%, or 3% without adjusting for currency effects. In Europe, sales were 6% higher than in the previous year. The UK was by far the strongest core market in the region, with a double-digit percentage increase. The German market also performed robustly, posting growth of 4%. Sales in the Americas region were slightly below the previous year due to a decline in the US market. Sales were also down in Asia: they shed 3%, above all due to losses in China. Sales momentum slowed considerably here in the second half, as in the US market.

In terms of sales by distribution channel, currency-adjusted sales in the Group's own retail business were 7% above the level for the previous year. By contrast, sales in the wholesale channel declined by 3%.

Earnings were dented by higher discounts in the Group's own retail business and a double-digit rise in operating expenses. This was due to the effects of the retail expansion, higher marketing expenses and ongoing strengthening of retail-related processes, systems and competencies. Nonetheless, EBITDA before special items climbed by 1% to EUR 594 million. The net profit attributable to shareholders fell by 4% to EUR 319 million, due to higher financial expenses.

Irrespective of this slight drop, we are today proposing a stable dividend of EUR 3.62 for the fiscal year 2015. This proposal takes into account our company's strong balance sheet and our confidence in the Group's long-term prospects. The dividend corresponds to a payout ratio of 78% of consolidated net income and is thus in the upper end of the 60% to 80% range stated in our dividend policy.

Thanks to the strong free cashflow development, we have been able to make comprehensive payouts in recent years, without compromising value-enhancing investments. We have even managed to reduce net debt despite the continually rising dividend. We are therefore confirming our dividend policy.

In principal, of course, the dividend must follow earnings. Nonetheless, we will consider the improvement of cashflow and the financial outlook of the Group when we formulate our dividend proposal for 2016.

We acknowledge that the stable dividend cannot compensate for the share price decline last year. Of course, we as the Managing Board are also not satisfied with this performance. However, rest assured that we together with our employees will do our best to bring the company back to its successful growth track.

Let me know have a look ahead, first on the current year.

In the first quarter, the weakening we saw in the second half of 2015 continued. Group sales fell by 3% on a currency-adjusted basis. Sales losses in the Americas and Asia/Pacific played a major role in this downtrend, however, the European market also slightly deteriorated. Here, the weakening business with tourists played a major role. As with the wholesale business, sales in the Group's own retail business came under strong pressure. Comp store sales fell by 6%.

These declines had an immediate impact on our earnings. Hence, EBITDA before special items was down 29%, primarily on the back of higher discounts and inventory write-downs, which weighed on the gross margin. In view of special items and higher depreciation, the operating profit and consolidated net income were significantly below the previous year.

Ladies and Gentlemen, the financial results of the first quarter underscore that we are in the midst of a year of consolidation. We cannot change the market conditions. But we know where we need to begin to get HUGO BOSS back on track to achieve sustainable, profitable growth. On the one hand, our action plan focuses on strengthening our market position in the US and China. On the other hand, we support profitability and free cash flow generation by saving costs, by reducing investments and by optimizing our store network.

In the US market, we will focus on improving the quality of our distribution in the wholesale channel, which continues to be of great importance to us. Discount battles in the major department store chains have had a significant impact on our results and damaged the perception of our brand among US consumers. We are counteracting this by limiting the distribution of our BOSS core brand in this channel to shop-in-shops that we increasingly control ourselves. By taking over the BOSS shop-in-shops from Macy's, we have already reached an important milestone in this process. At the same time, we are scaling back the presence of our core brand in 'off-price channels,' where our collections have been sold at high discount rates in the past. This is a painful process and will take its toll on sales in 2016. However, our brand will benefit from this in the medium and long-term future.

We are paying equal attention to the Chinese market at present, where we have already achieved a great deal over the past few years with the complete transformation of our business model: What was purely a franchise business until 2008, is now a market that is entirely controlled by us. We are so much closer to our customers and can meet their needs and requests much faster today than we could before. To do this, we accept that we still need to deal with a number of legacy issues this year; the first being the closure of around twenty stores, which we have taken over from our partners in recent years. In the majority of cases, we are taking advantage of expiring lease agreements in order to minimize the financial impact. Secondly, we are adjusting our pricing structure, which was much higher in China than in Europe. The price cut of around 20 percent, which was implemented with the launch of the Spring collection, was positively received in the first few months. Although the trend in sales is ultimately still declining, we still managed to stabilize customer footfall in our stores and significantly increase our sales volumes.

Despite our actions in the US and China, we can only expect very modest sales growth this year. We need to accommodate this outlook by adjusting our cost development.

In order to do this, we have introduced a range of measures: Over the past few weeks, we have identified savings potential of EUR 50 million compared to our original budget plans. By successfully renegotiating lease agreements for the Group's own retail business as well as through the strict management of administrative expenses, we will be able to improve our cost efficiency. We will also focus our marketing activities on this kind of measure, which will directly benefit customer footfall in our stores.

Furthermore, we will reduce our investments by around EUR 50 million in comparison to the previous year. A significantly slower pace of expansion within the Group's own retail business will make a vital contribution to this.

Top priority is now given to the improvement of our existing store portfolio. This mainly includes the systematic renovation of such stores, which have reached the age of five years, required for this purpose. In addition, we are analyzing the potential to boost our sales productivity, i.e. sales per square meter. We will therefore systemically optimize the combination of brands, product groups, and collections of menswear and womenswear, where we believe this will contribute toward the overall success of the business.

In areas where these measures will not be enough to make sustainable improvements, we will close stores, even though this should be associated with non-recurring expenses in the current year. In addition to the closures in China mentioned before, this mainly relates to between ten and twenty stores which have exhibited the greatest diluting effect on the Group’s retail margin in 2015. After completing the currently ongoing negotiations with the lessors of those stores affected, we will issue information about our further plans with the publication of our first half year results in August.

Our financial outlook reflects both our operating challenges and the measures that we have taken in recent months.

We expect Group sales to grow in the low single-digit percentage range. A positive trend in Europe will likely offset the decline in sales in the Americas and Asia. In terms of sales by channel, Group sales growth will be carried by own retail business. New openings and takeovers of the past year will support sales increases. On the other hand, we expect to see a mid to high single-digit percentage decline in sales in the wholesale business. The reasons for this are the structural changes to our distribution in the United States as previously described and takeover effects.

Given the muted overall sales growth and pressure on the gross profit margin from price adjustments in Asia, we are anticipating a low double-digit decline in operating profit, that is, EBITDA before special items.

Nevertheless, we will continue to invest in the attractiveness of our brand and not scale down necessary renovations of our stores. Our stores are an essential part when it comes to creating an exciting brand experience and to building long-term customer relationships. By opening fewer new stores and focusing on implementing a smaller number of projects more quickly, we will limit investments to EUR 160 to EUR 180 million. Combined with further improvements of the management of our inventories, we will thus increase our free cashflow compared with the previous year.

Ladies and Gentlemen, you will notice that we are taking many measures to secure our profitability by saving costs and improving efficiencies. This focus is both correct and important. Our efforts to make short-term improvements will not cloud our vision of the company’s medium and long-term future, however.

HUGO BOSS operates in a market that has changed at an unprecedented rate over the past few years and still continues to change.

The premium apparel market segment faces considerable pressure. In many markets at present, the clothing sector is barely able to benefit from generally favorable consumer confidence. For example, the industry magazine Textilwirtschaft reports that the apparel retail sector in Germany has shown no sign of growth for four years.

At the same time, customers' buying behavior is also rapidly changing: Our customers have even less free time and expect practical solutions in their day-to-day life. What used to be a stroll around the shops on a Saturday afternoon has now turned into a convenient browse of online shops. Opinions and trends are developing digitally and spread quickly in social media. And as where brands were primarily defined locally in the past, we now need to face the demands of a global consumer, who places the utmost importance on a standardized brand experience, regardless of where it is and in which medium he comes into contact with HUGO BOSS. And ultimately the perception of our brand and company as a whole is increasingly influenced by the sustainability of our business.

The future course of HUGO BOSS must focus on these conditions in order to ensure sustained profitable growth in view of a persistently difficult industry environment. Allow me to outline our plans for the future of HUGO BOSS. The following characteristics describe what we as a company and brand will stand for in future:

- customer-centric
- digital
- fast
- global, and
- sustainable.

All our activities over the next few years will be aligned with the vision described by these characteristics. What does this mean exactly?

Customer-centric means that we place the customer at the center of all our actions. What sounds slightly obvious actually poses a major challenge. I am convinced that the ability to adapt to changing consumer habits will in the long term distinguish successful brands from those that only feed on their image. Over the past few years, the company has already initiated a fundamental change in its business model. And although we have already become a much better retailer than even just a few years ago, we still have a number of tasks ahead of us. Primarily we will invest heavily in our relationship with our customers and approach them individually across all channels.

Customer focus also means that we will align our brand portfolio rigorously with the needs of our target group. Our brands have always stood for premium quality. With the appointment of Ingo Wilts as the Managing Board member in charge, we will invest even more heavily in always offering a convincing product promise. The BOSS brand is a synonym for fashionable design, the highest quality, and a perfect fit. We will stay true to these roots. At the same time, we will also gear ourselves more strongly toward the lifestyle of a younger target group who wants to express its personality through fashion. We will therefore review our brand portfolio. In doing so, we will make sure that all brands have a clear identity and a systematic emphasis on their respective target groups.

We will factor in the change in buying behavior, especially of the next younger generation of customers. Digital competence is the key to this.

Already today, more than half of our customers make use of digital offerings before deciding to buy one of our products.

Our hugoboss.com website has always been the most important digital channel for our company. Its role has changed considerably, however: What used to be a purely online sales channel has now become a place where customers are inspired and seek advice – regardless of whether they ultimately shop online or in one of our stores. This objective requires us to enhance the website. In late summer, we will roll out a concept that integrates editorial content, product advice and shopping opportunities.

From August, we will be providing omnichannel services such as 'Click & Collect', i.e. it will be possible for customers to collect products in store which they have ordered online. Online and offline will therefore become one: in the future it will be irrelevant where a product is physically located. Our customers will be able to access it at least virtually wherever they are. We have just laid the necessary foundations for this: a good two weeks ago, we took over the fulfillment of our online business in Europe from our previous partner, allowing us to combine our inventories that, until now, had been separated by sales channel.
As a result, we are making improvements in an area that is becoming increasingly important to our customers: Speed.

Social media has become hugely important, which has contributed to the fact that consumers don't accept long waiting times: the collection presented at a New York fashion show today should be available in the stores by tomorrow. And even if current temperatures are not typical of the time of year, a suitable offering is expected in store – regardless of whether the collection cycle stipulates a Spring, Summer, Fall, or Winter collection. Vertically integrated providers are much more flexible in their response than manufacturers in the premium or even luxury segment, even when it comes to implementing fashion trends.

Of course their business models cannot be transferred to us as they are. Instead, our products also have demands on the exclusivity of materials used and the quality of craftsmanship. Nonetheless we also need to position ourselves for these different customer expectations. Over the next few months, we therefore intend to thoroughly analyze how we can simplify and speed up our operational processes. We want to be quicker in terms of development and enhance our collections with flexible concepts, which we can bring to our stores with short lead times.

After all, this will not work without making changes to our management culture: To me, speed is also about promoting entrepreneurial thinking and independence amongst our employees. We want to give individuals more responsibility and create efficient decision-making channels to support innovations – not only in our products, but anywhere it can serve customer satisfaction.

Today the customer encounters HUGO BOSS in a wide range of places and through a number of different channels. What used to be a straight line between the customer and our products is now a much more complicated network of relationships. Today the perception of our brands is shaped by our own stores, our website, the way our partners present the collections, social media, mobile offerings, and a whole host of other factors. And this doesn't just apply in the customer's home country, but also while he is away.

Being one of the few authentic global brands in our market segment gives us the opportunity to win over new customers. However, the increasing complexity of the relationship to customers also creates a challenges when it comes to ensuring a uniform brand experience worldwide. We cannot afford disappointment in this respect. We are therefore focusing our efforts on improving our distribution in the US wholesale business, for example. We are therefore aligning our pricing structure in Asia more closely to the level in Europe. And therefore, we will also take further steps over the next few years toward harmonizing our sales prices across markets. Further expanding the control over our brand image will help us do this. In this respect, the share of our own retail sales will continue to grow.

Ultimately the sustainability of our business is crucial for future economic success. Our products are not only popular because of their quality and perfect fit – they stand for success. This is consistently endorsed by our customer surveys.

Success means recognition, but also responsibility and obligation. We perceive the success of our business as a responsibility to our customers, employees, suppliers, the environment, and society. If we don't fulfill this responsibility, we will lose the confidence of our customers. Sustainable business is therefore of existential importance to HUGO BOSS. If we don't meet this requirement, we will jeopardize the economic success we are committed to achieve in the interests of our shareholders.

Sustainability manifests itself in a number of different ways: It is expressed through the promise of quality we make to our customers. It means we maintain an open and conversational corporate culture and encourage the potential of our employees. It commits us to observing strict social and environmental standards with all our suppliers and production partners. And it means assuming responsibility for social development in locations where HUGO BOSS actively operates. We are engaging in critical conversations to make this happen – even now as part of today's Annual Shareholders' Meeting.

Ladies and Gentlemen, 2016 is an important year for HUGO BOSS. Our trend in earnings since the second half of 2015 highlights the challenges all too clearly. We won't be able to change the market environment, but we know where we need to start in our own business to make improvements.

In the short term, it is a question of adjusting costs and capital expenditure to the weaker business performance. We also need to do our homework in the USA and China, and pool our resources in order to strengthen our core business –

menswear. However, over the next few years, we also plan to work extremely hard on the activities I have only touched upon today.

The current corporate situation demands a great deal from our employees. There is a lot to do and, in light of the difficult market environment, not everything can progress as quickly as we would like. In spite of this, I have been genuinely impressed by the energy and spirit of optimism shown throughout the company over the past few weeks. On behalf of the entire Managing Board, I would like to thank all our employees for this.

We also thank you, dear shareholders, for your continued support and your trust. We hope you will also stay with us in future

HUGO BOSS stands on a solid base – and not only in terms of our finances. We have what it takes to continue the success story of this great company. As it so often has in the past, HUGO BOSS will overcome the current challenges and get back on track to achieve profitable and sustainable growth.

Thank you very much for your attention.