Annual Shareholders' Meeting 2019 – Speech

Metzingen, May 16, 2019
Mark Langer (CEO)

- The spoken word shall prevail -

Dear shareholders,
ladies and gentlemen,

2018 was without doubt an eventful year, not least for our business and our two brands, BOSS and HUGO.

With that in mind, I would like to wish you a very warm welcome on behalf of myself, my colleagues on the Managing Board, and the entire staff of HUGO BOSS to this year's Annual Shareholders' Meeting. I would also like to welcome the ladies and gentlemen following us via the internet today.

What awaits you over the next 30 minutes?

First of all, I will be looking back over the past fiscal year and outlining the key financial developments and the strategic progress that the Group has made. I will then be presenting the cornerstones of our strategic Business Plan 2022, which we first announced publicly in November 2018. Then I would like to close with a brief outlook on the current fiscal year and the results from the first quarter.

First of all, let's take a look at the last fiscal year.

HUGO BOSS looks back on a successful 2018. We met our sales and profit targets, achieving what we set out to do more than a year ago. Back then, I talked about how important it was for us to pursue our strategic priorities consistently. They are the key to sustainable profitable growth. As you will see, we made good progress there too.

We achieved these successes in an industry environment that was once again characterized by considerable regional differences last year. The upper premium segment in the apparel industry grew globally by 4% overall. That roughly corresponded to the prior year’s growth.

- In Europe, sales to tourists declined slightly as the euro appreciated against major currencies. However, the region did benefit from a slight rise in local demand, with significant differences between individual markets. Particularly in Germany, our home market, industry sales saw only below-average development.
- In the Americas, the recovery of the apparel industry continued last year. In the important U.S. market, industry development benefited mainly from an increase in local demand, not least as a result of the U.S. tax reform. Sales to tourists also developed positively overall.
- In Asia, the industry grew more strongly than in the prior year, primarily thanks to high demand from Chinese customers. Many companies are getting increasingly good at adapting to the needs of the increasing numbers of young, fashion-conscious and strongly social-media-influenced customers.

In this environment, we were able to increase sales at HUGO BOSS by 4%, adjusted for currency effects, to EUR 2.8 billion. This means that we have increased our growth rate as planned.

What is particularly encouraging is that this growth was broad-based and did not depend on individual distribution channels. Our own retail business, and especially our online business, have experienced particularly dynamic growth. Our online sales even recorded double-digit growth. However, our wholesale business has also grown.

Also from a regional perspective, our growth was broad-based. Adjusted for currency effects, all three regions grew last year.

- In Europe, our biggest market by far, we recorded currency-adjusted growth of 4%. The highlight was once again the double-digit growth in Great Britain, but we also grew solidly in most other markets in the region, including France and Benelux. Against the background of a challenging market environment, however, our sales in Germany declined year on year.
- In the Americas, we also grew by 4% adjusted for currency effects. In fact, the business developed rather better than we had expected at the start of the year. In the U.S., a key market for us, we got back on the growth track. The growth, which was in the mid-single-digit range, is particularly remarkable considering that we have consistently worked to drive forward high-quality growth and further reduce the outlet share of our business.
- In the Asia/Pacific region, we continued our positive trend of previous years. Our currency-adjusted growth of 7% in the region was once again disproportionately high. We once again performed strongly in the Chinese market. Double-digit currency-adjusted growth on a comp store basis speaks for itself. In Japan too, our double-digit increase was a highlight.

In short: All sales channels and regions grew last year. This shows that our brands BOSS and HUGO are well received by our customers. It also shows that the consistent execution against our strategic priorities is having an effect.

Our operating profit, EBITDA before special items, was EUR 489 million, roughly the same level as the prior year. Our sales increase was not reflected in higher profits because we have made considerable investments – mainly in the quality of our products and in the digital transformation of our business model.

Consolidated net income rose by 2 percent to EUR 236 million. The slight increase can be explained by lower depreciation and amortization, which in turn is due to less investment activity in the prior year.

Ladies and gentlemen, I am particularly pleased with the significant progress we made last year in implementing our strategic initiatives. We are proud of the successful realignment of our brands BOSS and HUGO. We are clearer and more focused in addressing our customers. That was the primary aim of the realignment.

Through the spring/summer 2018 collections, our customers experienced our new market positioning for themselves for the first time last year. Although the two brands are clearly distinguishable from each other in terms of their individual attributes and despite addressing different customer groups, they both have the same high standards in terms of quality and fit, innovation and sustainability – values embodied by the HUGO BOSS Group.

Feedback from our customers has been exceptionally positive. We will continue to pay close attention to our customers' needs – whether in brick-and-mortar retail, on our own website, or in the wholesale channel. By doing so, we will create the best products in our segment, further increase customer satisfaction and raise the attractiveness of our brands even further!

From a brand perspective, the BOSS and HUGO fashion shows were the absolute highlights of 2018.

In September, we presented BOSS Menswear and BOSS Womenswear together again for the first time as part of New York Fashion Week. The spring/summer 2019 collections, with the theme “California Breeze”, received a high level of recognition in the fashion world. The accompanying social media campaigns allowed us to reach and inspire more than 50 million followers of our brand worldwide.
HUGO presented its spring/summer 2019 collections already in July 2018 at the Berlin Fashion Week. Inspired by the modern street style of the Berlin scene, the looks combine striking neon colors, light materials and exiting details. HUGO has once again created a completely unique aesthetic.

We also made good progress in the development of our distribution strategy. This is particularly true of our online business, which is such an important area. Adjusted for currency effects, our online business grew by 41% last year, bringing sales to more than EUR 100 million for the first time. This shows that our online presence, with its consistent focus on the BOSS and HUGO brands, is very well received.

We will also be successively expanding our cooperation with online retailers. Last fall, we intensified our partnership with Zalando. The first step was to add BOSS businesswear to the product range available from Zalando. We now offer this collection through the partner program platform. This allows us to control the presentation, pricing, purchase processing and shipping of the products ourselves.

I am convinced that we will be able to serve the needs of our customers even better in the future with this kind of cooperation. We will therefore be entering into more online partnerships, with a strong focus on Asia and Europe.

We have also successfully refined our most important distribution channel: brick-and-mortar retail. I am referring here to the new BOSS store concept. Our customers can now experience our collections in a new ambiance in more than 30 stores. The attractive design and a multitude of digital services provides them with a very special shopping experience.

As a business, we look forward to the positive financial effects. Sales, units per transaction and store productivity are increasing thanks to the new store concept. We will therefore be driving it forward consistently in the coming years.

The HUGO stores have also taken on a brilliant new look since last year. The first HUGO stores with the new store concept have opened in locations including London, Paris and Dubai. Fashion-progressive HUGO customers are captivated by their unconventional interior architecture and firmly integrated digital offerings.

Overall, we opened twelve freestanding HUGO stores last year, and we see potential for additional openings this year and beyond. However, we only open new stores when we are very confident that they will help us further increase the Group's profitable growth.

We are running right on schedule with the construction of our new outlet in Metzingen. The opening is scheduled for September this year. You will soon be able to find the outlet at "HUGO-BOSS-Platz 1". Without any doubt, it will set new global standards in terms of design, supply of goods and shopping experience. Over 100 employees will offer our customers a unique brand and shopping experience over a sales area of more than 5,000 sqm. The new construction is also a clear commitment to the Metzingen location. We are investing a considerable double-digit million euro amount here.

I have one more thing to say about our strategic initiatives: we have also made very good progress with the digitization of our business model. We increasingly develop and distribute our collections using digital tools. This allows us to keep in closer step with our customers and, thanks to a shorter time-to-market, to respond more quickly to trends. HUGO plays a leading role in this area. Product development for some collections is now already fully digitized.

In distribution we are also making more and more use of digital showrooms, which already exist for the HUGO brand in Europe and the United States. Thanks to these digital showrooms, our wholesale customers can experience the entire HUGO collection and place orders right away. In our own stores too, we are already offering our customers a wide range of digital services. The digitization of our business model is therefore in full swing and will open up new opportunities in the future.

Now, ladies and gentlemen, allow me to move on to another equally central topic for HUGO BOSS: sustainability of our products and our business model.

At HUGO BOSS, we see it as our duty to do business responsibly and sustainably. That is why we are consistently developing our sustainability activities, always with the aim of increasing confidence in the company and its products.

We are therefore very pleased that these efforts are being recognized. Last year, HUGO BOSS was included in the Dow Jones Sustainability Index for the second time in a row. The index is one of the best-known sustainability-based equity indices worldwide. It exclusively includes companies that stand out by making an above-average commitment to sustainability. HUGO BOSS is one of just four companies globally in the textile, apparel and luxury industry that qualified for the index last year.

Dialog with our stakeholders and participation in alliances is important to us. Toward the end of last year, we signed the United Nations' "Fashion Industry Charter for Climate Action". In line with the targets of the Paris climate accord, the charter includes the vision that by 2050 the fashion industry will be climate-neutral along the entire value chain.

The first concrete target is to reduce CO_2 emissions by 30% by 2030. We were involved in drawing up the charter from the start, and we are one of the founding signatories. Together with other brands, retailers and suppliers, we are actively involved in various task forces to achieve the defined targets.

We are also involved in other formats, such as the German Partnership for Sustainable Textiles. Allow me to give an example: our participation in the "Tamil Nadu" initiative. Its aim is to improve working conditions, particularly for women in the textile and apparel industry in the southern Indian state of Tamil Nadu. In cooperation with local NGOs, it offers training sessions and courses on employee rights in spinning mills and textile factories. The training programs aim to be in place in up to 300 factories by the end of February 2020. It also aims to strengthen the dialog between the local stakeholders – including through a direct exchange with members of the textile partnership. There have been some initial successes but there is still a lot to do in order to achieve the aims of the initiative. We will continue to work to accomplish those aims.

For our customers, the issue of sustainability is most tangible through our products. In the process of manufacturing them, we are increasingly making use of sustainable materials and innovative manufacturing techniques. In the summer of last year, we launched an environmentally friendly collection of various jersey and jeans products. The collection is characterized by the use of recycled and organic cotton, and by environmentally friendly dyeing and washing processes. The products were made available globally in selected BOSS stores and online, and received a positive response from customers. In the 2019 spring/summer season, the BOSS brand is presenting two new sustainable capsule collections, underscoring the commercial significance of sustainable products.

As you can see, sustainable products are no longer the exception. In the coming fall collection, we will be marketing a selection of exclusive looks consisting of suits, coats and shirts made from merino wool, the origins of which are completely traceable for customers. As well as these individual products, we will of course be increasing the use of sustainable materials across all our collections. We have set ourselves the target of obtaining half the cotton we use from sustainable sources by 2020. Cotton is by far the most important textile fiber for us. By 2025, we aim to increase this proportion to more than 90%.

We also started paperless reporting with the Annual Report 2018. As you will already have noticed, we are no longer providing you with a printed copy of our Annual Report here. Instead, we have compiled the key information from the Annual Report for you in a handy and considerably clearer fact sheet. This allows us to contribute further to the protection of our environment. You can view and download the full Annual Report in digital form at any time on our Group website.

Ladies and gentlemen, as you can see, we take the issue of sustainability very seriously and we back up our words with actions. We are pleased and encouraged that the public sees this the same way.

I would like to end my review of fiscal year 2018 with a clear commitment to our continuity-based dividend policy. We continue to pursue a profit-based dividend policy that allows you as shareholders to participate adequately in our Company's earnings development.

Accordingly, for fiscal year 2018, we propose a dividend per share of EUR 2.70. This is equivalent to an increase of 2% over the prior year. The increase is therefore in line with the rise in earnings. At 79%, the payout ratio is at the prior year level. This puts it at the top end of our dividend corridor, which continues to set out a payout ratio for the coming years of 60% to 80% of the consolidated net income.

As well as the dividend, we would of course also like to create value for our shareholders through increases in the share price. As you all know, 2018 was a stock market year characterized by political uncertainty and weak economic data. Accordingly, the key indices – including DAX and MDAX – performed negatively. The HUGO BOSS share was not immune to the negative stock market trend either, and closed the year down 24 percent.

The stock market year 2019 has so far seen a more positive development, both for the key indices and for HUGO BOSS. The price of the HUGO BOSS share at the close of trading yesterday was EUR 57.54, 7% above last year's closing price. This means that our share has already made up for a part of last year's price decline.

Rest assured that creating long-term value for you, dear shareholders, is and remains an important driver of our work. With this in mind, we presented our mid-term targets up to 2022 at an investor day in November 2018. Allow me to set out the cornerstones of our strategic business plan.

Our vision is “to be the most desirable fashion and lifestyle brand in the premium segment”. We will be working hard on this vision in the coming years. Our strategic initiatives also play a part in achieving this vision.

In order to increase the desirability of our BOSS and HUGO brands further, our strategic initiatives will be focusing on more personalization and speed. Personalization and speed are our principles from a brand, distribution and operational perspective.

Allow me briefly to show you exactly what this involves:

Today’s customers want increasingly personalized products and services in many industries, including ours. We will therefore be expanding our personalized range in the coming years. With an individualized approach to customers, a more strongly personalized product range and a distinctive shopping experience, we want to sustainably increase our customers’ satisfaction and confidence in our brands and products. We are doing this by building on our strengths: our own global retail network including more than 1,000 points of sale, our systematic customer relationship management and, of course, our years of experience in made-to-measure apparel.

We also want to speed up our central business processes further and make them significantly more agile. This will allow us to respond even more quickly and flexibly to our customers’ wishes and to new market trends in future. The central levers are our high level of excellence in the areas of product design and development, a modern logistics and IT infrastructure, and the use of digital showrooms as already outlined.

Ladies and gentlemen, we have a lot planned for the coming years. We want to grow faster than the market. We want our earnings to grow faster than sales.

Specifically, we want to increase Group sales by 2022 by 5% to 7% per year on average, adjusted for currency effects.

There are four factors that will be crucial to achieving this growth:

- significant growth in our own online business,
- an improvement of retail sales productivity in our own retail business,
- the exploitation of the growth potential in Asia, an
- above-average growth of the HUGO brand.

Allow me to outline these four crucial growth drivers in more detail.

I will start with the online business, which is so important to us. We are firmly convinced that this distribution channel will grow at a significantly above-average rate in the coming years. By 2022, we plan to quadruple sales from our own online business to EUR 400 million.

The expansion of online partnerships will play a key role in this. I have already outlined the relevant plans. However, we still have a lot planned: not just in our business with our partners, but also with our own online store, hugoboss.com. We want to develop our website into a digital flagship store. To achieve this, we are continuously optimizing the user-friendliness of our website, through which we already have a presence in our eleven most important sales markets worldwide. More sales markets will be coming in the

next few years. We will also be personalizing the online offerings even more strongly.
We have also set ourselves ambitious targets for brick-and-mortar retail. We aim to increase retail sales productivity by 4% per year on average by 2022. The primary contributor to this, in addition to the accelerated renovation of our BOSS stores, the expansion of digital services and the improvement of the product range, will be the further optimization of the store portfolio. We will use expiring leases to downsize, relocate or close stores that do not meet our productivity and profitability targets. We aim to keep the total retail space in our own retail business roughly stable in the coming years.

Furthermore, we are convinced that our business still has considerable growth potential, particularly in Asia. Even though our brands currently have very strong momentum there, at present we are still significantly underrepresented in Asia. By 2022, we therefore want to increase sales in the region at an above-average rate, by a double-digit percentage per year on average. China will play a key role here. Asia's sales share is expected to increase from around 15% at present to 20% in 2022. In addition to the optimization and expansion of the retail network, the online business, in cooperation with local online partners, should contribute to above-average sales growth.

Finally, we see considerable potential for our HUGO brand. In the coming years, the focus on the dynamic contemporary fashion segment should contribute to overproportionate growth and therefore also to achieving company targets. Primarily, we want to make full use of the potential of HUGO in the casualwear sector. We will also be opening more HUGO stores with their own store concept, and intensifying HUGO activity on social media.

Our latest partnership with the British singer and artist Liam Payne will also help us on social media. As HUGO's new global market ambassador, Liam

Payne will be the face of key marketing campaigns this summer. In collaboration with our creative team, he has also developed his own capsule collection for HUGO. This will be presented to the public for the first time at this year's Berlin Fashion Week. This is the first partnership of its kind for HUGO. Liam Payne will raise the profile of HUGO globally and play a key part in HUGO's further increase in relevance in the dynamic contemporary fashion segment.

We are also aiming for a significant increase in operating profit. EBIT, our new key performance indicator for evaluating our operating earnings development, starting with fiscal year 2019, is expected to grow faster than sales and thereby lead to a better margin. Specifically, we have set ourselves the target of improving our EBIT margin to 15% by 2022. An improved gross profit margin and an efficiency program with a strong focus on operating expenses will help us to achieve this.

In order to improve gross profit margin, in the coming years we primarily want to further increase the sales share of our own retail business, reduce complexity in the BOSS and HUGO collections and improve our markdown management. The last of these also means that we will gradually be reducing the sales share of the outlet business further. The efficiency program aims at increasing the profitability of the Group's own retail business, using our marketing expenditures more effectively, and optimizing our organizational structure.

At the same time, we will consistently be investing more in our business and in the functions and areas that are important for us. Above all, these include investments in the digital transformation of our business model.

Already the current fiscal year is entirely within the scope of our strategic priorities, and is a first key milestone on the way to achieving our mid-term financial targets.

Allow me therefore to close by setting out our outlook for the current fiscal year.

- We expect growth in Group sales this year to be in the mid-single-digit percentage range, stronger than the global economy and our relevant market segment.
- All regions are expected to contribute to sales growth, with our growth market Asia/Pacific expected to contribute disproportionately.
- In terms of distribution channels, growth will once again largely come from our own retail business. We are aiming here for currency-adjusted sales growth in the mid- to high single-digit percentage range. Our online business is likely to make an above-average contribution to growth.
- Our express aim is for EBIT to grow in the high-single digit percentage range, and therefore faster than sales. This outlook is based on the anticipated sales growth, the increase in gross profit and tight cost management.
- In line with the development of EBIT, consolidated net income should also rise in the high single-digit percentage range.

The first quarter results published at the beginning of the month show that our strategy is taking effect: our four strategic growth drivers underwent very positive development in the first quarter. As well as the sustained momentum in China and the double-digit growth once again in the online business, we disproportionately increased retail sales productivity in our own retail business and sales from the HUGO brand.

Overall, we increased our Group sales in the first quarter by 1%, adjusted for currency effects, to EUR 664 million. This corresponds to an increase in sales of 2% in the Group currency. The differences between regions were significant. While the challenging U.S. market and the ambitious comparison basis from the prior year led to a currency-adjusted sales decline in the Americas, our sales in Asia once again saw above-average growth. In Mainland China in particular, our growth was in the double digits, maintaining the momentum from previous quarters. In Europe too, sales were above the prior year level. In total, first quarter retail sales on a comp store basis increased by 4%. Growth in our own online business was once again in the double-digit percentage range.

Operating profit in the first quarter was EUR 55 million, notably below the prior year level. As well as phasing effects within our marketing expenditures, this was also due to investments in the digitization of our business model and in our organizational structure. However, these investments will help us to further accelerate major operational processes and to significantly improve our cost efficiency already in the current year. For this reason, we expect a significant acceleration in earnings development for the remainder of the year. I therefore remain very confident that we will achieve our targets for the full year and beyond.

I would like to conclude with a brief summary:

- 2018 was a successful year for HUGO BOSS. We increased our pace of growth and achieved our annual targets.
- We also made good progress in implementing our strategic initiatives.
- With the clear focus on our strategic priorities – personalization and speed – we are ensuring that we will be even more profitable this year

and beyond. The dynamic performance of our own online business and in Asia will contribute significantly to this.

Over the past 30 minutes, I have frequently used the word “we”. I am not just referring to the Managing Board, but also to our almost 15,000 employees.

Every day I am pleased to see how much our employees identify with this company and the BOSS and HUGO brands. They are proud – as I am – to work for HUGO BOSS. And, as I am sure you will agree, they have good reason to be proud of themselves and their work.

On behalf of the entire Managing Board, I would therefore like to say a sincere thank you to our employees as part of my review of 2018.

My thanks also go out to you, dear shareholders, for your continued confidence in HUGO BOSS. This year, we will continue to do our best to justify that confidence.

Thank you very much for your attention.