Annual Shareholders' Meeting 2017

Stuttgart, May 23, 2017
Mark Langer (CEO)

- 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.

When I spoke to you as Chairman of the Management Board for the first time last year, I could only give a rough idea of what the realignment of HUGO BOSS would look like. Since then, a lot has happened. We have developed a clear plan of how we intend to restore HUGO BOSS to long-term profitable growth. The first successes of this are already being felt, though some strategic decisions will only take effect in the next year, as I am about to tell you. But first allow me to take a look back at 2016.

The previous year had a profound impact – for the industry as a whole and even more so for HUGO BOSS. After we had spent a long time making good progress in comparatively calm waters, the economic climate has become considerably rougher. The winds in the clothing industry have since decidedly turned against us.

Thus the global market for luxury clothing shrank by 4% in the previous year. Our industry wasn't able to benefit from a generally positive consumer climate. A lot of consumers spent their money on premium-priced goods such as cars and real estate or special experiences such as traveling. Spending on clothing however declined. As a consequence, a lot of brands and retailers struggled with discount pressure.

It's not just down to the market that we had a tough time of it as a company. We've made mistakes in the past though.

For a lot of consumers our brand portfolio had become too complex and hard to understand. Some of our lines had moved too far away from the core brand. Others weren't positioned clearly enough, which resulted in overlaps in the product range and inconsistencies in the pricing structure. Besides that, with our expansion into the upscale segment, we moved too far away from our core customer phase especially since our market presence did not live up to these ambitions in every region.

We did manage to successfully take countermeasures though when these challenges became clear.

What did we do?

- We saved more than EUR 100 million in costs and investments compared to our original plans, and streamlined our inventory management.
- We identified 20 unprofitable stores worldwide which now will be closed.
- We restructured our U.S. wholesale business and discontinued sales formats which didn’t correspond with our brand positioning
- We started harmonizing our prices globally.
- And finally, by insourcing order processing for European online business, relaunching the online stores and introducing a mobile app we laid the foundations for future growth in online business

What’s more, we took some important long-term steps: we’re streamlining our brand portfolio, and in future we will follow a two-brand strategy. As part of this strategy, we are expanding the important entry-level price segment and in doing so focusing on these price ranges. But more about that later.

Some of the short-term measures helped to slow the decline in sales and results seen in the previous year. With some decisions however, we also consciously accepted a decline in sales. This has hurt us in the short term but helps us to return the company to profitable growth in the long term.

In 2016 Group sales on a currency adjusted basis fell by 2%. When translated into euros they were 4% lower than in the prior year and totaled just under EUR 2.7 billion.

In Europe we recorded growth on a currency adjusted basis. 8% sales growth in Great Britain more than made up for losses seen in the two other major markets of France and Germany. In the Americas, sales in local currencies for the year as a whole were 12% lower than in the prior year. This was primarily due to the difficult U.S. market and the changes to the distribution structure already mentioned. Our Asia business recorded a 2% decline in sales when adjusted for currency effects. Sales in China were 6% down on the prior year. In mainland China in particular business gained substantial momentum during the course of the year.

The opening of new stores meant that the Group’s own retail business with slight growth developed better than the wholesale business, which fell by 9%. On a like-for-like basis however, retail sales also fell by 6%.

Comprehensive cost savings meant that we were able to partially absorb the effect of these declines on profits. We renegotiated rental agreements and strictly managed administration expenses. Even so, EBITDA before special items fell to EUR 493 million, which is 17% below the prior year’s level. The Group's net income came under even greater pressure due to higher special items, and totaled EUR 194 million.

Ladies and gentlemen, the public hears a lot of negative stories from the German clothing market at the moment.

But I would like to stress out that HUGO BOSS stands on rock-solid foundations. Our company is in excellent shape. Debt levels are very low, and our double digit margin is impressive in an international comparison. This makes us very well equipped to make the necessary adjustments to our course and invest in future growth despite the difficult market environment.

Our proposed dividend for 2016 underlines this. We're departing from our usual dividend policy somewhat with our proposed dividend in light also of the special items already mentioned and the improvement in free cashflow. With a payout of EUR 2.60 per share, which is equivalent to 93% of the Group's net income, the dividend is below last year's figure in absolute terms, but well excess of the target corridor of 60% to 80%.

However, the payout range will continue to apply to future dividend payments. We are still convinced that the dividend should be primarily based on the development in net income. Under no circumstances may it go at the expense of value-enhancing investments. It is our stated goal to increase our dividend again in the next few years in response to profitable growth.

In addition to the dividend, we want to increase value for our shareholders through increases in the share price. In 2016 the decline in sales and earnings also left traces on our share price. In this year however we have already made up a lot of lost ground. The 20% increase in value since the beginning of January emphasizes the support that the capital market is giving the course that we adopted.

Let me just clarify what action we're taking. It is our vision to become the most desirable brand in the upper premium segment for fashion and lifestyle. In our industry it's the attractiveness of the brand that determines commercial success in the long term. In order to further increase our attractiveness we're taking action in various places:

- we're simplifying our brand portfolio and sharpening the positioning of our brands,
- we're continuing to develop our distribution strategy,
- we're driving forward the digital transformation of our business model,
- and we want to become quicker and more agile.

As mentioned earlier, looking forward, we will be concentrating on two brands – BOSS and HUGO. There are three main reasons behind this:

- First of all, discussions with numerous customers and partners have convinced us that the positioning of our brands was not sufficiently clear and comprehensible.
- Secondly, we would like to strengthen our market position in the Casualwear section. This segment already constitutes around half our business.
- And thirdly, we would like to introduce our collections to a young, fashion-conscious audience.

With our core brand BOSS we want to continue to appeal to a certain kind of customer who really values quality and who wants to dress in classic, yet contemporary apparel of high quality. This kind of BOSS customer doesn't just have exact ideas regarding quality and fit, but also values a perfect shopping experience.

Looking forward, BOSS will cover all wearing occasions under one brand: business, casual and athleisure. The suit is our core product. However, we now offer much more than just the traditional suit with the shirt and tie in business wear, too. Strict dress codes are largely a thing of the past and smart casual is increasingly becoming the order of the day, meaning a style which is more relaxed, but still elegant.

The casualwear builds on what customers currently find with BOSS Orange. This collection however will be of a significantly higher standard in terms of quality, processing and design. BOSS Orange itself will be integrated into the core brand BOSS.

And when that same customer plays sport, goes golfing or just wants to dress sporty then it's time for the athleisure range. These we previously offered under the BOSS Green label. Also BOSS Green will be integrated into the BOSS core brand accordingly.

An additional color-coding scheme on the BOSS label will help our customers and business partners differentiate between the various parts of the offering.

The changes, which I have just described, will be introduced with the Spring collection 2018. This will be in stores at the end of this year and is currently sold to our wholesale partners. First feedback is distinctly positive.
This new alignment applies to both parts of our business – Menswear and Womenswear.

Looking forward, we will be putting more emphasis on our menswear offerings – in particular with attractive fashion shows and extensive marketing activities. Despite this, we have a lot of faith in the future prospects of our Womenswear. It will remain an important part of our business.

The BOSS Womenswear playfully combines elegance and casualness. The perfectly crafted looks offer the BOSS-clad female the perfect clothes for the occasion at all times – whether it's an important meeting in the office or when traveling. The unique design and processing that goes into every piece of clothing is also the result of the collaboration with Jason Wu.

Alongside the classic business range we also see great growth potential in the Casualwear. With the integration of BOSS Orange into the BOSS core brand, we're hence supplementing the product portfolio of our Womenswear.

The HUGO brand is also very successful in the Womenswear segment at the moment. In comparison to BOSS, the sales of women's clothing constitutes an even higher share.

We see big opportunities for HUGO in the future – both for Menswear and Womenswear.

The brand is targeting a very fashion-conscious customer base. In the past few years we lost touch with these customers somewhat, in that we stopped consistently focusing on the progressive look that HUGO has always stood for. The HUGO collection is already firmly embedded in the premium range and is very attractively priced. This makes me very confident that HUGO can play an important role in the growing contemporary fashion market, more than ever when we expand the collection in 2018 to include more Casualwear elements.

HUGO will be obtaining the necessary resources to grow significantly in the next few years. We're concentrating on digital communication to reach the partly younger and more fashion-conscious customers. We are also investing in a new store concept which will reflect HUGO's DNA.

What all brands have in common is high quality. HUGO BOSS has always stood for premium quality and affordable luxury. Looking forward, we will be emphasizing much more strongly the commitment embodied in our products to offer the best value proposition in their respective segment.

This applies on the one hand to our offerings in the luxury segment. Beginning with the fall collection for example, we will be including full-canvas suits made entirely in Germany in our regular collections. Besides that we are continuously expanding our range of tailored products, also with respect to new product groups such as shoes for example. In doing so we are strengthening our brand image, which is based on traditional tailoring. At the same time, this move is boosting the emotional brand value, which is very important to customers with a high-end premium brand.

Besides that, we are investing in the value for money of our entry-level price range. In the Casualwear segment in particular, we're upgrading the quality of our collections by using high quality materials and trimmings. We are working on improvements to our production management system, especially in our own production facilities, where we place a lot of emphasis on making sure our staff have the appropriate training. Product testing throughout the entire lifecycle of the products makes sure that the focus on quality doesn't end with the development and manufacturing stages. On the contrary: once a month, products which don't meet our grades are analyzed by a committee including the Managing Board to

Ladies and gentlemen, change always entails risk.

That's why we're pleased that the feedback from our wholesale partners to the changed brand strategy was distinctly positive. A large majority of them welcome the clarity and consistency of the new brand alignment, both regarding BOSS and HUGO. Many customers have also expressed an interest in an expanded range of high-quality, smart Casualwear looks from BOSS in order to make the best use of the strong growth in this segment.

This was also shown by the order development for this year's Fall/Winter collection. Although the collection only featured some elements of the new brand positioning, BOSS Casualwear performed much better than in previous years.

However, the market environment remains challenging – a fact that we must take into account when determining our future price strategies. We appreciate that it's important to have an attractive range of products in the entry-level price range, especially when market conditions are challenging. For this reason, we're offering the German wholesale business suits at an entry-level price of EUR 499 in a transitional phase, for example. But we still stand firm behind the principle of "Same product, same price" for the Eurozone. So we will further harmonize global sales prices with the introduction of the Spring/Summer 2018 collection.

Ladies and gentlemen, strengthening the sales dynamic in our own retail business is the most important thing on our to-do list this year. We want to lay the foundations for increasing our sales productivity, i.e. sales per square meter, by around 20% in the next five years.

Allow me to briefly summarize the five main drivers of growth:

First of all, we will be expanding the selection of products available in the entry-level price range in our stores.

Secondly, we will be broadening the selection of Casualwear. In many stores this will already be the case this year.

The third element is that we are expanding our omnichannel services, since we know that a convenient, uncomplicated shopping experience is an important factor for BOSS customers in particular. This means for example that it will be possible to order missing sizes and products online in most European stores by the end of the year.

Number four, we are systematically investing in training and developing our sales staff in order to improve service quality and customer retention.

Finally, a new store concept will enhance the shopping experience. This will be implemented by opening new stores and renovating existing ones.

One of the core elements of the new store concept is the expansion of digital offerings. Our stores remain the most important contact point with the customer. However, we would still like to connect them even more effectively to the digital world, since our customers are increasingly moving seamlessly between online and bricks-and-mortar retailing.

Bringing both worlds together is therefore also a key focus. And of course we also need to up our game when it comes to online-only retailing. In the past four quarters our eCommerce business has declined.

This is a disappointing development. Let me give you some background: over the past few years we have taken control of important parts of the value chain. Since 2016 we have complete control over our European online business, because we firmly believe that having direct contact with end customers gives us an important competitive advantage. This advantage will only increase the more know-how we can accumulate within the company on how to run online business.

So we have provided a strong basis for our digital business. In the short term, though, our online business has suffered from these structural changes. In order to reverse the negative trends, we focus on various points:

- We have optimized our website to improve its rankings in the relevant search engines.
- We have reduced the loading times,
- We’re improving communication towards our customers using newsletters and other individual offers, hence enticing them to visit our website,
- We're optimizing these offers for mobile devices, which are currently used for half of all visits to the site,
- and an important point: we are now aligning our product offerings more closely to the commercially important entry-level price range.

We are therefore confident that the online business will return to growth in the year as a whole.

On top of the short-term improvements in sales trends, we are also working on digitalizing our business model along the entire value chain wherever this makes economic sense. We are willing to try out new business models. You will hear a lot more from us about that in the next few years.

Ladies and gentlemen, we are being faced with an increasingly demanding customer base and with technological shifts. We have to keep pace with these changes and use them to our advantage. This only works, however, when staff are prepared to positively embrace these changes and not to think of change as a threat. In other words, we need a corporate culture that is open to change – a corporate culture that encourages change. Something like that doesn’t happen from one day to the next. And it doesn’t happen at all when it’s imposed from the top down. Change is a process made up of many small steps, where those of us in management have to lead by example.

We have to encourage our staff and give them even more responsibility. We encourage them to embrace change and to see it as an opportunity. We are also working more and more with teams from different functions and assigning them clearly-defined responsibilities in order to accelerate the decision-making processes. Complex organizational and reporting structures are increasingly becoming a thing of the past.

One good example amongst many is the development of our mobile app, which was created within just six weeks. This was achieved by a team made up of members of staff from various departments, who were able to work together with their own budget towards a clearly-defined goal.

This means that speed and flexibility are critical factors for the future success of our company.

You will perhaps remember that at this point last year I described additional attributes that we want to stand for as a company and a brand. We also stressed the need for sustainability of our management. Also here we reached a lot.

This is why we sought out an open dialog with non-governmental organizations, union representatives, researchers and partners at a stakeholder day held in October last year. The results of this exchange have been incorporated into our sustainability strategy.

One major thing that was asked of us was more transparency. Through our sustainability reports, we already provide detailed information about our progress in this area and publish a lot of information. We now comply with a key demand that was raised at the stakeholder day – the publication of our supplier portfolio. We have already publicized information on a large number of our finished goods suppliers within the past month. Further detailed information will follow later this year. This will enable us to also comply with the demands of the so-called "Transparency Pledge".

There has also been a great deal of discussion in the media about our cooperation with Turkey, an important sourcing market for HUGO BOSS. As you probably know, we operate a large factory in Izmir, which employs 4,000 people. This subsidiary is run according to our globally consistent standards. Our collaboration here is hence based on the rules set out in our Code of Conduct. Many of our members of staff employed at Izmir have been with us for many years and do an excellent job. We feel very connected with these colleagues. And, because we keep being faced with allegations to the contrary, every HUGO BOSS employee, regardless of where he or she works, has the right to join a union.

HUGO BOSS also took on board and resolved the criticism it received from the Turkish trade union Teksif at our last Annual Shareholders' Meeting. To achieve this, we called upon the services of an arbitrator to guide the talks with the trade union and to bring about long-lasting solutions. Naturally, the trade union also took part in our stakeholder dialog in October 2016. Two further meetings have also taken place in Istanbul. You can see, ladies and gentlemen, that we strive for achieving a good collaboration. What we will not accept however are gross violations of our corporate guidelines and of the guidelines on cooperation set out in the Code of Conduct.

Now, let me say a few words on our sustainability activities this year. I already spoke about increasing transparency. In addition to this, we will also take part in other important initiatives, such as we are currently doing with the Better Cotton initiative and the environmental initiative Zero Discharge of Hazardous Chemicals. We will expand our portfolio of sustainable products and promote innovation in this area. For example, we are working on imitation leather made from pineapple leaves and other sustainable materials. We will also further expand our dialog with non-governmental organizations and participate in projects that are of value to us. For example, the German Partnership for Sustainable Textiles has set up a women's rights project in India which we will take part in once it gets going.

We are aware that there is still some work for us to do when it comes to sustainability. Nevertheless, I am convinced that we are on the right path. I intend to continue playing a big part in this myself.

Ladies and Gentlemen, as you can see from my remarks, there's a lot going on at HUGO BOSS. The change to our strategic focus builds on what was the core of our success over the past decades. However, we don't shy away from correcting the errors of the past and from breaking new ground. Changes like these obviously don't happen overnight.

This year marks an essential step on this path. From a financial perspective, 2017 will be a year of stabilization.

We expect Group sales to develop largely stable. Regionally, Asia is expected to slightly outperform and the Americas to slightly underperform the Group average. For Europe, we expect stable sales, in line with the Group as a whole. Sales figures in the Group's own retail business are expected to steadily improve over the course of the year. The top end of our growth forecast for the full year is in the mid-single digits. Sales in the wholesale business on the other hand are expected to decline by a low to mid single-digit percentage, mostly driven by the United States, where the distribution adjustments and muted demand will cause declines in the low double digits.

Like sales, earnings should also remain stable. EBITDA before special items should move within a range of minus 3% to plus 3%. This forecast assumes slight increases in both the gross profit margin and in operating expenses. On top of expenses in the digital segment, marketing costs will also increase slightly relative to sales in order to support the changes to the positioning of our brands. Positive effects from cost savings and store closures will place a cap on any increases in costs. Since - in contrast to the previous year - we additionally do not expect any significant special items we project Group net income to grow by a double-digit percentage.

The results for the first quarter that we published already two weeks ago make it clear that we are on course to reach these goals.

Sales and earnings are up in the first three months. Thanks to solid growth in the core markets of Great Britain and China we have been able to record sales growth in Europe and Asia. This more than made up for the decline seen in the Americas. All in all, our start to the year was very solid.

Our focus is already ever more closely on the upcoming year, where we want to return to profitable and sustainable growth. Let me point out some of the milestones along the way:

In about three weeks we will be unveiling the HUGO Spring/Summer 2018 collection at the Pitti Immagine Uomo trade fair in Florence, the most important event in the men’s fashion industry.

A few weeks later we will also be presenting the BOSS brand’s revised strategy at a show during the New York Fashion Week. This collection will be the first to fully integrate BOSS Green and BOSS Orange into the BOSS core brand.

Over the summer we will then be selling the new collections to the retail trade. Incoming orders will provide a preliminary indication of commercial success. It won’t be until the end of this year that the collections will fully appear in the stores.

You can certainly imagine that all the changes and innovations going on are asking a lot of our staff; however, they are showing a great deal of motivation and willingness to get involved. Our people strongly identify with the company, its brands and its products. They are very proud to work for HUGO BOSS.

It is therefore important for me, on behalf of the Managing Board, to thank all members of staff for their hard work and their willingness to get involved.

Dear shareholders, our thanks must also go to you. You have stayed loyal to us through some difficult times. We will do our best to justify the trust that you have placed in us.

We have some exciting months ahead of us. 2017 will be much more than just a “year of transition”. Over the next few months we will be continuing to stabilize our financial performance and advance our strategic realignment. The positive feedback from our retail partners and customers regarding the aligned market portfolio reassures me that we are on the right path. Accordingly, I am convinced that when we meet again at next year's Annual Shareholders' Meeting we’ll be able to look back at 2017 as a “great year of progress”.

Ladies and gentlemen, I would like to thank you for your kind attention.