

**First Nine Months Results Conference Call
October 31, 2013
Mark Langer (CFO)**

- The spoken word shall prevail -

Good afternoon, ladies and gentlemen.

On behalf of the entire HUGO BOSS Managing Board, I would like to welcome you to our Nine Months Results 2013 conference call.

In my presentation, I'll update you on the most recent operational and financial developments within the Group. Finally, I'll discuss our outlook for the rest of the year before turning the floor to your questions.

In the first nine months,...

...HUGO BOSS achieved solid top and bottom line increases. Group sales grew by 4% on a currency-adjusted basis with positive contributions from all regions. In euro terms, revenues were up 3%. By distribution channel, own retail remained the clear growth engine with wholesale suffering from a more difficult industry environment globally.

This picture was broadly the same also in the third quarter, where Group sales were up 5% in currency-adjusted terms. Compared to the first half year, growth momentum accelerated in own retail due to continued expansion and takeover activity as well as better like-for-like growth as compared to the first half year. However, the wholesale business – which accounts for an above average share of sales in the third quarter – continued to be challenged globally.

Irrespective of the challenges posed by an overall difficult economic situation and a lackluster retail environment in many of our key markets, we have been extremely disciplined in the execution of our medium-term strategy. This has translated into good margin increases in the quarter as well as the year-to-date period and outstanding results in all relevant balance sheet metrics.

One key element of our medium-term strategy is the elevation of our brand portfolio.

In this context, the past three months have been an important milestone as we introduced our first collection reflecting the integration of BOSS Selection in the core brand BOSS. This has resulted in the creation of a harmonized price architecture from premium to luxury under the globally recognized BOSS logo.

The initial reception of the integrated brand offering has been very positive. In our menswear clothing business, the high end of our collection now labelled “BOSS Tailored” has immediately expanded its collection share as compared to the old BOSS Selection offering. Based on the sell ins of the Fall 2013 and Spring 2014 collections, the size of the “Tailored” business exceeds the previous Selection levels

by consistently more than 20%. We expect this development to support continuous price mix improvements going forward.

Hand-in-hand with the elevation of our brands and the introduction of an even richer, more sophisticated product offering, we continue to upgrade the presentation of HUGO BOSS at the point of sale. This encompasses the opening of attractive new stores across all regions, the refurbishment of existing stores, in particular key flagship locations, as well as the takeover of branded space in multi-brand environments.

In Moscow, we opened a flagship store on Kuznetsky Most, the city's prime shopping destination for high-end fashion brands. Across two levels and almost 700 square metres, we present BOSS and HUGO mens- and womenswear as well as shoes and accessories. The opening marks our direct entry into the Russian market which we had only served via franchise so far.

In New York, we reopened our Columbus Circle flagship store after an extensive refurbishment. Following the addition of an entire floor, the store is now operating across almost 1,100 square metres. This makes it the second largest HUGO BOSS store worldwide.

Located at the southwest corner of Central Park, it offers an inspiring shopping atmosphere supported by the implementation of our latest B7 store concept. One of the three floors is dedicated exclusively to womenswear, underlining the high expectations we have for this part of our business.

It goes without saying that we celebrated the reopening in style.

For an entire week, the glass atrium of the neighbouring Time Warner mall was used to screen a video installation by local artist Marco Brambilla, encapsulating an impressionistic vision of Central Park and the energy of Manhattan. Customers were encouraged to become part of the event themselves by posting videos of the installation on Instagram.

And in Shanghai, the APM Mall store represents one of two major openings over the last few weeks. Together with our store in Kerry Center, opened in mid-October, these locations will shape the perception of our brands in one of the key cities on the Chinese Mainland.

We also expanded the concession business model. In the past few months, we have taken over almost 70 HUGO BOSS shop-in-shops that were previously operated independently by our trading partners. These activities focused on the United States, where we implemented the concession model for the first time, as well as Germany.

In the US, we completed the takeover of 37 locations from Saks at the end of July. As the first key account in the US to subscribe to the concession business model, the cooperation marks an important step in further upgrading our brands' perception in this key market. With performance since takeover developing according to plan, we are on track for the business to contribute a high-single-digit million euro net effect to Group sales in the second half of 2013.

In Germany, we assumed responsibility for the direct management of our presence at the Karstadt premium houses - three of the most renowned department stores in the country including the KaDeWe in Berlin and Alsterhaus in Hamburg. The uplift to the quality of brand presentation is as visible here as it is at Woehrl, a smaller account focused on Southern Germany, from whom we took over a total of 18 shop-in-shops in August.

These takeovers accounted for the majority of new additions to our global own retail store portfolio. Out of the 183 stores and shop-in-shops added over the period, 110 related to shop-in-shop takeovers as well the buyout of four mono-brand stores from our former franchise partner in Singapore. In addition, we added 42 new stores organically net of closures.

Europe was the most important region in terms of new store openings with projects spanning all major markets. In the Americas as well as Asia, expansion was focused on strategically important locations in premium retail environments. In Asia, the closure of 20 locations related predominantly to China, where we exited or relocated some underperforming locations, as well as Japan, where we closed several smaller shop-in-shops at department store partners.

Ladies and Gentlemen, let me start my discussion of financial results development with a quick overview by region.

In Europe, sales momentum improved visibly over the course of the third quarter in which revenues grew 8% on a currency-adjusted basis.

Own retail sales growth accelerated due to the positive effects from expansion and takeovers as well as a pick-up in underlying demand. While the UK continued to be a stand out performer in terms of retail performance, France, Italy and, to a lesser extent, Germany recovered from a more difficult first half year. In contrast, business remained tough in the Benelux as well as Scandinavia. Here as well as in most other markets in the region, wholesale partners acted very cautiously, owing to a challenging trading environment.

In the Americas, sales momentum slowed down as compared to the first half year. In the third quarter, revenues were stable on a currency-adjusted basis. In part, this was due to a very tough comparison base from the prior year in which HUGO BOSS had recorded exceptionally strong increases across both distribution channels.

Beyond this and the technical effects from the sales shift related to the Saks takeover, North American wholesale sentiment has deteriorated somewhat in recent weeks as consumer spending becomes increasingly focused on durables rather than comparably lower ticket items such as apparel. In own retail, however, performance continued to be very solid despite some weaker trends towards the end of the quarter potentially affected by the government shutdown.

Finally, performance in Asia remained broadly unchanged compared to the first half year. In currency-adjusted terms, regional sales were up 4% both in the quarter and year-to-date.

The overall market environment remained highly challenging in Mainland China in the third quarter as well. In contrast, Hong Kong and Macau delivered robust like-for-like growth. Underlying growth was also solid in Japan, where HUGO BOSS and the entire industry benefitted from the repatriation of local demand following the significant local currency devaluation. Last but not least, in Australia, retail expansion more than offset a weaker wholesale development.

By distribution channel, third quarter wholesale sales were down 8% in local currencies.

This development was due to the following effects:

- Firstly, the pre-order business which continues to account for around 80% of our overall wholesale business was affected by the difficult market situation most of our trading partners faced when they placed their orders around six months ago. Our short-term replenishment business developed comparatively better and was stable in the nine months period.
- Secondly, channel sales suffered from takeovers reflecting a sales shift from wholesale to retail. Given the high number of takeovers in the last few months, this effect became even more pronounced as compared to the first half year and accounted for almost half of the overall sales decline in the third quarter.

In the first nine months, wholesale revenues decreased 7% on a currency-adjusted basis with takeovers accounting for roughly three percentage points of the decline.

In the own retail channel, third quarter sales were up 23% on a currency-adjusted basis. This represents a marked acceleration versus the first half year period related to a better comp store sales development as well as a higher contribution from new space.

On a comparable store basis, revenues were up 4% in the third quarter. This improvement was particularly driven by a better performance in Europe while trends remained broadly similar in the Americas and in Asia. Traffic continued to be a drag on performance in almost all markets, but was offset by better conversion rates, an increase of units per transaction as well as a more premium price mix.

The remainder of retail sales was contributed by stores and shop-in-shops opened or taken over since the beginning of 2012. As a result of the numerous shop-in-shop takeovers predominantly in the U.S. and in Germany, new space growth accelerated in the third quarter.

By retail channel, growth rates were very similar across DOS and the outlet business. Online had an outstanding performance and grew by 30% year-to-date. As of today, the recent insolvency filing of our online fulfilment partner Netrada did not have any impact on day-to-day operations and sales development in this distribution channel.

Finally, royalty sales were up 2% year-to-date supported by strong increases in eyewear and kidswear. Our largest licensed business, fragrances, grew moderately. In the third quarter, however, royalty sales declined at a low-single-digit rate as the strong reception of our new BOSS JOUR blockbuster fragrance with sell-ins even

significantly exceeding last year's BOSS NUIT launch was not enough to offset the effects from a tough comparison base and the expiry of some smaller licenses.

Moving below the top line, gross margin strength was the main driver of earnings improvements.

In the third quarter, Group gross margin advanced by 340 basis points to 63.5%. This development was driven by three, approximately equally sized effects:

- A positive distribution channel mix owing to the above average growth of the own retail channel,
- the reduction of markdowns as compared to the prior year, and,
- the non-recurrence of inventory devaluation effects that had impacted gross margin in the prior year quarter. This is a reflection of the clean stock levels we are working with in 2013.

Gross margin was up 250 basis points in the first nine months period. As compared to the quarterly development, however, the year-to-date improvement was more strongly driven by channel mix and the annualization of inventory devaluation effects rather than lower markdowns. This reflects higher rebates still given at the very beginning of the year 2013.

Operating expense development differed visibly by area: On the one hand, selling and distribution expenses increased 11% year-to-date, primarily due to the continued expansion of the Group's own retail network. Marketing expenditures were slightly below the comparison period following some savings and a more balanced phasing this year. On the other hand, administrative expenses were up a mere 2%, reflecting strict discipline in overhead cost management.

EBITDA before special items was hence up 4% in the first nine months. The adjusted EBITDA margin advanced 30 basis points to 22.8%. Group EBIT was 2% above the prior year period despite higher depreciation expenditures resulting from strong investment activity.

Turning to the non-operational items of the P&L, net financial expenditures increased marginally to 16 million euro. While net interest expenses declined due to lower net debt levels and better financing terms, adverse currency movements only partly compensated by hedging activities led to the overall increase.

As the Group's tax rate improved by a percentage point to 23%, net income attributable to shareholders was up 3% compared to the prior year, translating into earnings per share of 3.55 euro.

By segment, margin improvements in Asia and even a decline in corporate unit costs drove the Group's profitability improvement in the first nine months.

In Europe, we recorded a moderate margin decrease as the high number of new store projects and takeovers diluted regional profitability. In the Americas, operating margin declined as a result of own retail expansion and fixed cost inflation slightly above sales growth. These factors more than offset the positive impact from a strong reduction in markdowns. Last but not least, in Asia lower rebates, positive inventory

valuation effects and disciplined cost management contributed to the margin improvement.

Turning to the balance sheet, working capital efficiency reached new record marks relative to the Group's history. Trade net working capital decreased by 11% to 455 million euro at the end of September, continuing the positive trend from prior quarters. As a result, average trade net working capital improved strongly to 18.3% of last twelve months sales.

All items supported this development. Most importantly, inventories declined by 6%, demonstrating the progress HUGO BOSS has made in terms of maximising the transparency of merchandise flows within the Group as well as improving supply chain flexibility.

Group receivables declined 8% mirroring the sales decline in the wholesale channel including the expansion of the concession business model effectively exchanging receivables for inventories. Lastly, trade payables increased modestly.

Capital expenditures increased by more than 60% to 142 million euro, reflecting continued investments in future growth. Accounting for 85 million euro, investments in store expansion and refurbishments represented the lion's share of total investments. Total expenditures also include distribution center related expenses amounting to 28 million euro. These were booked in the first half year before the deconsolidation of the respective legal entity at the end of June.

Nonetheless, the strong trade net working capital improvements presented earlier more than offset the increase in investments so that free cash flow increased modestly compared to the previous year. Supported by the cash inflow from the deconsolidation of the distribution center entity, this drove a marked net debt decline compared to the prior year level.

Ladies and Gentlemen, let me conclude my remarks with the presentation of our financial outlook.

It should have become clear from today's set of results that HUGO BOSS has been successful in addressing a difficult market situation. Despite an overall weaker than expected top line momentum in both wholesale and own retail year-to-date, we have increased gross and operating profit margins in the first nine months.

In the final quarter of the year, we do expect accelerating top and bottom line growth trends. This assumption is based on the different structure of the fourth quarter as compared to the third as well as encouraging underlying trends we witnessed in the past few weeks.

As a result of the growing importance of own retail in our business mix, the sales and profit contribution from the fourth quarter is set to increase further also in 2013. The retail channel will account for more than 60% of Group sales in Q4 compared to just 50% in Q3. As we forecast continued double-digit growth in this channel in the last three months of the year as well, this will support overall Group growth rates.

In terms of underlying trends, we forecast region Europe to sustain the positive momentum visible since the end of July. And while some caution is warranted with regard to the state of the US wholesale business going forward, we continue to see solid underlying growth in our own retail operations in the region. In Asia, finally, trading patterns remain patchy from week to week with no clear improvement visible in Mainland China yet.

In sum, we forecast sales to increase at a rate between 6% and 8% on a currency-adjusted basis. The appreciation of the euro against virtually all major currencies will result in a negative translation effect impacting growth in reported terms.

EBITDA before special items is now expected to grow at a rate between 6% and 8% as well. While top line development has been weaker than originally expected, gross margin expansion exceeded our initial forecast. In addition, we have managed operating costs very tightly.

The rest of our outlook remains unchanged: Capital expenditures will amount to approximately 150 million euro adjusted for the distribution center investments booked earlier this year. Capex will be predominantly used to expand our store base by around 50 new stores net of closures. In addition, takeovers will amount to approximately 110 in the full year and largely relate to shop-in-shops previously managed by wholesale partners.

Ladies and Gentlemen, 2013 has turned out to be a more difficult year as compared to our initial expectations. Many of our wholesale partners are struggling to remain relevant to the end consumer. Intensified by a weak macroeconomic backdrop, this has been documented by declining footfall in many markets. As a result, sell-through development has been weak across the industry, leading to cautious ordering behaviour.

At the same time, today's results as well as our forecast for continued healthy top and bottom line increases in 2013 underscore that HUGO BOSS is following the right strategy. Through the expansion and upgrade of our own retail network as well as the increased control of brand presentation even in multi-brand environments, we have been able to shelter ourselves to a large extent from the adverse developments just described. This wouldn't have been possible without the unparalleled focus on own retail now deeply rooted in the entire organization.

Going forward, there is a strong case for further elevating our brands, building own retail, enlarging our global footprint and maximizing operational excellence to drive Group sales and results. All of these topics we will discuss in more detail at our upcoming Investor Day on November 26 in Hong Kong to which you are cordially invited.

But before that, let me answer your questions on today's results.