

# HUGO BOSS

Quarterly Statement for Q1 2018

Metzingen, May 2, 2018

## **2018 gets off to a successful start for HUGO BOSS**

- **Currency-adjusted Group sales up 5% in the first quarter**
- **Retail comp store sales up 7%**
- **Online business growing at a double-digit rate**
- **Slight increase in EBITDA before special items**
- **Full year financial outlook confirmed**






“We made a good start to 2018,” says **Mark Langer, CEO of HUGO BOSS AG.**

“Our growth is broad-based. The strong increase in the Group’s own retail business shows that our new collections are being well received by customers. Our investments in the quality of our products and the desirability of our brands are therefore paying off. Also, the substantial progress achieved in the online business is encouraging. This positive performance strengthens our confidence that we will achieve our sales and earnings targets for the full year.”

HUGO BOSS achieved sales growth in all three regions in the first quarter. Group sales increased by 5%, totaling EUR 650 million. The dynamic performance in the U.S. and Asia continued. The Group’s own retail business again provided the growth driver, with comp store sales up 7%. The own online business grew disproportionately, recording double-digit growth rates. Sales in the wholesale business also increased slightly. At EUR 99 million, the operating profit was up slightly compared with the prior year. Investments in product quality, the digital transformation of the business model and the strong euro have curbed the profit increase.

# HUGO BOSS

## Q1 sales development by segment

	in EUR million	Change in %	Change in % currency-adjusted
Europe	 416	↗ +1	↗ +3
Americas	 118	↘ (6)	↗ +7
Asia/Pacific	 100	↗ +2	↗ +12
Licenses	 16	↘ (1)	↘ (1)
<b>Group</b>	 <b>650</b>	→ 0	↗ +5

- Sales growth in **Europe** was underpinned by the Group's own retail business and by the wholesale business. There were significant differences between individual markets. In Great Britain and the Benelux countries, HUGO BOSS recorded sales growth of 12% and 7% respectively on a currency-adjusted basis. Sales in France rose by 2%. Reflecting a difficult market environment, sales in Germany declined by 5%.
- In the **Americas** the positive sales momentum in the Group's own retail business continued. In the U.S., comp store sales growth again was in the double digits. Overall, sales increased by 6% in the U.S. Canada and Latin America supported the positive trend in the region with growth in the double digits and mid-single digits, respectively.
- The **Asia/Pacific** region benefited particularly from a still favorable market environment in China. With double-digit growth rates, the business in Hong Kong and Macau developed particularly positive. Comp store sales in mainland China were up at a high-single percentage rate. Overall, sales in China rose by 11% in local currencies. In Japan and South East Asia, the Group also achieved double-digit sales growth on a currency-adjusted basis.

# HUGO BOSS

## Q1 sales development by channel

	in EUR million	Change in %	Change in % currency-adjusted
Group's own retail business	378	↗ +2	↗ +8
Wholesale	256	↘ (3)	↗ +1
Licenses	16	↘ (1)	↘ (1)
<b>Group</b>	<b>650</b>	<b>→ 0</b>	<b>↗ +5</b>

- In the **Group's own retail business** (including outlets and online stores) the positive sales momentum continued in the first quarter, with currency-adjusted sales up 8%.
  - Sales grew by 7% on a comp store and currency-adjusted basis. All distribution channels and regions contributed to this. In Europe and the Asia/Pacific region, sales increased by a mid and high single-digit percentage rate, respectively. In the Americas, sales grew by a double-digit percentage rate on a comp store and currency-adjusted basis.
  - Overall, sales in the Group's own retail business in Europe climbed by 4% to EUR 210 million (Q1 2017: EUR 205 million). Sales in the Americas amounted to EUR 76 million (Q1 2017: EUR 77 million), which is equivalent to a currency-adjusted increase of 13%. In the Asia/Pacific region, sales increased by 11% in local currencies to EUR 91 million (Q1 2017: EUR 90 million).
  - Sales in freestanding stores and shops-in-shops rose by 6% over the prior year on a currency-adjusted basis. Outlet sales were up 7%. In its online business, HUGO BOSS achieved a 43% increase in sales. Improvements in the user-friendliness of the hugoboss.com website and its more consistent alignment to BOSS and HUGO supported this development.
- The main reason for the increase in sales in the **wholesale business** was the positive development in Europe.
  - At EUR 206 million, currency-adjusted wholesale sales in Europe were 2% higher than in the prior year (Q1 2017: EUR 207 million). In the Americas, sales decreased by 3% on a currency-adjusted basis to EUR 41 million (Q1 2017:

# H U G O B O S S

EUR 49 million). The Asia/Pacific region recorded a currency-adjusted increase in sales of 19% to EUR 8 million (Q1 2017: EUR 8 million).

- Sales in the **license business** declined by 1% to EUR 16 million (Q1 2017: EUR 17 million).

# HUGO BOSS

## Q1 sales development by brand and gender

	in EUR million	Change in %	Change in % currency-adjusted
<b>BOSS</b> <small>HUGO BOSS</small>	562	↗ +1	↗ +7
<b>HUGO</b> <small>HUGO BOSS</small>	88	↘ (9)	↘ (6)
<b>Group</b>	650	→ 0	↗ +5

- The sales development of BOSS and HUGO was impacted by changes in the distribution strategy. BOSS is taking over selling space from HUGO in certain product categories in the wholesale channel. Besides that, the Group is reducing the presence of HUGO in the outlet channel. Both measures are intended to sharpen the brand message of HUGO.
  - The sales development of the **BOSS** brand benefited in particular from growth in casualwear. Investments in the quality of the collections led to greater desirability.
  - At **HUGO**, double-digit growth in casualwear could not make up for declines in businesswear.

	in EUR million	Change in %	Change in % currency-adjusted
Menswear	581	↗ +1	↗ +6
Womenswear	69	↘ (7)	↘ (3)
<b>Group</b>	650	→ 0	↗ +5

- Sales of **menswear** increased primarily thanks to growth in casualwear.
- The decrease in sales in **womenswear** is attributable to the BOSS brand and related to the reduction in retail space, which was not offset by the growth in the HUGO brand.

# HUGO BOSS

## Q1 earnings development

Income statement (in EUR million)				
	Q1 2018	Q1 2017	Change in %	
<b>Sales</b>	<b>650</b>	<b>651</b>	<b>0</b>	
Cost of sales	(234)	(232)	(1)	
<b>Gross profit</b>	<b>416</b>	<b>419</b>	<b>(1)</b>	
In % of sales	64.0	64.4	(40) bp	
Selling and distribution expenses	(272)	(283)	4	
Administration expenses	(74)	(72)	(2)	
Other operating income and expenses	0	0		
<b>Operating result (EBIT)</b>	<b>70</b>	<b>64</b>	<b>8</b>	
Financial result	(3)	(1)	(96)	
<b>Earnings before taxes</b>	<b>67</b>	<b>63</b>	<b>6</b>	
Income taxes	(17)	(15)	(15)	
<b>Net income</b>	<b>50</b>	<b>48</b>	<b>3</b>	
<b>EBITDA before special items</b>	<b>99</b>	<b>97</b>	<b>1</b>	
In % of sales	15.2	15.0	20 bp	
<b>Income tax rate in %</b>	<b>26</b>	<b>24</b>		

- Investments in the product quality of BOSS and HUGO resulted in a decrease of **gross profit margin** in the first quarter. This was only partially offset by positive effects from the growing share in sales of the Group's own retail business.
- **Operating expenses** were below the level of the prior year. Currency effects had a positive impact on selling and distribution expenses in particular.
  - A different phasing, which will likely be made up for during the rest of the year, also contributed to the decrease in **selling and distribution expenses**. Moreover, a slowdown in retail expansion and positive effects from renegotiated leases in the Group's own retail business added to this development.
  - Strict cost management limited the increase in **administrative expenses**, which resulted from further investments in the digital transformation of the business model. HUGO BOSS expects these investments to deliver an important stimulus to sales and to accelerate operational processes.
- **EBIT** and the **Group's net income** were up on the prior year due to the decline in operating expenses.
- **EBITDA before special items** was also slightly higher than in the prior-year period. Lower operating expenses more than compensated for the decline in gross profit. Overall, currency effects had a negative impact on earnings growth and

# HUGO BOSS

mainly resulted from the depreciation in currencies outside the Eurozone, where HUGO BOSS generates significantly more sales than costs.

## Q1 profit development by segment

Segment profit	in EUR million	Change in %
Europe	123	↘ (3)
Americas	12	↘ (23)
Asia/Pacific	28	↗ +13
Licenses	13	↘ (3)

- Segment profit in **Europe** was down slightly on the previous year. Higher sales were unable to fully offset an increase in operating expenses. The adjusted EBITDA margin declined by 120 basis points to 29.6% (Q1 2017: 30.8%).
- In the **Americas** negative currency effects were the main reason for a decrease in segment profit. At 10.1%, the adjusted EBITDA margin was down 220 basis points on the previous year (Q1 2017: 12.3%).
- Segment profit in **Asia/Pacific** was up significantly on the previous year. In addition to the positive sales development, lower selling and distribution expenses contributed to this development. In this region too, negative currency effects weighed on segment profit. Without these, the increase in profit would have been even higher. At 28.0%, the adjusted EBITDA margin was up 270 basis points on the prior year (Q1 2017: 25.3%).
- The **license** segment profit was down slightly on the prior year.

# HUGO BOSS

## Net assets and financial position

March 31, 2018	in EUR million	Change in % <sup>1</sup>	Change in % currency-adjusted <sup>1</sup>
TNWC	527	↘ (3)	↗ +3
Inventories	542	↗ +5	↗ +11
Net financial liabilities	54	↘ (50)	

<sup>1</sup> Change compared to March 31, 2017.

- The development of **trade net working capital (TNWC)** primarily reflects the increase in inventories. The higher **inventory level** is intended to support sales momentum, especially in own retail.
- The development of free cash flow over the past twelve months led to a decrease in **net financial liabilities**.

Three months	in EUR million	Change in % <sup>1</sup>
Capital expenditure	18	↘ (23)
Free cash flow	(47)	↘ <-100

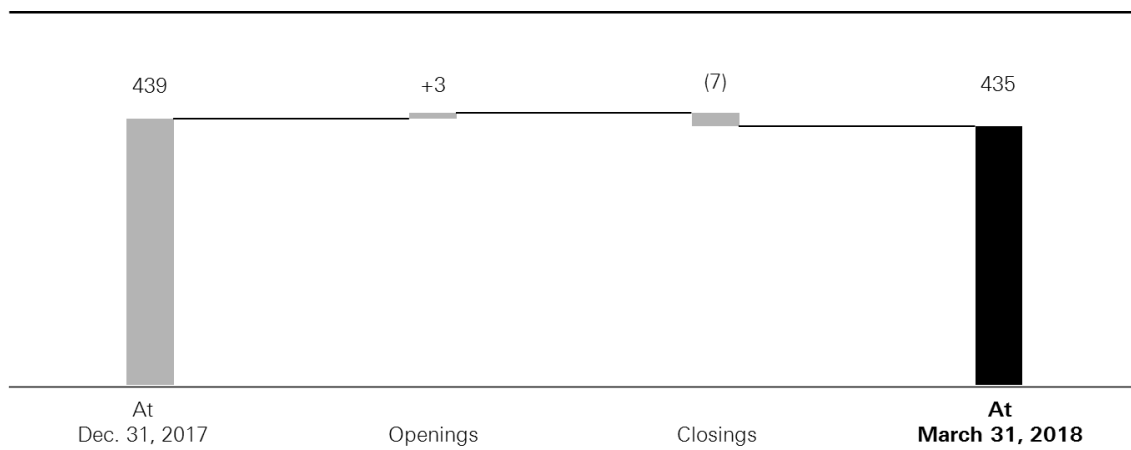
<sup>1</sup> Change compared to Q1 2017.

- The decline in **capital expenditure** during the first quarter results from a different phasing of the investment budget. The renovation of existing retail stores and the cross-channel integration and digitization of the Group's own retail activities were the focus of investment activity.
- The decrease in **free cash flow** reflects a higher cash outflow from the change in trade net working capital.



# HUGO BOSS

## Network of freestanding retail stores



- There was no material change in the number of the Group's own **freestanding retail stores** in the first quarter.
  - Three BOSS stores were **newly opened**, while there were seven **closures** of stores with expiring leases. This included the relocation of one site within the same metropolitan area.

## Outlook 2018

	Outlook 2018	Change compared to previous outlook
Group Sales (currency-adjusted)	Increase at a low to mid single-digit percentage rate	→
Gross profit margin	Largely stable	→
EBITDA before special items	Development within a range of -2% to +2%	→
Consolidated net income	Increase at a low to mid single-digit percentage rate	→
Capital expenditure	EUR 170 million to EUR 190 million	→
Free cash flow	EUR 150 million to EUR 200 million	→

- The Managing Board reconfirms the financial outlook for the full year.
- A detailed presentation of the outlook for 2018 can be found in the [Annual Report 2017](#).

# H U G O B O S S

## **Financial calendar and contacts**

### **May 3, 2018**

Annual Shareholders' Meeting

### **August 2, 2018**

Second Quarter Results 2018 & First Half Year Report 2018

### **November 6, 2018**

Third Quarter Results 2018

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**FINANCIAL INFORMATION**

for Q1 2018

# HUGO BOSS

## Key figures – quarter

	Q1 2018	Q1 2017	Change in %	Change in % <sup>1</sup>
<b>Net sales (in EUR million)</b>	<b>650</b>	<b>651</b>	<b>0</b>	<b>5</b>
Net sales by segments				
Europe incl. Middle East and Africa	416	412	1	3
Americas	118	125	(6)	7
Asia/Pacific	100	97	2	12
Licenses	16	17	(1)	(1)
Net sales by distribution channel				
Group's own retail business	378	371	2	8 <sup>2</sup>
Wholesale	256	263	(3)	1
Licenses	16	17	(1)	(1)
Net sales by brand				
BOSS	562	554	1	7
HUGO	88	97	(9)	(6)
Net sales by gender				
Menswear	581	577	1	6
Womenswear	69	74	(7)	(3)
<b>Results of operations (in EUR million)</b>				
Gross profit	416	419	(1)	
Gross profit margin in %	64.0	64.4	(40) bp	
EBITDA	99	97	1	
EBITDA before special items <sup>3</sup>	99	97	1	
Adjusted EBITDA margin in %	15.2	15.0	20 bp	
EBIT	70	64	8	
Net income attributable to equity holders of the parent company	50	48	3	
<b>Net assets and liability structure as of March 31 (in EUR million)</b>				
Trade net working capital	527	543	(3)	3
Trade net working capital in % of net sales <sup>4</sup>	18.5	19.8	(130) bp	
Non-current assets	649	734	(12)	
Equity	962	930	3	
Equity ratio in %	57.0	55.3	170 bp	
Total assets	1,687	1,683	0	
<b>Financial position (in EUR million)</b>				
Capital expenditure	18	23	(23)	
Free cash flow	(47)	7	< (100)	
Depreciation/amortization	29	33	(13)	
Net financial liabilities (as of March 31)	54	109	(50)	
Total leverage (as of March 31) <sup>5</sup>	0.1	0.2		
<b>Additional key figures</b>				
Employees (as of March 31)	14,204	13,706	4	
Personnel expenses (in EUR million)	156	152	3	
Number of Group's own retail stores	1,093	1,126	(3)	
thereof freestanding retail stores	435	436	0	
<b>Shares (in EUR)</b>				
Earnings per share	0.72	0.70	3	
Last share price (as of March 31)	70.76	68.54	3	
Number of shares (as of March 31)	70,400,000	70,400,000	0	

<sup>1</sup> currency-adjusted.

<sup>2</sup> on a comp store basis 7%.

<sup>3</sup> EBITDA before special items/sales.

<sup>4</sup> moving average on the basis of the last four quarters.

<sup>5</sup> Net financial liabilities/EBITDA before special items.

# HUGO BOSS

## Consolidated income statement – quarter

(in EUR million)				
	Q1 2018	Q1 2017	Change in %	
<b>Sales</b>	<b>650</b>	<b>651</b>	<b>0</b>	
Cost of sales	(234)	(232)	(1)	
<b>Gross profit</b>	<b>416</b>	<b>419</b>	<b>(1)</b>	
In % of sales	64.0	64.4	(40) bp	
Selling and distribution expenses	(272)	(283)	4	
Administration expenses	(74)	(72)	(2)	
Other operating income and expenses	0	0		
<b>Operating result (EBIT)</b>	<b>70</b>	<b>64</b>	<b>8</b>	
In % of sales	10.7	9.9	80 bp	
Financial result	(3)	(1)	(96)	
<b>Earnings before taxes</b>	<b>67</b>	<b>63</b>	<b>6</b>	
Income taxes	(17)	(15)	(15)	
<b>Net income</b>	<b>50</b>	<b>48</b>	<b>3</b>	
<b>Earnings per share (EUR)<sup>1</sup></b>	<b>0.72</b>	<b>0.70</b>	<b>3</b>	
<b>Income tax rate in %</b>	<b>26</b>	<b>24</b>		

<sup>1</sup> Basic and diluted earnings per share.

## EBITDA before special items – quarter

(in EUR million)				
	Q1 2018	Q1 2017	Change in %	
<b>EBIT</b>	<b>70</b>	<b>64</b>	<b>8</b>	
Depreciation and amortization	(29)	(33)	13	
<b>EBITDA</b>	<b>99</b>	<b>97</b>	<b>1</b>	
EBITDA related special items	0	0		
<b>EBITDA before special items</b>	<b>99</b>	<b>97</b>	<b>1</b>	
In % of sales	15.2	15.0	20 bp	

# HUGO BOSS

## Consolidated statement of financial position

(in EUR million)			
	March 31, 2018	March 31, 2017	Dec. 31, 2017
<b>Assets</b>			
Intangible assets	179	183	183
Property, plant and equipment	356	408	366
Deferred tax assets	95	117	94
Non-current financial assets	18	23	18
Non-current tax receivables	0	0	0
Other non-current assets	1	3	1
<b>Non-current assets</b>	<b>649</b>	<b>734</b>	<b>663</b>
Inventories	542	514	537
Trade receivables	206	209	208
Current tax receivables	51	49	49
Current financial assets	24	17	39
Other current assets	118	88	109
Cash and cash equivalents	97	72	116
<b>Current assets</b>	<b>1,038</b>	<b>949</b>	<b>1,058</b>
<b>TOTAL</b>	<b>1,687</b>	<b>1,683</b>	<b>1,720</b>
<b>Equity and Liabilities</b>			
Subscribed capital	70	70	70
Own shares	(42)	(42)	(42)
Capital reserve	0	0	0
Retained earnings	919	861	869
Accumulated other comprehensive income	15	42	18
<b>Equity attributable to equity holders of the parent company</b>	<b>962</b>	<b>931</b>	<b>915</b>
Non-controlling interests	0	(1)	0
<b>Group equity</b>	<b>962</b>	<b>930</b>	<b>915</b>
Non-current provisions	69	80	70
Non-current financial liabilities	90	79	63
Deferred tax liabilities	11	4	11
Other non-current liabilities	55	50	55
<b>Non-current liabilities</b>	<b>225</b>	<b>213</b>	<b>199</b>
Current provisions	84	123	107
Current financial liabilities	71	115	69
Income tax payables	19	16	32
Trade payables	221	180	286
Other current liabilities	105	106	112
<b>Current liabilities</b>	<b>500</b>	<b>540</b>	<b>606</b>
<b>TOTAL</b>	<b>1,687</b>	<b>1,683</b>	<b>1,720</b>

## Trade Net Working Capital (TNWC)

(in EUR million)				
	March 31, 2018	March 31, 2017	Change in %	Currency-adjusted change in %
Inventories	542	514	5	11
Trade receivables	206	209	(1)	4
Trade payables	(221)	(180)	23	28
<b>TNWC</b>	<b>527</b>	<b>543</b>	<b>(3)</b>	<b>3</b>

# HUGO BOSS

## Consolidated statement of cash flows

(in EUR million)	Jan. – March 2018	Jan. – March 2017
Net income	50	48
Depreciation/amortization	29	33
Unrealized net foreign exchange gain/loss	7	(4)
Other non-cash transactions	1	1
Income tax expense/income	17	15
Interest income and expenses	0	1
Change in inventories	(10)	50
Change in receivables and other assets	6	40
Change in trade payables and other liabilities	(72)	(99)
Income from disposal of non-current assets	0	0
Change in provisions for pensions	0	1
Change in other provisions	(23)	(24)
Income taxes paid	(34)	(30)
<b>Cash flow from operations</b>	<b>(29)</b>	<b>32</b>
Interest paid	0	(1)
Interest received	0	0
<b>Cash flow from operating activities</b>	<b>(29)</b>	<b>31</b>
Investments in property, plant and equipment	(14)	(20)
Investments in intangible assets	(4)	(3)
Acquisition of subsidiaries and other business entities less cash and cash equivalents acquired	0	0
Effects from disposal of subsidiaries	0	(1)
Cash receipts from sales of property, plant and equipment and intangible assets	0	0
<b>Cash flow from investing activities</b>	<b>(18)</b>	<b>(24)</b>
Dividends paid to equity holders of the parent company	0	0
Change in current financial liabilities	1	38
Cash receipts from non-current financial liabilities	27	0
Repayment of non-current financial liabilities	0	(55)
<b>Cash flow from financing activities</b>	<b>28</b>	<b>(17)</b>
Changes in scope of consolidation	0	(2)
Exchange-rate related changes in cash and cash equivalents	0	0
<b>Change in cash and cash equivalents</b>	<b>(19)</b>	<b>(11)</b>
Cash and cash equivalents at the beginning of the period	116	83
<b>Cash and cash equivalents at the end of the period</b>	<b>97</b>	<b>72</b>

## Free cash flow

(in EUR million)	Jan. – March 2018	Jan. – March 2017
Cash flow from operating activities	(29)	31
Cash flow from investing activities	(18)	(24)
<b>Free cash flow</b>	<b>(47)</b>	<b>7</b>

# HUGO BOSS

## Segment earnings – quarter

(in EUR million)					
	Q1 2018	In % of sales	Q1 2017	In % of sales	Change in %
Europe	123	29.6	127	30.8	(3)
Americas	12	10.1	15	12.3	(23)
Asia/Pacific	28	28.0	25	25.3	13
Licenses	13	83.1	14	84.9	(3)
<b>Earnings of operating segments</b>	<b>176</b>	<b>27.2</b>	<b>181</b>	<b>27.8</b>	<b>(2)</b>
Corporate units / consolidation	(77)		(84)		(8)
<b>EBITDA before special items</b>	<b>99</b>	<b>15.2</b>	<b>97</b>	<b>15.0</b>	<b>1</b>

## Number of Group's own retail stores

	Freestanding stores	Shop-in-shops	Outlets	TOTAL
<b>March 31, 2018</b>				
Europe	191	315	64	<b>570</b>
Americas	89	96	49	<b>234</b>
Asia/Pacific	155	87	47	<b>289</b>
<b>TOTAL</b>	<b>435</b>	<b>498</b>	<b>160</b>	<b>1,093</b>
<b>Dec. 31, 2017</b>				
Europe	192	351	65	<b>608</b>
Americas	90	99	50	<b>239</b>
Asia/Pacific	157	88	47	<b>292</b>
<b>TOTAL</b>	<b>439</b>	<b>538</b>	<b>162</b>	<b>1,139</b>