Full Year 2019 Results
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- The spoken word shall prevail –

Good afternoon ladies and gentlemen and welcome to our full year 2019 financial results presentation.

Today's conference call will be hosted by Mark Langer, CEO of HUGO BOSS, and Yves Müller, CFO. As always, during the Q&A session, I kindly ask you to limit your questions to a maximum of two, so everybody gets a chance to ask his or her questions. There's a lot to cover today, so let's get started and over to you, Mark.

Thank you Christian, and good afternoon ladies and gentlemen. Also from my side, a very warm welcome to all of you. Today as usual, we will review the 2019 financial year before taking a closer look at our ambitions for 2020. As you would expect, we will also use a considerable part of this call to address the current situation in our strategically important region Asia/Pacific, and elaborate on how we at HUGO BOSS are "managing the uncertainty" in the context of coronavirus. But first, allow Yves and myself to recap on the 2019 fiscal year both from an operational and financial perspective.

For HUGO BOSS, 2019 was without doubt an eventful year. Some markets clearly proved more challenging than anticipated, hence weighing on our financial performance, in particular during the first nine months of the year. At the same time, we have made significant progress in executing our strategic initiatives in 2019, something I will get to in a second. This became particularly visible during the important fourth quarter, with currency-adjusted sales growth accelerating to 4% and EBIT improving by 9%.

The performance of our own retail business was particularly encouraging as we recorded a robust 7% currency-adjusted growth in Q4, supported by an acceleration in comp store sales growth to 3%. As expected, the positive effects from the intensification of online partnerships in the concession model and the completed renovation of strategically important BOSS stores carried out in the prior quarters became more pronounced, making an above-average contribution to growth in our own retail business in the fourth quarter.

In light of the strong top- and bottom-line performance during the final quarter of 2019, we achieved our adjusted targets for the full year. Altogether, sales of our BOSS and HUGO brands amounted to 2.9 billion euros in 2019, representing an increase of 3% as compared to the prior year. This corresponds to a currency-adjusted increase of 2%.

I am particularly pleased to see that all our strategic growth drivers – online, retail productivity, HUGO and Asia – recorded disproportionate growth and thus substantially contributed to Group sales growth.

Our own online business grew at a strong double-digit rate for the second year in a row. The encouraging sales growth of 35% currency-adjusted was not only driven by new online partnerships entered into last year, it also confirms the growing importance of our own online store, hugoboss.com. Last summer, we tapped into important online markets such as Scandinavia and Ireland, and are now offering our BOSS and HUGO collections online in 15 international markets with more to come. Altogether, our own online business ended the 2019 fiscal year with sales of around 150 million euros, thus accounting for 8% of own retail revenues.

We have also made significant progress in the further optimization of our global store network over the past year. We renovated our largest flagship store globally on the Champs-Élysées in Paris, as well as a large number of other BOSS stores around the globe. Already today, our BOSS collections are shining in renewed splendor in around 100 of our own retail stores. This has not only elevated the shopping experience for our customers, but also led to an increase in retail productivity in brick-and-mortar retail by a total of 4%.

Currency-adjusted sales for HUGO also grew disproportionately, up 5% in 2019. This development was largely driven by HUGO’s casualwear collections, which resonated particularly well with HUGO’s fashion-conscious customers, thus continuing their double-digit growth trajectory. In particular, products inspired by graphic reinterpretations of the HUGO logo, such as sweaters, hoodies, and T-shirts, continued to grow at above-average rates in 2019.

The styles developed by HUGO last summer in cooperation with British singer and artist Liam Payne, and presented digitally at Berlin Fashion Week, were certainly a key milestone in this regard. As a global brand ambassador, Liam Payne will also influence capsule collections and marketing campaigns in 2020, thus fostering and increasing the brand awareness in the contemporary fashion segment.

From a regional perspective, Asia/Pacific stood out as particularly positive in 2019. Our successes in this important region were nowhere more visible than in mainland China, where we once again achieved double-digit growth on a comp store basis. We emphasized the importance of the Chinese market for our business with an impressive BOSS Menswear and BOSS Womenswear fashion show in Shanghai last year.

Other markets in that region, such as Japan, South Korea and Singapore, also grew nicely in 2019. On the other hand, our business in Hong Kong was down more than 50%, impacted by political unrest and demonstrations, hence burdening regional growth to some extent. Overall, sales in Asia/Pacific increased 5% currency-adjusted, thus also contributing with above-average growth in 2019.

To further grow brand momentum in Asia/Pacific, we will continue to put strong emphasis on marketing campaigns specifically tailored towards the Chinese consumer. Our latest partnership established in early January with Chinese actor and singer Li Yifeng is a prime example for this. As the new face for BOSS in Asia/Pacific, Li Yifeng will accompany key marketing campaigns as a brand ambassador throughout 2020. With a strong emphasis on relevant social media platforms, this exciting partnership will help us drive brand heat for BOSS in our strategically important market of Greater China.

Our focus on implementing our strategic initiatives is also paying off in Europe. In our largest region by far, we recorded robust growth in 2019, with currency-adjusted sales up 4%. We increased our sales in many key markets, including the U.K. and France, primarily due to a strong performance in our own retail business.

While currency-adjusted sales in Germany declined 4% in 2019, we have laid important foundations for future growth in our home market. In September, we opened our largest outlet globally close to our headquarters in Metzingen. We also decided to strengthen the entry-level price point at key wholesale partners by introducing a 399-euro suit offering, which is expected to hit the shelf starting with the Fall/Winter collection in July this year.

Our business in the Americas declined 7% currency-adjusted in 2019. This development mainly reflects a further deterioration in the overall market environment in North America, where both local demand as well as sales generated from tourists were below the prior-year level. This, in turn, resulted in heightened promotional activity, which put a strain on our wholesale business in particular. In contrast, our retail business continued to stabilize during the course of the year, as reflected by comp store sales being on a par with the prior-year level in the final quarter.

Ladies and gentlemen, that concludes my operational review of the fiscal year 2019. I will update you on our expectations for 2020 in just a few minutes. But first, let me hand you over to Yves who will guide you through the most important P&L and balance sheet items. Yves, over to you!

Thank you Mark, and good afternoon ladies and gentlemen. As Mark already alluded to, in light of the strong top- and bottom-line performance in the fourth quarter, we achieved our adjusted targets for 2019. Still, the financial performance for the full year fell short of our initial expectations.

At 333 million euros, our operating result was within our adjusted target range of between 330 million and 340 million euros, and thus 4% below the prior-year level, when excluding the impact of IFRS 16. This corresponds to an EBIT margin of 11.5% for the 2019 financial year.

Let me shed some light on the three main drivers contributing to the decline in EBIT:

- First and foremost, the lower than expected sales growth clearly also impacted our bottom-line performance in 2019. In particular, the deteriorating consumer sentiment in North America, as well as the difficult situation in Hong Kong, were two developments that were not predictable a year ago.

- Secondly, increased markdown activity – particularly in North America – as well as slightly negative currency effects both weighed on our gross margin development. While we also recorded a positive channel mix effect, this was only able to partly compensate for the negative effects. In summary, this led to a gross margin of 65.0%, down 20 basis points versus the prior year.

- Last but not least, additional investments in our own retail business contributed to a 4% increase in operating expenses. As already outlined to you in early November last year, these investments aimed at further progressing strategically important online partnerships and tapping into additional key markets with our online store hugoboss.com. At the same time, in 2019, we have accelerated the optimization of our own store network and renovated significantly more of our stores than in previous years. While these crucial investments weighed on our selling and distribution expenses, up 6% year on year, I am pleased to see that our emphasis on tight overhead cost management is increasingly paying off. This is clearly reflected in a 1% decline in administration expenses in 2019.

To conclude on the P&L, the Group tax rate came in at 33% in 2019, representing an increase of three percentage points compared to the prior year. This development reflects anticipated additional expenses related to an external tax audit at HUGO BOSS AG – something we had flagged well in advance. Accordingly, net income saw a 10% decline to 212 million euros, excluding the impact of IFRS 16.

Now, let’s move over to the key balance sheet and cash flow items. As promised back in November, we were able to further reduce inventory growth also in the fourth quarter. Thanks to our strong emphasis on tightly managing inventories, our inventory position ended the year on a par with the prior-year level, adjusted for currency effects.

As a result, trade net working capital improved by 3% year on year, currency-adjusted. At 20.1%, the average trade net working capital as a percentage of sales was 40 basis points above the prior-year level.

Investments in our business were a key priority in the last year. In addition to the opening of our largest outlet globally, which Mark already mentioned, we also stepped-up store renovations significantly in 2019. In this context, we upgraded close to 50 BOSS stores to the latest furniture concept last year and right-sized or relocated close to 10 stores. On top of that, we also further strengthened our IT and logistics infrastructure and continued to invest into the digitization of our business model. As a result, capital expenditure in 2019 rose by 24% to 192 million euros.

Despite the decline in EBIT and higher capex, free cash flow in 2019 increased a strong 22% to 207 million euros, excluding the impact from IFRS 16, reflecting the strong cash generation of our business model. Improvements in trade net working capital that we achieved over the course of last year were the main driver for this development.

Let me conclude my review of the past fiscal year with a look at our dividend proposal. As already flagged back in November, we clearly recognize the importance of a reliable dividend for our shareholder base. To ensure our shareholders will benefit from the long-term success of our business, we are committed to a sustainable and attractive dividend. This is no different for the 2019 fiscal year!

Consequently, we will propose a dividend of 2 euros and 75 cents per share for the 2019 financial year. The corresponding increase of 5 cents compared to the prior year reflects our healthy balance sheet structure as well as our strong cash flow generation, which is expected to continue in the future.

With this ladies and gentlemen, let me hand back to Mark, who will give you an update on our strategic priorities as well as our financial ambitions for 2020.

Thank you, Yves! Now, let's change perspective and move on to 2020. As you are all aware, our industry is currently facing 'high levels of uncertainties', caused by the ongoing spread of the coronavirus, which started to weigh on consumer sentiment late January. I will talk in detail about our assessment of the coronavirus in just a few minutes. Before I do that, however, let me be clear about one thing: I am absolutely convinced that in times of uncertainty, it is even more crucial that we stick to our game plan and continue to focus on the execution of our strategic initiatives.

There is no doubt that our strategic growth drivers will continue to be the engine for sustainable, profitable growth in the coming years – online, retail productivity, HUGO, and – once things get back to normal – also Asia/Pacific. Therefore, our priorities for 2020 will certainly include a strong commitment when it comes to the further execution of these strategic initiatives.

This will – among others – include initiatives such as:

- the further conversion of online partners into the concession model,
- the roll-out of hugoboss.com to new markets,
- the optimization and modernization of BOSS stores in key locations,
- as well as the further push of HUGO in the contemporary fashion segment.

Our priorities for 2020 will also include a firm commitment to elevating customer engagement around our core BOSS brand in order to drive brand desirability in the long run:

Less than two weeks ago, BOSS revealed its Fall/Winter 2020 collections in a future-focused show at Milan Fashion Week. A new generation of BOSS men and women showcased designs that seamlessly merge the established codes of our house with a spirit of continual innovation. Various celebrities and influencers, among others our new eyewear testimonial, Hollywood actor Orlando Bloom, and style icon Cara Delevingne attended the event, thus creating buzz on social media.

From a product perspective, our commitment to sustainability will become more visible than ever before, with various sustainable products launches in the pipeline. In this context, 2020 will see the expansion of our 'Tracable Wool' designs for menswear and the addition of womenswear pieces to the range. We are equally excited about the launch of our full Vegan Suit for BOSS, crafted at our Metzingen site from organic European-grown linen and made available worldwide in both our own retail stores as well as online. Last but not least, during the upcoming Fall/Winter collection, we will launch a responsible sailing collection inspired by Alex Thomson.

Another key focus area for 2020 will be North America. Back in November, we laid the foundation to strengthen our business in the market by announcing Stephan Born as the new Managing Director of HUGO BOSS Americas. As you know, Stephan brings great experience in both retail and wholesale from his former role as Managing Director of our northern European markets, which includes the important and highly successful UK market.

One of Stephan's key priorities will be the further optimization of our own retail store network by renovating existing BOSS stores, right-sizing selling space where appropriate, and exploiting opportunities to relocate to better locations. In this context, I am happy to announce that our important BOSS store in New York's SoHo district is currently relocating to an even better location close by, with the reopening planned already for the beginning of April.

Exploiting the online opportunity in the Americas will be another priority for the upcoming year. Over the course of this summer, Canada and Mexico will see the go-live of hugoboss.com and contribute to above-average growth in our online business in 2020. While wholesale will likely remain challenging also in the short-term, it is and remains our firm goal to also stabilize our department store business in North America in 2020, with some first successes expected for the second half of the year.

Ladies and gentlemen, with this let me now talk you through our assessment with regards to the situation around coronavirus and the implications we expect it to have on our business. So what are we seeing?

First of all, we look back at a very promising and successful start to 2020, with three consecutive weeks of strong double-digit growth in Asia/Pacific, reflecting a highly successful Chinese New Year.

However, since the coronavirus began to spread in late January, approximately 60% of our more or less 150 retail points of sale in Greater China were closed throughout much of February. Those that remained open were not only operating at reduced hours, but more importantly, have recorded significant traffic declines of more than 80%.

As we speak, across Greater China, traffic is still down substantially, including those stores that have since reopened. On top of this, since the beginning of February, we are recording a softer local consumption as well as a noticeable decline in sales to Chinese tourists in other Asian markets, including Japan and South Korea, but also in some European countries – Italy obviously being one of them.

Already at an early stage back in January, we at HUGO BOSS have put in place a cross-functional team to monitor the situation in China as well as other affected markets very closely and remain in constant contact with our colleagues there. While our first priority, of course, has been to protect our employees and our customers, we also mobilized all levers to mitigate the financial impact on our business as much as possible:

- First, we postponed major investments in Greater China. That includes postponing the majority of store openings and store renovations that were initially planned for H1 towards the second half of the year, as well as postponing key marketing campaigns and events.
- Secondly, our global real estate management team, together with our experts onsite, are in close contact with landlords, in order to ease the burden of lease payments at least to some extent in the short term.
- Thirdly, in order to protect inventory levels, we reallocated merchandise to other markets wherever possible, while at the same time reducing merchandise inflow to China by cutting back or even canceling orders for our retail stores.
- Last but not least, with regard to our supply chain, we have been in very close contact with our key Chinese partners during the last weeks. However, there haven't been any significant disruptions to our supply chain so far and our partners have already restarted their regular production processes.

Beyond these concrete initiatives that have already been implemented, let me also be very clear that, in order to counteract the financial impact of the coronavirus at an early stage, we will apply an even stronger focus when it comes to tightly managing our cost base. This includes the cancellation or postponement of any projects that are not deemed to be business critical, in particular in the area of administrative costs, as well as a rigid reassessment of new hirings.

Despite these measures, we estimate that the economic consequences of the current crisis will have a significant impact on our top- and bottom-line development in 2020, particularly in the first quarter. And while the overall uncertainty remains elevated as we speak, we currently predict that the coronavirus will have a negative impact in a magnitude of a low-double-digit million euro amount on our bottom-line performance in Q1.

Before I begin guiding you through our financial ambitions for 2020, which take the expected financial impact of the coronavirus into account, let me be very clear: I remain absolutely confident in the potential that both brands – BOSS and HUGO – have in

Asia/Pacific. This region is, and will remain, of utmost strategic importance for our company. So what does all this mean for our top- and bottom-line expectations in 2020?

Against the backdrop of the current macroeconomic uncertainties, and taking into account the outlined assessment of the economic fallout of the coronavirus, we anticipate that Group sales will develop within a range of 0% to plus 2% in 2020, adjusted for currency effects. Growth is expected to vary across regions. While we expect currency-adjusted sales to increase at a low single-digit percentage rate in Europe, the Americas are expected to see a largely stable development of currency-adjusted sales. Impacted by the coronavirus, currency-adjusted sales in the Asia/Pacific region are expected to decline at a single-digit percentage rate.

Moving on to the bottom line, we expect EBIT to come in between 320 million and 350 million euros in 2020, with the top-line performance being the key element to the amount of EBIT that can be expected. With respect to net income, we anticipate an increase of up to 10%. This should also be supported by an improvement in the Group tax rate.

Ladies and gentlemen, before we start with the Q&A, allow me to conclude by saying that although overall economic uncertainty will remain high in the short term, and is therefore expected to burden our financial results in 2020 to some extent, I am fully convinced that we have built a robust platform over the last few years to grow in a sustainable and profitable way.

HUGO BOSS is well prepared for long-term success. The desirability of our brands, BOSS and HUGO, remains the most important factor in this regard. We will therefore continue to work consistently on executing our strategic initiatives, in 2020 and beyond. This will form the basis for future shareholder value creation.

On that front, my Board colleagues and I will give you a detailed update on our strategic outlook during our upcoming Capital Markets Day, which we will take place at our headquarters in Metzingen on June 18 and 19, assuming that the situation around coronavirus will have normalized by then.

During the event, you will also get to know our new Chief Operating Officer, Heiko Schäfer, personally. I am very excited that Heiko is joining the HUGO BOSS family later this month.

With his strong expertise around sourcing and production, there is no doubt that Heiko will further strengthen our Managing Board. And with this, ladies and gentlemen, Yves and I are now happy to take your questions.

Okay, ladies and gentlemen, that completes our conference call for today. If you have further questions please feel free to contact any member of the IR team. And with that, I would like to thank you for your participation and wish you a very good day. Bye-bye. which usually account for approximately 25% of Greater China revenues – were down around 50% in the third quarter.

In Macau, the store renovations we flagged earlier this year have been largely completed. In the meantime, however, the Hong Kong protests also affected our business in this market, as the usual tourist travel pattern is a combined Hong Kong/Macau trip. In contrast, other markets of the Asia/Pacific region posted healthy growth in the third quarter – in particular Japan, where sales were up in the high single-digits in Q3.

Coming to our largest region, Europe, where sales increased 2% on a currency-adjusted and reported basis in Q3. With sales growth of 5%, the UK stood out once again, driven by strong momentum in own retail, despite ongoing uncertainties around Brexit. While our business in France continued to record positive comp store sales increases in Q3, a number of larger store optimization projects during the quarter, including the renovation of our BOSS flagship store on the Champs-Élysées, weighed on the market's overall performance.

This bring me to Germany, where currency-adjusted sales declined 5% in Q3. Both channels – wholesale and own retail – ended the quarter below the prior-year level. The latter was also affected by the transition to our new flagship outlet near our Metzingen headquarters towards the end of September, as we had to wind down the previous outlet over several weeks during Q3.

Allow me to say a few words about our biggest outlet worldwide in terms of both selling space and commercial relevance. Located in the heart of one of Europe's largest outlet cities, this new outlet offers our customers a unique shopping experience. While the product offering is clearly centered on apparel, covering all the different wearing occasions, from formalwear to casualwear and athleisure, it is also offering a broad selection of shoes and accessories. Without doubt, and starting with Q4, the new outlet will contribute to improvements in our overall retail business in Germany, and to be more precise, the non like-for-like part of it.

With this, let’s move on to our channels, starting with own retail, where sales grew 3% on a currency-adjusted basis, reflecting a 2% increase in comp store sales as well as a contribution from space of around 1 percentage point. Comp store sales were up at a low single-digit rate in Europe and remained stable in the Americas, hence broadly in line with the performance seen during the second quarter. In Asia/Pacific, however, comp store sales growth slowed down to a mid-single-digit range in Q3, reflecting the aforementioned sales declines in Hong Kong. Importantly, both our brick-and-mortar business as well as our own online business contributed to comp store sales growth in the third quarter.

Momentum was particularly strong in online, where currency-adjusted sales growth re-accelerated to 36% in Q3. The performance in the quarter benefitted from robust sales increases via hugoboss.com as well as the further expansion of the concession business. The latter saw an important milestone in the third quarter as we successfully converted the vast majority of our BOSS casualwear and athleisurewear business on Zalando from wholesale to retail. The intensification of our successful partnership under the Zalando Partner Program enables us to serve customer requirements even better than before, while at the same time taking more control over the distribution of our BOSS brand in the online space. Finally, to conclude on online, the successful rollout of hugoboss.com to Scandinavia and Ireland in mid-August made initial contributions to online sales growth in Q3, albeit to a lesser extent.

Allow me to once again point out that the further expansion of our online concession business as well as the rollout of hugoboss.com to new markets will contribute first and foremost to growth of our non like-for-like business, particularly in the short term. The same is true with regard to our ongoing store optimization initiatives, which include store renovations, relocations, or rightsizings.

In particular, the rollout of our new BOSS store concept continues to play an important role when it comes to the persistent modernization of our brick and mortar store network. In the third quarter, we renovated and upgraded 10 BOSS stores, bringing the total number of stores offering the new shopping experience to a total of 68 BOSS stores worldwide. The

re-opening of our BOSS flagship store on the Champs-Élysées on October 5 represents an important milestone in this regard.
Turning to the wholesale channel, where sales were down 5% on a currency-adjusted basis. While currency-adjusted revenues in Europe decreased 1% and were hence in line with expectations, sales in the Americas were down 20% on the prior year, primarily reflecting the previously mentioned weakness of the U.S. wholesale market in Q3.

From a global perspective, and similar to previous quarters, Q3 saw ongoing strong momentum with either online marketplaces or online platforms of leading department stores, up at a double-digit rate in total, while stationary retailers continued to suffer from ongoing traffic declines.

Finally, our license business grew a strong 14% in Q3, driven by improvements across all product groups. The important fragrance business particularly benefitted from the launch of "BOSS The Scent Absolute", which was accompanied by a global marketing campaign starring model Birgit Kos and actor Jamie Dornan. In addition, our eyewear business saw strong growth in the past quarter, supported by the recent renewal of our license agreement with Safilo.

Let's conclude on the top line with a brief review of the performance by brand. Starting with BOSS, where formalwear performed broadly in line with casualwear in Q3. However, it is important to note that the slight decline in total sales for our BOSS brand is purely attributable to the challenges experienced in North America in Q3. Elsewhere, our BOSS brand continued to enjoy robust momentum, with sales increases in both Europe and Asia/Pacific.

On the marketing side, over the last several weeks, BOSS took center stage twice in two of the world's most important fashion metropoles: Milan and Shanghai. In September, BOSS showcased its upcoming Spring/Summer 2020 collection in Milan. Only a few weeks later, BOSS underpinned the strategic relevance of the Chinese market by presenting its Pre-Fall 2020 collection in Shanghai for the first time in seven years. The feedback on both shows and on the accompanying social media campaigns was overall very positive – thanks also to the close involvement of international bloggers and influencers.

Moving over to HUGO, where the positive trend from previous quarters continued in Q3. Currency-adjusted sales growth accelerated to 6%, representing the strongest quarterly performance for HUGO in more than two years. In line with the brand's positioning in the contemporary fashion segment, sales in casualwear continued to grow disproportionately and were up at a strong double-digit rate. Besides ongoing strong momentum around HUGO's logo-inspired product offering, various events as well as product and marketing campaigns focused on HUGO's new brand ambassador – British singer Liam Payne – supported brand heat in Q3.

Ladies and gentlemen, this concludes my discussion on the top line. Let me now hand you over to Yves to guide you through the remaining P&L and balance sheet items, before I will provide you with an update on our expectations for the remainder of 2019. Yves, over to you!
Thank you Mark, and good afternoon ladies and gentlemen.

As always, let's start with the gross margin development, which increased by 80 basis points to 63.3%, mainly due to the reversal of negative inventory valuation effects. With retail growing stronger than wholesale, we also recorded a slightly positive channel mix effect in Q3. This however, was largely offset by negative currency effects. While all other factors were broadly neutral in the quarter, I would also like to highlight that markdowns have not turned into a tailwind in Q3, reflecting the ongoing promotional environment that we continue to see in some of our markets, first and foremost the U.S. All in all, the gross margin development in Q3 was thus not able to deliver the improvement we had initially expected for the quarter.

Operating expenses increased 7% or 24 million euros in Q3. While selling and distribution expenses were above the prior-year level, administration expenses declined slightly, despite some one-off expenses related to management changes. The muted top-line growth in the third quarter, together with the increase in operating expenses, resulted in a decline in EBIT and net income of 13% and 12%, respectively.

So let's take a closer look at the individual cost items, to explain what ultimately caused the increase in operating expenses. In particular, there are four elements that resulted in the increase in operating expenses in Q3:

Firstly, higher retail costs, mainly associated with the ongoing modernization and sequential expansion of our brick-and-mortar store network over the past twelve months. This also includes higher depreciation and amortization as well as an increase in rental and payroll costs in Q3. In addition, expenses associated with the further expansion of the online concession business as well as the ongoing rollout of the hugoboss.com website globally also contributed to the increase in retail costs. Altogether, the increase amounted to a low-double-digit million euro amount.

Secondly, higher marketing expenses reflecting the various initiatives that took place in the third quarter to drive further brand momentum for both BOSS and HUGO. This includes large brand activation initiatives such as the BOSS fashion show in Milan or the HUGO brand event in Berlin, new collaborations we entered into with brand ambassadors such as Mark Chao and Liam Payne, as well as various limited collections that were launched during the quarter, including the second edition of BOSS x Porsche. The increase related to these initiatives amounted to a mid-single-digit million euro amount. As we project brand and marketing investments to also grow in the final quarter, we now expect marketing expenses as a percentage of sales for the full year to be slightly above the prior-year level.

Thirdly, one-off expenses related to several management changes – on the executive board and regional level – amounted to a mid-single-digit million euro amount. This also includes a personnel change for our business in the Americas, where Stephan Born, currently Managing Director of our UK market, will take over responsibilities from November onwards.

Last but not least, negative currency effects due to the devaluation of the euro against major currencies also impacted operating expenses by a mid-single-digit million euro amount.

So, as you can see, ladies and gentlemen, the third quarter was, generally speaking, an opex-heavy quarter and we clearly took the decision not to cut down on brand and distribution expenses, despite the weaker than expected top-line performance in Q3. We decided to do so because we fundamentally believe that investing in our business is crucial in order to drive brand desirability in the long run.

This said, I would also like to point out that our tight overhead cost management approach in combination with our initiatives to optimize the organizational structure of our company, of which some have been implemented at the beginning of the year, have started to yield positive returns. The fact that general admin costs were kept stable in Q3, despite the already mentioned one-off costs related to management changes, is proof positive in this context.

Let's now turn to the balance sheet, starting with inventories, where we have been able to reduce inventory growth for the fourth consecutive quarter. At the end of September, currency-adjusted inventory growth amounted to 1%, despite the lower than expected sales growth in the quarter. However, let me point out that I am not satisfied yet with where we stand in terms of inventories! As we continue to put a strong emphasis on tightly managing inventories, we are confident that inventories will finish the year at around the prior-year level. And be assured that inventory management will also remain a focus area for us in 2020, as it is our clear goal to reduce inventories in absolute terms over the coming months.

Turning quickly to trade net working capital, which – at the end of September – remained stable year on year. As a percentage of sales, trade net working capital grew 110 basis points to 20.5%.

Moving on to our free cash flow development in the first nine months. In line with our outlook for the full year, capital expenditure increased 37% to 131 million euros, reflecting the ongoing focus on optimizing our store network as well as further strengthening our IT and digital capabilities.

The increase in capital expenditure together with the decline in operating profit largely offset the improvements achieved during the course of the year when it comes to trade net working capital. As a result, free cash flow amounted to 12 million euros for the first nine months and was thus at around the prior-year level. With this, ladies and gentlemen, let me hand you back over to Mark, who will discuss the adjusted outlook for 2019 in more detail.

Thank you, Yves. So let's change perspective and look ahead at our expectations for the remainder of the 2019 fiscal year. Against the backdrop of the persistently difficult market environment, – and as you are all aware of – we adjusted our financial outlook for 2019 on October 10.

We now expect currency-adjusted Group sales for the full year 2019 to increase at a low single-digit percentage rate. Before moving on to the bottom-line, let me give you some more color on our top-line expectations and what this means from a regional perspective.

For Europe, we forecast sales growth to accelerate in the fourth quarter. While we do not expect the underlying market environment in key European markets to change fundamentally versus most recent trends, we project that important growth stimuli will come from the non like-for-like part of our business. In particular, we expect positive effects from the successful conversion of online partners to the concession model as well as the recent completion of large-scale retail projects. For the full year 2019, Europe is expected to deliver low to mid-single-digit growth.

For the Americas, we expect recent weakness to persist also in the final months of the year. In particular, we project that the overall weak U.S. consumer sentiment will most likely continue to lead to traffic declines as well as ongoing high promotional activity and thus also weigh on our sales performance in the fourth quarter. For the year as a whole, we therefore expect sales in the Americas to decrease in the mid- to high single-digit percentage range.

Finally, Asia/Pacific is expected to grow at a mid-single-digit rate in the full year 2019. We expect Mainland China’s dynamic momentum to continue in Q4, supported by various execution measures, both in brick-and-mortar retail as well as via our online partnerships with TMall and JD. At the same time, we are mindful of the ongoing weakness in the Hong Kong market, which is expected to remain a drag on our performance for the region as a whole.

From a channel perspective, we now expect to grow retail sales in 2019 at a low to mid-single-digit rate. This outlook is based on the assumption that comp store sales will grow by a low single-digit rate. This in turn means, that we do not expect an underlying improvement in comp store sales growth in Q4 compared to the first nine months. Instead, it will be our non like-for-like business that will see an acceleration in Q4.

Let me point out two factors that will be decisive for the anticipated acceleration in non like-for-like growth in the final quarter:

- Firstly, the expansion of the concession model within our online business will push sales growth in the remaining quarter. New e-concessions, and those we initiated back in 2018, will clearly contribute to strong double-digit growth in our own online business also in Q4. As you all know, our Zalando partnership will play a key role in this regard, as Q4 2019 represents the first full quarter in which we are running the BOSS business on Zalando by ourselves.

- Secondly, we will continue with our initiatives to modernize our global store network. In recent weeks, a number of strategically important BOSS stores have been upgraded to the new store concept and reopened on time, as the important holiday season is just about to start. Besides our flagship store on the Champs-Élysées in Paris, we also successfully completed the renovation and relocation of our Macau store at the Galaxy Hotel and the renovation of our biggest store in Singapore at Ngee Ann City. We are right on track to also finish renovations at important stores in key U.S. cities, such as Chicago, San Francisco and Atlanta in the coming days.

With this, let's move further down the P&L to complete our expectations for fiscal year 2019. Starting with our gross margin, which we expect to remain broadly stable for the full year 2019 as well as for Q4. This implies that we expect the positive effects from a more favorable channel mix in Q4 to be broadly offset by slightly higher markdowns in the Americas. Operating expenses, however, are expected to slightly improve in Q4 as we expect some operating leverage, driven by the anticipated acceleration in top line growth and the non-recurrence of last year's one-offs in a magnitude of around a high single-digit million euro amount.

As a consequence, and excluding the effects of IFRS 16, EBIT is expected to come in at a range between 330 million and 340 million euros for the full year. For net income, we expect a decline at a mid- to high single-digit percentage rate. This includes our assumption of a tax rate of around 32% for the fiscal year 2019, as the ongoing tax field audit we highlighted earlier this year is just about to be completed.

In light of the anticipated decline in net income for fiscal year 2019, allow me to also say a few words about the dividend. While it is too early to talk about the detailed implications, I would like to point out that the Managing Board of HUGO BOSS is clearly committed when it comes to the absolute dividend for 2019, as we recognize the importance of a reliable dividend for our shareholder base. As always, we will lay out all details around that with the publication of our full year 2019 results in March next year.

Ok, ladies and gentlemen, before we start with the Q&A session, let me conclude by emphasizing that we are obviously not satisfied at all with regards to the financial performance in 2019. Clearly, we had planned a different start to our mid-term strategy, which we introduced to you almost exactly one year ago.

Nevertheless, we have to accept that the underlying macroeconomic trends have deteriorated in some of our core markets. As macroeconomic uncertainties will most likely remain high in the short term, it is absolutely crucial that we remain focused when it comes to successfully executing our strategic initiatives. I am absolutely convinced that we have the right strategy in place to ensure that we further increase brand desirability in the years to come, while at the same time also structurally improving the profitability of our company. In this context, I am encouraged by the fact that despite the various challenges in Q3, all our four strategic growth drivers – Online, China, HUGO, and store productivity – continued to grow disproportionately. This is particularly evident around our online business as well as at HUGO, where growth rates have clearly accelerated in the quarter. In addition, we continue to make strong strides when it comes to gaining further relevance vis-à-vis the Chinese consumer and increasing the productivity of our store network.

But of course there is more work ahead of us, and I can assure you that together with my Board colleagues, we will tackle each and every challenge that we are facing with highest discipline, strongest focus, and utmost passion in order to be successful in the long run and to live up to your and our expectations. We fundamentally believe in the strong, untapped potential that both BOSS and HUGO have to win the consumer and ultimately become the most desirable premium fashion and lifestyle brand.

And with this, ladies and gentlemen, Yves and I are now happy to take your questions.