

**H U G O   B O S S**

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# **HUGO BOSS Investor Day 2015**

## **Group Strategy Update**

Claus-Dietrich Lahrs (CEO)  
Metzingen, November 24, 2015

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## Agenda

**Group's operating environment changing at rapid pace**

**Group strategy to turn challenges into opportunities**

**Group committed to investing in long-term growth**

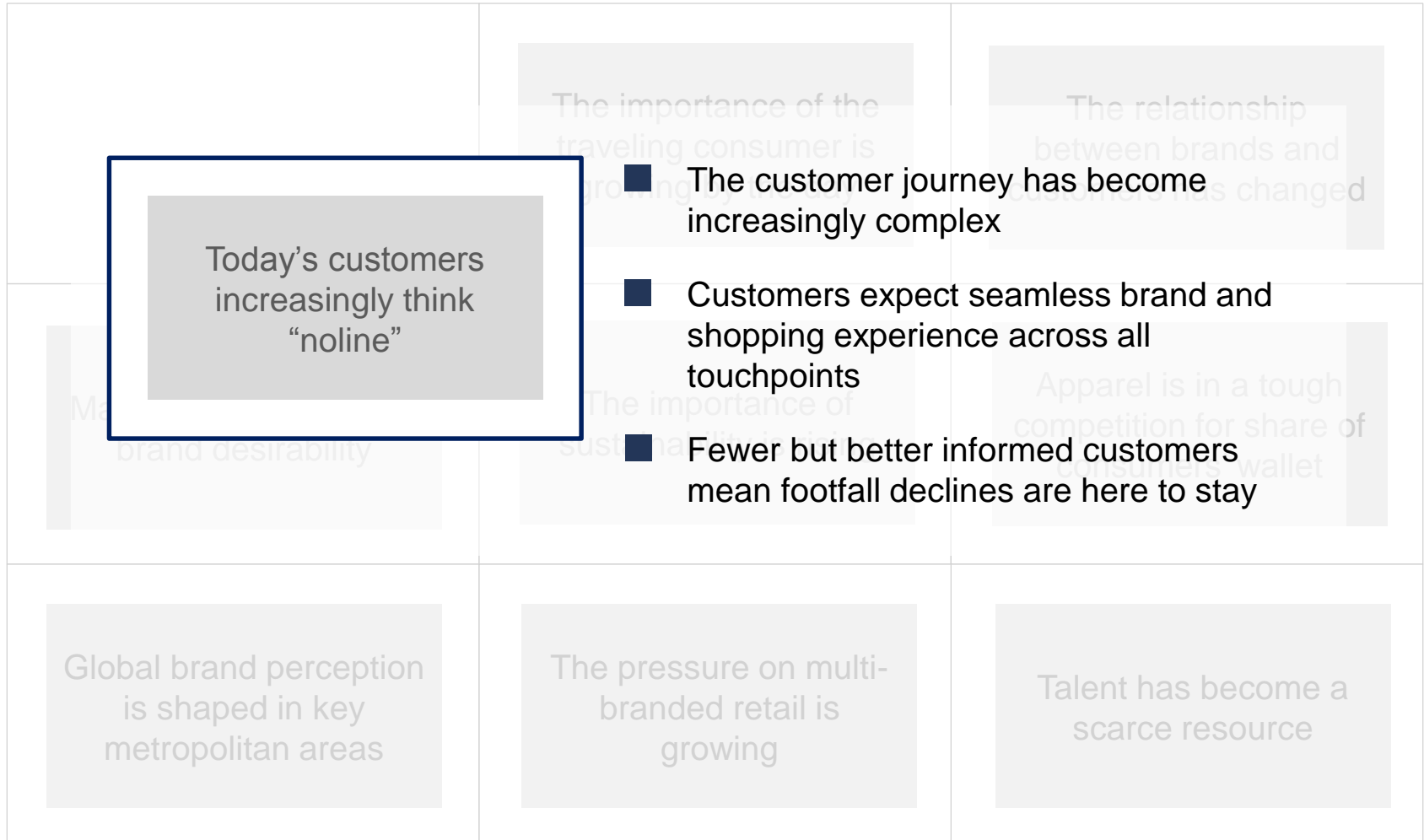
## Agenda

**Group's operating environment changing at rapid pace**

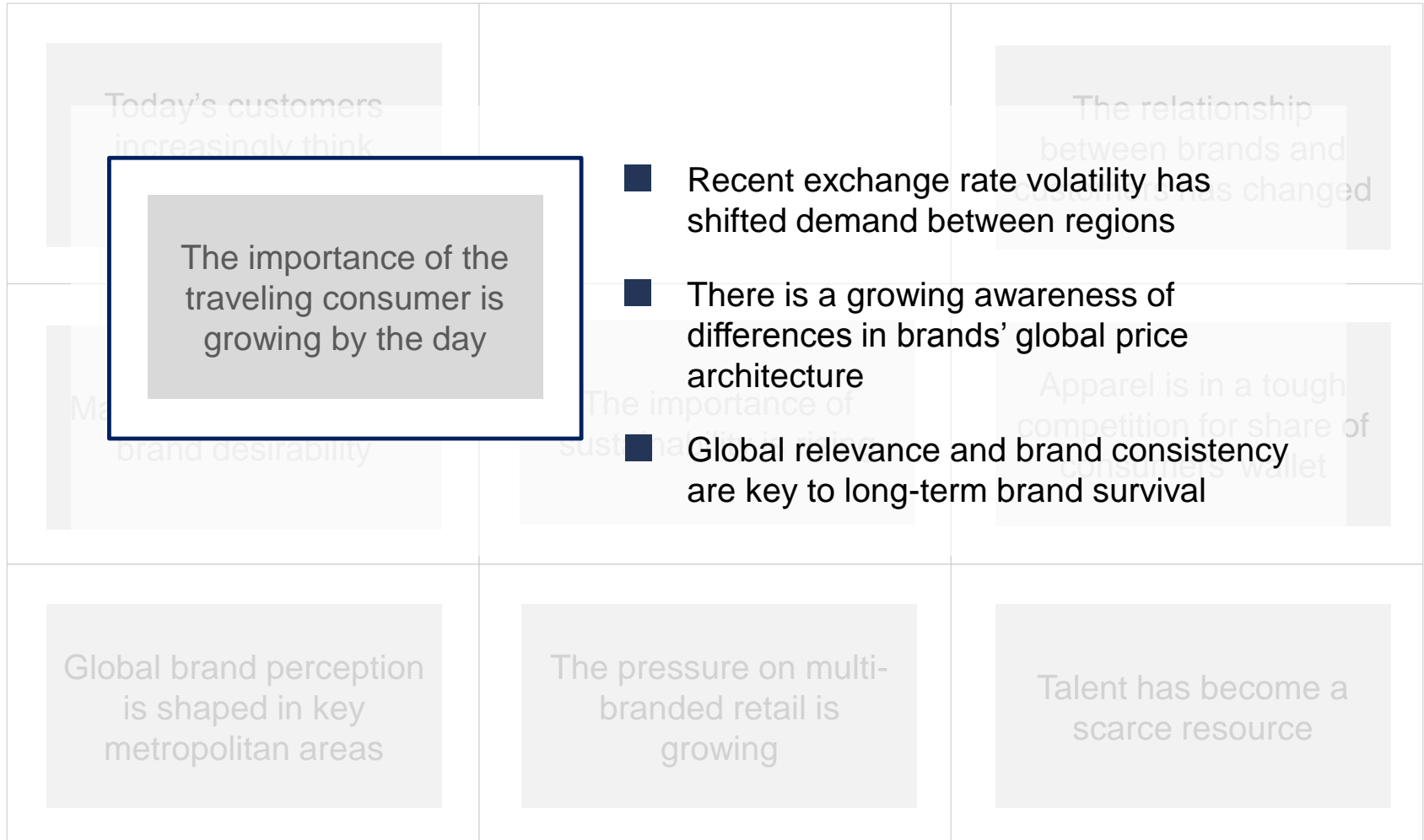
**Group strategy to turn challenges into opportunities**

**Group committed to investing in long-term growth**

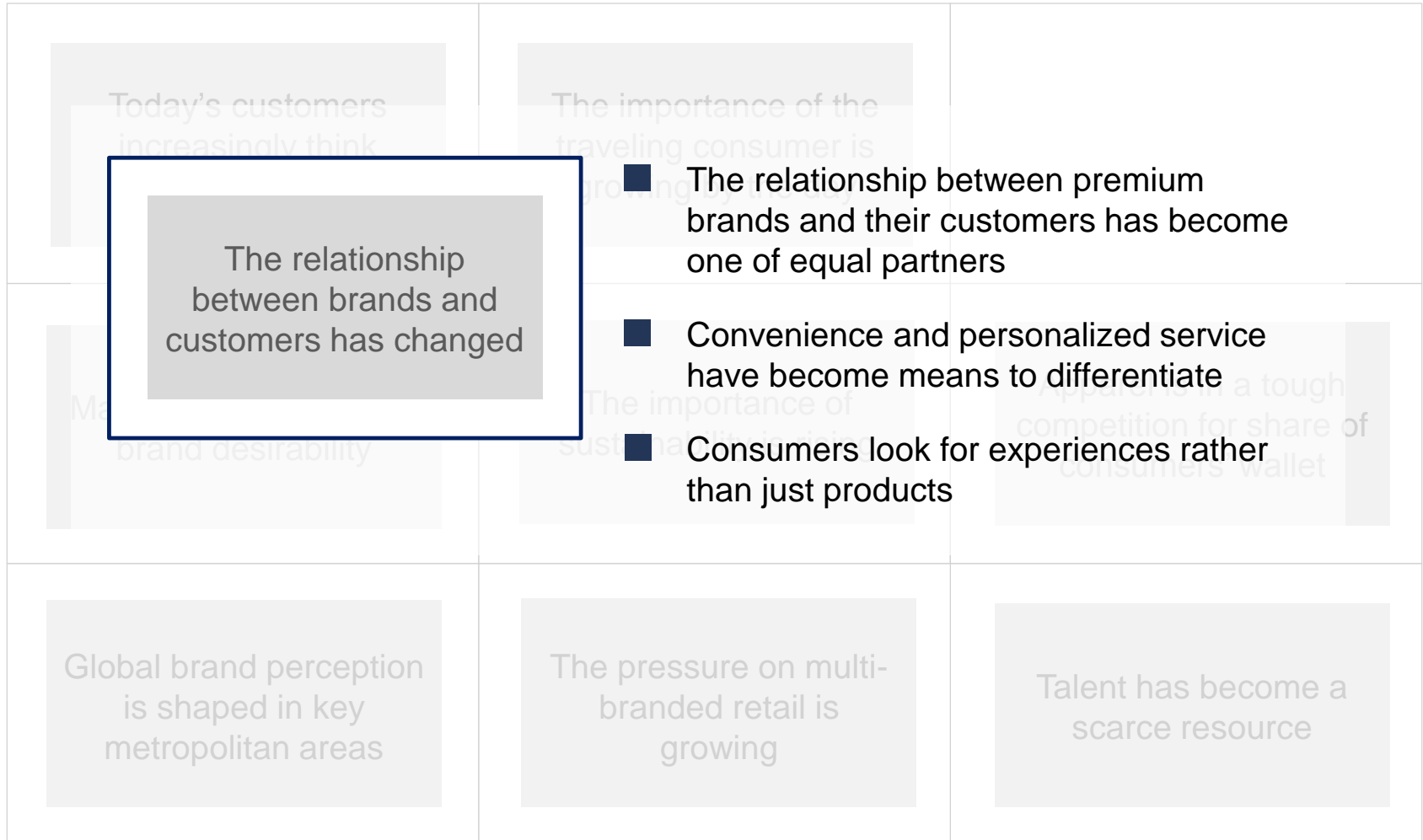
## The Group's operating environment is changing at a rapid pace



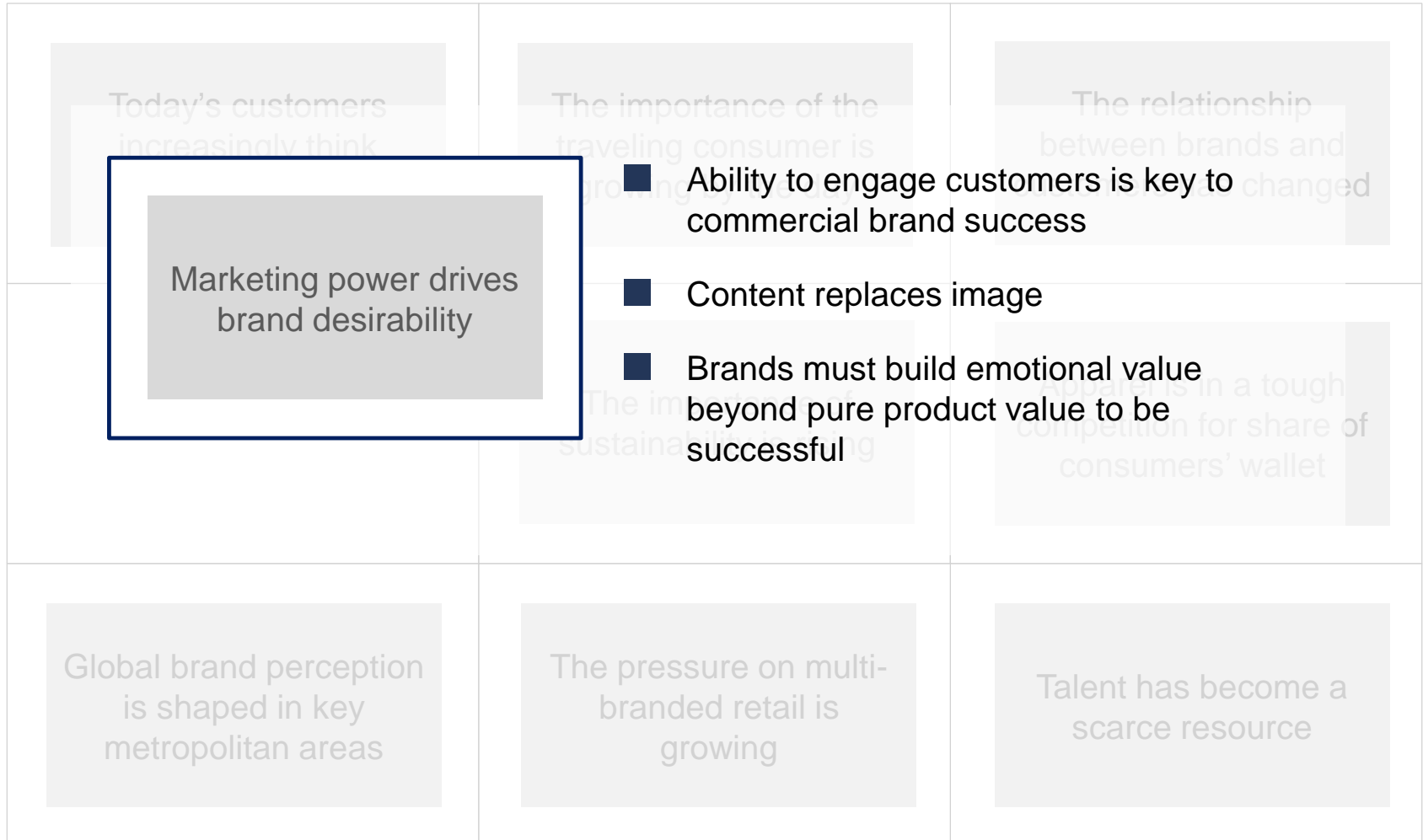
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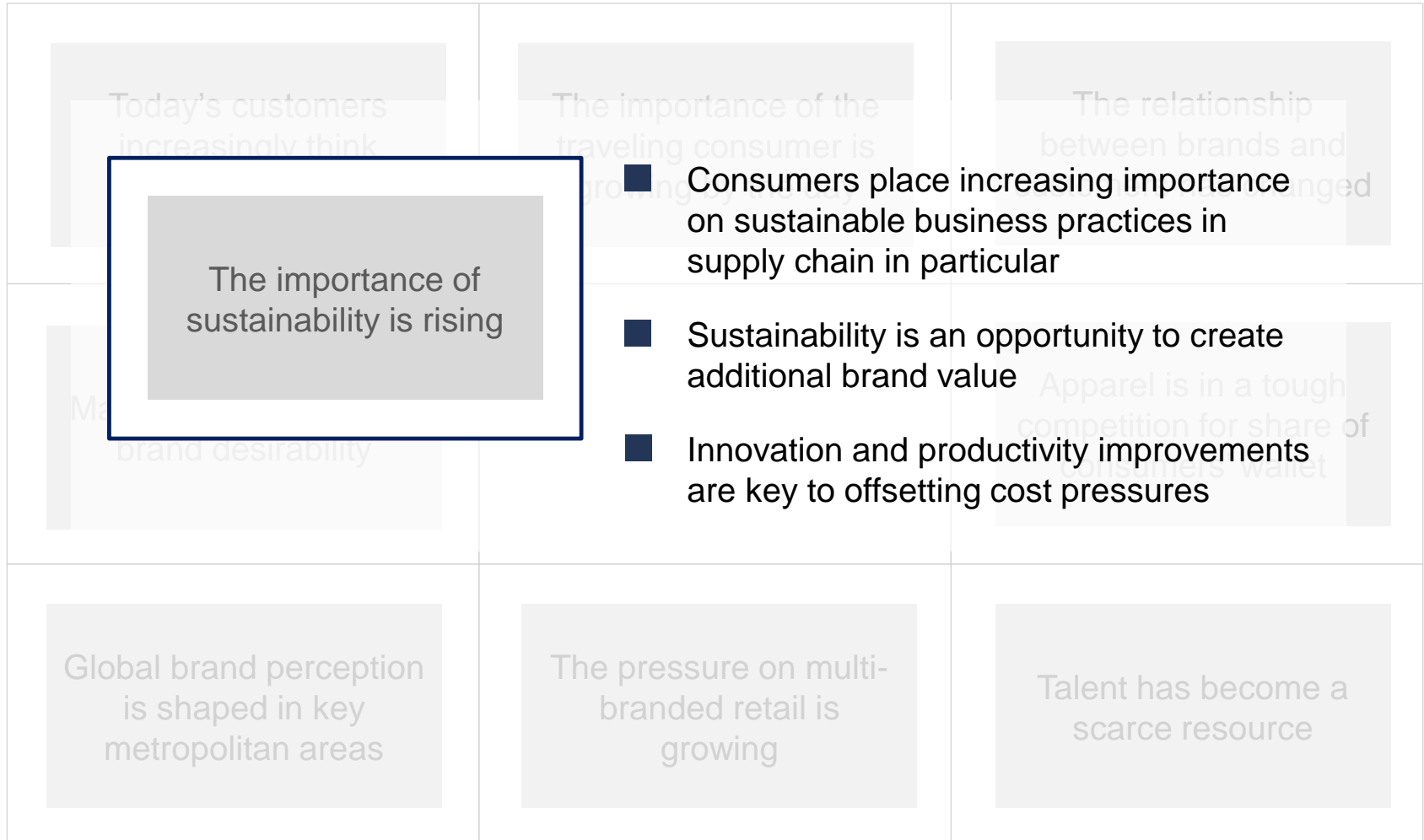


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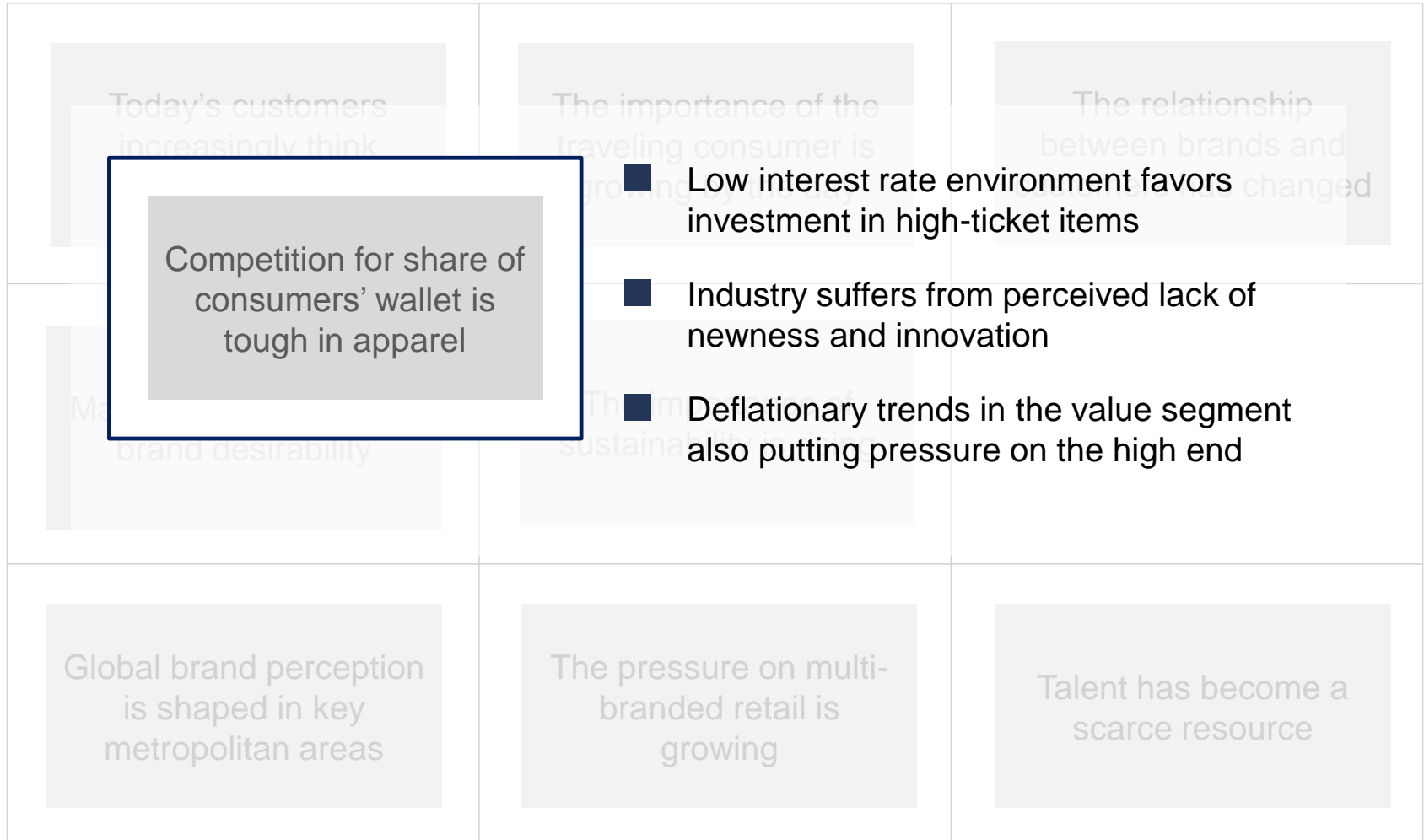




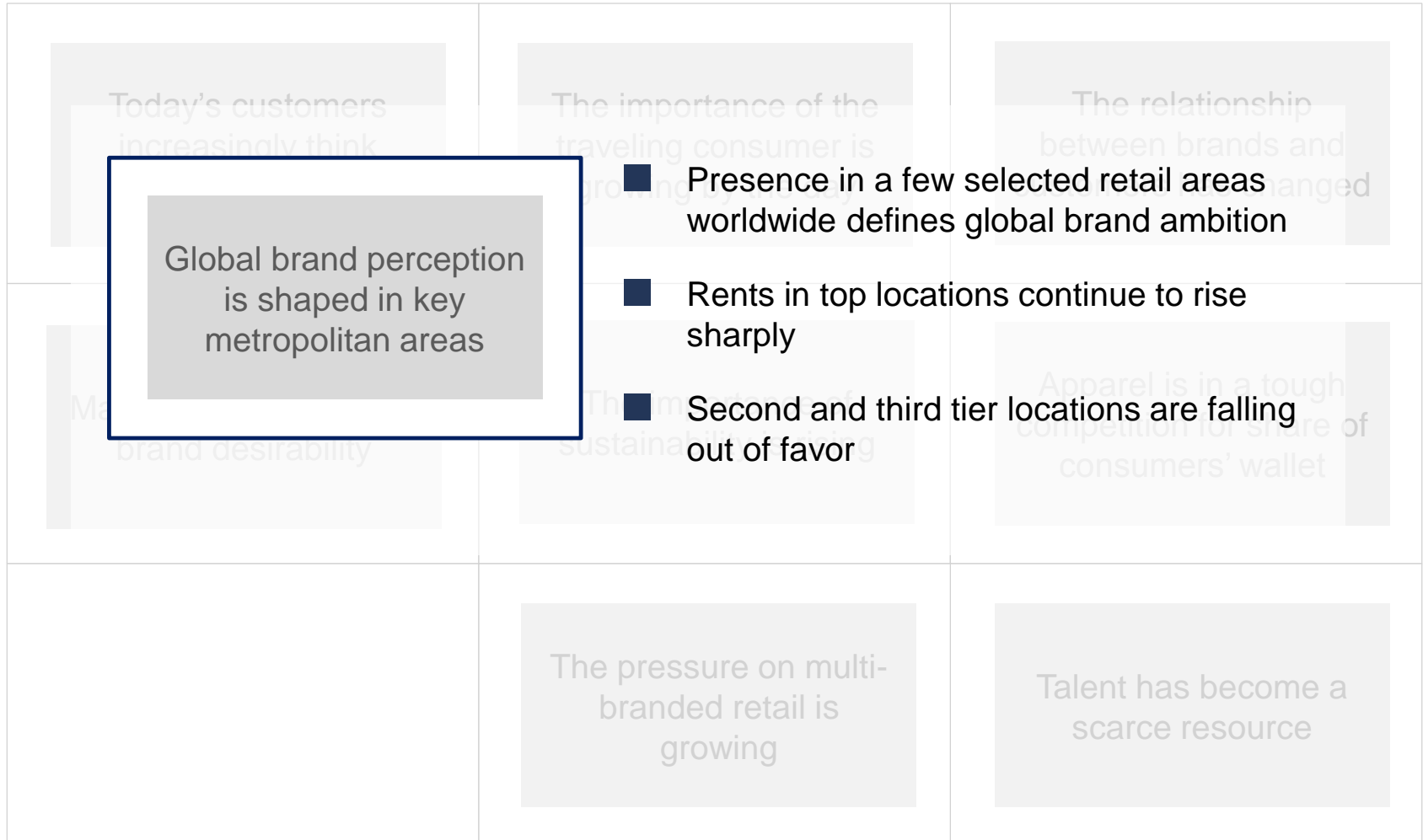
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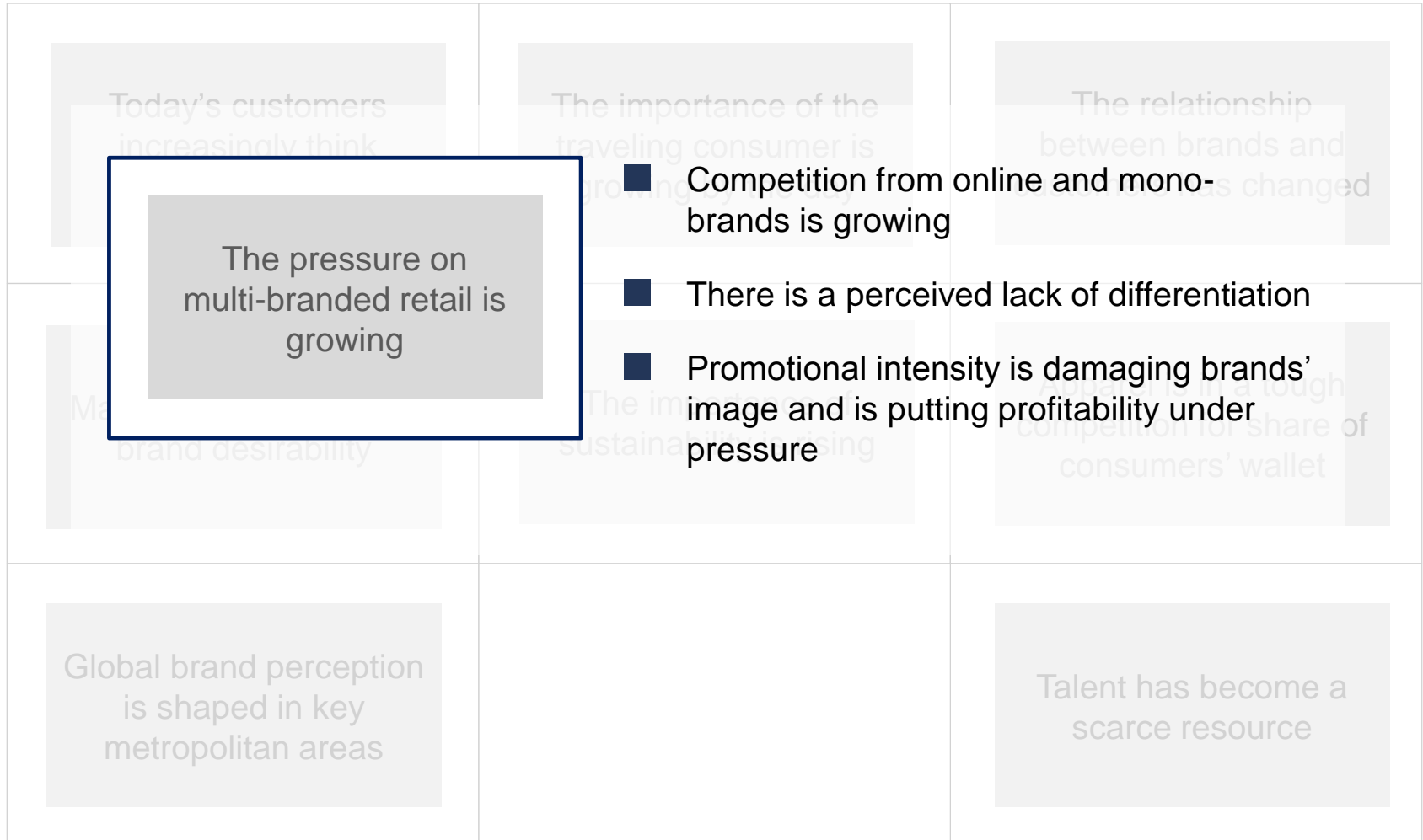
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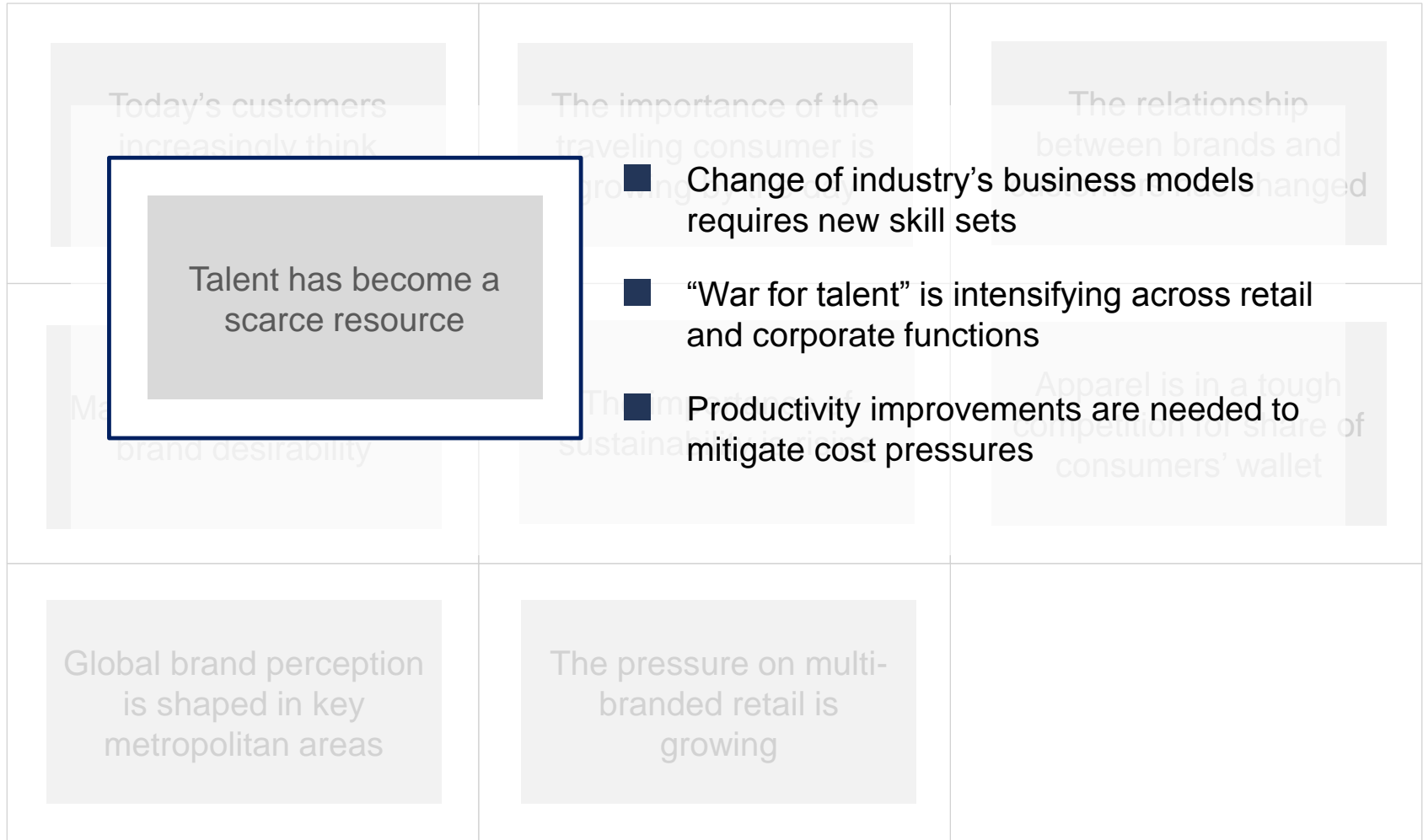
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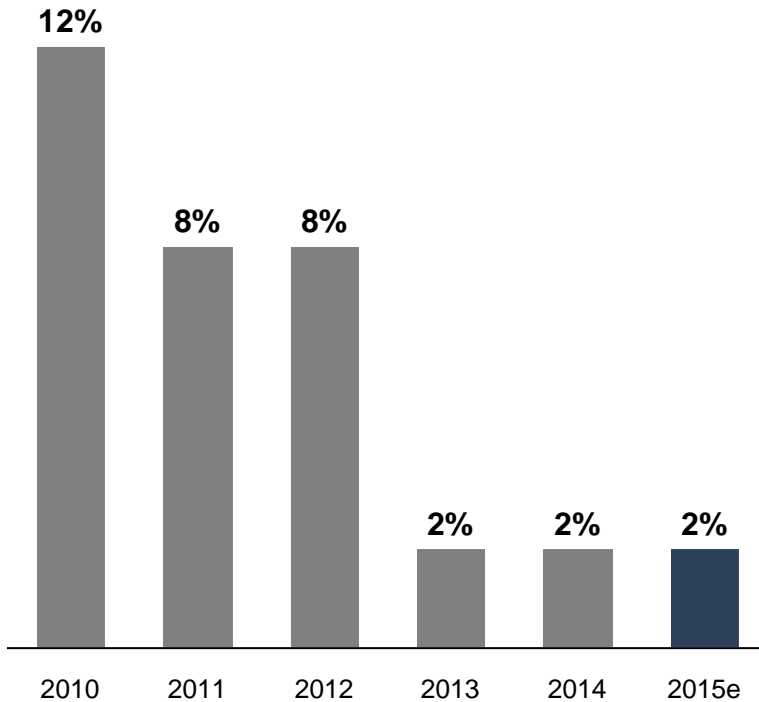


## What does all this mean for the industry?

<p>Today's customers increasingly think "online"</p> <p><b>Challenges for the whole industry ...</b></p>	<p>The importance of the traveling consumer is growing by the day</p>	<p>The relationship between brands and customers has changed</p>
<ul style="list-style-type: none"> <li>■ Changing consumer habits mean business models are changing industry-wide</li> <li>■ Pace of industry growth is slowing</li> </ul>	<p>The importance of sustainability is rising</p>	<p>Apparel is in a tough competition for share of consumers' wallet</p>
<p>Global brand perception is shaped in key metropolitan areas</p>	<p>The pressure on multi-branded retail is growing</p>	<p>Talent has become a scarce resource</p>

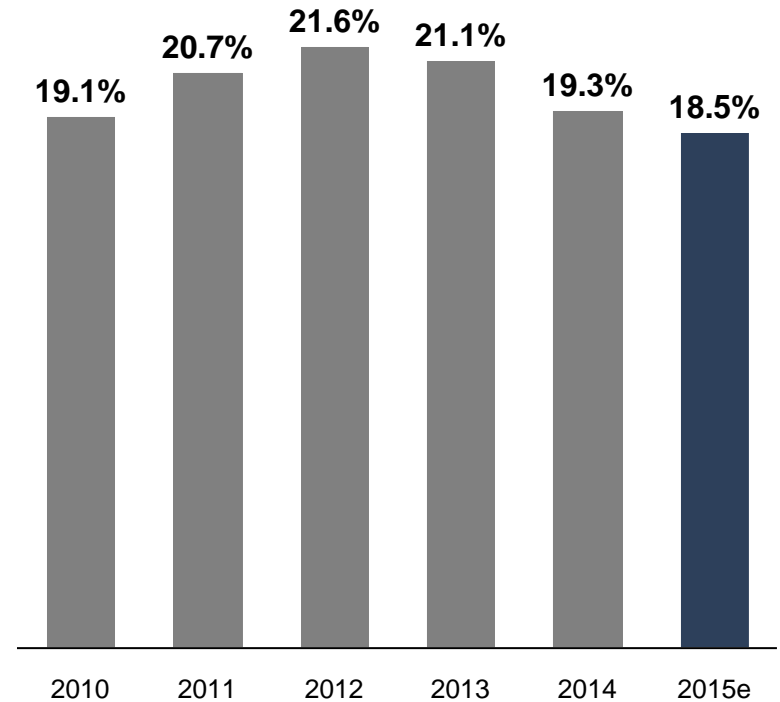
## Industry-wide growth has slowed and margins are under pressure

**Luxury apparel market growth**  
(fx-adjusted)



Source: Fondazione Altagamma / Bain

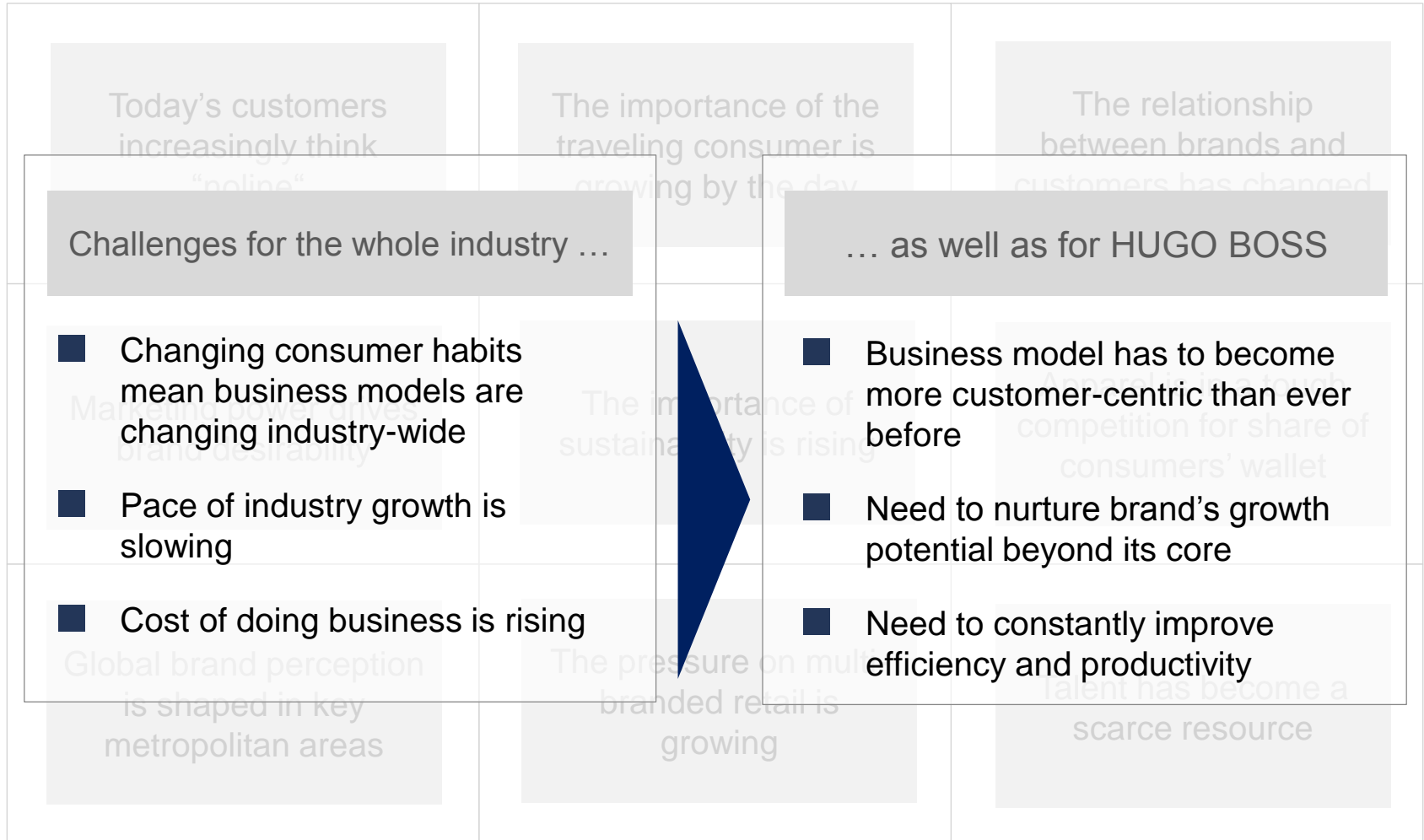
**Mean adjusted EBITDA margin in premium and luxury apparel & footwear peer group\***



\* Peers include Brunello Cucinelli, Burberry, Ralph Lauren, Prada, PVH, Ted Baker and Tod's

Source: Bloomberg

## And what does all this mean for HUGO BOSS?





## Agenda

**Group's operating environment changing at rapid pace**

**Group strategy to turn challenges into opportunities**

**Group committed to investing in long-term growth**

## Every element of Group strategy must contribute to turning these challenges into opportunities



Elevate the BOSS core brand by engaging consumers emotionally



Leverage the brand's potential in womenswear and shoes & accessories



Build omnichannel to drive own retail online and offline



Exploit growth opportunities in underpenetrated markets

Further build the Group's operational strength to enable key strategy implementation

## Brand elevation aims to increase luxury share to 20% of BOSS sales by 2020



Elevate the BOSS core brand by engaging consumers emotionally



Leverage the brand's potential in womenswear and shoes & accessories



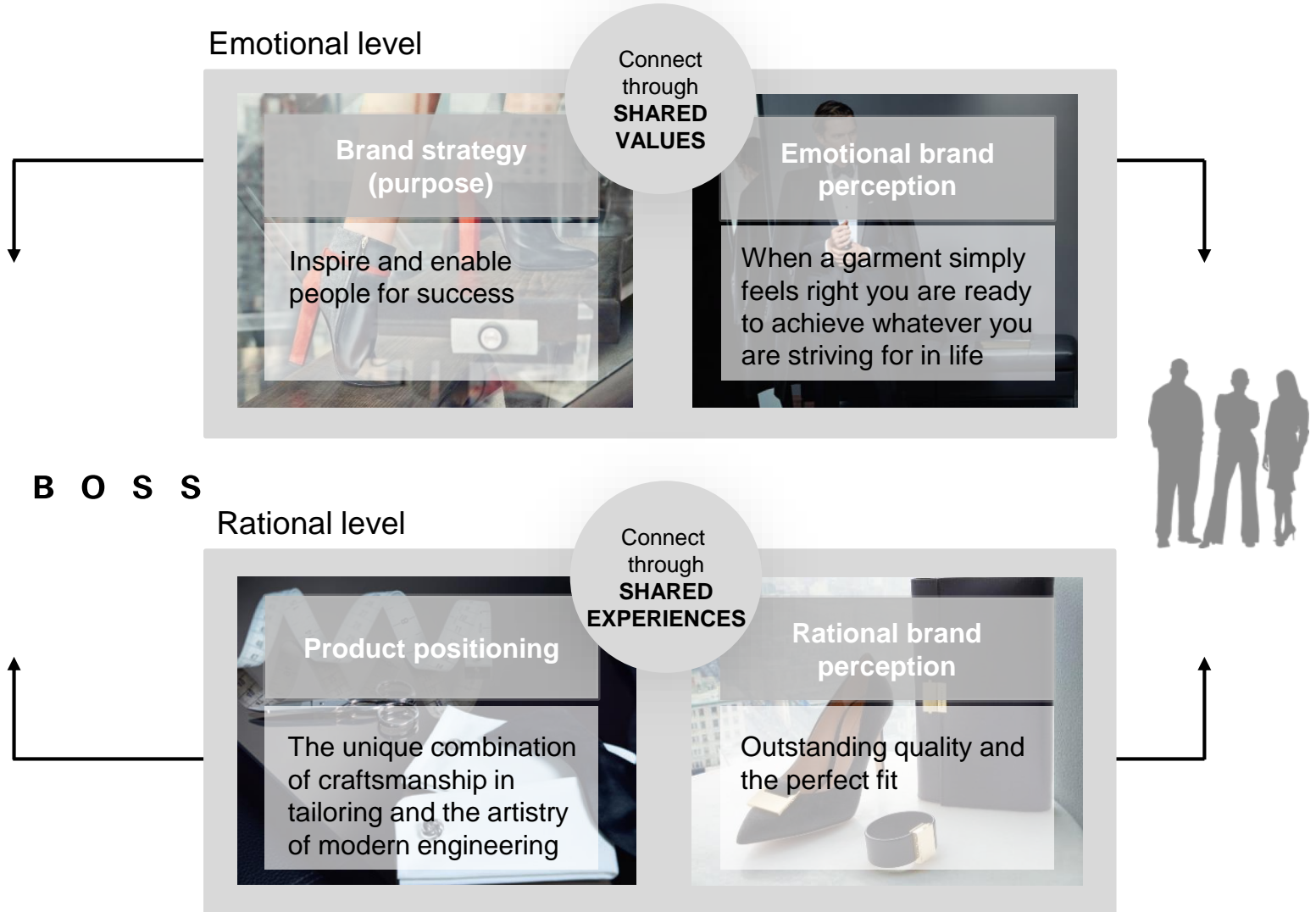
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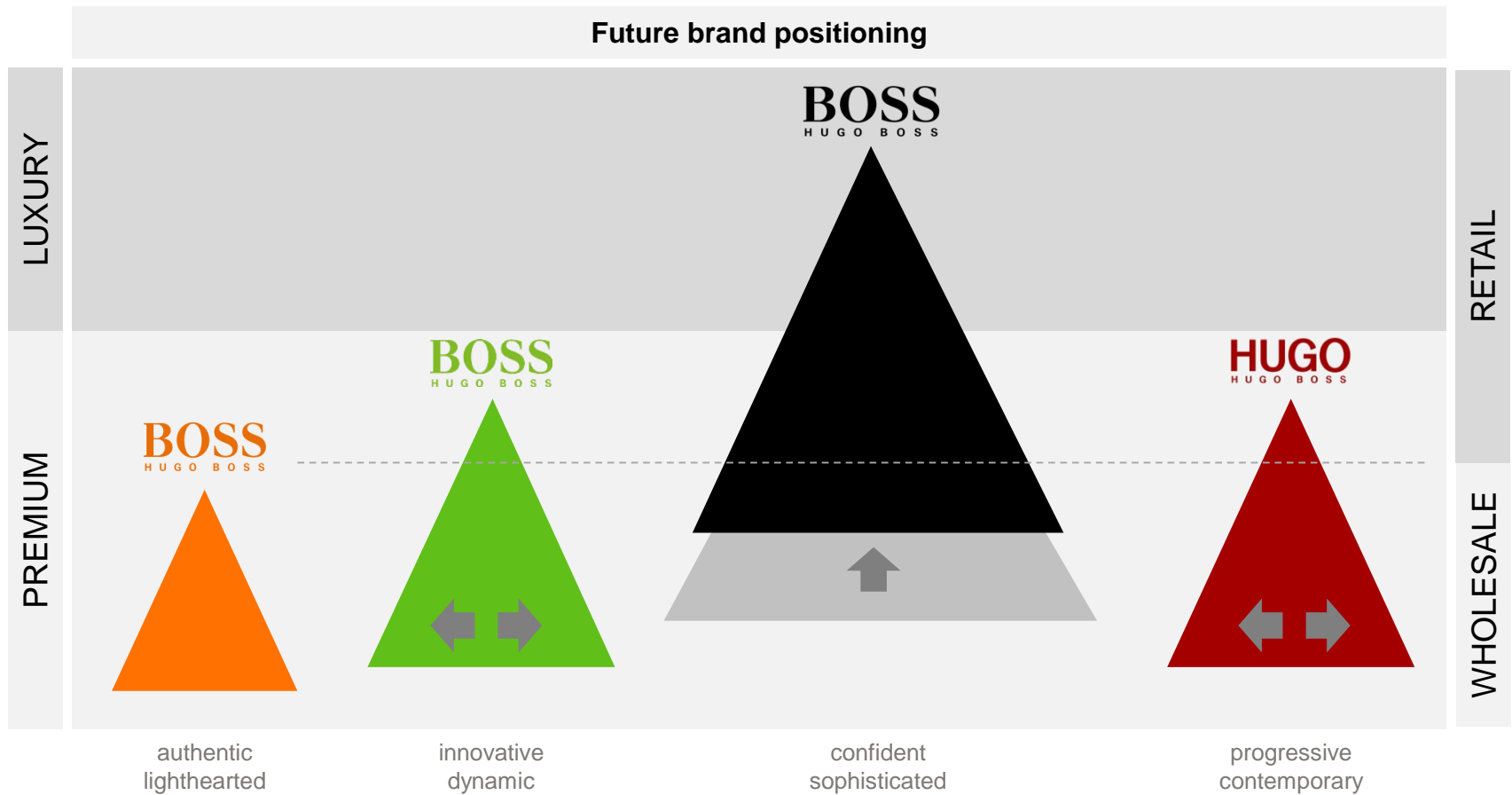
Exploit growth opportunities in underpenetrated markets

Further build the Group's operational strength to enable key strategy implementation

# Emotional brand perception will be key to brand elevation



# An increasingly differentiated brand portfolio will support BOSS brand elevation



## A changing price architecture supports brand differentiation

**HUGO BOSS price ranges by product group and brand line**  
(Pre-Fall 2016 collection, German market)

in EUR












Product Group				
Clothing	Shirts	90 - 229	70 - 120	-
	Trousers	140 - 299	110 - 140	-
	Jackets	349 - 749	279 - 379	-
	Suits	499 - 1199	399 - 549	-
Sportswear	Polos	80 - 249	75 - 100	70 - 120
	Jeans	130 - 279	100 - 150	100 - 150
	Trousers	140 - 200	110 - 160	120 - 140
	Outerwear	299 - 799	279 - 299	229 - 279
	Jackets	349 - 699	279 - 329	-
Shoes		240 - 495	170 - 270	140 - 195

- BOSS core brand offering will continue to be anchored in premium, extending into luxury
- HUGO and BOSS Green will cater to entry price points discontinued by the BOSS core brand

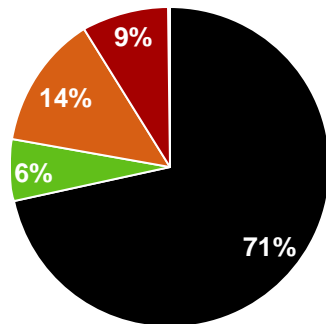
## The growing focus on BOSS in own retail supports increased basket sizes

- Increasing focus on BOSS core brand across menswear clothing, menswear sportswear and womenswear
- Demand-driven, gradual shift of offering towards more valuable, higher priced product
- Growing weight of BOSS Tailored and BOSS Made To Measure

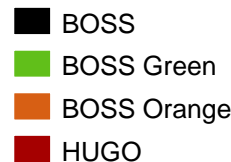
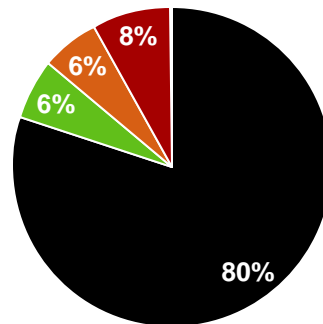
Degree of company influence	Trend in LFL components (DOS, YTD Sep 2015)
 Traffic	
 Conversion rate	
 Units per transaction	
 Average selling price	
<b>Net sales</b> 	

### Space allocation by brand line (DOS)

As of December 31, 2013






By year-end 2016e



## The category migration process has been well received by wholesale partners in Europe

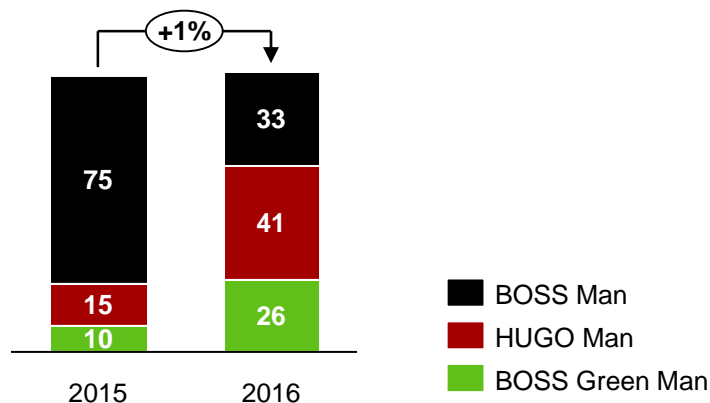
- Category migration process almost completed in Europe
- Distribution of BOSS core brand limited to shop-in-shops
- Substitution of BOSS core brand with HUGO and BOSS Green in category business

### Top 5 European wholesale markets 2015

1.	Germany	
2.	United Kingdom	
3.	France	
4.	Scandinavia	
5.	Benelux	

### Wholesale category business order book

(Top 8 EMEA WHS category customers, Spring/Summer 2015 vs. Spring/Summer 2016 // in %)





## Womenswear aims to account for at least 15% of Group sales by 2020



Elevate the BOSS core brand by engaging consumers emotionally



Leverage the brand's potential in womenswear and shoes & accessories



Build omnichannel to drive own retail online and offline



Exploit growth opportunities in underpenetrated markets

Further build the Group's operational strength to enable key strategy implementation

## Six key values shape the brand's competence in womenswear

“BOSS Womenswear offers modern yet timeless style statements with a luxurious touch for sophisticated women”

### **Tailored**

Building on the brand's key competence in tailoring

### **Sophisticated**

Presenting an urban and cultivated approach to the daily wardrobe

### **Feminine**

Offering desirable products with a high degree of feminine aesthetic



### **Modern**

Providing sophisticated and versatile garments that fulfil every need of a woman's modern lifestyle

### **Innovative**

Innovating with new and cutting-edge fabrics, finishes and construction techniques

### **Refined**

Offering straightforward, understated luxury

## BOSS Womenswear addresses four key user moments

### MODERN BUSINESS



### MODERN DAY



### OCCASION

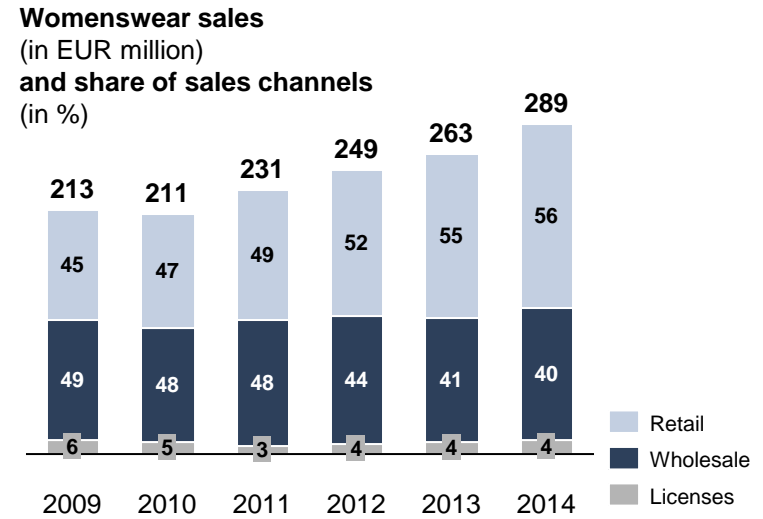


### LUXURY LEISURE



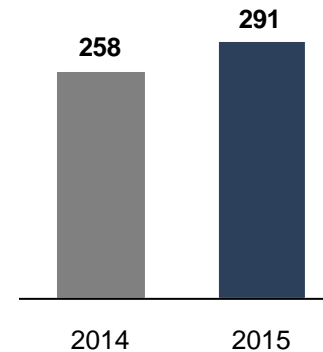
## Healthy and sustainable growth in the womenswear business

Womenswear sales growth has accelerated, driven by own retail and wholesale alike



The number of stores offering womenswear has increased, driven by the establishment of 30 ambassador stores...

**Number of DOS offering womenswear**  
(September 2014 v. September 2015)



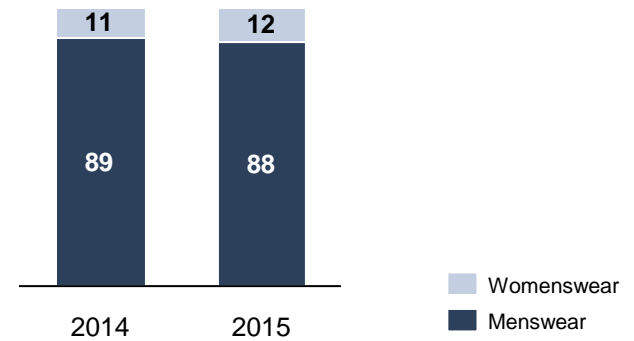
## Overall stable retail space allocation by gender, but increasingly leaned towards BOSS

...but the overall allocation of retail space has not changed significantly

However, the focus in own retail has clearly shifted to the BOSS brand

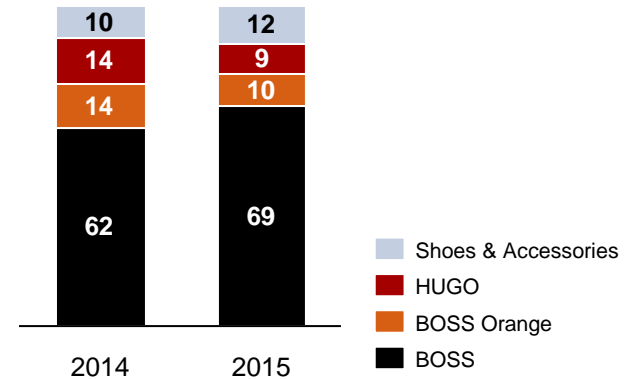
**Space allocation by gender (DOS)**

(September 2014 vs. September 2015 // in %)



**Space allocation by product category (DOS)**

(September 2014 vs. September 2015 // in %)



# The communication focus has supported increased brand awareness

## NEW YORK FASHION SHOWS



## CAMPAIGNS AND EDITORIAL COVERAGE

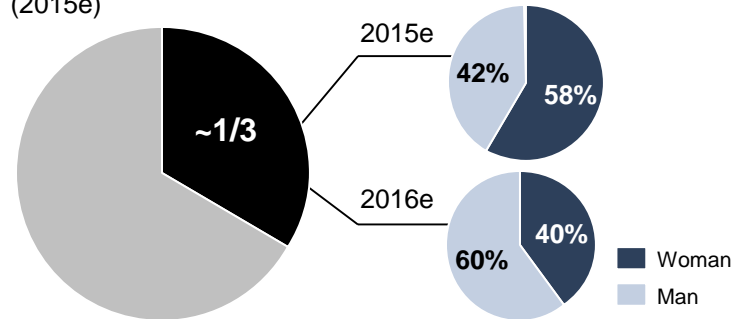


EUR **80** million

Editorial value of womenswear coverage  
(YTD Sep. 2015, Source: DMR)

Media spend relative to overall marketing spend (2015e)

Budget allocation of media spend by gender



Fashion show presence and advertising support have contributed to growth of brand awareness in womenswear

## At least 75% of Group sales are to be generated through own retail by 2020



Elevate the BOSS core brand by engaging consumers emotionally



Leverage the brand's potential in womenswear and shoes & accessories



Build omnichannel to drive own retail online and offline

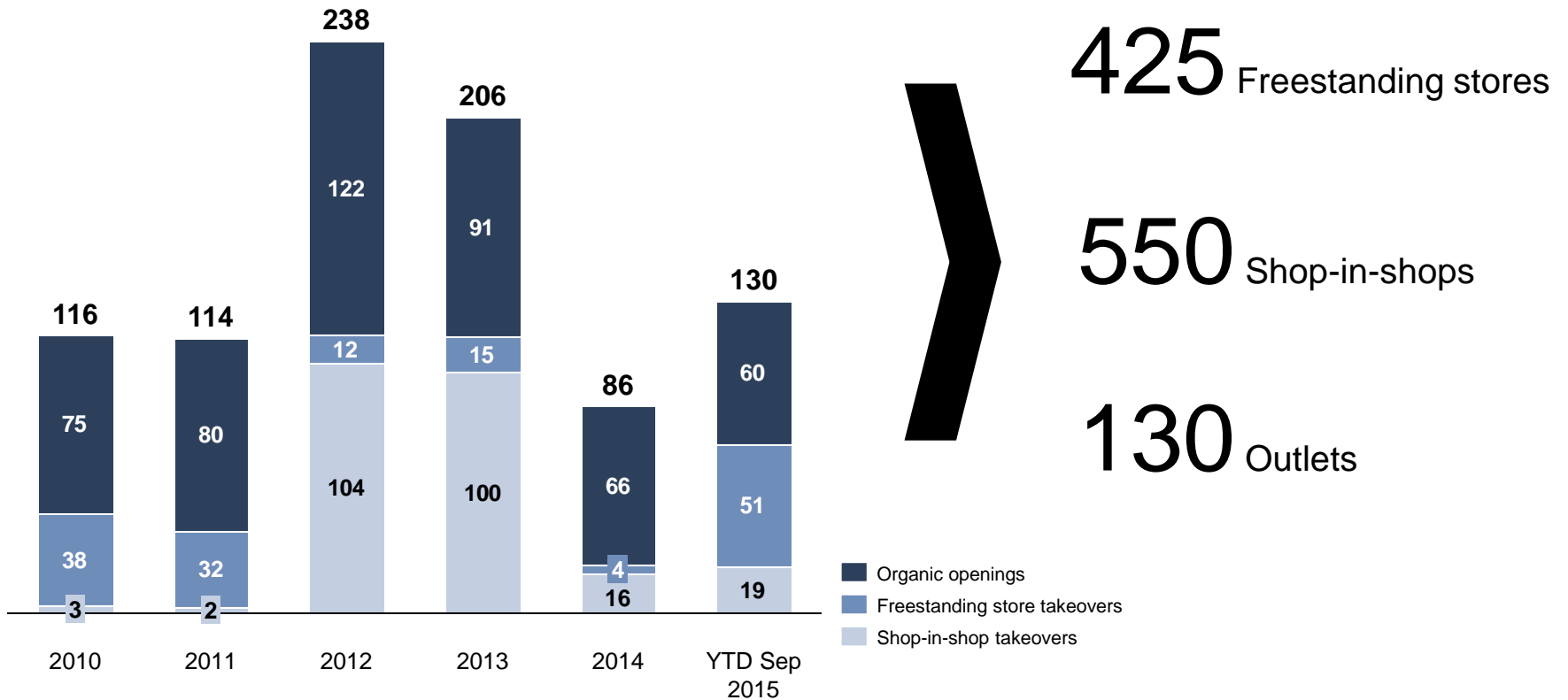


Exploit growth opportunities in underpenetrated markets

Further build the Group's operational strength to enable key strategy implementation

## New openings and takeovers have contributed to past retail expansion

Retail store expansion by format and type





## Future store openings will focus on key metropolitan areas



## Existing store network will be upgraded and optimized

Freestanding store network

- Potential to open between 10 and 15 new stores per annum

Renovations

- More than 100 renovations per annum, accounting for at least half of retail investment budget

Shop-in-shop network

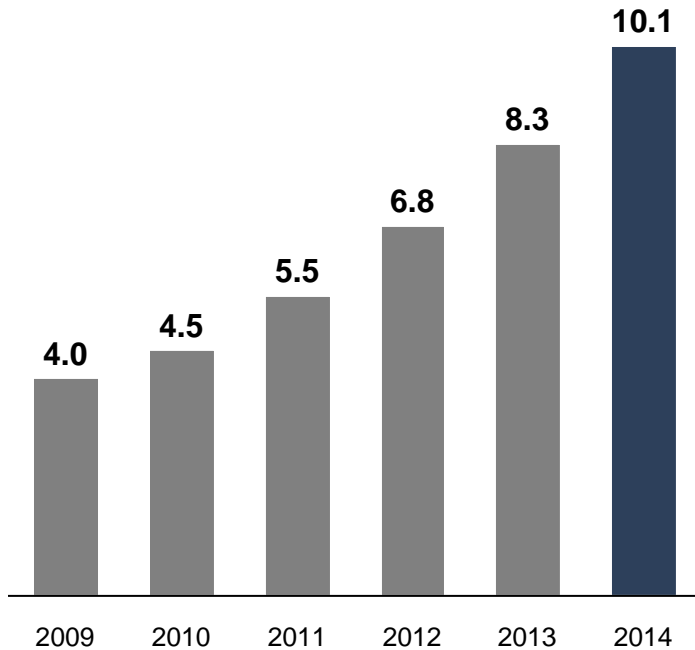
- Selective additional takeovers in department stores
- Ongoing consolidation of existing network

Franchise store takeovers

- Focus on smaller bolt-on acquisitions
- Takeovers in Russia and Malaysia planned in 2016

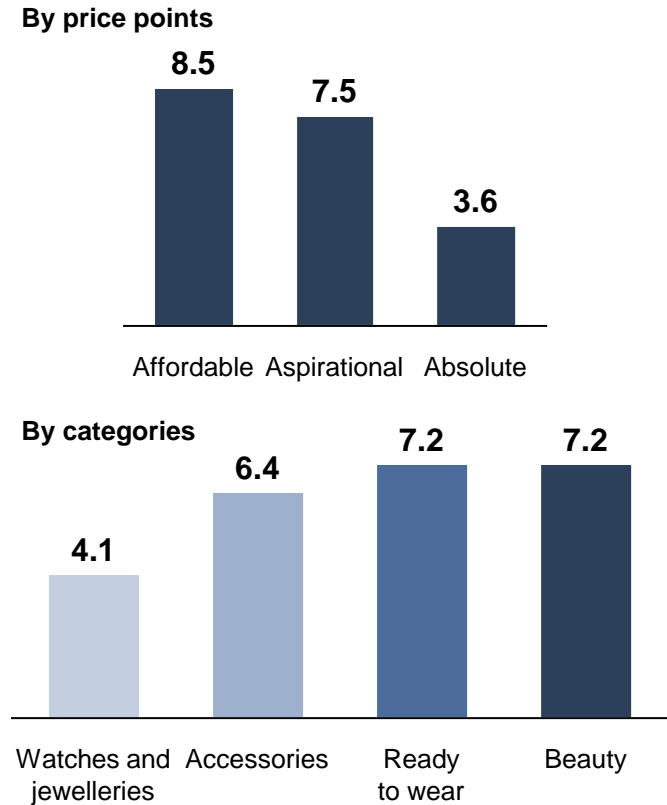
## The importance of digital retailing continues to rise

**Online penetration of global apparel and footwear industry (in %)**



Source: Euromonitor

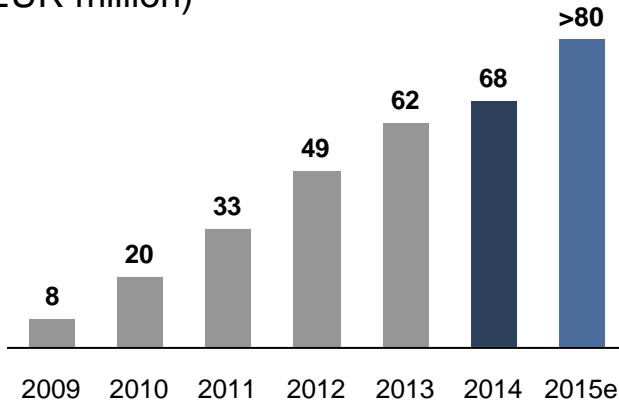
**Online penetration of luxury goods industry (in %)**



Source: "Digital inside: Get wired for the ultimate luxury experience", McKinsey&Company, July 2015

## The Group has built a strong online business across own retail and wholesale

**Development of online sales**  
(in EUR million)



- Frontend insourcing and relaunch of hugoboss.com in 2014 has supported pick-up of growth in 2015
- Continued double-digit sales increases expected

**>EUR 100 million**

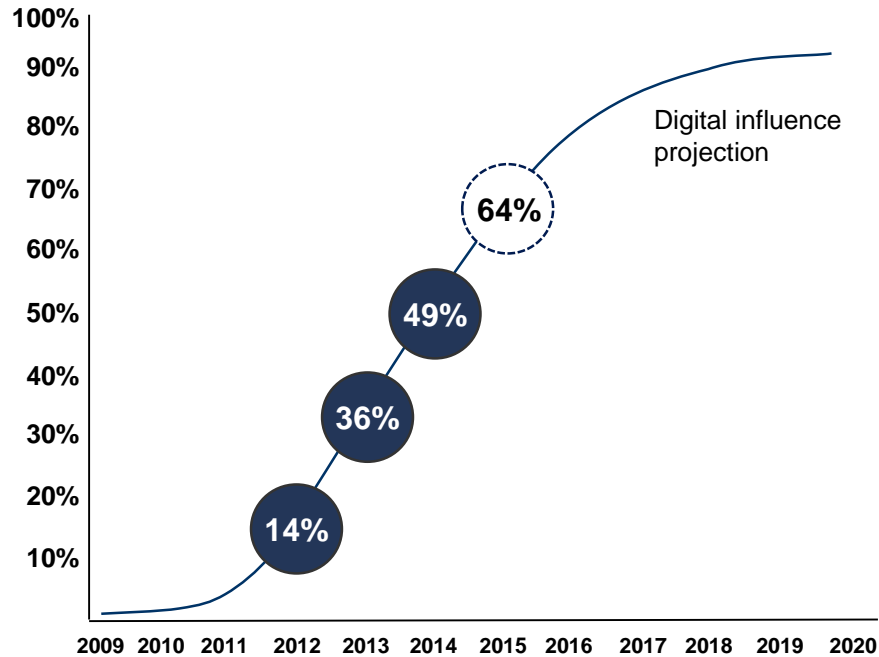
Online sales with HUGO BOSS products generated by wholesale partners in 2014 (at retail value)



- Account-specific approach to distribution based on brand environment
- Strong interest in expanding direct brand control via online concessions

# Physical and digital retailing are growing together

## In-store sales influenced by digital



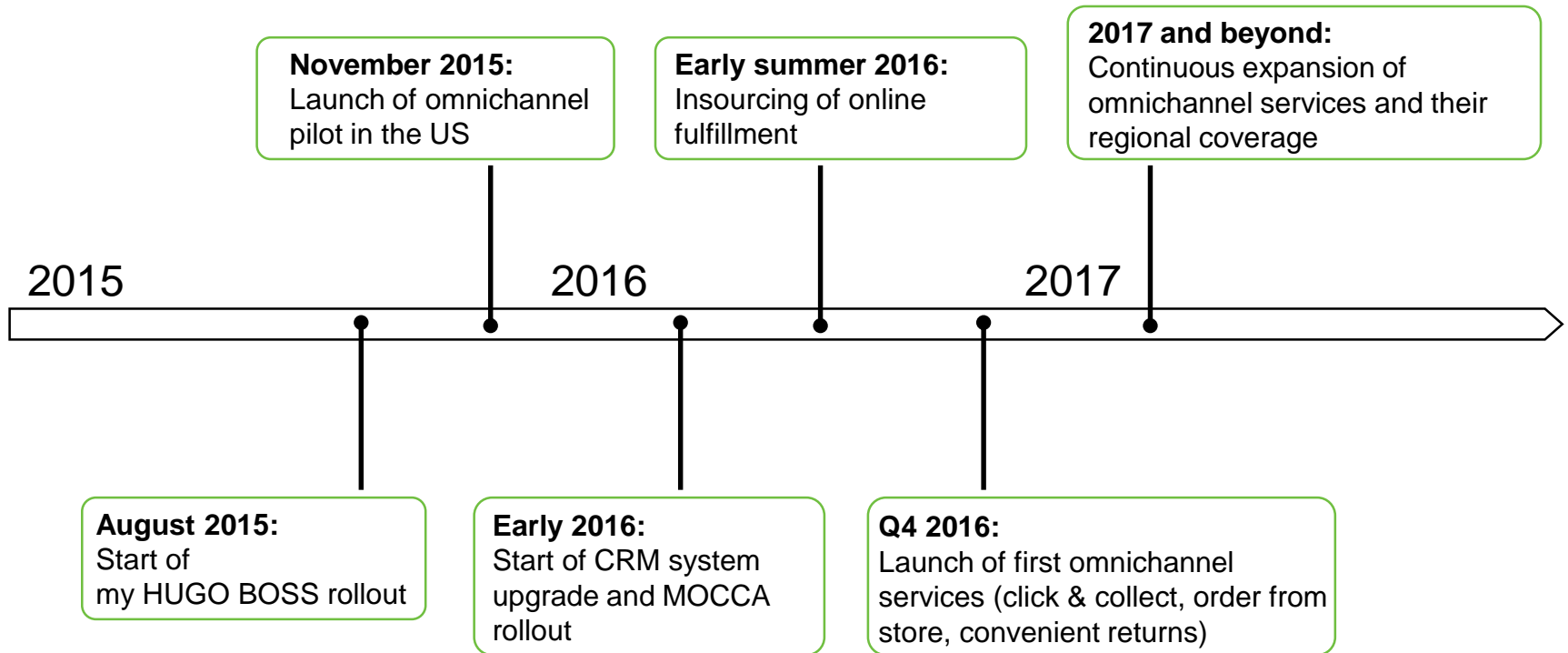
Source: "Navigating the new digital divide 2015", Deloitte Digital, 2015

## HUGO BOSS customers researching online before purchase



Source: HUGO BOSS Customer Survey 2015, n = 15,003

## Omnichannel is going to break the barriers between online and offline



Omnichannel will become increasingly important driver of retail sales growth online and offline

An accretive effect on the Group's margin development is expected after the investment phase in 2015 and 2016

## Underpenetrated markets are a source of long-term growth



Elevate the BOSS core brand by engaging consumers emotionally



Leverage the brand's potential in womenswear and shoes & accessories



Build omnichannel to drive own retail online and offline



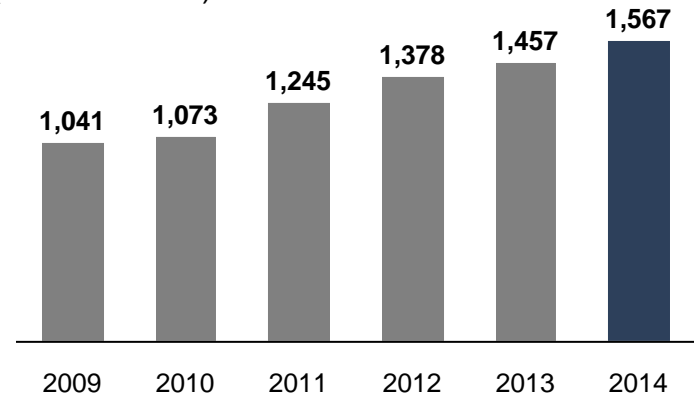
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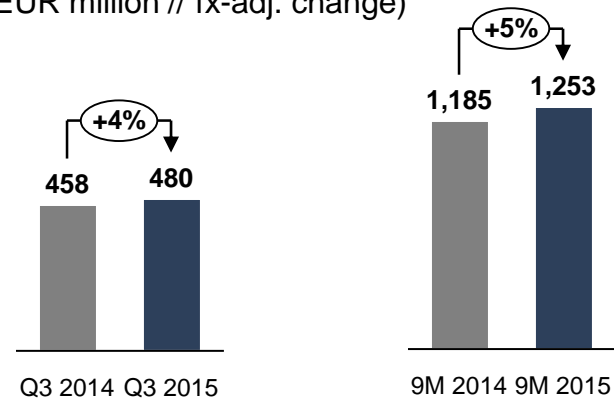
## Confident outlook for region Europe

- Good growth despite mixed market environment
- Continued transition to retail model business model builds on achievements in all areas of retail management
- Successful completion of category migration process supports uplift of BOSS brand perception at wholesale

**HUGO BOSS Europe sales development 2009-2014**  
(in EUR million)



**HUGO BOSS Europe sales development 2015**  
(in EUR million // fx-adj. change)

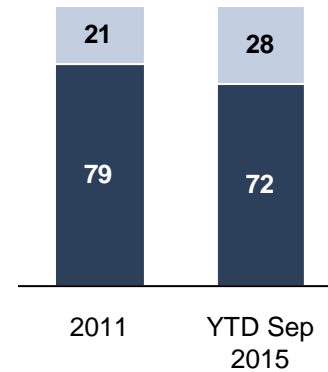




## China remains the Group's biggest regional opportunity

- Increased focus on formalwear in merchandising and brand communication has sharpened brand perception and benefited sales
- Flagship openings and ongoing upgrade of ex-franchise stores contribute to quality of retail network
- Further steps planned to narrow price differences to other Asian markets in particular
- Cost efficiency improvements targeted in 2016

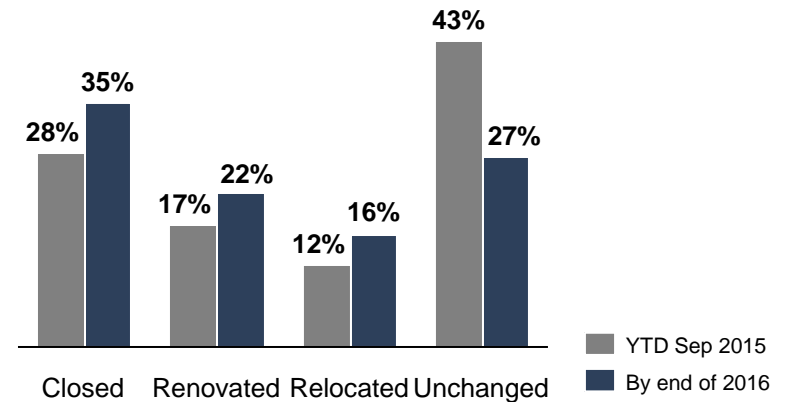
**China sales split**  
(in %)



**Global sales split**  
(in %)



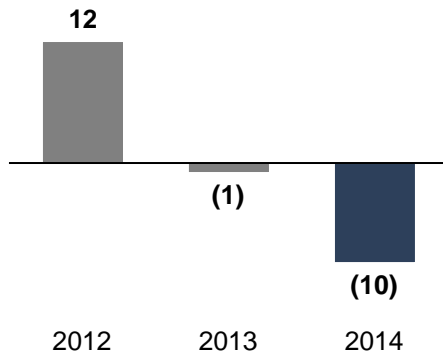
**Evolution of ex-franchise store base in China**  
(based on total of 69 stores taken over 2010 - 2015)



# The Chinese luxury apparel market is once more set to suffer a double-digit decline also in 2015

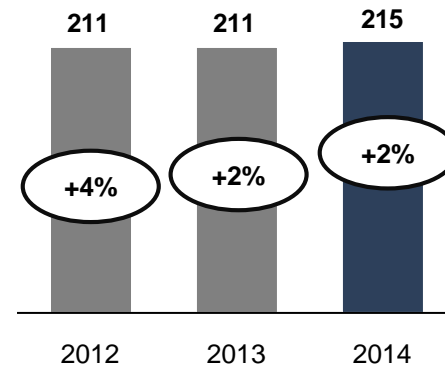
- Economic slowdown and stock market turbulence impacts local demand
- Hong Kong market undergoing structural change
- Robust sales growth with Chinese tourists in other Asian markets and Europe

**Chinese men's luxury apparel market (retail sales)**  
(change in %)

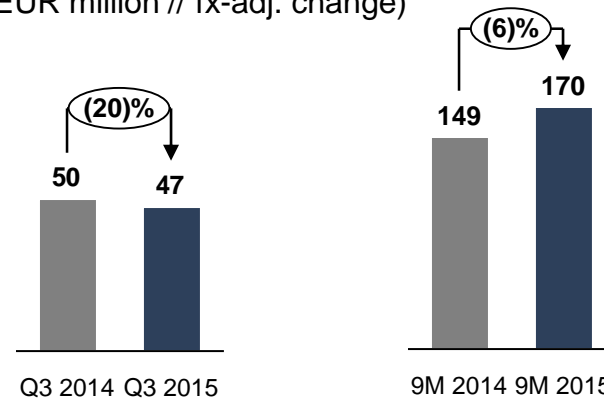


Source: Bain

**HUGO BOSS China sales development 2012-2014**  
(in EUR million // fx-adj. change)



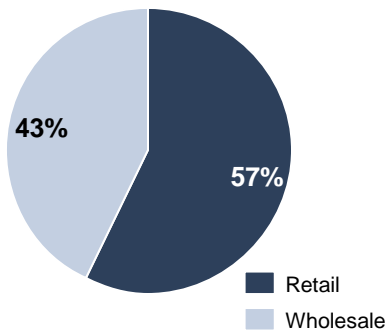
**HUGO BOSS China sales development 2015**  
(in EUR million // fx-adj. change)



## Performance in the US has deteriorated of late

- US business down 10% currency-adjusted in third quarter, down 2% year-to-date
- Weaker tourist business and restrained consumer spending trigger high levels of in-season promotional activity
- Traffic declines are affecting own retail performance

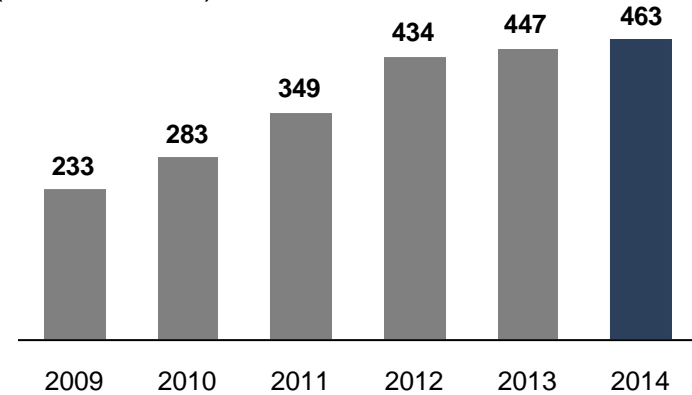
US sales mix by distribution channel (2014)



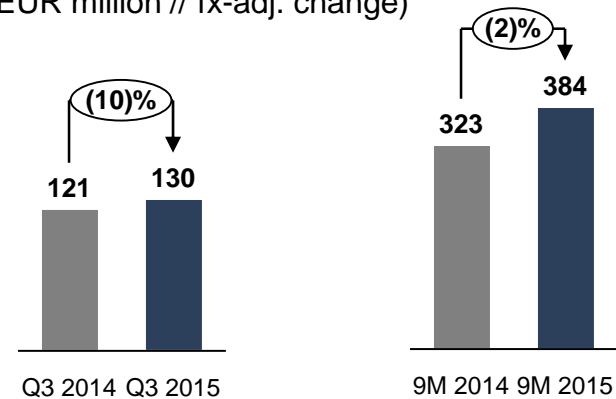
Top 5 US wholesale partners

1.	Nordstrom
2.	Bloomingdale's
3.	Macy's
4.	Dillard's
5.	Saks

HUGO BOSS US sales development 2009-2014  
(in EUR million)



HUGO BOSS US sales development 2015  
(in EUR million // fx-adj. change)



## HUGO BOSS is seeking to elevate the quality of its brand presentation in US wholesale

Strong interest in assuming direct control of HUGO BOSS shop-in-shops at department store partners

- Upgrade of store concepts
- Optimization of merchandising assortment
- Improvement of service quality

Category migration strategy to be implemented in 2016

- Distribution of BOSS core brand to be limited to shop-in-shops
- HUGO and BOSS Green to substitute BOSS core brand offering in category spaces

Reduction of off-price business

- Brand presence in wholesale off-price channels to be further limited
- Own outlets primary channel to clear excess merchandise

Group willing to accept short-term negative sales impact in order to drive full-price sell-through and support brand equity

## Initiatives are under way to strengthen US retail execution and operations

Customer focus

- Key customer activation activities and intensified retail trainings to support traffic and conversion

Retail front-end

- New cash desk solution implemented, rollout of CRM system upgrade in early 2016

Omnichannel

- First Click & Collect pilots off to a promising start

Logistics

- Comprehensive overhaul of technical and IT infrastructure at Savannah distribution center ongoing

Merchandise planning

- Newly implemented Retail Merchandise Planning system adjusts key planning and buying processes to Group-wide standards

## Agenda

**Group's operating environment changing at rapid pace**

**Group strategy to turn challenges into opportunities**

**Group committed to investing in long-term growth**

## Every element of Group strategy is set to contribute to long-term growth...



Condensed brand purpose to drive perception and desirability



Clearer brand differentiation to support brand elevation



Investment in womenswear warranted to build business for long term



Own retail strategy well balanced between expansion and productivity maximization



Omnichannel to step-change customer experience at HUGO BOSS



Solid foundation for long-term growth built in China



Implementation of initiatives to reignite growth in the Americas in full swing

## ...but challenges in key markets and investments will weigh on financial performance in 2016

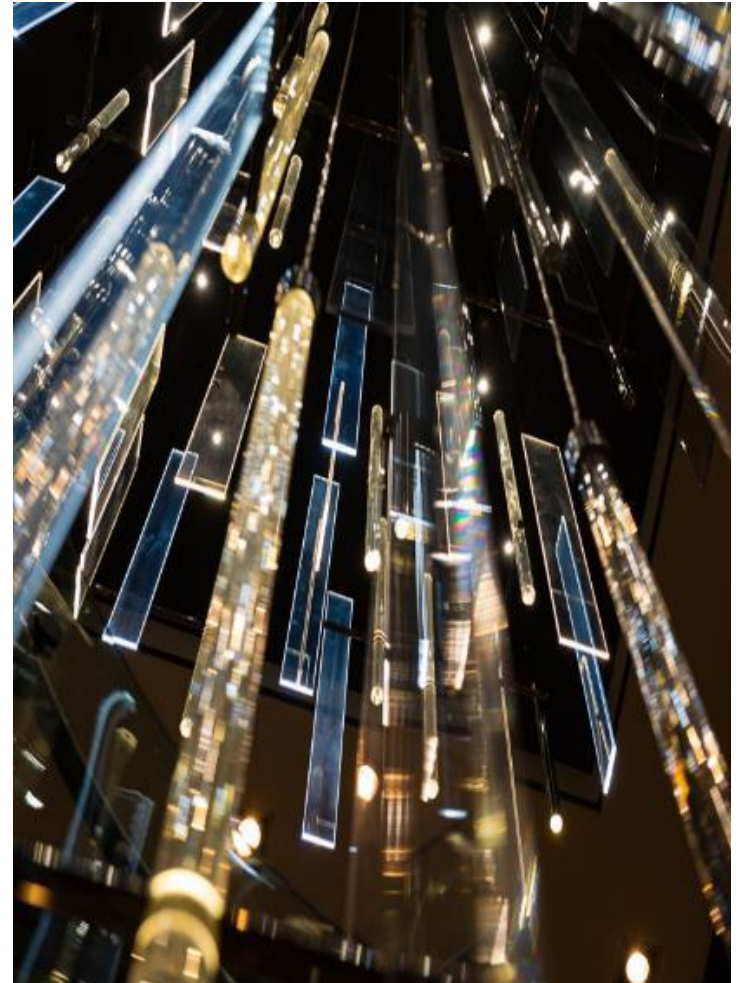
- Group sales improvement in 2016 is forecasted to remain below long-term target level of high-single-digit growth as a result of ongoing challenges in China and the US
- Investments in omnichannel and retail business model transformation will equip Group to turn industry changes into opportunities
- Lower capex and further improvement of working capital management will contribute to free cash flow increase in 2016
- Strong commitment to maintaining attractive dividend payout policy remains





## Investment in the key strategy pillars will support medium-term growth

- Rapid change in operating environment highlights the need to further invest in transformation to customer-centric business model
- Solid progress in key strategy areas overshadowed by ongoing challenges in China and the US
- Achievement of 2020 EBITDA margin target of 25% has become increasingly dependent on overall market recovery



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