Third Quarter 2020 Results
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- The spoken word shall prevail –

Good afternoon ladies and gentlemen and welcome to our third quarter 2020 financial results presentation. Today's conference call will be hosted by Yves Müller, CFO of HUGO BOSS and Spokesperson of the Managing Board. As always, during the Q&A session, I kindly ask you to limit your questions to a maximum of two, to allow everybody to ask his or her questions. So, let's get started and over to you, Yves.

Thank you Christian, and good afternoon ladies and gentlemen. Also from my side, a very warm welcome to all of you. I really hope you and your families are all doing well. In today's presentation, I will mainly focus on two broader topics:

- As you would expect, I will guide you through our third quarter operational and financial performance and elaborate in detail on how we progressed with the overall recovery of our business in the context of COVID-19.
- Beyond Q3, I will also spend a considerable time to discuss some of our strategic initiatives and the progress we are currently making on this front, in order to return to our former growth trajectory.

But let's begin by taking a closer look at our Q3 performance, starting with the top-line development. I am pleased to report that our business recovery – which already started at the end of Q2 post the lockdown in most markets – has clearly continued in the third quarter. Thanks to steady improvements in all regions and sales channels we were able to limit the decline in Group sales to 24%, currency-adjusted. In reported currency, this represents a decrease of 26%, with sales totaling 533 million euros in the three-month period.

With an average store opening rate of around 95% in Q3, it was our own retail business in particular which recorded a considerably more robust performance as compared to the first half of 2020. This is reflected by own retail revenues being down 20%, currency-adjusted. While local demand in key markets picked up noticeably as compared to the previous quarter, business with tourists continued to suffer from international travel restrictions, especially in metropolitan areas.

Currency-adjusted sales in our wholesale business were 30% below the prior-year level. The recovery in this sales channel was less pronounced than in own retail due to our deliberate decision to allow our wholesale partners to cut their Fall/Winter orders by an average of 20% to 25% back in March and April, which led to lower deliveries in the third quarter.

Despite the significantly larger store opening rate, our own online business continued its strong double-digit growth trajectory from previous quarters, as reflected by revenues up 66%, currency-adjusted. Growth was once again broad based, with all three regions recording strong double-digit improvements in Q3.

Similar to the second quarter, the development in Q3 was driven by strong momentum on both hugoboss.com as well as multibrand platforms operated in the concession model. Let me remind you that both are core pillars of our strategic ambition to significantly grow our own online business in the years to come.

The period from July to September therefore marks the twelfth consecutive quarter with significant double-digit online sales growth for HUGO BOSS. This propelled the share of our own online business for the nine months period to 10% of Group sales – more than twice as much as was the case in 2019.

This brings me to our regions, and first of all to mainland China, which clearly was a bright spot also in Q3. With currency-adjusted revenues up 27%, momentum further accelerated in the three-month period, thus enabling mainland China to successfully continue its recovery that already started back in March.

While this development was supported by a repatriation of local demand, we also witnessed strong improvements in conversion rates in brick-and-mortar retail, as well as high double-digit online sales growth. In both sales channels – offline and online – we recorded robust growth with existing Chinese customers but also with new customers – and here, in particular, among younger cohorts.

The execution of regional events together with the activation of local brand ambassadors continues to lift our brand awareness and relevance vis-à-vis Chinese consumers – something I will discuss in more detail later on.

The strong momentum in mainland China positively contributed to the overall sales performance of Asia/Pacific. Consequently, and with currency-adjusted sales down 14%, business recovery in Asia/Pacific was more pronounced as compared to Europe and the Americas.

Most of the region's other markets, however, could not keep pace with mainland China:

- In particular, business in Hong Kong and Macao continued to suffer from significantly lower tourist flows, with the latter only starting to witness a more noticeable pick-up towards the end of the quarter.
- Other markets in the region, in particular Australia, had to cope with renewed local lockdowns and the corresponding temporary store closures in the wake of the pandemic.
- Last but not least, in Japan, a high comparison base linked to the VAT hike in October 2019 put further pressure on the market's sales performance in the third quarter.

This brings me to Europe, where currency-adjusted sales were down 21% on the prior-year level, as lower tourist flows continued to weigh on the region's overall business recovery. This was particularly true for southern European countries such as Italy and Spain – two markets that strongly rely on international tourism, first and foremost during the important summer months.

At the same time, the region also benefitted from a solid rebound in local demand, something that became visible particularly in France, Benelux and the UK. To conclude on Europe, Germany's sales recovery was broadly in line with that of the region, with own retail slightly outperforming the wholesale channel.

Let's now move over to the Americas, where currency-adjusted sales were down 41% in the third quarter. While revenues in Latin America recovered nicely, with both Mexico and Brazil only down in the low teens, sales across the U.S. and Canada were down by mid-double-digit percentage rates each. This reflects ongoing traffic declines in both retail and wholesale, but also local lockdowns and accompanying temporary store closures in several key areas of our business. In particular, in New York City, our important stores at Columbus Circle and the World Trade Center were closed throughout most of the third quarter and only reopened in mid-September. In addition, several of our stores on the West Coast, be it in San Francisco or in LA, had to close their doors once again during Q3.

Besides the more pronounced implications resulting from the pandemic – relative to all other regions – our business in the U.S. market continues to suffer from a comparatively high formalwear share – something that is particularly true for the wholesale channel. This, in turn, did not allow us to benefit to the same extent from the overall market recovery compared to other apparel brands.

Let me be very clear that we are resolutely working on changing our brand perception, as well as our product assortment in that important market. Our new partnership with Russell Athletic, on which I will elaborate later on, marks a first major milestone in this regard. Another exciting collaboration that will ensure we connect our brands stronger with the local consumer, and strengthen our positioning in casual- and athleisure wear, will be announced shortly.

Speaking about formalwear and casualwear, and concluding my comments on the top line, let's take a quick look at the sales development by brand and wearing occasion. At BOSS, the brand's casualwear and athleisure wear offerings once again showed a more robust performance compared to formalwear. While casual- and athleisurewear recorded declines in the high teens, formalwear was down in the high twenties as it continues to be particularly impacted by global social distancing measures as well as the ongoing lack of events and occasions – be it weddings, company events, or business trips. Overall, currency-adjusted sales for BOSS were down 24% in Q3.

Also at HUGO – our contemporary fashion brand – casualwear proved to be more resilient than the brand's formalwear offering. Consequently, and while total sales for HUGO decreased 25%, currency-adjusted, the brand's casualwear sales were only down by a mid-single-digit percentage rate. This, ladies and gentlemen, closes my remarks on the top line. So let's move on to the remaining P&L items.

In light of the overall sales decline, I am all the more encouraged that we returned to positive earnings territory in the third quarter. This development was driven, first and foremost, by tight cost control and the successful execution of various cost-saving measures in the wake of the pandemic. Let me shed some light on the different moving parts contributing to the strong rebound in our bottom line.

Starting with the gross margin, which totaled 61.9% in the third quarter. The decline of 140 basis points is entirely related to the overall promotional retail environment and a later season switch to the Fall/Winter collection – in particular in Europe and the U.S – caused by the pandemic. In contrast, we also recorded a slightly positive channel mix effect due to the increased share of retail sales. This, however, only partly compensated for the overall gross margin decline.

Moving over to the operating expenses, which declined by a strong 15% in Q3. The significant decrease of 18% in selling and distribution expenses mainly reflects further rent and payroll savings in our retail business, with the magnitude of both effects being quite comparable in the third quarter. Besides that, we also spent less on print media advertising and physical marketing events – without compromising on necessary investments to drive brand heat for BOSS and HUGO, such as the BOSS fashion event in Milan and various social media activities.

Let’s also take a quick look at administration expenses, which came in 4% below the prior-year level. Our consistent cost management as well as positive effects from the relentless execution of our implemented cost-saving measures were also effective in the third quarter. The achieved savings predominately relate to lower payroll costs as well as the elimination of non-business-critical corporate expenses, such as travel expenses and hiring costs.

As a result, our EBIT returned to positive territory in the third quarter, totaling 15 million euros in the three-month period. Finally, our Group’s net income amounted to 3 million euros. With this, let’s now move over to the balance sheet.

Starting with inventories, which remained broadly stable in the third quarter and were up only 2%, currency-adjusted. This development is directly linked to the successful execution of our initiatives to reduce merchandise inflow as well as the overall gradual business recovery during the three-month period.

At the end of Q3, trade net working capital was down 7% on the prior-year level, currency-adjusted. Lower trade receivables resulting from fewer deliveries to wholesale partners were the main driver here. In addition, slightly higher trade payables contributed to the decrease.

Last but not least, capital expenditure declined by 65% in the third quarter as we continued to postpone several retail and IT investments to protect cash flow during the pandemic. The focal point of our investment activity was once again the renovation of retail stores as well as the further upgrade of our digital capabilities, predominately aimed at supporting the expansion of our global online business in the years to come.

Safeguarding the financial stability of our company continued to be a key priority also in the third quarter. In this context, I am particularly pleased that, once more, we made great progress in successfully executing our various measures regarding cash flow protection. All three pillars – that includes our strict cost management, a significant reduction in inventory inflow, as well as the postponement of investments – contributed positively to the strong acceleration in cash flow generation in Q3. Consequently, free cash flow totaled 155 million euros in the three-month period, more than twice as much as in the prior-year period.

Equally as important, our financial flexibility remains fundamentally sound. This is also reflected by our revolving syndicated loan, totaling 633 million euros, which was only utilized in the amount of 134 million euros at the end of September. Also, as of September 30, we have <u>not</u> drawn any of the additional 275 million euros of credit commitments that we secured in Q2.

Protecting our financial strength and flexibility – which was a key priority so far this year – remains of utmost importance. Even more so, as the environment we are operating in continues to be fragile, as we are all learning the hard way these days. In many of our core markets, in particular in Europe and the Americas, the situation around COVID-19 has deteriorated again, and we are all witnessing a continuous and rapid surge in the number of infections. And although it is not yet fully predictable at this stage as to what sort of further countermeasures governments will implement, we are already seeing the first lockdowns in several countries in Europe. This, in turn, weighs on consumer behavior, representing a renewed risk for the upcoming holiday season.

Nevertheless, and despite these uncertainties, we are absolutely determined to fully exploit our sales opportunities during the final quarter of 2020. As you all know, Q4 is of particular importance, reflecting the upcoming holiday season, but also numerous sales events like Chinese Golden Week or Black Friday.

Simultaneously, we will also push ahead with the execution of our strategic priorities. Our strategic growth drivers – first and foremost China, Online and Casualization – will therefore continue to take center stage in the short and long term.

With only 7% of Group sales coming from mainland China, there is no doubt that our Company remains highly under-penetrated in this strategically important market, in particular compared to many of our competitors. There is also no doubt that the importance of mainland China will continue to rise in the years to come, supported by a structural repatriation of local demand and a growing middle-class.

And although we cannot be satisfied with the current size of our business in mainland China, we have a strong positioning in that market, which is a great foundation for exploiting our full potential in the years to come:

- With 135 own retail points of sale in mainland China, we have full control over distribution and pricing. More than 95% of our business is generated via the own retail channel. This enables us to react quickly and flexibly to any changes in customer demand, as we could see in the 2020 fiscal year.
- Our German heritage and our high expertise in tailoring resonates extremely well with the Chinese consumer. With a "tailored" share of more than 30% in our formalwear and casualwear offering, the product mix in mainland China is skewed towards the higher price points in our collection.

- And, last but not least, mainland China is one of our most profitable markets already today, based on relatively high basket sizes and a favorable cost structure as compared to other markets.

Exploiting mainland China's huge sales opportunities will therefore continue to be a top priority for us, and support our Group from a top- and bottom-line perspective.

Based on our strong positioning in the market and our underlying momentum, we will continue to focus on executing regional events with the support of local brand ambassadors. This type of combination has proven to be a great formula for success, as it enables us to accelerate our engagement with the local consumer, while at the same time, also driving traffic and conversion – offline and online. A prime example in this context is Qixi – or Chinese Valentine's Day – which took place on August 25.

Following strong social media activation, a big event with Li Yifeng was hosted at our BOSS Store in the Kerry Centre Shanghai. Different mix-and-match looks were showcased by local influencers, and Li Yifeng introduced our first China-exclusive Valentine's Day capsule. The event has been a big success, not only from a marketing perspective, but also in brick-and-mortar retail, with sales up by more than 30% on that day. In Online, sales even quadrupled compared to last year's event.

Besides Qixi, we were also very satisfied with our performance during Chinese Golden Week, where sales have seen a further strong acceleration compared to our overall Q3 performance. In addition to our initiatives to drive like-for-like growth in the market, we also see the potential for further space expansion. As we are in the process of establishing a robust retail footprint in mainland China's best properties, we continue to seek new opportunities in order to meet the increasing repatriated local demand. And with some stores operating on net selling space below 100 square meters, there is also an opportunity to upsize existing stores, in particular when it comes to metropolises like Shanghai. Altogether, this should enable us to increase space in mainland China by more than 10% per annum.

With regards to online in mainland China, we have often highlighted the tremendous potential in the market. At this stage, growth is mainly coming from Tmall and JD, with both businesses operating in the concession model. Both platforms have seen high double-digit growth throughout 2019 and 2020, and we remain fully committed to continuing our growth journey here. We are also evaluating additional digital platforms for the Chinese market to ensure we are not missing even a single sales opportunity going forward.

Beyond online, we are also committed to expanding our social commerce activities. In this context, and in order to further exploit social commerce going forward, our stores in mainland China have successfully implemented WeChat Work, thereby enabling our store personnel additional cross-selling opportunities by connecting more frequently with our customers. We are currently also piloting WeChat's payment function in several of our stores, in order to further elevate the customer experience at the point of sale.

Not only in China, but also from a global perspective, our own online business is enjoying strong momentum. As you are all aware, we have set ourselves the target of growing online sales to more than 400 million euros by 2022, and we are well on track to achieving this target! Since we announced our goal back in November 2018, our own online business has seen a CAGR of more than 40%. The next milestone will be the crossing the 200 million euros mark, which is expected very shortly and before year-end.

Importantly, and as we have highlighted many times before, our own online strategy is built on two pillars – our digital flagship hugoboss.com as well as the concession business – both of which will play a crucial role in achieving our online sales target by 2022.

As both should account for approximately 50% of total online sales by then, this in turn means that we continue to expect the concession business to outgrow hugoboss.com in absolute and relative terms. Therefore, it is all the more important that over recent years, numerous partnerships have been cemented including Zalando, Next, Boozt and La Moda in Europe, Macy's in the Americas or Tmall in Asia/Pacific, just to name a few.

As we speak, the global expansion of our website hugoboss.com is in full swing. At the end of 2019, our website was available in a total of 15 markets, including 13 countries in Europe as well as the U.S. and China. To accelerate the rollout of our digital flagship, we not only focused our internal resources on the future expansion of .com, but also sealed a strategic partnership with Global-e – a leading provider of comprehensive cross-border e-commerce solutions.

The 2020 fiscal year will see a total of 32 countries being added to our roster of online markets, including Australia, Japan, Canada, and Mexico. This brings the total number to 47 online markets by the end of the year.

And we are already working on the next roll-out waves. In the first quarter of 2021 alone, we will tap at least ten more countries, including Russia and South Korea. Further roll-outs are scheduled for later that year, as our ambition remains to have hugoboss.com available in almost each and every country around the globe.

From a brand perspective, one of our key objectives remains to drive brand heat and elevate the desirability of BOSS and HUGO in the long run. Going forward, our marketing initiatives will therefore focus on three pillars:

- Firstly, **highlight events** with the primary goal to emotionalize our brands and have the maximum impact on our consumer
- Secondly, strong partnerships with **influential personalities** and key opinion leaders
- And thirdly, exclusive **collaborations** with globally renowned and appealing brands and businesses.

One of my personal highlights in recent weeks was our BOSS fashion show in Milan and our very successful brand event that took place in parallel in Shanghai.

At the end of September, we revealed our BOSS Spring/Summer 2021 collection with a runway show at Milan Fashion Week. The show was livestreamed on Instagram, and for the first time, on TikTok, as it continued our brand's decisive move towards casualization, revealing a sportier and younger version of BOSS than ever before.

Simultaneously, and equally as important, a brand experience took place in Shanghai and was also livestreamed across digital platforms WeChat and Tmall. The event featured a broadcast of the Milan show as well as several well-known faces such as BOSS brand ambassador Li Yifeng. Most importantly, the Shanghai event concluded with the reveal of an exclusive collection of our upcoming holiday campaign BOSS x Justin Teodoro, which were offered to Chinese customers during a "see-now buy-now" shopping experience.

The combined Milan-Shanghai event was not only a true international success story, but was also proof positive of our strong capability to celebrate our brands and products digitally on a global level.

I am equally excited that we continue to make great strides when it comes to strengthening and expanding the roster of brand ambassadors for BOSS and HUGO. In September, BOSS teamed up with German fashion influencer and entrepreneur Caro Daur on an exclusive womenswear capsule. Staying true to the elegant aesthetic of BOSS while fusing both parties' individual approaches to style, the "BOSS curated by Caro Daur" capsule represents a fresh and modern interpretation of BOSS that resonates greatly with our female customers.

The month of September also saw the launch of the second BOSS menswear capsule co-created by British boxer and two-time unified heavyweight champion Anthony Joshua, bringing together Joshua's unstoppable spirit with modern BOSS style. For both collections, we saw an affirmative response with regards to sales – with many highlight pieces sold-out on hugoboss.com shortly after their launch.

Finally, HUGO is about to launch its third casualwear capsule inspired and co-created by the brand's global ambassador Liam Payne, thus – once again – strongly supporting HUGO's positioning in the important contemporary fashion segment. All three collaborations will help us in driving brand heat, in particular among younger customer groups on social media – and I can promise you, there is more to come! So please – stay tuned!

Speaking of social media, I am all the more encouraged that during 2020, we have witnessed a significant improvement in relevant social media metrics on the most important platforms, first and foremost on Instagram. In the third quarter alone, our brands have seen a strong uplift in engagement rates, which were up by more than 60%, as well as a significant increase in "average likes per post," which almost quadrupled year over year.

Without doubt, this is proof positive for the success of our evolved digital marketing approach. In particular, our strong focus on timely, relevant and user-generated content has begun to pay off, and helps BOSS and HUGO to increase reach and credibility on Instagram and other relevant social media channels.

To conclude on our marketing initiatives, let me spend a minute on our new partnership with iconic American sportswear pioneer Russell Athletic. As part of the upcoming Pre-Fall 2021 season, a brand-new capsule collection for BOSS will come to life, with a clear focus on casualwear and athleisure wear. These fresh looks will unite the best of both worlds – the expert tailoring and signature style of BOSS with the instantly recognizable aesthetic of the American sportswear brand.

Launching in March 2021 with a campaign produced by publisher and creative agency Highsnobiety, this collaboration is one of the strongest moves towards casualwear in the history of BOSS. It represents a huge opportunity to strengthen our BOSS casualwear business on a global level, but particularly in the important U.S. market.

Speaking about casualization: as you are all aware of, already today, our brands' casualwear business accounts for more than 50% of Group revenues. Over the last several years, more and more casualwear elements have found their way into formalwear – and vice versa! Yet, the global trend towards a more casual lifestyle has experienced a further strong push together with the pandemic.

Driving the casualization of our business model – across brand, gender and wearing occasion – will therefore remain a top priority for us in the months and years ahead, as we are committed to exploiting the full potential of casualwear. We will also continue with breaking up the boundaries between casualwear and formalwear, thereby merging the various wearing occasions and bridging the gap between tailoring and sportswear seamlessly.

As the leader in the upper men's premium apparel market, already today, we are offering one of the widest ranges of modern outfits to be impeccably dressed 24/7. And it is our clear ambition to not only capture, but lead the trend towards a more casual lifestyle. Based on our unique DNA and heritage, we have a strong foundation to build on. And I am fully convinced that with our powerful creativity, our high retail expertise, and our fast and flexible responsiveness, we will successfully push ahead to win over customers! Our partnership with Russell Athletic is a prime example in this regard – and this is only the beginning!

Now, ladies and gentlemen, this concludes my prepared remarks for today. Before we start with the Q&A session let me just very quickly reiterate what I have already highlighted before:

- Without doubt, the current environment remains uncertain as COVID-19 continues to dominate our everyday lives.
- Our financial strength, however, will ensure that we safely navigate the pandemic also in the coming months.
- We will resolutely exploit all sales opportunities in the upcoming fourth quarter.
- And we are determined to push ahead with the execution of our strategic priorities.
- In doing so, we are laying the foundation for ultimately returning to our former growth trajectory once the spread of COVID-19 is contained.

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