H U G O   B O S S

HUGO BOSS Investor Day 2018

Transcript – Q&A Session with Mark Langer (Chief Executive Officer), Yves Müller (Chief Financial Officer), Bernd Hake (Chief Sales Officer) and Ingo Wilts (Chief Brand Officer)

November 15, 2018

Please note that the transcript has been edited to enhance comprehensibility. Please also use the webcast replay to listen to the Q&A session.

Volker Bosse (Baader Bank): Two questions from my side, starting with HUGO. You have talked about store expansion. What amount of stores can you imagine to have live by 2022?

My second question relates to your expansion target. You have talked about openings, relocations, closures and renovations. What kind of sqm growth do you imply in your annual sales growth target of an average of 5% to 7% until 2022?

Bernd Hake (CSO): It is too early to indicate a number for the amount of HUGO stores in 2022. It is important for us to get to know our HUGO customer in the stores now, in order to further optimize the product range and the selling space. For example, we believe that HUGO is underrepresented in the trousers category today, as compared to BOSS. Together with our brand management we will analyze what product categories we will need to add to our HUGO stores and to HUGO's digital offer. In a second step than we will have to analyze how to accelerate the HUGO store rollout. So we won't provide you with a number for 2022 today.

Regarding selling space, we estimate it to develop between 0% and +2% in total until 2022, so only a very limited increase, if any. So the focus is not on adding selling space but clearly on increasing productivity.

Zuzanna Pusz (Berenberg): Two questions, please. First, on the drivers for topline growth. So it's 5%-7% p.a. and we already got some information on the growth drivers. Can you give us more information on the underlying assumptions, for example the like-for-like growth and the contribution from converting online wholesale accounts into online concessions?

My second question is on lead times and your plans to reduce them further. What are the lead times today for BOSS and HUGO? And regarding HUGO, do you think that in terms of lead times you will be able to compete with peers such as SMCP, which have a lead time of around 100-120 days?

Mark Langer (CEO): We have been quite explicit in quantifying the growth drivers until 2022. For physical retail we target an annual like-for-like improvement of 4%, that is excluding the impact of ecom. Our own online business, which also includes online concessions, we expect to increase from around EUR 100 million today to EUR 400 million by 2022. From a regional perspective, Asia will be the most important growth driver and we gave you a relative target, excluding currency fluctuations, of double-digit growth until 2022 towards a sales share of 20%. Regarding HUGO, we also gave you a relative target, as the growth of HUGO will depend also on how many stores we will operate in 2022 and how strong the brand will resonate in the evolving online concession business, were we see very encouraging signs. So HUGO we forecast to grow overproportionally as compared to the Group, i.e. more than 5%-7%. So no absolute sales target for HUGO, but we would consider it as a disappointment if the share of HUGO sales in 2022 would not be higher than the approximate 15% of today, as we have not fully tapped into the potential of this market segment yet.

We see SMCP as one key competitor in HUGO's market segment, in terms of great collections but also in terms of responsiveness. Our HUGO Store in Paris, Le Marais is right next to one of their stores and we have now demonstrated with HUGO that we are getting relatively close to their responsiveness especially when it comes to the digital development. We believe that a lead time of six to eight weeks is really super fast when it comes to turning a design idea into a ready-for-production item. There is still room for speeding up when it comes to production and distribution and I will give you more details on this later in my presentation. We have already deployed some in-season demand solutions. But first we want to make sure that we are as good as the best in our segment, i.e. the premium and upper premium segment, when it comes to responsiveness. I think that we are at least on par when it comes to capabilities and deployment in our systems. Digital development represents only a small part of our HUGO collection today. Be reminded that speed is not a prime aim, but speed is needed to be more productive and efficient. We see now proof of our concept and that investments and the change in attitude and in procedures are paying off. So it will be about turning this into a real competitive advantage.

Antoine Belge (HSBC): Regarding the volume vs. price mix components of overall sales growth, I think 2018 was a bit special in terms of volumes being up double-digit and there were distribution shifts towards more casualwear. So is that rebasing now done? And do you expect to see some negative price mix in the next 4 years?

My second question is on Mainland China. How many stores do you have today? How many do you intend to open? And will the focus of expansion still be on Tier 1, Tier 2 cities? Or are there ambitions to be going outside of that? Or will that be covered by other means, notably online?

Yves Müller (CFO): From the pricing perspective, everything has been incorporated now coming from the global price harmonization. So this is done in 2018. But the effects that are remaining are coming from the assortment mix, more casualwear than formalwear. But this is, in some cases, compensated by more units per transaction. So you have to consider both aspects at the end. It's about sales per transaction. And this has been incorporated in our business plan.

Bernd Hake (CSO): We have around 120 stores in Greater China, and we were focusing on Tier 1 and Tier 2 cities. And now it's about further exploiting this city potential, but also to start to move into Tier 3 and Tier 4 cities, together with landlords which are valuable to drive traffic.

Mark Josefson (Equinet): Regarding your existing BOSS portfolio, how many stores do you think are either wrongly located or maybe not quite the right size?

Mark Langer (CEO): It is important to understand that we have cleared our portfolio of significant loss-making stores in 2016. You all remember the significant restructuring charge that we took in the second quarter 2016. And over the following 12 months, we have clearly eliminated the loss-making stores from our portfolio.
What we are focusing right now is something I would call it a grey area. I mean, the store that we have relocated in Boston was okayish to good. The ones like that in Soho,

it has deteriorated, but it's not a dramatic loss-making store. What we are seeing now with the new BOSS store concept, with omnichannel services is that we turned something from good to great. With our separately run HUGO stores, with omnichannel services and the consumer preferences for e-com we generate even higher sales, and you have seen some of the examples to it. A 10%, 15%, 25% decrease in space still resulted not only in higher sales productivity, but even higher absolute sales. So this is how you should look at our store portfolio right now.
It's rightsizing, sometimes it's about the right location. So also the former luxury locations that we have went after in some malls and some street locations will be replaced by more commercial locations. But this is rather not about fixing something that's broken but taking something that's already on a very well performing level to something that’s able to deliver ideally a 4% like-for-like annual improvement in our physical retail.

Luca Solca (Exane BNP Paribas): My first question is on wholesale. You were talking about 6,000 doors and a third of the sales from the top 10 accounts. I wonder if that potentially represents a risk knowing the predicament of some of the apparel wholesale players in the industry? And whether you are sort of integrating some contingency into planning your business until 2022?

My second question is on the overall approach and strategy. I see a lot of rational elements in your narrative and in your plan today that I really appreciate. I wonder, though, if from a marketing and brand positioning point of view, there's potential for more irrational elements. If we take some of the brands that are leading in the soft luxury space today, if we take Moncler or if we take Gucci or even Louis Vuitton and Burberry, I wonder if those elements are more concentrated in the HUGO brand and there's a bit too few of that in the BOSS brand? I just wonder if the focus on brand positioning may look a bit too German maybe?

Bernd Hake (CSO): Due to our network of subsidiaries, we are usually very close to our wholesale partners, e.g. when it comes to the Americas, Canada, Mexico, but also in Europe. We are visiting our wholesale partners regularly and we know exactly what they aim for. And when we talk about 6,000 point-of-sales, please keep in mind that this also includes specialty retailers, which only sell our bodywear for example, or which sell just our shoes and accessories. So it's not like all of them offer our full product portfolio. We see our wholesale partners four times a year in our showrooms, and we are also visiting them regularly. In cases we see that our brands deteriorate or that we are in an environment where our brands don’t fit anymore, we definitely go into discussion with the respective partner aiming to either elevate the brand and its positioning, or to reassess which kind of products we will sell to the respective partner in the future.

Ingo Wilts (CBO): It seems, Luca, that neither you have been to one of our stores recently nor that you are an Instagram follower. Yes, we might be a bit conservative in general, but for example with our new collaboration with Jeremyville we are much bolder than in the past. I get a lot of positive feedback on our new campaign, saying that it is new for HUGO BOSS, it's very bold and stronger than what we had in the past.

We constantly want to go into this direction. So you're right, we have to be louder than in the past.

Francesca Di Pasquantonio (Deutsche Bank): First, can you provide us a timetable for your store renovations? How many renovations should we expect and what about the time frame?

Secondly, on your outlet strategy and markdowns. By how much and in which time frame are you targeting to reduce your markdown-generated sales? How does that relate to your outlet strategy? And how you are going to have your wholesale partners cooperate in terms of your more stricter pricing policy?

Bernd Hake (CSO): Let me start with our outlet strategy. We have sent out a clear message to our managing directors: it is "less, but bigger". For example, when we talk about the U.K., we are just upgrading our outlet store in Bicester, where we have a very productive and very profitable business. We are now moving it to the next level and we go bigger, because we know that the store and its location resonates very well with our customers. This will also drive productivity in the outlet business, where we usually discount by 30%.

Yes, we aim to renovate our freestanding stores every 5 years and our shop-in-shops every 5 to 7 years. This is what we target also for 2019.

Mark Langer (CEO): There is a slide backlog in renovation. We developed the new BOSS store concept in 2016 and it went live for first pilot stores in 2017. We already guided to expect an acceleration of CapEx for 2018, but this is something Yves will cover in more detail this afternoon.

Andreas Inderst (Macquarie Research): First, you mentioned omnichannel services are to increase to 5% of store sales by 2022. How is your incentive scheme for your 7,000 store assistants? How do you incentivize them to leverage your digital footprint?

Secondly, on like-for-like growth. You are targeting an average 4% like-for-like in your physical stores, which is quite strong in my view. What's the current hurdle rate to keep your EBIT margin stable in terms of like-for-like?

Bernd Hake (CSO): The incentive program aims to drive sales. It is not so much about if our sales associates sell online or offline. More important for us is to train our sales associates to integrate our digital offering into their selling process. The incentive scheme for order-from-store and for in-store-sales is quite similar.

Yves Müller (CFO): Regarding your second question on like-for-like. I will answer this question in the second Q&A session, after my presentation.

Jürgen Kolb (Kepler Cheuvreux): You mentioned that speed is a big topic for you. Do you think you have to adjust your production strategy in terms of how much you do in Turkey? Do you need to increase your production over there?
Secondly, how are you incentivized with respect to the 2022 targets?

Mark Langer (CEO): First, we do not put more pressure on ourselves at the headquarter level or on our production partners, but the most important production facility that we have is our plant in Izmir, Turkey. I will give you details right after lunch where we think that this large scale operation has seen tremendous improvements in terms of the ability to become faster, in terms of changing its production schedule and to operate at smaller lot sizes. After all, technology advances. We're in a very labor intensive industry. However going forward, certain production steps will be substituted by automated production, particularly in shoes, but also in other product categories. For the years to come we expect that labor cost will play a less important factor to decide on where to produce. This offers multiple exciting opportunities. Our plant in Izmir allows for very short shipment times to core European markets already today. And we expect that also our external partners will review their production network to create closer proximately to important sales markets. Yes, Asia will increase in importance, but it could also be the renaissance of textile production in regions like Europe or North America. So we do not exclude this to happen.

Regarding your question on the incentive scheme: of course, our incentive scheme as of today is disclosed also in our annual report. But just to put everybody on the same page, one important component is EBITDA before special items. I assume that as our 2022 plan has also been closely discussed with our supervisory board, who is ultimately deciding on our incentive scheme, EBITDA will be replaced by an EBIT margin target going forward. Later, Yves will give you more details on what are the reasons why we think this is the better proxy to measure performance of the group but also to measure performance of us as the leadership team.
Besides this, we continue to be highly committed to improving net working capital and to increasing top line growth, just to name the two other components of our short term incentive program.

John Guy (Main First): First on online. You're indenting to move to EUR 400 million by 2022, that is a CAGR just over 40%. What percentage of contribution is going to come from hugoboss.com and how much is going to come from online concessions?

My second question is on Asia and your target of double-digit growth until 2022. Between 2012 and 2018 your growth rate for Asia at constant FX grew just over 3% with Mainland China a little bit softer than that. What gives you the confidence to achieve double-digit growth in the next four years?

Bernd Hake (CSO): Regarding our online growth plan, it's going to be 50-50 by 2022. We expect online sales to grow to EUR 400 million by 2022, with 50% of growth coming from hugoboss.com via expanding, via driving conversion rate and via delivering site performance. The other 50% of growth will come from online concessions, such as our most recent one with Zalando. We will develop online concessions further together with other e-tailers and department stores.

Mark Langer (CEO): On your question why we are confident to increase our growth rate in Asia as compared to our performance over the last 4, 5, 6 years.

There was a phase in our China market, where we adopted our price level in China and where we have not seen an overproportional reaction in terms of unit sales. Those of you who follow us closely will remember that we adjusted prices in China in two steps, bringing them closer to the European price level. Only after the second price step, we have seen a quite overproportional uplift in unit sales in China, which more than compensated the value impact from the price decrease. This partly explains our historic setback in sales momentum in China.
Besides that, China was one of the examples where we opened stores at the wrong place. We never disclosed specific locations, but back in 2016 we indicated that the clean-up work with regards to store closures predominately related to stores in the Chinese market. That's done now. We are now at the right places, highly commercial, high traffic.
And we take confidence from the fact that we built up momentum over the last couple of quarters, not only in Mainland China, but also in some smaller markets like South Korea, where we have struggled for many years. South Korea was clearly not one of our most successful franchise takeovers. In addition, Singapore was flat for many years and is now on fire, delivering double-digit growth. So both the core markets, Greater China as well as other important Asian markets, which are underpenetrated from our side, will deliver double-digit growth over the next 4 years.
It's an ambitious target, but we are confident to achieve it. One important factor, completely untapped as of today, are the very important multi-brand e-com distribution platforms in China. We are just scratching the surface with tapping into the potential that Tmall and JD offer. This will clearly not come in a linear way. But this is something that requires us to step up our game. We have the resources on the ground, and I'm very confident that China will deliver overproportional growth, not only from physical stores, but especially from online, which represents only a small part of our base today.

Fred Speirs (UBS): First, on retail sales productivity in the physical stores. How much are you expecting to come from Asia and China specifically? What are the sales densities in Asia and China right now as compared to Europe and where do you think they can get to, relatively?

My second question is on online. You have talked about moving to a 50-50 split between hugoboss.com and online concessions. It's very early days, but can you give us a sense of the expected profitability of those two elements of your online strategy?

Yves Müller (CFO): Your first question was related to the different productivity levels. Sales productivity between the different regions is quite comparable, which means that there are only minor differences between the different regions.

Secondly, regarding online, it's clearly margin accretive for retail. Profitability is quite similar between the two formats, however depends on the specific contract for the respective online concession model.

Elena Mariani (Morgan Stanley): My first question is on your competitive environment. You've highlighted that you expect the market to grow around 3% to 4% in the next few years, and your plan implies market share gains. So could you elaborate on the players that in your view will be losers in the current environment and that you're going to get market share from?

My second question is on the phasing of your business plan. I appreciate that you're not going to provide a 2019 target. But am I correct in assuming that the first one or two years are going to be years of investment, especially with regards to your online capabilities? And that you my expect a reacceleration later on in the plan? So in essence, do you expect 2019 to be a year with improving profitability?

Mark Langer (CEO): What we indicated – and we'll stick to this commitment – is embedded in the 2022 plan: for 2019 we target to achieve not only absolute but relative profit growth. By what degree and how will be something we will discuss with you in detail when we provide you with our 2019 guidance.

We are committed to grow our business stronger than the market. Whether we take it from A or B, I don't care. It's actually down to customer preferences and choices and weather our offering, which will be written by our two priorities “personalization” and “speed”, will be more appealing, better and superior to any competitive offer.
The set of our competition, I believe, has not dramatically changed. Be it Selfridges, Takashimaya, Isetan, or premium and luxury malls in China: our neighbors basically tend to be the same globally.
Something that is also important for us internally: HUGO is not a competition to BOSS and vice versa. Both brands are targeting different customers, and therefore also different sets of competition. As we aim to grow with both brands, especially overproportionally with HUGO, we will closely monitor the activity of neighboring brands. But please respect that you will not hear a comment from us on who is a predicted loser.

Thomas Chauvet (Citi): Firstly, a follow-up on wholesale, which is a channel that is going through some structural changes and challenges in Europe and the U.S. Are you planning to close some of your 6,700 wholesale doors going forward? I noticed that there is no formal guidance on wholesale sales for this time versus previous investor days. Can you comment on how profitability of wholesale has developed over the last couple of years?

Secondly on womenswear: many of your competitors like Ralph Lauren and Burberry have a much more balanced gender mix. In light of the end of your collaboration with Jason Wu and the shift towards casual- and athleisurewear, I was a bit surprised that you don't seem more ambitious on womenswear. Can you give us an idea on the size of the business going forward? Why are you not more optimistic and ambitious on this important segment of the apparel market?

Mark Langer (CEO): Current quarterly trends are masking the gaining strength of our BOSS womenswear a bit, which is our most important womenswear brand. What we have done is that we have brought womenswear to the right share of retail space and budget within our own retail network.
Any product category and any brand has to be accretive to our aim to drive sales density. You were referring to previous ambitions. In the past, we overexposed us in

terms of space allocation to womenswear. So you can’t have both: either you're determined to drive sales density and profitability in your retail network or you're trying to push just topline on certain brands and lines. We clearly opted for the first now.
However, especially since Ingo joined us, we had a smooth transition of creative leadership from Jason Wu, who has clearly done many things to create buzz around our womenswear collections.
An extremely important milestone for us was the New York Fashion Week in September. That was the first time we demonstrated the combined strength of our menswear and womenswear. If you look at the reviews and comments from buyers and editors, there was a wow effect. It has demonstrated not only our commitment but, more importantly, our capability to be a strong contestant in the womenswear segment. We elaborated quite extensively on the very strong feedback we have received for womenswear already in key department stores.
We want to win market share with womenswear in apparel. Apparel is the #1 priority today. Already today we are a leading contestant in this game. But we know that we will have to work even harder also in terms of womenswear. You can be sure that we have more than 200 colleagues who are working exclusively on the womenswear side of our business. They work night and day to build superior collections. They have the same access to technology and distribution platforms like our menswear has.
For the next years, we expect womenswear to be in line with our overall business development. But we have the flexibility to shift budget and space allocation to womenswear. We are even considering to test some womenswear-only stores like we are doing with shop-in-shops in department store.

Bernd Hake (CSO): Same as for our retail portfolio, each season we take a look into our wholesale accounts to assess brand presentation, productivity and how we are set up in the respective city with regard to total penetration of BOSS and HUGO.
Over the last two years we have assessed which customer gets both brands, i.e. the ones which have both customer segments in their department store, which department stores have a more contemporary nature and therefore will only get HUGO, and which ones are more classic, modern and sophisticated to get only BOSS.
There's a constant evaluation of our wholesale accounts with regard to how committed are we to this partnership and how committed are the partners with regard to developing and strengthening our brand presentation.

Mark Langer (CEO): We never disclose profitability by channel. Also not today. Wholesale will remain at a very constant level. It is an important, roughly EUR 1 billion part of our business and we have committed many of our product and marketing initiatives to wholesale. Those will also benefit our franchise partners, with the franchise business remaining important as there are still more than 200 franchise operated POS in our wholesale network. But also at department stores we want to increase brand desirability.
The structural profitability of our wholesale business has not changed, and we do not expect a significant change going forward. The relative share of wholesale sales will decrease. We expect strong growth in online, continued growth in retail, but we expect that the absolute amount of our wholesale business in 2022 will be very similar or only slightly larger than what we have today.

Alberto D'Agnano (Goldman Sachs): Two questions on online. First, I see great opportunity for you to generate more revenue online. I was wondering whether your 4% like-for-like assumption for physical retail includes any assumption on cannibalization that your online growth might have. And if not, what gives you confidence that these revenues will be entirely incremental?

Second question also on online: I'm trying to add up the opportunity in casualwear with that in formalwear and personalization. What role does formalwear play in your online growth assumptions? And for clarification, when you say that your online growth will derive 50-50 from e-concessions and from hugoboss.com, are you planning to convert all wholesale online accounts into e-concessions?

Mark Langer (CEO): The last one is a quick one: of course not, it has to be beneficial for both sides. So like we agreed with Zalando, both parties need to come to the conclusion that it is accretive for both partners. We see enormous interest and willingness of e-com partners because it's two things: They have seen that we have done this extremely well with our physical concession. And in terms of processes and website material they say this is much better than what they do with their own resources.

We expect certain product categories to perform stronger in e-com also going forward. Our suits and tailoring business is also an important category online, but to a lesser degree than in our physical stores.

Growing like-for-like physical store sales by 4% is an important driver. This, of course, takes into account the inclusion of certain opportunities, for example, with regard to omnichannel services. Clearly, we see these as an important driver in terms of driving traffic and revenues in our stores. Our stores are now increasingly tapping into the opportunity to use our online inventory. So the synergies already started to take effect and the target of a 5% share of omnichannel sales in our physical retail is also one important building block to get to a sustainable 4% like-for-like improvement for our physical stores.

Thierry Cota (Société Générale): I was wondering, are there some low-hanging fruits? You just said that the regions had similar productivities. Are the HUGO stores markedly less profitable or productive than the rest? Or is it, more or less, everywhere the same kind of opportunity that you want to raise?

Secondly, I was wondering, how many BOSS stores are you going to renovate? Will you renovate the whole network to the new concept? And what is the payback period?

And one last thing: you said the EBIT margin is higher in the online business. But are you confident of how you can allocate cost between channels?

Yves Müller (CFO): Yes I am. You need to be aware that regarding online we talk about variable costs instead of fixed cost in our physical store business. This is a big difference. So the beauty here is that we have a higher retail margin in online, plus we have variable costs. And there are specific drivers such as a high basket, and relatively low return rates, because we talk about a menswear business share of 80%. These factors are driving the profitability of the online business.

Mark Langer (CEO): On the payback period: there is not one. Of course, one of the important factors is the NPV and the payback on it. With the new store concept we see a strong uplift in performance. But we're also working on further streamlining investment processes in order to shorten payback times. It can be less than 12 months for the renovation of a shop-in-shop. But it can also be something between 2 and 3 years if it's a major renovation of a freestanding store. So it's a case-by-case decision, and of course there are specific payback periods that we aim to achieve. Clearly, anything that's beyond 5 years in terms of payback, even it's a positive NPV, receives a question mark, because then we would already move into the next renovation phase.

Thierry Cota (Société Générale): Will you expand the new store concept to the rest of your network?

Mark Langer (CEO): Regarding the question on the timing of our investments, I assure you that it will be answered with our presentation this afternoon.

Melanie Flouquet (JP Morgan): My first question is on wholesale. Did I understand this right, that the absolute value of wholesale sales until 2022 will roughly remain the same as today? What share of e-commerce is within this? And how is that going to evolve within it? Because I imagine the concession conversions will impact wholesale sales negatively. Will it be the underlying growth of existing partners that's going to make up for the difference?

My second question is on outlet. Compared to the 32% of sales that you currently generate in the outlet channel, and the roughly 50% outlet share in the U.S., where do you see this evolving until 2022?

Mark Langer (CEO): You were right when you rephrased our high expectation on the wholesale business in total until 2022. There will be less franchiser takeovers going forward because we believe that these partners are the experts in particular in these smaller markets. There might be a selective few, but we expect the franchise network to stay more less stable.
Many of our wholesale partners are also quite successfully pursuing to take their business from physical stores to online. We might decide at one point in time to also move into an online concession business with them. This is clearly something that on the one hand will reduce relative and absolute sales of our wholesale business. But perhaps there are some other partners, where we continue to benefit with them under our current wholesale model as they grow their e-commerce activities. This will probably net itself.
It's very difficult for us to predict the sales share of our partners between e-com and physical retail for 2022. Even today it's sometimes difficult for us to judge on that, because they buy one collection and then they have flexibility to sell it either via their online store or via their physical store.

On the outlet question: we aim to grow our full-price business faster than our outlet business. However, we recognize that outlet will remain an important and also profitable business. For the U.S. market, we aim at reducing our outlet share until 2022, but we won't give a specific target.
With the discontinuation of third-party off-price distribution – please remember that this was an important step for us in 2016 – and the trend that we are seeing in recent months and quarters, we see that we are on a good track. But it will rather be a gradual reduction of the relative outlet share in our important U.S. market.

---Lunch break and further presentations---

Philipp Frey (Warburg Research): First, filling in some of the blanks of the efficiency program. If I get it right, store optimization in terms of smaller stores also means, most likely, in a similar environment, higher rent per square meter. Do you expect to overcompensate this by the declining trends that we see in overall rent per square meter in the industry? So despite smaller stores, do you still expect lower rent per square meter in the stores?

Secondly, on the ramp-up of the digital showroom. Can you remind us about the share of the digital showroom on the HUGO collection and give us some numbers on your total sample cost?

Mark Langer (CEO): First, don't look at absolute rental expenses. I wouldn't say it's meaningless, but what is important, and I think it's something that Yves explained very explicitly, is that we have seen a strong uplift by being at the right location with the right size. This will lead to sales density improvements in terms that our rent-to-sales ratio will be significantly improved. That's what we aim to achieve. We need to be in the right location with the right contract and with the right size. It's typically starting around 100, 150 square meter for freestanding stores and typically doesn't has to be larger than 300 square meter. With the improvements in our product offering and the enhanced store concept we aim for decreasing both the rent-to-sales, and the pay-to-sales ratio.

Just to give you a bit more details on the digital showroom: it's a double-digit million euro amount that we spend on samples every year, and it will not go down to zero. There will still be samples around. For example, if you take the suits we are wearing today, there will still be sample suits available as you need to have them there. Do you need it in 10 fabrics? You don't. And this is just one example where you see limits. Also in casualwear we significantly reduce the number of samples, but we will still need some being available to touch, try and get the feel for the fit of the product.
Overall, it will be about a 40% to 60% decrease in the number of samples.
We are already very advanced with the rollout of the digital showroom for HUGO. We are well advanced globally for HUGO menswear with an almost 100% penetration on the digital showroom. We are currently doing some technical advancements and already in 2019 we will start to roll it out to certain product categories for BOSS. Over the next two years, there will be the global rollout of the digital showroom for BOSS.

But it will not decrease our double-digit million euro investment into samples to zero. You can take the 40% to 60% decrease in sample as a proxy for a good saving opportunity from lower sample costs.

Jürgen Kolb (Kepler Cheuvreux): Mark, you said that you have some benchmarks when it comes to digitalization. Is there any specific company that you think is really driving this?

Secondly, regarding your online concession business with Zalando. How far are you willing to go? Is this also a fulfillment service topic for you, with regard to Zalando but also with regard to other players in China specifically?

Mark Langer (CEO): The way we may take over online businesses from our wholesale partners might vary from instance to instance. But what we typically do is to get control over the inventory. This means, we decide what to buy, with full access to our inventory pool, which in terms of its width and depth is one of the strongest arguments also for our partners, as it is much bigger than what they would ever be able to do.
Moreover, it's our picture material and our product descriptions. This is important in our industry and we have built capabilities and a level of sophistication that many of our wholesale partners find difficult to match.
When it comes to logistical fulfillment, please remember that it has been only a bit more than two years since we insourced the e-com fulfillment for hugoboss.com.
In terms of packaging, if you get something from HUGO BOSS, it should be like receiving a gift and not a plastic bag. We have high standards on how our customers should receive our products. So also with Zalando now, that’s our clear decision for BOSS smart casualwear and formalwear. It has to be our logistical standards in terms of delivering the merchandise via our own warehouse operations.
Our cooperation with Zalando doesn’t cover our full offer yet. Our casual- and athleisurewear is still being fulfilled by Zalando. But we have the intention to also integrate this into our operations going further.

In terms of digital benchmark, we are extremely curious and we constantly monitor the market. Sometimes best practice approaches, for example in Big Data analytics, might not even come out of our industry. We're looking at input not only on the product but for example also on the marketing side. We are not limited to the fashion world. We're working with industry experts, academics and consultants to find best practice in our industry.
Clearly, we believe that many players in the contemporary segment, where we are competing with HUGO, already today work with very short lead times. Whether this is due to digital processes or other factors, we don't have the full insight into that.
For example, Inditex has always been sighted as an important player not only in terms of very fast and efficient design processes but also in terms of very efficient production and global delivery processes. Also here, we need to understand if it's now the time to include certain capabilities into our systems. But it's not one copy-paste approach.

Fred Speirs (UBS): First, on the efficiency targets. Have you set an internal target for each of the various margin drivers? If so, how granular are those? And will you be sharing the efficiency targets per annum with the market?

My second question is on the pay-to-sales ratio. It sounds as if you think that there is quite an opportunity here. You have referred to the U.K. as best-in-class. Can you give us a sense of how much better the U.K. pay-to-sales ratio is, as compared to group average?

Yves Müller (CFO): Regarding the efficieny targets: we do have clear targets for each bucket. We presented clear targets until 2022. And we will publish our guidance for next year in March 2019.

Regarding pay-to-sales ratio, it clearly depends on the specific market. We won't disclose this, but clearly, there is improvement potential globally and we have clear targets until 2022 for the respective P&L lines, to make it very clear.

Zuzanna Pusz (Berenberg): My first question is on your e-commerce strategy in China. Do you operate your own e-commerce in China? Or do you have it run by someone like one of the Tmall partners like Baozun or Buy Quickly?

Mark Langer (CEO): We run it on our own.

Zuzanna Pusz (Berenberg): What online sales potential do you see in China, because there have been lots of changes in the Chinese e-commerce market over the past years?

Secondly, on store renovations. You've mentioned that the stores under the new format show significantly high productivity and that this is meant to be one of the drivers of your like-for-like improvement. Do you have any internal targets in terms of how many stores you plan to renovate by 2022? How many stores are already converted to the new format right now? You said before that the normal schedule is to renovate them every 5 years. Is there any chance for some of them to be renovated earlier than that?

I would also like to remind you on the earlier question on the like-for-like hurdle to maintain your margin.

Finally, one clarification, please. You didn’t mentioned a gross margin target. You said that gross margin improvement is one of the drivers for the EBIT margin improvement, but you didn’t quantify it.

Mark Langer (CEO): We haven't broken our EBIT margin target down to the level that we would disclose the expected uplift in gross margin, but it's not too complicated. If we say, the expected overall almost 300 basis points uplift in EBIT margin will come around equally from gross margin improvements and from efficiency improvements, you can make your guess. In the end, both factors will make their contribution to hit the 15% EBIT margin target.

On the 4% like-for-like: the question on the hurdle rate was an important question throughout many years. We really started focusing on productivity improvements in 2016. Since then, it's not about expansion, it's not about franchise buybacks that will drive our company going forward. But it's a strict focus on driving sales density improvements, sometimes with painful consequences such as closing stores and resizing stores. It only adds up if we have the right stores at the right locations with the right brand mix.
So is a 4% like-for-like growth in every case already margin accretive? The answer is no. And there are clearly BOSS locations for example in China, or maybe some new HUGO stores, where we target growth of 20%. But on average, the 4% will be margin accretive and is one of our top priorities to drive structural profitability.
By how much? It's difficult because we do not only rely on sales density improvements to get to our gross margin and EBIT target, but it's one of the major factors.

Regarding online business in China, we could spend a full investor day on that topic. The more questions you have, the more complicated it will get, because JD is different from Tmall, etc. They have dedicated platforms and what was true yesterday will not be true tomorrow. They're also evolving very quickly, learning from each other.
Today, we already run hugoboss.com in China, but it is still relatively small. The positive is that we do have the infrastructure in terms of systems and logistic capabilities to scale it now. We have built up resources in terms of a dedicated e-com team based in Shanghai. It will also be about how we tie in to WeChat, because a lot of commercial initiatives are driven by social media. We're not going to solve this from Metzingen and also not from London or New York, but we need to have resources on the ground.
We are confident that it will be an important building block. It's not too complicated, because we don't have 20 partners, only the 2 giants JD and Tmall.
It gives us confidence, that we are currently enjoying very positive momentum in our physical stores in China: the brand is hot and it has a strong value for money perception in the Chinese market. So it's just leveraging this strength also to the right digital channels.

Bernd Hake (CSO): Regarding your question on store renovations. So we have a budget process, which usually spans from August to September. Together with our country managers and with our directors we discuss renovations store by store, with a focus on stores that have not been renovated for 5 years or more. For the first half of 2019, this list includes approximately 60 stores, which are confirmed to be renovated. In total we might come to 100, 120 stores to be renovated next year.
Currently, we have around 15 to 20 stores run under the new store format already.

John Guy (Mainfirst): On the 4% productivity improvement that you've outlined: regarding the new store format you have mentioned a 14% sales uplift, 28% productivity uplift and 12% UPT gains. So a 4% productivity increase, given the fact that you're scaling the renovations as you go along, seems reasonably conservative. So why do you think 4% is a fair target?

Regarding your online target, you have said that the growth towards EUR 400 million by 2022 will come 50% from online concessions and 50% from hugoboss.com. You mentioned that this will be accretive from a gross margin perspective. You have talked about the other gross margin drivers, whether it's lead times, whether it's markdowns, et cetera. These are already today drivers of your the gross margin. Even in Q3 2018, the initiatives partly related to the same, but we've seen a relatively week gross margin development in Q3. So what will be different going forward in terms of gross margin expectations?

Mark Langer (CEO): You would be misled if you would try to judge by a single quarter performance whether this is a sound plan. Because at the same time, you could pick any other of the last 4 quarters where you would say, "well, that was a quarter where we have seen 80 bps improvement. So why isn’t this quarter representative for the next 4 years?”
Yves has been very explicit in the call on our Q3 results. Also from our side, the third quarter has been disappointing. There clearly have been reasons for the margin decrease in Q3 and because of that you should not see Q3 as a proxy for our performance until 2022. So Q3 2018 should not be seen as an indication to judge on our ability to deliver over the next 4 years.

On your first question: of course, for the first deployment of the new BOSS store concept we have selected stores where we expected strong impact. For example, take the renovation and relocation of our store in Boston. Even relocating the store with the old concept would have seen a significant uplift in performance, because the store has just been in the wrong place. It has been located at a luxury location with not enough traffic, and it had a bit of an awkward layout. So we took our learning from it, and now it's in a much better location. But in general, it's very difficult to separate the impacts from the new collection and from the new store content.
So currently, it's still a small base and a short period of performance, but already now there are tangible results and we are clearly moving into right direction.
As I said, it is not only the new store concept, but it's a combination of factors that will provide an average 4% like-for-like improvement. There might be some rainy quarters also in the 16 quarters that will add up until 2022. But here will also be some stores, some markets, some quarters, where we will be ahead of that. But overall, based on the analysis that we have done and based on the plants we have built with the markets, we are confident to deliver 4% like-for-like p.a. in our physical retail stores.

Piral Dadhania (RBC): Regarding your third quarter performance: we've heard a lot today about markdown management and improving the gross margin, which I think happens a lot at the end of season. But what are the learnings in relation to dealing with exogenous factors like weather or like the timing of deliveries to stores or to wholesale partners, which appears to be happening on a more frequent basis for the industry as a whole. We haven't really heard about what changes have been done to the processes around deliveries.

Secondly, on the retail like-for-like target of 4%. The key thing that retailers are saying in apparel is that they struggle the most with traffic. Can you give us an indication for what the component parts of traffic versus conversion versus UPT are in that 4% target? Are you expecting your traffic to be broadly flat or down on a 5-year forward basis?

Mark Langer (CEO): We won't break the 4% like-for-like target down by traffic, conversion rate, UPT or a 2022 share of suits vs dresses.
But it will be important to prepare for flattish or even negative traffic numbers going forward. Everything else would just be kind of hoping for the better. It's a continuous trend that we see that for example some malls are weakening in terms of traffic. We as an important but not a decisive tenant have limited means to change that. We have similar discussions with our department store partners. These are sometimes tough calls. For example, if there has been a 20% drop in traffic over the last 2 years, and if we fall under certain revenue thresholds, we either have to resize our business or we have to terminate our relationship. So it is a tough environment out there. Gains on the e-commerce side will, to some extent, make up for the lower traffic in physical retail. If traffic remains flat to negative in most cases, the outperformance has to come from better conversion rates and better sales per transaction.

Regarding your question on Q3: part of the gross margin decrease was due to the fact that we were running on too high inventories. We explained why inventories were higher than expected at the end of Q3 and how this triggered some inventory valuation effects. However, looking at the inventory structure in terms of product categories, we are confident that this is temporary and will not be a repeating issue to hit our gross margin.
On the second part of this question: yes, there might be shifts in purchase. Just look at your own purchase behavior. It's not that we gave more rebates necessarily, but people just didn't buy winter coats under the hot weather conditions. There will be temporary disruptions from time to time, so that people start buying the fall/winter collection at a later point in time. But this has to be the exception.
However, we need to increase our ability to react faster and have already implemented some measures, especially in e-com to react quickly in terms of adjusting the merchandising-mix on display.
So please get me right, there might always be some kind of disruptions, for example if a hurricane shuts down Florida for 2 weeks, the quarter will be worse than last year. On average, it has to balance out. We have to deliver gross margin improvement. Any quarter we fall short will increase the pressure on our side to outperform in the other quarters until 2022.

Andreas Inderst (Macquarie Research): My first question is on the free cash flow target of EUR 250 million to EUR 350 million p.a. by 2022. For 2018, you have guided for EUR 150 million to EUR 200 million. If my assumption is correct, you will add around EUR 200 million EBIT plus/minus by 2022. Working capital should come down, CapEx as a percentage of sale is also coming down. So why do you target free cash flow of only EUR 250 million to EUR 350 million?

My second question is on your facility in Izmir. 7 months for production-to-shelf is still quiet long, given that the season tends to be around 2 to 3 months. Can you give us a bit more insight what we can expect to bring lead times really down to have in-season flexibility?

Yves Müller (CFO): You're right with your overall assessment when it comes to free cash flow. We anticipated that in 2021 and 2022 we need investments into our

logistical environment. That's the reason why we expect an increased CapEx need in these years. So it's a full business plan that we are having and this is the reason limiting the free cash flow to the given range.
Regarding CapEx, we are aiming for an average 6% CapEx-to-sales ratio. Today, we have around 6.5%. And of course there might be some occasions, like when we need to invest into our logistical infrastructure, where it will be slightly more.

Mark Langer (CEO): Coming to what I consider the next extremely important field for improvement for our Group: Working completely digital will be the base case of operation for HUGO BOSS when it comes to product development.
We still need to scale it as we're in a learning curve. If you want to sell a complete look which is 360-degree in terms of marketing, also from an operational perspective it means to be globally synchronized and to have it in our stores when it's needed. This makes this part a bit more difficult. Because on a stand-alone base, if you buy a Made-to-Measure suit at our store on Regent Street today, you will have it delivered latest in 4 to 6 weeks. There are clearly opportunities to make our systems much quicker.
Be sure that we are currently looking into key commercial items like outerwear, pants and jersey, all drivers of our casualwear segment. So it’s not only about shortening design lead times, but also about how to shorten production and distribution times for these collections.
Overall, it’s not an Izmir issue and it's not a suit issue, it's something that we would tackle similar like we did for HUGO, i.e. we need to do it in a separate collection. We won't call it capsule collection, because capsule collection always sounds like we do it once and we won’t do it again. It has to be part of our recurring business, it has to prove itself across relevant product categories and then we need to scale it. It might even change our supplier set. Another question would be: do you work with suppliers that are closer to your relevant market because it could give you couple of weeks of advancement to produce closer to your relevant distribution market.

Andreas Riemann (Commerzbank): Two questions, please. One is in terms of sales, margins, cash flows. It seems that the journey towards 2022 is quite a linear one, so a steady progress in each of the 4 years, is that fair?

Yves Müller (CFO): Yes, it's overall fair.

Andreas Riemann (Commerzbank): My second question is on the investments in terms of technology, logistics, infrastructure and maybe also in terms of people. Are you happy with the current setup? Is that sufficient? If not, where do you see the need for further investments in the coming years?

Yves Müller (CFO): Regarding investments, to make it clear, it will be like it has been in the past, so roughly 2/3 of the investments will go into the retail environment and 1/3 of the investments will go into IT and IT-related projects to drive digitization. We feel very comfortable with this split. Capex will be growing steadily in the years to come, as sales will go up. So in total, we aim to keep the IT cost and the IT investments stable, i.e. they will grow in line with sales.
HUGO BOSS did a tremendous job in the last three years when it comes to building digital capabilities. And I'm really proud that in the last 4 quarters we have seen good

double-digit growth in our online business. The investments are paying off, and we will continue with this. As I outlined before, all the measures like rolling out hugoboss.com to the additional countries, investing into omnichannel capabilities relate to this topic.

Geoffroy De Mendez (BofAML): My first question is on your sales growth target of 5% to 7%. You basically have two key businesses, formalwear and casualwear. What's your expectation for formalwear? It's been growing only quite low recently. If it would grow 0 to 2% in the next few years, you would basically expect 10% for the rest of the business, more or less. Is this something that you would be confident with? Or are you expecting businesswear to grow faster than what we are expecting here?

My second question is a bit technical. You were talking about the shipping cost and next day delivery. If I visit your website and I want to buy a shirt for GBP 50. For next day delivery, you are charging GBP 20, while Zalando is charging only GBP 5 for the same shirt and SMCP is charging GBP 0. How are you comfortable with that? Will you change it? And if you change it, will you take this cost on your EBIT line?

Mark Langer (CEO): So we said 3% to 4% is what we expect in the current fiscal year and also in the years to come as the growth rate in our industry. As I highlighted, key trends we're seeing in our industry is the continuing shift from formalwear to casualwear. Especially in Western Europe and North America we observe that the formalwear market is growing between 0 and 2%. And that’s probably half the growth rate that we see for casualwear. Casualwear is especially driven by athleisure as well as anything that's functional and that continues to enjoy stronger momentum than formalwear.

Regarding the shipment cost, this might be a particular situation in the U.K. If you want to buy a t-shirt and want to have it delivered the next day, maybe hugoboss.com will not be your preferred shopping destination. Our typical basket size is around EUR 220, EUR 240 on average, but in any case. So a t-shirt with next day shipment would not be a typical product that our customers buy online.
We do recognize that expedited shipments are not always comparable. Shipment and surcharges for certain markets vary, and some competitors may be more aggressive in terms of same-day deliveries, if you take Net-a-Porter as one example with same-day delivery.

Luca Solca (Exane BNP Paribas): On speed: how is that going to translate into more frequent deliveries and drops? What do you see as a target for that? Will that also imply a different way of planning the collection going forward?

On social media: if you could give us more depths on what elements you're focusing on, how you plan to increase the brand heat and social media dynamic, KOLs, any plans that you have I'd be very keen to get.

Ingo Wilts (CBO): Ware very happy with our results on social media so far and we will continue to work on social media on different levels. On the one hand, we will present our regular campaigns on social media. On the other hand, we will feature our product statements. We are heavily engaging with our customers on social media and will expand our activities even further. We will present our collections in a much bolder way going forward. And we will continue to focus on products to engage even more with our customers.

Mark Langer (CEO): In terms of drops, already in the past we were basically working with ten new themes being delivered to our stores per year; and I think that's right. You don't need to drop in the mid of the sales period, so it’s three themes for the main collection, two for the pre-collection. That is a healthy rate.
However, to make these themes more relevant, it is important to step up the digital development capabilities. Over time, we will decrease the budget we spent on our traditional development and buying processes and reallocate it to digital.
Speed as such and the cost saving is not what primarily drives us. What drives us is the capability that of collections to deliver an outperformance in terms of sell-through and margin improvement.

Elena Mariani (Morgan Stanley): There is always a degree of risk when you give a medium-term guidance on top line. Sometimes there are elements that you cannot control, e.g. the macro-environment and the weather. I was wondering how much flexibility do you have to deliver the 15% EBIT margin target, assuming that down the road you could see some good years and maybe some bad years? Are there any additional pockets of efficiency that you identified, should things be a bit worse than you currently expect, as I assume that your business plan is based on stable market conditions?

The second question is on marketing as a percentage of sales: you've highlighted marketing as an area for efficiency improvements, but at the same time, you're pushing marketing expenses to push your brands, their perception and awareness. Can you give us an indication on where marketing expenditures are going in the next 5 years on an absolute basis and as a percentage of sales?

Mark Langer (CFO): Marketing expenditures as a percentage of sales will remain almost unchanged, but there will be a shift in their composition. From an analytics perspective, a shift towards digital makes it easier to assess the effectiveness of marketing expenditures.
Such elements like fashion shows, where we only have indirect means to assess their impact, or collaborations such as the one with Michael Jackson or with Anthony Joshua, have an impact in terms of brand heat, brand desirability beyond just selling more stretch tailored suits. This is something that we foresee, but not necessarily a significant change to the total sum of marketing expenditures.

In terms of contingency, to be very clear, we gave you two numbers. One is what we expect the market to deliver, i.e. the underlying growth, 3% to 4%. If this would turn out to be 6% or even 7%, maybe even a 7% top line growth for HUGO BOSS might sound quite cautious. But based on the history of our industry over the last two years, we believe that 3% to 4% industry growth is a very reliable number to work with.
If you want to hear something about macroeconomic risks, don't ask us, but ask the experts in your firms. We are not here to tell you anything about Brexit probabilities and trade war issues with China, as that's not our expertise.

Based on the 3% to 4% industry growth, the 5% to 7% top line growth is achievable. There are multiple elements on how to achieve that. Some of them are quantified, for example, the 4% like-for-like growth rate for retail.

Thomas Chauvet (Citigroup): First, on your EBIT margin evolution. So you're guiding for a 15% EBIT margin by 2022, with a 4% retail LFL per annum. When I look back at 2012-2014, one could call it the golden years of HUGO BOSS, at least from a share price perspective. Back then you were actually on an 18% to 19% adjusted EBIT margin. Reported EBIT margin was also quite similar, on very similar LFL growth. What do you think prevents you from returning to this profitability level? What are the three key differences today, be it structural or HUGO BOSS specific?

Secondly, on depreciation and amortization: taking into account the CapEx efficiency with more renovations, less openings, smaller stores bringing CapEx down as a percentage of sales, and with IFRS 16, could you guide us on a depreciation and amortization to sales ratio, based on the current 5.5%-6% level?

Mark Langer (CEO): Back in 2012 we still had significant global price discrepancies and our distribution model was predominantly based on physical distribution. Also our communication with the customer was still relying on very traditional means. So what has happened since 2012? Part of the value-creation in our industry has passed on to the customer. In our industry, you are now very likely to receive a much better product than you did four to five years ago. So this has led to some kind of profit pool erosion. Specifically for almost all of the premium and upper premium apparel companies, the structural profitability of our industry has been basically reset between 2015 and 2017. There has been a significant setback where we were still pursuing retail expansion between 2014 and 2015 and where we already saw a slowdown in our retail like-for-like development. But we had not seen that there was a risk that our physical retail business model will not be as profitable as it once used to be. It was a painful effort to reset it and there has been a reset in the retail profitability in our business compared to the high times in 2015.
Last but not least, just look at the profits of Google, Facebook and the likes. Our marketing expenses are to a certain extend also part of this. New players like Instagram, Facebook and Google have taken a significant part of the profit pool from our industry. Whether you like it or not, it's a new ballgame today that makes the comparison of structural profitability between today and the past difficult.
So for the plan that we presented today we didn’t just look in the archive and replicated our business model from 2012. This would have been a terrible mistake. What we presented today, it's a recipe, it's a playbook to grow our business with new prerequisites, new requirements to an EBIT margin level of 15% that we think is an ambitious level in the current market environment.

Yves Müller (CFO): Regarding the question on depreciation. As I outlined today, 2/3 of our investments will go into the retail environment. There we expect a reduction in CapEx per square meters by 20%. This means, going forward, the 2/3 will go down further. And regarding CapEx related to IT and other investments, those investments are expected to develop rather stable as a percentage of sales. This means the improvements will clearly come from retail and they will develop over time.

Antoine Belge (HSBC): This morning, when I asked about China, you said you have around 130 stores, but you didn't say how many stores you are going to open over the 4-year period. If we take the SMCP Group, they have 2 medium-size brands and 1 smaller one, they have 150 stores and they intend to open 40 more. So do you think you could be opening maybe 10 stores a year? Would that be a fair assumption?

My second question relates to wholesale. So if we look at the pie indicating the percentage of sales by channel, wholesale seems not to decline that much. You said that with the top 10 of your wholesale partners you plan to grow in the mid-single digits. So overall, would it be a fair assumption that wholesale will be growing low to mid-single digit?

Mark Langer (CEO): China is the market where we still see potential for some further openings, both for BOSS and HUGO. At the opening event for our new HUGO store in Singapore – and as you know, Singapore is also a strong destination for Chinese consumers – we were almost overwhelmed by the reception. The concept resonates very strongly, same like what we see in Dubai. Our management team in Shanghai is highly committed to HUGO. We put the foot into the Chinese market, but at this point in time, we are not announcing a strong expansion plan for HUGO in China.

What does “outgrow group growth” mean for HUGO? Does it mean 7.5%? Then why do you make such a big fuss over it? Does it mean 15%? Clearly not, because we are not starting from zero. Keep in mind that HUGO is almost as large as any of the SMCP brands on a stand-alone basis. So we are not a peanut competitor. We almost have the same size with clearly different composition. So to grow a EUR 300 million plus business by 10% is also already quite a sizeable number. But please give us some flexibility to it. I'm not going to commit myself today, that we are about to kill anybody in the French market because we've seen strong results from the Paris/Marais store, or we will now completely focus on the U.K. market based on the success of HUGO in White City/London.
It is something that our six regional management teams are now very carefully evaluating: to what degree will HUGO be able to help them achieve their sales and profit targets. Because also with regard to HUGO, we are not managing the business solely for top-line growth, but for bottom-line improvements. That's why we're not going to lock us in today and probably also not for the next few years to hit on a certain HUGO sales number, because HUGO is a mean to achieve a larger business with a higher profitability level.

Alberto D'Agnano (Goldman Sachs): Two quick questions on the gross margin, please. One was saying that as the casualwear part of the business is supposed to outgrow the formalwear, there is going to be more newness within your sales mix and probably more discounting at the end of the season. So I'm trying to understand whether you see this? How can you offset that and bring overall markdowns down?

Does your gross margin guidance include some more investment in product quality, as you've done throughout this year, or is that completely over?

Mark Langer (CEO): The quality investments to strengthen our position in terms of certain categories and certain price points are done. However, this does not stop us to continuously monitor our value for money proposition. But we don't see additional quality investments as part of our 2022 plan.

Your hypothesis on casualwear versus formalwear is wrong. It's not that's casualwear is likely to require higher markdowns than formalwear. There are even many categories in our casualwear, be it jeans, chinos, polo shirts or basic knitwear, where you will never get a discount from us. These are evergreen articles, they are extremely successful and have above-average inventory turn numbers already today.
There might be some high-fashion items where this does not apply, but many of our casualwear items are at least as good or even better than our formalwear items.
The only category were relative discounts are slightly higher is womenswear, but that's not specific to HUGO BOSS. Within our menswear categories, discount levels do not vary much. So the growth in casualwear and athleisurewear is not a risk to our gross margin development in the 4 years to come.

Thierry Cota (Société Générale): You expect to outgrow the industry with a 5% to 7% sales growth rate. What OpEx inflation is embedded in your estimates? Do you expect your OpEx to grow slower than the industry average?

Secondly, you expect EUR 200 million of sales from online concessions in 2022. What is the amount of today's wholesale business corresponding to this migrating business? And what is the amount of retail sales derived by the partners on this current wholesale business?

Mark Langer (CEO): First, please be aware that we didn't comment on the expected profit levels for our industry. What we have said is that we expect sales in our market segment to grow between 3% and 4% and that we have growth elements in our business plans that allow us to outgrow this industry growth.
Secondly, we will not go back to the heydays of 17% or 18% EBIT margin, but we are committed to grow our EBIT margin by close to 300 basis points to 15% by 2022. I don't know what our competition will do, but we believe from today's perspective, that a 15% EBIT margin by 2022 would be something that will define benchmarks in the upper premium apparel segment.
Of course, this is based on the assumption that we drive OpEx leverage beside gross margin. But to what degree this may be a proxy for other players in our industry is something we really haven't looked into.

Regarding your question on online concessions. There are some cases where it's easily calculated. So we might take over their online operation like we did with physical concessions, e.g. with Galeries Lafayette, and we can grow the business from let's say index 100 to 120. So in the base case, online concession takeovers will subtract from our wholesale sales and provide an uplift for our retail sales.
Take the Zalando agreement as an example. What we have introduced in October is a product offering that was not available at Zalando before, because we introduced our smart casual and formalwear. So it's 100% accretive. Some of you might argue that some of these customers may have bought somewhere else before. But maybe they

bought other products and we are gaining market share. Nobody is going to tell you that. So part of it is truly incremental, but for others it may not as we might take over the existing business completely and shift it from wholesale to retail.
So part of the EUR 200 million online concession business that we will build by 2022 would clearly stem from a conversion of wholesale sales to retail sales. How much? Honestly, it's difficult to tell because we see this business also to grow stronger than the industry at most of our wholesale partners.
We are today not disclosing any further signed agreements with partners. The question that Zuzanna asked about China is a very relevant one. Because in China, it's about to establish something that is scalable to take a much bigger share of customers who prefer to buy via Tmall.
The online concession takeovers will be accretive in terms of top line growth and more importantly, accretive in terms of structural profitability. Our push into this market segment is an important driver to achieve the 15% EBIT margin.

Geoffroy De Mendez (BofAML): Just one quick question on your hedging policy for Turkish lira for next year. I think, you are at a hedge ratio of 75% in 2018. Are you willing to reduce this? If yes, how much can you get from there?

Yves Müller (CFO): For the time being, we continue our hedging policy for the Turkish Lira. In the upcoming quarter we will decide on the hedge ratio for 2019. We will decide on this depending on how the currency will fluctuate until then.

Andreas Inderst (Macquarie): EUR 160 million in cost savings is quite significant. I am just wondering what's the incremental savings you have in place now versus in the past? And effectively, what is the incremental impact in your operating cost line? Can you please rank the cost-savings fields organizational efficiency, marketing efficiency, retail efficiency and tell us what are the one-off costs associated with gaining EUR 160 million cost savings by 2022?

Yves Müller (CFO): I'll start with the last one. There will be no significant one-off payments related to the initiatives. If you want to rank the initiatives, the biggest improvement will come from pay-to-sales, then it's rent-to-sales, then CapEx-to-sales and then it’s organizational efficiency.
I was hired to bring some fresh external view into the company. We are fully committed to the efficiency program and we are committed to deliver the EBIT margin of 15% in by 2022.