Full Year 2020 Results
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- The spoken word shall prevail –

Good morning ladies and gentlemen and welcome to our full year 2020 financial results presentation. Today's conference call will be hosted by Yves Müller, CFO of HUGO BOSS and Spokesperson of the Managing Board.

Before we get started, I would like to point out that all revenue-related growth rates will be discussed on a currency-adjusted basis, unless otherwise specified. Let me also remind you that, during the Q&A session we 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 morning ladies and gentlemen. Also from my side, a very warm welcome to all of you. The focus of today's presentation will be on the following three broader topics: First and foremost, I will guide you through our 2020 operational and financial performance – with particular emphasis on the fourth quarter – and elaborate in detail on the implications of COVID-19 on our business.

I will also spend a considerable amount of time to discuss some of our strategic initiatives that we have implemented recently, in order to return to growth as quickly as possible.
Last but certainly not least, I will outline our top- and bottom-line expectations for the full year 2021, notwithstanding that the environment we are operating in remains uncertain as we speak.

But let's begin with some general remarks on fiscal year 2020, which has been, without a doubt, an exceptional and challenging year for all of us. If anything, the COVID-19 pandemic has demonstrated how vulnerable everyday life is and how important it is not to take the status quo or existing standards for granted.

Instead, to win over the consumer even in such unprecedented times, what ultimately matters is to act truly customer-centric, and to have a strong and flexible organization in place, which allows us to react quickly to a changing market environment. In this context, I am particularly proud of the high dedication, resilience, and agility of our almost 14,000 employees worldwide. Thanks to their tremendous efforts and great commitment, HUGO BOSS has not only overcome the challenges associated with the pandemic, but also laid important foundations for the long-term success of our company.

Throughout the entire year, one of our key priorities was the protection of our financial stability and flexibility, in particular as the environment we were operating in was highly fragile. Consequently, at an early stage of the pandemic, we took a very close look at any measure that would allow us to secure additional cash flow – something I will get to in a second.

We have also put particular emphasis on driving the gradual recovery of our global business, by exploiting all sales opportunities – be it from a brand, market, or channel perspective. In particular, during the third quarter our business was able to recover strongly, supported by a temporary fading of the pandemic during summer.

Lastly, and equally as important, we have never lost sight when it comes to executing our strategic initiatives, to ensure we return even stronger after the pandemic. In this context, we also succeeded in further increasing the desirability of our two brands, BOSS and HUGO, and in aligning our diverse product range even better with the needs and wishes of our customers.

I will outline the most recent progress along our strategic initiatives in the second part of my presentation. Before that, however, allow me to first recap on the financial and operational developments in 2020.

Thanks to our healthy balance sheet structure, we were well prepared to cope with the financial challenges associated with the pandemic. In addition, and as outlined to you back in May, we implemented comprehensive measures aimed at protecting cash flow in fiscal year 2020. Executing these measures was THE top priority last year, and I am pleased to report that we even exceeded our initial target of cash savings of around 600 million euros by around 150 million euros.

Starting with operating expenses, where we realized substantial cost savings throughout the year, primarily reflecting personnel expense and rental savings as well as a generally more cautious marketing approach. While this brings the total of opex savings to around 200 million euros in 2020, it also means that we substantially overachieved our initial plans of at least 150 million euros in cost savings.

Secondly, we adjusted our capital expenditure by postponing all non-essential retail and IT investments. As we continued this strict approach also in the final quarter of 2020, capex for the full year ultimately totaled 80 million euros, well below our initial target of around 150 million euros. This, in turn, means that we freed-up additional cash of around 70 million euros, versus our original capex budget.

Thirdly, we have put strong emphasis on protecting our inventory position during the pandemic. A generally more cautious approach with regard to never-out-of-stock merchandise, an immediate adjustment of our own production to the lower demand, and, most importantly, a significant cutback on merchandise inflow enabled us to protect cash flow by around 300 million euros in the full year 2020. Consequently, we outperformed our initial target of reducing the merchandise inflow by some 100 million euros. This achievement is directly reflected in our inventory position, which – in line with our projections – ended the year only slightly above the 2019 level, despite re-newed lockdowns in Q4.

Lastly, and as you are all aware of, we suspended the dividend payment for fiscal year 2019, except for the legal minimum dividend of 4 cents per share. The retention of net profit has strengthened our financial flexibility by almost 190 million euros in 2020.

Overall, our relentless focus on executing these four measures, together with a temporary reduction in income tax payments, yielded a positive free cash flow of 164 million euros.

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 105 million euros at the end of December. Also, as of today, we have not drawn any of the additional 275 million euros of credit commitments that we secured during the course of the year. At 141 million euros, net financial debt, excluding the effect of IFRS 16, was only slightly up versus the prior-year period. With this, let's now take a closer look at the operational development of our business in the context of the pandemic.

Starting with our brick-and-mortar business, where widespread temporary store closures in light of global lockdowns put a significant strain on our performance, in particular during the second and fourth quarter of fiscal year 2020.

Following a global store opening rate of only 50% in the second quarter, Q3 was marked by a substantial uptick in store reopenings, resulting in a store opening rate of around 95% between July and September. In light of renewed lockdowns towards the end of the year, however, this rate came down to 85% in the fourth quarter, reflecting closed doors in key European markets and also in Canada. On average, we had to cope with 20% of our global store network being closed in the 2020 fiscal year.

Beyond temporary store closures, our global business was also impacted by comprehensive social distancing measures throughout most of 2020. In addition, persisting international travel restrictions led to very soft business with international tourists.

While these implications inevitably weighed on our brick-and-mortar business, it is all the more important that our own online business recorded strong double-digit growth throughout fiscal year 2020, with revenues up 33% in Q4 and 49% in the full year. As expected, growth in Q4 came in somewhat lower as compared to previous quarters, reflecting a more difficult comparison base, following the conversion of our Zalando business into the concession model as well as the rollout of hugoboss.com to new geographies in summer 2019.
With Q4 representing our 13th consecutive quarter of double-digit growth, our own online business was able to cross the 200 million euros mark for the first time in our company's history. This, in turn, propelled the share of our own online business to 11% of Group sales – more than twice as much as it was back in 2019.

This brings me to our geographies, and first of all to Europe – by far our largest region – and home to almost 600 own retail points of sale. With an average of around 25% of our stores closed in Q4 and also throughout the year, Europe was particularly impacted by the pandemic. In addition, comprehensive social distancing measures as well as lower tourist flows in light of international travel restrictions put an additional strain on the region's overall sales development.

Consequently, sales were down 32% in Q4 and 31% in the full year, with all major markets, including the UK, Germany, and France, posting low to mid-double-digit sales declines. Markets in southern Europe, such as Italy and Spain, were hit comparably stronger, reflecting long-lasting temporary store closures as well as a higher dependency on international tourism.

Let's now move over to the Americas, where the gradual business recovery, which started towards the end of the second quarter, continued in Q4. Thanks to sequential improvements in our U.S. business, the region's sales decline was limited to 28% in the final quarter of 2020, after recording a decline of 82% in Q2 and 41% in Q3. For the year as a whole, this translates into a sales decline of 42%. Also in the fourth quarter, sales in the U.S. continued to be impacted by ongoing traffic declines in both retail and wholesale, largely reflecting the lack of international tourism as well as lower commuting in and around important metropolitan areas such as New York City, Chicago, L.A., or San Francisco. At the same time, we have been observing a rebound in local spending, benefitting our destinations in states such as Florida and Texas but also in smaller urban shopping centers.

To further drive the recovery of our business in the U.S., we are resolutely working on optimizing our product assortment and thus our brand perception in the market. On this, our casualwear business in the U.S. market will experience a strong push in 2021, supported by a significantly higher share of product allocation at all points of sale and benefitting from our most recent collaborations with the NBA and with Russell Athletic – something I will get to in just a few minutes.

In Asia/Pacific too, we successfully continued our gradual business recovery in Q4. Another quarter of strong double-digit growth in mainland China paved the way for regional sales to remain only slightly below the prior-year level, as reflected by a 3% decline in the fourth quarter. For the full year, sales in Asia/Pacific were down 20%.

Speaking of mainland China, ongoing strong momentum in both brick-and-mortar retail as well as online led to sales growth of 24% in Q4, reflecting a very successful Chinese Golden Week as well as a strong year-end finish. This, in turn, allowed this strategically important market to grow 5% in fiscal year 2020.

Apart from mainland China, also some of the region's smaller markets such as Australia and Japan recorded sequential improvements in the fourth quarter, each posting revenue declines in the low-teens only. On the other hand, business in markets such as Hong Kong and Macau remained difficult in Q4, reflecting particularly weak demand in light of the absence of tourism.

To conclude my remarks on the top line, let's take a quick look at the sales performance by brand. Unsurprisingly, casualwear proved to be more resilient than formalwear throughout 2020, reflecting the global trend towards a more casual lifestyle, which has experienced a further strong boost during the pandemic. While both brands, BOSS and HUGO, recorded sales declines in 2020, down 32% and 27% respectively, I am all the more encouraged that HUGO's casualwear offering was able to return to growth in the final quarter of the year.

Speaking of casualwear, this product category now accounts for more than half of overall Group sales. On the other hand, the share of formalwear has come down further in 2020, representing only 25% of our business.

Now make no mistake: formalwear is, and will remain an important part of our business and we are fully committed to dominating this segment also in the years to come. As such, it goes without saying that we will continue to innovate and modernize formalwear. At the same time, we are also committed to fully exploiting the huge opportunities that come along with casualization, as it is our goal to offer our customers the best product assortment for any type of wearing occasion – 24/7. We will therefore continue to push the casualization of our business model – across all brands, genders and wearing occasions – with our initiatives in 2021 yielding to that ambition.

To complete the picture of the fourth quarter, Group sales declined by 26% in Q4. However, even in light of the overall sales decline, I am pleased to report that we were able to record an operating profit also in the fourth quarter, with EBIT amounting to 13 million euros. This achievement was once again driven by tight cost control as well as the successful execution of our various cost-

saving measures, and despite the fact that the implications of the pandemic weighed strongly on our gross margin development in Q4.
The latter totaled 61.4% in the fourth quarter, representing a decline of 530 basis points. This development is mainly related to increased markdown activity as compared to the prior-year period as well as to some negative inventory valuation effects. In addition, higher freight costs weighed on gross margin development in Q4.

On the other hand, we continued to make strong strides in executing our various cost-saving measures, resulting in an overall decline in operating expenses of 19% in Q4. This development was mainly due to a 23% decline in selling and distribution expenses, as we realized additional rent and payroll savings in own retail, with the magnitude of both effects being quite comparable. Marketing expenses, on the other side, came in broadly in line with the prior-year level, thus significantly higher than in the previous quarters, reflecting our various initiatives towards year end.

And while we recorded some reversals of impairments in the magnitude of 15 million euros directly related to the COVID-triggered impairments that we posted back in Q2, we also had to account for one-time expenses in Q4, mainly related to severance payments and the streamlining of internal processes. Both effects broadly compensated for each other, with the net effect being more or less neutral.

From a full year perspective, and in light of the implications of COVID-19 on our business, we ended fiscal year 2020 with a sales decline of 31% to 1.95 billion euros. Our gross margin amounted to 61.0% and was thus down 400 basis points, largely due to the aforementioned increased markdown activity as well as inventory valuation effects.

Operating expenses declined a strong 14% in 2020, reflecting our fast, determined, and focused approach around cost management. This has become particularly visible in the area of selling and distribution expenses, which recorded an underlying improvement of 16%. In doing so, we partly compensated for the decline in sales as well as a lower gross margin. As a consequence, underlying EBIT amounted to minus 126 million euros or, including the impact from store impairments, to minus 236 million euros.

Now, ladies and gentlemen, that concludes my review of fiscal year 2020. Let me now spend a few minutes on the progress we have made along our strategic priorities implemented over the last several months. Pushing ahead with the further execution of these strategic initiatives is absolutely crucial in order to lay the foundation for a successful 2021. In this context, we will resolutely exploit sales opportunities globally, and create brand heat for BOSS and HUGO.

Starting with mainland China, where we successfully carried the strong momentum of last year into 2021. In this context, I am particularly encouraged by our strong performance around Chinese New Year, which has been a tremendous success for BOSS in particular. During the six holidays, momentum has further accelerated – both online as well as in our stores – reflecting substantial improvements in traffic and conversion, as well as a strong sell through of our special BOSS capsule dedicated to the Year of the Ox.

Chinese New Year was yet more proof positive for our strong capabilities to successfully execute regional events, in combination with the activation of local brand ambassadors. We will continue to pursue this strategy also going forward, in order to maintain double-digit like-for-like growth in the future but also sustainably lift brand awareness and relevance vis-à-vis Chinese consumers.

Our strong positioning in mainland China provides a great foundation for exploiting the full potential of this market. In order to further fuel our momentum, and to best meet increasing local demand, we will upsize existing store locations and push for new openings. Shanghai is a prime example in this regard, as we are about to prepare for the opening of a new flagship store in the second half of the year. We will also continue to push our online growth trajectory in China, by building on our very strong momentum at leading local online platforms.

Speaking about online, we are equally confident that our global online business will continue its strong double-digit growth trajectory in the years to come. As you are all aware, we have set ourselves the target of growing online sales to more than 400 million euros by the end of 2022, and we are well on track to achieve this target. After having surpassed the 200 million euros mark in 2020, we are absolutely confident that by the end of this year, we will reach the next milestone and cross the 300 million euros mark.

Further rolling-out our digital offerings across the globe remains at the top of our agenda. As we build on our strong online platform and the successful partnership with Global-e, hugoboss.com will tap several new markets in 2021. Already during the first half of the year, we will add another 12 countries, including markets such as South Korea, Russia and Turkey, with many more scheduled for later this year.

In addition to the geographical expansion of our .com business, we will further elevate the online shopping experience in 2021, by strengthening personal services, such as our personal live chat and style advice, or seamlessly integrating social media functionalities such as WeChat or WhatsApp.

From a brand perspective, our one and only focus is on elevating the desirability of our brands in the long run. On this front, we have made substantial progress over the last several months, as we are in the midst of launching several exclusive brand and product initiatives, all clearly focused on boosting our casualwear business and winning over younger generations through our strong focus on social media.

Speaking of social media: throughout 2020, we have witnessed significant improvements in our social media metrics on the most important platforms, first and foremost on Instagram. I am particularly pleased that both BOSS and HUGO have not only seen a further rise in the number of followers, but also a clear uplift in community engagement, as reflected in the average number of "likes per post" having more than doubled year over year.

Also on TikTok, where we launched very successfully last year, BOSS is enjoying strong momentum as reflected by high community engagement and a steadily growing crowd of fans. All this is proof positive for the success of our evolved digital and social marketing approach, and clearly demonstrates that our strong focus on inspiring and relevant content – tailored to the needs of our social community – is paying off.

With this, let's now take a quick look at what's in the pipeline for BOSS and HUGO in 2021.

Starting with Chris Hemsworth, who was named first global brand ambassador for BOSS Menswear in early January. Starting this year, the 37-year-old Australian will be THE face of major global campaigns, thereby further increasing the relevance of BOSS, and giving a strong boost to our important casualwear business.

In addition to his career as an actor, Chris is also a dedicated environmentalist. In this context, he will star in an upcoming global campaign dedicated to our BOSS "responsible" collection, thus further increasing global awareness for our sustainable product offering.

The month of February saw the introduction of our second BOSS menswear capsule co-created by Anthony Joshua. With a clear focus on athleisure, the new capsule was recently launched at a digital live event at our Regent Street Store in London, supported by singer and superstar Ellie Goulding. The close and very successful collaboration with AJ will pick up further momentum in the coming months, as the boxing champion will star as the face of our upcoming father's day campaign on social media, thus providing further tailwind for our growing sportswear business.

Our new and exciting partnership with the NBA points in exactly the same direction: only a couple of weeks ago, we successfully launched the first jointly created "BOSS x NBA" capsule. With its strong focus on street style, the logo-inspired collection will help us strengthen our casualwear positioning in the U.S. market! And with three-times NBA champion Draymond Green as the face of the campaign, we are creating additional buzz on social media.

Already today – after three weeks on the shelf – I am proud to say that this is about to become the most successful capsule that we have ever launched in the U.S.! Initial sell through of the collection has significantly exceeded our own expectations. And the next exciting collaboration is just around the corner.

In less than two weeks from now, we will launch the first casualwear collection co-created by BOSS and iconic American sportswear pioneer Russell Athletic. Containing several unisex pieces and strongly focusing on street style, the highly anticipated capsule will launch with a huge global campaign created by publisher and creative agency Highsnobiety. On March 24, we will host an exclusive digital event at boss.com and relevant social media channels, after which the collection will be immediately available for purchase.

Let me be very clear: our collaboration with Russell Athletic represents a huge opportunity to substantially increase the relevance of our casualwear business on a global level, and in the important U.S. market in particular. It will be by far the largest capsule collection ever created for our BOSS brand and instantly available across the globe.

Moving over to HUGO, which will launch an exciting new music platform tomorrow, called "HUGO Louder". Young and globally engaged individuals will share uplifting and emotional content with HUGO's international community, touching on today's most important issues ranging from diversity over female empowerment to sustainability.

Following a digital and social first approach, a 360-degree activation campaign will focus on 12 music talents that will raise their voices for change, while at the same time promoting HUGO's core product range as well as selected drops of statement pieces co-created by the musicians.

Simultaneously, HUGO continues its successful partnership with its global ambassador Liam Payne. While the co-created capsule collections keep resonating greatly with the brand's younger customers in the important contemporary fashion segment, they also strongly emphasize our growing ambitions with regard to sustainability. In this context, the latest capsule directly supports the "Cotton made in Africa" initiative, thereby addressing elevated customer expectations in terms of sustainability.

Our strong commitment to sustainability is becoming increasingly visible in our collections and thus also for the consumer. Not only did we successfully launch the first vegan BOSS suit last year, we also launched a "traceable wool" collection enabling our customers to seamlessly track the entire supply chain. And we are consistently expanding the overall share of sustainable products in our brands' collections. In this context, we are particularly proud that for the upcoming Fall/Winter 2021 season, the share of products made from sustainable materials at both BOSS and HUGO will more or less double to a level of around 25% as compared to the prior-year season.

In this context, I am pleased to see that our many initiatives around sustainability and the progress we are making on that front is also being rewarded externally. We are particularly proud that for the fourth consecutive year, we were included in the Dow Jones Sustainability Index World and for the first time in the Dow Jones Sustainability Index Europe. Based on the Dow Jones criteria, HUGO BOSS is one of the three most sustainable companies in the global apparel industry.

Through our ongoing strong commitment to sustainability, we will ensure that we best meet growing customer expectations in the years to come, while at the same time creating added value for the environment and society.

Ladies and gentlemen, the further relentless execution of our strategic initiatives will be crucial to return to sales and profit growth as quickly as possible. Together with the expected improvement in the global retail environment, this makes us absolutely confident when it comes to the recovery path of our business in 2021.

Nevertheless, and in light of persisting lockdowns and temporary store closures, our business – in particular in Europe – continues to be severely impacted by the pandemic as we speak. With an average of around 30% of our global store network being closed so far in Q1, we expect the first quarter in particular to still be affected by the pandemic. Therefore, we project Q1 sales to decline by up to 20% year over year. This development, together with ongoing gross margin headwinds in the short term reflecting the COVID-triggered promotional environment, is most likely going to weigh on the bottom-line development in the first quarter.

Starting with the second quarter, however, I have every confidence that both our top and bottom line will show a sequential improvement throughout the year. In particular, we forecast Group sales in 2021 to be well above the prior-year level. This increase will be supported by the anticipated progress along the vaccination campaigns, the easing of social distancing measures, as well as an uptick in international tourism. Most importantly, however, our conviction is based on our strong pipeline of product and marketing initiatives planned for 2021, as well as the very positive feedback we have received from our wholesale partners, following the recently accomplished order intake for the upcoming Fall/Winter 2021 season. As we maintain our approach towards tight cost control, with particular focus on retail expenses, we expect EBIT in 2021 to improve strongly versus the prior-year level, and are clearly committed to returning to positive earnings territory in 2021, starting with the second quarter.

To ensure ongoing strong cash flow generation also in 2021, we will continue to execute our measures aimed at protecting cash flow. Therefore, in addition to tightly managing operating expenses, we are carefully reviewing merchandise inflow as well as capex efficiency for the year. To conclude, we will also propose to the AGM the suspension of the dividend payment for fiscal year 2020 expect for the legal minimum dividend of 4 cent per share. While this decision is far from easy for us, we consider it to be imperative, to further strengthen our financial stability and flexibility in fiscal year 2021.
Now, before I come to the end of my prepared remarks, allow me to officially welcome Oliver Timm as new Chief Sales Officer of HUGO BOSS. Oliver joined us already at the beginning of January and has taken over responsibility of our global sales activities. He looks back over more than 20 years of extensive expertise in the fashion industry and has a proven track record in driving digitalization across the marketplace.

Among Oliver's top priorities will be the implementation of a best-in-class omnichannel environment for HUGO BOSS, designed to offer a seamless, perfectly meshed brand experience to our customers. Together with his support and expertise, we will go after our many global sales opportunities and execute them resolutely in the years to come.

In less than three months from now, our Managing Board will finally be complete, as Daniel Grieder will take over his role as the future CEO of HUGO BOSS on June 1. Together with Daniel, the entire Managing Board is looking forward to entering a new strategic era for HUGO BOSS. In this context, it is our firm ambition to provide you with a strategic update on our journey for the next several years at some point in the second half of 2021.

Now, ladies and gentlemen, this concludes my prepared remarks for today. And with this, I am now happy to take your questions.