E-Commerce im Handel und in der Konsumgüterindustrie
7. September 2017
Today with you...

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Partner  
Assurance - Consumer Products and Retail

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Email sebastian.haas@de.ey.com
Our agenda

Total Time = 90 min.

1. 25 min.
   How digitalization and e-commerce change the business models of retailers and consumer products companies

2. 15 min.
   Impact on organizational structures and processes within the finance department

3. 35 min.
   IFRS accounting challenges – e-commerce and omni-channel

4. 15 min.
   Questions and answers
How digitalization and e-commerce change the business models of retailers and consumer products companies

Dr. Ulrich Kalk
Reimagine fashion for the good of all

Katharina Herzog
How is a traditional brand affected by digitalization?
WHAT WE DO
WE LOVE FASHION
We offer a successful and curated assortment

~250,000 articles from

>2,000 international brands

15 countries served

860 fashion products activated every day

>350 stylists & fashion advisors

17 private labels

95% new to the assortment every season

FREE DELIVERIES & RETURNS and 100-DAY RETURN POLICY

>350

~250,000

>2,000

15

860

17

95%

>350
WE DRESS CODE
We are constantly innovating technology

HOME-BREWED, CUTTING-EDGE, SCALABLE technology solutions

help our brands to WIN ONLINE

>1,800 employees

7 tech locations + HQs in Berlin

77 nations
WE LIVE OPERATIONAL EXCELLENCE
We operate fashion

~6,900 employees
6 fulfillment centers

~10,000,000 items stored by hub
Free customer care in 12 languages

>20 payment methods adapted to each market

42,1\text{ mn} orders handled ytd 2017

~130,000 square meters for logistics hubs
WE BELIEVE IN THE POWER OF THE TEAM
We are young and diverse

>13,000 employees from 119 nationalities

~4,600 employees hired in 2016

32 years as average age of employees*

47% female employees

53% male employees

58% female employees taking maternity leave

42% males employees taking parental leave

* excluding logistics
## ZALANDO AT A GLANCE

### KEY FIGURES

<table>
<thead>
<tr>
<th></th>
<th>JAN 1 – DEC 31, 2016</th>
<th>JAN 1 – DEC 31, 2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group key performance indicators</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Site visits (in millions)</td>
<td>1,991.6</td>
<td>1,656.4</td>
<td>20.2%</td>
</tr>
<tr>
<td>Mobile visit share (in %)</td>
<td>65.8</td>
<td>57.1</td>
<td>8.5pp</td>
</tr>
<tr>
<td>Active customers (in millions)</td>
<td>10.0</td>
<td>17.0</td>
<td>19.9%</td>
</tr>
<tr>
<td>Number of orders (in millions)</td>
<td>69.2</td>
<td>56.3</td>
<td>23.2%</td>
</tr>
<tr>
<td>Average orders per active customer</td>
<td>3.5</td>
<td>3.1</td>
<td>12.9%</td>
</tr>
<tr>
<td>Average basket size (in EUR)</td>
<td>68.6</td>
<td>67.8</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Adjusted marketing cost ratio (in % of revenue)</td>
<td>10.3</td>
<td>11.7</td>
<td>-1.4pp</td>
</tr>
<tr>
<td>Adjusted fulfillment cost ratio (in % of revenue)</td>
<td>23.2</td>
<td>25.8</td>
<td>-2.6pp</td>
</tr>
</tbody>
</table>

### Results of operations

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Revenue (in millions)</td>
<td>2,039.0</td>
<td>2,006.2</td>
<td>23.0%</td>
</tr>
<tr>
<td>EBIT (in millions)</td>
<td>207.0</td>
<td>89.6</td>
<td>&gt;100.0%</td>
</tr>
<tr>
<td>EBIT (in % of revenue)</td>
<td>5.7</td>
<td>3.0</td>
<td>2.7pp</td>
</tr>
<tr>
<td>Adjusted EBIT (in EUR m)</td>
<td>218.3</td>
<td>107.5</td>
<td>&gt;100.0%</td>
</tr>
<tr>
<td>Adjusted EBIT (in % of revenue)</td>
<td>5.9</td>
<td>5.6</td>
<td>3.9pp</td>
</tr>
</tbody>
</table>

### Financial position

<p>| | | | |</p>
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Net working capital (in EUR m)</td>
<td>-127.6</td>
<td>-2.6</td>
<td>&gt;100.0%</td>
</tr>
<tr>
<td>Equity (net of M. int and shares above capital)</td>
<td>69.6</td>
<td>69.6</td>
<td>-0.0%</td>
</tr>
<tr>
<td>Cash flow from operating activities (in EUR m)</td>
<td>275.8</td>
<td>119.4</td>
<td>&gt;100.0%</td>
</tr>
<tr>
<td>Cash flow from investing activities (in EUR m)</td>
<td>-277.1</td>
<td>-196.5</td>
<td>41.0%</td>
</tr>
<tr>
<td>Cash and cash equivalents (in EUR m)</td>
<td>672.6</td>
<td>976.2</td>
<td>-3.7%</td>
</tr>
</tbody>
</table>
# Zalando at a glance

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue 2016</td>
<td>~3.6 billion EURO</td>
</tr>
<tr>
<td>Active customers*</td>
<td>&gt;21 million</td>
</tr>
<tr>
<td>Female customers</td>
<td>70%</td>
</tr>
<tr>
<td>Young customers (&lt;29)</td>
<td>35%</td>
</tr>
<tr>
<td>GMV per active customer</td>
<td>238 €</td>
</tr>
<tr>
<td>Site visits with a mobile visit share</td>
<td>70%</td>
</tr>
<tr>
<td>Average basket size</td>
<td>65 €</td>
</tr>
<tr>
<td>Annual fashion spending in Western Europe</td>
<td>~1,100 EURO</td>
</tr>
<tr>
<td>Size of the European fashion market**</td>
<td>425 billion EURO</td>
</tr>
<tr>
<td>Zalando market share</td>
<td>~1%</td>
</tr>
<tr>
<td>Return rate</td>
<td>~50%</td>
</tr>
<tr>
<td>Orders per active customer in average</td>
<td>3.7</td>
</tr>
</tbody>
</table>
REIMAGINE FASHION
FOR THE GOOD OF ALL
We connect people and fashion
How we connect people and fashion

CUSTOMER

‘I JUST SPOTTED THIS AMAZING BAG ON CHIARA FERRAGNI’S INSTAGRAM ACCOUNT.’

ZALANDO

‘WELL, LET ME SEE WHICH ONE IT IS.’
How we connect people and fashion

ZALANDO

‘IT’S THE DREW BAG FROM CHLOÉ, SNAKE LEATHER AT A COST OF 2,200€’

CUSTOMER

‘THIS IS NICE. CAN YOU SHOW ME SOME DIFFERENT VERSIONS.’
How we connect people and fashion

ZALANDO

‘THE ICONIC DREW BAG COMES IN ALL KINDS OF DIFFERENT COMBINATIONS – HAVE A LOOK HERE.’

CUSTOMER

‘I LIKE THE RED ONE. – BUT UHH...I NEED IT IN 20 MINUTES.’
How we connect people and fashion

ZALANDO

‘YOU CAN GET IT AT THIS SHOP. THEY HAVE ONE MORE IN STOCK.’

CUSTOMER

‘THAT’S GREAT, BUT I DON’T HAVE TIME NOW, CAN YOU DELIVER IT TO ME?’
How we connect people and fashion

ZALANDO

‘SURE, WE CAN SEND A BIKE MESSENGER AND IT WILL BE WITH YOU IN 19 MINUTES.’

CUSTOMER

‘PERFECT, GO AHEAD. AND THANK YOU!’
We offer more than fashion

<table>
<thead>
<tr>
<th>Data</th>
<th>Offline Integration</th>
<th>Smart Logistics</th>
<th>Returns Pick-Up</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fulfillment by Zalando</td>
<td>Zalando</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment Services</td>
<td>“THE NEXT BIG THING”</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

…
How is the traditional brand affected by digitalization?
A short history of the HUGO BOSS Group...

1924 - Company founded by Hugo Ferdinand Boss

1970 - Focus on fashionable menswear under the BOSS brand

1985 - Listing on the German stock exchange

1993 - Launch of a three brand strategy: BOSS | HUGO | Baldessarini

2000 - Launch of the website www.hugoboss.com

2001 - Group sales exceed EUR 1 billion

2008 - Launch of first HUGO BOSS Online Store in the UK

2009 - HUGO BOSS Online Store launch in the Netherlands, Germany and France

2010 - HUGO BOSS Online Store launch in the U.S. and Austria

2011 - Launch of the website hugoboss.cn in Mandarin

2012 - First fashion show with livestream in 3D
   - 3 million fans follow HUGO BOSS on Facebook
   - Retail net sales reach Wholesale net sales

2016 - Start of the first Omnichannel Services
Attribute „digital“ deeply integrated into our Group strategy 2016

I. REFOCUS THE BRAND

II. REFINE THE WAY WE SELL

III. DRIVE THE DIGITAL TRANSFORMATION

IV. INNOVATE THE WAY WE OPERATE
Increasing share of retail requires increase in digital sales activities

- **Licenses**
  - 2007: 3%
  - 2008: 3%
  - 2009: 3%
  - 2010: 3%
  - 2011: 2%
  - 2012: 2%
  - 2013: 2%
  - 2014: 2%
  - 2015: 2%
  - 2016: 3%

- **Wholesale**
  - 2007: 73%
  - 2008: 72%
  - 2009: 64%
  - 2010: 57%
  - 2011: 53%
  - 2012: 49%
  - 2013: 44%
  - 2014: 41%
  - 2015: 38%
  - 2016: 35%

- **Retail**
  - 2007: 24%
  - 2008: 25%
  - 2009: 33%
  - 2010: 40%
  - 2011: 45%
  - 2012: 49%
  - 2013: 54%
  - 2014: 57%
  - 2015: 60%
  - 2016: 62%
Physical and digital retailing are growing together

In-store sales influenced by digital

HUGO BOSS customers researching online before purchase

“I research information about fashion brands and products online before I buy.”


Source: HUGO BOSS Customer Survey 2015, n = 15,003
The impact of omnichannel on physical retailing

**OMNICHANNEL**

**2015 and before**
- Digital store locator
- ‘Find in store’ tool (in-store inventory availability)

**2016**
- Online in-store appointment
- Order from store
- Click & collect
- Convenient returns
- Next-generation POS system
- Free in-store WiFi
- Integrated CRM

**2017 and beyond**
- Ship from store
- Click and reserve
- Same day delivery
- Smart merchandise
- Mobile in-store check-outs
- Digital receipts
New store concepts create strong link between physical and digital retailing
Use of online platforms and social commerce to exploit the full potential of online commerce.
Digital transformation comprises the entire value chain

- Product & collection development
- Sourcing and production
- Distribution and logistics
- Own retail and wholesale distribution
How the retail and consumer products universe is changing

Old reality
2005

- Products centric business models
- Role model customer = “der Otto-Normal-Verbraucher”
- Slow and inflexible supply chain – “not really connected”
- “We do it as we always did it”

The universe of a modern fashion retailer in the year 2017

2025

We will see an even more transformed ‘new reality’
How we see the future in 2025 for retailers and consumer products companies

**New Reality 2025**

- **Client Centric** Business Model focusing on data generation and analytics
- Creation of omni-channel customer journey focusing on customer individuality and providing situation and need adapted solutions
- **New ways of ordering** via Facebook, Google, Alexa, Siri...
- Agile and flexible business model tailored towards immediate customer response and satisfaction
- Emerging dominance of retail/platform brands
- Virtual realities and digital assistance
- Stronger focus on core competencies leading to buy rather than make-decisions
- For more information visit the EY Point of View „Digitalisierung trifft Rechnungslegung“
The impact on organizational structures and processes of finance department

Dr. Ulrich Kalk
How we report

Katharina Herzog
What does digitalization mean for Finance?
HOW WE REPORT
Our Key Finance Dimensions

- **Standardize where possible in order to free capacity for customized solutions in a highly agile environment.**

- **Enable our stakeholders to make their daily life easier, while being driving force on financial steering, structure and governance.**

- **Individual empowerment, responsibility and learning. (“Mean”) specialists with business know-how who can have an impact (“Lean”).**

- **As central as possible, as decentral as necessary in order to allow for diversity while leveraging experience whenever possible.**
### We love Centralization in Reporting

| 38 | Companies in 8 countries for the Fashion Store, Logistics, Customer Care, Tech plus initiatives related to the platform |

| 1  | Accounting Team |
|    | Financial Reporting Team |
|    | Tax Team |
|    | Financial System (SAP FI) |
|    | Chart of Accounts |
|    | Consolidation Solution (SAP ECCS) |

| 0  | Reporting Packages |
Within 4 days we generate final Financials

ACCOUNTING SERVICES
- General Ledger
- Accounts Receivable
- Accounts Payable
- Inventories
- Cash&Banks
- Fixed Assets

TAXATION

ENTITY 1
ENTITY 2
ENTITY 3
...

GROUP REPORTING

Zalando Group

ACCOUNTING & TAX

ENTITY REPORTING

FINANCIAL REPORTING

INVESTOR RELATIONS

ACCOUNTING

CONTROLLING

day 2
day 4
What does digitalization mean for Finance?
Decentralised finance organizations require a lot of communication

~ 340 Finance employees

~ 60 Subsidiaries

~ 30 Countries
Our responsibility – Ensure Accounting, Tax and Treasury Governance

<table>
<thead>
<tr>
<th><strong>Group Finance and Tax</strong></th>
<th><strong>Local Finance and Tax</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>► Group and regional consolidation and reporting function</td>
<td>► Manage and oversee the outputs of the Accounting and Reporting function</td>
</tr>
<tr>
<td>► Define global reporting and accounting standards including process and system governance</td>
<td>► Prepare annual financial statements and coordinate the annual audit</td>
</tr>
<tr>
<td>► Oversee and manage global tax reporting and transfer pricing projects and define global guidelines</td>
<td>► Ensure general financial governance, compliance and adherence to local tax regulations of subsidiary</td>
</tr>
<tr>
<td>► Define HUGO BOSS financing strategy and manage all financial risks</td>
<td>► Preparation of VAT and CIT calculation and declaration</td>
</tr>
<tr>
<td>► Support and training of subsidiaries in all relevant Accounting, Tax and Treasury matters</td>
<td>► Ensure compliance of transfer pricing requirements, double tax treaties and prepare relevant documentation</td>
</tr>
</tbody>
</table>

Group functions located in Metzingen

Local Finance Managers
Focusing on People, Processes and Technology enables us to get prepared for the digital era and achieve our overall objectives.
Success story: insourcing of Financial services of Online operations in 2016

- Restructuring of **financial services**: Insourcing of receivables management, new risk service solution
- Insourcing of **IT backend** important foundation for omnichannel fulfillment
- Integration of previously stand-alone teams into **omnichannel customer service**
B2C Receivables Team now integrated in Group Finance & Tax division

B2C Receivables Team with 4 HC as a shared service center for 9 European countries
E-commerce in the retail and consumer products industry...

...or why accountants love fashion J
## IFRS accounting challenges – e-commerce and omni-channel

### The universe of a modern fashion retailer in the year 2017

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
<th>IFRS/IAS Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shop @ home</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Accounting for returns</td>
<td>IFRS 15</td>
</tr>
<tr>
<td>3</td>
<td>Platforms/connectivity with local partners/shop-in-shops</td>
<td>IFRS 15</td>
</tr>
<tr>
<td>4</td>
<td>“Even more convenience”: same day delivery, curated shopping…</td>
<td>IFRS 15</td>
</tr>
<tr>
<td>5</td>
<td>Define performance obligations</td>
<td>IFRS 15</td>
</tr>
<tr>
<td>6</td>
<td>“Loyal customer”</td>
<td>IFRS 15</td>
</tr>
<tr>
<td>7</td>
<td>Accounting for customer loyalty programs</td>
<td>IFRS 15</td>
</tr>
<tr>
<td>8</td>
<td>Valuation of e-commerce receivables</td>
<td>IFRS 9</td>
</tr>
<tr>
<td>9</td>
<td>New customers – manage credit risks (scoring)</td>
<td>IFRS 9</td>
</tr>
<tr>
<td>10</td>
<td>“Omni-Channel cash generation”</td>
<td>IAS 36</td>
</tr>
<tr>
<td>11</td>
<td>Definition of CGUs</td>
<td>IAS 36</td>
</tr>
<tr>
<td>12</td>
<td>“Brick and mortar roots”</td>
<td>IFRS 16</td>
</tr>
<tr>
<td>13</td>
<td>Lease accounting</td>
<td>IFRS 16</td>
</tr>
<tr>
<td>14</td>
<td>“Technology as the backbone”</td>
<td>IAS 38</td>
</tr>
<tr>
<td>15</td>
<td>Capitalization of self generated software</td>
<td>IAS 38</td>
</tr>
</tbody>
</table>
IFRS 15 – 5-step-Model

1. Identifying the contract
2. Identifying performance obligations
3. Determining the transaction price
4. Allocating the transaction price to performance obligations
5. Satisfaction of performance obligations
1. Identifying the contract

<table>
<thead>
<tr>
<th>IFRS 15</th>
<th>Zalando</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer?</td>
<td>Click on the BUY NOW button</td>
</tr>
<tr>
<td>Contract?</td>
<td>Customer registration</td>
</tr>
<tr>
<td>Parties approved the contract and their rights are identifiable?</td>
<td>Acceptance of terms and conditions</td>
</tr>
<tr>
<td>Commercial substance?</td>
<td>Payment Method selection</td>
</tr>
<tr>
<td>Probability of collection?</td>
<td>Fraudulent orders</td>
</tr>
<tr>
<td>Payment terms?</td>
<td></td>
</tr>
</tbody>
</table>
1. Identifying the contract

WE SELL CONVERSION
The Zalando Payments Value Proposition

<table>
<thead>
<tr>
<th>Risk Steering and Payment Offering</th>
<th>Checkout and Payment Processing</th>
<th>Factoring, AR, Dunning &amp; Collection</th>
</tr>
</thead>
</table>

CUSTOMER VIEW

- Personal Data Entry
- Criteria Generation
- 1st Risk Assessment
- Payment method selected
- Order placed
- 2nd Risk Assessment
- Blocking Decision
- Manual Screening
- Order confirmation
- Cash In
- Dunning & collection
- Factoring

ZALANDO PAYMENTS
Excursus to IAS 39/IFRS 9
Subsequent Valuation of Customer Receivables

1. subsequent valuation
   Initially percentage of revenue
   Portfolio-based valuation of receivables:
   - Monthly portfolios
   - Country of origin (i.e. DE, NL)
   - Payment method (i.e. invoice, credit card)
   - Scoring factors

2. subsequent valuation
   Subsequently open balance after X weeks
   Aging-based adjustments

3. subsequent valuation
   Subsequently expected recovery in cash collection
   Aging-based adjustments
2. Identifying performance obligations

<table>
<thead>
<tr>
<th>IFRS 15</th>
<th>Zalando</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promised Goods or services?</td>
<td>Every single Item bundle</td>
</tr>
<tr>
<td>Distinct goods or services?</td>
<td>Free delivery and return separate obligation</td>
</tr>
<tr>
<td>Customer can benefit?</td>
<td>100 days right to return no obligation</td>
</tr>
<tr>
<td>Significant service of integration?</td>
<td>Free Customer Care</td>
</tr>
<tr>
<td>Goods or services highly dependent?</td>
<td>Express Delivery</td>
</tr>
<tr>
<td>Provide or arrange to provide?</td>
<td>Non-contractual warranty</td>
</tr>
</tbody>
</table>

Zalando Private Labels vs. Wholesale Business vs. Partner Program
2. Identifying performance obligations

**EVALUATION CRITERIA**

1. Does the entity act as main obligor from the transaction?
2. Does the entity bear inventory risk?
3. Does the entity have latitude over pricing?

All criteria are considered in an overall assessment of the nature of the transaction.

For an entity to act as principal it needs to maintain control over the asset before the transaction.

**ZALANDO PRIVATE LABELS**

1. Logistic costs, customer data, impact on product/service, assortment, meeting customer specifications
2. Before or after ordering
3. Price-setting

**ZALANDO WHOLESALE BUSINESS**

**ZALANDO PARTNER PROGRAM**

**PRINCIPAL VS. AGENT**
3. Determining the transaction price

**IFRS 15**
- Amount of consideration?
- Variable consideration (rebates, returns)?
  - Estimation?
  - Highly probable?
- Significant financing component?
- Non-Cash consideration?
- Consideration payable to a customer?

**Zalando**
- Observable from Invoice
- Returns
- Expected value
- Reliable return prediction
- Payment term 14 days, 30 days in Switzerland

**EXPECTED RETURNS**
3. Determining the transaction price

**Initial Revenue**
- Revenue before return (Gross margin 45%, Invoice-share 60%)
  - Dr. Trade Receivables 480 mEUR  cr. Revenues 800 mEUR
  - Dr. Cash and Cash Equivalents 320 mEUR
  - Dr. Cost of Sales 440 mEUR  cr. Inventories 440 mEUR

**Returns Received**
- Collected returns before period end (Invoice-share 70% and Gross margin 50% for all returns)
  - Dr. Revenues 300 mEUR  cr. Trade Receivables 210 mEUR
  - Dr. Inventories 150 mEUR  cr. Cost of Sales 150 mEUR
  - Dr. Financial Liabilities 90 mEUR  cr. Cash and Cash Equivalents 90 mEUR

**Expected Returns**
- Expected returns and costs to recover at period end (expected total return rate 50%)
  - Dr. Revenues 100 mEUR  cr. Trade Receivables 70 mEUR
  - Dr. Non-Financial Asset 50 mEUR  cr. Cost of Sales 50 mEUR
  - Dr. Inventory Allowance 7 mEUR  cr. Non-Financial Asset 10 mEUR
  - Dr. Logistics Expense 3 mEUR
4. Allocating the transaction price to performance obligations

**IFRS 15**

To each performance obligation based on stand-alone selling prices

- Observable or estimation?

Allocation of a discount

**Zalando**

Observable from Invoice per Item-basis

Each parcel with separate invoice

- Item-rebate
- Rebate-voucher
- Gift Card
5. Satisfaction of performance obligations

IFRS 15

Satisfaction of performance obligations?

Over time?

If not: at a point in time!

Zalando

Customer receives the parcel at a point in time

Posting of revenues at shipment date versus at reception date
Omni-channel cash generation – Definition of CGUs

<table>
<thead>
<tr>
<th>Technical background – IAS 36</th>
<th>Reality check</th>
</tr>
</thead>
<tbody>
<tr>
<td>► Retailers determine the “cash-generating unit” (CGU) to which the long-term assets - the retail outlets and/or property - are allocated for impairment testing.</td>
<td>► In practice, there are numerous different omni-channel strategies, e.g., the “click and collect” model where the customer orders and pays for goods online and then picks them up or returns them in the store.</td>
</tr>
<tr>
<td>► A CGU is defined as the smallest identifiable group of assets that generates largely independent cash inflows.</td>
<td>► Many retailers are deliberately transferring their revenue from conventional to online stores. The shop floor serves increasingly as a display area or showroom where customers can try out and test the products. It is all about inspiration, entertainment and social interaction – experiencing the brand world – rather than direct sales.</td>
</tr>
<tr>
<td>► In accordance with IAS 36, a CGU is defined solely on the basis of cash inflows (i.e. revenue).</td>
<td>► For management purposes some retailers already track the revenue based on zip codes and measure operating results based on regions/management units only rather than single stores as well as solely considering (for decisions like store openings, closings) the underlying omni-channel strategy.</td>
</tr>
<tr>
<td>► Traditionally, each individual outlet of a retailer represents a CGU.</td>
<td></td>
</tr>
<tr>
<td>► In accordance with the new standard for leases, IFRS 16, the retailer will be required to recognize the right to use the leased store as an asset and test it for impairment in accordance with IAS 36.</td>
<td></td>
</tr>
</tbody>
</table>
Can we ignore the fact that in the new integrated business models the revenue in a store is no longer generated independently of the online shop and the online shop in turn feeds off the work of the stores on the ground?

The rigid (but easy to apply) rule, “Every store is a CGU,” might no longer accurately reflect the reality of the omni-channel world we are now living in.

For more information visit the EY Point of View "Digitalisierung trifft Rechnungslegung"
Physical retail will still be important in the future

Number of own retail stores as of December 31, 2016
(December 31, 2015)

<table>
<thead>
<tr>
<th>Region</th>
<th>Total (as of Dec 31, 2016)</th>
<th>Openings</th>
<th>Closings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>232 (+6)</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>Europe*</td>
<td>608 (+5)</td>
<td>53</td>
<td>48</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>284</td>
<td>28</td>
<td>28</td>
</tr>
</tbody>
</table>

**TOTAL 1,113 (+11)**
- Openings: 101
- Closings: 90
Starting point of our journey towards IFRS 16 implementation

~ 1,820 Lease contracts
~ EUR 1,433 Mill. Future Lease Obligations
~ EUR 1,120 POS worldwide
~ EUR 405 Mill. Lease costs p.a.
thereof EUR 135 Mill. variable rent

- No global lease management
- No complete central database
- No full data transparency
A joint project was started with our Real Estate team to be IFRS 16 ready.

Project approach for implementing IFRS 16 at HUGO BOSS:

1. **2016**
   - Work out theoretical requirements and implications of IFRS 16 for HUGO BOSS
   - Early alignment with external auditor

2. **2017**
   - Group wide collection of lease contracts
   - Impact Analysis on key figures

3. **2017**
   - Organization of processes and contracts
     - Structured collection of lease data worldwide

4. **2018**
   - Review of external and internal reporting
   - Improvement of disclosure quality

5. **2018**
   - Post-Impact Analysis
     - Updating lease contracts
     - Further enablement of IFRS 16

6. **2018**
   - Considerations of strategic approaches and balance sheet optimized leasing portfolio

7. **01.01.2019**
   - First adoption of IFRS 16
   - Group-wide IFRS 16 Workshops
First results of impact analysis highlight importance of Retail real estate portfolio

### Lease portfolio

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Amount (units)</th>
<th>Book value (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible Assets</td>
<td>27</td>
<td>0.2%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>824</td>
<td>99.4%</td>
</tr>
<tr>
<td>Techn. and office equipment</td>
<td>156</td>
<td>0.1%</td>
</tr>
<tr>
<td>IT</td>
<td>473</td>
<td>0.1%</td>
</tr>
<tr>
<td>Vehicles</td>
<td>340</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,820</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

### Real Estate

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Amount (units)</th>
<th>Book value (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>4</td>
<td>0.3%</td>
</tr>
<tr>
<td>Parking space</td>
<td>46</td>
<td>0.0%</td>
</tr>
<tr>
<td>Stores</td>
<td>382</td>
<td>72.8%</td>
</tr>
<tr>
<td>Shops</td>
<td>122</td>
<td>0.9%</td>
</tr>
<tr>
<td>Concession / Commission</td>
<td>19</td>
<td>1.2%</td>
</tr>
<tr>
<td>Outlet</td>
<td>115</td>
<td>6.4%</td>
</tr>
<tr>
<td>Warehouse</td>
<td>30</td>
<td>11.3%</td>
</tr>
<tr>
<td>Showroom</td>
<td>40</td>
<td>1.5%</td>
</tr>
<tr>
<td>Offices</td>
<td>55</td>
<td>5.6%</td>
</tr>
<tr>
<td>Appartments</td>
<td>11</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>824</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
Challenges with regard to Retail portfolio require in-depth analysis of relevant contracts

<table>
<thead>
<tr>
<th>IFRS 16 guidance</th>
<th>Extension options</th>
<th>Variable lease components</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>An entity shall determine the lease term as the non-cancellable period of a lease, together with both:</td>
<td>Variable lease payments that</td>
</tr>
<tr>
<td></td>
<td>(a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise this option</td>
<td>• do not depend on an index rate</td>
</tr>
<tr>
<td></td>
<td>(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option</td>
<td>• and are not in-substance fixed,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• such as those based on performance or usage of the underlying asset,</td>
</tr>
<tr>
<td>Impact for HUGO BOSS</td>
<td></td>
<td>are not included as lease payments</td>
</tr>
<tr>
<td></td>
<td>• Strong cross-department cooperation</td>
<td>• Evaluate contracts lease-by-lease</td>
</tr>
<tr>
<td></td>
<td>• Underlining group guidelines on how to evaluate extension options</td>
<td>• Workshops with group wide finance teams regarding the definition of variable and fixed payments</td>
</tr>
<tr>
<td></td>
<td>• Highlight processes of monitoring lease data</td>
<td>• Implementing a lease payment documentation</td>
</tr>
</tbody>
</table>
## Impact of optional lessee exemptions and practical expedients

<table>
<thead>
<tr>
<th>IFRS 16 guidance</th>
<th>Short term leases</th>
<th>Low value assets</th>
<th>Non-lease components</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lease term &lt; 12 months</td>
<td>An underlying asset can be of low value only if:</td>
<td>As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease-components from lease components and instead account for all components as a lease</td>
</tr>
<tr>
<td></td>
<td>Considering extension options, if the lessee is reasonably certain to exercise this option</td>
<td>(a) the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The lease does not include an option to purchase the underlying asset</td>
<td>(b) the underlying asset is not highly dependent on other assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The short term exemption can be made by class of underlying asset of similar nature and use in an entity’s operations</td>
<td>The Basis for Conclusion states a reference value of 5,000 US-Dollar</td>
<td></td>
</tr>
</tbody>
</table>

### Impact for HUGO BOSS

- **Low relevance as Retail lease contracts generally > 12 months**
- **Low relevance as impact of IT or office equipment is minor**
- **High relevance given the service components included in Retail leases**
## Our view: Pro’s and Con’s of different transition methods

<table>
<thead>
<tr>
<th>Full retrospective approach</th>
<th>Modified retrospective approach – retrospectively RoU</th>
<th>Modified retrospective approach – RoU = Lease Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Expected higher discount rates for long term leases</td>
<td>• Expected lower discount rates for long term leases</td>
<td>• Expected lower discount rates for long term leases</td>
</tr>
<tr>
<td>• Higher one-off equity loss (compared to MRA)</td>
<td>• One-off equity loss</td>
<td>• Equity loss (in future)</td>
</tr>
<tr>
<td>• High workload</td>
<td>• Medium workload</td>
<td>• Lower workload</td>
</tr>
<tr>
<td>• Disclosure of prior year figures</td>
<td>• No disclosure of prior year figures</td>
<td>• No disclosure of prior year figures</td>
</tr>
<tr>
<td>• Preferable external and internal reporting</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

...we have not yet decided which transition method will be applied
Significant impact of IFRS 16 for HUGO BOSS Group expected

<table>
<thead>
<tr>
<th>Financial Performance</th>
<th>Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet (B/S)</td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
</tr>
<tr>
<td>Equity ratio</td>
<td></td>
</tr>
<tr>
<td>Profit and loss statement (P&amp;L)</td>
<td></td>
</tr>
<tr>
<td>Net income*</td>
<td></td>
</tr>
<tr>
<td>EBT*</td>
<td></td>
</tr>
<tr>
<td>EBIT, EBITA, EBITDA</td>
<td></td>
</tr>
<tr>
<td>Cash flow</td>
<td></td>
</tr>
<tr>
<td>Cash flow from operating activities</td>
<td></td>
</tr>
<tr>
<td>Cash flow from financing activities**</td>
<td></td>
</tr>
<tr>
<td>Free cash flow**</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Performance</th>
<th>Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI</td>
<td></td>
</tr>
<tr>
<td>Return on sales (EBIT/Sales)</td>
<td></td>
</tr>
<tr>
<td>Overall return</td>
<td></td>
</tr>
<tr>
<td>Debt ratio</td>
<td></td>
</tr>
</tbody>
</table>

*Net income decreases in the first period because of the front load effect
**provided that interests are assigned to cashflow from financing activities