

## Address by CEO Karl-Johan Persson at H&M's AGM 2018

Hello everyone, and a very warm welcome to our annual general meeting.

It's great to see so many of you here today.

I would like to take this opportunity to tell you about our view of the market, where the H&M group is at today, and our performance over the past year. In 2017 we did not live up to expectations and just like you, we are disappointed about that. We are now working with all our strength to turn our performance around, and I will be telling you more about the transformation work we are doing in order to get back to good growth.

But first, as I said, a few words about the market and what's happening there.

### A GLOBAL MARKET

Apparel is the second largest consumer goods sector in the world – only the grocery sector is bigger. Over the past five years the apparel market has grown by 6 percent in total, and is expected to grow by a total of 10 percent over the coming five years, according to Euromonitor.

Most of this growth will take place online. The share of purchases made online is expected to have increased to 20–25 percent in 2022, up from 7 percent in 2012. This rapid online growth has caused many people to draw the conclusion that sales in physical stores will fall. And yes, in some markets we are seeing footfall reducing both in shopping centres and in other store locations. But in fact, overall store sales are expected to increase somewhat. And the largest part of this increase will come from emerging markets.

So it is a big market, and it is a market that is growing and is relevant. Although we are a big company, the H&M group has just 1.7 percent of the global clothing market. So there is a lot left for us to do, and plenty of room for us to grow.

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### A MARKET IN TRANSFORMATION

It is also a sector that is in the midst of a major transformation. This transition is taking place rapidly and affects everyone in the sector. The catalyst for this change is rapid technological development. The biggest impact of all has come from mobiles: the fact that more and more people have access to mobiles, and that everyone is connected at all times, wherever they are.

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## CHANGING CUSTOMER BEHAVIOUR – HIGHER EXPECTATIONS

What we are seeing as a result of this is that customers expect more and more from us companies. Customers are demanding a more personalised offering. They want shopping to be easy and convenient – right from finding the products to payment and delivery. They expect a higher level of service, and of course they want to be able to shop wherever they are and whenever they like. Requirements of sustainability are also increasing; customers want to feel confident that the companies they shop with are acting ethically and responsibly.

And the most important thing of all is the products. Customers want even better design, higher quality and better prices. Digitalisation has increased transparency, making it all the easier for customers to compare products and offerings from different companies.

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## A NEW COMPETITIVE LANDSCAPE

As this transformation takes place, a new competitive landscape is emerging. A major change has taken place over the past ten years.

One example is the big online platforms like Amazon and Alibaba. Their size and growth are something that nobody in the industry has seen before, and they are reinvesting all the time to generate new growth – both within their existing operations and in new areas, and it will only continue. A lot of new business models have also appeared; companies that are competing in new ways. And there are also many niche online operators, small players that in a connected world now have a global reach.

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The reduced footfall to many stores is also putting pressure on prices. I believe that we will see more store closures in the sector in the coming years. Digitalisation is changing the world we operate in. Different companies are at different stages when it comes to adapting to the new situation. Many companies perhaps do not have either the long-term approach or the resources needed to make the necessary investments. But we in the H&M group have that. We are well-positioned with a profitable and well-functioning model for all our brands. We have the combination of stores and online, known as omnichannel. And we have the necessary resources and long-term view to succeed in the transformation.

So, that was a brief overview of the market.

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## THE H&M GROUP AND OUR BRANDS

Let's look a little more closely at our company. Today we do not have just one brand, H&M. We have eight brands. Each is run by its own separate team, and each brand has its own unique identity.

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## ARKET

In 2017 we launched our latest brand, ARKET, which has also got off to a good start.

ARKET offers timeless, modern collections with essential products for women, men and children as well as for the home. Most ARKET stores also have a café based on the New Nordic Food Manifesto.

Alongside stores in London, Amsterdam, Berlin and other cities, ARKET also offers online shopping in 18 European markets, including Sweden. ARKET's first store in Sweden will open on Drottninggatan in Stockholm and this will take place soon – at the beginning of the summer.

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All our brands are globally scalable and there is plenty of room for future expansion. So we have a fantastic asset in our portfolio of brands and the growth opportunities that are ahead of us.

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## SHARED GROUP ASSETS

We are also a company with many strengths and shared assets that we have built up over the years. These assets help our existing brands to develop and improve, and also help us to successfully launch new concepts and ideas.

Examples of our assets include our supply chain, our store network, all the data that we have within the group, our scalable and stable technology platforms, our buying capacity and our relationships with suppliers. And there is also all the knowledge and experience of our employees around the world, both in our central multi-brand functions and in our various countries.

## OUR EMPLOYEES AND VALUES

Our greatest strength is our employees and our corporate culture. We are a values-driven company with a strong culture, a strong customer focus and a long-term approach. An important factor in our success since we started in 1947 has been our efforts to always renew ourselves and develop our business.

## SUSTAINABLE DEVELOPMENT

I also want to take this opportunity to say a few words about our sustainability work. Sustainability is integrated into every part of our company. All our departments, all our brands and all our countries have sustainability targets. We integrate sustainability work into our business because we consider it the right thing to do as a company – to take a wider responsibility. We are also convinced that it makes perfect business sense. As I said earlier, our customers expect it – and so do our employees.

You can visit our website to read more about our sustainability work, which is just one of many examples of how we are putting our long-term approach into practice.

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Our long-term approach also means investing in our business for the future: we are investing in our existing brands and we are investing in new growth engines.

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At the same time, it's important to emphasise that we must, of course, deliver good results in the short term too. And recently we have not done this sufficiently well.

#### SALES IN 2017

Looking back at the past year: in 2017 the H&M group's sales including VAT were SEK 232 billion. Online sales accounted for 12.5 percent, amounting to nearly SEK 30 billion.

If we look at our various brands, H&M contributed around SEK 215 billion to the group's total sales, while New business, which includes our other seven brands, had sales of SEK 17.3 billion. Just like H&M, New business is profitable both online and in store.

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#### SALES DEVELOPMENT

Looking a little further back in time, we have gone from having a single brand to a portfolio of several unique brands. Over the past ten years the number of markets has increased from 29 to 69. We have a strong store network that extends across several continents. It may be worth saying that opening new stores is good business; for us, the payback period for a new store is less than 17 months.

During this period we have also expanded substantially online, and at the end of 2017 we were online in 43 markets.

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#### SALES GROWTH BY CHANNEL

If we look at how sales have developed in the different channels we can see that store sales have more than doubled over this period, while online sales have increased by more than 700 percent – which represents a growth rate of around 25 percent per year online. So we can see clearly that the pattern of our sales reflects the accelerated online shift in the market, with reduced footfall to stores in many markets.

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## SALES AND PROFITS

In 2017 we achieved growth of 4 percent in sales including VAT. In local currencies the increase was 3 percent. Online sales performed well for H&M and for the group as a whole, and our newer brands performed well in all channels. H&M also performed well in newly opened stores in a number of new and existing markets.

On the other hand, sales in many of our comparable H&M stores were weak. There are several reasons for this. One is that the market is undergoing a transformation. Another is that we did not improve sufficiently to keep pace with increases in customers' expectations. In addition, we made a few mistakes ourselves as regards the assortment composition. Among other things, we did not have enough breadth in our product range.

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Profit for the year before tax was SEK 21 billion. The reason that earnings were not as good as in the previous year is because of weak sales development combined with substantial markdowns, which had a negative impact on our results.

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The industry is continuing to change and 2018 will be something of a transformation year for the H&M group. As we said earlier, we are expecting a tough first half followed by a gradual improvement as the year goes on.

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So what is our plan? What are we doing to take the H&M group to a higher level?

## OUR PRIORITY ACTION AREAS

Our priority action areas are as follows:

- develop our brands – with a focus on H&M,
- accelerate our key enablers, which includes investments in three important areas that will further help our existing brands,
- add new growth,
- and also: good cost control and efficiencies.

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## DEVELOP OUR BRANDS – WITH A FOCUS ON H&M

The first and most important area is to continue to develop our existing brands. Our highest priority is H&M, which accounts for the majority of our business.

H&M is for everyone who likes fashion, and must always offer the best combination of fashion, quality, price and sustainability. H&M also has an offering that is appreciated the

world over. It has a large and growing customer base, and H&M has a strong relationship with customers locally in the stores as well as online and in social media.

In our ongoing work to turn around H&M's performance we are building on the brand's strong position. With increased customer focus and accelerated digital investments we will meet customers' new expectations.

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To make the changes and improvements required, we have – among other things – strengthened the H&M management team with the addition of various individuals. We have a strong, very capable team who are working together and driving this work forward at full force. At the same time, it is important to remember that although the work is proceeding at a fast pace, it will take time for the changes to have an impact. It is something that will happen gradually.

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The most important thing we have is our products and our assortment. And as we mentioned previously, with customers' increased expectations and the ever fiercer competition we have to get better all the time as regards design, quality, price and innovation. And of course we must always ensure that we have the right assortment composition, with the right product in the right quantity in the right channels

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Linked to the product range is our work to improve the shopping experience in H&M's physical stores, to ensure that we offer a more inspiring and convenient experience. We are in the process of testing new store formats, which includes new shop fittings but also various adjustments to the product range. The tests are still on a small scale, but they are having positive results in the form of both positive feedback from customers and increased sales. Based on our test results we plan to make these changes in more stores; some we can scale up quickly, while others will take longer.

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We are also continuing to optimise the store portfolio. This optimisation includes store closures, as well as renegotiation, relocations rebuilds and changes in store space.

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If we look at our online store, our performance is very good. Hm.com is one of the most visited fashion sites in the world and we are continuing to develop and improve this channel.

One of the long-term investments we have made in recent years is our new online platform. We have moved most of H&M's online markets over to this now. The new scalable platform means improvements for customers, in everything from speed to simpler navigation and

new payment options. New technology also enables us to offer digital features such as image search and personalised product feeds – services that make the experience both more relevant and easier for customers.

We are also cutting our delivery times for online purchases. And for our members of H&M Club we now offer free delivery and returns for online shopping.

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Our combination of physical stores and online gives us a unique proximity to customers. By integrating the channels with each other we want to create a shopping experience that is as easy and convenient as possible. This includes for example, click-and-collect and online returns in store as well as being able to use the mobile in store to buy an item directly online if a certain colour or size is not in the store at that particular time. Mobiles also mean that store staff can quickly help customers find the garments they are looking for – either in one of our stores or online.

Many of these services are already offered in some of our markets, while others are being rolled out and we are constantly testing new functions to improve what we offer our customers. In future, our omni-model will make the whole of our product range even more accessible to customers regardless of where and how they choose to shop.

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This takes us on to our next priority area, which is continuing to invest in new technology and new ways of working.

#### ACCELERATE OUR KEY ENABLERS

We call this our “key enablers”. What it means is investing in our supply chain, further initiatives in advanced analytics and AI and continued investment in our technology platforms.

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Together with internal and external experts we have charted our supply chain to optimise everything from product development and design to buying, production and logistics, so that we can become even faster, more flexible and more efficient.

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We are also working to digitalise large parts of the supply chain by means of 3D and RFID, among other things. We are in the middle of a global rollout of RFID, which will provide considerably better control over the availability of the products and make it even easier for customers to find the right product in the store.

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We are also driving automation, and among other things are building new highly automated warehouses for online sales in Europe – thereby improving both scalability and speed in our warehouses. For our customers this brings benefits such as a delivery times.

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This work is also linked to continued investments in advanced analytics and AI. We see huge potential across the board here – everything from assortment planning to the supply chain and sales. Advanced analytics and AI will be a support in everything from trend detection, quantification and allocation, price management and personalisation. We are currently running various initiatives throughout the value chain and we are already seeing good indications of increased sales and profitability, although this is still on too small a scale to be seen in our overall performance.

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Another important area is to further improve our tech foundation. In recent years we have made big investments in our technical platforms, such as those for logistics and sales. This gives us a scalable and robust foundation to grow from and will benefit the company for many years to come. These important investments mean that our main focus can now be on faster development of customer-facing technologies and apps aimed at constantly improving the experience for the customer.

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## NEW GROWTH

Our third focus area is adding new growth.

We are continuing to expand digitally with our existing brands – partly by broadening our assortment online and partly by expanding online into new markets. And we are also expanding through external partners and social platforms.

In March both H&M and H&M Home were launched on Tmall in China. The reception has been very good, exceeding our own expectations. By being on Tmall – where Monki has also been performing well, by the way – we make our offering even more accessible in China. We are in discussions with Tmall's owner Alibaba concerning the launch of our other brands on Tmall too.

In March H&M opened online in India and here, too, the response from customers has been very positive. H&M now offers online shopping in 45 markets – a figure that will increase further this year and in the coming years.

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In parallel with our online expansion, we still see room for expansion through physical stores in many regions and markets. In the case of H&M, the store openings will focus on emerging

markets. This year, for example, we will open the first H&M stores in Uruguay and Ukraine. For the H&M group's brands overall, we are planning a net addition of 220 new stores in 2018.

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An important element of our growth strategy is to develop new brands, for new customer groups and segments. By sharing the whole company's economies of scale and infrastructure, new brands can grow to be strong and successful globally. We already have several examples of this, such as COS, & Other Stories and Monki.

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We will shortly be launching our ninth brand, Afound which will open in 2018.

#### AFOUND

Afound will be a new off-price marketplace offering a carefully selected, broad and diverse range of attractively discounted products from well-known brands, both external brands and the H&M group's own. Afound's marketplace will be launched online and with physical stores, starting in Sweden. The first stores will open in Malmö and Stockholm later in the year.

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So that was a brief look at our priority action areas for future growth.

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#### GOOD COST CONTROL AND EFFICIENCIES

In parallel with our growth initiatives, we are working continually to improve our efficiency. Those of you who have followed us for a long time will know that cost consciousness is part of our DNA and is something that is deeply rooted in our corporate culture.

With continued good cost control, we assess that our operating costs will continue to increase at a slow rate. In addition, we also have a weaker US dollar, which is currently having a favourable impact on our purchasing costs. With the investments and improvements that we are making, we also see great potential for decreased markdown costs in relation to sales from 2019 onwards.

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#### LOOKING AHEAD

Looking forward, we see both challenges and opportunities in a large and growing market that is in rapid transition. We have the long-term view and the knowledge and experience needed to be able navigate through a time like this.

As I said, we are far from happy with our own recent performance. But we have been through tough times in the past, too, and each time we have come out stronger.

We will do so again now. We have learnt a lot of very valuable things during this period. We have a good plan and we have an extremely able team who are working hard to ensure that we fully deliver. As a result, we are optimistic about the future and the work that will lead us back to good growth in both sales and profitability.

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Thank you for listening.

I will now hand over to the chairman of the meeting.