

INDITEX
INDITEX
INTERIM NINE MONTHS 2019

CONFERENCE CALL SCRIPT
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Important notice: Although we try to accurately reflect the speech delivered, the actual speech that was delivered may deviate from this transcript.

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Inditex Participants

Pablo Isla – Executive Chairman

Carlos Crespo - CEO

Ignacio Fernández – CFO

Marcos López - Capital Markets Director

Conference Call Participants

Mariana Horn-Urbe UBS – Analyst

Rebeca McClellan Santander - Analyst

Anne Critchlow Societe General – Analyst

Richard Chamberlain RBC – Analyst

Simon Irwin Credit Suisse – Analyst

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Marcos López - Capital Markets Director

Good Morning Ladies and Gentlemen. A warm welcome to the presentation of Inditex's Results for the Interim Nine Months 2019. I am Marcos López, Capital Markets Director.

The presentation will be chaired by Inditex's Executive Chairman Pablo Isla. Here today with us are also our CEO Carlos Crespo and CFO Ignacio Fernández.

As usual, the presentation will be followed by a Q&A session starting with the questions received on the telephone, followed by those received through the webcast platform. I will now hand over to Pablo.

Slide 3: Pablo Isla – Executive Chairman

Good morning to everybody and welcome to Inditex's nine month 2019 results presentation.

Slide 4: Unique business model: Global fully integrated Store & Online

As you all know Inditex has a very unique business model that allows us to operate stores and online in a remarkably integrated way.

The advantages of the model are clear to see in these nine month results.

Slide 5: Interim Nine Months 2019: Continue developing our LT strategy

This period has been very much about the continued roll out of our long term strategic initiatives with a very clear goal, to provide a unique customer experience.

These initiatives fuel the increasing differentiation of our model.

The execution over 2019 has been very strong as seen in the results themselves, the tight inventory management, as well as the strong cash generation.

This performance places us in a strong position to take advantage of the attractive growth opportunities we have ahead of us.

Slide 6: 2019: Interim Nine Months 2019: Continue developing our LT strategy

Sales in the interim nine months were satisfactory at plus 7.5%.

Given the outstanding performance over the period, margins have been strong. As a result net income increased plus 12%.

Let me also highlight that the remarkable operating performance and the healthy working capital evolution has resulted in accelerating free cash flow generation.

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I would like to refer now to a number of initiatives carried out by Inditex.

Slide 7: Zara Dubai Mall

Firstly, the significant enlargement of two Zara global flagships, both of them exceeding 4,000 square meters in size.

Let me start with the flagship opened in Dubai Mall in September that will mark our existing strong presence in the area.

Slide 8: Zara Dubai flagship

The store includes the latest Zara image which generates an extraordinary customer experience...

Slide 9: Zara Barcelona flagship

...as does the flagship in Barcelona in Paseo de Gracia that opened in November...

Slide 10: Zara Barcelona flagship

...with its unique interior architecture.

Slide 11: Seamless Store&Online integration

With the aid of the click & collect silos, both of these stores integrate the store and online experience in a very effective way.

Slide 12: Zara Emotions by Jo Loves

In November, Zara launched the Emotions collection of fragrances in collaboration with Jo Malone CBE.

Slide 13: Zara Home; Christmas at Home Editorial

Zara Home has released its Christmas at Home Editorial.

Slide 14: Bershka

Bershka has seen a particularly strong reception to its Billie Eilish Editorial.

Slide 15: Massimo Dutti: New image

Massimo Dutti has introduced a new store image in the enlarged flagship at Mall of Emirates in Dubai...

Slide 16: Massimo Dutti: Personalization service

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... which includes a Personalization section.

Slide 17: Pull&Bear: Going Places Collection

While Pull&Bear has launched its Going Places Collection...

Slide 18: Stradivarius: Iceland editorial

...and Stradivarius launched the Iceland Editorial.

Slide 19: Oysho: Launch in Singapore. Mallorca flagship

It is noteworthy, that in the period Oysho opened its first store in Singapore at Jewel Changi and has also relocated its flagship at Paseo del Borne in Mallorca.

Slide 20: Uterque: Pop-up store in London

Uterque has opened a pop-up store in London in Covent Garden.

Slide 21: Financial Summary

I'll hand you over to Ignacio now. He'll update you on the financial performance of the group over the nine months.

Slide 22: Ignacio Fernández - CFO IFRS 16.

Thank you Pablo.

Once again, a brief reminder on IFRS 16. IFRS 16 came into effect earlier this year and has of course been duly adopted.

As highlighted back in March, these changes will impact neither the cash flows nor the business itself.

IFRS 16 will result in an estimated increase of around 2.5% in FY2019 net income vs former IAS 17, in line with the nine months 2019.

Slide 23: Very strong performance in interim nine months 2019

As already pointed out, we enjoyed a very strong performance in the interim nine months 2019.

Net sales grew 7.5% to 19.8 billion euros, gross profit increased 8% to 11.5 billion euros, profit before tax increased 12% to 3.5 billion euros, and net income increased 12% to 2.7 billion euros.

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The impact on PBT of leases under the new IFRS 16 rules was 83 million euros while the equivalent impact on net income was 63 million euros.

Slide 24: Satisfactory sales growth

The evolution of sales was very satisfactory with net sales growth of 7.5% driven by a very good performance of the integrated business model.

Trading has remained strong over the period, with local currency sales growing 7%.

Slide 25: Disciplined execution shown in gross margin

The strong execution of the business model in the interim nine months 2019 is best illustrated in the resulting gross margin.

The gross margin increased 21 basis points to 58.2%. The gross profit itself increased by 8% to 11.5 billion euros all the while maintaining our usual commercial policies unchanged.

Slide 26: Strong operating efficiency

Once again, efficiency gains have allowed us to tightly control operating expenses in the period. Operating expense growth excluding the impact of Leases under IFRS16 rules in the period would have been plus 6.7%.

Slide 27: Financial results

The financial results line of the P and L includes an impact of Leases under IFRS16 rules of 109 million euros.

Slide 28: Flexible business model

The flexibility of the business model we run can be seen clearly in the healthy working capital.

This operating performance was facilitated by the integration of the stores and the online operations, as well as the ongoing space optimisation taking place. This helped to drive the growth in operating working capital of 22% and in the cash position of 17%.

Slide 29: +17 Dividend increase

Bearing in mind the idea of providing an attractive and predictable remuneration to our shareholders, in relation to fiscal year 2018, the AGM approved a dividend increase of 17% to €88 cents. €44 cents was paid on the 2nd of May and €44 cents was paid on the 4th of November 2019.

Slide 30: Concepts

I will now pass you back to Marcos. He'll update you on the performance of the concepts.

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Slide 31: Marcos López - Capital Markets Director. Store and Online sales by concept.

We have continued our global expansion over the interim nine months of 2019 having opened stores in 41 markets so far this fiscal year. Global online launches have also continued at a rapid pace.

Zara continues to represent approximately 70% of group sales and the younger concepts represent around 30%.

Slide 32: Sales by concept

The younger concepts grouped together continue developing their operations satisfactorily. I would like to highlight the strong sales of the Group in the interim nine months 2019.

Slide 33: Performance per concept

So far this year, Stradivarius and Uterque have performed particularly strongly while we have seen ongoing store optimisation activity in Pull & Bear and Oysho.

Slide 34: Global fully integrated

Now, over to Carlos who will comment on some of the initiatives we've been working on over the period.

Slide 35: Carlos Crespo - CEO. Seamless store and online integration.

With regards to the high level of integration between both our physical stores and our online operations, customers globally today enjoy an unparalleled level of service.

This photo illustrates the online click and collect silo at the Zara flagship in Dubai Mall.

Slide 36: 2020 Fully integrated stores and online

Over recent years we have invested significantly in a number of initiatives to enhance our logistics capacity and we have driven further efficiencies in the business model.

Slide 37: 2020 Full RFID rollout and inventory integration

Many of these initiatives have been made possible due to the rollout of projects like the RFID programme and the inventory integration programme. Both of these projects will be fully rolled out across all markets by 2020.

Slide 38: Online launch South Africa, Colombia, Philippines, Ukraine

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As you can see, we have maintained the rapid pace of online launches seen at the half year. In September and October we launched Zara Online in South Africa, Colombia, Philippines and Ukraine to a very positive reception.

Slide 39: Zara Home on Zara UK webpage 17 September

Furthermore, on the 17th of September Zara Home launched on the Zara website in the United Kingdom.

Slide 40: Outlook

And now I'll hand you back to Pablo.

Slide 41: Pablo Isla - Executive Chairman. Outlook - Continue developing our LT strategy

Our long-term strategy continues to be to invest in our stores in order to further enhance the differentiation of our commercial offer.

This will be further supported by our efforts to make all stores fully digital and sustainable by the year 2020.

We will also continue to develop further coordination of the commercial offer.

By 2020 the inventory integration in stores and online will be fully operational across the group.

Slide 42: All concepts to offer online sales globally by 2020

By 2020 we expect to announce that all concepts will offer online sales throughout the world.

Slide 43: Store & Online: A/W Campaign Editorial

A good example of the seamless store and online execution can be seen in the Autumn/Winter Campaign Editorial...

Slide 44: Store & Online: Good Evening collection

...or the 'Good Evening collection.

Slide 45: A Vision of Autumn collection

...and the 'A Vision of Autumn collection

Slide 46: Store & Online: Secret Love campaign

The Secret Love Campaign

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Slide 47: Store & Online: Kids campaign

The Kids campaign

Slide 48: Store & Online: Join Life collection

And our sustainable range Join Life, now features a recycled cashmere collection.

Slide 49: FY2019 Outlook

A few final comments on the outlook. We expect strong organic growth to continue as we pursue increased differentiation of our offering to customers.

Ordinary capital expenditure is expected to come to approximately 1.4 billion euros this year, of course accompanied by strong free cash flow generation.

And we reiterate our expectation of 4 to 6% growth in like-for-like sales.

Before closing I would like to highlight some selected Zara store openings and enlargements from recent months.

Slide 50: Zara Pamplona

Let's begin with the the relocated Zara flagship store in Pamplona.

Slide 51: Zara Seville

We also opened recently at Sevilla Lagoh.

Slide 52: Zara Rijeka

In Croatia we have relocated our flagship in Rijeka to a 3,000 square metre building...

Slide 53: Zara Shanghai

...while in Shanghai we have enlarged our store at Grand Gateway.

Slide 54: Zara Yongin

Zara also opened at Yongin in South Korea.

Slide 55: Zara Madrid

Let me finish with the enlarged and fully refurbished store in Madrid, Preciados. This is the most emblematic pedestrian area in the whole city. The store itself was one of the first Zara stores to be opened in Madrid and with the recent refurbishment, offers an excellent customer experience.

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Slide 56: Zara Madrid

With the enlargement to 4,200 square metres we took advantage to enhance the store in terms of sustainability to our eco-efficient model.

Slide 57: Interim Nine Months 2019

And that concludes our presentation today. We'll be happy to answer any questions you may have. Please Operator.

QUESTIONS & ANSWERS

Operator

Ladies and gentlemen, the telephone Q&A starts now. If you would like to ask a question, please press star 1 on your telephone keypad. If you wish to remove your question, please press star 2. We request that you limit yourself to only one question per turn, so we can maximize the number of participants in this session. If you have further queries, you may press star 1 again after the next person's question has been addressed. Please, ensure your phone is not muted locally. The first question today comes from Mariana from UBS. Please go ahead.

Mariana Horn-Uribe - UBS - Analyst

Good morning. I have one question, please. When you refer in the press release that operating expenses were tightly managed over the nine months, could you please elaborate a bit more on this statement? Which items are you in particular referring to and which ones do you have a bit more control over? Thank you very much.

Pablo Isla - Inditex – Executive Chairman

Well, as you know, the answer has a lot to do with the global management of operating expenses. We pay a lot of attention to managing very carefully anything that has to do with operating expenses: we have personnel expenses, rental expenses and we are being very active in renegotiation of rents with all the landlords and we have other operating expenses. Globally, always, our approach is operating expenses to grow below sales growth, as happened in the nine months. We are having operating leverage, which for us is a key element of our strategy going forward.

Operator

The next question today comes from Rebecca McClellan. Rebecca, please go ahead.

Rebecca McClellan – Santander - Analyst

Good morning everybody. One question on the inventory. How much of the continued inventory and optimisation do you think is directly a result of RFID and how sustainable is that going in to next year? What more initiatives are there to get inventory, to optimise inventory?

Pablo Isla - Inditex - Executive Chairman

We think this is a very relevant factor of these results. It was also the case when we published the first half results that we saw -5% in terms of inventory. We have always managed our company with very low inventories. In fact, as we always say, the most relevant metric for us, even more than inventory, is the level of commitment at any point in time of the season, the level of purchases that we

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have committed to and what amount we have open to buy during the season.

But, of course, this appears in the inventory figure. This has a lot to do with this full stock integration between stores and online and it is the execution of our business model and what we can say is that running with -5% inventory and sales growth of 9% is something very remarkable and it shows the strength of the business model and I would say it shows that our strategy is bearing fruit. It has to do with the store optimisation plan, and of course, it has a lot to do with RFID, with this idea of differentiation and full price sales during the season. And we are being able to have very healthy like-for-like sales growth, very strong sales growth: 9% in the third quarter, with -5% inventory position. So it shows the strength of the business model and that is why we also have a positive gross margin figure during the third quarter this year. So it is the global execution of the business model and it has a lot to do with all the decisions and initiatives that we have been taking during the last few years.

Operator

The next question comes from Anne Critchlow from Société Générale. Anne, please go ahead.

Anne Critchlow - Societe General – Analyst

Thank you. Good morning all. Please, could you talk a bit more about your personalisation section in the Massimo Dutti store in Dubai? Is that a trial? And what does it involve?

Pablo Isla - Inditex - Executive Chairman

As you know, last year we also began with some personalisation in Zara and these are things that we are beginning to do more and more. It is not huge, but it is the idea of having the ability to personalise certain garments whenever possible and it is something that our customers appreciate very much. It is not going to be huge in terms of volume, but I would say that, from a qualitative point of view, it is something that our customers appreciate very much and it is an area in which we will continue having initiatives with Zara, Massimo Dutti and with the different brands. It is very well received by our customers, this possibility of personalisation in certain types of garments.

Operator

The next question comes from Richard Chamberlain from RBC. Richard, please go ahead.

Richard Chamberlain – RBC- Analyst

Thank you. Good morning. A question please on space contribution. Can you confirm that you are on track to meet estimates of around 3% space contribution for the full year? I think that it dropped about to about two for the first half. It looks to have accelerated again in the third quarter, I think. Can you just confirm the full year estimate of around 3% space contribution? Thanks.

Marcos López – Capital Markets Director

Basically, as you know, Richard we have guided to 5% to 6% gross space growth. The absorptions are something which are very important and we have some examples in the presentation, because the optimisation of our stores is a key issue for us. The store network is a living being and you have to act on it all the time. This is why probably the net space growth will be around 4%. With the usual conversion rates, you would see space contribution probably similar to the one you are referring to. Yes.

Operator

The next question comes from Simon Irwin from Credit Suisse. Simon, please go ahead.

Simon Irwin – Credit Suisse - Analyst

Good morning, gentlemen. Please, can you talk a bit more about the impact of FX in terms of translation and transactional impacts during the quarter?

Pablo Isla - Inditex - Executive Chairman

Well, during the quarter, we were saying that we have a slight positive impact on sales and then, regarding the gross margin, we have a slight negative impact coming from the dollar. Globally, I would say not a significant impact. The evolution of the gross margin, with all what we are doing in terms of full price sales, in terms of our global strategy, the evolution of the gross margin is positive. Even having this slightly negative dollar impact. For the year, we are expecting a slightly positive impact on sales. So, globally, this year in terms of currencies I would say it is very neutral. That is globally, combining one thing and another is a year in which we do not expect significant currency impact. So as we are saying in the note, sales growth in the nine months is 7.5%. Currency represents 0.5% of that. You are seeing that in the third quarter, we have a very strong evolution of sales, 9% sales growth. The trend remains very healthy during the season. That is why we continue saying that we confirm this guidance of 4% to 6% like-for-like sales growth for the year. Regarding currencies, this year there is nothing really very relevant to say. It is all related with the execution of our business model, with all the initiatives that we are taking, with the differentiation of our stores, of our product, more and more than with anything else.

Operator

Thank you very much. We have now finished with the telephone Q&A session to address the questions received through the Webcast platform.

James O'Shaughnessy – Investor Relations

Thank you. We had a number of questions on the Webcast platform today. The first of which is: Can you talk a bit about your enlargements in Dubai and Barcelona and how this fits into your overall strategy, please?

Pablo Isla - Inditex - Executive Chairman

Both stores are very relevant examples of our global strategy. Of course, we used to have a store in Dubai and Dubai mall, but we have enlarged and refurbished it twice. It is one of our super top global flagships in the world and the same we can say about Paseo de Gracia in Barcelona. The quality of the store, quality of the product, the way you see the product, the customer experience, fully integrated approach between stores and online, the silos for click and collect, full stock integration... What we are trying for, as I was saying before, is differentiation, differentiation, differentiation and all these strategies that we have been talking about during the last few years are becoming more and more evident for us as being the right strategy and the right approach in order to develop our business. I was also mentioning during the presentation also in Dubai and the other big shopping malls, in Mall of the Emirates, also the enlargement and refurbishment of the Massimo Dutti store with the personalisation we were talking about before, with a complete new image also for Massimo Dutti, has been very well received by our customers. So this is the global strategy of the group and we believe very much in this strategy going forward.

James O'Shaughnessy – Investor Relations

The second question on the Webcast platform is: Can you give us an update on the roll out of RFID in the younger concepts, please?

Pablo Isla - Inditex - Executive Chairman

We are very advanced. It is completely rolled out in Zara, Massimo Dutti and Uterqüe, we continue rolling out in Pull & Bear, Berska, Oysho, Stradivarius and Zara Home and only to confirm to you that we expect RFID to be fully rolled out across all our concepts by the end of 2020. This is a key element also of our strategy. It allows us to have this full stock integration between stores and online. It helps very much in terms of managing the store, it liberates our staff of many duties, so they can dedicate

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their time to customer service. It is very relevant and the way we are rolling out RFID is very unique and it is helping a lot, and it is a key part of our strategy also going forward.

James O'Shaughnessy – Investor Relations

I know we had a question earlier from Rebecca from Santander on inventory, but there has been quite a lot of questions on the Webcast platform regarding inventory. Why is your inventory down 5% and how much further lower can your inventory go?

Pablo Isla - Inditex - Executive Chairman

I answered this question with Rebecca. I think that our business model has always been based in very low inventories, because we continue taking decisions during the season and we have a very low level of commitment at any point in time. Thanks to RFID and full stock integration, we are able even to run the company with less inventory. At the end of the first half, we saw a -5% inventory position. Now, at the end of the nine months, we continue to see -5% inventory position and it is very remarkable to talk about -5% inventory position and +9% sales growth. It has to do with the execution of the business model and now, with the support of technology, we are able to run our business in a more efficient way from the point of view of the inventory, from the point of view of the working capital evolution. And it also, of course, has to do with the store optimisation plan. I have mentioned before, for example, there is a very clear example which is Bilbao in Spain. We used to have four Zara stores in the city center, now we have one big flagship. In the existing store, the current store, we are selling more than with the other four combined. Our space is more or less the same as we used to have with the other four stores and we are running the operation with 20% less inventory. So, it has to do, of course, with RFID, stock integration, and it also has to do with the store optimisation plan and this idea of having more relevant and better stores worldwide.

James O'Shaughnessy – Investor Relations

Thank you very much, Pablo. We have now finished with the questions received through the Webcast.

Marcos López – Capital Markets Director

Thank you very much. This concludes today's Q&A session. Now, please, let me hand over to Pablo for the closing remarks.

Pablo Isla - Inditex - Executive Chairman

Thank you all of you for participating in this presentation. And, of course, for any additional questions you may have, we will be in touch through our Capital Markets Department. And we will welcome you back in March for the fiscal year 2019 results. Thank you very much.