

**INDITEX**  
INDITEX  
INTERIM HALF YEAR 2019

**CONFERENCE CALL SCRIPT**  
11 September 2019

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

## Interim Half Year 2019

### Inditex Participants

**Pablo Isla** - Executive Chairman

**Carlos Crespo** - CEO

**Ignacio Fernández** - CFO

**Marcos López** - Capital Markets Director

### Conference Call Participants

**Anne Critchlow** Societe General – Analyst

**Richard Chamberlain** RBC – Analyst

**Andrew Hughes** UBS – Analyst

**Rebeca McClellan** Santander - Analyst

**Warwick Okines** Exane – Analyst

**Paul Rossington** HSBC – Analyst

## Interim Half Year 2019

### Operator

Good Morning Ladies and Gentlemen. Welcome to the webcast of Inditex Results for the Interim Half Year 2019. The presentation will be chaired by Inditex's Executive Chairman Mr. Pablo Isla.

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. Mr. Isla you have the floor.

### Slide 3

Good morning to everybody and welcome to Inditex's half year 2019 results presentation.

I am here today with our CFO, Ignacio Fernández, and our Capital Markets Director, Marcos López.

On this occasion I am also joined by Carlos Crespo, our recently appointed CEO, who will focus on our strategic digital transformation.

### Slide 4: Interim Half Year: Continued developing our LT strategy

This half year has been very much about the continued roll out of our long term strategy. The result has been a very satisfactory level of growth.

### Slide 5: Unique business model: Global fully integrated Store & Online

Let me commence by highlighting that Inditex operates a highly differentiated, unique business model. The model that we've developed allows us to operate our stores and our online business in such a highly integrated manner that it is practically seamless. This brings with it, highly attractive growth opportunities going well into the future.

### Slide 6: 2019: Interim Half Year 2019: Strong operating performance

The half year period saw our unique business model come into its own with a very strong execution.

Like-for-like sales came in strongly at plus 5%, with positive like-for-like growth across all geographical areas, across all concepts, and importantly, in both physical stores AND online.

We have continued to pursue the rollout of our fully integrated online offering on a global scale.

Net income grew 10%.

The strong operating performance and the healthy working capital evolution has resulted in very strong cash generation.

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These results position us nicely for the attractive growth opportunities ahead.

### Slide 7: Global fully integrated Store & Online sales platform

We have continued to consolidate our global presence over the first half of 2019 as you can see on this chart, which demonstrates a high level of geographical diversification.

### Slide 8: Financial Summary

I'm going to pass you over to Ignacio now who will provide you with an overview of the financial performance of the group over the period.

### Slide 9: IFRS 16

Thank you.

A quick reminder on the implementation of IFRS 16. IFRS 16 came into effect earlier this year and has been duly adopted.

As pointed out in March of this year, these changes have no impact on either the cash flows or the business itself. The new reporting standard will result in an estimated increase of 2% to 4% in net income in FY2019 versus the former IAS 17.

### Slide 10: Interim half year 2019

Over the period, we saw growth in net sales of 7% to 12.8 billion euros, growth in gross profit of 7% to 7.2 billion euros, profit before tax grew 9% to 2 billion euros, and net income increased 10% to 1.5 billion euros.

The impact on PBT of leases under the new IFRS 16 rules in the half year was plus 61 million euros while the equivalent impact on net income was 46 million euros.

### Slide 11: Satisfactory sales growth

The sales performance over the period was satisfactory with net sales growth of 7%.

As highlighted just now by Pablo, like-for-like sales growth was strong over the period at plus 5%, on top of a 4% comparable in the prior year. We are pleased to say that like-for-like sales were positive in all geographical areas, across all the concepts, in both the stores and online.

### Slide 12: Disciplined execution shown in gross margin

The strong execution of the business model in the first half of 2019 is well reflected in the gross margin performance. The gross margin increased 12 basis points to 56.8%. The gross profit itself increased by 7% to 7.3 billion euros all the while maintaining our usual commercial policies unchanged.

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### Slide 13: Tight control of operating expenses

Once more, we continued to demonstrate tight control over operating expenses over the first half period. Operating expense growth without the impact of Leases under IFRS16 rules in the half would have been plus 6%.

### Slide 14: Financial results

The financial results line of the P and L includes an impact of Leases under IFRS16 rules of 75 million euros.

### Slide 15: Flexible business model

The flexibility of the model we operate can be clearly seen in the healthy working capital performance, which helped to drive the strong growth in operating working capital of 15% and a growth in the cash position of 13%.

### Slide 16: +17 Dividend increase

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

### Slide 17: Concepts

I will now pass you over to Marcos who will update you on the performance of the concepts.

### Slide 18: Store and Online sales by concept

We have continued our global expansion over the first half of 2019 having opened stores in 31 markets so far this fiscal year. Global online launches have also continued rapidly.

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

### Slide 19: Sales by concept

The younger concepts grouped together continue developing their operations satisfactorily. I would like to highlight the strong sales of the Group over the first half of 2019, all of them with positive LFL's.

### Slide 20: Performance per concept

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

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### Slide 21: Global fully integrated

I'll hand you over to Carlos now to make a few comments on some initiatives we've been working on over the period.

### Slide 22: Seamless store and online integration

I would like to start by mentioning that our operations are increasingly seamless in terms of how our physical stores and our online operations interact with each other in order to provide our customers with the exceptional level of service they have come to expect.

Take a look at this photo for example which illustrates the new online click and collect silo at the Zara store in Milan, Corso Vittorio Emanuele.

### Slide 23: 2020 Full RFID rollout and inventory integration

Many of these initiatives are made possible by the rollout of such programmes as the RFID programme and the inventory integration programme, both of which are due to be fully rolled out across the globe by 2020.

### Slide 24: Online launch of Zara in Brazil

Back in March of this year, we launched Zara online in Brazil to a very warm welcome.

### Slide 25: May: Online launches of Zara in Saudi Arabia, UAE, Lebanon

This was quickly followed in May with online launches for Zara in Saudi Arabia, United Arab Emirates, Lebanon...

### Slide 26: Egypt, Morocco, Indonesia, Serbia and Israel

...Egypt, Morocco, Indonesia, Serbia and Israel.

### Slide 27: August: Bahrein, Oman, Kuwait, Qatar and Jordan

Then came August, and we launched Zara online in Bahrein, Oman, Kuwait, Qatar and Jordan.

### Slide 28: Sept/Oct: South Africa, Colombia, Philippines, Ukraine

In keeping with this rapid pace of online launches, in September and October of this year we expect to launch in South Africa, Colombia, Philippines and Ukraine.

### Slide 29: Zara Home on Zara UK webpage 17 September

On the 17<sup>th</sup> of this month, Zara Home will launch on the Zara website in the United Kingdom.

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### Slide 30: Outlook

And now I'll hand you back to Pablo.

### Slide 31: 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 in conjunction with the fully global online rollout we expect to complete in the same year.

We will also continue to develop further coordination of the commercial offer, particularly across the concepts, with initiatives like the previously mentioned launch of Zara Home onto the Zara UK webpage due to take place in September.

### Slide 32: Zara Man new store image

Let me comment on two recent initiatives to increase the differentiation of our stores. Just take a look at this wonderful new store image developed by Zara Man...

### Slide 33: Zara Kids new store image

...or the powerful new store image of Zara Kids.

### Slide 34: Zara Istanbul

I would like to refer to some very important enlargements, all of them exceeding 4,000 square meters in size.

First, the recent enlargement of the Zara flagship in Cevahir Mall in Istanbul opened last Friday.

### Slide 35: Zara Dubai

Likewise the enlargement of the Zara flagship in Dubai Mall will amplify our already strong presence there and will open tomorrow.

### Slide 36: Zara Barcelona

And I would like to finish with our flagship in Barcelona in Paseo de Gracia. This enlarged store is due to open in November.

### Slide 37: New online studios for Zara

As you can see from this picture, next year we aim to inaugurate a new building of 63,000 square meters to house the Zara online studios and other commercial functions.

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### Slide 38: All concepts to offer online sales globally by 2020

By 2020, we expect to announce that all concepts can offer online sales globally.

### Slide 39: 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 40: Store & Online: A vision of Autumn

...or the 'A vision of Autumn' collection.

### Slide 41: Campaign 19

...and the 'Notes of Color collection'.

### Slide 42: Join Life collection – Denim from Denim

Join Life now features the Denim from denim collection aimed at improving the sustainability of denim garments.

### Slide 43: FY2019 Outlook

A few final comments on the outlook. We expect strong organic growth to continue to feature to the end of 2019 as we pursue increased differentiation of our offering to customers.

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

And our Autumn / Winter collections have been well received. Store & Online sales in local currencies increased by 8% between the 1<sup>st</sup> of August and the 8<sup>th</sup> of September. We reiterate our expectation of a 4 to 6% LFL.

### Slide 43: Interim Half Year 2019

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

### Operator

Ladies and gentlemen the telephone Q&A starts now. If you would like to ask a question, please press 01 on your telephone keypad.

We request that you limit yourselves to only one question per turn so we can maximize the number of participants in the session. If you have further queries, you may press 01 again after the next person's question has been addressed.

### QUESTIONS & ANSWERS

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#### **Operator**

Ladies and gentleman, the telephone Q&A session starts now. If you wish to ask a question, please dial 01 on your telephone keypad. We request that you limit yourself to only one question per turn, so we can maximize the number of participants in the session. If you have further queries, you may dial 01 again, after the next person's question has been addressed. Thank you.

The first question comes from Anne Critchlow, from Société Générale. Please, go ahead.

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#### **Anne Critchlow - Societé Générale - Analyst**

Thanks for taking my question. Good morning, everyone. My question is about the gross margin. Does this benefit this year due to IFRS16, perhaps due to rents coming out of that line from distribution centers?

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#### **Marcos López - Inditex - Capital Markets Director**

No. There is no impact from IFRS16 in the gross margin because, as you know, all our logistics are freehold, so they are not affected by these regulations.

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#### **Anne Critchlow - Societé Générale - Analyst**

Thanks for that and just a second on advertising. I was picking up that there has been an increase in traditional advertising by Inditex recently. Is that the case and has your strategy changed in any way?

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#### **Pablo Isla - Inditex - Executive Chairman**

Not really. Globally, our marketing expenditure is extremely low. You know that we believe very much in the quality of our products, on the quality of our stores and on the quality of our online offer, and here or there, at a certain point in time, we could do a little bit of advertising, but nothing has really changed in terms of our strategy related with that. In any case, you can see that, if you analyse these first half results, and taking out the IFRS impact, that we have cost leverage during the period, which we think it is extremely relevant. You know we always talk about analysing our company not only in a short period of time, but on a full year basis or at least on a six-months basis, and you see cost leverage in our profit and loss account, which we think is extremely relevant, positive and healthy, combining this fully integrated approach between stores and online. As we were saying during the presentation, with positive like-for-likes across all the different brands, all the different geographies and both in stores and online. We believe very much in the way we are executing our business model and, at the same time, being able globally to achieve cost leverage.

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#### **Anne Critchlow - Societé Générale - Analyst**

Thank you.

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#### **Operator**

Thank you. The next question comes from Richard Chamberlain from RBC. Please, go ahead.

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**Richard Chamberlain – RBC- Analyst**

Thank you very much. Good morning, everybody. I have a question on the Americas, please. It looks like the performance there was pretty strong in the first half. I wondered if you wanted to call out any particular markets that are trading well ex-currency and comment on the online performance there. Thanks.

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**Pablo Isla - Inditex – Executive Chairman**

Well, globally, we think that the most relevant element to mention is that we have had positive likes-for-likes in all geographies. I think that this is the most relevant element to have in mind. And then, related with any particular period, you could have higher growth in this or that area, but globally we believe very much in this global execution of the model.

You were asking us about the Americas and yes, we have had a good performance in North and South America, but we think that more meaningful than that is the fact of having positive likes-for likes in all the different geographies. And in every market, every geographical area, we have this positive growth both in stores and positive growth online. So we believe, as I was saying before, pretty much in the way we are executing our business model. We think we have a unique approach to this fully integrated approach between stores and online. We have been talking about this before, with the RFID, with the stock integration, and you can see also how we are able to manage the inventories, because it has a lot to do with this fully integrated approach, with this stock integration.

That is why, as we always say, in a short period of time we prefer not to focus on this or that particular geographical area. We think that the most relevant thing is to have this global approach. Even if you think, for example, sometimes I mention Spain as the market in which we have been for so many years and we continue having constantly this positive like-for-likes sales growth evolution. In this first half of the year, it is 4% like-for-like sales growth evolution, without any space increase in the Spanish market.

It has also a lot to do with what we have been talking about for the last few years: the store optimisation program. We continue investing in stores and, as we have presented you today, we have two very relevant openings tomorrow. One is in Dubai Mall, that we were mentioning, but the other one is in Madrid, in Preciados. We have enlarged the store and this is probably the most relevant high street in Madrid in terms of traffic. We used to have a Zara and now we have enlarged it significantly and we will reopen tomorrow, after a full refurbishment. Or Paseo de Gracia in Barcelona, that also after a huge enlargement, we will reopen in the month of November. So we continue investing strongly in all the different geographical areas and developing our business. Sorry to have been so long.

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**Richard Chamberlain – RBC- Analyst**

That is all right. Thank you for the color. It looks like strong like-for-like sales will continue into the third quarter. I wonder if you could give us an idea of the comparable from last year versus that 8% you reported this year for the most recent period, because I guess we had pretty warm weather across the northern hemisphere in early autumn last year. So presumably, the comparable was quite soft.

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**Pablo Isla - Inditex - Executive Chairman**

You know we do not like to focus very much in the very short term performance. We think that what is more relevant is that we reiterate this guidance related with 4 to 6 likes-for-likes sales growth for the full year. And, of course, for the second half and the first half we have achieved 5%, which is totally in

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line with our guidance. We prefer to focus like that. You remember last autumn, there was a month there where there was a hotter weather, but globally we have had a very healthy start of the season. Our collections have been well received, as we were saying during the presentation, that is why we reiterate this 4 to 6% like-for-likes sales growth guidance, much more than to focus on that very short period of time.

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**Richard Chamberlain – RBC- Analyst**

Okay. All right. Thank you very much.

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**Operator**

Thank you. The next question comes from Andrew Hughes from UBS. Please, go ahead.

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**Andrew Hughes - UBS - Analyst**

Good morning, everybody. I have a question on space contribution. In the first half clearly you had sales growth of 7% and 5% Like-for-like so the space contribution was now down to 2%. It was not so long ago that space contribution was more like 5%. When do you think space contribution will hit 0? Do you think in the next 12 to 18 months there will be any space contribution at all across the group?

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**Marcos López - Marcos López - Inditex - Capital Markets Director**

Andrew, I think you should rephrase the question, because you have mentioned that space contribution was 5% and then you mentioned 0%. It is like-for-like?

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**Andrew Hughes - UBS - Analyst**

No, the space contribution maybe two years ago was 5% and then in the first half, we have seen that space contribution was down to 2%. Should we continue to assume space contribution declines and we may see no space contribution in the foreseeable future?

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**Marcos López - Inditex - Capital Markets Director**

I do not think that you can extrapolate any negative or decline in space contribution as such. Basically, what we have mentioned at the beginning of the year is that we are expecting 5 to 6% gross space growth. Obviously, due to the quality of the openings that you see, absorption remained an important part of the strategy, so focus on net contribution and then with the usual conversion rates. To look at the space contribution over a short period of time is a bit misleading, because you have the calendar of openings, absorptions and also all the different optimisation activity. So we sustain what we mentioned at the beginning of the year.

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**Andrew Hughes - UBS - Analyst**

Okay. All right. And just as a follow up. In terms of online sales, can you put a figure on what proportion of your online sales are fulfilled from store stock? I mean, I have seen it has been increasing, percentage given all the work you are doing.

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**Pablo Isla - Inditex - Executive Chairman**

We prefer not to elaborate very much about that. As you know, currently on that full year basis, we disclosed our global online sales growth and this, in terms of stock integration, is something very relevant in the sense of the way we operate our business, in being able to operate the business with

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less inventories, it is something which is becoming more and more relevant. But we prefer not to elaborate very much.

We always say that when we analyse this or that, a limited part of the business, sometimes you have the risk of losing the global perspective and our approach to the managements of the company is always thinking globally about the company in all the different areas, stores, online and integrations. You also know that we offer online sales from the stores with the iPods. Then, at the same time, we have stock integration and we have in-store deliveries and in-store returns. So, it is a combination of the whole approach, which is a fully integrated approach between stores and online. We have developed the business in a very unique way.

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**Andrew Hughes - UBS - Analyst**

Yeah. Okay. Excellent. Thanks very much.

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**Pablo Isla - Inditex - Executive Chairman**

Thank you.

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**Operator**

Thank you. The next question comes from Rebecca McClellan from Santander. Please, go ahead.

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**Rebeca McClellan - Santander - Analyst**

Good morning, everybody. Just a couple of short questions. Firstly, is there any way you can split out what was full priced out of the first half in comparison to the constant currency reported? And secondly, has the global rollout of online had any sort of notable contribution to the overall constant currency sales growth in the first half?

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**Pablo Isla - Inditex - Executive Chairman**

Well, regarding the first part of your question, we prefer to keep the global like-for-like sales growth figure. And in terms of the activity during the season, there is nothing particularly relevant in terms of promotions or anything like that. You know that most of our sales are full price sales because of our business model and because of the way we operate our business. So there is nothing relevant from that point of view of nothing different from the global like-for-like sales growth figure.

And then related with the second part of your question, what we could say is that 99% of our online sales growth is organic. So when we were mentioning this global online approach to all the different countries in the world, it has much more to do with making our product available for our existing or potential customers in the different countries, than thinking that this is going to provide a huge amount of sales in the short term. So 99% of our online sales are organic.

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**Rebeca McClellan - Santander - Analyst**

Okay. Sorry, I will just come back to the first question. So there has not been any sort of change in the clearance dynamics or activities?

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**Pablo Isla - Inditex - Executive Chairman**

No. Nothing. It is the normal execution of the business model. You know, the flexibility of our business model, the ability to react during the season and the working capital position that you see is extremely healthy at the end of the period and this is what is relevant for us.

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**Rebeca McClellan - Santander - Analyst**

Thank you.

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**Operator**

Thank you. The next question comes from Warwick Okines from Exane. Please, go ahead.

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**Warwick Okines - Exane - Analyst**

Good morning, everyone. I know you guide on square metric expansion and you reiterated the expansion today, but I just had a question about store openings and closures. Are you still expecting to open 300 stores and absorb 250 stores as you guided at the start of the year or has that slightly changed as you moved through the year?

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**Marcos López - Inditex - Capital Markets Director**

No. There is no change to the broad estimate. I think, as you have mentioned in your question, the main focus for us is the space growth and specially the quality of the space that we open. I think we have illustrated in the presentation three recent launches in the case of Cevahir in Istanbul, which is a terrific store. The case of Dubai Mall, which needs no explanation, because it is one of the key stores in the world. Also Barcelona, but we could mention many other stores which we have recently open, like Preciados in Madrid, like Pamplona, an absolutely wonderful store. It is very much about the quality of what we offer and in a very precise manner. I think this has been the strategy since 2012. So in any quarter or any short period of time, it is not something that worries us too much.

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**Warwick Okines - Exane - Analyst**

Thank you. I was just wondering because the net store numbers declined by 70 in the first half. Your original guidance implies an increase of 120 net in the second half. I just wanted to check that was still about the right estimate.

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**Marcos López - Inditex - Capital Markets Director**

Again, the key factor for us and the one that impacts the P&L and our commercial presence is space growth and the quality of the space growth. A few more stores here and there do not change our view in a significant way. But the key of the strategy is the space you open and the quality of the space you open. That is very important.

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**Warwick Okines - Exane - Analyst**

Yeah. Okay. Thanks very much.

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**Operator**

Thank you. The next question comes from Paul Rossington from HSBC. Please, go ahead.

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**Paul Rossington - HSBC - Analyst**

Good morning, gents. My question is on space and you have just answered that. In there colour you could give on the Q2 gross margin at all? That would be appreciated. Thank you.

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**Pablo Isla - Inditex - Executive Chairman**

As you know, we do not like to elaborate very much on the gross margin on a quarterly basis, because this is not our approach and this is not the way we manage our company. The gross margin is a combination of many different things. You have, of course, the likes-for-likes sales growth, you have the products mix, the fashion trends, currencies, raw material costs... There are many elements involved in the gross margin and globally at the beginning of the year, in the month of March, we were guiding for a stable gross margin during the year and this first half we have achieved this stable gross margin plus 12 basis points. We keep this stable gross margin guidance for the full year.

And we do not like to elaborate very much on the gross margin on a quarterly basis, as I was saying to you, because this is not our approach in terms of running the business. But globally, we can say that the season has been positive in terms of the gross margin evolution with these 12 basis points gross margin increase, which means a stable gross margin during the season, in line with our guidance. We always say that we always work for the stability of the gross margin and this is much more than focusing on trying to maximise in any particular season the gross margin evolution. We are always thinking about the medium and long-term evolution of the company.

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**Paul Rossington - HSBC - Analyst**

Thank you very much.

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**Operator**

Thank you. We are now finished with the telephone Q&A session to address the questions received through the webcast platform. Thank you.

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**Operator 2**

Good morning. There have been a couple of questions on the webcast platform, first of which is: "You highlighted a number of openings of stores in Dubai, Turkey and Barcelona. How does this relate to your strategy, please?"

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**Pablo Isla - Inditex - Executive Chairman**

I think we have covered that during the presentation. This is an essential part of our strategy, the quality. We always talk about quality: quality of our product and online offer and, of course, quality of our stores. All these stores that we are opening are very unique and here we were mentioning Istanbul, Dubai, Barcelona and also Preciados in Madrid. Then, in the presentation, we were mentioning briefly, if you to take a look at the picture, the new ZARA MAN image, which is really unbelievable, and ZARA KIDS, that will be introduced in our stores from early next year, this new image constantly upgrading the image of our stores and constantly increasing the quality, always investing and renewing and with this fully integrated approach between stores and online. So having the best possible environment for our customers, to always have the customers in mind and this is an essential part of our strategy.

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**Operator 2**

The second question relates to cash. Your cash position is the highest ever, despite stepping up dividend payments significantly. Can you give some kind of color on the cash generation and what we can expect going forward? And if it continues to generate strong cash flows, what is the reason for the strong cash growth of 13% over the period, please?

### **Pablo Isla - Inditex - Executive Chairman**

I think this is very relevant. We combine significant sales growth with strong cash flow generation.

You know that the first priority always in terms of our cash flows is to invest in the long-term profitable growth of the company, but we are able to combine this with an attractive and predictable shareholders' remuneration policy. We announced a new dividend policy in the month of March and even after paying this 17% increase in the interim dividend, we see a very strong cash position at the end of the period. It has to do with the execution of the business model, with sales growth and the fact that we are becoming less capital intensive because of our strategy and also, of course, with the very healthy working capital evolution that has also a lot to do with the fully integrated approach between stores and online and with the stock integration.

So globally, we believe we will continue being able to combine this strong sales growth with the strong cash flow generation.

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### **Operator**

Thank you. Ladies and gentlemen, this concludes today's conference call. You may now disconnect your line.

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### **Pablo Isla - Inditex - Executive Chairman**

Thank you. We will continue in touch through our capital markets department. Thank you.