

INDITEX

INDITEX
INTERIM THREE MONTHS 2020

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Inditex Participants

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Chiara Battistini - JP Morgan - Analyst

Geoff Lowery - Redburn– Analyst

Rebeca Mcclellan - Santander - Analyst

Introduction: Marcos López

Good Morning Ladies and Gentlemen. A warm welcome to the presentation of Inditex's Results for the Interim Three Months 2020. 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 Creso and CFO Ignacio Fernández.

As usual, the presentation will be followed by a Q&A session starting with the questions received on the telephone and then those received through the webcast platform. Before we start we will take the disclaimer as read.

I will now hand over to Pablo.

Slide 4: Pablo Isla

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

First and foremost our thoughts are with all those affected by the Covid-19 pandemic. Our number one priority is the health and safety of local communities and our employees. We would like to give our thanks to our teams whose contribution in this difficult time has been truly inspiring.

Slide 5: Overview: 1Q2020

I would like to start my presentation highlighting the strength of Inditex's fundamentals.

Let me tell you that we have total confidence in our business model and the long term potential of the group. We continue developing the key lines of our long term strategy to extend our fully integrated store and online platform.

Initial collections for the Spring/Summer season have been very well received by our customers.

The Covid-19 pandemic has had a material impact on our operations as lockdowns and restrictions have been in place in most markets. At the end of the quarter just 965 stores were open. At the same time the online business has seen very strong growth in all markets during the period.

Our supply chain has continued to operate normally due to the flexibility of the business model. Some unique features of our operations like the inventory integration have proven to be pivotal during this period.

Let me also tell you that we are seeing a progressive recovery in sales in the markets that have reopened stores.

Slide 6: 1Q2020. Stores with sales

In this chart you can see the number of stores with sales in 2020 to date. After some temporary closures in February in China, most markets progressively imposed lockdowns over March that ended in the number of stores in operation below one thousand by early April. In May markets have progressively started to reopen but most of them with restrictions.

Slide 7: Online sales +50% in 1Q2020

In the first quarter 2020 we have seen a very strong progression of online sales globally. Greatly helped by our single inventory position, online sales have grown +50%. Online sales grew by 95% in April.

Slide 8: FY2020 to date

We are seeing a progressive recovery in sales in the markets that have reopened stores.

Store and Online sales in local currencies decreased 51% in May.

Store & Online sales in local currency from 2nd of June to 8th of June decreased 34%. In the markets that were fully open (54% of total stores) sales decreased 16%.

As of the 8th of June 5,743 stores were open in 79 markets and we expect to reopen most key markets by the end of June

We have total confidence in our business model and the long-term potential of the group.

In the final part of our presentation we will comment on a number of strategic initiatives regarding Inditex in 2022.

Let me now hand you over to Ignacio for the Financial Section.

Slide 9: Financial Summary

Thank you Pablo.

Slide 10: Interim Three Months 2020

As mentioned the Covid-19 pandemic has had a material impact on our first quarter 2020 operations. Sales reached 3.3 billion euros in 1Q2020.

To minimise the impact we have been actively managing our supply chain and inventory. The flexibility of our business model and the single inventory position have been pivotal in this process. As a result gross profit reached 1.9 billion euros in 1Q2020.

We have also acted rapidly on operating expenses to obtain efficiencies and adjust for sales volumes. Cost control has been key in the quarter.

As explained in the note we have charged 308 million euros to depreciation to complete the space optimisation process. We will update you on this matter in the strategy section.

Slide 11: Sales

As previously mentioned, the sales performance has been marked by the timing of the temporary store closures.

Online sales growth in the period has been very strong at +50%, and have continued on an upward trajectory. In the month of April, online sales grew 95%.

At the start of the second quarter 2020 sales trends have improved as stores reopened in some markets while restrictions still remain.

Slide 12: Gross margin

Gross profit reached 1.9 billion euros in 1Q2020. The gross margin was 58.4%.

The gross margin evolution is the consequence of three factors:

- The strong flexibility of our supply chain;
- The closing inventory being 10% lower than in the same quarter of 2019, and;
- The inventory provision to account for the impact that the Covid-19 pandemic had on the net realisable value of the Spring/Summer inventory position at 31 January 2020.

Slide 13: Operating efficiencies

Efficiency gains have allowed us to tightly control operating expenses in the period. Operating expense decreased 21%.

All main components of operating expenses have shown a good performance.

Slide 14: Depreciation and amortisation

Depreciation and amortisation reached 992 million euros. It includes the full charge for the completion of the store optimisation in 2020 and 2021.

Slide 15: Financial results

The financial results line of the income statement includes the interest on Lease liabilities of 33 million euros.

Slide 16: Flexible business model

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

Despite the very material impact of lockdowns on sales, we have been able to use the flexibility of our supply chain to adjust the volumes. The single inventory position was pivotal to achieving this performance, facilitated by the integration of the stores and the online operations.

As a result inventory fell 10% at the end of 1Q2020 and demonstrates the flexibility of our business model. The closing inventory is considered to be of high quality.

These actions in conjunction with the tight management of operating expenses helped to sustain the net cash position of 5.8 billion euros.

Let me now hand you over to Pablo.

Slide 17: Outlook & Strategy update

Thank you

Slide 18: Strategic initiatives

In recent years we detailed to you a number of strategic initiatives to strengthen our global fully integrated store and online model. We plan to continue developing these key long-term priorities to increase organic growth.

The goal is to increase the differentiation of our business model to provide a unique customer experience.

The strong differentiation of our stores, the global online presence and the inventory integration have greatly aided the recent performance.

Slide 19: Strategy update: Inditex 2022

We want to further strengthen our competitive advantage through the development of the fully integrated store and online model.

Our priority remains to provide a stronger customer experience with improved management of stores, inventory, supply chain and sales conversions.

Up to 2022 we foresee a very strong progression of online sales.

We also want to focus on high quality stores. Fully-integrated, digital and eco-efficient.

All this with sustainability as a key part of the strategy.

We expect higher returns and lower capital intensity.

Slide 20: Strategy update: Inditex 2022

Stores are critical to the implementation of the following three key strategic areas: digitalisation, integration between stores and online, and all matters relating to sustainability including eco-efficiency and circular economy.

Stores will also play a stronger role in the development of online sales due to their digitalisation and capacity to reach customers from the best locations worldwide.

It is for this reason that we must focus on those high quality stores that are best able to deliver on these long-term strategic goals.

Slide 21: Strategy update: Inditex 2022

We have total confidence in our business model and the long-term potential of the group. We will continue developing our long-term strategy.

The unique store and online platform provides the strongest customer experience.

Online sales should exceed 25% of total by the end of 2022.

We expect an underlying annual like-for-like sales growth of 4-6% and gross annual space growth of around 2.5%.

Also, there should be capital expenditure of around 900 million euros annually over this period, helping to drive lower capital intensity and increased profitability.

Let me now hand you over to Carlos to talk about online

Slide 22: Global online developments

Thank you

We have of course developed a 'global' online business. Online sales have been profitable, non-dilutive from launch, and reached 14% of group sales last year.

We see strong progress here. Progress that has seen a very high level of integration between physical stores and online. The benefits of this integration have been especially evident in recent months.

To reinforce our position we will have completed the construction of a new building, of 64,000 square metres, for Zara online studios by the end of 2020.

Slide 23: Online launch in Peru, Uruguay, Paraguay and Argentina

We continue launching online globally with recent additions like Argentina, Uruguay, Paraguay and Peru.

Slide 24: Global online to reach above 25% of total sales by 2022

Online sales as a percentage of total is expected to continue rising over the long-term.

We expect to invest 1 billion euros in online capital expenditure for the period 2020 to 2022.

A key aspect is the development of the Inditex Open Platform, designed in 2018 and which will be completed in the period 2019-2021. This proprietary platform currently supports 60% of Inditex's digital activities. The platform allows us to develop unique solutions both in store and online. It is a solid proprietary base for Inditex's business and digital expansion.

The ultimate aim is to accomplish full digitalisation of stores across the globe. Online sales should exceed 25% of total sales by the end of 2022.

Let me now hand you back to Pablo

Slide 25: High quality stores; key to competitive differentiation

Thank you Carlos

Since 2012 we have been very active with our portfolio. We have reinforced the differentiation of our stores and added high quality, highly visible stores. We can confidently say that this process has now been applied to 90% of our store base.

Slide 26: High quality stores: key to competitive differentiation

Our stores are in the best locations worldwide. They are fully integrated, digital and eco-efficient.

As a result of the process I mentioned to you in the previous slide, our new stores now have an average age of 3 and a half years. All new stores are digital and eco-efficient.

The vast majority of our stores have been refurbished and enlarged.

The result is an unparalleled customer experience as evidenced by the like-for-like performance of 6.5% achieved in fiscal 2019.

Slide 27: High quality stores; key to competitive differentiation

In order to complete the space optimisation programme we plan to absorb between 1,000 and 1,200 stores at the end of their life cycle between 2020 and 2021.

The optimisation focuses mainly on small stores, mainly among the younger concepts, which are geographically diversified. The sales from all these stores can be potentially recovered in

neighbouring stores and online. The average book value of these units is very low, at around 260,000 euros.

The net book value charged to the P&L in this first quarter.

To summarise, in a two year timeframe we are going to optimise a similar number of units as in the last three years. This will conclude the process.

The profit from absorbed stores is expected to be fully compensated by increased sales from nearby stores and online and the efficiencies generated by the improved purchasing function and inventory management, driving higher sales volume at full price in the long term.

Slide 28: Space growth in prime locations 2020-2022

In the coming years we expect gross space growth of around 2.5% annually, with around 150 store openings annually and significant enlargements to high quality stores.

At the end of this process we will be trading from a high quality, digital ecoefficient store and online platform. We are expecting increased profitability and lower capital intensity.

Slide 29: Highly prominent and differentiated stores

A good example is the third enlargement of Zara in Barcelona Paseo de Gracia with a brand new Menswear section.

Slide 30: Highly prominent and differentiated stores

The relocation of our store in Edinburgh to Saint James's.

Slide 31: Highly prominent and differentiated stores

The brand new Zara store in Riyad.

Slide 32: Highly prominent and differentiated stores

The enlargement of the Zara store in Bogota at Calle 82.

Slide 33: Highly prominent and differentiated stores

...and the relocation of the Zara store in Wangfujing at Beijing. This store will be the largest in Asia and one of the most technologically advanced in the whole group.

Slide 34: Sustainability & Circular economy a key part of the strategy

Sustainability is a key part of our strategy. Our commitment to a circular economy is best illustrated in these 5 main areas.

- The sustainability of the supply chain
- The use of renewable energies
- The commitment to sustainable fabrics
- The transformation to eco-efficient stores
- And a Zero-waste and recycling policy

Slide 35: Unique business model: Global fully integrated Store&Online

To summarise, we aim to further develop our unique business model by continuing with the global rollout of our fully integrated store and online platform.

Slide 36: Dividend

Finally, Inditex's Board of Directors will propose to the Annual General Meeting an ordinary dividend for FY2019 of 35 cents per share to be paid on 2 November 2020.

Inditex's dividend policy of 60% ordinary payout and bonus dividends remains in place.

The remainder of the bonus dividend for calendar 2020 and 2021 (78 cents per share) will be paid in calendar 2021 and 2022.

Slide 37: Interim Three Months 2020 Results

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

QUESTIONS & ANSWERS

Richard Chamberlain – RBC- Analyst

Good morning, everyone. One question please from me. On the store optimisation plan, I wonder have you thought about your store optimisation plans assuming during the aftermath of COVID-19 that people are going to shop more locally. They may not travel so much to the bigger malls, destination of many Zara stores, which are more reliant on tourism and public transport. Has this influenced your thinking on the store optimisation plans?

Pablo Isla - Inditex - Executive Chairman

Thank you for your question. The first thing I would like to mention is that the store optimisation plan is a continuation of what we have been doing in the last few years. As we were saying during the presentation, we began this process in the year 2012. We applied this process with more intensity in the years 2017 to 2019 and what we are doing right now is to conclude the process with this new store optimisation plan that we are announcing to you today.

At the same time we are planning to continue opening new stores. We will open around 150

stores per year, around 2.5% gross space growth per year. It has a lot to do with the strategy that we have been following in the last few years of having very high quality stores totally integrated with online.

This is the strategy in which we believe. As we were mentioning during the presentation, this new step in the store optimisation plan has more to do with the younger concepts, is diversified geographically in the different areas, in Asia, in Spain, in the rest of Europe and in the Americas. It has very much to do with smaller stores at the end of their life cycle.

You have seen that the netbook value of these stores is quite limited and we think that it is the right decision thinking about the long term of the company, thinking about this fully integrated approach between stores and online. You have always to bear in mind that running the company we are always focused in the long term and we are always focused in the type of store network that we think is appropriate having in mind this fully integrated approach and online representing above 25% of our total sales by the year 2022.

It is very much in line with our strategy and these are the main features of this plan. As I was saying to you, these are profitable stores, these stores that we are absorbing. Their average profitability is double digit. They are not losing money or anything like that.

We think that it is the right strategy that we are developing since several years and particularly during the last three years thinking always about the medium and long-term prospect of the company.

Operator

The next question comes from Adam Cochrane of Citigroup. Please go ahead.

Adam Cochrane - Citigroup – Analyst

The question from me is: it talks about full digitalization of store state. Can you give us a description of what full digitalization really means and looks like in terms of your store and is this true across all of the concepts or is that just in reference to Zara? Thank you.

Pablo Isla - Inditex – Executive Chairman

This is something that is quite relevant and we mentioned it during the presentation. The most visible -I would say- element of this full digitalisation is the full stock integration. What we call internally "SINT" which is stock integration.

We were saying during the presentation, and you will see this in a very clear way in the month of April and also in the month of May, because there were many markets that were not yet open. In the month of May this stock integration has been absolutely key, because our online sales growth has been very relevant because we have been able to use the stock that we had in the stores. Without the full stock integration, this would have been impossible because in order to offer the product online you need to have full visibility of the product, where it is located and if it is available or not for your online customers.

This full stock integration is now completed in Zara, Massimo Dutti and Uterque and is enabled by RFID, and will be rolled out during this year across all the different brands.

There are many other elements in terms of full digitalisation, like what we call "store mode", the

possibility of making a reservation for the fitting rooms or even for garments when they have arrived to the stores, be it online or with the app. There are many different things but the most relevant one in terms of how we operate our business is the full stock integration, which is key.

When we are talking about the store optimisation plan we are saying: the profits of these stores we believe is going to be fully compensated with the sales that we are planning to recover in neighboring stores and online. Thanks to stock integration we feel confident about achieving this.

There are many things involved in these fully digitalised stores, but in terms of the way that we operate our business, the most relevant one is the full stock integration. Then of course there are many additional things in terms of customer service that are important. I mentioned before the fitting room and garments, that you can see through the app where the garment is located inside the store and then if you enter the store you can go directly to the floor, to part of the store in which the garment is located. There are so many additional things in terms of customer service that we are planning to implement in the coming months but the most important one is the full stock integration.

Operator

The next question comes from Mariana Horn-Uribe of UBS. Please, go ahead.

Mariana Horn-Uribe - UBS – Analyst

Hi. Good morning. I hope you are all well. Thank you very much for taking my question. So you mentioned in the press release that you have implemented a set of initiatives to mitigate the impact from foreclosures relating to your office space. Can you comment or provide some color around the areas where these cost savings or cost cutting measures are being implemented and whether we have already witnessed some of these in Q1 and how we should think about them for the rest of the year. Thank you very much.

Pablo Isla - Inditex - Executive Chairman

Thank you. Of course, we have implemented a lot of measures in all the different lines of the cost base. Perhaps Marcos, you can elaborate a little bit more.

Marcos López - Inditex – Capital Markets Director

We have done many things. We have tried to use our resources in the most efficient way. I think that Pablo gave a good example in the sense that from mid-April we have been able to access our stores and some of our personnel were able to get in and provide that product, that inventory that we had in the stores to online sales. So obviously, we have adjusted a number of things.

You have seen that operating expenses have decreased by 21% in the first quarter, but we believe it is very early to give you any type of guidance for the year in terms of the different drivers. However, operating efficiencies are a key part of our strategy. We have always been very keen on that type of actions and, as of today, expect very tight management, but we would refrain to providing guidance specifically on this matter.

Pablo Isla - Inditex - Executive Chairman

I think when you look at the trading update, that as far as we are progressively opening stores in different markets that sales are recovering, in the last seven days in the countries in which all our stores are open, which represent 54% of the total stores, sales decrease was 16%. So we are getting closer to the same level as the previous year. By the way since this Monday, two days ago, all our stores in Spain are open because before that there was the exception of Madrid and Barcelona, which are very relevant cities for us.

Currently all our stores in Spain are open, we are supposed to open in the UK next week, also in Lisbon. In Portugal all the stores are open with the exception of the Lisbon area, and that's supposed to open next Monday. In the U.S. there are some stores that are open and other stores that are not yet, it depends on the different states. But what we were saying during the presentation is that we think that between now and the end of the June most of the key markets will have reopened the stores. Currently 78% of our stores are open.

So we are moving in the direction of having fully open stores. You also know that a part of cost evolution has to do with sales evolution because of the variable element that we have in our costs. Of course, we will continue managing our cost during the whole year in a very tight way. It has to do with personnel expenses, of course with rental expenses. We are having conversations with our landlords worldwide. This year is extremely exceptional and all the landlords are aware of that, and we are finding very reasonable agreement for the year having in mind the two sides involved. Also other operating expenses, structure, logistics, all the different lines of the profit and loss account we need to take care.

It is very remarkable what was achieved in the first quarter because you must have in mind that it was mid-March when this extraordinary situation appeared. Costs in the quarter is -21%. It means that in the second half of the quarter it was significantly above this -21% because we began to act in a very serious way -let us say it like that- since March. This shows the flexibility. When we talk about the flexibility of the business model, of course, the main element is the sourcing, the way we buy, that by the way is extremely relevant and we were saying in the presentation that at the end of the quarter inventory was -10%. This means that we reacted in early March seeing what was coming because we don't buy in advance the whole season. We buy, as you know, on a weekly basis. In early March we were seeing what was coming and we acted in terms of purchases for the season. In early May we began to buy again in a significant way in order to have the available product for this June, July and August. And this is the flexibility of our business model.

And also when we talk about costs, I think that this first quarter results also show the flexibility of our business model regarding costs. But as Marcos was saying, we think it is too early to elaborate for the full year because it will also have a lot to do with the evolution of sales. In September in the first half results presentation we could have much more information in order to talk about this.

Operator

The next question comes from Nicholas Champ of Barclays. Please go ahead.

Nicholas Champ - Barclays – Analyst

Good morning. Thanks for taking my question. I think it is fair to say that you have a slightly higher price positioning on average than most of your peers in the sector, which is partially related to the higher fashion component of your assortment. How confident are you, given the tougher economic environment ahead, that you will continue to gain market share and outperform your peers given again

your slightly higher price points on average? Do you have any plan to slightly change your commercial strategy given the tough economic environment ahead? Thank you.

Pablo Isla - Inditex - Executive Chairman

Thank you. The first thing I would say is that we are very proud of our commercial teams and the type of product that we have in the stores and also the way we show this product in the stores and online. This fully integrated approach is why we talk a lot about the uniqueness of our business model. What I would tell you is that we believe very much in what we are doing. It is about having the best product with this flexible business model.

We are focusing much more on quality from every point of view, from our products to how we communicate with customers. Having said that, what I would tell you is that as a company we have gone through every type of economic environment. Of course, we all prefer to run the company in a good economic environment, but we are quite used to running the company in different economic environments. You had the financial crisis, and how we managed the company during that period. So what I can tell you at this stage is that our focus, our 100% focus is to serve our customers in the best possible way. First of all through our product and second through the way we communicate with them both in the stores and online.

Operator

The next question comes from Warwick Okines of Exane BNP Paribas. Warwick please go ahead.

Warwick Okines - Exane BNP Paribas – Analyst

Yes, good morning, everyone. I had a follow-up question on costs. You didn't mention government schemes like furloughing being one of the drivers of cost evolution in Q1. I was wondering if you could comment on whether there was meaningful support in the quarter and how we should think about that, whether we should have that in mind when we are thinking about cost for the next couple of quarters.

Marcos López - Inditex - Capital Markets Director

Thank you, as we have mentioned during the call and Pablo has made clear, we have used mostly cost efficiencies to drive this. We have used some (furloughing) schemes but in a very minor way in some geographies. Not in a very significant way. Also, the duration of process was very short because as we mentioned in the presentation as well, by the end of June we expect practically all the key markets to be fully reopened and we can tell you that the behaviour we see is a very normal one. So this has not been a very significant measure that we have used.

Operator

The next question comes from Anne Critchlow of Societé Generale. Please go ahead.

Anne Critchlow – Societé Generale - Analyst

Good morning. And thanks for taking my question. Just to ask what in practical terms is happening in the stores as they reopen. I know it is difficult to generalise across 96 markets and all the different concepts. But in general, are fitting rooms open, for example? Do you have social distancing measures in most countries? What's your experience of that? Are people having to queue outside the stores and so on?

Pablo Isla - Inditex - Executive Chairman

The first thing I would say is that the customer behavior is completely normal. So this is the first thing I would like to mention. Of course, when the stores reopen in the different markets at the beginning there are restrictions. We already begin to have several markets with no restriction as is the case in China, Japan, South Korea, Switzerland, Poland or some different European markets. For example, in Asia they are a little bit in advance: in China Japan and South Korea.

By the way, if we think about last week or the last ten days, China and Japan and Korea combined we are reaching the level of sales of the previous year. In terms of customer behavior inside the store, it is completely normal. Customers like to go to the store, they see the product, they try the product, they pay, etc. Of course, everyone wears masks, but that is the case right now. Our employees have all the right measure in place such as hand sanitizer located near the cashiers.

But in terms of the customers what I would say is total normality regarding the way they behave inside the stores.

Operator

The next question comes from Chiara Battistini from JP Morgan. Please, go ahead.

Chiara Battistini – JP Morgan - Analyst

Good morning. Thank you for taking my question. It is a follow-up question really on the trends you are seeing after the reopenings. If you can comment on what kind of traffic and conversion rates you are seeing in the physical stores that have reopened so far on average. Also, if you could comment on the online trends you have been seeing after reopening officially May, if you are seeing a further acceleration or actually a normalisation of the online trends since reopening. Thank you very much.

Pablo Isla - Inditex - Executive Chairman

The first thing I would like to say is that of course it is too early to give a detailed explanation because as I was saying to you, for example, in the case of Spain, we reopened all the stores two days ago. In the case of Italy it was the 18th of May. In the case of Portugal Lisbon is going to open next Monday and then the whole country will be open. In the case of Germany at the beginning, there were restrictions and a few days ago these restrictions in terms of the size that you could open disappeared. Therefore, there are many different things going on. It is difficult to give a very detailed picture. What I would like to say is that combining stores and online, what I was mentioning before, if we have in mind the last week, the last ten days, if we combine, for example in Asia, China, Japan and South Korea, we are reaching the same level as the previous year. We are not seeing any additional sales decrease.

In the countries in which all the stores are open, as I was saying, in the last 7 days, in these countries total sales combining online and stores is -16%. So that is why I was saying that we see an evolution week after week as far as we reopen in terms of the evolution of the stores. And then regarding online, well, it is true that, of course, online we have gained a lot of customers. I would say that every year or every month we gain online customers, but, of course, during this month of April and May it has been much more significant because during April most of our stores were closed and during May we were progressively reopening. But on average during the month I would say 50% of our stores were closed on average during the month.

So we have gained online customers in a more significant way than other years and well, what I would say is that that is why we believe very much in this fully integrated approach. I was mentioning it before: without our full stock integration we would have not been able to have this significant online sales growth. A big part of the product that we have been selling online in the months of April and May was located inside the stores that were closed.

That's why we have been able to have this significant online sales growth during this month. I think in general terms it is too early to say what the customer behaviour is going to be, but for us what is very, very relevant is, first of all, this fully integrated approach which is a key element currently of our strategy. The second thing I would like to mention again, is that when customers come back to the stores they act with total normality inside the stores which is also something relevant to mention.

Operator

The next question comes from Geoff Lowery of Redburn Partners. Please go ahead.

Geoff Lowery – Redburn Partners LLP - Analyst

Good morning. I would like to come back to your store optimisation, you commented about it, enhancing both profitability and returns. Does it enhance profitability just because you are closing lower margin stores or they are still good margin but lower margin or is there an implicit comment here that online is actually profitability enhancing and therefore its growth in the mix of the business lifts the overall margin?

Pablo Isla - Inditex - Executive Chairman

Well, what I would say is that it is profitability enhancing from different points of view. First of all because if you recover sales online and neighboring stores, these additional sales are -let us say it this way- very profitable. Why? Because all the different elements of costs of one particular store don't increase. And another element which is extremely relevant here is inventory management, which for us is so relevant.

If you remember, we have mentioned several times the example in Bilbao, in Spain, that where we used to have four small stores and we concentrated into one very relevant store, that in terms of space was slightly above the four other stores combined, in terms of sales it is above the other four combined and in terms of inventory management we are running the operation with significantly less stock than we used to have in the four stores. So that's why we are mentioning that there are many advantages. Regarding online what I would tell you is what we have always said since the beginning, and that is that online is not at all dilutive in terms of the profitability.

Operator

The next question comes from Rebecca McClellan of Santander. Please go ahead.

Rebeca McClellan - Santander – Analyst

One question. Of the stores that are destined for absorption under the 2022 plan, could you give us an aggregate like-for-like for 2019?

Marcos López - Inditex - Capital Markets Director

What we would like to add is what Pablo has mentioned, these stores were good stores of smaller sizes, mainly in the younger concepts and as you can see by the detail we have provided in terms of sales and PBT, these are profitable stores. However, these stores no longer represent what the company wants to do within the three key strategic areas: digitalization, integration and ecoefficiency.

This is why as part of the optimisation program that we started in 2012 we decided to anticipate and do this. They were good stores and very nice stores. It is not a question of stripping out the like-for-like performance, but what Pablo mentioned is very, very important, probably one of the most important messages.

This initiative has three different sides in terms of profitability. Firstly, we believe that we can recover the sales of these stores. Secondly, we are going to obtain efficiencies in terms of inventory management, supply chain, product allocation and stock turns. And third, we believe that as you can see in our plan we expect lower capital expenditure going forward down to 900 million euros per year. It is all these factors combined. We have the strategic view to fully integrate stores and online in order to drive the plan.

Operator

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

James O'Shaughnessy

Thank you. There are a few question on the webcast platform. Let's start with the first one. How are your sales in Spain developing?

Pablo Isla - Inditex - Executive Chairman

Well, I think it is too early to talk about this. As I was saying during the call, I think the good news about Spain is that since Monday all our stores have reopened and I think it is too early to talk about sales evolution. So we will see in the coming weeks and months but I think the good news is that all our stores are open right now since Monday.

Operator 2

Thank you. Would you be able to provide some colour on your expectations for online

development over the next few years?

Pablo Isla - Inditex - Executive Chairman

We have mentioned during the presentation that online sales are expected to reach more than 25% of total sales by 2022 and here something that plays a key role is the stock integration, also, of course, Marcos was mentioning 900 million euro Capex on an annual basis and a significant part of that Capex is going to be dedicated to online and digital initiatives.

We are talking about one billion euros over the three year period. It has to do with the platform that Carlos was referring to during the presentation and I am sure in the coming months or results presentation we will be able to talk more deeply about this platform and what it represents. And it also has a lot to do with all the initiatives that we are developing in terms of digitalization of the stores and fully integration between online and stores.

Operator 2

Thank you Pablo. Thirdly, is there any color that you can provide relating to underlying like for like growth expectations of 4% to 6% going forward?

Pablo Isla - Inditex - Executive Chairman

This was also our guidance when we were talking about medium term like-for-like performance during last year. Don't forget that, for example, last year like-for-like sales growth was 6.5%. It is a guidance and at the same time it is a reality. I come back to what I was saying, that the business model, the flexibility of the business model and now in addition to that, to the business model and the flexibility of the business model, I would mention the stock integration as a key element to be able to achieve this 4% to 6% like-for-like sales growth.

Operator 2

Thank you very much and that concludes webcast questions.

Pablo Isla - Inditex - Executive Chairman

Well, thank you. I would say thank you to all of you for attending this conference call. And, of course, as always, we will be ready to answer any additional questions you may have in the coming days or weeks. Marcos.

Marcos López - Inditex - Capital Markets Director

Thank you very much. This concludes today's Q and A session. Pablo and I remain ready for any questions you may have. Thank you.