

INDITEX

INDITEX INTERIM NINE MONTHS YEAR 2020 RESULTS

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Introduction: Marcos López – Inditex –Capital Markets Director

Good Morning Ladies and Gentlemen. A warm welcome to the presentation of Inditex's Results for the Interim Nine 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 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 and then those received through the webcast platform. Before we start we will take the disclaimer as read.

I'll now hand you over to Pablo.

Slide 4: 3Q2020: Very strong operating recovery

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

As you have seen in our release, Inditex's operations showed a strong recovery in the third quarter 2020. We have had a remarkable execution in a challenging operating environment.

Our Autumn/Winter season collections were very well received by customers. Practically all of our stores were open, but many with significant restrictions. Online sales continued to experience outstanding growth in all markets. The result was a strong cash flow and a robust financial condition.

We continue developing the key lines of our long-term strategy: to extend our fully integrated store and online platform; to complete the digitalisation of the group; and to push forward the goal of increasing our level of sustainability. Let me tell you that we have total confidence in our unique business model.

Slide 5: 3Q2020: Very strong operating recovery

Let me add some details on the performance over the third quarter.

In this chart, you can see the strong progression of sales in the quarter, still marked by restrictions in stores and very strong online growth.

To put the strength of the sales performance into context, 88% of stores still had restrictions on space, opening hours or capacity over the third quarter. 5% of stores remained closed.

In a somewhat more normalised environment, sales recovered strongly.

As an example of the recovery, Inditex's sales in constant currency between the 1st and the 18th of October 2020 had already reached the historic highs of the same period in 2019.

From the 19th of October onwards, a number of markets entered a new phase of closures and restrictions until the first week of December.

Slide 6: 3Q2020: Stores in operation

This chart shows the number of stores with sales on a weekly basis, and the timing of the restrictions.

Slide 7: 3Q2020: Increasing store traffic

In the third quarter store traffic and conversion rates improved.

We operate a premium, highly balanced store base. The broad geographical diversification of our stores, with a balanced split between street and shopping centres in premium locations has helped to restore traffic rapidly. City centre stores in capital cities account for less than 8% of group sales.

The quality of our store base has also been a key factor, with 95% of stores having been optimised since 2012 into our integrated, eco-efficient digital platform.

Slide 8: 3Q2020: Online sales +76%

The strong trajectory of online sales has of course continued. In the third quarter, global online sales made outstanding progress of +76%.

Online sales in constant currency grew +75% in the first nine months of 2020. Online visits have increased 44% over the same period last year to 3.4 billion visits. 97% of online growth in the 9M2020 was organic. The strong growth has continued into the fourth quarter.

This remarkable performance is greatly helped by our fully integrated business model, our single inventory position, and the attractiveness of the product offer.

It is because of these features that our online operations enjoy sector leading growth rates and profitability. Inditex's online business is non-dilutive to margins and requires lower capital intensity going forward.

Slide 9: 3Q2020: Outstanding operating performance

In the third quarter, we achieved a strong operating performance. We continue to require less inventory to manage our operations.

This is a result of the single inventory position, a key part of our business model, and has been further enhanced by the use of technology, such as RFID and SINT that allows in-store inventory to be used to fulfill online orders.

Store optimisation also improves inventory allocation and higher product availability resulting in stronger full price sales.

This all helped to drive the strong cash generation seen over the period.

Slide 10: Unique business model: Fully integrated stores and online

Let me tell you that we have total confidence in our unique business model that fully integrates stores and online.

Slide 11: Zara Woman A/W Collection

A good example of seamless store and online execution can be seen in the Zara Woman Autumn/Winter Collection.

Slide 12: Zara Man Monochrome layers

The Zara Man Monochrome layers

Slide 13: Zara Kids The Wanderers

Zara Kids The Wanderers.

Slide 14: Zara Home: Interiors with a soul

Zara Home's Interiors with a soul.

Slide 15: Massimo Dutti's Interlude Editorial

Massimo Dutti's Interlude Editorial.

Slide 16: Bershka Winter Calls

Bershka's Winter Calls.

Slide 17: Pull&Bear Art for everyone

The Pull&Bear's Art for Everyone.

Slide 18: Stradivarius Magical Allure collection

The Stradivarius Magical Allure collection.

Slide 19: Oysho Join Life Yoga and Meditation

Oysho's Join Life Yoga and Meditation collection and...

Slide 20: Uterqüe A/W Collection

...The Uterque Autumn Winter Collection.

I'll hand you over to Ignacio now for the Financial Section.

Slide 21: Financial Summary

Thank you Pablo.

Slide 22: 3Q2020; Strong recovery in operations

As you have seen in our release, Inditex's operations showed a strong recovery in the third quarter 2020. We have executed remarkably in what has been a challenging operating environment.

As an example of the recovery, Inditex's sales in constant currency between the 1st and the 18th of October 2020 had already reached the historic highs of the same period in 2019.

Slide 23: 3Q2020: Strong recovery in operations

The quarterly performance in reported and in constant currencies illustrates the strong recovery.

We have managed the supply chain very closely, and this has driven a healthy gross margin evolution. Operating expenses have been tightly managed. The quarter includes COVID-19 related extraordinary expenses of 135 million euros.

Slide 24: Sales

As mentioned, the health crisis has had a material impact on our sales over the nine-month period. Sales recovered in the third quarter to reach 14 billion euros over the nine months. The sales performance has been marked by the timing of temporary store closures and restrictions.

Online sales growth in constant currency has been very strong at +75%.

Slide 25: Gross margin

The gross margin was 58.0%. In constant currency it grew 110 basis points to 59.3% in the nine months.

The gross margin evolution over the period is strongly linked to the high levels of flexibility enjoyed by our unique supply chain.

This is clearly illustrated in the inventory, which was 11% lower than the closing balance in the first nine months of 2019.

Slide 26: Operating efficiencies

Efficiency gains have allowed us to exercise a high level of control over operating expenses in the period. As you can see, operating expenses decreased by a remarkable 17%.

There has been very efficient management of operating expenses across all departments and business areas. This has demonstrated our ability to react and adapt continuously to the changing trading environment.

The main components of operating expenses have shown a very good performance.

Slide 27: Depreciation

Depreciation and amortisation was 2.4 billion euros. This includes the charge for the completion of the store optimisation programme in 2020 and 2021, as announced back in June of this year.

Slide 28: Financial results

The financial results line of the income statement includes interest on lease liabilities of 94 million euros.

Slide 29: Flexible business model key to performance

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

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

As a result, inventory fell 11% at the end of the third quarter. The closing inventory is considered to be of high quality.

Slide 30: Outstanding operating performance

As mentioned, the various initiatives in place allow us to generate working capital efficiencies even in the most challenging of environments. This chart shows the decreasing inventory requirements in our operations over recent years.

Slide 31: Strong cash flow and financial condition

These actions, in conjunction with the strong cash flow, took the net cash position to 8.3 billion euros, a historic high. The net cash position has increased by 1.8 billion euros since the end of the first half of 2020.

Let me hand you over to Marcos now.

Slide 32: Concepts

Thank you

Slide 33: Store & Online Sales by concept

Over the first nine months we have continued with our expansion. We opened stores in 25 different markets. Global online launches have continued rapidly as you can see.

The weight of the different concepts on group sales remains broadly unchanged.

Slide 34: Performance per concept

We are seeing a progressive recovery across all concepts going into the Autumn/Winter season. The differences relate to each individual concept's geographic presence, location of stores and fashion profile.

Slide 35: Performance per concept

Store sales are improving. Online sales continue to grow remarkably. Oysho and Zara Home ranges had a strong performance in the first nine months. We continue with the store optimisation activities across all concepts.

Slide 36: Outlook

And now over to Carlos to comment on sustainability and online launches.

Slide 37: Sustainability & Circular economy a key part of the strategy

Thank you.

As you know, sustainability has been a key part of our strategy for many years. 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 conversion into eco-efficient stores
- And a Zero-waste and recycling policy

Slide 38: Sustainability & Circular economy: 2020 targets

We are happy to tell you that we are on target or exceeding all sustainability targets set for 2020.

Slide 39: Online launch in Costa Rica, Guatemala, Honduras and Nicaragua

We continue expanding our online presence. In the third quarter, Zara launched online sales in Costa Rica, Guatemala, Honduras and Nicaragua amongst others.

And now, back to Pablo.

Slide 40: Global online developments

We continue to develop our global online business. Online sales have been profitable and non-dilutive from launch. We foresee very strong progress in the run up to 2022.

This progress has been, and will continue to be, underpinned by a very high level of integration between physical stores and online. The benefits of this integration have been especially evident over the period.

Furthermore, we also expect to invest 1 billion euros in online capital expenditure for the period 2020 to 2022.

The ultimate aim is to accomplish full digitalisation of stores across the globe.

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

Slide 41: Integrated digital eco-efficient stores

Our goal is to operate high quality, digital, ecoefficient stores in conjunction with a global online platform in order to provide a unique customer experience. Through these initiatives we are expecting increased profitability and lower capital intensity going forward.

A key project was the new Zara store in Beijing at Wangfujing. This store is the largest in Asia and one of the most technologically advanced stores in the whole Group. The store has had a very strong reception.

Slide 42: Integrated digital eco-efficient stores

We would also like to highlight the significant enlargement of the Zara store at Bluewater Shopping Centre in the outskirts of London, where we have doubled the size of the store to 3,400 square metres.

Slide 43: 4Q2020: Stores in operation

This chart shows the evolution of store operations over the Fourth Quarter.

Slide 44: FY2020 Outlook

In November, 21% of the group stores were temporarily closed. A majority of these stores started to reopen in the first week of December with an improvement in store sales.

Currently, 8% of stores are closed, with an additional 10% closed on weekends. Additionally, a significant number of stores have restrictions in capacity, space and opening hours.

Online continues to grow at the remarkable rates of the first nine months of this year.

The chart shows the evolution of sales in the quarter marked by stores reopening.

Slide 45: Dividend

As a reminder, the ordinary dividend for full year 2019 of 35 cents per share was paid on the 2nd of November 2020.

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

As you all know the remainder of the bonus dividend (78 cents per share) will be paid in fiscal 2021 and 2022. As normal, dividend payments will take place biannually in May and November.

Slide 46: FY2020 Results

Thank you for attending. That concludes our presentation for today. We'd be happy to answer any questions you may have.

Please go ahead Operator.

QUESTIONS & ANSWERS

Operator

The first question today comes from Richard Chamberlin of RBC. Richard, please, go ahead.

Richard Chamberlain - RBC - Analyst

The inventory is down again at the end of the quarter year on year. I wonder if you can explain or you can give some color on inventory. Are you producing shorter sourcing times or more flexible sourcing and that's enabling stores to carry less inventory? How do you feel about the current inventory position, given likely further restrictions in markets like Germany and the Netherlands and so on that are likely to come in the next few weeks. Thank you.

Pablo Isla - Inditex – Executive Chairman

Thank you. What I would like to come back to is one of the slides in the presentation in which we explain this inventory evolution over a long period of time and it clearly shows the strategy of the company about the inventory.... I would say first of all, that we have always managed our company with a low level of inventory. But then, thanks mainly to the stock integration, to the RFID and to the store optimisation plan, we have been able to run the company with less inventory. And this began to be evident in the year 2018, it was particularly evident during the year 2019, in which we were having very strong like for likes and at the same time the inventory was not growing or even decreasing every quarter. This year it has been extremely helpful in order to navigate through this very challenging environment that we are facing.

It has to do with the business model in the sense that we have always been running the company with low levels of inventory. But now it is even much more because of this fully integrated approach between stores and online, because of the stock integration, because of the RFID implementation and because of the store optimisation plan.

And about the inventory at the end of the quarter, as we were saying, it is very healthy and we have no concern at all from that point of view. Going forward, thinking about a much more normalised situation in the year 2021-2022, what we can tell you is that we will continue running the company with less inventory as a percentage of sales in the coming years. It is a key element of our strategy and it allows us to have higher full price sales to better serve our customers, which is something extremely relevant from every point of view. As we were showing during the presentation, it is not something happening only this year. It is something which is a clear part of our strategy that began to be very evident in the year 2018.

Operator

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

Anne Critchlow – Société Générale - Analyst

Thank you. Good morning everyone. Could you tell us how you see the company going forward in to 2021?

Pablo Isla - Inditex - Executive Chairman

Thank you. What I would say is that I see the company in a very strong condition. When I see what has been going on during this year, particularly if we have in mind, for example, the third quarter results; the evolution of sales with all the restrictions; with 5% of the stores closed during the period; then online sales growth; the strength of this fully integrated approach; keeping gross margins stable in this very;

very challenging environment; then also the way we have managed costs and cash flow generation during the period, during these nine months and particularly during the last quarter. So, I see the company in a very strong condition.

For me is very relevant to talk about our people. And what I can tell you, as we are showing during this year, is that we have a very, very solid team and that the execution of this team during the year 2020 is being remarkable, adapting constantly to the changing situation.

So, combining all these elements, I think we can say that we have a lot of confidence in the future. You are asking about the year 2021, for sure, but then also 2022 and the coming years. So, we see the company in a very strong condition and a very strong position to think about the future in the coming years.

Operator

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

Rebeca McClellan - Santander - Analyst

Good morning. If you were to adjust to the inventory position for store absorptions going forward, are you expecting to see further improvements in inventory to sales or would you expect it normalise out from these levels?

Pablo Isla - Inditex - Executive Chairman

What I can tell you, Rebecca, is that this is an ongoing process. And our assumption, of course, in one particular quarter, it could be this or that, but as a global trend, what we are saying is that inventory, if it grows, will grow below sales growth.

So we will increase the efficiency of our inventory position in the coming years and this has a lot to do with all the elements that I was mentioning. You were referring to the store optimisation plan and it is also a very, very relevant part of this possibility of running the company with lower inventories as a percentage of sales. We think that it is a key feature of the company today and for sure going forward.

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 have got a question about gross margins. Could you maybe just describe the promotional activity in Q3 compared with last year? And perhaps you could tell us if you would reiterate your gross margin guidance for the second half? I think that last quarter you said that you were still thinking that gross margins could be positive in the second half. Thank you.

Pablo Isla - Inditex - Executive Chairman

Thank you. You see that the gross margin in the third quarter... First of all, as we always say, when we talk about the gross margin we always prefer to talk about a season, to talk about a six-month period. But answering your question, you are asking about the gross margin in third quarter and we can say that we are very satisfied with the gross margin evolution during the third quarter. As we were saying in the presentation, in constant currency we have a significantly positive gross margin in the third quarter and so, this is the combination of the way we are managing our sales and the way we are managing our inventory.

Answering your question in terms of promotional activity, there is nothing relevant in the third quarter to mention from this point of view. We continue applying our strategy and we are satisfied with the evolution of gross margin during the third quarter. And at this stage we continue seeing positive gross margin in the second half and stable gross margin for the full year as we anticipated to you in September.

Operator

Next question comes from Geoff Lowery of Redburn. Please go ahead.

Geoff Lowery – Redburn - Analyst

Yes. Good morning. Just one question really around online. You have hopefully given us the increase in number of online visits. Can you tell us what happened to your customer count online? And on the integration between online and stores pre-virus, you used to talk about levels of returns and pickup that went to store. I'm interested if you have any data you can share with us about what has happened during the COVID period to the online and stores integration. Thank you.

Pablo Isla - Inditex - Executive Chairman

First of all, I will tell you that in the full year results we will update you more on online and provide more detail on our online sales growth during the year.

The first thing I would like to remark, as we were saying during the presentation, is that online sales growth, as has always been the case, is 97% organic. And this is applicable to the previous year. So it is online sales growth in the markets in which we already had online presence with the different brands. We think that this is very remarkable, and it has always been the case.

If we analyse our online business since the year 2015, for example, every year 97%, 98% of online growth is organic. And, of course, every year we gain new online customers, but this year it has been more significant than any other year. It is very much correlated with the growth in the number of visits that we were mentioning. But in any case, we will update you and we will give you more details about our online business at the full year results presentation in March.

This year has been very atypical, answering the second part of your question, in terms of in-store deliveries, in-store returns, particularly in the markets and during the months in which the stores have been closed or with a lot of restrictions. So, it is very difficult to read what is going to be the trend from the situation this year.

What we see in general terms is that regarding all the different online parameters, when the stores reopen in any particular market and begin to operate normally all this integration in terms of in-store deliveries, in-store returns, etc, tends to come back to a much more normalised level. But as I was saying, we will give you more details in the full year results presentation in the month of March.

Operator

The next question comes from Aneesha Sherman of Bernstein. Please go ahead.

Aneesha Sherman- Bernstein - Analyst

Good morning. My question is about the trading in the month of November. You said that 21% of stores were closed in November. Roughly what percent of sales did those stores previously have, were

they considerably higher or lower than the 21%? I am trying to think about how to view the minus 19% sales performance and how much of that was driven by the stores decline versus the upset by transfer of trade online. Thank you.

Marcos López - Inditex - Capital Markets Director

Thank you very much, basically, Aneesha, we have given you a very detailed evolution of sales and stores open and the situation is very, very fluid.

But what we can see regarding this quarter and practically the whole nine months is that the moment that the stores reopen, even with significant restrictions as we have mentioned, we see very a strong increase in store traffic and this has been happening also over the last few days of December.

Obviously, we are following things very, very carefully. But what we can tell you is that we see a strong growth in traffic, when stores reopen, people are willing to go back to the stores and the way customers behave is very, very normal.

And then, you have the extraordinary and remarkable growth of online. I think a key difference in our case is the fully integrated platform that provides the level of sales and the level of execution that you have seen recently.

Operator

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

Anne Critchlow – Soci t  G n rale - Analyst

Thanks. I was wondering what opportunities for store expansion you see in markets where perhaps competitors are now closing stores. Or do you see perhaps the market share opportunity being more online in the future?

Marcos L pez - Inditex - Capital Markets Director

The opportunity is integrated, with the strategic lines that we have presented to you over many years. One very important part is to optimise stores, to have the type of stores that we have shown in the presentation.

We have referred in the presentation to the relocation of the store in Wangfujing in Beijing, a tremendous store. The reception has been unbelievable. And second, the expansion of the Bluewater store in the outskirts of London doubling the size of the store and you should see the queues.

So, it is expanding this in conjunction with a very strong online proposition. As Pablo mentioned, 97% of online growth is organic, it is in the existing markets. Clearly, the proposition works very, very well. 76% growth in Q3. 75% in the nine months, and those rates of growth continue. So, clearly the acceptance of the business in this period has been very, very good.

We have always said that the Inditex model, the integrated model is very good for the good times, but it is even better for the difficult times. Why? Because of the flexibility and the way our teams work is very much adjusting to demand. And this is the quarter in which you see the advantages of the integrated model.

Operator

The next question comes from Georgina Johanan of JP Morgan. Please go ahead.

Georgina Johanan – JP Morgan - Analyst

Good morning. Just a question on OPEX please. Even adjusting for currency, it looks like it is running better than the variable portion that you called out previously as around 60%. So I was just wondering if there is any underlying savings that you have identified there that you should be expecting to continue in to the future years.

Pablo Isla - Inditex - Executive Chairman

Thank you. Well, as you mentioned, we have been acting during the whole year in a very significant way regarding our cost base. The part of our costs that are variable as around 50%. This evolves in line with sales. But then, of course, we are finding additional efficiencies in all the different lines of costs. It has to do with the way we operate our stores; it has to do with rental renegotiations with our landlords; always thinking about a balanced approach and always thinking about a long-term relationship with them.

Of course, this year is very exceptional from this point of view, and also from the point of view of all the different operations – and the way to run them in a very, very efficient way.

This has been the case during the whole year. This is also evident in the third quarter results and our idea always is to continue running our costs in a very efficient way. I really think it is very remarkable, and I come back to what I was saying before. It shows the strength of our teams all around the world; our commercial teams when we think about the gross margin evolution; when we think about the evolution of sales in such a challenging environment; our online teams with this incredible rate of growth and then with all the operations, and the technology behind it; and all the operations that we need to manage logistics and deliveries with this significant level of growth.

And then finally, our teams in all the countries; in the way of operating the stores; when we reopen in terms of running our operations in a very efficient way. What I think it shows is the strength of the teams that we have all over the company.

Operator

Thank you very much. We are finished with the telephone Q&A session. We will address the questions received in the Webcast platform.

James O'Shaughnessy

Good morning. We have had a few questions on the Webcast platform, the first of which is: can you comment on the cash generation in a quarter and the net cash position, please?

Pablo Isla - Inditex - Executive Chairman

Well, what I would say is that we are very satisfied with the cash generation during the quarter. I think we were saying before that our company, thanks to online sales growth, thanks to this fully integrated approach between stores and online, is becoming less capital intensive and we are able to generate cash in a very relevant way as we have seen during this third quarter.

Of course, also the operating performance of the company and the fact of running the company with less inventory. Globally we feel satisfied with the evolution of cash generation during the quarter. And as we were saying during our presentation, we keep our dividend policy with this 60% payout ratio and the idea of distributing the extraordinary dividend between the years 2021 and 2022 and having this biannual payments in the months of May and November.

I think the way we are running our company is very healthy from the point of view of inventory; from the point of view of sales; and also very healthy in the sense of cash flow generation.

James O'Shaughnessy

The following question relates to online. How has online developed in the different concepts, please?

Pablo Isla - Inditex - Executive Chairman

Before answering this question about online I would like to reinforce what Marcos was saying. We believe very much in this fully integrated approach between stores and online with a very balanced store portfolio. As we were saying during the presentation, with high penetration, very low market share, but at the same time a very balanced store portfolio between high street locations, shopping malls, big capitals and medium-sized cities.

We are seeing a very, very balanced store portfolio. What we are also seeing is that once we reopen the stores, even with the restrictions, the store traffic begins always to increase. Our customers, very much like this fully integrated approach between stores and online. Sometimes buying online and buying in stores but asking for in-store delivery or seeing the product online, but then buying in the stores. So this fully integrated approach we think is appreciated by our customers. You were asking me about the different brands and I would say this strong online growth has been across all concepts and across all geographies.

When you have such a significant rate of growth, and we are talking in constant currencies, 75% in the nine months, and 76% in the third quarter, the strong level of growth is applicable to the whole company, to all the different concepts and to all the different markets.

Operator 2

That concludes the webcast questions.

Pablo Isla - Inditex - Executive Chairman

Thank you for joining us in this conference call. And, of course, through our capital markets department we continue ready to answer additional questions you may have. Thank you very much. And I take advantage of this opportunity to wish you a Merry Christmas and all the best for the next year. Thank you very much.