INDITEX
INTERIM NINE MONTHS 2021

CONFERENCE CALL SCRIPT
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INDITEX PARTICIPANTS

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Introduction: Marcos López

Good morning, Ladies and Gentlemen. Welcome to the presentation of Inditex's Results for the Interim Nine Months 2021. 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 Óscar García Maceiras 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.

And now over to Pablo.

Slide 3: 2021: Differentiation and strategic transformation continues to deliver

[Image]

Slide 4: 2021: Inditex's differentiation and strategic transformation accelerates

Good morning to all of you and welcome to our nine months 2021 results presentation. I would like to highlight some key messages before we go into an analysis of the period.

Inditex's differentiation and strategic transformation towards a fully integrated, digital and sustainable business model is accelerating.

First of all, I want to recognise the effort made by our teams. Their dedication during the period has been outstanding.

Our operating performance continues to go from strength to strength. Sales, profit before tax and net income in the third quarter have reached historic highs, surpassing pre-pandemic levels. Constant currency sales growth accelerated further over the third quarter 2021 to 21% versus 2020, and 10% versus 2019.

Our collections have been very well received by our customers. Almost all of our stores are now open. Online sales continue their high rate of growth.

We continue to generate strong cash flow and to reinforce the robust financial position of the Group.

We are also making good progress with respect to the sustainable development of our business model.

Regarding digitalisation, the migration to the Inditex Open Platform is now 97% complete.

As you have seen in our release, we have had a strong start to the fourth quarter. Store and online sales in constant currency between the 1st of November and the 10th of December 2021 increased by 33% versus the same period in 2020 and 10% versus the same period in 2019.

Based on current information Inditex expects a gross margin of around 57.5% (+/- 50 bps) for FY2021.

Slide 5: Inditex's differentiation and strategic transformation accelerates

Let me add some detail on the year so far and our strong differentiation.

The remarkable performance in the nine months of 2021 was greatly helped by our fully integrated business model, our single inventory position and the attractiveness of the product offer.

The store optimisation programme has been a resounding success. The impact of the store absorption programme announced in June 2020 has been fully recovered in store and online sales already.

In the third quarter 2021 we have reached another milestone: In-Store sales have increased compared to 2019 with 11% less stores in operation.

We are using technology to accelerate strategic projects like RFID, SINT and IOP.

The strong trajectory of online sales that we saw last year has of course continued in 2021.

Slide 6: Strength of integration: All stores open, online grows strongly

Inditex's competitive differentiation is bigger than ever.

As of today, all of our stores are open. With sales in stores getting close to normality, online sales in constant currency in the nine months have progressed very nicely indeed at plus 28%. This compares to plus 124% versus the first nine months of 2019.

Online sales are expected to be more than 25% of total sales in 2021, one year before our initial target.

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

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

Slide 7: Resolutions of Inditex Board of Directors

The Board of Directors of Inditex, at my initiative and at the initiative of the founder Amancio Ortega, and following the proposal of the Nomination Committee, has approved the appointment of Marta Ortega as Chair of the Board of Directors, effective as from the 1st of April 2022.

Óscar García Maceiras, up to now General Counsel and Secretary of the Board, has been appointed Chief Executive Officer of Inditex, effective 29th of November.

With this, the Board of Directors completes the generational handover process initiated in 2011 with the replacement of Amancio Ortega as Chairman of Inditex.

The appointments will be presented for ratification at the next Annual General Meeting.

I'll hand you over to Oscar now for some introductory comments.

Slide 8: Continuity in Strategic Pillars

Good morning. I'm honoured to join you today in my capacity as CEO and I'm looking forward to meeting you all in person.

My first message to you is one of continuity in the strategic pillars of Inditex.

We enjoy a unique business model that fully integrates stores and online. This unique feature will remain one of the key pillars of Inditex. Let me tell you that we are at an early stage in the development of all of this potential.

The talent of the teams and individuals at Inditex is comparable to their commitment and entrepreneurial spirit. Our people are by far our main competitive advantage. What you have seen over recent months, the way the Group has managed some very difficult market conditions and the fact that we are already above pre-pandemic levels, says it all.

Sustainability and digitalisation remain also at the core of our strategy.

For those of you who have been following us for many years our main priority is to invest in key initiatives for the future profitable growth of the Group with financial discipline.

And we will continue with a predictable and attractive remuneration policy.

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

Slide 9: Financial Summary

Thank you, Oscar.

Slide 10: 9 Months 2021: Very strong operations performance

As you have seen in our release, Inditex's operations showed a strong progression in the first nine months of 2021. We executed very well in what turned out to be a challenging operating environment.

We managed the supply chain very closely, and this drove the strong gross margin performance.

Operating expenses have of course been tightly managed.

Slide 11: 3Q21 Sales, PBT and net income at historic highs

As mentioned already, sales, PBT and net income in the third quarter 2021 reached historic highs, exceeding pre-pandemic levels. This is the result of very active management of the supply chain with a healthy gross margin evolution and tight management of the operating expenses.

Under IFRS 16 occupancy costs are allocated to operating expenses, amortisation and financial expenses. If we consider all occupancy costs to be operating expenses, there was operating leverage.

You can see this because compared to 3Q2019, PBT grew 7%, above both sales and gross profit growth of 6%.

This is mainly due to tight control of operating expenses and our ability to find efficiencies in our operations. Part of this is also driven by the renegotiation of rents.

Slide 12: 9M21 Strong Sales

Sales trends in the nine months 2021 have continually improved as store sales return to normal and online has sustained its strong performance.

The nine months have seen a strong recovery in sales of 37% over 2020. Sales in constant currency grew by 39%.

Slide 13: 3Q21 acceleration in sales

During the third quarter of 2021 sales growth in constant currency continued accelerating.

Sales in local currencies in the quarter were 21% higher than in 2020 and 10% higher than in 2019, which was itself a historic high.

Online sales progressed very nicely, and online sales in constant currency in the 9 months were up 28% versus the same period last year and up 124% versus 2019.

Slide 14: Gross margin

The gross margin reached 59%. It was 101 basis points higher than in the same period in 2020.

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

Based on current information Inditex expects a gross margin of around 57.5%, plus or minus 50 basis points, for the full year 2021.

Slide 15: Operating Efficiencies

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

The main components of operating expenses have shown a very good performance. Efficiency gains have allowed us to exercise a high level of control over operating expenses in the period.

Slide 16: Depreciation

Depreciation and amortisation came to 2.1 billion euros, 10% lower. The difference reflects the provision for the store optimisation programme for 2020 and 2021, charged to the first quarter 2020 accounts. Excluding the provision, this line would have increased 3%.

Slide 17: Flexibility of 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 period. As you can see in this table, working capital has returned to the more normal levels seen prior to the pandemic.

As a result, inventory at the end of the nine months 2021 was 6% above the levels seen at the end of nine months 2019. The closing inventory is considered to be of high quality.

Slide 18: Strong cash flow and financial condition

These actions, in conjunction with the strong cash flow, took the net cash position to 9.6 billion euros.

And now over to Marcos.

Slide 19: Concepts

Thank you

Slide 20: Store & Online Sales by concept

Over the first nine months of 2021 we have continued expanding our operations. This can be seen in the 39 different markets in which we have opened stores over the period.

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

Slide 21: Performance per concept

The younger concepts grouped together continue developing their operations satisfactorily. I would like to highlight the strong sales of the Group in the interim nine months 2021.

Slide 22: Concepts

We are seeing a progressive recovery across all concepts. The differences relate to the geographic presence, location of stores and fashion profile of each individual concept.

Store sales are improving, and online sales continue to grow. Stradivarius and Oysho had a strong performance in the first nine months of 2021. We continue with optimisation activities across all concepts.

Slide 23: Outlook

Let us talk about the outlook for 2021 and very specially about the features that make Inditex unique. We can start with our fashion collections and the integrated store and online execution.

Slide 24: Zara Atelier

A good place to start is with the Zara Atelier Collection, a limited collection of patterned coats.

Slide 25: Zara AZ

Also, our AZ collection, which combines a physical collection with a metaverse one.

ZARA has launched the AZ Collection online and in selected stores.

This collection will have an extension in the virtual world thanks to its presence in ZEPETO. Through a small metaverse in which ZARA app users will be able to purchase virtual clothes and make-up for their avatar in the ADER ERROR for ZARA store.

Slide 26: Zara Man Outerwear

…The Zara Man Outerwear Editorial.

Slide 27: Zara Kids Party

The Zara kids party collection for the festive season.

Slide 28: Zara Home Christmas at Home

The Zara Home Christmas at home collection.

Slide 29: Massimo Dutti Join Life

…Massimo Dutti Join Life ranges

Slide 30: Bershka Red Western

…Bershka Red Western collection.

Slide 31: Pull&Bear 19.91 Colors

…Pull&Bear 19.91 Colours collection.

Slide 32: Stradivarius Retro vibes

… Stradivarius retro vibes, their first digitally created campaign with 3D animated background.

Slide 33: Oysho Ski

…Oysho's Ski collection, designed with both snow sports and après ski in mind.

Slide 34: Uterque A/W collection

…and last but not least the Uterque Autumn/Winter collection.

Slide 35: Zara London One New Change

We continue to make our stores more differentiated than ever. A good example is a recent opening in London at One New Change by Saint Paul's Cathedral…

Slide 36: Zara Milan, Corso Buenos Aires

…the enlargement of our flagship store in Milan at Corso Buenos Aires…

Slide 37: Zara Cologne Schildergasse

… and of course the refurbishment of our Zara store in one of the streets with the strongest levels of customer traffic in Europe at Schildergasse in Cologne.

Let me now hand you back over to Pablo.

Slide 38: Outlook

Thank you, Marcos.

The strategic initiatives to strengthen our global fully integrated store and online model are accelerating. We plan to continue developing these key long-term priorities in order to maximise organic growth.

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

A key focus is on high quality stores, with the aim that they be fully integrated, digital and eco-efficient.

Let's not forget that we aim to achieve all of this with sustainability remaining very much a central part of the strategy.

We expect to deliver higher returns and lower capital intensity.

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

The remainder of the bonus dividend (30 cents per share) will be paid in calendar year 2022

Slide 39: FY2021 Results

As a reminder, the 2021 full year results will be released on the 16th of March 2022.

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

Marcos López

Please Operator go ahead.

QUESTIONS & ANSWERS

Operator

Thank you. Ladies and gentlemen, the telephone Q&A starts now. If you would like to ask a question, please, press star 1 on your telephone key pad. If you wish to remove your question, press star 2. We request to limit yourselves to only one question per turn, so we can maximise the number of participants in the session. If you have further queries, you may press star 1 again after the next person's question has been addressed. Please ensure your phone is not muted locally.
Our first question comes from Richard Chamberlain from RBC. Please go ahead.

Richard Chamberlain - RBC - Analyst

Thank you very much. Good morning team. My question is on the gross margin guidance of 57.5% for the year which implies a very big weighting in the fourth quarter. I understand that obviously there is the inventory provision at the start of the pandemic and a much softer comparable, but is there anything else to say on the timing of gross margin development in the second half and why the waiting is so much in favor of Q4 versus Q3? Thank you.

Pablo Isla - Inditex – Executive Chairman

Thank you for your question. The first thing I have to say is that we are extremely happy with the gross margin performance. And as you were saying, this will be fully visible when we publish the full year results. In any case, you must have in mind that the gross margin of the third quarter is the highest in the last 7 years. This is something that you must have in mind. In a season in which everybody is talking about all these disruptions in the supply chain, costs of transport… what we think is that this shows the strength of the business model, the fully integrated approach, the thing that we are applying all across the world and what we can tell you is that we are extremely happy with the evolution of the gross margin, we continue thinking that, what we were saying that the gross margin for the full year will be 57.5% plus-minus always 50 basis points, we always say this, but a very strong gross margin performance. You must have in mind what I was saying, we are talking about the highest gross margin in our third quarter in the last 7 years, so very strong performance of the business, very healthy evolution of sales, in constant currencies we are talking about 10% versus 2019. In store sales, in constant currencies above 2019 levels with 11% less stores and online continue growing in a significant way, so yes, very satisfied with the evolution of the gross margin and as we were saying this will be fully visible in the full year results.

Richard Chamberlain - RBC - Analyst

Ok, thank you for the colour. I appreciate it.

Operator

Our next question is from Rebecca McClellan from Santander. Please go ahead.

Rebecca McClellan - Santander - Analyst

Yes, good morning, this is Rebecca from Santander. Could you talk about pricing, please? And in particular, how the average selling price in Autumn-Winter 2021 compares to that of Autumn-Winter 2019? Please.

Pablo Isla - Inditex – Executive Chairman

Well, stable pricing policy, Rebecca. What we are applying is a stable pricing policy and our focus is totally on full price sales and thanks to the fully integrated approach and not having promotions or nearly any type of promotion during the season and we are applying this policy of stable pricing policy globally.

Rebecca McClellan - Santander - Analyst

Okay. Thank you.

Operator

The next question is from Anne Critchlow from Societe Generale. Please, go ahead.

Anne Critchlow – Société Générale - Analyst

Thank you. Good morning. My question is about physical space. Just wondering what you think will happen to this in square meter terms next year so whether it is likely to be up or down. Thank you.

Marcos López – Capital Markets Director

Anne, as you know our plans about space are very clear, we have presented a plan to absorb stores and finalise our store optimisation programme. On the other hand, we always target 2.5% gross margin, sorry, gross space growth and what we would like to highlight this year is clearly the productivity of the stores. The third quarter in-store sales exceed those achieved in the year 2019 with 11% less stores. Clearly this is a success, as Pablo mentioned during the conference call, but we are talking about a completely different store type to that of the competition in the sense that we have stores which are fully digitalised which have RFID, which have SINT which in the year 2020 we were able to generate 1.2 billion euros of sales from the stores into online. In this third quarter we have in-store sales in positive territory and online keeps growing at 28%. I think this is very remarkable. So clearly the productivity of the stores is increasing, and this is what you should expect looking forward.

Anne Critchlow – Société Générale - Analyst

Ok, thank you.

Operator

The next question is from Simon Irwin form Credit Suisse. Please go ahead.

Simon Irwin – Credit Suisse - Analyst

Good morning, everyone. Maybe you could talk a little bit more about gross margin, in particular the disruption you saw in the supply chain and what additional costs you saw during 3Q. How do you see the outlook for the supply chain and gross margin into next year.

Marcos López - Capital Markets Director

We are still in this fiscal year, clearly there has been some disruption, but is very much where the advantage of the business model shows up. You have to bear in mind that two thirds of our sourcing is in proximity, and 60% of our sales are in Europe. This means that we are clearly less exposed, due to the model, due to the flexibility of the model, due to the proximity sourcing to the vagaries of the supply chain, issues that have been affecting the sector. Obviously, we have absorbed some of these factors but to an extent you see that the impact has been relatively limited because our business model is completely different. If we execute according to what you are seeing you should expect something similar. Not saying that we are not affected, but clearly our model has a very strong advantage due to its integration, its flexibly and based on the proximity sourcing platform.

Simon Irwin – Credit Suisse - Analyst

Thank you.

Operator

The next question is from Georgina Johanan from J.P. Morgan. Please go ahead.

Georgina Johanan – JP Morgan - Analyst

Hi. Good morning, thanks for taking my question. It was just on inventory and I think on my maths your inventory at the end of the quarter was at least 10% higher than 2019 levels to some other different trends to what we saw in H1. So I was wondering if you could share any comments on that or the reasons for that. Thank you.

Óscar García - Chief Executive Officer

Thank you. The first thing we can say is that it is significantly below sales growth both compared to 2019 and to 2020. That is the key message to have in mind, that the trading update is plus 10% compared to 2019 plus 33% compared to 2020. And the stock is growing plus 6% compared to 2019 and plus 19% compared to 2020. Very healthy, no concern at all, very strong trading update and it has to do with what we always have been saying that looking to the future it should grow below sales growth. So very healthy inventory position and no concern at all from that point of view.

Georgina Johanan – JP Morgan - Analyst

Great, thank you.

Operator

The next question is from Warwick Okines from Exane BNP. Please go ahead.

Warwick Okines – Exane BNP - Analyst

Yeah, good morning everybody. My question is on cash. How do you determine the right amount of net cash to hold on your balance sheet?

Marcos López - Capital Markets Director

You know that the company has strong cash generation. As mentioned, just over the previous quarter the cash position has increased by 1.5 billion euros, and cash flow is how you should look at a retailer. This is the way that retail operates. The priority is generating cash, it always has been the same.

The first priority is to invest in the future growth of the company trying to differentiate ourselves as much as we can. And obviously with a predictable and attractive remuneration policy. The policy in place is 60% ordinary payout plus multiyear bonus dividends approved by the board. This will result in a 30 cents bonus dividend to be paid in relation to the fiscal 2021 results in the calendar year in 2022.

And I am sure given the strong cash position of the company the board in March will decide on how to update this policy for the coming years.

Warwick Okines – Exane BNP - Analyst

Thanks, Marcos.

Operator

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

Rebeca McClellan - Santander - Analyst

Yes, thanks. Just one about Turkey. I think it is about 10% of your sourcing at present. Is it euro invoiced, if that is the case, is there any chance of a tail wind in 2022?

Marcos López - Capital Markets Director

Not really. The proximity sourcing model is a key differentiating factor for Inditex. Spain, Portugal, Northern Morocco and Turkey play a very significant role. These are places in which we can obtain product very quickly and in terms of logistics, once the product is finished, basically we can move product from Spain- Portugal in 24 hours, Morocco 48 hours, Turkey 72 hours and we have it in our central distribution platforms.

But in Turkey, while we buy in euros, the components of the products, the fabric is mainly in dollars, the labour is in local currency, but we definitely can adjust that. We remain extremely competitive and we can tell that our Turkey suppliers are working as normal as before.

Rebecca Mcclellan - Santander - Analyst

Thank you.

Operator

Okay. We will now move on to the webcast questions.

James O'Shaughnessy – IR Manager

We have a number of webcast questions today. The first one relates to productivity which we partly covered. I will read: you mentioned in your presentation that your in-store sales have exceeded the stores sales from 3Q 2019. By my back of the envelope calculation, I estimate that you have absorbed around 7% of your net space which implies to me that your stores are selling at least 8% more in constant currency per square meter in 3Q 2021 versus 3Q 2019. Any comment, please?

Pablo Isla - Inditex - Executive Chairman

Well, James, I think we have covered this during the call. It is very remarkable the evolution of store sales and this fact of having grown with 11% less stores. And what the question is saying is that the productivity has increased in a very significant way. This is something that we were anticipating when we announced the culmination of the store optimisation plan and what is happening is very much in line with what we expected and it has a lot to do with this fully integrated approach between stores and online that gives huge potential to the company looking forward.

James O'Shaughnessy – IR Manager

Thank you. The next question relates to online. In online, you are on track to reach more that 25% by the end of the year. Can you give some colour on how you expect to develop online over the next 3 years, please?

Óscar García – Chief Executive Officer

Well, we see online continue to grow strongly in the coming years. We believe very much in our full integrated business model that provides a better retail experience, in store or online full integrated and digital. So strong growth from our point of view.

James O'Shaughnessy – IR Manager

Thank you, Oscar. And finally, can you please comment on the trading update from 1st November to the first week of December?

Pablo Isla - Inditex - Executive Chairman

Well, very strong trading update. This is what I would say: 10% growth versus the same period in 2019, 33% versus the same period in 2020. So what we can say is very healthy evolution of the business globally, very healthy evolution of in-store sales, very healthy evolution of online sales, so I would say a very strong season with very good execution of the business model.

James O'Shaughnessy – IR Manager

Thank you very much. That concludes the webcast questions.

Pablo Isla - Inditex – Executive Chairman

Well, thank you very much for joining us today in the conference call. And as always through our capital market department we would be ready to answer any additional question you may have. Thank you and I wish you all merry Christmas. Thank you.

Operator

This concludes today's call. Thank you all very much for joining. You may now disconnect.