

INDITEX

INTERIM HALF YEAR 2023

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

INDITEX PARTICIPANTS

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Nicolas Champ Barclays – Analyst

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Introduction: Marcos López – Capital Markets Director

[Image]

Buenos días a todos, good morning to everybody. A warm welcome to all of those attending the presentation of Inditex's Results for the Interim First Half 2023. I am Marcos López, Capital Markets Director.

The presentation will be chaired by Inditex's CEO Óscar García Maceiras. Also with us today is our CFO Ignacio Fernández.

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.

Over to you Óscar.

Slide 4: CEO

Slide 5: To the next level

[Image]

Slide 6: 1H2023: Strong growth and execution continues

Good morning and welcome to our results presentation. It is my pleasure to join you today.

In the first half of twenty twenty-three (2023) Inditex has continued to see a very robust operating performance driven very much by the creativity of our teams and the strong execution of our fully integrated business model.

This performance relies on the four key pillars of our strategy you are all very familiar with: Our unique fashion proposition, an optimised customer experience, our focus on sustainability and the talent and commitment of our people. These factors have propelled our competitive differentiation.

We have experienced very satisfactory sales growth of thirteen point five per cent (13.5%).

The execution of the business model has also been very robust, with a healthy gross margin and controlled cost management.

On the bottom line, net income increased forty percent (40%) to two point five (2.5) billion euros.

Our operating performance underpins the sound financial position in which we find ourselves. We have generated significant free cash flow.

This has continued into the second half. Store and online sales in constant currency between the first (1st) of August and the eleventh (11th) of September grew fourteen (14%) percent.

Slide 7: 1H2023: Outstanding performance

Let me highlight some key features of this performance for the year so far, which has been marked by strong execution.

Our Spring/Summer collections have been very well received by customers.

Sales in constant currency increased sixteen-point six percent (16.6%), with strong growth seen in both stores and online.

Sales were positive across all geographical areas, as well as in all the concepts.

Slide 8: To the next level

Our diversified presence in two hundred and thirteen (213) markets with low market penetration allows us to enjoy significant global growth opportunities.

We have complete confidence in our ability to grow this business, mainly because the model we operate is completely unique. This in turn drives the increasing differentiation we have all been seeing.

I will hand you over to Ignacio to go into some of the headline numbers.

Slide 9: CFO

[Image]

Slide 10: Financial Summary

Thanks Óscar.

Slide 11: 1H2023: Very strong execution

As you have seen in our financial release, Inditex performed strongly in the first half of 2023.

Sales have progressed well, at plus 13.5%. We have managed the supply chain actively, and this has driven a very healthy gross margin. Operating expenses have of course been tightly managed resulting in operating leverage.

As a result, EBITDA grew 16% to 4.7 billion euros.

Below this line and for comparability reasons it is worth noting the provision charged in the 1Q2022 relating to operations in the Russian Federation and Ukraine for 216 million euros in that year.

We have also seen very strong progress in net income, with an increase of 40% to 2.5 billion euros.

We continue generating significant free cash flow and this has taken our net cash position to 10.5 billion euros.

Slide 12: Sales

I would like to reiterate that sales have progressed very well at plus 13.5% reaching 16.8 billion euros. That's 16.6% in constant currency.

Sales growth was strong both in stores and online.

Furthermore, sales have been positive across all regions and across all concepts.

Based on current exchange rates we expect a minus 3.5% currency impact on sales for the full year 2023.

Slide 13: Global Store & Online sales breakdown in 1H2023

We enjoy a global presence, with operations in 213 markets and with a low market share within what remains a highly fragmented sector. Growth has been strong across the board. We have previously mentioned that the United States is our second largest market.

Slide 14: Gross profit

In the first semester of 2023, gross profit increased 14% to 9.8 billion euros and clearly demonstrates a healthy execution of the business model. The gross margin was 58.2%.

Based on current information, we expect a stable gross margin of +/-50 basis points this fiscal year.

Slide 15: Operating efficiencies

There has been very tight control of operating expenses across all departments and business areas.

Operating expenses increased below sales growth over the first half of 2023. Including all lease charges, operating expenses grew 220 basis points below sales growth.

Slide 16: Working capital and net cash position

Over the first half of the year, we have experienced a robust operating performance. We have also seen a normalisation in supply chain conditions. Inventory at Inditex as of the 31st of July 2023 was 7% lower than at the same date in 2022.

Let me highlight that the end of period inventory is considered to be of high quality.

Due to the strong cash flow generation, the net cash position has grown to 10.5 billion euros.

Slide 17: Strong Cash Flow*

As you can see from this slide, we continue to generate very strong levels of cashflow, with Funds from Operations increasing 35% when compared to the same period last year, and Cash from Operations increasing 57%.

And now over to Marcos.

Slide 18: Marcos López – Capital Markets Director

[Image]

Slide 19: Concepts

Thank you.

Slide 20: Concept

Over the first half of 2023 the group has had a robust performance across the board. We are satisfied with the execution over the period.

Slide 21: Sales by Concept

We have continued with the expansion and have opened stores in 20 different markets.

Store and Online sales across all concepts have been robust. The performance has been strong at all levels.

Slide 22: Sales by concept

We are pleased with the execution of the concepts over the first half as you can see in this chart.

And now back to you Óscar.

Slide 23: CEO

[Image]

Slide 24: To the next level

Thank you Marcos.

I would like to comment on some of the initiatives this season which have been driving the increasing levels of differentiation we are seeing today.

Slide 25: Unique fashion proposition: Creativity, innovation, design and quality

First and foremost, our priority remains to always work on maximising the appeal of our fashion proposition. Creativity, innovation, design and quality are the defining features of our collections and a key focus across all of our teams and departments.

Slide 26: Zara's The Steven Meisel New York Collection

A good example of this is Zara's The Steven Meisel New York Collection.

Slide 27: Zara Man Origins

The Zara Man Origins Collection.

Slide 28: Zara Kids Autumn collection

The Zara Kids Autumn collection

Slide 29: Zara Home: Stripes & Overtones

Zara Home: Stripes & Overtones.

Slide 30: Pull&Bear: Pacific Republic

Pull&Bear's Pacific Republic.

Slide 31: Massimo Dutti Studio

Massimo Dutti's Studio.

Slide 32: Bershka's Denim

Bershka's Denim

Slide 33: Stradivarius: AW23

Stradivarius AW23

Slide 34: Oysho Training

...and finally, Oysho's Training.

Slide 35: New Zara store design

The new store design for Zara created by our Architectural Studio is now being rolled out progressively. The design integrates organically the most sophisticated interiors with the functional and digital sections, like fitting rooms, self-checkout areas, Click & Collect points, in-store silos and stockrooms.

This new Zara store design is featured in openings, enlargements and relocations.

Slide 36: Zara Paris Hotel de Ville

A key project of the year will be doubling the size of the Zara store at Paris Hotel de Ville and Dadeland in Miami. Just like all the other important flagship stores recently opened, they will include dedicated spaces for lingerie, shoes and handbags, the Origins Collection, the Athletics Collection and newborns.

They will also include all the features that allow a complete digital experience.

Slide 37: Zara Rotterdam Coolensingel

The opening in November of the largest Zara store in the world at Coolensingel in Rotterdam, with nine thousand (9.000) square metres, including a Zara Home.

Slide 38: Zara Dubai Mall of Emirates

The enlargement of the Zara at Dubai Mall of Emirates also illustrates well what we are trying to achieve.

Slide 39: Zara Sao Paulo Patio Higienópolis

... And two recent openings: the important store in Sao Paulo Patio Higienópolis...

Slide 40: Zara Shenyang Joy City

...and the new Zara store in Shenyang Joy City

Slide 41: Bershka Milan Vittorio Emanuele

All the concepts keep optimising their stores. Bershka has enlarged its flagship at Milan's Vittorio Emanuele with the reopening taking place on Friday...

Slide 42: Stradivarius Barcelona Paseo de Gracia

...while Stradivarius relocated to a beautiful new store of one thousand square metres (1,000 m²) in Barcelona's Paseo de Gracia in August.

Slide 43: Roll-out of new self check-out and security technology

In terms of customer experience, it is important to highlight that the hardware to implement the new security technology, which eliminates the need for hard tags, was installed in Zara stores globally by July. Test operations have started already with full implementation by fiscal year end twenty-twenty four (FYE2024).

Slide 44: AGM: New sustainability targets

At our most recent AGM in July of this year we announced a new set of ambitious sustainability targets. We aim to have rolled out circularity services like Zara Pre-Owned in our key markets by twenty-twenty five (2025). That same year we hope to see three (3) million people in the supply chain included in the Worker at the Center strategy, promoting advances in social dialogue, living wages, health, resilience and respect.

By twenty thirty (2030), not only are we looking to reduce our overall emissions by more than fifty percent (50%), but we are also committed to only using lower impact textile raw materials. A further commitment has been made regarding five (5) million hectares of land to be protected, restored, or regenerated, for improvement of biodiversity.

...and finally, I remind you of our zero net emissions target by twenty forty (2040).

Slide 45: Zara Pre-owned launched in France on 7 September

In terms of circularity, the Zara Pre-Owned platform, currently available in the United Kingdom, was launched in France on the seventh (7th) of September. Germany and Spain will follow over the second half of twenty twenty-three (2023).

Through this platform, we will continue helping our customers to extend the life cycle of their Zara garments through donation, repair and resale and will contribute to the reduction of waste.

Slide 46: People: Talent development

We are promoting the talent and commitment of our teams in order to reinforce our attractiveness as a benchmark employer.

The Sustainable Fashion School (SFS) is a space dedicated to training and innovation in sustainability. Inditex has established an academic programme in textile processing exclusively for our employees, developed in conjunction with the University of Leeds. Our objective is to be an engine of transformation in the textile industry.

The aim is to keep on providing our design and purchasing teams with a solid base of technical knowledge, covering the entire product life cycle. In this first year the course has now been attended by more than one thousand five hundred (1,500) employees across the Group, exceeding seventy five thousand (75,000) hours of training.

Slide 47: Outlook 2023

Let me now move to the outlook for twenty twenty-three (2023).

We remain on track to deliver upon all of our long-term goals.

The talent, commitment and passion of our teams all around the globe will always be key to our competitive edge.

We offer a unique fashion proposition, defined by creativity, innovation, design and quality. The continuous optimisation of the customer experience is central to our approach.

The strength of the fully integrated business model that is operating at full pace has been clear in recent times. Inditex operates in two hundred and thirteen (213) markets with a low share in a highly fragmented sector and we see plenty of opportunities for both organic growth and expansion.

We see increased sales productivity in our stores going forward, and also expect the gross space growth in twenty twenty-three (2023) to be around three percent (3%). Optimisation of stores is ongoing. We expect space contribution to sales to be positive in twenty twenty-three (2023).

Stable gross margins have always been a key focus for us.

We are making investments that are scaling our capabilities, generating efficiencies, and increasing our competitive differentiation to the next level. For twenty twenty-three (2023), we estimate ordinary capital expenditure of around one point six billion euros (€1.6 billion).

Slide 48: 29% dividend increase

A brief reminder on the dividend. The final dividend payment for twenty twenty-two (2022) of zero point six euros (€0.60) per share will be made on the second (2) of November.

Slide 49: 3Q2023

I would like to finish with a brief comment on our current performance.

Autumn/Winter collections continue to be very well received by our customers.

Store and online sales in constant currency between the first (1st) of August and the eleventh (11th) of September twenty twenty-three (2023) increased fourteen percent (14%).

Slide 50: 1H2023 Results

Thank you all for attending this results presentation. That concludes our presentation for today. We would be happy to answer any questions you may have.

QUESTIONS & ANSWERS

James O'Shaughnessy - Inditex

The telephone Q&A session starts now. If you would like to ask a question, please press star + five on your telephone keypad. If you would like to withdraw your question, press star + 5 again. We request that you limit yourself to only one question per turn so we can maximize the number of participants in the session. If you have further queries, you may press star + 5 again after the next person's question has been addressed. Please, assure your phone is not on mute. The first question goes to Richard Chamberlain, from RBC. Please, go ahead, Richard.

Richard Chamberlain – RBC- Analyst

Thanks, James. Good morning, everybody. I've got a query on the soft tags for garments and elimination of tags installed to improve the customer [inaudible]. Please, confirm this is on track and that there's no [breaking up]... Reason why...

Marcos López – Capital Markets Director - Inditex

I understand that you are referring to the soft tags. What we can tell you and what we've mentioned during the presentation, it is that the soft tag hardware has been implemented in Zara stores globally. We have already started test operations for the full implementation of this tag by the end of next year and, right now, what we can tell you is that the implementation is going perfectly, you know, in line with our expectations with no major incidence. Thank you.

James O'Shaughnessy - Inditex

Next question is from William Woods, from Bernstein. Go ahead, William.

William Woods – Bernstein – Analyst

Hi, good morning, thank you very much for taking the question. Please could you comment on any performance in the U.S. in terms of sales. And also maybe in terms of strengths, particularly, with the new technology you have introduced. Thank you.

Óscar García Maceiras- Inditex - CEO

Good morning, and thank you. We are very satisfied with our performance in all of our markets both online and in physical store channels. We are growing in a very natural way. In the case of the U.S., that remains our second largest market. The business is working very well. We continue to see very significant opportunities for our selective growth there. During our annual results presentation in March, we referred to 30 projects for the next three years. And some of them will become a reality this quarter. The relocation doubling the size of the Zara in Dadeland Mall in Miami, refurbishment of our store in Roosevelt Field Mall in New York State, or the opening of our store in Baton Rouge, in Louisiana. So, we are very happy with our performance in the U.S., thank you.

James O'Shaughnessy - Inditex

The next question goes to James Grzanic, from Jefferies. Go ahead, James.

James Grzinic - Jefferies - Analyst

Good morning, all. Yes, I just have a very quick question, on your thinking around gross margin, you had great sell out, sell through spring/summer. You are going into the second half of the year with an extremely tight inventory. I presume you will still be seeing supply chain cost inflation; your peers are talking about wanting to bank cost deflation. Do you think there's a risk you might turn out to be too pessimistic by the time we get to the end of the year, vis-à-vis that flat gross margin guidance? Thank you.

Marcos López – Capital Markets Director - Inditex

Thank you, James. Regarding the gross margins, you know there are many components. In the first half, our margin increased 27 basis points to 58.2%. That shows an extremely healthy execution in the business model. We've also mentioned that the inventory number should be read in conjunction with the normalization of supply chain conditions after a bit unusual 2022. So, all in all, and looking at the different components. You know very well; mark ups, mark downs, currency mix, et cetera. We continue to see a stable gross margin as our best gross margin for this year. It's true in the first half we still had some negative impact coming from the U.S. dollar into the sourcing, which will reverse into the second half. This is in part compensated by the fact our U.S. sales are growing as well. So let's say that impact is quite balanced at the moment. So nothing really new to report on that field, we still keep on seeing as best estimate a stable gross margin for the second half. But I think that trading up of 14%, that we have also put in conjunction with the results, shows the operations are moving very normal.

James O'Shaughnessy - Inditex

Next question goes to Anne Critchlow, from Société Générale. Go ahead, Anne.

Anne Critchlow – Société Générale – Analyst

Good morning, everyone. My question is about the percentage of full price sales in the first half. Was it very significantly higher year-on-year? Are you worried at all that you have too little inventory to go into the second half? Thank you.

Marcos López – Capital Markets Director - Inditex

Starting with the second question, I think I have answered that to James, in the sense that this - 7% inventory position is just a fact of the comparable in the previous year. Remember that last year we had to anticipate a little bit the inventory inflows due to some logistic constraints. This year is very, very normal. If you just read it over two years, you see that the position is extremely natural. Again against a trading update of 14%, so things are going very, very healthily. Regarding the full-price sales over the first half, well, I think we have reported pretty solid number of 13.5%, 16.6% in local currencies. And, again, the most important thing is that the creativity of our teams, the design, the innovation that our teams are bringing to the table in conjunction with the business model are delivering very, very strong top line sales, given the attractiveness of the fashion proposition we offer to customers both in stores and online.

James O'Shaughnessy - Inditex

Next question goes to Georgina Johanan, from J.P. Morgan. Go ahead, Georgina.

Georgina Johanan – JP Morgan- Analyst

Good morning, thanks for taking my question. Just a quick one, please. You talked a while back about increasing some of the investment in your warehouses to drive automation there. Can you give us an update on that, please? And any planned timings of when we should see that going in. Thank you.

Marcos López – Capital Markets Director - Inditex

The plan is very much in line, if you have seen our CAPEX numbers we have released € 808 million in investment. But obviously what the company is always focused on giving what the business needs. We are experiencing very strong growth. You cannot do that without the right assets. And to keep on investing in the future and to deliver on that type of need is something that we are obviously going to do. The projects we referred to in Saragossa, in Lelystad, in Stradivarius, are very much on target, okay? But again, you also see that we are generating very significant free cash flow. So, I would say execution of the plans for the year are very much in line.

James O'Shaughnessy - Inditex

The next question goes to Nicolas Champ, from Barclays. Go ahead, Nicolas.

Nicolas Champ Barclays – RBC- Analyst

Good morning. Thanks for taking my questions. Could you please comment on your space contribution in H1, please? Because you reiterate guidance to have positive space contribution for the full year but then, on the other hand, your stock count has declined further, compared with last year, since the beginning of the year. Any update on the space contribution in H1? And any guidance regarding the evolution of your stock count for the full year? Do you expect to close down further stores in the second half of this year? Thank you.

Marcos López – Capital Markets Director - Inditex

Thank you, Nicolas. Very much what I can tell you is that much of the growth comes from comparable sales. But we have positive space contribution, small but positive over the first half. At least this is what we expected. If you remember, our guidance for the year is for 3% gross space growth with some small absorptions, which would result in positive contribution. But the main, what we're seeing in our business, is the strong sales conversion we're obtaining in our existing stores and online. So that's very much the message, we are not changing our view for the year.

James O'Shaughnessy - Inditex

The next question comes from Grace Smalley, from Morgan Stanley. Please, go ahead.

Grace Smalley – Morgan Stanley - Analyst

Hi, good morning. Thank you, James. Just on the growth, as you say you have achieved strong double-digit constant currency growth and continue to on your trading update as well. I guess, as you look out to Inditex's multi-year growth plan, do you aim to continue to drive double-digit organic revenue growth over the medium term supported by all these investments and initiatives you have in place? Or what do you see as a reasonable sustainable long-term top-line organic growth rate for the company? Thank you very much.

Marcos López – Capital Markets Director - Inditex

Thank you for your question, Grace. I think what is relevant is keep focused on operations today. We have provided guidance for the year. We believe that our model is extremely differentiated.

Our strategy is quite different to the market, in the sense that we started optimizing stores at a very early stage, developing this in conjunction with online.

Clearly, you see the numbers we are releasing, 13.5% sales growth over this first half, trading update 14%, we continue having a very, very differentiated model. And to increase this differentiation is our key long-term goal. At the time, we are completely focused on operations for the autumn/winter. And we will update you in December with what we believe is relevant. But I think the importance is the long-term strategy of the company, which makes it a very, very different model, compared to that prevailing in our sector. Thank you.

James O'Shaughnessy - Inditex

We are now going to pass over to the Webcast questions. We have had a few questions today. The first of which, "Can you talk a little more about your new sustainability objectives, please?"

Óscar García Maceiras- Inditex - CEO

Well first, let me point out that we have strong track record in sustainability. That has been an early priority for us and continues to be a top priority in our agenda. Sustainability is a crucial part of our strategy. It's fully embedded in every decision that we have to take. We have a solid culture of sustainability, and many internal initiatives and external partnerships. We are on the right track to achieve all sustainability commitments previously announced. We have increased the level of our ambition with the announcement, at our last AGM in mid-July, of a set of new goals related to raw materials, reduction of emissions, supply chains, circularity, biodiversity, and corporate-community investment. Our aim is to transform ourselves and to lead the transformation of the whole industry.

James O'Shaughnessy - Inditex

Thank you. The next question relates to collaborations. "Can you comment on one of the most recent collaborations, please?"

Óscar García Maceiras- Inditex - CEO

Thanks for the question. Well, our fashion proposition-- One of the four key pillars of our business model relies on creativity, innovation, design, and quality. We are always seeking to work closely with the most cutting-edge talent in our industry. As an example, Zara has just released a collaboration with one of the most prominent photographers in the world, Steven Meisel. The Steven Meisel New York collection will be available in stores and online next week, after visiting New York and London. The key part, the combination of external talent with our talented teams is leading us to continually improve our fashion proposition to our customers.

James O'Shaughnessy - Inditex

The next question relates to online. "Can you provide us with an update how your online operations are performing, please?"

Óscar García Maceiras- Inditex - CEO

Our online sales continue to grow strongly. This reflects the importance and the strength of having a fully-integrated store and online model that allows us to provide our latest fashion to customers in whatever way they want. Our customer journey goes smoothly from online to stores and vice versa. And, likewise, our model with a single inventory, serves customers in both channels. As we have already mentioned previously, it's impossible today to explain the online sales without the strength of the physical presence of our network of stores that provide key logistic capabilities for online and at the

same time the strength of our online platforms reinforces our physical stores. As online penetration globally continues to grow, we expect that online will continue to grow. This is a very nice situation to be in, given the very strong growth in traffic to our stores that we have been seeing in recent times.

James O'Shaughnessy - Inditex

Thank you very much for that. That concludes the Q&A session for today. I will pass it over to Oscar for the closing remarks. Thank you.

Óscar García Maceiras – Inditex – CEO

Thank you to all those participating in the presentation today. For any additional questions you may have, please, get in touch with our Capital Markets Department. We will welcome you back in December for the interim nine-month 2023 results.