

# INDITEX

## 1Q2017 Results

1 February 2017 to 30 April 2017

## CONFERENCE CALL TRANSCRIPT

14 June 2017

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

## 1Q 2017 Results Conference Call

### **Inditex Participants**

**Pablo Isla** - Chairman & CEO

**Ignacio Fernández** - CFO

**Marcos López** - Capital Markets Director

### **Conference Call Participants**

**Anne Critchlow** Societe General – Analyst

**Richard Chamberlain** RBC – Analyst

**Cedric Lecasble** Raymond James – Analyst

**Chiara Battistini** JP Morgan – Analyst

## 1Q 2017 Results Conference Call

### Presentation

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#### Operator

Good Morning Ladies and Gentlemen. Welcome to the presentation of Inditex Results for Fiscal 2016. The presentation will be chaired by Mr. Pablo Isla, Chairman and CEO.

This presentation will be followed by a Q&A session comprising two parts: The first part will be dedicated to questions received on the telephone, followed by those questions received through the webcast platform. Mr. Isla you have the floor.

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#### Slide 3

Good morning to all the participants in this webcast conference call regarding INDITEX Results for the Interim Three Months 2017.

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

#### Slide 4: Global fully integrated Store and Online

The first Three Months of 2017 have been a period of very strong execution for Inditex globally.

We operate a global sales platform that fully integrates stores and online and offers huge growth potential. Our business model combines stores and digital seamlessly, and we are ready for the opportunities that this brings.

#### Slide 5: Interim Three Months 2017: Overview

Inditex performance in the period has been very strong. Sales have increased 14%.

Our operations have also shown high efficiency and tight control over the period.

We have a worldwide presence and have further diversified our operations. We continue to see significant growth opportunities for Inditex globally.

The year so far has been marked by very strong activity on many fronts. I would like to cover a number of recent initiatives carried out by Inditex.

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### Slide 6: Zara: Madrid global flagship

We have reinforced significantly the differentiation of our key global flagships with very visible openings and enlargements.

I would like to highlight the opening of Zara's largest store in the world at Paseo de la Castellana in Madrid on the 7<sup>th</sup> of April.

### Slide 7: Bershka: Paris Flagship

Bershka has opened a global flagship at Rue de Rivoli in Paris.

### Slide 8: Massimo Dutti: Moscow Flagship

Massimo Dutti has opened its Moscow flagship at Kustnetsky Most.

### Slide 9: Pull&Bear: Paris flagship

Pull&Bear has also opened a global flagship in Paris.

### Slide 10: Stradivarius: Store #1000

The number of Stradivarius stores globally has reached 1,000.

### Slide 11: Oysho: Turin flagship

Oysho has opened a flagship with the new image in Turin's Via Roma.

### Slide 12: Zara Home: Shanghai flagship

Zara Home has recently enlarged its global flagship in Shanghai's West Nanjing Road...

### Slide 13: Zara Home: Zurich flagship

And opened a flagship in Zurich at Bahnhofstrasse.

### Slide 14: Uterqüe: New store look

And finally Uterqüe has launched a new store look.

### Slide 15: Financial summary

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Let me now hand over to Ignacio who will present some of the key aspects of our financial performance and I will join you later for the Outlook section.

### Slide 16: Interim Three Months 2017

Thank you.

In the First Quarter of 2017 Inditex has had a strong operating performance. All the key lines of the profit and loss account show significant growth.

Net sales reached 5.6 billion Euros, EBITDA 1.1 billion Euros and Net Income 654 million Euros.

### Slide 17: Sales

In the First Quarter 2017 Sales grew satisfactorily at 14% against very demanding comparables. Local currency sales growth has been 12.5%. LFL sales growth has been strong in all key regions in which we operate.

### Slide 18: Gross Profit

Gross profit has increased 14% to 3.2 billion Euros, resulting in a 58.2% gross margin on sales. We have sustained our commercial policies over the period.

### Slide 19: Operating expenses

Operating expenses are tightly under control. They have grown 13% reflecting the growth in sales and include all the start-up costs.

### Slide 20: Current accounts

Operating working capital remains negative as a result of the business model. The working capital evolution is in line with the performance of the business.

### Slide 21: Concepts

I will now hand over to Marcos who will elaborate on the performance of the concepts.

### Slide 22: Performance by concept

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Over the first quarter of 2017 we continued the consolidation of our global presence. We opened stores in 30 markets and extended the online presence in a fully integrated way.

Regarding the performance by concept in the Interim Three months 2017 Zara accounted for approximately 2/3rds of group sales, while the younger concepts accounted for around 1/3<sup>rd</sup> of sales.

### Slide 23: Performance by concept

The younger concepts grouped together have performed satisfactorily.

I would like to highlight that Uterque, Oysho, Bershka and Massimo Dutti have performed very strongly.

### Slide 24: Outlook

I will now hand over to Pablo for the outlook section.

### Slide 25: FY 2017 Outlook

Let me highlight that Ordinary Capital Expenditure for 2017 will be around 1.5 billion Euros. Space growth and online launches are on track.

Regarding the outlook for the First Half of 2017, I would like to add that Store & Online sales in local currencies from the 1st of February to the 3rd of June grew 12%.

Just as a reminder, we made our initial 2016 dividend payment of 1.1 billion Euros on the 2nd of May.

### Slide 26: Global growth opportunities

We will continue to invest in the expansion of our business across a number of markets, all of which offer attractive long term returns through our platform that fully integrates stores and online.

Inditex is present on five continents and in all key markets demonstrating the Group's global reach. We manage a diversified sales platform in 93 markets. The current base offers huge growth potential for the coming years.

### Slide 27: Global online sales

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Inditex's online operations have seen very rapid growth in recent years. Our business model allows a swift expansion globally.

Zara has an online presence in Europe, Asia and the Americas.

We see strong growth potential through our fully integrated store and online global presence.

### Slide 28: Online: Launch In Singapore, Malaysia, Thailand and Vietnam

We have extended the online presence of Zara in all key Asian markets with the rollout in Singapore, Malaysia, Thailand and Vietnam in the first quarter.

### Slide 29: Online: Launch In India in Autumn

The next step will be the launch of Zara online in India in Autumn.

### Slide 30: Strong growth opportunities

We continue to see strong growth opportunities driven by our global fully integrated Store and Online model.

We are in a unique position as we enjoy a global platform that fully integrates stores and online as the best way to respond to the demands of our customers.

### Slide 31: Store & Online: Exotic Allure

We continue developing new initiatives in a fully integrated way as our recent launches of the "Exotic Allure"...

### Slide 32: Store & Online: Blooming

... the "Blooming " collection and...

### Slide 33: Store & Online: Mustard's Garden

the "Mustard's Garden " collection.

Before closing I would like to highlight some selected Zara store openings in prime locations and enlargements from recent months. We continue to reinforce significantly the differentiation of our key global flagships with very visible stores.

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### Slide 34: Openings: Paris

I would like to start with Zara's global flagship at Paris Opera reopened on 12 April. With 4,000 square metres this is now our largest store in France.

### Slide 35: Openings: London

We have recently enlarged the Zara store at White City for the second time.

### Slide 36: Openings: Toronto

We have also enlarged our Zara flagship at Yorkdale in Toronto.

### Slide 37: Openings: Astana

Zara recently opened a flagship store in Kazakhstan...

### Slide 38: Openings: Astana

... at the emblematic development Silk Way in Astana.

### Slide 39: Openings: Kunming

I would like to refer to two important openings in China. Zara opened a flagship store in Kunming's Golden Eagle...

### Slide 40: Openings: Guiyang

.. and Guiyang's Color Land.

### Slide 41: Openings: Mumbai

And I would like to close the presentation with a mention of our flagship at Mumbai's Ismail Building which has become a landmark destination for fashion in India.

And this is all from us. We will be pleased to answer any questions you may have.



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### Questions & Answers

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#### Operator

Thank you very much. Ladies and gentlemen, the telephone Q&A session starts now. If you wish to ask a question, please dial 01 on your telephone keypad. We request that you limit yourself to only one question per turn, so we can maximize the number of participants in the session. If you have further queries, you may dial 01 again, after the next person's question has been answered. Thank you. The first question comes from Anne Critchlow from Société Générale. Please go ahead.

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#### Anne Critchlow – Societé General - Analyst

Thanks. My question is about Zara pricing. It seems that Zara seems to have introduced some lower price points at entry level. At the same time, you've brought in some higher priced products at the top end with added value. Is this widening at the price range helping like-for-like sales?

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#### Pablo Isla - Inditex - Chairman & CEO

What I will tell you is that in terms of like-for-like sales growth, as we always say, it's down to the global execution of the business model. It has to do with our business model, our approach, our offering to our customers of high fashion, high quality at affordable prices. It's down to this ability to react during the season, the flexibility of the business model and, of course, all the strategic initiatives that we have developed in recent years and that we continue developing, such as the store optimization plan and opening key flagships. This is a very relevant part of our strategy right now, and it's a very important element in what has to do with this fully integrated approach between stores and online. What I would say is that it is driven by the global execution of the business model, and in terms of prices, there isn't any significant change compared to what has been the case in the previous seasons or years.

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#### Operator

The next question comes from Richard Chamberlain from RBC. Go ahead, sir.

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#### Richard Chamberlain - RBC - Analyst

Yes, thanks. So, one question from me, Pablo. Can you just comment on the performance so far this year in Spain, the whole market and where you think you are outperforming the market on a like-for-like sales basis?

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#### Pablo Isla - Inditex - Chairman & CEO

You know that we do not like to elaborate very much on the performance of any specific market in a very short period of time, but what I could tell you is that in the full year results presentation, we were saying that in the last three years, our sales growth in Spain was above 20%, which is very significant, because in Spain, as you know, total sales growth and like-for-like sales growth is the same. We are very active in the market and in this presentation we were mentioning the Paseo de la Castellana opening, which is very, very relevant, it is a big flagship. In fact, I would invite all of you if you have the opportunity to go to Madrid to visit this store, because it is a really special store. It is not only the case with Zara. We are developing the same approach with the different brands in the different cities. In Barcelona we have opened Plaza de Cataluña for Zara, we have refurbished and enlarged our

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store in Portal del Ángel, the former Cinema París. And then we have also enlarged and refurbished the Stradivarius store, a new Massimo Dutti in Diagonal, the one in Paseo de Gracia. So this is the permanent approach in the Spanish market. In fact, last week we enlarged very significantly and reopened a very beautiful store in Santander, a province in the north of Spain. So we continue to be very, very active from every point of view in terms of the market and the different openings. In terms of the evolution of the business, what I would say is that the business in Spain remains very healthy and we continue having positive like-for-like sales growth.

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**Richard Chamberlain - RBC - Analyst**

Thanks for the color. Just as a follow up, where do you think your market share gains have been coming from recently in Spain? Is it in the department stores and independents? Is that where you are picking up market share?

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**Pablo Isla - Inditex - Chairman & CEO**

We don't like to elaborate very much in terms of market share. You know, we prefer to talk about our own performance.

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**Richard Chamberlain - RBC - Analyst**

Okay, all right. Thanks very much.

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**Operator**

The next question comes from Cedric Lecasble from Raymond James. The floor is yours, sir.

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**Cedric Lecasble – Raymond James - Analyst**

Good morning, gentlemen. This is Cedric Lecasble from Raymond James. I have one question. On your inventory management in Q1, which was quite impressive with deceleration year-on-year growth and quarter-on-quarter. So is it legitimate to expect potentially a stronger gross margin evolution in Q2 given the very lean inventory situation at the end of the quarter?

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**Marcos López - Inditex**

Cedric, you know that we like to run the business in a very controlled way. That is very, very relevant for us. Inventory is probably not the best way to look at our business, because it is the commitment that we look at. But yes, the numbers that you have mentioned are relevant, and with that in mind, what we can say is that we do not like to talk about the gross margin over a short period of time, but we can reiterate that at current exchange rates we are not seeing a decline in gross margins for the year.

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**Cedric Lecasble – Raymond James - Analyst**

Thank you very much.

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**Operator:**

The next question comes from Chiara Battistini from JP Morgan. Go ahead, please.

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**Chiara Battistini - JP Morgan - Analyst**

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Good morning. Thank you for taking my questions. Just one questions on the technology you are rolling out in your stores, and how this is helping your sales densities and conversion. I notice that you've added some self-checkout scanners in London so perhaps you can add some colour on that initiative. Also, any colour you could provide with the conversion that this technology is driving? Thank you.

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### **Pablo Isla - Inditex - Chairman & CEO**

The main element of our approach to our business is this fully integrated approach between stores and online, and then regarding the stores, this technology element that you are mentioning, of course, is something that is very relevant. The most relevant thing, without any doubt, is the collections, the products, the ability to react during the season, the flexibility of our business model. And then, this is helped by a combination with RFID and all the different elements of technology. What we try to do is to have the best possible customer service in our stores. This is our approach, which is much more relevant than to focus on each of the initiatives in very specific detail. Of course, technology is a relevant part of our approach from every point of view, and technology in the stores, and offering to our customers more possibilities. But the main umbrella is this fully integrated approach between stores and online.

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### **Chiara Battistini - JP Morgan - Analyst**

Maybe I can follow up on that. Can you give an update on the rollout of the RFID technology to the other concepts? And also, this technology, what percentage of the network has been developed and therefore has been rolled out? What kind of potential should we expect for the next few months? Thank you.

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### **Pablo Isla - Inditex - Chairman & CEO**

In the case of Zara, it is nearly 100% implemented, and now we are beginning with the other brands. The first one is going to be Massimo Dutti and we are now introducing RFID. In the coming months we will continue with the other brands. So, within three years it will be implemented all across the company.

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### **Operator:**

Thank you very much, sirs. Ladies and gentlemen, we are now finishing with the telephone Q&A session and will now pass over to the questions received through the webcast platform. Thank you.

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### **Operator 2:**

There are a couple of questions from the webcast platform, the first of which: What are the main benefits of an integrated inventory in the context of your store and online model?

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### **Pablo Isla - Inditex - Chairman & CEO**

I think we covered this a little bit in previous questions. I would say that we believe very much in this fully integrated approach between stores and online, and this approach is relevant in the sense of offering the possibility of in-store deliveries, in-store returns, ordering online from the stores, but also the full integration from a commercial point of view. We mentioned during the presentation the different collections, 'Blooming', 'Mustard Garden', so, it is always a combined approach between stores and online, and then, inside this approach is this integrated inventory between stores and online, which is something that is very, very relevant when thinking about the coming years. This idea of having one

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single stock fully integrated between the stores and online. So, it is a relevant element inside this global fully integrated approach between stores and online.

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**Operator 2:**

Perhaps you can add some comments on the performance of Bershka.

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**Pablo Isla - Inditex - Chairman & CEO**

Well, about Bershka, I would say is that it is a very, very good concept. Bershka sales are growing very satisfactorily, both in stores and online. With Bershka we follow the same approach, fully integrated stores and online. Now we are present in more than 60 markets. Bershka has launched a new store look called The Estate, and we will continue opening very significant stores, opening stores, refurbishing and enlarging existing stores such as Corso Vittorio Emanuele in Milan, in the presentation we were mentioning Rue de Rivoli, but we have also enlarged and refurbished our Oxford Street East in London or Metropolis in Moscow. Bershka is a very relevant brand inside our portfolio, very well appreciated by our customers, Bershka's customers, and we feel quite optimistic about the future prospects of the Bershka in the different geographies.

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**Operator 2:**

That concludes the webcast questions.

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**Pablo Isla - Inditex - Chairman & CEO**

Well, thank you very much, and in any case, of course, we will be ready to answer any additional questions you may have, through our capital market department. Thank you very much.