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INDITEX PARTICIPANTS

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Ignacio Fernández - CFO
Marcos López - Capital Markets Director

Conference Call Participants

Richard Chamberlain, RBC – Analyst
Anne Critchlow, Société General – Analyst
Rebeca McClellan, Santander – Analyst
Warwick Okines, Exane BNP Paribas – Analyst
Nick Coultier, Citi - Analyst
James Grzinic, Jeffries – Analyst

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Introduction: Marcos López – Capital Markets Director

Buenos días a todos, Good Morning everybody. A warm welcome to all of those attending this presentation of Inditex’s Results for the interim three months 2022. I am Marcos López, Capital Markets Director.

The presentation will be chaired by Inditex’s CEO Oscar García Maceiras. Also with us is our 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 Oscar.

Slide 4: CEO

Slide 5: 2021: Strong operating performance

Slide 6: 1Q2022: Strong operating performance

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

In the first quarter of 2022, our fully integrated model has accelerated its differentiation. Let me cover some of the details.

We have had a very strong operating performance as the initial Spring/Summer collections were very well received by our customers. This performance has been strong across all geographies, with the exception being those markets subject to restrictions. The robust growth in the US market continues to take place.

The period has been marked by a significant rebound in traffic to stores. Over the first quarter 2022, our store sales increased markedly and to date, continue to do so, with store differentiation being key to this.

The execution of the business model was very strong. Our operating performance places us in a robust financial position. We have generated significant free cash flow, which takes our net cash position to 9.2 billion euros. Based on the expansion of our fully integrated platform we continue to see lower capital intensity going into the future.

All this in conjunction with a predictable, attractive dividend policy.

Our diversified presence in 215 markets with low market penetration allows us to enjoy significant global growth opportunities. We have complete confidence in our unique business model.

Slide 7: 1Q2022: Strong operating performance

Let me highlight some key figures for the year thus far.

Sales reached 6.7 billion euros, 36% higher versus the first quarter of 2021. As mentioned, traffic to our stores increased markedly.

To put the strength of the operating performance over the first quarter into context, we have generated the strongest gross margin in many years.

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We have made the decision to provision all expected expenses corresponding to the Russian Federation and Ukraine for 2022 with an extraordinary charge of 216 million euros.

Operating expenses were tightly managed and grew well below sales growth.

On the bottom line, net income increased 80% to 760 million euros. The net income excluding the provision would have been 940 million euros.

Our operations continue to generate strong cashflows.

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

**Slide 8: Zara Woman Studio**

We continue providing the latest fashion in a fully integrated way. A good example of this is the seamless store and online execution that can be seen in the Zara Studio Collection.

**Slide 9: Zara Man Studio**

Or, the Zara Man Studio collection

**Slide 10: Zara Kids Summer Camp**

The Zara Kids Summer Camp collection

**Slide 11: Zara Home I’m awake, a collection for newborns**

Zara Home I’m awake, a collection for newborns

**Slide 12: Massimo Dutti’s Limited Edition**

Massimo Dutti’s Limited Edition

**Slide 13: Bershka Festival Season**

Bershka’s Festival Season

**Slide 14: Pull&Bear Dresses Editorial**

The Pull&Bear’s Dresses Editorial.

**Slide 15: Stradivarius Ø waste denim**

Stradivarius Zero Waste Denim collection, made 100% from recycled fibres.

**Slide 16: Oysho On the beach collections**

…and finally, Oysho’s on the beach collections.

**Slide 17: Zara Madrid’s Plaza de España (Video)**

I would like to highlight a key project of this season: The Zara store in Madrid’s Plaza de España.

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The store is the largest Zara in the world showcasing the latest fashion with the most up-to-date image.

It also includes all the features of our Digital store mode, allowing a complete digital experience.

For example, customers can utilise applications to geolocate products

…to reserve fitting rooms…

…to use self-check-out through Pay&Go…

…to employ click and collect points for online orders…

…to use silos for online returns to the store…

…and finally, customers are able to use clothing recycling points, helping us to push forward in terms of circularity.

All these factors combine to offer customers one of the most advanced store experiences anywhere today and serves to further demonstrate the clear advantages of our fully integrated approach.

I’ll hand you over to Ignacio now for the Financial Summary.

Slide 18: CFO

Slide 19: Financial Summary

Thank you Oscar.

Slide 20: 1Q2022: Very strong operating performance

As you have seen in our release, Inditex had a very strong operating performance in the first quarter of 2022. We have executed well in what has been a challenging operating environment.

We have managed the supply chain very actively, and this has driven a healthy performance in the gross margin. Operating expenses have of course been tightly managed.

As already mentioned, we have taken an extraordinary charge of 216 million euros in order to provision all expected expenses in the Russian Federation and Ukraine for 2022.

Net income increased 80% to 760 million euros. Excluding the provision, the net income would have been 940 million euros.

Slide 21: Sales

Sales have progressed very nicely at plus 36% reaching 6.7 billion euros.

It is important to note the strong rebound in traffic to Inditex’s stores during the quarter, which continues to date.

As we’ve already commented, we have had a very strong performance across all regions, with the exception of those markets subject to restrictions.

The strong progress made in the United States continues.

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Slide 22: Gross margin

The gross margin reached 60.1%, 20 basis points higher than in the same period in 2021 and shows a healthy execution of the business model.

As a side note, this is the highest first quarter gross margin achieved in 10 years.

Slide 23: 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. As you can see, operating expenses increased below sales growth over the first quarter of 2022.

Slide 24: Working capital increased 57%

The strong execution over this period can be clearly seen in the evolution of working capital. As you can see in this table, the working capital has grown 57% to 3.3 billion euros.

The closing inventory grew by 27% and reflects the strong sales performance going into the second quarter. The inventory itself is of high quality.

We have decided to accelerate inventory inflows without altering commitment levels, in order to increase product availability in the face of possible supply chain tensions.

We feel comfortable with current inventory levels.

Slide 25: Strong cash flow and financial condition

These actions, in conjunction with the strong cash flow, took the net cash position to 9.2 billion euros.

And now over to Marcos.

Slide 26: Capital Markets Director

Slide 27: Concepts

Thank you

Slide 28: Store & Online Sales by concept

Over the first three months we have continued with our expansion and have opened stores in 16 different markets. We have progressed with optimisation activities across all concepts.

Store sales across all the concepts have been robust.

Slide 29: Performance per concept

Zara has generated an exceptional performance over the period. All the formats have progressed strongly, especially Stradivarius, Pull&Bear and Bershka.

Slide 30: Sustainability

In May 2022, Inditex and Infinited Fiber Company announced a partnership agreement that reflects their shared goal of promoting innovative technologies that move the industry towards textile circularity.

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Inditex has committed to buying 30% of the future production volume of Infinna, a textile fibre produced by Infiniti Fiber Company and created entirely from recycled clothes. The total commitment is for more than 100 million euros over a three-year period, starting in 2024.

*Slide 31: Infinitely Video*

As part of this partnership, Zara has launched a capsule collection that incorporates this innovative, high-quality fibre.

The project is another product of Inditex’s Sustainability Innovation Hub, our open innovation platform. We work with start-ups, academic institutions and tech centres to promote and scale up innovation in materials, technologies and processes that reduce the environmental footprint of fashion products and help move the industry towards sustainable and circular solutions.

Back to you Oscar.

*Slide 32: CEO*

*Slide 33: Outlook*

Thank you.

*Slide 34: Continuity in Key Strategic Pillars*

We continue to deliver upon our long-term goals.

The Group enjoys a unique business model that fully integrates stores and online. This feature continues to be at the core of everything we do. We remain at an early stage in the development of all of this exciting potential.

The talent of our teams here at Inditex is only matched by their level of commitment. It will always be the case that these teams are our main competitive advantage.

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

I would like to reiterate that our main priority is always to invest in the future profitable growth of the business.

Additionally, we will of course continue with our predictable and attractive dividend policy.

*Slide 35: Outlook*

The strength of the fully integrated business model has been clear in recent times. We plan to continue developing these key long-term priorities in order to maximise organic growth.

The goal is to increase our differentiation in order 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. As part of the strategy, we expect online sales to exceed 30% of group sales by 2024.

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

As we continue to invest in the business, we expect to deliver higher returns and lower capital intensity.

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We expect capital expenditure of 1.1 billion euros for 2022 which will drive differentiation, digitalisation and sustainability.

**Slide 36: Dividend**

The interim dividend for the full year 2021 of 46.5 cents per share was paid on the 2\textsuperscript{nd} of May 2022. The final dividend for full year 2021 of 46.5 cents will be paid on the 2\textsuperscript{nd} of November 2022.

Inditex’s dividend policy of 60% ordinary pay-out and bonus dividends remains in place.

As a reminder, in March the Board of Directors also proposed a total bonus dividend of 40 cents per share to be paid in relation to the fiscal 2022 results.

**Slide 37: 2022 Outlook**

Spring/Summer collections have been very well received by our customers. Store and online sales in constant currency between 1 May and 5 June 2022 increased 17% versus the record period in 2021 (+13% in the last two weeks versus the same period in 2021). Currently 90% of stores are open.

**Slide 38: 1Q2022 Results**

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

James O'Shaughnessy - IR

The telephone Q and A session starts now. If you would like to ask a question, please press star 5 on your telephone keypad. If you wish to withdraw your question, please 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 a session. If you have further queries you may press star 5 again after the next person's question has been addressed. Ensure your phone is not on mute.

The first question comes from Richard Chamberlain at RBC. Please, go ahead.

Richard Chamberlain – RBC - Analyst

Hello. Thanks. Can I ask a question on the U.S., please? I see you call it out again as a particularly strong market. You are seeing strong sales in the U.S. How are you seeing profitability in that market now? Is it broadly in line with the group average or kind of catching up with the group average? Thank you.

Óscar García Maceiras - Inditex - CEO

Thank you, Richard. Well, the performance is due to the strong execution of our business model and our ability to offer collections with high fashion component. As we mentioned to you at the end of 2021, the USA is now the second largest market for Inditex after Spain. The sales progression in the first quarter was very positive on a global basis. We are very happy, +36%.

And geographically, sales have been remarkable in all markets with the online exception of those subject to restrictions. The strong growth in the U.S. continues and most important factor in the quarter is the strong rebound in store traffics at Inditex stores.

James O'Shaughnessy - IR

Thank you. The next question comes from Anne Critchlow from Société Generale. Please, go ahead.

Anne Critchlow - Société Generale - Analyst

Good morning. Thank you. My question is about footfall. You mentioned that foot fall was up strongly year on year. I'm wondering how much it is up compared to the same period in 2019 versus pre-pandemic level in the stores that are open. Thank you.

Marcos López - Capital Markets Director - Inditex

I think the answer to that question is very clear and is one of the key topics of these results. We have seen very, very significant sales growth, 36% and the main driver of that was the wish of customers to try to return to their normal lives. Clearly the impact we have seen in store traffic has been across the board. I cannot signal one market. It is a global trend as in the same way you have seen that we have kept with a very healthy progression of our online sales because given the strong comparable the adjustment you have seen in this quarter is not very noticeable.

So, what I would say is that the fully integrated operation of Inditex provides very strong advantages, it is the business model. So clearly, we are very much in positive terms over 2019 as we have shown in our results. And this continues into the second quarter. And we think this is the most important message.

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

Rebecca McClellan - Santander - Analyst

Yes, hello, good morning. My question is about inventory. Of the 27% inventory growth year on year at the end of 1Q, how much of that reflects average unit cost inflation versus actual volume growth, please?

Marcos López - Capital Markets Director - Inditex

Well, what we have said in the note is that inventory is of very high quality. The main driver was the decision of the company to bring forward some shipments to make sure that we had the right inventory in case there were tensions in the supply chain. And obviously, in the inventory there is always a mix effect and also the price adjustment that we mentioned over the first quarter.

However, the inventory remains very, very healthy. We are selling very well as you can see in the first quarter, +36%. And we are very, very confident in the inventory we have right now. So, all this is reflected in the inventory levels that are very much in line with the strong trading update that we have provided.

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

Warwick Okines – Exane BNP Paribas - Analyst

Thank you. Good morning. I have got a question about the 216 million euro Russian provision, please. Could you say how much is cash? And how much is continuing to pay rent and staff versus assets impairments or inventory write downs?

Marcos López - Capital Markets Director - Inditex

To be precise what the provision reflects is all expected expenses up to the end of this year. So, it is a non-cash provision.

The next question comes from Nick Coulter at CitiGroup. Please go ahead, Nick. Go ahead.

Nick Coulter – CitiGroup - Analyst

Good morning. Can I ask if you are seeing any volume response in any of your markets as you push prices through, please? And if you are seeing resilience, whether you think that's unique to Inditex. Thank you.

Óscar García Maceiras - Inditex - CEO

Thank you, Nick. Well, you know that we have a stable pricing policy. And only in those markets with temporary material inflation or currency depreciation, we make the necessary adjustments by commercial format, by product to protect our margins.

Given these selective actions, we continue to expect pricing to contribute to 2022 Spring/Summer sales in single digits, with no impact on volumes as we announced in March. And we remain focused on the season. And you should not expect significant changes in our pricing policy going forward.

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The next question comes from James Grzinic at Jefferies. Please go ahead.

James Grzinic - Jefferies - Analyst

Thank you James and good morning, team. Congratulations on the set of numbers. I was going to ask, can you perhaps talk us through the experience of trying to insert a little bit more discipline on returns in the industry? I think you started charging in a growing number of markets for consumers to return their online orders, not at store. It would be interesting to understand how that is developing and what's the result you have seen and the returns experienced.

Marcos López - Capital Markets Director- Inditex

Yes, thank you very much, James. Well, at the end of last year we started with this exercise to introduce some changes for returning in a number of markets, starting in South Korea. We now have this policy in 38 markets. What we can tell you is that there are two reasons behind this. First one is to obtain more efficiency in the management of these returns. And second is for sustainability reasons as well, there is a real point in trying to make this process more efficient and more sustainable. The impact so far has been positive, in the sense that there is no impact on sales. We have increased the returns at the stores and clearly following customer satisfaction, there are no real implications in terms of the level of, sales that we have achieved.

So clearly, we believe that this is a process that may continue over time to make our industry more efficient and more sustainable.

James O'Shaughnessy - IR

Thank you very much. We are now going to address the questions received through webcast platform. You are doing some interesting things with regarding your innovation hub. Can you please tell us a little bit more about LanzaTech and Infinited Fiber?

Óscar García Maceiras - Inditex - CEO

Thanks for the question. Well, at Inditex sustainability is not merely an adjective. It is at the core of our way of doing things, embedded in every single decision we take and our approach to sustainability is directly linked to innovation. In this regard we have our Sustainability Innovation Hub. In March we announced our agreement with LanzaTech and we are now announcing our agreement with Infinited Fiber Company. And we are launching a capsule collection in Zara using this innovative fiber. I guess that you should expect new exciting projects and initiatives around sustainability to come in the near future.

James O'Shaughnessy - IR

Thank you very much. That concludes the Q and A session today. Now let me hand you over to Oscar for the closing remarks.

Óscar García Maceiras - Inditex - CEO

Thank you to all of those participating in the presentation today. For any additional questions you may have, please get in touch with our capital markets department. And we will welcome you back in September for the 2022 first half results. Good bye.

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