

# INDITEX

**INTERIM FIRST HALF 2022**

**CONFERENCE CALL SCRIPT**

**14 September 2022**

**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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**Ignacio Fernández** - CFO

**Marcos López** - Capital Markets Director

## Conference Call Participants

**Anne Crithclow** Societe Generale – Analyst

**Richard Chamberlain** RBC – Analyst

**Warwick Okines** Exane BNP Paribas – Analyst

**James Grzanic** Jefferies – Analyst

**Nick Coulter** Citi – Analyst

**Adam Cochrane** Deutsche Bank – Analyst

**Rebeca Mcclellan** Santander – Analyst

**Georgina Johanan** JP Morgan – Analyst



Introduction: Marcos López - Capital Markets Director

Buenos días a todos, good morning to everybody. A warm welcome to all of those attending the presentation of Inditex's Results for the Half Year 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.

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.

Please Oscar.

Slide 4: Oscar García Maceiras - CEO

Slide 5: Very strong performance

Slide 6: 1H2022: Very strong performance

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

In the first half of 2022 we have continued to develop our unique fashion proposition.

During my presentation, I will share with you four factors that in my opinion, explain our current position. Our product offering, an increasingly optimised customer experience, our focus on sustainability, and the talent and commitment of our people.

As for our fashion proposition, we are constantly listening to our customers, so through creativity, quality and design, we can offer the best products in our collections.

The second factor that explains our current position, is the unique nature of our optimised customer experience. This is something we have been working very hard on as you know.

As a third point, today, all our decisions are framed through our sustainability strategy. We continue to develop important sustainability projects in areas such as raw materials, manufacturing, distribution, and circularity. We maintain our roadmap with very ambitious goals.

The fourth factor which provides colour on our current situation, and our very singular nature, is our people. We are a group of 165,000 professionals, 170 nationalities, fully engaged, committed and passionate.

These are the reasons why sales, EBITDA and net income in the first half of 2022 have reached historic highs.

We have had a very strong sales performance in the first half of 2022, and this performance has continued beyond this period, with Autumn/Winter collections very well received by our customers.

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, taking 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 well established dividend policy.

### Slide 7: 1H2022: Very strong performance

Let me highlight some key figures for the year thus far, marked by a strong execution of the model.

Sales reached 14.8 billion euros, 24.5% higher versus the first half of 2021. Sales were positive in all key geographical areas.

To put the strength of the operating performance into context, we have generated the strongest first half gross margin in 7 years.

The control of operating expenses was rigorous, as they grew well below sales growth.

On the bottom line, net income increased 41% to 1.8 billion euros. The net income excluding the provision for the pause of operations in the Russian Federation and Ukraine would have been 2 billion euros, 55% higher.

And our operations continue to generate strong cashflow.

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

I will hand you over to Ignacio now to go into the detail behind the headline numbers.

### Slide 8: Ignacio Fernández - CFO

### Slide 9: Financial Summary

Thank you, Oscar.

### Slide 10: 1H2022: Very strong execution

As you have seen in our release, Inditex had a very strong execution in the first half of 2022. As Oscar mentioned a few moments ago, sales, EBITDA and net income all reached historic highs in the period.

Sales have progressed strongly. We have managed the supply chain actively, and this has driven a healthy gross margin. Operating expenses have of course been managed rigorously.

As 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 41% to 1.8 billion euros. The net income excluding the provision would have been 2 billion euros, 55% higher.

### Slide 11: Sales

Sales have progressed very nicely at plus 24.5% reaching 14.8 billion euros and grew 25% in constant currency.

Sales have been positive across all key regions.

Over the first half of 2022, Inditex's traffic and store sales increased significantly and continue to do so, with store differentiation being key.

Online sales progressed satisfactorily. They were already positive in the second quarter of this year.

Based on current exchange rates we expect a 0.5% positive currency impact on sales for the full year 2022.

### Slide 12: Global store and online sales breakdown in 1H2022

As we have already commented, sales have been positive across all key regions. Let me elaborate a little bit on this subject. We enjoy a global presence, with operations in 215 markets and with a low market share in a highly fragmented sector. We have previously mentioned that the United States is now our second largest market.

### Slide 13: Gross margin

In the first half of 2022 the gross margin reached 57.9% and demonstrates a healthy execution of the business model.

Gross profit reached 8.6 billion euros and grew 24.5%.

As a side note, this is the highest first half gross margin achieved in 7 years.

Based on current information, we expect a stable gross margin of +/-50 bps for 2022.

## Slide 14: Operating efficiencies

There has been very rigorous control of operating expenses across all departments and business areas. Operating expenses increased below sales growth over the first half of 2022. Including all lease charges, operating expenses grew 7 percentage points below sales growth.

## Slide 15: Operating working capital increased 25%

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 25% to 4 billion euros. In the face of possible supply chain tensions entering the second half of 2022 Inditex has temporarily accelerated Autumn/Winter inventory inflows in order to increase product availability without any change to commitment levels.

Due to this reason, inventory as of the 31st of July 2022 increased 43%.

The Autumn/Winter inventory is considered to be of high quality and is consistent with the strong sales trends in previous quarters and the sales performance going into the second half of 2022.

As of the 11th of September 2022, inventory levels were 33% higher.

## Slide 16: 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 17: Marcos López - Capital Markets Director

## Slide 18: Concepts

Thank you

## Slide 19: Sales by concept

Over the first half of 2022 we have continued with our strong expansion and have opened stores in 24 different markets. We have progressed with optimisation activities across all concepts.

## Slide 20: Sales by concept

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

## Slide 21: Concepts

Store sales across all concepts have been robust. Online sales are recovering the high levels of 2021.

Zara has generated an exceptional performance over the period. All the formats have progressed strongly, especially Pull&Bear, Stradivarius and Bershka. The performance of Oysho should be seen in the light of the strong comparable from last year.

Back to you Oscar.

## Slide 22: Oscar García Maceiras - CEO

## Slide 23: Outlook

Thank you.

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

## Slide 24: Zara Woman Into the Night

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 Into the Night Collection.

## Slide 25: Zara Men Smart Casual

Or, the Zara Men Smart Casual collection

## Slide 26: Zara Kids Back to School

Zara Kids Back to School

## Slide 27: Zara Home: A Modernist Escape

Zara Home A Modernist Escape created by Vincent Van Duysen

## Slide 28: Pull&Bear: The Power of Colour

Pull&Bear's The Power of Colour



## Slide 29: Massimo Dutti's Leather Skills

Massimo Dutti's Leather Skills collection

## Slide 30: Bershka's new metallic collection

Bershka's new metallic collection

## Slide 31: Stradivarius: A matter of Attitude

Stradivarius A matter of Attitude

## Slide 32: Oysho Cycling collection

...and finally, Oysho's cycling collection

## Slide 33: Zara Battersea London (Video)

I would like to highlight a key store project of this season: The Zara and Zara Home store at Battersea in London to open in October.

London Battersea is one of the most ambitious urban development projects of recent times and will reshape living, transport, culture, retail and leisure south of the river Thames.

We are very proud to be participating in initiatives that move cities and people forward. The store in Battersea will offer the latest fashions with the most up-to-date image.

Apart from the three key sections of womens, men and childrenswear it includes dedicated spaces for lingerie, shoes and handbags, the origins collection, athletics, newborns and Zara Home

It also includes all the features of our digital store mode, allowing a complete digital experience. Customers can also use clothing recycling points, helping us to push forward in terms of circularity.

## Slide 34: Strategy

We continue to deliver upon our long-term goals.

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

These features continue to be at the centre of everything we do. We remain at an early stage in the development of all of this exciting potential.

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

The level of dedication and passion of our teams all around the globe on a daily basis will always be key to our competitive edge.

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 dividend policy.

### Slide 35: Sustainability Innovation Hub

As part of Inditex's Sustainability Innovation Hub, we are participating in an innovative start-up, CIRC, which develops a technology that provides a solution for one of the challenges facing our industry: The industrial scale recycling of textile products composed of polyester and cotton.

The technology developed by CIRC makes it possible to convert these mixtures, regardless of the ratio of their composition and colour, into new fibres, such as cellulose pulp for viscose and lyocell.

As part of our drive towards sustainability, Inditex is a partner in the Regenerative Production Landscape Collaborative (RPLC) program, in which the Laudes Foundation and other organisations, government actors and the private sector collaborate to promote regenerative agriculture and ecosystem restoration in an area of 300,000 hectares in the states of Madhya Pradesh and Odisha, in India.

### Slide 36: Outlook

The strength of the fully integrated business model has been clear in recent times.

We plan to continue developing these key long-term advantages 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 also 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.

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

### Slide 37: Global store and online sales

We enjoy a global presence, with operations in 215 markets and with low market share in what remains a

highly fragmented sector.

Based on our unique fashion proposition and the factors that I have mentioned earlier, the model is operating at full pace and we enjoy very significant opportunities through both organic growth and expansion.

### Slide 38: Dividend

A dividend of 93 cents per share for the full year 2021 was approved in July 2022. An interim dividend of 46.5 cents per share was paid on the 2nd of May 2022. The final dividend of 46.5 cents will be paid on the 2nd of November 2022.

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

As a reminder, 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 39: 2022 Outlook

Autumn/Winter collections have been very well received by our customers. Store and online sales in constant currency between the first of August and 11th of September 2022 increased 11% versus the record period in 2021.

### Slide 40: 1H2022 Results

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

QUESTIONS & ANSWERS

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**Operator**

The telephone Q&A sessions 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 the session. If you have further queries, you may press star 5 again after the next person's question has been addressed. Please ensure your phone is unmuted.

Good morning. The first question comes from Anne Critchlow from Soci t  Generale. Please go ahead, Anne.

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**Anne Critchlow – Soci t  Generale - Analyst**

Good morning. Thanks for taking my questions. I've got three, if that's all right. Firstly on current trading, which looks very strong, does that reflect to any degree a much larger summer sale year on year? And then the second question is about price inflation. I think you said mid-single digit for Spring/Summer. I wonder if you expect that to strengthen further into Autumn/Winter. And then finally, please, could you talk about the customer reaction to the introduction of paid for returns. Do you think there's been any impact on online sales from that? Thank you.

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**Marcos L pez - Inditex - Capital Markets Director**

Well, first of all, to qualify the trading update, we can tell you that is fully composed of Autumn/Winter

sales. So there are no other aspects. We're very, very satisfied as we mentioned the presentation, the collections are high quality and we have set the inventory at the start of the decision just to deliver on that goal.

On the second question about price inflation, what we have mentioned, if you remember at the first half is that we try to have a stable pricing policy, but when there are temporary impacts coming from inflation in specific markets, what we do is try to adjust that to absorb it into the gross margin. This is why we believe that mid-single digit will be the same action that we will have for the Autumn/Winter as we had for the Spring/Summer.

Regarding your third question about the customer reaction, the customer reaction to in all line to the fact that we are now having some charges for returns is no impact at all. In fact, it is being extremely well accepted. We have it now in a significant number of markets. The effects are in terms of customer reaction, we haven't had any significant setback at all. In fact, what we have seen is two very positive effects: The number of returns to stores has increased and the period in which the customers return the product is now shorter. So I understand that also from a sustainability perspective customers understand that this is a trend that will go on in the coming years across the industry.

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### Operator

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

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### Richard Chamberlain – RBC - Analyst

Thank you, James. Morning, everyone. Can I just ask about the inventory increase, please, at the half year and brought back a little bit. How much of that was accounted for by forward buying of inventory. And I get it is linked to that. How do you see your full price sales ratios now compared to before the pandemic? Is there potential for those two to normalize now? Thank you.

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### Marcos López - Inditex - Capital Markets Director

Thank you, Richard. I think that during the presentation, we made very, very clear that in the face of supply chain tensions going to the second half, we had temporarily accelerated Autumn/Winter inventory inflows in order to increase product availability. But in our case without changing our commitment levels at all, the proximity sourcing remains in place and is a key part of our proposition. This is something, increasing inventory at the beginning of the season is something that you are hearing widely from other market participants. But in our case, what we can tell you is that 43% increase in inventory is very much in line with the sales trends that we have seen in previous quarters and also with the strong trading update of 11%. And this is why we have qualified that number and mentioned that just 42 days later, the inventory is just down to 33%. So very much consistent with what we are having in terms of trading right now.

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### Operator

The next question comes from Warwick Okines at Exanes BNP Paribas. Please go ahead, Warwick.

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**Warwick Okines – Exane BNP Paribas - Analyst**

Good morning. Thanks very much. In the first half, Zara grew much faster than the younger concepts and has done so since COVID. Do you think the group mix has permanently shifted towards Zara or do you see brands like Massimo Dutti getting back to pre-COVID revenues?

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**Óscar García Maceiras - Inditex - CEO**

Thank you for your question Warwick. Well, we are very happy with all of the performance of all of our concept. They continue to grow year after year with double digits EBITDA margins and with very strong online growth. We are targeting different segments of the market, but all of concept share the same business model and the same way of reacting to fashion trends to provide the customer with what the customer wants now, high quality fashion. We consider that we are covering the different segments of the market and it's the business model that underpins this strong performance and this business model is progressing at full pace and has great growth potential going forward. Just a reminder, last year all our concepts grew and all had PBT as a percentage of sales above 15%.

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**Operator**

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

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**James Grzinic – Jefferies - Analyst**

Thank you, James. Good morning, everybody. Just a couple quick ones from me. First one, when you talk to supply chain tensions, I presume you mean Asian sourcing, the commodity sourcing out of Asian rather than anything linked to proximity sourcing just to clarify that. And secondly, can you give us updates on the current trading conditions in China how many of your stores are being constrained by closures or whether that's largely passed now. That would be very helpful. Thank you.

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**Marcos López - Inditex - Capital Markets Director**

Thank you, James. You're absolute right. When we are referring to supply chain tensions, we are talking about the long haul. That's the case of Asia.

This is why we have decided to temporarily anticipate the inflows to be well stocked into the Autumn/Winter season. And as I mentioned, this is absolutely the key part of the inventory right now and this is what we're selling.

Regarding China, I prefer to talk about Asia as a whole. You see that we have had positive performance in that area. Obviously it's not exactly the same in those markets where there have been

restrictions and in those where they haven't. But again, we can see that we've had a very, very strong trading across the board that continues into the Autumn/Winter season.

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**Operator**

Thank you. The following question comes from Nick Coulter from Citi. Please go ahead, Nick.

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**Nick Coulter – Citi - Analyst**

Hi. Good morning. Thanks for taking my question and congratulations on the results. I will apologize in advance for this question, it is on depreciation. We implied that the number for the second quarter is down quite substantially, I know they'll be puts and takes. But are other moving parts that you would call out please? Thank you.

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**Marcos López - Inditex - Capital Markets Director**

As you know Nick, in depreciation, you have the usual depreciation of the asset base and also regarding the leases. And these are the moving parts but all in all, you shouldn't read anything specific into a quarter.

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**Operator**

The next question comes from Adam Cochrane at Deutsche Bank. Please go ahead Adam.

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**Adam Cochrane – Deutsche Bank - Analyst**

Hi, good morning. The question from me is on the price increases and gross margin. The mid single digit price increases that you have said at the beginning of the year and you still saw some gross margin pressure in the first half, in the period, as we look into the second half and input costs going up and energy costs going up. Is mid-single digit price increase going to be enough to hold the gross margin in the second half of the year given that it didn't appear to do so in the first half of the year? Thanks.

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**Marcos López - Inditex - Capital Markets Director**

Thank you for your question. I think it's a very relevant one. As you have seen in the gross margin, there are a number of moving parts. That there are some tensions is clear. We talked about that during the first quarter conference call. This is why we mentioned that when there are temporarily inflation pressures or there are some currency movements we adjust that into the pricing, but within general thinking of the stable pricings policy. In any case, the gross margin of the first half 57.9% is the highest gross margin of the first half in 7 years.

And within that context, we are providing a stable guidance for the full year year, talking about plus minus 50 basis points. So all in all, these frames our thinking about the gross margin for the whole year.

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**Operator**

The next question comes from Rebecca McClellan from Santander. Go ahead, Rebecca.

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**Rebecca McClellan – Santander - Analyst**

Good morning. My question is about the Autumn/Winter collection which seems to be a really big penetration of suiting and smart ware and jackets, etcetera, etcetera. Theoretically, that should drive a cost to price mix across the season. Is that within the mid-single digit price increase? Or is that mid-single digit price increase like for like and with a mixed effect coming up above that?

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**Marcos López - Inditex - Capital Markets Director**

The sales mix is a combination, but again, what is driving our trading up to 11% growth up to the 11th of September is clearly the quality for collections, the execution of the model. During the presentation, we have illustrated a number of very relevant collections that we have right now into the stores, the atelier collection which involves a lot of artistry work, embroidery, brocade, etcetera, which provides a lot of embellishments.

Second, we have also made very clear the collaboration we had with Narciso Rodriguez which is a very beautiful collection. We have illustrated as well and obviously just to wrap up with the collection “into the night” in which we have used Kate Moss as an ambassador of that collection.

It is clearly the level of newness, the quality, the design, the full part of what we do and obviously the execution that is driving our sales, right? So obviously our thinking is always about stable pricing. Sometimes we have to adjust based on temporary factors, but again the main driver of our sales is clearly the collections and the willingness of people to buy the product that we offer, which we believe is clearly outstanding.

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**Operator**

The next question comes from Georgina Johanan from JP Morgan. Go ahead, Georgina.

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**Georgina Johanan – JP Morgan - Analyst**

Hi, good morning. Thank you very much. My question is about looking ahead into next year. I appreciate it this early days, but of course, there are head winds and terms of U.S. dollar pressure and several other competitors of reference kind of thing increasing OPEX inflation from here. As things stand with these external pressures, do you think it is possible and likely that Inditex can hold its EBIT margin into 2023 or should we be mindful of that in the modeling of the external pressures? Thank you.

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**Óscar García Maceiras - Inditex - CEO**

Thanks for your question, Georgina. Our sector is highly fragmented as we mentioned during the presentation. We operate in 215 markets with low market shares and with a unique fully integrated model. While macro and consumer concerns are understandable, we remain totally focused on our collections



and we have a strong confidence in our long-term growth opportunities. And we prefer to comment with data. You have seen the sales growth so far this year plus 24.5% in the first half of 2022 and plus 11% at the beginning of the second half of the year. So again, we remain confident in our business model and in our capacity of having a very good execution of it. Thank you.

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**Operator**

That completes the Q&A session for today. There have been a couple of questions on the webcast platform now. Let's go ahead. The first of which is can you please provide us with more information about what you're doing with stores globally?

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**Óscar García Maceiras - Inditex - CEO**

Thank you for the question. As we mentioned in our release, we have opened stores in 24 markets over this first 6 months of the year with some very relevant openings, to give you two examples, such as Zara Plaza de España in Madrid and Zara Place Vendôme in Qatar. Additionally, we have had enlargements, refurbishments and relocations in 50 different markets over this period. A very good example would be our store at Santa Catarina in Porto which was the first Zara store opened outside of Spain in 1988. And, of course, we have continued upgrading the image in the store in far more places around the world. And finally, we have covered this during our presentation, we have very exciting new projects like Zara and Zara Home at Battersea in London to open in October as we mentioned again in our presentation.

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**Operator**

Could you provide some color please on your geographical basis namely the Americas and perhaps central Europe in particular.

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**Óscar García Maceiras - Inditex - CEO**

Well, our performance has been very strong across all geographies with the only exception of those markets subject to restrictions. The sales progression in the first half was very positive from a global basis up 24.5%. We have not seen any weakness in Central or Eastern Europe and we're very happy with the performance in the Americas in first half of 2022. The U.S. is already our second biggest market and we see big growth opportunities in that market. We continue to see a strong demand globally for our collections with high components of fashion, quality and sustainability.

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**Operator**

Thank you, Oscar. That completes the webcast questions.

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**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 call you back in December for 2022 nine months results. Thank you again.

