

INDITEX

INDITEX
INTERIM THREE MONTHS 2023

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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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Conference Call Participants

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Georgina Johanan JP Morgan – Analyst

Nick Coultier Citi – Analyst

Richard Chamberlain RBC – Analyst

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 Three Months 2023. 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: CEO

Slide 5: To the next level

[Image]

Slide 6: 1Q2023: Strong growth and execution continues

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

In the first three months of twenty twenty-three (2023) Inditex has continued its 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 had a very satisfactory sales growth of thirteen per cent (13%).

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

On the bottom line, net income increased fifty four percent (54%) to one point one seven (1.17) billion euros.

Our operating performance places us in a sound financial position. We have generated significant free cash flow.

The performance has continued into the second quarter. Store and online sales in constant currency between the first of May (1st of May) and the fourth of June (4th June) grew +16%.

Slide 7: 1Q23: Outstanding performance

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

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

Sales in constant currency increased fifteen percent (15%), with strong growth in 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 the ability to grow this business due to our unique model, which in turn is driving our increasing differentiation.

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

Slide 9: Ignacio Fernández - CFO

Slide 10: Financial Summary

Thank you, Oscar.

Slide 11: 1Q2023: Very strong execution

As you have seen in our release, Inditex executed strongly in the interim three months of 2023.

Sales have progressed well at plus 13%. We have managed the supply chain actively, and this has driven a very healthy gross margin. Operating expenses have of course been managed rigorously resulting in operating leverage.

As a result, EBITDA grew 14% to 2.2 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.

In any case, we have also seen very strong progress in the net income line, with an increase of 54% to 1.17 billion euros versus 760 million euros in the 1Q2022. For full comparability net income ex provision in the 1Q2022 would have been 940 million euros.

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

Slide 12: Sales

Let me reiterate that sales have progressed very nicely at plus 13% reaching 7.6 billion euros. That's 15% in constant currency.

Sales growth was strong both in stores and online.

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

Based on current exchange rates we expect a -2.5% currency impact on sales for the full year 2023.

Slide 13: Gross profit

In the first quarter of 2023, gross profit increased 14% to reach 4.6 billion euros and clearly demonstrates a healthy execution of the business model. The gross margin reached 60.5%.

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

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 quarter of 2023. Including all lease charges, operating expenses grew 150 basis points below sales growth.

Slide 15: Working capital and net cash position

Over the first quarter of the year, we experienced a robust operating performance. We have also seen a normalisation in supply chain conditions that have returned to previous levels. Due to these factors Inditex's inventory as of the 30th of April was 5% higher.

As a side note, the end of period inventory is considered to be of high quality while commitment levels have remained similar to last year's levels.

As a result of the strong cash flow, the net cash position grew to 10.5 billion euros.

And now over to Marcos.

Slide 16: Marcos López – Capital Markets Director

Slide 17: Concepts

Thank you

Slide 18: Sales by concept

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

Slide 19: Concepts

We have continued with the expansion and have opened stores in 17 different markets.

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

And now back to you Oscar.

Slide 20: CEO

Slide 21: 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 22: Our fashion proposition: Creativity, innovation, design and quality

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

Slide 23: Zara Woman Studio

A good example of this is Zara Woman Studio capsule.

Slide 24: Zara Man Spring/Summer 23

The Zara Man Spring/Summer Collection.

Slide 25: Zara Kids Swimwear collection

The Zara Kids Swimwear collection.

Slide 26: Zara Home: Van Duysen

Zara Home's new Van Duysen's drop.

Slide 27: Pull&Bear: Limited Edition

Pull&Bear's Limited Edition.

Slide 28: Massimo Dutti's The Cairo Diary

Massimo Dutti's The Cairo Diary collection.

Slide 29: Bershka's Spring/Summer 23

Bershka's collections for Spring/Summer twenty twenty-three (2023).

Slide 30: Stradivarius: Welcome to the countryside

Stradivarius Welcome to the countryside collection.

Slide 31: Oysho Linen

...and finally, Oysho's Linen collection.

Slide 32: Zara launched in Cambodia: first store and online

In terms of the customer experience, I would like to highlight some key projects of twenty twenty-three (2023).

Inditex started operations in Cambodia in May, with the opening of a Zara flagship store in Phnom Penh and the launch of online sales in the market through zara.com/kh.

Slide 33: New Zara store design

A key recent project has been the new store design for Zara created by our Architectural Studio that 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 such as Paris Champs Elysees, London Stratford, Miami Dadeland, Mumbai Phoenix Palladium and Johannesburg Sandton.

Slide 34: Zara London Stratford

A key project of the year has been the third enlargement of the Zara store at London Stratford to five thousand five hundred (5,500) square metres. Just like all the other important flagship stores recently opened, it will include dedicated spaces for lingerie, shoes and handbags, the Origins Collection, the Athletics Collection and newborns.

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

Slide 35: Zara Mumbai Palladium Phoenix

And finally, the enlargement of the Zara store at Mumbai Palladium Phoenix. The store extends over two thousand five hundred (2,500) square metres and will offer the latest fashion with the most up-to-date image.

Slide 36: 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, will be available in all Zara stores globally by July. The aim is to launch a testing phase in the 2023 Autumn/Winter season.

Slide 37: Zara CIRC Women capsule collection

And now let's cover sustainability. As per the Sustainability Roadmap Goals, Inditex is on track to deliver upon all of the targets set for twenty twenty-three (2023) to twenty twenty-five (2025). Our strategy is particularly focused on two pillars: innovation through our Sustainability Innovation Hub and circularity.

In twenty twenty-two (2022), Inditex made an investment in Circ, the fashion technology company that recycles textile waste back into new fibres, aimed at accelerating industrial-scale solutions towards circularity in the fashion sector.

In April twenty twenty-three (2023), Zara partnered with Circ to launch a first-of-its-kind women's capsule collection made using recycled polyester and lyocell derived from the separation of polycotton textile waste.

Slide 38: Zara to launch Pre-owned in France, Germany and Spain in 2023

In terms of circularity, the Zara Pre-Owned platform, currently available in the United Kingdom, will reach France, Germany and Spain in 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 or resale and will contribute to the reduction of waste.

Slide 39: People

One of the priorities of our People strategy is to promote stimulating work environments where the growth and ongoing learning of our teams is encouraged.

Last year, more than eleven thousand (11,000) of our employees were promoted and at the end of the first quarter there were already more than two thousand seven hundred (2,700) people who had been promoted internally. We invested almost six hundred thousand (600,000) hours of training in this same period, as we are convinced that continuous learning contributes to the personal and professional development of our people.

Slide 40: 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 key 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 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 expects 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 planning investments that will scale our capabilities, generate efficiencies and increase 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 41: 29% dividend increase

A word on the dividend. As approved in March twenty twenty-three (2023), Inditex's Board of Directors will propose to the Annual General Meeting a dividend for twenty twenty-two (2022) of one point two euros (€1.20).

The dividend is composed of two equal payments of zero point six euros (€0.60) per share: the first interim payment was made on the second (2) of May twenty twenty-three (2023) and the final dividend payment will be made on the second (2) of November twenty twenty-three (2023).

Slide 42: 2Q2023

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

Spring/Summer collections continue to be very well received by our customers.

Store and online sales in constant currency between the first of May and the fourth of June twenty twenty-three (4th of June 2023) increased sixteen percent (16%)

Slide 43: 1Q2023 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 – IR Inditex

The telephone Q&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 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 not on mute.

Thank you, the first question comes from Geoff Lowery from Redburn. Please, go ahead, Geoff.

Geoff Lowery – Redburn - Analyst

Good morning, team. Could you just talk about your future view of space? In particular, you talked about 3% growth this year. Do you foresee a time in the future where that number could accelerate from here given how fragmented the markets are and how low your market shares are? Thank you.

Marcos López - Capital Markets Director - Inditex

Thank you, Jeff. Yes, for this year we mentioned two things regarding space. First, that we were expecting 3% gross space growth. There will always be some optimisation progress in the business. And this is why we mentioned that we were expecting positive space contribution for the business in the year. And this is very much what we expect going forward.

What I would like to do with these numbers is to qualify that you have seen the strong growth across-the-board, in stores and online in all the geographies, in all the concepts. What we have been stressing over recent years is the very strong productivity of the space.

So, given the fact we see very selective, strong growth opportunities in the 213 markets in which we operate, we continue to be very, very selective. But I would like to convey to you one key message. It's very much about the quality of the space we open and the possibility of that space to produce continuous growth, with very strong productivity more than the space growth number.

For example, you could see in this first quarter most of the growth came through like-for-likes. So yes, we expect some positive growth coming forward, but it's very much the productivity of our fully integrated store and online model that will drive the growth in the coming years.

Geoff Lowery – Redburn - Analyst

Great, thank you.

James O'Shaughnessy - Inditex

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

Anne Critchlow – Société Générale - Analyst

Good morning, all. Thanks for taking my question. I just wondered which product areas at Zara were performing the strongest at present. Whether it is holiday wear or tailoring or occasion. What are you seeing? Thank you.

Marcos López - Capital Markets Director - Inditex

Good morning, Anne. This links very much to the previous answer. As we have mentioned in the presentation, the quality of the sales of the company has been very, very strong. We have qualified that in all channels, both in store and online, we have seen a very strong growth. In all geographies, there's not one geography that is basically growing more or in a very different way to others.

And all the concepts have had a very strong performance this quarter. So, I would like to highlight two factors, it's very much the creativity of our teams, the efforts they make in terms of having the right quality, the right design, the right innovation, all the right products at the right time and then the execution and the flexibility of our business model, that are driving this outperformance.

James O'Shaughnessy - Inditex

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

Georgina Johanan – JP Morgan - Analyst

Good morning, thank you for taking my question. My question is on the gross margin which was a great performance in the quarter. And just being mindful the effects were probably quite material drag in the quarter. I guess my first question is: Could you confirm that? And then, perhaps just help us understand, is it supply chain normalization in terms of external factors and freight, et cetera, that was offsetting that? Or was it sort of, or is it more about internal initiatives in the Inditex business model? Thanks.

Marcos López - Capital Markets Director - Inditex

Well, again, I'm going to combine this with what I mentioned at the beginning. The main reason behind the strong gross margin this quarter is the execution. You know that in the gross margin there are many, many factors. We can talk about markups, markdowns, currency, mix, et cetera. But given the strong growth in sales at 13%, this is the main driver.

As I mentioned, what is very, very relevant in this first quarter is the consistency of the execution across-the-board. This is again, why the gross margin has had this positive performance in this first quarter.

James O'Shaughnessy - Inditex

Next question comes from Nick Coultier at Citi. Go ahead. Nick.

Nick Coultier – Citi - Analyst

Thanks, James, and good morning. Thank you for the presentation. A question on the financial incomes. Should we expect that net positive to continue, or are there non-recurring factors or volatile factors that we need to consider for the rest of the year? Thank you.

Marcos López - Capital Markets Director - Inditex

In terms of the financial income Nick, as you have mentioned, in this first quarter, we have a positive evolution, which is the result of the yields we are now achieving in the treasury. Obviously, the situation has changed versus the previous year, and you should expect something similar for the coming quarters.

James O'Shaughnessy - Inditex

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

Richard Chamberlain – RBC - Analyst

Thank you, James. Good morning, everyone. I wonder if you could just touch on the new security tech, eliminating the use of hard tax that you are bringing in later this year. When do you expect that to start to have a positive sales impact? And will that be rolled out to other formats, other banners next year? Thank you.

Óscar García Maceiras - Inditex - CEO

Thank you, Richard. Well, as you know, customer experience is one of the key pillars for our business model. We consider that with this new technology we will eliminate hard tax, we will improve the experience of customers in our stores. We are making good progress with the project, as we have already mentioned.

The first step is having the hardware in the stores, and this is expected to be fully rolled out in Zara by July. Next step will be inserting the alarms in the garments, and this will start during the autumn/winter collection. We are working very closely with our suppliers for this purpose. And of course, this project will be deployed in the rest of our formats going forward.

James O'Shaughnessy - Inditex

We will now proceed to the webcast platform. There are a couple of questions here today on the webcast platform, the first of which is: Could you please provide some comments on the growth in Spain, please?

Óscar García Maceiras - Inditex - CEO

Well, thank you. As Marcos has already said, we are very happy with our performance this quarter. This performance has been positive in all key geographical areas, in all concepts, both online and in store. And this continues over the second quarter. And this situation, is of course, also predicable to our performance in Spain.

We have continued to be very active here. Some examples of important projects undertaken recently are our Zara stores in Plaza de España in Madrid or Juan de Austria in Valencia, our new flagship Pull and Bear's store in Gran Vía in Madrid.

New exciting projects will open in the coming months, such as our new Zara store in Plaza del Duque in Sevilla. And thanks to the optimization process, our current presence in Spain is with bigger, better, and nicer stores in super prime locations.

James O'Shaughnessy - Inditex

The next question relates to markets specifically. Are there any comments you can provide on China or the United States?

Óscar García Maceiras - Inditex - CEO

Well, the idea, the main idea that we are very happy about our performance is predicable for the U.S. and for China as well. You know that, for instance, in the U.S. we see significant opportunities for selective growth in the coming years, with several projects already announced.

And in the case of China, we consider that fashion appetite continues to be strong there. Chinese customers demand fashion and are very happy with our proposition. So, China will remain as well as one of our core markets.

James O'Shaughnessy - Inditex

Thank you, Oscar. The next question relates to growth ambitions. Can you provide a little bit more detail on growth ambitions and perhaps a little bit more detail on the companies expected to take it to the next level?

Óscar García Maceiras - Inditex - CEO

Well, thank you. I would say that we have already covered this extensively during the presentation. But to summarize and to share the main ideas, our model is currently operating at full pace.

We continue to focus our attention on strengthening the main pillars of that model that is fully integrated. And with this in mind, we consider the crucial factor is our people. I would like to highlight that the talent, the passion, the commitment of all our people in every single day and in every store, in every logistic center, in every office around the world is the main driver of our performance quarter after quarter.

These same factors have critically pushed us to the next level by increasing the level of commercial differentiation and pursuing growth opportunities across all markets and across each of the concepts.

James O'Shaughnessy - Inditex

Thank you, Oscar. That concludes the webcast questions and the Q&A session.

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 first half 2023 results.