INDITEX

CONSOLIDATED RESULTS FOR 2018

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Inditex Participants

Pablo Isla - Chairman & CEO
Ignacio Fernández - CFO
Marcos López - Capital Markets Director

Conference Call Participants

Richard Chamberlain RBC – Analyst
Paul Rossington HSBC **–** Analyst
Anne Cristhclow Societe General **–** Analyst
Chiara Battistini – JP Morgan **-** Analyst
Warwick Okines- Exane **-** Analyst
Simon Irwin - Credite Suisse **–** Analyst
Rebeca Mcclellan - Santander **-** Analyst
Adam Cochrane - Citigroup**-** Analyst
Michelle Wilson - Berenberg**-** Analyst

Operator

Good Morning Ladies and Gentlemen. Welcome to the webcast of Inditex Results for 2018. The presentation will be chaired by Mr. Pablo Isla, Chairman and CEO.

As usual the presentation will be followed by a Q&A session starting with the questions received on the telephone, followed by those received through the webcast. Mr. Isla you have the floor.

Slide 3

Ladies and Gentleman good morning. It is my pleasure to welcome you to the presentation of INDITEX 2018 Results.

Joining me here today are Ignacio Fernández, our CFO and Marcos López, Capital Markets Director.

Slide 4 2018: Continue developing our long term strategic priorities

I would like to start this presentation with two important points.

In 2018 Inditex has continued developing the long term strategic initiatives that have made our business model increasingly differentiated and at the forefront of fashion and sustainability.

We are totally focused on providing our customers with a unique experience through the execution of our global fully integrated store and online model. We remain committed to expanding our business with a strong focus on quality and our long term principles.

In line with the comments made to you over recent years Inditex is generating strong cash from operations and requires a lower capital intensity going forward while achieving significant growth and enjoying a very strong financial condition.

With these two ideas in mind we are very much looking forward to the global growth opportunities ahead of us.

Slide 5: 2018: Strong operating performance

Inditex generated a strong operating performance in 2018.

Sales in local currencies grew 7%, very satisfactory. The different components of sales growth also evolved positively throughout the year.

Like-for-Like sales growth was 4% on a demanding comparable. I will elaborate on the quality of this metric later.

Online sales grew 27% to 3.2 billion euros. Online sales now account for 12% of group sales or 14% of sales in markets in which we have online sales on offer to customers.

As a result of our performance we have achieved an EBITDA of 5.5 billion euros, which corresponds to 11% growth in local currencies.

It is certainly worth commenting that free cashflow is also increasing.

Based on this, the Board of Directors is proposing a new dividend policy to the Annual General Meeting, keeping in mind our principles of providing an attractive and predictable remuneration to our shareholders.

The new policy will result in a 17% increase in the dividend to be paid in relation to the Fiscal 2018 results.

Slide 6: Unique business model: Global fully integrated Store & Online

My opening comments focus on a major differentiating factor enjoyed by Inditex. We operate a unique global 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 with current and new customers.

Slide 7: Unique business model: Global fully integrated Store & Online

The characteristics are well known but unique:

Our business model with central inventory allows us to serve our customers on a global basis through a portfolio of high quality stores and direct online sales.

To reinforce our position we have optimised 90% of our retail space over the period 2012 to 2018. We are also offering online sales with same day delivery in key capitals and next day as the global standard.

Slide 8: Strength of business model reflected in LFL consistency

The strength of the business model is reflected in the like-for-like performance of 4% over the year. It is worth highlighting that the consistency of this 4% performance in the year was quite remarkable. In 2018 we achieved positive like-for-likes in both stores and online. We also achieved positive like-for-likes across all geographical areas and across all concepts.

Slide 9: New space in prime locations grew 8% (4.7% net)

In 2018 we have been very active with our space portfolio. We have reinforced the differentiation of our key global flagships with the opening of very visible stores. Gross new space in prime locations grew 8%. We decided to accelerate the optimisation programme and the result was 4.7% net space growth.

Slide 10: Store optimisation a key competitive advantage

We believe the strong optimisation process we launched in 2012 has resulted in a key competitive advantage.

On a total store base of 7,490 stores, 3,364 have been opened in the last 7 years. On top of this, we have refurbished 2,374 stores including the enlargement of 1,019 stores. We have also absorbed 1,401 small units.

Both the quality of our network and the sheer level of integration between our stores and the online platform provides us with the right model for the current competitive environment in fashion.

Slide 11: Zara: Highly prominent and differentiated stores 2018

A good example is our flagship in Milan's Corso Vittorio Emanuele.

Slide 12: Zara: Highly prominent and differentiated stores 2018

In Paris I would like to highlight the relocation of our Zara flagship to 54 Boulevard Haussmann.

Slide 13: Zara: Highly prominent and differentiated stores 2018

Another recent opening is the imposing new Zara flagship at Karl Johans Gate in the most emblematic location of Oslo.

Slide 14: Zara: Highly prominent and differentiated stores 2018

In Bilbao we have opened one of the most prominent stores in the group.

Slide 15: Zara: Highly prominent and differentiated stores 2019

This process is set to continue in 2019 with stores like Zara at Hudson Yards, the most emblematic development in Manhattan in decades. We aim to open this store on Friday.

Slide 16: Seamless store and online integration

All this with a seamless integration of stores and online as can be seen in the click and collect section in our Milan store.

Slide 17: Sector leading online sales

In 2018 Inditex has achieved sector leading online sales of 3.2 billion euros, an increase of 27%. Online sales account for 12% of group sales, 14% of sales in the countries in which we have online sales.

In 2018 online launches have taken place for Zara in Australia and New Zealand. In November we launched online sales for Zara in a further 106 markets. Zara collections are now available in a total of 202 markets.

We have some important online launches lined up for 2019.

Slide 18: Global online 2020

We can confirm the total integration of stores and online by 2020, with a single inventory, be it online stockrooms or stores. We can also confirm the development of the same day/next day online proposition over the same time horizon.

Slide 19: Financial summary

I will now hand over to Ignacio who will provide you with more detail on the financial performance of the Group.

Slide 20: Full Year 2018

Thank you.

In 2018 Inditex has had a good operating performance.

Net sales reached 26 billion Euros, EBITDA 5.5 billion euros and net income 3.4 billion euros. We achieved strong growth in sales, EBITDA and Net Income in local currencies as you can see in the right hand side column of the chart.

Slide 21: Satisfactory sales growth

Sales growth has been satisfactory. Sales in local currencies grew 7%. LFL sales growth was 4% with a space contribution of 3.5%.

Let me add that Inditex decided not to participate in the promotional activity widely seen in the sector since September.

Slide 22: Currency on sales expected to be positive in 2019

The currency translation on sales was around -3.5% in 2018. At current exchange rates the impact on sales is expected to be slightly positive in 2019.

Slide 23: Global Store & Online Sales in 2018

Inditex continues expanding its global sales platform. Like-for-like sales growth has been positive in all geographic areas.

Slide 24: Disciplined execution shown in Gross Margin

Given the execution of the business model the gross margin has increased 39 basis points to 56.7%. Gross profit increased 4% to 14.8 billion euros. We have sustained our commercial policies over the period.

Slide 25: Tight control of operating expenses

Operating expenses are tightly under control. They have grown just 4% reflecting the growth in sales, demonstrating the efficiencies we are achieving in the business.

Slide 26: Depreciation and amortization

The growth in depreciation and amortisation reflects the impact from the sale of 15 premises in 2017 as well as the costs associated with the provisioning for 2018 absorptions in 2017.

Slide 27: Flexible business model

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, with very tight control of current accounts, specifically our inventory position which is up just 1%.

Slide 28: Cash flow

In 2018 Cash from operations increased 2% to 4 billion euros

Ordinary capital expenditure fell 2% to 1.5 billion euros reflecting the lower capital intensity.

At the same time the dividends paid in 2018 increased 10% to 2.3 billion euros and the net cash position grew 5% to 6.7 billion euros.

Inditex continues to enjoy a very strong financial position.

Slide 29: IFRS 16

Inditex will start applying the IFRS 16 standard in fiscal 2019. While this standard will produce presentational changes in the financial statements it does not affect the cash flow or the business.

Under current estimates IFRS 16 may result in an increase in FY2019 Net income of between 2% to 4%, and a Lease Liability of 6.5 to 6.9 billion Euros.

We will provide further detailed information in due course for you to take into consideration regarding our 1Q2019 Results, the first to be released under IFRS16.

Slide 30: Concepts

Let me just pass you over to Marcos now to cover the performance of the concepts.

Slide 31: Performance by concept

Inditex has decided to integrate the reporting of Zara Home operations into Zara due to the increasing synergies between these concepts. The goal is to leverage operational and brand management of the store and online platform in a combined manner. We plan to progressively incorporate Zara Home products from next Autumn/Winter onwards onto the Zara website in some markets.

Slide 32: Performance by concept

Based on this, Zara now represents approximately 70% of group sales, the younger concepts around 30%.

Over 2018 we have continued with our global expansion. We opened stores in 56 markets over the year. Global online launches have continued rapidly as you can see.

Slide 33: Performance by concept

The younger concepts grouped together have performed satisfactorily.

Slide 34: Concepts

In the year Pull&Bear and Stradivarius have performed strongly.

Slide 35: Outlook

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

Slide 36: Strategic Initiatives

In recent years we announced to you a number of strategic initiatives to strengthen our global fully integrated store and online model. We plan to continue developing these key long-term priorities to increase organic growth.

Slide 37: Global growth opportunities

The goal is to increase the differentiation of our business model to provide a unique customer experience.

We also expect to obtain strong cashflows and a lower capital intensity while focusing on long-term growth opportunities.

Slide 38: Global Online

Inditex's online operations continue to see very rapid growth. Our business model allows a strong development of our online sales with same day delivery in metropolises and next day as a global standard.

In parallel with the total integration of inventory and full implementation of RFID, all Inditex concepts will offer online sales in any market in the world by 2020. We want to make our fashion collections available to all our customers wherever they are.

Slide 39: Online launch of Zara in Brazil on 20 March

The next step is the launch of Zara in Brazil on 20 March.

Slide 40: Online launches of Zara in the Middle East in May

Zara will also launch in Dubai, Egypt, Indonesia, Israel, Lebanon, Morocco, Saudi Arabia, Serbia and United Arab Emirates, all in May of this year.

Slide 41: Store & Online: 19 Campaign

We are in a unique position as we enjoy a global platform that fully integrates stores and online as the way to provide the best customer experience.

We continue developing new initiatives in a fully integrated way as seen in Zara's 19 Campaign…

Slide 42: Store & Online: Collection 01

The collection 01…

Slide 43: Store & Online: Shades of Beige

The Shades of Beige collection…

Slide 44: Store & Online: Kids Campaign

The Kids Campaign…

Slide 45: Store & Online: Join Life

…and the sustainable collection Join Life, now available in all our concepts.

Slide 46: Strong differentiation of stores

As I mentioned in the opening we will continue to increase the differentiation of our stores through the global fully integrated platform. Our stores are larger and more prominent and this results in a stronger customer experience enhanced by the advantage of the full RFID rollout and the integration of click and collect.

Slide 47: Sustainability & Circular economy

Sustainability is a key part of our strategy. This principle is embedded in all the different activities of our business and growth plans.

For the third year in a row, the Dow Jones Sustainability Index has singled out Inditex as the retailer with the best practices along the environmental, social and economic dimensions. Inditex has been a member of the Dow Jones Sustainability Index since 2001, consistently being placed at the top end of the retailing category.

Slide 48: New Dividend Policy

The Board of Directors is proposing a new dividend policy to the Annual General Meeting, keeping in mind our principles of providing an attractive and predictable remuneration for our shareholders.

The new policy will increase ordinary payout to 60% from 50%. The Board will further propose the distribution of a total bonus dividend of 1 Euro per share to be paid in relation to fiscal years 2018, 2019 and 2020.

Slide 49: +17% increase in 2018 Dividend

Based on this for fiscal 2018 the Board of Directors is proposing a dividend increase of 17% to 88 cents, comprising an ordinary dividend of 66 cents and a bonus dividend of 22 cents.

Slide 50: +17% increase in 2018 Dividend

In this chart you can see the evolution of the Inditex dividend over recent years. Accumulated dividend payments since 2001 have reached around 20 billion euros, combined with strong growth rates.

Slide 51: FY 2019 Outlook

In 2019 we will continue expanding our global fully integrated store and online platform, with increasing organic growth and a stronger differentiation of our model.

For 2019 we expect LFL sales growth of 4-6%.

We now have a lower capital expenditure requirement for expansion. Ordinary capital expenditure for 2019 will be around 1.4 billion euros.

For 2019 we expect gross new space in prime locations of around 5-6%. Gross openings should be at around 300 stores and you can expect the selective absorption of around 250 stores.

This should result in an increased free cash flow generation.

Store and Online sales in local currencies increased by 7% from the first of February to the ninth of March 2019.

Slide 52: FY2018 Results

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

QUESTIONS & ANSWERS

Operator

Ladies and gentlemen, the telephone Q and A session starts now. If you wish to ask a question, please dial 01 on your telephone keypad. We request that you confirm yourselves 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 addressed. Thank you.

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

Richard Chamberlain - RBC - Analyst

Thanks very much. Good morning, everybody. Just a question, please, on the board dividends that you are proposing to pay over the next three years. Could you give a little bit of colour on the likely phasing of those dividends? I think you have mentioned 0.22 for this year, but should we expect a gradual increase over the next two years?

Pablo Isla - Inditex - Chairman & CEO

Thank you. Yeah, what I will do, if you allow me, is to elaborate a little bit more about our dividend policy. Well, the first thing I would like to say is that, as we were saying during the presentation, we are having a strong cash flow in the company. Of course, we always say the first priority is to invest in the long term profitable growth of the company, and we are able to combine this with an attractive and predictable shareholders remuneration policy. This new dividend policy that the board is going to propose to the annual general meeting has two elements. The first one is to increase the payout ratio from 50% to 60%, which we think is quite meaningful, and the second one is to give more visibility to the extraordinary dividend. That is why the board has decided to distribute this total of one Euro per share between the years 2018 to 2020. Of course, in the first year, as we have this movement from 50% to 60% payout ratio, the part of the extraordinary dividend is 22 cents. The distribution of the remaining 78 cents between the two next years is something that the board will decide in the month of March, how to split these 78 cents between 2019 and 2020.

Richard Chamberlain - RBC - Analyst

Okay. Great. Thanks very much for that. While I have got you, can you just comment as well on the depreciation, please? It was quite low as a percentage of sales in the fourth quarter. I was expecting that it was going to be much higher than last year but it was lower than it was two years ago. So, just any comment on depreciation?

Marcos López - Inditex

Yes, you are right, Richard. In depreciation, you have to remember that there are two calendar effects. In the fourth quarter of 2017, we sold 15 premises and this is reflected there, but we also decided to fully provision in that quarter all the absorption costs for 2018. Those are the reasons behind the difference.

Richard Chamberlain - RBC - Analyst

Got it. Okay. Great. Thank you very much.

Pablo Isla - Inditex - Chairman & CEO

Thank you.

Operator

The next question comes from Paul Rossington from HSBC. Please, go ahead.

Paul Rossington- HSBC - Analyst

Good morning, gentlemen. One question, please, on the impact of absorptions. You opened slightly less net new space in the last financial year than you guided to previously. Could you give us an idea of what the impact of absorptions or net new space growth will be in this year? Thank you.

Pablo Isla - Inditex - Chairman & CEO

Well, Paul, you are right. In the presentation we mentioned that space gross was 8% in 2018. We decided to do a bit more absorptions this year. Obviously, you know that the quality of the space for us is a critical metric. That is the reason why net space growth at the end of the year was 4.7%. Marginally below. For this year what we expect is gross space of 5% to 6%, which could result in net space growth of around 4%.

Paul Rossington- HSBC - Analyst

Thank you.

Operator

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

Anne Cristhclow - Société Générale - Analyst

Thanks. Good morning. My question is about fulfilling Zara orders from store. I think your target was to roll that out to all Zara stores this year. So I was wondering if you did that and what percentage of orders are now fulfilled from store. And what you are going to roll this out to the other concepts in the coming year.

Pablo Isla - Inditex - Chairman & CEO

Well, thank you. As you know, this is a very relevant strategic move for us, this total stock integration. This has been totally completed in Zara at the end of the year 2018, also in Massimo Dutti and Uterqüe, and now we are in the process of implementing it in the other brands. Our idea is to have this total stock integration in all the concepts in the year 2020. In terms of how relevant it is, we prefer not to elaborate very much at this stage because the year 2018 has been the year of the implementation. But for us, as you know, it is something very relevant, very important and it allows us to offer our customers all the products available, not only from the online stock rooms, but also from the store stock rooms. It is very efficient from the point of view of maximizing full price sales, as always our main target is to offer the best product to our customers. So it is very efficient also mainly from that point of view, a very strategic project, something we believe very much in. I think it is too early to talk about figures, but it is a key element in we consider this fully integrated approach between stores and online. Of course, online sales growth is very healthy. You have seen it in the presentation. We had 27% online sales growth. Now, in the markets in which we have online presence, it is 14% of total sales. But for us, what is really relevant is this fully integrated approach between stores and online. And this stock integration is a key element of this approach.

Anne Cristhclow - Société Générale - Analyst

Okay. Thank you.

Operator

Thank you. The next question comes from Chiara Battistini, from JP Morgan. Please, go ahead.

Chiara Battistini – JP Morgan - Analyst

Good morning. Hi, thank you for taking my question. I was wondering if you could provide us also an outlook for the growth margin for 2019 or for the first half of 2019 in a similar way as you have done for H2 last year? And the second question would be on profitability of online versus offline. Can you make any comment on how you see or how you think that will be evolving in 2018 and how you think about that also going in to 2019, please? Thank you.

Pablo Isla - Inditex - Chairman & CEO

About the gross margin, the first thing I would like to do is to remark on the gross margin evolution during the year 2018. You must have in mind that, with 3.5 negative currency impact, we have been able to increase our gross margin in the full year and both in the first half and in the second half. As we provided to you the profit and loss account without currency impact, without currency impact you can see that the gross margin increase was nearly 80 basis points, so I think that we have achieved a very healthy gross margin during the year 2018. It has a lot to do with our approach. We are always talking about quality, quality of our products, quality of our stores, quality of our online offer… In terms of the gross margin for the coming year, for the year 2019, what we can tell you is that our estimate would be a stable gross margin during the year. As you know, we always say that stable is plus/minus 50 basis points. We are not seeing any external impact in on our gross margin at this stage in 2019. At current exchange rates, currency impact would be slightly positive and then we are not seeing any external factor impacting on our gross margin during the year. So that is why we say a stable gross margin for the year ahead. About the online profitability, I would say what we have said before, that it is not dilutive. For us, it is very important that we have a relevant part of our customers that decide to have deliveries in store. We also have many customers that decide when they decide to return product, they go to the stores to return. This is, of course, helping in this idea of online not being at all dilutive. And I think that this is more and more evident when you see our results, because online in markets in which we have online presence was 14% of sales, 12% of total sales, with 27% growth. You see that our EBITDA margins during the year are stable. I think it is more and more visible in the results that online is not at all dilutive. For us, what it is very relevant is that we have this 27% online sales growth, but at the same time, we have been able to have positive like-for-likes in the physical stores, which something very relevant. We continue seeing traffic increase in our stores. It has a lot to do with the store optimization plan that we have been developing since the year 2012 and that we mentioned during the presentation. This idea of opening very relevant stores, being very demanding regarding the openings, refurbishing and enlarging existing ones and absorbing smaller stores, combined with the idea of full integration approach. So this whole idea of the store optimization plan, which we have hugely invested in over the last few years. I think it makes a very big difference when you compare us to the retail environment.

Chiara Battistini – JP Morgan - Analyst

Well, thank you very much. Actually, sorry, can you just remind us now how much of your returns happen in stores and how much of the online orders are picked up in store?

Pablo Isla - Inditex - Chairman & CEO

It changes in the different markets, but we are talking about one-third of in-store deliveries, and around two-thirds of in-store returns. No significant changes regarding this. Of course, it is more relevant in the markets in which we have a more significant number of stores than in the markets in which we do not have a significant number of stores, but generally no big differences from that point of view.

Chiara Battistini – JP Morgan - Analyst

Great. Thank you very much.

Operator

Thank you. The next question comes from Warwick Okines, from Exane. Please, go ahead.

Warwick Okines– Exane - Analyst

Good morning. My question is on the medium term space growth guidance. This time last year, you guided for growth of 4% to 6% over the next few years. Do you still think that is an achievable corridor of guidance over the coming years? Thank you.

Marcos López - Inditex

We believe that it is sustainable, yes.

Warwick Okines– Exane - Analyst

And given that the absorption process is now 90% complete, what should that mean for the growth in FY20 of net space? Do you think that might be higher than FY19?

Marcos López - Inditex

Again, I think the guidelines in the presentation were very clear, in the sense that, for us, the quality of the space is as important as the growth rate. This is why, for example, in this year you see that despite 8% gross space growth we decided to accelerate the number of absorptions because we believe that the competitive environment requires that, a strong combination of very important flagships and online, and this is why the net went down to 4.7%. For the coming years, we see in the case of 2019, 5% to 6% gross space, which obviously the absorptions take place over the year and we examine things very carefully and we expect a net space growth of 4%. And we believe this rate is sustainable.

Warwick Okines– Exane - Analyst

Thank you very much.

Operator

Thank you. The next question comes from Simon Irwin, from Credit Suisse. Please, go ahead.

Simon Irwin - Credite Suisse - Analyst

Good morning, gentlemen. Thanks for taking my call. Can you, please, talk a little bit about Opex trends? Overall, Opex to sales rose 40 basis points last year, despite as you say, a reasonable LFL. Can you talk about the prospects for Opex in the year ahead and, particularly, if you expect any impact from the minimum wage increase in Spain?

Pablo Isla - Inditex - Chairman & CEO

Yes, first of all, answering the final part of your question, we are not expecting any impact coming from the minimum wage increase in Spain. We are paying significantly above the minimum wage in every market, but of course also in the Spanish market. Our salaries in the stores have nothing to do with the minimum wage. We are paying significantly above, I would say more than 30% above the new minimum wage. So it is quite significantly above the minimum wage. From that point of view, we are not expecting any impact. Regarding Opex management during the year I would say that we are quite satisfied with the evolution of Opex. With 3.5 points of negative currency impact, we have been able to have Opex grow very much in line with sales growth and the EBITDA margin of the company remains stable, even slightly positive, 10 basis points above the previous year. As you can see in the note, in the full year results we disclosed three lines of Opex, personnel expenses, rental expenses and other operating expenses. You can see that personnel expenses grow in line with total Opex growth. This is a logical trend of the business and it means that in the stores what we are doing is to increase in a very significant way the efficiency of our operations. So, what we are doing through technology, through RFID implementation, through many different initiatives, is increasing the efficiency of our operations in the stores. Then, rental expenses grow below total Opex growth, and this has a lot to do with the new leasing agreement and the renegotiation of the existing ones. This is an area in which we are quite active. And then, other operating expenses is where you have all the other expenses and particularly the expenses that relate to online, as online has no rental expenses and nearly any personal expenses. This line is growing above the total cost growth of the company because of the very significant rate of growth of sales that we have online. Globally I would say its a very healthy Opex growth evolution in a year with 3.5% negative impact coming from currencies, which makes it is very difficult to compare. If you would analyse it on constant currency basis, you can see the EBITDA growing. We think we are managing our costs in a very efficient way and without currency impact and with healthy like-for-likes, as we are expecting, we should not see any cost deleverage in the coming years.

Simon Irwin - Credite Suisse - Analyst

And you would not expect to see any kind of secondary impact coming through in terms of services that you absorb in Spain, for example, in terms of transportation or anything like that? You know: security, cleaning, all these other areas where you are effectively a buyer of labor?

Pablo Isla - Inditex - Chairman & CEO

Nothing that we could not compensate for with the efficiencies that we are permanently introducing in the business. But just to clarify, the minimum salary is something that has an impact on a very small percentage of total workers in Spain and nothing on Inditex. Talking globally, it is something which is not having an impact in most of the collective agreements that you are seeing in the different sectors, in which salary increases could be between 2% to 3%. So very much in line with other European markets. This issue about the minimum salary is something very specific about the minimum salary.

Simon Irwin - Credite Suisse - Analyst

Okay. Thank you.

Operator

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

Rebeca Mcclellan - Santander - Analyst

Yes, good morning. On the online growth in 2018, was that last year's constant parameter given the late launch of the 106 countries in the year?

Pablo Isla - Inditex - Chairman & CEO

No, of course, not. These new markets that we launched in the final part of the year is something that has more to do with offering our product to our customers in those markets than to think about something meaningful in terms of sales. It is 99% organic growth, from like-for-likes in the markets in which we are already present. So it is 99% organic, I would say.

Rebeca Mcclellan - Santander - Analyst

And is it right that the economics of these such small, periphersal markets are going to be borne in by the customer in the average ticket in terms of VAT logistics performance, etcetera?

Pablo Isla - Inditex - Chairman & CEO

But these small markets that you are mentioning, when we decided to launch in those markets, it had much more to do with making our product available to our customers in those markets than thinking about having any significant level of sales. So, in terms of total online sales, as I was saying to you, it is not meaningful at all, but we were not expecting this to be meaningful. So, it is much more this customer service than thinking about additional sales in a significant way.

Rebeca Mcclellan - Santander - Analyst

Thank you.

Operator

Thank you. The next question comes from Adam Cochrane, from Citi Group. Please, go ahead.

Adam Cochrane - Citigroup - Analyst

Good morning, guys. Just sort of a clarification question, really, on the Opex side. You did a great job looking at the rent expenses, particularly in the year. As we look into next year, are these on-going processes, is the rate that you saw in reflection to the like-for-likes similar to what we can expect looking into next year?

Pablo Isla - Inditex - Chairman & CEO

Well, it is very difficult to be so precise about one point above or below, but what I can tell you is that rental expenses will grow significantly below total cost growth because of the new leases and because of the renegotiation of many of our existing leases. So you should expect very moderated rental expenses growth.

Adam Cochrane - Citigroup - Analyst

And in terms of thinking about your sort of online global expansion, is there any particular costs that we need to be aware of in terms of warehousing, IT, etcetera, that is coming through, or is it a case of business as normal in 2019 and 2020?

Pablo Isla - Inditex - Chairman & CEO

No. You shouldn´t expect any significant costs. As we were saying regarding online, next week we are launching in Brazil with this fully integrated approach between stores and online. Then, in the month of May, we are launching in many other markets and in parallel, we have this global coverage of online even in the markets in which we don´t currently have stores. Of course, the most relevant part of our online sales will continue being sales in the markets in which we have stores. Regarding costs, there is nothing relevant to think about in the coming years. It is an on-going operation and we believe very much in this fully integrated approach between stores and online, that we think is giving us an increase in traffic in both directions. The store is helping online and online is helping the stores from every point of view.

Adam Cochrane - Citigroup - Analyst

That is great. Thank you.

Operator

Thank you. The next question comes from Michelle Wilson, from Berenberg. Please, go ahead.

Michelle Wilson – Berenberg - Analyst

Hi. Good morning. Could you talk a bit about your sourcing? I saw some articles in the local Portuguese press reporting that you have been moving sourcing out of Portugal and into Turkey. Could you give us an update on what proportion of items are being sourced in the Spanish and Portuguese markets now and what impact that has had on gross margin, the shift out of Portugal into Turkey over the last year and what impact it might have on the year ahead?

Pablo Isla - Inditex - Chairman & CEO

Nothing significant from that point of view. For us, of course, in any particular season, that could be this or that depending on many different things and also depending on fashion trends. Proximity sourcing is extremely relevant, particularly Spain, Portugal and Morocco, as the main areas of proximity sourcing. Of course Turkey is also relevant. In proximity we have around 60% of our total sourcing and we are not thinking about any type of change from that point of view. So as I was saying before, in any particular season, there could be this or that, but Portugal will of course remain a very important sourcing country for us. We have more than 150 suppliers there, who are very integrated with us, who have been working with us for many years and growing with us. As I was saying to you, proximity is a key element of the differentiation that we have as a company, in terms of flexibility, in terms of the ability to react during the decision, in terms of the quality of our products, so we are not thinking about any significant change from that point of view.

I would say that this idea of proximity sourcing plus the central inventory position are two very relevant elements of our business model and this is something that we continue to believe in very much when we think about the future.

Michelle Wilson – Berenberg - Analyst

Okay. Great. Thank you.

Operator

Thank you. Ladies and gentlemen, we are now finished with the telephone Q and A session to address the questions received through the webcast platform. Thank you.

James O'Shaughnessy - Investor Relations

Thank you. We received a number of questions on the webcast platform. First of which is: "Can you elaborate, please, on the efficiencies you talked about during the presentation?".

Pablo Isla - Inditex - Chairman & CEO

Well, as you know, for us this is a permanent effort from every point of view in the way we operate our company. Of course, RFID is a technology that allows us to run our stores more efficiently with stock integration that I mentioned before. We have also invested very significantly in logistics, using the latest technology that improves distribution, improves our business model and improves customer experience. Our idea is to continue acting this way, to continue finding efficiencies in the way we operate our business. This is a permanent effort and it is a combination of the way we operate our business plus technology, that helps us to run our operations in a more efficient way. So I would say this is a permanent process all across the company, a permanent effort, and we are quite dedicated to these efficiency initiatives.

James O'Shaughnessy - Investor Relations

You covered Capex through your presentation. There are a number of questions on Capex expectations going forward. I do not know if there are any other comments you want to make.

Pablo Isla - Inditex - Chairman & CEO

Well, what I would say is that for us, Capex is something relevant because for us it is always a priority to invest in the long term profitable growth of our company in terms of openings, in terms of refurbishments, in terms of enlargements, logistics, technology. At the same time we have a lower Capex necessity than we had in the past. Ordinary Capex for the year 2019, having in mind the number of openings, enlargements, refurbishments, logistics and technology, will be around 1.4 billion Euros. Thinking about the future, Capex growth, as we've said over the last few years, should be below space growth. So this combination between a strong organic growth, I would like to mention again this 4% like-for-like that we have achieved this year against very demanding comparable. So very healthy like-for-like sales growth evolution with like-for-likes sales growth both online and in physical stores– and then continue investing but, at the same time, lower capital intensity looking forward. So this is what I would say in terms of Capex.

James O'Shaughnessy - Investor Relations

That concludes the Webcast questions.

Pablo Isla - Inditex - Chairman & CEO

Thank you to all of you for attending this conference call presentation and, in any case, of course, if you have any additional questions we would be ready to answer them through our capital markets department. Thank you very much.