INDITEX
INTERIM THREE MONTHS 2021

CONFERENCE CALL SCRIPT
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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.

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Richard Chamberlain RBC – Analyst
Rebecca McClellan Santander **–** Analyst
Georgina Johanan JP Morgan **–** Analyst
Warwick Okines BNP Paribas – Analyst
Nicolas Champ Barclays **–** Analyst

Introduction: Marcos López - Inditex - Capital Markets Director

Good Morning Ladies and Gentlemen. A warm welcome to the presentation of Inditex's Results for the Interim Three Months 2021. I am Marcos López, Capital Markets Director.

The presentation will be chaired by Inditex's Executive Chairman Pablo Isla. Here today with us are also our CEO Carlos Crespo and CFO Ignacio Fernández.

As usual, the presentation will be followed by a Q&A session starting with the questions received on the telephone and then those received through the webcast platform. Before we start, we will take the disclaimer as read.

And now over to Pablo.

Slide 3: 2021: Differentiation and strategic transformation continues to deliver

[Image]

Slide 4: 2021: Inditex's differentiation and strategic transformation continues to deliver

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

In 2021, Inditex's differentiation and strategic transformation towards a fully integrated, digital and sustainable business model continues to deliver. Let me highlight some key factors

Spring/Summer collections were very well received by our customers. Almost all of our stores are now open. Online sales continue their high rate of growth.

Our operating performance continues to generate strong cash flow and leaves us in a robust financial position.

Regarding digitalisation, the implementation of Inditex's Open Platform is now 90% complete.

We also continue to make progress with respect to the sustainable development of our business model and have moved beyond the initial objectives presented.

All this has been made possible by the strong individual commitment of all of our people and our unique corporate culture.

As you have seen in our financial release, store and online sales in constant currency between the 1st of May and the 6th of June 2021 increased by 102% versus the same period in 2020 and 5% versus the same period in 2019.10% of trading hours were unavailable in this period due to lockdowns and restrictions.

This demonstrates that the impact of the store absorption programme announced in June 2020 has been fully recovered in the store and online sales in May 2021.

We have total confidence in our unique business model.

Slide 5: Most stores have opened, but some restrictions persist

Let me add some details on the performance so far in2021.

Inditex's results show a progressive recovery in operations. The results for the first quarter 2021 have been affected by the ongoing health crisis, with temporary store closures and restrictions to operations in key markets such as the UK, France, Germany, Italy, Portugal and Brazil. To minimise the impact, we have actively managed our supply chain, inventory and operating expenses in the period.

Most stores reopened in May, but with some capacity and opening restrictions.

As of today, 98% of stores are open. This graph shows the number of stores with sales during the period on a weekly basis.

Slide 6: Healthy sales productivity

To put the strength of the operating performance in the first quarter into context, restrictions in place reduced trading hours by 24 %. This percentage does not take into account additional restrictions on floorspace, maximum capacity and peak trading times that were present across some markets.

Bear in mind that at the end of the first quarter 16% of stores were still in full lockdown.

Slide 7: Online continues to grow strongly

The strong trajectory of online sales that we saw last year has of course continued going into 2021.In the first quarter, online sales in constant currency made outstanding progress at plus 67%.

This remarkable performance is greatly helped by our fully integrated business model, our single inventory position, and the attractiveness of the product offer.

It is because of these features that our online operations enjoy sector leading growth rates and profitability. Inditex's online business is non-dilutive to margins and requires lower capital intensity going forward.

Let me tell you that we have total confidence in our unique business model that fully integrates stores and online.

Slide 8: Zara Woman Spring/Summer Collection

A good example of seamless store and online execution can be seen in the Zara Woman Spring/Summer Collection.

Slide 9: Zara Beauty

On 12 May Zara launched a new cosmetics line: Zara Beauty. I can certainly tell you that the reception has been very strong.

Slide 10: Zara Beauty

Zara Beauty offers a wide range of beauty products for eyes, lips, face and nails with a selection of more than 130 shades.

These ranges employ top quality formulas, adhere to the highest measures of sustainability and involve no animal testing at all.

Bottles and containers make extensive use of recycled glass and are designed to be refillable in order to foster reuse.

Slide 11: Zara Beauty

Zara Beauty is available online and in specific markets, in selected stores.

Slide 12: Zara, Zara Home and Stradivarius in Madrid's Plaza de España

A very significant project due before the end of the year will be the opening of stores for Zara, Zara Home and Stradivarius in an 8,000 square metre location at Madrid's iconic Plaza de España.

Slide 13: Zara Home launches new image

Zara Home's has launched a new store image…

Slide 14: Zara Home launches new image

…marked by sustainable interiors.

Slide 15: Massimo Dutti's Cahier de Voyage Editorial

Massimo Dutti's Cahier de Voyage Editorial.

Slide 16: Bershka launches new image

Bershka's has also launched a new image that can be seen in its store in Paris Les Halles.

Slide 17: Pull&Bear On my way to Summer

The Pull&Bear's On the way to Summer Editorial.

Slide 18: Stradivarius Summer Collection

The Stradivarius Summer collection.

Slide 19: Oysho Weekend Vibes

Oysho's Weekend Vibes collection and…

Slide 20: Uterqüe Summer Collection

…The Uterque Summer Collection.

And now over to Carlos to talk about Sustainability both in our stores and headquarters.

Slide 21: Eco-efficient Stores

Thank you Pablo.

Inditex's lead in sustainability is further enhanced by the completion of our space optimisation programme and the new buildings at headquarters.

All our stores meet efficiency and sustainability requirements. And always with the most demanding commercial standards: Bigger, better, more beautiful and in the best locations globally.

In most cases they adhere to the most advanced LEED standard. Additionally, we centrally control energy consumption for each store through our Inergy platform.

Slide 22: Sustainability at HQ

Another key project is the new Zara online studios. Spanning 67,000m2 and with a height of 28 metres, the building visually stands out due to the 720 high-energy-efficiency glass modules that clad the entire façade. The modules allow the interior to be flooded with natural light.

The building uses 100% renewable power. A further distinguishing factor is the use of 3,380 solar panels at headquarters that supply 50% of its energy needs.

All rainwater is reused and high performance Heating & Cooling systems are in place.

Back to you Pablo now.

[Pablo Isla] Thank you.

The new Zara online studios at headquarters represent the best visual example of Inditex's strategic transformation: Store and online integration, technology and advanced sustainability

I'll hand you over to Ignacio now for the Financial Section.

Slide 23: Financial Summary

Thank you Pablo.

Slide 24: 1Q2020: Strong recovery in operations

As you have seen in our release, Inditex's operations showed a strong recovery in the first quarter of 2021. We have executed remarkably in what has been a challenging operating environment.

We have managed the supply chain very closely, and this has driven a good performance in the gross margin.

Operating expenses have of course been tightly managed.

Slide 25: Sales

As already mentioned, sales are recovering strongly as stores have reopened. Online sales growth in constant currency has been very strong at plus 67%.

Slide 26: Gross margin

The gross margin reached 59.9%. It was 152 basis points higher than in the same periodin2020 and 47 basis points higher than in the same period in2019.

The gross margin evolution over the period is strongly linked to the high levels of flexibility enjoyed by our unique supply chain.

This is clearly illustrated in the inventory levels, which were just 5% higher than the closing balance in the first quarter 2020 and down 5% versus the first quarter 2019.

Slide 27: Operating efficiencies

There has been very efficient management of operating expenses across all departments and business areas. This has demonstrated our ability to react and adapt to the changing trading environment.

Efficiency gains have allowed us to exercise a high level of control over operating expenses in the period. As you can see, operating expensesincreased19% over the first quarter of 2020, well below sales growth. Operating expenses are 7% below the same period in 2019.

The main components of operating expenses have shown a very good performance.

Slide 28: Depreciation

Depreciation and amortisation came to666million euros, 33% lower. The difference reflects the 308 million euro provision corresponding to the store optimisation programme for 2020 and 2021, charged to the first quarter of 2020 accounts. Excluding the provision, this line would have decreased 3%.

Slide 29: Flexibility of business model key to performance

The flexibility of the business model we run can be clearly seen in the evolution of working capital over this period. As you can see in this table, the working capital has returned to the more normal levels seen prior to the pandemic.

Despite the material impact of lockdowns on sales, we have been able to use the flexibility of our supply chain to adjust volumes. The single inventory position was pivotal to achieving this performance.

As a result, inventory increased just 5%at the end of the first quarter, well below sales growth. The closing inventory is considered to be of high quality.

Slide 30: Strong cash flow and financial condition

These actions, in conjunction with the strong cash flow, took the net cash position to 7.2 billion euros.

And now over to Marcos.

Slide31: Concepts

Thank you

Slide 32: Store & Online Sales by concept

Over the first three months we have continued with our expansion and have opened stores across21 different markets.

The weight of the different concepts on group sales remains largely unchanged.

Slide 33: Performance per concept

We are seeing a progressive recovery across all concepts going into the Spring/Summer season. The differences relate to each individual concept's geographic presence, location of stores and fashion profile.

Slide 34: Concepts

Store sales are improving, and online sales continue to grow. Oysho and Stradivarius had a strong performance in the first quarter of 2021. We continue with optimisation activities across all concepts.

And now, back to Pablo.

Slide 35: Outlook

[Just photo]

Slide 36: Outlook

The strategic initiatives to strengthen our global fully integrated store and online model continue to deliver. We plan to continue developing these key long-term priorities in order tomaximise organic growth.

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

We will have invested 1 billion euros in digital capital expenditure between 2020 and 2022.

A key focus is on high quality stores, with the aim that they be fully integrated, digital and eco-efficient.

Total capital expenditure over this same period will be around 900 million euros annually, helping to drive lower capital intensity and increasing profitability.

Let us not forget that we aim to achieve all of this with sustainability remaining very much a central part of the strategy.

We expect to deliver higher returns and lower capital intensity.

Slide 37: Dividend

As a reminder, the interim dividend for full year 2020 of 35 cents per share was paid on the 3rd of May 2021. The final dividend for full year 2020 of 35 cents will be paid on the 2nd of November.

Slide 38: 1Q2021 Results

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

Marcos López - Inditex – Capital Markets Director

Please go ahead Operator.

QUESTIONS & ANSWERS

Operator

The first question today comes from Anne Critchlow from Société Generale. Please, go ahead.

Anne Critchlow – Société Générale - Analyst

Good morning everyone. Thank you for taking my question. It is about the gross margin because FX must have had a really strong negative impact on it. So, I wonder if you can just explain the strength a little bit more of the gross margin. Was it mainly inventory efficiency or was it mainly deleverage thanks to like-for-like sales recovery? If you can give us an idea of the magnitude, that would be great. Thank you.

Pablo Isla - Inditex – Executive Chairman

Thank you, Anne. The first thing I would like to say is that as you perfectly know, we do not like to talk or evaluate the gross margin over a short period of time. We always prefer, at least, to think about a six-month period, and even better, to think about the full year. But what I can tell you, of course, is that we are very satisfied with the evolution of the gross margin during the first quarter.

Answering your question about currencies, we were saying at the beginning of the year in the month of March that from the point of view of currencies, it was going to be neutral because we have a negative currency impact on sales, but at the same time we have a positive currency impact coming from the dollar, so we were saying at the beginning of the year that currencies were going to be neutral regarding the gross margin.

So, the evolution is 100% related to the execution of the business model, the flexibility of the business model, the low level of inventories, the centralised inventory position. Of course, it has a lot to do with the incredible work that our commercial teams are doing both from the point of view of the collections and second, from the point of view of the way they are managing the inventories and purchases. And of course, it has a lot to do with the incredible work that our online teams and our teams in the different countries are doing when we reopened the stores, the way we are managing the stores.

So, it is the execution of this business model, and the very, very efficient work of everybody across the company in the different areas of the business.

Operator

The next question comes from Richard Chamberlain of RBC. Richard, please, go ahead.

Richard Chamberlain - RBC - Analyst

Thank you, good morning. Just to follow on from Anne's question. What are your expectations now for gross margin for the full year? Because I guess looking at the currency situation today, particularly with the translation side, it's probably going to become more neutral, you will still have a favorable dollar sourcing impact. Do you expect gross margin to exceed the top end of the traditional sort of stable range minus 50 to plus 50 basis points? Thanks.

Pablo Isla - Inditex - Executive Chairman

Regarding what you are saying about currencies, it is totally the case. For the full year we are expecting a current exchange rate of around 200 basis points of negative currency impact on sales for the full year. But regarding the gross margin I come back to what I was saying before: we prefer to wait until the full season to talk more about the gross margin.

At this stage we just prefer to say that of course, we are satisfied with the evolution of the gross margin, but we think that it is too early to talk about any significant change in the gross margin forecast for the full year.

Operator

The next question comes from Rebecca McClellan of Santander. Rebecca, please go ahead.

Rebeca McClellan - Santander - Analyst

Good morning. What percentage of the online sales in the first quarter are SINT? I think it was 18% for the full year 2020. Has that grown, and where would you expect that to trend as the stores reopen and trading normalises?

Pablo Isla - Inditex - Executive Chairman

Thank you, Rebecca. There are some aspects of the business that it is better to have a longer perspective in order to analyse them. But of course, SINT remains a very relevant part of the evolution of our online sales and will continue being the case.

But I think that to analyse this on a quarterly basis and particularly in a quarter in which we have had so many stores closed and so many restrictions, I think it is better to view the full year. We will then have a much clearer picture and a much more normalised situation about SINT. But, of course, this is a key element in our strategy, and it has a lot to do with the evolution of the gross margin. It has a lot to do with the the level of promotions during the months of March, April, and May. So, this is something very relevant for us and the way we are running our business, full price sales, very low level of inventories, integrated stocks, central inventory position, having new garments permanently that are in line with our customers' requests.

I think this is what we are totally focused on, and as I was saying to you, SINT, is playing a relevant role in this centralised inventory position and single stock and single inventory management all across the company, which allows us to run the business with an even lower level of inventory.

If you see the inventory level at the end of the quarter, it is below 2019 levels when sales are growing. When you compare with 2020, it is 5% above when sales are growing in the month of May and beginning of June more than 100%. So, you see how healthy this inventory is from any point of view.

Operator

The next question comes from Georgina Johanan from J.P. Morgan. Georgina, please go ahead.

Georgina Johanan – JP Morgan - Analyst

Thank you for taking my question. If you can give any more color on how online performance has trended in markets which are materially open, please. What we are seeing there? Thank you.

Pablo Isla - Inditex - Executive Chairman

Well, online sales evolution continues to be very healthy. Of course, you cannot expect for the full year these rates of growth for online, that is for sure. First of all, because we are only comparing one month and a half; this February and the first half of March in which last year the situation was very normal before the pandemic. This is a quarter in which we have continued having a significant number of stores closed.

But globally a very healthy evolution of online sales, and for us what is more relevant is the fully integrated approach. And what I would like to mention is that store traffic is increasing week after week. This is something that we were beginning to see, if you remember, in the months of September/October of the last year.

We were talking about this before the second wave with so many lockdowns, and what I can tell you is that week after week we are seeing store traffic recovery. So, we believe very much in this fully integrated approach between stores and online much more than focusing on the specific rate of growth of any of the two areas.

Also, I would like to mention, we were mentioning during the presentation, that it is also very relevant to have in mind that in the month of June that this culmination of the store optimisation plan has been totally absorbed in the remaining stores and online. So, we believe that this strategy that we are following is the right strategy and, of course, it relies on our commercial teams, it relies on our country teams, online teams and, of course, technology is playing a very relevant role. That is what makes it possible to go ahead with this strategy.

And then the third element, sustainability, which is now involved in all the decisions that we take regarding the evolution of the company from every perspective.

Operator

The next question comes from Warwick Okines from Exane. Warwick, please go ahead.

Warwick Okines – Exane BNP Paribas - Analyst

Good morning everybody. I wanted to ask about operating costs. In Q1 these were 7% below 2019 levels, but still with quite a large portion of trading hours down on that period, down 24%. How should we think about costs for the rest of the year with all stores open? Do you think that costs would be similar to 2019 levels? Thank you.

Marcos López - Inditex - Capital Markets Director

Well, Warwick I think about all the different lines of the P&L, we would prefer to talk in September. What you must expect is, as usual, that OPEX will be strictly controlled. As you have seen, OPEX has grown below sales growth in the current period. This is something that is very much engrained into the philosophy of the company.

We have been able to switch from stores to online and from online to stores without very significant impact there. And, as Pablo mentioned, I think that the job of our commercial teams has been absolutely amazing in the way we have navigated the lockdowns in countries as important as the U.K., Italy, France, Germany, Brazil, Portugal, and with a very strong cost discipline.

Regarding more specific items, I prefer to wait for September, but again, highly disciplined execution in terms of operating expenses.

Operator

The next question comes from Nicolas Champ from Barclays. Nicolas, please go ahead.

Nicolas Champ - Barclays - Analyst

Good morning, thanks for taking my question. I would like to ask you a follow question regarding OPEX. Could you please quantify the impact of the government support measures during the quarter and the impact on the evolution of the OPEX in Q1, please?

Marcos López - Inditex - Capital Markets Director

We have not relied on furlough schemes in any significant way in any country.

Operator

Thank you very much. We are now finished with the telephone Q&A session to address the questions received through the webcast platform.

James O'Shaughnessy – Investor Relations

Good morning, we have a few questions on the webcast platform today, the first of which is: Pablo, can you give us an update on your sustainability targets, please?

Pablo Isla - Inditex - Executive Chairman

Carlos, can you go ahead?

Carlos Crespo - Inditex - CEO

Yes, of course. Well, as you know, as Pablo has said, sustainability is in every aspect of the company right now. And it has also always been a key part of our company for many years.

We are happy to tell you that we have achieved all of the sustainability targets that we set for 2020. But I would also want to highlight that we have significantly exceeded our targets in two topics: for Join Life as well as the use of renewable energy at our own facilities. If we are talking about the specifics of Join Life, you know, that 35% of all garments that were sold last year were Join Life.

As you know, Join Life is our seal of quality regarding sustainability of the product. This was well above our goal of 25%. Furthermore, 80% of our energy usage that we used in our own facilities last year came from renewable energy sources. And this is, again, above our target that we have of 65%.

And we are looking ahead for 2023, we also have set ambitious targets. This includes zero-waste from our facilities, use of 100% sustainable cellulose fibers, 100% removal of single-use plastics, as well as having 100% of all packaging materials collected for use or recycled in all of our supply chain. Now we are on track on these new targets.

James O'Shaughnessy – Investor Relations

Another question related to the inventory. With the levels of growth that we have been seeing, are the lower levels of inventory sustainable?

Pablo Isla - Inditex - Executive Chairman

I was mentioning before, as you know, this is a key part of our strategy. It has a lot to do with everything that we have been doing during the last few years in terms of the store optimisation plan, in terms of RFID, central inventory position, SINT, online, full integration between online and stores. This is a key part of our strategy.

I was mentioning before that I think it is very remarkable the level of growth that we are achieving with the low level of inventories, and for sure, if we think about the future, we continue thinking that inventories as a percentage of sales will continue coming down. And within this, it is very relevant. It also helps a lot with the management of the stores, the idea of running the stores also with less inventory, and we are totally focused on the new collections for our customers, low level of inventories, full price sales as I was mentioning, helping in a very significant way the gross margin because our customers, what they want is to see the high quality, sustainable products, and the latest fashions that we are offering them.

Now, if you analyse our collections, if you look at the websites of the different brands at any point in time during the season, you see all these very attractive garments, and this is what we think we need to continue doing, and for us it is a key part of our strategy.

James O'Shaughnessy – Investor Relations

The final webcast question relates to the trading update. To what do you attribute the strong trading update, please?

Pablo Isla - Inditex - Executive Chairman

I think, first of all, that for sure, the trading update is also strong. Also, the first quarter sales are very strong. If you have in mind that 24% of our space has been closed during the quarter and in the remaining 76% in many markets there have been many restrictions, and you see that our sales have been coming down only 11.5% in cost and currencies, it is also very remarkable the performance.

Then when you think about from May 1st to June 6th with 10% of our space remaining closed on average during the period, and our sales being 5% above 2019 levels, I think it is very remarkable, and as I was saying before, it has totally to do with the strong quality and commitment of our teams, all across the company and with this strategy that we are developing of a fully integrated approach between stores and online, centralised inventory position, and offering to our customers the latest fashions.

James O'Shaughnessy – Investor Relations

Thank you. That concludes the webcast Q&A session.

Pablo Isla - Inditex - Executive Chairman

Thank you all for joining today, and we hope in September we will have the opportunity to see you in person. Thank you very much.