

# INDITEX

INDITEX  
INTERIM NINE MONTHS 2022

CONFERENCE CALL TRANSCRIPT  
14 December 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

**Óscar García Maceiras** - CEO

**Ignacio Fernández** - CFO

**Marcos López** - Capital Markets Director

## Conference Call Participants

**Anne Critchlow** Societe General – Analyst

**Rebeca McClellan** Santander – Analyst

**Richard Chamberlain** RBC – Analyst

**Paul Rossington** HSBC – Analyst

**Georgina Johanan** JP Morgan – Analyst

**Warwick Okines** Exane BNP Paribas – Analyst

**Nick Coultier** Barclays – 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 Nine Months 2022. I am Marcos López, Capital Markets Director.

The presentation will be chaired by Inditex's CEO Oscar García Maceiras. Also with us is our CFO Ignacio Fernández.

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: Inditex model delivers strong growth

[Image]

## Slide 6: Inditex model delivers strong growth

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

In the first nine months of twenty twenty-two (2022) our business model has continued to deliver strong growth.

This performance relies on the four key pillars that we have introduced to you previously: Our product offering, a unique customer experience, our focus on sustainability, and the talent and commitment of our people.

We have had a very strong sales performance in the nine months of twenty twenty-two (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 has also been remarkable despite a challenging environment.

These are the reasons why sales, EBITDA and net income have reached historic highs, both in the first nine months and in the third quarter of twenty twenty-two (2022).

Our operating performance places us in a robust financial position. We have generated significant free cash flow, taking our net cash position to ten (10) billion euros.

All this in conjunction with a well established dividend policy.

### Slide 7: Inditex model delivers strong growth

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

Sales reached twenty-three (23) billion euros, nineteen percent (19%) higher versus the nine months of twenty twenty-one (2021). Sales were positive in all geographical areas and in store and online.

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

On the bottom line, net income increased twenty four percent (24%) to three point one (3.1) billion euros.

And our operations continue to generate strong cashflow.

Our diversified presence in two hundred and fifteen (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 to go into the detail behind the headline numbers.

### Slide 8: CFO

#### Slide 9: Financial Summary

Thank you, Oscar.

### Slide 10: 9M2022: Very strong execution

As you have seen in our release, Inditex had a very strong execution in the nine months of 2022 despite a challenging environment.

As Oscar mentioned a few moments ago, sales, EBITDA and net income all reached historic highs in the nine months and the quarter.

Sales have progressed strongly at plus 19%. We have managed the supply chain actively, and this has driven a healthy gross margin. Operating expenses have of course been managed rigorously.

Net income increased 24% to 3.1 billion euros.

We continue generating a significant free cash flow, taking our net cash position to 10 billion euros.

### Slide 11: Sales

Let me reiterate that sales have progressed very nicely at plus 19% reaching 23.1 billion euros and grew 20% in constant currency.

Sales have been positive across all regions.

In the first months of 2022, Inditex's traffic and store sales increased significantly. This trend continued as the year progressed, with store differentiation being key.

Online sales also progressed satisfactorily over and above the record nine months of 2021.

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

### Slide 12: Gross profit

In the nine months of 2022, gross profit increased 19% to reach 13.5 billion euros and demonstrates a healthy execution of the business model. The gross margin reached 58.7%.

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

### Slide 13: 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 nine months of 2022. Including all lease charges, operating expenses grew 4 percentage points below sales growth.

### Slide 14: Working capital

Inditex temporarily accelerated Autumn/Winter inventory inflows in the face of possible supply chain tensions throughout 2022 in order to increase product availability without any change to commitment levels. Due to this reason, inventory as of the 31<sup>st</sup> of October 2022 increased 27%.

The Autumn/Winter inventory is considered to be of high quality.

As of the 8<sup>th</sup> of December 2022, inventory levels were 15% higher.

### Slide 15: Strong cash flow and financial condition

These actions, in conjunction with the strong cash flow, took the net cash position to 10 billion euros.

And now over to Marcos.

### Slide 16: Capital Markets Director

### Slide 17: Concepts

Thank you

### Slide 18: Sales by concept

Over the nine months of 2022 we have continued with our strong expansion.

We have opened stores in 30 different markets and have progressed with optimisation activities across all concepts.

### Slide 19: Performance per concept

We are pleased with the execution of the concepts over the nine months.

Store sales across all concepts have been robust. Online sales are above the record levels of the nine months of 2021.

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

Back to you Oscar.

Slide 20: CEO

Slide 21: Outlook

Thank you.

I would like to comment on some initiatives this season which are driving the increasing levels of differentiation we are seeing. Key priorities continue to be to increase the appeal of our fashion proposition and to offer our customers a unique experience.

Slide 22: Zara Woman A Moment in Time collection

We continue providing the latest fashion in a fully integrated way. A good example of this is Zara Woman 'a moment in time' collection.

Slide 23: Zara Woman Cruise collection

Zara Woman Cruise Collection.

Slide 24: Zara Man The Knit

the Zara Man The Knit.

Slide 25: Zara Kids A/W collection

Zara Kids Autumn/Winter

Slide 26: Zara Home: A Sense of Christmas

And Zara Home's A Sense of Christmas.

Slide 27: Pull&Bear: Night out

Pull&Bear's Night Out.

Slide 28: Massimo Dutti's Limited Edition

Massimo Dutti's Limited Edition.

Slide 29: Bershka's Art Series

Bershka's Art Series.

Slide 30: Stradivarius: Unstoppable black

Stradivarius Unstoppable black.

Slide 31: Oysho Ski Collection

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

## Slide 32: Zara Valencia

In terms of the customer experience, I would like to highlight some key store projects of twenty twenty-two (2022) like the new Zara store at Juan de Austria in Valencia.

## Slide 33: Zara Busan

The enlargement of the Zara store at Busan in South Korea.

## Slide 34: Zara Kyoto

Or the enlargement of the Zara store at Kyoto in Japan.

## Slide 35: Zara Champs-Elysees Paris (Video)

A key project for next season will be the relocation of the Zara store at Paris Champs-Elysees in Spring.

The new store will extend over three thousand six hundred (3,600) square metres and will offer the latest fashion with the most up-to-date image.

Like our most relevant flagship stores recently opened will include dedicated spaces for lingerie, shoes and handbags, the origins collection, athletics and newborns.

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

## Slide 36: Store mode

We work to provide a unique customer offering on our platforms. One example of this is Store Mode. Store Mode has already been rolled out to around sixty (60) markets.

## Slide 37: Sustainability

Let's now talk about sustainability. As per the Sustainability Roadmap Goals, Inditex is on track to deliver upon all of the targets set for twenty twenty-two (2022), twenty twenty-three (2023) and twenty twenty-five (2025). Our strategy is particularly focused on two pillars: innovation through our Sustainability Innovation Hub and circularity.

## Slide 38: Zara Home The Laundry

On the thirtieth (30) of November twenty twenty-two (2022), Inditex launched the new detergent, The Laundry by Zara Home, which is available in stores and online platforms in more than twenty-five (25) markets.

Developed jointly by Inditex and BASF, the innovative solution reduces microfibres released by up to 80%.

Detergent formula features a combination of efficient ingredients particularly suitable for washing at low temperatures and thereby reduces their carbon footprint and extends the life of the textiles.

The developed solution can also be adjusted to enable the use of this technology by other detergent manufacturers and shows the effectiveness of cross-industry collaboration.

### Slide 39: Zara Pre-Owned: repair, resell & donate

On the third of November twenty twenty-two (3 November 2022), we launched “Zara Pre-Owned” in the United Kingdom, a pioneering integrated platform available through Zara stores, Zara.com and its mobile app.

The initiative is a new step in our approach to circularity by focusing on Repair, Resale & Donation. Through this platform, customers will be able to extend the life cycle of used clothing and will contribute to the reduction of waste.

### Slide 40: 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.

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

The talent, commitment and passion of our teams all around the globe will always be key to our competitive edge.

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

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

### Slide 41: 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.

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 thirty percent (30%) of group sales by twenty twenty-four (2024).

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

As we continue to invest in the business, we expect to deliver strong free cash flow.

Ordinary capital expenditure should reach one point one (1.1) billion euros for twenty twenty-two (2022) which is driving differentiation and digitalisation.

### Slide 42: Outlook 2022

We enjoy a global presence, having operations in two hundred and fifteen (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 mentioned earlier, the model is operating at full pace, and we enjoy very significant opportunities through both organic growth and expansion.



### Slide 43: 2022 Outlook

Autumn/Winter collections have been very well received by our customers. Store and online sales in constant currency between the first of November and 8th of December twenty twenty-two (2022) increased twelve percent (12%) versus the record period in twenty twenty-one (2021).

### Slide 44: Dividends

The final dividend for twenty twenty-one (2021) of forty-six point five (46.5) cents was paid on the second of November twenty twenty-two (2022).

Our dividend policy of sixty percent (60%) ordinary pay-out and bonus dividends remains in place.

As a reminder, the Board of Directors also proposed a total bonus dividend of forty (40) cents per share to be paid in relation to the fiscal twenty twenty-two (2022) results.

### Slide 45: 9M2022 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 and A session starts now. If you would like to ask a question, please press star 5 on your telephone keypad. If you wish to withdraw your question, please press star 5 again.

We request that you limit yourself to only one question per turn so we can maximize the number of participants in 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.

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

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### **Anne Critchlow – Société Générale - Analyst**

Thank you. Good morning. I have got three questions, please. First of all, what was the increase in online sales in the third quarter? And second question, have you considered launching a marketplace on Zara or any other website? And then finally, please could you update us on the average basket size at Zara these days, including sale tax and before returns? Thank you.

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

Regarding your first question about online, I think that in the presentation we mentioned that online sales are positive, not only in the quarter but also on the nine months over the record figure we obtained last year. I think this is a very positive message. In-store sales are clearly positive. Online is really positive. So very healthy execution.

Regarding marketplaces, we have no change of strategy. We remain exactly the same and we have no plans to launch a marketplace in the short to medium term.

And regarding the average basket, I would say that the most important factor is the strong execution of the model over these nine months, given that sales have increased 19%.

And also I would like to comment very clearly on the trading update of 12% that we have obtained from the 1st of November to the 8th of December, which is not only over the record period of 2021, but it is a tad higher than in the third quarter 2022.

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### **Operator**

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

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### **Rebecca McClellan – Santander - Analyst**

Yeah, hi. Good morning. Could you just tell us what you have done with your prices over the latest collection, please?

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

In terms of pricing there are no updates. In the situations where there are issues in which, you know, especially on the cost side that we require to adjust prices to defend our gross margin we do it, always on a very progressive way. We mentioned at the beginning of the year that for this year, and

based on the situation in the market, we were going to adjust prices by the mid-single digit. So nothing material and again in a very focused exercise. It is not across the board. It is by family of products, by family of fashion components. And this remains the case.

Basically what we have mentioned in the presentation is that the execution of the business model we had is based on the strength of the fashion collections and the customer experience in our stores and online.

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### Operator

The next question Richard Chamberlain, RBC. Please go ahead, Richard.

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### Richard Chamberlain – RBC - Analyst

Good morning, everybody. A couple from me, please. First of all, how should we interpret the reduction in cash and increase in short term investment in the net cash line? Should we expect higher financial income, much higher financial income in Q4 next year?

And then the second one is on inventory, to what extent has the recent inventory reduction been as the result of any increased discounting or participation in Black Friday type activity? Thank you.

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### Marcos López - Inditex - Capital Markets Director

Well, regarding cash, as you can imagine, our treasury is always trying to find the best opportunities for investing our cash. And this is why we tactically move from short term investments into cash. And vice versa. With higher interest rates it is more interesting to try to achieve a bit more profitability. But don't expect significant changes on a quarterly basis. But we always try to obtain the best profitability for our cash.

And regarding, discounting, this is not the case. Our participation in this type of activity is slight, even in Black Friday it is very limited. Our key focus is to sell the latest fashions at full price. So nothing material versus last year.

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### Operator

The next question comes from Paul Rossington at HSBC. Go ahead, Paul.

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### Paul Rossington – HSBC - Analyst

Good morning. Thank you. One question. I think you said that OPEX grows year-to-date as the below top line grows. But if I look at the numbers, if I have added it correctly I think that OPEX growth was ahead of top line growth in Q3. I wondered if you could provide some color on that, thank you.

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### Marcos López - Inditex - Capital Markets Director

Absolutely. Basically, what we have mentioned in the presentation is clear, if you include all the lease charges into operating expenses, then operating expenses grew four percentage points below sales. Clearly this is just a result of IFRS accounting that you know very well. But there was clearly leverage in this first nine months of the year.

We've seen that mistake in some other commentators in the market. But clearly you have to understand that to compare apples to apples you have to add all the lease charges to operating expenses and this will result in four percentage points of leverage in the P&L.

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**Operator**

Next question comes from Georgina Johanan from JP Morgan. Please go ahead, Georgina.

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**Georgina Johanan – JP Morgan - Analyst**

Hi. Thanks for taking my question. First of all, thank you for your comments, in terms of discounting. With regards to Q4, if it is not on discounting, what actually are you expecting to sort of swing that margin? Because I think in terms of your full year guidance it would imply a range of something right minus 150 to plus 150 for Q4 alone. So what are the swing factors there, please? And then should we still expect inventory to be elevated, sort of bringing them in early when we come to the end of the final quarter, please? Thank you.

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

I will start with the second one as we have updated you, on the 8th of December our inventory is just 15% higher and we've provided you with a trading update of 12%. I think this is the best way to put the situation into the context. And this is why we are reiterating the gross margin for the year of a stable gross margin which for us always is minus plus 50 basis points. There are no changes in our guidance for the year.

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**Operator**

Next question comes from Warwick Okines at Exane BNP Paribas. Please go ahead, Warwick.

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

Thank you. Good morning. Could you just comment maybe about how you see the external factors on supply chain costs for the year ahead? Do you think you will have to raise prices again by mid-single digits in the next season to maintain and protect gross margins?

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

Let us focus on the current season. We are still in the middle of the autumn-winter season. And we will talk about those factors in March. What we can tell you is that as of today despite the challenging environment that we have described, and that you know well, with so many factors affecting gross margins, OPEX, I think the focus is totally on the current season and this is why we can provide you with these numbers in the sense that we have obtained these results. And we are able to focus on stable gross margin for the year with a 12% growth in the trading update, 15% inventory position. So completely focused on the current season. And then in March we will talk about next year.

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**Operator**

Next question comes from Nick Coultier at Citi. Please go ahead, Nick.

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**Nick Coultier – Barclays - Analyst**

Hi. It is Nick from Citi. Good morning and thank you for taking my question. I saw a different lens on SG&A perhaps. If you can talk to the some of the initiatives you have in place to control cost inflation and SGNA, please, and perhaps why that should continue into the coming quarters. Thank you.

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

Well, probably what we should talk is about two things.

I think the first one is that the company has a total focus on executing in a disciplined manner. And this is not something that we change in every quarter. We clearly try to obtain all the efficiencies basically through the efforts of our people. And also through technology. And these factors combined with the business model that we have, which combines stores and online in a very effective manner. In the presentation we talked about the store mode now present in 60 countries. We continue to obtain efficiencies all the time.

And this is why in these nine months there is four percentage points of leverage in terms of OPEX versus sales. Our focus is always to try to maximize full price, executing the model with a quality, with interesting fashions, with constant drops of new collections. And this is what is delivering the type of returns that you see.

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**Operator**

We are going to go over to Webcast questions now. There have been a number of Webcast questions today. The first of which is can you tell us a little bit more, Oscar, about the Zara preowned initiative?

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**Óscar García Maceiras - Inditex - CEO**

Thanks for the question. Zara preowned forms part of our commitment to circularity embedded in our sustainability strategy. As we have already mentioned, it is currently available to customers in the UK, allowing them to extend the use of life of clothes through repair, resale and donations. The repair service is available in stores and now also online. It is designed to help customers to extend the life of the Zara fashion. In the case of customer-to-customer resale platform, this is a space where customers can sell and buy brand products from any season from other customers. And the platform provides help with the photos and information on the original products. Regarding donation service, customers can donate clothes by requesting a home collection. This service which supplements our in-store clothing collection program bins ensures that all products collected are donated to local NGOs that we work with to support the development of projects in local communities. Our target, our ambition is to deploy this program to more core markets during 2023.

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**Operator**

Thank you. The next question on the webcast platform, can you provide some comment on the performance in the USA and China?

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**Óscar García Maceiras - Inditex - CEO**

The sales provision in the nine months was very positive from a global basis. Up to 19.3% as you know with a strong growth in all geographical regions. The sales evolution of the different countries of course relates to the timing of temporary lockdowns both in this period as well as in the comparable period last year.

Regarding the U.S., the key issue in 2022, so far has been the strong rebound in store traffic and store sales. We are very happy with our performance in the Americas so far this year. And the U.S. is already our second largest market. And we continue to see very strong growth opportunities there. In the case of China, it has been challenging this year due to the rolling restrictions across the country throughout the nine months. But we remain absolutely confident about our opportunities there in the medium to long term. Fashion demand continues to be strong in China. For sure it will remain a core market for us,

for Inditex.

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**Operator**

Next question, this year you have opened large flagship stores in Plaza España, Madrid and in Battersea in London. Can you talk a little bit more about the sales development in these stores, please?

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**Óscar García Maceiras - Inditex - CEO**

The stores in Plaza España in Madrid, and Battersea in London, are great examples of the kind of stores that we are opening now. Large flagship stores in the best global retail locations, fully digital and sustainable. Both stores include all the features of our digital store mode, allowing a complete digital experience and spaces for lingerie and newborns, et cetera. The sales since opening had been very strong as they are the kind of stores that give the customer an experience that is worth going to the store for.

Our idea is to keep on opening this type of stores in another prime locations, such as Paris, Champs-Elysee, as we have already mentioned during our presentation.

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**Operator**

Thank you. That concludes the questions on webcast platform.

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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 welcome you back in March 2023 for the full year results.