

INDITEX

INDITEX
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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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Introduction: Marcos López - Capital Markets Director

Good Morning Ladies and Gentlemen. A warm welcome to the presentation of Inditex's Results for the Interim Half Year 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 accelerates

Good morning to all of you and welcome to our first half results presentation. I would like to highlight some key messages before we go into an analysis of the period.

Inditex's differentiation and strategic transformation towards a fully integrated, digital and sustainable business model is accelerating.

First of all, I want to recognise the effort made by our teams. Their dedication during the period has been outstanding. The strong individual commitment of all our people and our unique corporate culture totally focused on the customer continues increasing the differentiation of Inditex's business model.

Our operating performance continues to go from strength to strength. Sales, EBITDA and net income in the second quarter 2021 have reached historic highs, surpassing pre-pandemic levels. Constant currency sales growth accelerated over the second quarter to 7% versus the second quarter of 2019.

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

Our operating performance continues to generate strong cash flows and reinforces the robust financial position of the Group.

We also continue to make progress with respect to the sustainable development of our business model. At the AGM recently, we presented a set of new, highly demanding targets.

Regarding digitalisation, the migration to the Inditex Open Platform is now 95% complete.

As you have seen in our release, we have had a strong start to the Autumn/Winter season. Store and online sales in constant currency between the 1st of August and the 9th of September 2021 increased by 22% versus the same period in 2020 and 9% versus the same period in 2019.

Slide 5: Strength of integration: 99% of stores open, online grows strongly

Let me add some details on the performance so far this year.

This remarkable performance in the first half of 2021 was greatly helped by our fully integrated business model, our single inventory position and the attractiveness of the product offer.

Inditex's competitive differentiation is bigger than ever.

The impact of the store absorption programme announced in June 2020 has already been fully recovered in store and online sales.

As of today, 99% of stores are open. The strong trajectory of online sales that we saw last year has of course continued well into 2021.

Online sales in constant currency in the first half of the year have progressed very nicely indeed at plus 36%. This compares to +137% versus the first half of 2019. Online sales are expected to be more than 25% of total sales in 2021, one year before our initial target.

It is because of these features that our 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.

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

Slide 6: Financial Summary

Thank you, Pablo.

Slide 7: 1H2021: Strong recovery in operations

As you have seen in our release, Inditex's operations showed a strong recovery in the first half of 2021. We executed very well in what turned out to be a challenging operating environment.

We managed the supply chain very closely, and this drove the exceptional gross margin performance.

Operating expenses have of course been tightly managed.

Slide 8: 2Q21 Sales, EBITDA and net income at historic highs

As mentioned already, sales, EBITDA and net income in the second quarter 2021 reached historic highs, exceeding pre-pandemic levels. This is the result of very active management of the supply chain with a healthy gross margin evolution and tight management of the operating expenses.

Slide 9: 1H21 Sales

The first half has seen a strong recovery in sales of 49%. Sales in constant currency grew 53%.

Sales trends in the first half 2021 continually improved as stores reopened and online sustained its strong performance.

Online sales in constant currency grew 36%, or +137% versus the first half of 2019.

Slide 10: 2Q21 Sales

During the second quarter 2021 sales growth in constant currency continued accelerating.

Sales in the quarter were 51% higher than in the second quarter 2020 and 7% higher than in the second quarter of 2019, which was itself a historic high.

Slide 11: Currency impact on sales

Over the first half of 2021 the currency impact on sales was -4.5%. At current exchange rates, the currency impact on sales is expected to be around +0.5% versus the second half 2020 and -5.5% versus 2H2019.

Slide 12: Gross margin

The gross margin reached 57.9%. It was 170 basis points higher than in the same period in 2020.

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

Based on current information Inditex expects a gross margin of around 57.5%, plus/minus 50 basis points, for the full year 2021.

Slide 13: 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.

The main components of operating expenses have shown a very good performance. Efficiency gains have allowed us to exercise a high level of control over operating expenses in the period.

As you can see, operating expenses over the first half of 2021, increased 25%, well below sales growth. Operating expenses were below the same period in 2019 despite the fact that practically all stores are open.

Slide 14: Depreciation

Depreciation and amortisation came to 1.4 billion euros, 16% lower. The difference reflects the provision for the store optimisation programme for 2020 and 2021, charged to the first quarter 2020 accounts. Excluding the provision, this line would have increased 3%.

Slide 15: 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, working capital has returned to the more normal levels seen prior to the pandemic.

As a result, inventory at the end of the first half of 2021 was below the levels seen in the first half of 2019. The closing inventory is considered to be of high quality.

Slide 16: Strong cash flow and financial condition

These actions, in conjunction with the strong cash flow, took the net cash position to 8 billion euros.

And now over to Marcos.

Slide 17: Concepts

Thank you

Slide 18: Store & Online Sales by concept

Over the first half of 2021 we have continued expanding our operations. This can be seen in the 27 different markets in which we have opened stores over the period.

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

Slide 19: Concepts

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

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

Slide 20: Integration of Uterque into Massimo Dutti

As part of Inditex's strategy, Uterque will be fully integrated into Massimo Dutti over the next year. Uterque's entire product range will be available only on Massimo Dutti's website and selected stores.

And now over to Carlos to focus on Sustainability.

Slide 21: Sustainability

Thank you, Marcos.

Slide 22: Sustainability 2020 targets

Inditex's lead in sustainability is reflected in the achievement of all of the targets set for 2020, and in some cases even exceeding some of these demanding milestones.

Slide 23: New sustainability targets

Inditex continues to make good progress in its sustainable development, having approved the following demanding targets at its last AGM:

- Join Life more than 50% by 2022
- 100% renewable energy by 2022 (from 80% previously in 2025)
- 100% more sustainable cotton by 2023 (previously 2025)
- Water consumption -25% in our supply chain by 2025
- Net zero emissions by 2040 (previously 2050)

- Elimination of single-use plastics in customer packaging by 2023
- 100% recycled or sustainable polyester/linen by 2025
- 100% sustainable cellulosic fibres by 2023

Slide 24: Sustainability targets

This is in addition to the existing targets already in place for 2023 and beyond...

Slide 25: Use of renewable energy

...such as in the use of renewable energy to reduce carbon emissions.

Back to you Pablo now.

Slide 26: Outlook

Let me now talk about the outlook for 2021 and very specially about the features that make Inditex unique. Let's start with our fashion collections and the integrated store and online execution.

Slide 27: Zara Woman 2021 Fall/Winter

A great place to start is with the Zara Woman 2021 Fall/Winter Collection...

Slide 28: Zara Woman 2021 Après-vacances

...Zara Woman 2021 Après-vacances.

Slide 29: Zara Man Athleticz

On 30 September, Zara Man will launch the sport collection Zara Athleticz, available online and in selected stores.

Slide 30: Zara Kids back to school collections

The Zara Kids Back to school collections...

Slide 31: Zara Home portraits of a home

...Zara Home Portraits of a home campaign marked by sustainable interiors...

Slide 32: Massimo Dutti Relaxed City editorial

...Massimo Dutti Relaxed City editorial...

Slide 33: Bershka natural tones collection

...Bershka Natural tones collection...

Slide 34: Pull&Bear Pacific Republic

...Pull&Bear Pacific Republic collection...

Slide 35: Stradivarius A/W Collection

...The Stradivarius Autumn/Winter collection.

Slide 36: Oysho Working Leisure

...Oysho's Working Leisure collections.

Slide 37: Fall/Winter

...and last but not least the Uterque Fall/Winter collection.

Slide 38: Zara Paris La Defense

A very significant project for the beginning of October will be the opening of a new store for Zara in Paris la Defense with 5,000 square metres of surface on a single level. This will be one of the largest Zara stores of this type in the world.

Slide 39: Zara Chengdu Taikoo Li

In November we will open a very unique Zara store at Chengdu Taikoo Li, a centre inspired by Chinese vernacular architecture.

Slide 40: Bershka Madrid Preciados

And a recent outstanding opening for Bershka with 2,700 square metres has taken place at Madrid Preciados.

Slide 41: Outlook

The strategic initiatives to strengthen our global fully integrated store and online model are accelerating. We plan to continue developing these key long-term priorities in order to maximise 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 42: Dividend

As a reminder, the final dividend for full year 2020 of 35 cents will be paid on the 2nd of November.

Slide 43: 1H2021 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 operator, go ahead.

QUESTIONS & ANSWERS

Operator

Ladies and gentlemen, the telephone Q and A starts now. If you would like to ask a question, please press star 1 on your telephone keypad. If you wish to remove your question, please press star 2. 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 1 again after the next person's question has been addressed. Please, ensure your phone is not muted locally. The first question today comes from Richard Chamberlain of RBC. Richard, please go ahead.

Richard Chamberlain - RBC - Analyst

Thank you very much. Good morning, guys. Just a question for me, please, on the Zara brand. I wonder if you can give us an idea of the basket size for Zara online and also in store? And whether the gap there is changing at all? I'm just wondering if that presumably higher basket online is helping to lift up the gross margin and also the operating expenses along with obviously the strong full price sales. Thank you.

Pablo Isla - Inditex – Executive Chairman

Well, thank you. Answering your question, the first thing I would like to say is that what is really helping the evolution of the gross margin and the operating expenses and the efficiencies inside our company is what we call this fully integrated approach. I think that is what is remarkable, if you see what has happened during the first half of the year or the start of the Autumn/Winter season, but thinking about the first half, with a gross margin evolution this has a lot to do as we were saying during the presentation with the single inventory position, with the fully integrated approach, you see that, for example, if we think about the start of the season, the trading update, sales growth between August 1st and September 9th is growing +22% compared to 2020. But even +9% compared to 2019 and inventories are minus 4% compared to 2019 level at the end of July.

So, what is really remarkable is this fully integrated approach between stores and online. And what I would also say about this trading update is that this +9% is including as we were saying during the presentation the full absorption of the impact of the 800 stores that we have absorbed during the period. And having in mind, because you all know that there is some COVID impact in the Asian countries in the month of August. So even with all that sales growth are ++22% compared to 2020 and +9% growth compared to 2019. So, what is very remarkable is the collections that we have and the execution of the business model, the work that our commercial teams are doing, the work that our teams at the country level are doing. And this is what is driving the evolution of the company. We think it is a very unique business model and a very unique approach to the business.

Operator

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

Rebeca McClellan - Santander - Analyst

Yes, good morning. A small one, please. Previously you talked about hourly trading restrictions. How is that in the second quarter in the current trading?

Pablo Isla - Inditex – Executive Chairman

Yes. As we were saying... you perfectly know and when you think about the second quarter, and this is something also to have in mind if you think about Opex during the second quarter, that if you remember, in the first quarter, on average 25% of our stores were closed. We were having 25% less commercial hours in our stores. So, in the second quarter, you see the impact of all these reopening's that we had. What we said in the first quarter results presentation is that during that period, well, I can answer you for the whole quarter. For the whole quarter it has been 6% in the second quarter, 6% of non available hours coming from COVID.

And now at this moment, it is less than 2%. So now we're nearly operating fully our stores. As I was saying, there is some COVID impact in some different countries. But globally even with that, we are having 9% sales growth compared to 2019. And 22% sales growth compared to 2020.

Operator

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

Warwick Okines – Exane BNP - Analyst

Yes, good morning and thank you for taking my question. I have a question about cost in the second half. Last year in H2, you booked a 394 million COVID related extraordinary expense. Do you expect to face more extraordinary costs this year or should we think about that cost just dropping out of the P&L?

Marcos López - Inditex - Capital Markets Director

Well, as Pablo was mentioning, we believe that the key driver both in sales, gross margin and Opex will be the reopenings. You see that sales are accelerating in a very nice way despite the fact that we are assuming some costs from the reopening in terms of stores. There is a lag in the sales in the stores. You can see the trading update with 22% growth over last year. Hopefully, there won't be any more COVID this year. The evolution of costs has been very nice as Pablo has mentioned, very much in line with the performance of the company. The key factor, as we discussed, in the presentation is probably the reopening's. We don't expect anything additional at this stage.

Operator

The next question comes from Simon Irwin of Credit Suisse. Simon, please go ahead.

Simon Irwin – Credit Suisse - Analyst

Good morning, gentlemen. Thanks for taking my call. Can you just talk a little bit about what you are seeing in terms of air freight trends?

Pablo Isla - Inditex - Executive Chairman

When we talk globally about the gross margin or cost structure of the company, we always say the same. Of course, there are elements that are, let's say it this way, happening in the markets but there are many elements involved. There are a lot of things that we can do related with that, of course, these air freight costs are increasing. But this is one element of the many that you have when you run a company.

I think the key for us with a huge difference... well, having said that, the first thing I would say is that we are giving guidance for the gross margin. So, we are expecting to have a very healthy gross margin in the second half of the year. And as Marcos was saying we will continue managing actively our costs all across the company. And we believe we will also have a healthy performance regarding costs. And what we can say is that for us is key... every results presentation you could have this or that, this

element that is increasing, decreasing. But what this key is the essence, is the execution of the business model. We announced in June last year this absorption of a very significant number of stores. We have absorbed 800 stores and we are saying trading update plus 9% compared to 2019, a strong execution of the business model, very healthy gross margin in the first half and we believe it is going to be the case in the second half. It's because of this fully integrated approach. So, we always, you know us perfectly and we always prefer to talk much more about the essence, about the medium/long term trends of the business. In the way we operate the business, that about any this or that impact in one particular moment. So, answering your question, nothing as relevant as to have a very significant impact on our old performance, on our global performance.

Operator

The next question comes from Anne Critchlow of Société Générale. Anne, please, go ahead.

Anne Critchlow – Société Générale - Analyst

Thanks, good morning everyone. My question is on Uterqüe. I just wonder if you could give us a bit more color behind your decision to merge Uterqüe and Massimo Dutti. I mean, was it because Uterqüe was not quite as promising as you had hoped or are you looking for cost efficiencies? Also are you going to close all the Uterqüe stores? Thank you.

Pablo Isla - Inditex - Executive Chairman

Yes. The reason behind this integration of Uterqüe into Massimo Dutti is that we believe that integrating the Uterqüe collection into Massimo Dutti is going to give Uterqüe more visibility in many different markets. Uterqüe currently is present in very, very few markets and we have thought that this was a better approach to integrate it into Massimo Dutti, not to have a separated Uterqüe stores and to have this collection integrated into the Massimo Dutti collection, of course, online globally and in some Massimo Dutti selected stores.

We have the experience when we integrated Zara Home into Zara, in this case, we decided also to keep the Zara home stores, but at the same time we are also introducing Zara Home stores into Zara stores. For example, we were mentioning in the presentation this big store that we are opening in La Defense. This Zara will have a Zara Home inside the Zara stores. And we are offering Zara Home products in the Zara web progressively in most of the countries in the world, in most of the relevant countries in the world, with very, I would say, positive performance. So, we think it is the right movement. It is a way to give to Uterqüe more visibility in different markets in which today it is not present. And we think it is the right approach and the right strategy going forward.

Operator

The next question comes from Olivia Townsend of UBS. Olivia, please go ahead.

Olivia Townsend – UBS - Analyst

Thank you. My question is just about the lockdowns in Asia that you mentioned earlier in the Q&A section. So that's impacting demand. I was wondering if you were able to quantify the impact of those lockdowns in Asia on sales during the latest period.

Pablo Isla - Inditex - Executive Chairman

Well, we prefer not to elaborate very much on trading updates. I mean, from August 1st to September 9th very healthy trading updates having in mind this impact in the Asian market. You can think that it was very healthy, excluding these markets. But we prefer not to elaborate very much on our trading updates about that. I think what for us is key is how strongly... Well, first of all, because, of course, everything comes first of all, with the product and with collections and you will see many, many things in the coming weeks about collections, capsules... From tomorrow onwards you will also see... we were talking about in the Zara among this Zara athletics which we think is quite relevant. But you will also see from tomorrow in the Zara web what we call "origins collection" in the Zara man's section which

is very strong. And then in the Zara women's section you will see many capsules that can see many different things during the season. So, this is talking about Zara, but we could talk also about the other brands. So, what for us is relevant is the global performance of the company within this 9% trading update is very healthy. And well, the autumn/winter collections, as we were saying, have been very well received by our customers in the different markets. And what we will do is to continue working to have the best possible product, very sustainable. And managing the company in a very efficient way.

Operator

Thank you very much. We are now finished with telephone of Q&A session. We have just a question received through the webcast platform.

James O'Shaughnessy - IR

Good morning. We have had a few questions on webcast platform. The first of which is: has online click and collect and returns to store returned to normal please?

Pablo Isla - Inditex - Executive Chairman

Thank you. Yes, I think it is all progressively coming back to normal. Of course, this is something that when the stores are closed or with many restrictions, this particularly online deliveries or online returns in the stores are not at the normal level. Once the stores come back to normality then, of course, for us this is a key feature of our fully integrated approach between stores and online having a significant part of online deliveries in our stores. And two-thirds of our online returns taking place in the stores. And this is something that we see coming back to normal progressively in the different markets.

James O'Shaughnessy - IR

Perhaps you could talk a little bit about the three openings you mentioned in the presentation, please.

Pablo Isla - Inditex - Executive Chairman

I was mentioning before in a previous question about La Defense. I think La Defense and also Preciados in Madrid are a very good example when we talk about this store optimization plan.

Because in La Defense in Paris, we used to have two small Zara stores for what Zara is today. One small Zara Home store and one small Pull&Bear store. And with this reorganization that we are doing, we are having a huge Zara in the best location inside the mall with a Zara Home inside the Zara store. And then we are also enlarging and relocating the Pull&Bear store in a very significant way. And one of the two previous Zara stores is becoming a new Bershka store in La Defense, which for Bershka is the perfect size. It was small for what Zara is today but is perfect for Beshka. So, we used to have four stores in La Defense. And now we are going to have three. But it has nothing to do with our presence, our approach to the customer experience in our stores, the level of sales, the surface, the operation of the stores. So, it is a perfect example of this store optimization plan.

And Preciados, I was mentioning that also, because we used to have... in Preciados we have a Zara, we have Pull&Bear, a very beautiful store, we have a Stradivarius, and we used to have a Bershka store close to the Zara store. And then two years ago we enlarged and refurbished the Zara store. And we took the Bershka store that was very small for what Bershka is today. And then two weeks ago we have opened a very, very relevant flagship for Bershka in Preciados street. These are two very good examples of this store optimization plan that we are developing in the different markets, and which is a key part of our strategy as you perfectly know.

James O'Shaughnessy - IR

The final question is: can you talk a little bit about the new Zara Man Athleticz collection?

Pablo Isla - Inditex - Executive Chairman

I think we have mentioned during the presentation and during the Q&A session. Zara Athleticz is something that we are launching on September 30th in some selected stores and, of course, online. Progressively we will introduce in many other stores. And you will see, you have seen now in the presentation a small... well, one slide about the image. But you will see fully very soon about the whole approach and the idea is simplicity, comfort, functionality and, of course, style. Because it is Zara and it always has to be a style, but very, very high quality from a technical point of view. And we think this is something that is going to become progressively relevant inside the Zara man section. So, we think it's a very good initiative. And with a high potential going forward.

James O'Shaughnessy - IR

That concludes webcast questions.

Pablo Isla - Inditex - Executive Chairman

Thank you very much to all of you and Marcos.

Marcos López - Inditex - Capital Markets Director

Thank you very much. This concludes the Q and A session. We are open to have your questions and now let me hand over to Pablo for the closing remarks if there is nothing else.

Pablo Isla - Inditex - Executive Chairman

Nothing more. Thank you. Thank you. You keep in touch through the capital markets department. Thank you.

Operator

Ladies and gentlemen this concludes today's call. Thank you for joining. You may now disconnect.