INDITEX

INDITEX
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Introduction: Marcos López

Good morning, Ladies and Gentlemen. Welcome to the presentation of Inditex's Results for 2021. I am Marcos López, Capital Markets Director.

Here today with us are Inditex's Executive Chairman Pablo Isla, our CEO Oscar García Maceiras and our 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.

I'll now hand you over to Pablo.

[Image]

Good morning to all of you and welcome to our 2021 results presentation.

Slide 4: 2021: Inditex transformation accelerates

My first words are for those affected by the conflict in Ukraine. Our sympathy and thoughts are with the people there and our teams on the ground.

I would like to highlight some key messages about the year 2021 before we go into an analysis of the period.

I want to recognise the effort made by each and every individual at Inditex across all the different functions, concepts and countries. Their dedication has been outstanding during these challenging times. We can only present results of this quality today due to their commitment, their capacity to adapt to changing conditions and their entrepreneurial spirit.

It is due to our teams that Inditex's differentiation and strategic transformation towards a fully integrated, digital and sustainable business model is accelerating. Let me tell you that we have total confidence in our unique business model that fully integrates stores and online.

Our operating performance in 2021 has been very strong. Our collections have been very well received by customers.

Store sales are getting back to normal. The store optimisation plan is in its final stages and has been a resounding success. Online sales continue to see growth.

We generated strong cash flow, and that reinforced the robust financial position of the Group.

We continue to see very strong growth opportunities.

And we continue with our predictable and attractive shareholder remuneration policy. For 2021, the Board is proposing a dividend of 0.93 euros per share, which represents an increase of 33%.

The Board is also proposing a bonus dividend of 0.40 euros per share for 2022, 33% higher than in 2021.

Slide 5: 2021: Outstanding performance

The outstanding performance in 2021 was greatly helped by our fully integrated business model, our single inventory position and the attractiveness of the product offer, but it was still affected by Covid-19.

Let me cover some of the headline numbers.

In constant currency, our sales in 2021 were 3% higher than the pre-covid 2019 historic highs.

The strong trajectory of online sales that we saw last year continued into 2022. Online sales grew 14% compared to 2020 to 7.5 billion euros and are now 25.5% of group sales.

The execution of the business model in the year has been strong. In 2021, Inditex achieved the highest gross margin in 6 years.

Net income reached 3.2 billion euros, up 193% versus 2020.

Cash flows reached historic highs. Free cash flow continued to accelerate. Net cash was 9.4 billion euros at year end.

Slide 6: Online continues to be a major growth driver

Online sales in constant currencies have progressed very nicely indeed at plus 14% in 2021. This compares to plus 113% versus 2019. They have reached 7.5 billion euros. SINT last year accounted for 1.2 billion euros of sales.

Online visits, app users and social media followers continue to grow strongly and provide a solid base for future growth.

As a result, online sales accounted for 25.5% of group sales in 2021.

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

Slide 7: Financial Summary

Thank you, Pablo.

Slide 8: 2021: Strong operations performance

As you have seen in our release, Inditex's operations progressed strongly in 2021. We executed well in what turned out to be a very challenging operating environment. The table shows the head-line numbers.

We managed the business model very tightly, and this resulted in a strong gross margin performance.

Operating expenses have of course been tightly managed. The result is a very strong cash flow generation.

Slide 9: 2021 Strong Sales

Sales trends in 2021 have continually improved as store sales returned to normal and online has sustained a good performance.

The year has seen a strong recovery in sales of 36% over 2020.

The store optimisation programme has been a resounding success. The impact of the store absorption programme announced in June 2020 has been fully recovered in store and online already.

Slide 10: Sales in constant currency

Sales in constant currency grew by 37%, accelerating over the second half, versus both 2020 and 2019.

Slide 11: 2021 constant currency sales growth vs. 2019

Let me add some detail on the performance in 2021, a year defined by a progressive normalisation of sales.

In the first quarter 2021, with 24% of trading hours still unavailable due to restrictions, our sales performance improved markedly due to healthy store sales productivity and online sales growth. The integration and flexibility of our business model was key to this.

With a more normalised trading environment in the second and third quarters of 2021, sales, PBT and net income reached historic highs.

It is especially remarkable that store sales in the third quarter increased compared to the record levels of 2019 with 11% less stores in operation, proving that the store optimisation programme has been a resounding success.

That performance persisted at the beginning of the fourth quarter 2021. However, the final part of the year was impacted significantly by the spread of the Omicron variant over the Christmas period.

With a decrease in the cases of the Omicron variant and the end of restrictions, the start of the Spring 2022 is returning to the previous positive patterns.

Store and online sales in constant currency from the 1st of February to the 13th of March were 33% above 2021 and 21% above the historic pre-Covid highs of 2019. In this period, sales in the Russian Federation and Ukraine represented approximately 5 percentage points of sales growth.

Slide 12: Omicron impact on 4Q2021 results

As mentioned, the final part of the year was impacted significantly by the decrease in store traffic due to the spread of the Omicron variant and restrictions in most markets, and lockdowns in Austria, The Netherlands, Germany, Japan, China and the Philippines.

The total one-off impact of this on our results was approximately 400 million euros. The impact on the gross profit due to increased markdowns as a result of the outbreak was approximately 210 million euros. The impact on the operating expenses in the 4th quarter 2021 due to incremental store expenses associated with the Christmas season and additional costs linked to increased online sales was approximately 190 million euros.

With Omicron abating in 2022 sales have returned to the previous positive patterns.

Slide 13: Global Store & Online sales in 2021

The sales performance by geographic area in 2021 reflects currency fluctuations and the timing of the temporary store closures and restrictions.

In 2021, the United States became the largest single market for Inditex after Spain.

Slide 14: Gross margin shows very strong execution

The gross margin reached 57.1%. It was 123 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.

In 2021, Inditex reached its highest gross margin in 6 years.

Based on current information, Inditex expects a stable gross margin (plus or minus 50 basis points) for the full year 2022.

Slide 15: 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.

Operating expenses grew well below sales.

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 over the period.

Slide 16: Depreciation

Depreciation and amortisation came to 2.9 billion euros, 5% lower. The difference reflects the provision for the store optimisation programme for 2020 and 2021, charged to the first quarter 2020 accounts.

Slide 17: 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.

Closing inventory is of high quality.

The inventory at the end of 2020 was unusually low due to Covid-19.

Inditex has decided to accelerate inventory inflows for the beginning of the Spring season, without altering commitment levels, in order to increase product availability in the face of possible supply chain tensions.

We feel comfortable with the inventory levels. The high quality of inventory is reflected in the strong 1st quarter 2022 trading update.

Slide 18: Strong cash flow and financial condition

These actions, in conjunction with the strong cash flow, took the net cash position to 9.4 billion euros.

Slide 19: Cash flow summary

With all of this, you can see funds from operations after fixed lease cash payments was 4.9 billion euros and cash from operations was 5.1 billion euros. We are already above 2019 levels, pre-Covid.

And now over to Marcos.

Slide 20: Concepts

Thank you.

Slide 21: Store & Online Sales by concept

Over 2021, we have continued expanding our operations. This can be seen in the 40 different markets in which we have opened stores over the period.

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

Slide 22: Performance per concept

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

It is remarkable that all concepts had profit before tax as a percentage of sales exceeding 15% in 2021, despite the impact of Covid. It's the business model that underpins this strong performance.

Slide 23: Concepts

Store sales are improving, and online sales continue to grow. Stradivarius, Pull&Bear and Oysho generated a particularly strong performance in 2021.

And now over to Oscar.

Slide 24: Sustainability

Thank you, Marcos

Slide 25: Delivering on Sustainability Roadmap Goals

Inditex has always tried to take the lead when it comes to sustainability. You can see this in how we've successfully achieved all of the key targets we've set for this year, well ahead of schedule, and in some cases even exceeding some of these demanding milestones.

Having approved the following targets at the AGM in July of last year, we are pleased to inform you that with regards to the target of exceeding 50% of products as part of Join Life by 2022, we were comfortably on track for delivery at the end of fiscal 2021.

Likewise, the target of 100% use of renewable energy in our own facilities by 2022, after a lot of effort, is now very achievable. By the end of 2021, that figure stood at 91%.

We can also say now with confidence that 42% of the fibres used to make our products are more sustainable.

Slide 26: On track for all sustainability goals

Inditex continues to make good progress in its sustainable development. We can see a few of the important objectives to be met by 2023 highlighted here:

- 100% sustainable cellulosic fibres
- 100% free of single-use plastic
- 100% of all packaging materials collected for reuse or recycling in our supply chain (Green to pack)
- 100% use of more sustainable cotton

We are also on track to achieve two key objectives set for 2025. These are:

- 100% sustainable or recycled linen and polyester, and
- A cut in water usage in the supply chain of 25%

Slide 27: Delivering on Innovation

In our drive to promote innovation in the field of sustainability, we have established the Sustainability Innovation Hub as a means by which to drive new technologies and scale up existing ones.

We are now working with more than 145 start-up companies in order to make this a reality and have 30 pilot projects up and running already.

Lanzatech for Zara, was the first pilot project launched. This specialises in generating polyester fibres derived from the capture of carbon.

Slide 28: Sustainability always in focus

Confirming our efforts in sustainability, it is certainly worth highlighting that we feature consistently as a top-rated Company in the Dow Jones Sustainability Index and the FTSE for Good Index. This has been the case for many years.

Furthermore, Inditex is very proud to be able to say that it is only one of two fashion retailers that are included in the prestigious Corporate Knights top 100 most sustainable global companies, as well as being the only fashion retailer in the world to have the Terra Carta Seal.

Slide 29: Outlook

Let’s talk about the outlook for 2022 and in particular about the features unique to Inditex. We can start with our fashion collections and the integrated store and online execution.

Slide 30: Zara Embroidery

A good place to start is with the Zara Embroidery Collection, a limited capsule with highly detailed features.

Slide 31: Zara Man Spring bright tones

Also, our Zara Man Spring bright tones collection, which features fashionable staples in bold colours.

Slide 32: Zara Kids Spring/Summer

…The Zara Kids Spring/Summer Editorial.

Slide 33: Zara Home The Art of Living

The Zara Home The Art of Living editorial.

Slide 34: Massimo Dutti Start Over

…Massimo Dutti Start Over collection.

Slide 35: Bershka Abstract

…Bershka Abstract Patterns capsule.

Slide 36: Pull&Bear 19.91 colours

…Pull&Bear 19.91 colours

Slide 37: Stradivarius Hello old land

… Stradivarius Hello old land editorial

Slide 38: Oysho Outdoor training

… and Oysho's outdoor training collection of technical fabrics

Slide 39: Zara Ginza in Tokyo

We continue to make our stores more differentiated than ever, as you can see in the refurbishment of the Zara store at Ginza in Tokyo, one of the districts with the strongest traffic in the world.

Slide 40: Zara Dubai Hills

Good examples of new stores are Zara at Dubai Hills which opened in February…

Slide 41: Zara Abu Dhabi Al Yas

…Zara at Al Yas Mall in Abu Dhabi to open at the end of this month…

Slide 42: Zara and Stradivarius in Madrid's Plaza de España

And finally, I would like to highlight the opening in April of stores for Zara and Stradivarius in an 8,000 square metre location at Madrid's Plaza de España, one of the largest urban renovation projects in Europe in recent years.

Slide 43: Zara HQ

We are also planning a new headquarters for Zara of 170.000 square metres.

Slide 44: Continuity in Key Strategic Pillars

My message to you today is one of continuity in Inditex's pursuit of its long-term goals.

We enjoy a unique business model that fully integrates stores and online. This feature continues to be at the core of Inditex. Let me tell you that we remain at an early stage in the development of all of this exciting potential.

The talent of our teams here at Inditex is only matched by their level of commitment. It will always be the case that these teams of people are our main competitive advantage. As a Company, we have managed some difficult market conditions in recent times and the fact that we are already above pre-pandemic levels, illustrates this well.

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

For those who are long-term shareholders as well as our newer shareholders, I would like to reiterate that our main priority is always to invest for the future profitable growth of the Group.

Furthermore, we will continue with a predictable and attractive dividend remuneration policy.

Slide 45: Outlook

Inditex continues its drive to roll out strategic initiatives in order to strengthen our global fully integrated store and online model. 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.

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

Don't forget, we will achieve these objectives with 'sustainability' very much a central part of the strategy.

Stable gross margins have always been a key focus for us. We are applying mid-single digit price increases to our Spring/Summer collections. This is not having a negative impact on volumes as you can see from our trading update.

As we continue to invest in the business, we expect to deliver higher returns and lower capital intensity going forward.

We expect capital expenditure of 1.1 billion euros for 2022 which will drive differentiation, digitalisation and sustainability.

Slide 46: Online sales to exceed 30% of total sales by 2024

The strength of the fully integrated business model has been clear in recent times. As part of this, Inditex now expects online sales to exceed 30% of group sales by 2024.

Slide 47: FY2021 Dividend

Inditex's Board of Directors will propose to the AGM a dividend of 0.93 euros per share, 33% higher than in 2020. It is composed of an ordinary dividend of 0.63 euros and a bonus dividend of 0.30 euros per share.

The dividend will be made up of two equal payments: On the 2nd of May 2022 a payment of 0.465 euros per share (ordinary). On the 2nd of November of 2022 a payment of 0.465 euros per share, composed of 0.165 euros ordinary and 0.30 euros bonus).

Slide 48: Predictable attractive shareholder remuneration

Inditex's dividend policy of 60% ordinary payout and bonus dividends remains in place.

The Board of Directors is also proposing to the AGM a total bonus dividend of 0.40 euros per share to be paid in relation to the 2022 results.

Slide 49: Outlook

As you have seen in our release, we have had a very strong start to 2022.

Store and online sales in constant currency from the 1st of February to the 13th of March were 33% above 2021 and 21% above the historic pre-Covid highs of 2019. In this period, sales in the Russian Federation and Ukraine represented approximately 5 percentage points of sales growth.

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

Marcos López

Please Operator go ahead.

QUESTIONS & ANSWERS

Operator

Thank you. If you would like to ask a question, please press star followed by one on your telephone keypad now. If you change your mind and wish to remove your question, please press star two. Once again, that's star one on your telephone keypad to ask a question.

Our first question is from Elena Mariani from Morgan Stanley. Elena, please go ahead.

Elena Mariani - Morgan Stanley - Analyst

Ok, fantastic. Thank you very much. So, I'm going to start with my questions. First one is on the moving parts, on your gross margin guidance. So, you have very kindly indicated that you expect gross margin to remain broadly stable in fiscal year 2022. How should we think about the underlying moving parts, i.e., cost inflation for sure having an impact? You have quantified the price mix effect which is mid-single digit. Are you factoring in any return of markdowns given that 2021 has been particularly favourable in terms of, like, full price environment?

So, if you could help us understand a little bit better how you are thinking about this guidance in the context of the current market environment that would be great.

And then my second question is about Russia. So, you have also kindly indicated about a mid-single digit contribution from your Russian business. And from memory, also 8.5% in fact on EBIT. But how should we think about these store closures and the impact on EBIT in fiscal year '22? Are you somehow offsetting this? You know, should we think about the impact to be below 8.5% on your EBIT margins? Could you help us understand how to think about the net/net effect of the store closures assuming that the stores are going to remain closed for the full year? Thank you.

Marcos López – Capital Markets Director

Thank you, Elena. The first question regarding the gross margin, I think we have given quite explicit guidance in the sense that we expect broadly stable gross margins. For us this means plus or minus 50 basis points. To remark that the gross margin achieved last year was the highest in six years. Despite the work of our teams this has been quite strong.

And regarding the different moving parts, I think we always strive to work towards gross margin stability. I think we can give you a number of key factors for the coming year.

For us providing price stability is important for our customers. It is clear that in those markets where we have experienced significant currency depreciations or there is a significant cost inflation, we always work to protect those margins, and this is why we are talking that this year, in a very selective way, we are going to do price increases of mid-single digit. It's not something that we will do across the board. It will be very focused on ranges and type of product, and clearly, the idea is to preserve our position in the market.

The second point I would like to make is regarding the inventory. We have a very, very healthy inventory position at this stage. The inventory is of high quality. Bear in mind this is very much in line with the strong trading update that we have mentioned of 33% at the beginning of the year.

And taking into account that the comparable last year was distorted by abnormally low inventory levels due to the COVID-19 situation. So clearly, we are not seeing anything particular there.

We have accelerated a little bit the inventory flows, just to try to avoid any possible tension in the supply chain. So, we are clearly well-stocked with high quality inventory for what's coming and as I mentioned, inventory growth is below the trading update of 33%. So, we feel very comfortable.

Regarding Russia, I think you practically explained everything within your comments. We have provided a lot of information regarding the market, in terms of the EBIT, in terms of Russia and Ukraine representing 5 percentage points of growth in this trading update. At this stage, you can imagine we are focused on our teams there, how to support them and clearly our thoughts are with them. We would prefer not to add anything to what we have said right now.

Our next question comes from Adam Cochrane from Deutsche Bank. Adam, please go ahead. Your line is open.

Adam Cochrane - Deutsche Bank - Analyst

Hi, good morning team. In terms of the price increases, what's giving you the confidence that you can pass through these price increases? And with your comments about market conditions, is that dependent upon the rest of the market passing through the price increases as well, as in you wouldn't want your price position to change, relative to other retailers?

And then secondly, in terms of the special dividend, last time around, you did a multi-year special dividend. In terms of the just doing one year forward this time around, is that a change in policy or is it due to the current uncertainty and maybe we'll get a multiyear one in the future? Thanks.

Marcos López – Capital Markets Director

Regarding the position in terms of the market, as you can imagine, this is something that we examine very carefully. This policy, we implemented prices of mid-single digit increase this year, you see, is having no impact at all on our positioning and our volumes, as clearly reflected by the trading update of 33% growth. So, as I mentioned, this is not across the board. It's very much by family, by section, by type of product. And regarding the special dividend, I think Pablo would like to…

Pablo Isla - Inditex – Executive Chairman

Yes, regarding the special dividend, what I will tell you is that well, first of all, what the board has decided this year, is instead of giving a global figure for a three-years period without specifying what was going to be distributed, the board has thought that it was better, well, first of all, to complete the extraordinary dividend, the remaining part of the previous extraordinary dividend, against 2021 year results.

And then the board thought that it was better to be very precise about the extraordinary dividend for the year 2022. Given you and the investors full visibility about what is going to be the extraordinary dividend for the year 2022, and at the same time, of course, reiterating the approach of 60% pay-out ratio plus extraordinary dividends.

We preferred to be very, very precise about the extraordinary for the year 2022.

Adam Cochrane - Deutsche Bank - Analyst

On the price increases, you say the mid-single digit has already been put through and that's all you need to do for this year? There are no further price increases coming?

Marcos López – Capital Markets Director

What I mentioned is that for this spring-summer seasons, we plan to implement, we have already implemented this mid-single digit increase and there's no impact on sales volume as shown by the trading update of plus 33%.

Adam Cochrane - Deutsche Bank - Analyst

Okay. Thank you.

Operator

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

Anne Critchlow – Société Générale - Analyst

Thanks, and good morning. And it looks that online sales declined in the fourth quarter and despite a slightly easier comparative from the prior year for online sales.

And it also looks as if the online slowdown was much worse than the total sales, despite Omicron has even expected impact on physical store locations. Are there any explanations we should be aware of, you know, for example with a higher returns rate online because events were cancelled? Thank you.

Marcos López – Capital Markets Director

Good morning, Anne. I think, two comments there. The first one is that the comp over the fourth quarter 2020 you can imagine was tremendous, right? That is the first reason.

The second reason is that due to Omicron, we mentioned in the note, that given the sudden drop in store traffic, there was an incremental cost coming from online. We were faced with that, but you have to bear in mind that two key factors of our online offer were not possible in a number of markets, like click and collect or return to stores. This is why we quantified very clearly the additional costs we had in operating expenses.

So, nothing material there.

We have provided guidance. We see online growing very strongly. Last year it was 14% to 7.5 billion euros. We expect online to exceed 30% of sales by 2024. So, everything, the full integrated online and store model remains the same.

Then remember that our online is unique in two ways. The margins we obtain online are very much the same that we obtain in the stores, so clearly is a fully integrated operation. And apart from this very strong growth, we have sector leading profitability. So, we can scale this business in a very, very healthy way.

Anne Critchlow – Société Générale - Analyst

Could I ask if you have seen a strong acceleration in online sales growth in the current trading period, please?

Marcos López – Capital Markets Director

Once that the Omicron has abated, we have seen the patterns in our operations to go back to normal.

Anne Critchlow – Société Générale - Analyst

Okay. Thank you.

Operator

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

Rebeca Mcclellan - Santander - Analyst

Yes, good morning. A couple of questions, please. Firstly, can you give us any idea what you are seeing in terms of trends in the neighbouring markets around Russia and Ukraine?

And secondly, of the 190 million extra costs associated with the fourth quarter and Omicron, how much of that is incremental versus a cost mismatch versus sales as, as a deceleration in traffic? Thank you.

Marcos López – Capital Markets Director

Yes, first question is that in those markets we see a very normal evolution right now.

And regarding to your second question, I think we have provided a very detailed, explanation regarding gross margin, what we have mentioned is basically more markdowns. And secondly, regarding the operating expenses, what we have mentioned is that obviously we had a number, the usual reinforcement in the, you know, for the Christmas period in our stores, which could not be diluted due to the restrictions, we had store closures and we had lower traffic.

And then, some incremental online expenses coming from this higher volume of online that we experienced over the fourth quarter, plus the fact that click and collect and return to stores were not available in our markets. This is a one-off effect that will be diluted immediately, and you will see that the trading update has very clearly caught up with the previous strong rates of growth in sales that we had before this just, you know, temporary impact coming from Omicron.

Operator

Our next question comes from Paul Rossington at HSBC. Please go ahead.

Paul Rossington - HSBC - Analyst

Good morning. One question from me, please. In the context of the current trading, can you comment on whether there is a space contribution to that number or not? I know you said you expect space to be neutral over the full year but just wondering if there is any impact on the current trading number. Thank you.

Marcos López – Capital Markets Director

As we mentioned, space contribution is going to be very neutral this year. We have practically finished the store optimisation plan. So, basically, you can assume that it's fully comparable.

Paul Rossington - HSBC - Analyst

Thank you.

Operator

Our next question comes from Georgina Johanan from JP Morgan. Please go ahead.

Georgina Johanan – JP Morgan - Analyst

Oh, hello. I have a few questions, please and apologies, I dropped off briefly. So, apologies if this has already been answered. The first was just really around Russia. Thanks for the information you shared so far. Just to understand, should we expect some short-term loss coming from that region? I know you referenced in your original statement that you would be providing some support for staff and I am not sure if there's some ongoing rental payments that need to be made. That was my first question.

The second one was just to help us around the modeling. When you guided for a stable gross margin, do we need to capture in any adjustment for Russia, please? I know it's higher profitability. I am not sure how much of that comes through in gross margin and OpEx.

And finally, on your outlook slide, I noted you referenced increased profitability going forward. I wonder if you could clarify what the space for that is. Should we go to 2019 pre-COVID or 2021, what is the basis for that comment? Thank you.

Marcos López – Capital Markets Director

Thank you. Regarding the gross margin, with the guidance we have provided, all the factors are included. Regarding any special, you know, add-on cost or OpEx coming from Russia, we will tell that it is not material right now, as we mentioned in our notes. Investment in the country is relatively slow. Inventory will not be significant. So obviously, we will do whatever is needed to support our workforce.

And, as I mentioned, we prefer not to add anything on that market at this moment, but we clearly feel, you know, that there won't be anything significant.

Again, the gross margins are very, very healthy. You see last year, we achieved the highest gross margin in six years, and this is reflected in the cash flow very much in the funds from operations, and in the cash from operations, you see that inventory management has been very healthy.

And as I mentioned, I would very much take you to the trading update, both on 2021 and 2019 as a base for comparison. This is why we have provided both numbers, which are very, very solid and you can adjust that to model in the future.

Georgina Johanan – JP Morgan - Analyst

Thank you very much.

Operator

Our next question comes from Richard Chamberlain from RBC. Please go ahead.

Richard Chamberlain – RBC - Analyst

Thank you. Good morning, everyone. A couple of things from me, please. Please, can you give an update on China in the light of renewed Omicron restrictions there? What do you guys think in terms of sales and any additional supply chain constraints?

And then second, I wondered if you could comment on the depreciation charge for the year. Were there any one-off effects affecting that charge of the year-end impairment or capital gains or anything like that?

Marcos López – Capital Markets Director

Regarding your second question, depreciation is affected by the comp in 2020, that's pretty much the difference. Remember that includes, well, you know what I am referring to. So, I'm not going to expand that.

In terms of the markets, I would prefer not to talk about a short period of time. I think that clearly, we have provided a geographical distribution of the sales. Clearly in 2021, if there is something that is remarkable, it is that the United States has become the second largest market for Inditex after Spain, but I think the trading update that we have provided encompasses very well the performance we are seeing at the beginning of the season. And that is as far as we would like to go right now.

Richard Chamberlain – RBC - Analyst

Ok fine. I guess though, if you talk about overall, presumably that's recovering, though? Is that reflected in the Q1 performance so far?

Marcos López – Capital Markets Director

What we have mentioned last year is that the weight of sales is dependent on different restrictions and different situations on the market. You have seen that there have been one offs in a number of markets, but I think I would just draw your attention again to the strong trading update for the beginning of the season. This is 33% on 2021. 21% on 2019, I think is quite remarkable. And as you know, we are always trying to focus on the long term. I think that the cash flow situation that we enjoyed, the generation of funds that we achieved last year, getting to a historical high, I think is extremely relevant.

As a retailer, you have to manage your business for cash flow, and this remains our priority. And given the strong trading update at the beginning of the season, this encourages very much how we face the year, and we can tell you that, well, this is very, very consistent per concepts and geographies.

Richard Chamberlain – RBC - Analyst

Thank you very much.

Marcos López – Capital Markets Director

Thank you.

Operator

Next question comes from James Crzinic from Jeffries. Please go ahead.

James Grzinic – Jeffries - Analyst

Thank you. Yes, good morning, everybody. A quick one, can you just perhaps clarify that that current trading update doesn't also reflect a later clearance of the winter ranges? Can you perhaps single out what spring/summer proper has done relative to that growth that you provided on current trading, please?

Marcos López – Capital Markets Director

I would not read anything specific into this. Every year, there are differences in calendar and a number of other factors. But I wouldn't read anything specific. The trading update of 33% is very, very strong. It is 21% above the historic pre-COVID highs of 2019. Clearly, we have made an effort to accelerate some inflows of product to be sure that there are no tensions in our supply chain. And all the proximity supply chain remains open as it has been the case forever. And this is the key differential factor for Inditex. So, nothing material, James. No.

James Grzinic – Jeffries - Analyst

Okay. So, just confirming in your mind that is indicative of underlying spring/summer demand as you are currently seeing it?

Marcos López – Capital Markets Director

Basically, our approach is the same. We try to offer the customer what the customer wants. We are not trying to anticipate anything. So, to anticipate demand is not something that we do. We basically respond to the market with what the market needs. This is our proximity model. Our inventory position is very, very healthy, and of high quality and this is reflected in the trading update. So, it's very, very strong and healthy start of season.

James Grzinic – Jeffries - Analyst

All right. Thank you.

Marcos López – Capital Markets Director

Thank you.

Operator

I will now hand over for any questions via the webcast.

James O'Shaughnessy IR - Inditex

We had a number of questions on the webcast platform today, first of which is: Could you please give some colour on the 2021 cash flow performance?

Marcos López – Capital Markets Director

Well, again, I think that both Pablo and Oscar stressed that one of the factors is one the budgets for 2021. The cash flow situation we have generated 4.5 billion Euros cash from operations given the strong management and the tight management of working capital, and the working capital has provided and inflow as well and we have achieved 1.5 billion Euros in cash.

And following the investments we made to make our business stronger and more differentiated, free cash flow has reached 4 billion Euros. I think this is a very, very significant way to see the health of the business in a difficult year. We still have COVID affecting a couple of the quarters, but you see that the cash flow of the company is in good, good health.

James O'Shaughnessy IR - Inditex

The second question relates to space contribution. You guided for neutral space contribution. Can you talk a little bit more about how you see space evolving going forward?

Marcos López – Capital Markets Director

Yes, probably a number of comments there. First one is that the store optimisation program has been a recent success. It is something that's very, very clear. This year, we have achieved 3% consatnt currency sales growth with 13% less stores. So that proves that the strategic initiatives we had in place are working very, very well. It is almost finished. So, this year, obviously, there will be some refurbishments, some absorptions, but we expect a neutral space contribution to the business, and this will revert, in our opinion, in a very strong like for like performance as has been the case over the previous years.

James O'Shaughnessy IR - Inditex

The next question relates to constant currency sales. Your constant currency sales were up 3% versus 2019, despite 13% fewer stores and having to content with the impact of COVID, especially in Q1 and Q4. Can you give some more color on this strong performance, please?

Marcos López – Capital Markets Director

Giving the implementation of key strategic initiatives since 2012, the conclusion of the retail optimisation program, in conjunction with new projects, that you already know, such as the rollout of SINT and the Inditex Open Platform, I think that it's reasonable to reach the conclusion that the competitive differentiation between us and the industry is as large as it has ever been.

It is differentiation, together with the strategic transformation we have gone through over the last two years and the execution of our business model that is driving the healthy sales growth.

James O'Shaughnessy IR - Inditex

That concludes the webcast questions. Thank you.

Pablo Isla - Inditex - Chairman & CEO

Thank you very much. We will remain open to see if you have questions you may have regarding these results, and I will hand over to Oscar for the closing of this call.

Óscar García Maceiras - Inditex - CEO

Thanks to all of you participating in this presentation. For any additional questions you may have, please contact our capital markets department, and we will welcome you back in June for the first quarter 2022 results. Thank you very much.