

INDITEX

INTERIM NINE MONTHS 2023

CONFERENCE CALL TRANSCRIPT
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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

[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 2023. I am Marcos López, Capital Markets Director.

The presentation will be chaired by Inditex's CEO Óscar García Maceiras. Also with us today 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.

Over to you Óscar.

Slide 4: CEO

[Image]

Slide 5: To the next level

[Image]

Slide 6: 9 Months 2023: Strong growth and execution continues

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

In the interim nine months of twenty twenty-three (9M2023) Inditex saw a very robust operating performance driven very much by the creativity of our teams and the strong execution of our fully integrated business model.

This performance relies on the four key pillars of our strategy we have been talking about throughout the year: Our unique fashion proposition, an optimised customer experience, our focus on sustainability and the talent and commitment of our people. These are the principal factors driving our differentiation.

We have experienced very satisfactory sales growth of eleven point one per cent (11.1%).

The execution of the business model has also been very robust, with a healthy gross margin and controlled cost management.

On the bottom line, net income increased thirty-two-point five percent (32.5%) to four point one (4.1) billion euros.

The operating performance of the Group further underpins our sound financial position. We have generated significant free cash flow over the period.

You will note, this strong performance has continued into the fourth quarter. Store and online sales in constant currency between the first (1st) of November and the eleventh (11th) of December grew fourteen (14%) percent.

Slide 7: 9 Months 2023: Outstanding performance

Let me highlight some key features of this performance for the year so far, which has been marked by strong execution.

Our Autumn/Winter collections remain very well received by customers.

Sales in constant currency increased fifteen percent (15%), with strong growth seen in both stores and online.

Sales were positive across all geographical areas, as well as across all of the concepts.

Slide 8: To the next level

Our diversified presence in two hundred and thirteen (213) markets with low market penetration across the board offers us significant global growth opportunities.

We have complete confidence in our ability to grow this business, mainly because the model we operate is entirely unique. This in turn drives the increasing differentiation we have all been seeing.

I will hand you over to Ignacio to go into some of the headline numbers.

Slide 9: CFO

[Image]

Slide 10: Financial Summary

Thanks Óscar.

Slide 11: 9 Months 2023: Very strong execution

As you have seen in our financial release, Inditex performed strongly in the first nine months of 2023.

Sales have progressed well, at plus 11.1%. We have actively managed the supply chain, and this has driven a very healthy gross margin performance. Operating expenses have of course been tightly managed and this has generated operating leverage.

Consequently, EBITDA grew 13.9% to 7.4 billion euros.

Below this line and for comparability reasons it is worth noting the provision charged in the 9M2022 relating to operations in the Russian Federation and Ukraine for 231 million euros in that year.

We have also seen very strong progress on the net income line, with an increase of 32.5% to 4.1 billion euros.

The Group continues to generate significant free cash flow and this has taken our net cash position to 11.5 billion euros.

Slide 12: Sales

I would like to reiterate that sales have progressed very well at plus 11.1% and have reached 25.6 billion euros. That's 15% in constant currency.

Sales growth was strong both in stores and online.

Additionally, sales have been positive across all regions and across all concepts.

Based on current exchange rates we expect a minus 4% currency impact on sales for the full year 2023.

Slide 13: Gross profit

In the interim nine months of 2023 the execution of the business model was very strong. Additionally, the Autumn/Winter 2023 season has experienced a normalisation in supply chain conditions and a more favourable Euro/USD exchange rate compared to the 2022 Autumn/Winter season.

In the interim nine months of 2023 the gross profit grew 12.3% to 15.2 billion euros. The gross margin increased 67 basis points to 59.4%.

In the latter part of 2023, the strong execution of the business model and the operating conditions mentioned previously have continued. For these reasons, and based on current information, Inditex expects a gross margin in fiscal year 2023 of around 75 basis points higher than in FY2022.

Slide 14: Operating efficiencies

There has been very tight control of operating expenses across all departments and business areas.

Operating expenses increased below sales growth over the 9 months of 2023. Including all lease charges, operating expenses grew 130 basis points below sales growth.

Slide 15: Working capital and net cash position

Over the period, we have experienced a robust operating performance. As mentioned we have also seen a normalisation in supply chain conditions. Inventory at Inditex as of the 31st of October 2023 was 5% lower than at the same date in 2022.

Let me highlight that the end of period inventory is considered to be of high quality.

Due to the strong cash flow generation, the net cash position has grown 15% to 11.5 billion euros.

And now over to you Marcos.

Slide 16: Marcos López - Capital Markets Director

[Image]

Slide 17: Concepts

Thank you.

Slide 18: Concepts

Over the interim nine months of 2023 the performance of the group has been very good. Notably, this performance was across all the concepts. We are very happy with the execution over the period.

Slide 19: Sales by concept

Inditex has continued with the expansion and has opened stores in 36 different markets.

We have also continued the rollout of concepts in new markets such as the first Stradivarius stores in Germany, at Stuttgart and Dresden.

Store and Online sales across all concepts have been robust. The performance has been strong at all levels.

We are pleased with the execution of the concepts.

And now back to you Óscar.

Slide 20: CEO

[Image]

Slide 21: Outlook

[Image]

Slide 22: To the next level

Thank you Marcos.

I'm going to cover some of the recent initiatives which have been driving the increasing levels of differentiation.

Slide 23: Unique fashion proposition

First and foremost, our priority remains to always work on maximising the appeal of our fashion proposition. Creativity, innovation, design and quality are the defining features of our collections and a key focus across all of our teams and departments.

Slide 24: Zara Woman Studio

A good example of this is Zara Woman's Studio.

Slide 25: Zara Man Knitwear

The Zara Man Knitwear range

Slide 26: Zara Kids A/W collection

The Zara Kids Autumn/Winter collection

Slide 27: Zara Fragrances

The new launches of Zara fragrances

Slide 28: Zara Home Editions

Zara Home Editions for the festive season

Slide 29: Pull&Bear Partywear

Pull&Bear's Partywear

Slide 30: Massimo Dutti Manhattan Collection

Massimo Dutti's Manhattan collection

Slide 31: Bershka Teddy coats

Bershka's Teddy coats collection

Slide 32: Stradivarius Night

Stradivarius Night range

Slide 33: Oysho Recco Ski

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

Slide 34: New Zara store design: Dubai Mall of the Emirates

The new store design for Zara created by our Architectural Studio is now being rolled out across the store base. The design integrates attractiveness and functionality into sections like digital, the fitting rooms, self-checkout areas, Click & Collect points, in-store silos and stockrooms.

This new Zara store design is featured in openings, enlargements and relocations.

A key project of the year has been the enlargement of the Zara store at Dubai Mall of the Emirates. Just like all the other important flagship stores recently opened, it includes dedicated spaces for lingerie, shoes and handbags, the Origins Collection and newborns.

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

Slide 35: Zara Rotterdam Coolsingel

The opening on the seventeenth (17) of November of the Zara store at Coolsingel in Rotterdam, incorporates a Zara Home, and has attracted very strong traffic.

Slide 36: Zara Miami Dadeland

The recent enlargement of the Zara store at Miami Dadeland also illustrates well what we are trying to achieve.

Slide 37: Zara Sevilla Plaza del Duque

...also, Zara Sevilla at Plaza del Duque.

Slide 38: Massimo Dutti London Battersea

All the concepts have been optimising their stores. Let me highlight four (4) very relevant store projects.

First of all, the Massimo Dutti store opened in London Battersea in a unique architectural setting.

Slide 39: Bershka Milano Corso Vittorio Emanuele

Bershka has enlarged its flagship at Milan's Corso Vittorio Emanuele.

Slide 40: Stradivarius 1st stores in Germany at Stuttgart and Dresden

Stradivarius has opened its first physical stores in Germany at Stuttgart and Dresden, building upon its existing online presence in the market.

Slide 41: Oysho Madrid Gran Vía

And to finish off, Oysho has opened a flagship store in an emblematic building in Madrid's Gran Vía.

Slide 42: Roll-out of new self check-out and security technology

The hardware to implement the new security technology, which eliminates the need for hard tags, is now in operation in Zara stores globally. Test operations started this Autumn/Winter season and are proceeding according to plan, with full implementation by fiscal year end twenty-twenty four (FYE2024) expected.

Slide 43: Start of weekly live streaming on Douyin in China

We have recently launched a new weekly livestream experience on Douyin in China. The livestream runs for five hours and includes catwalks, walkthroughs of the fitting rooms and makeup area, and "behind-the-scenes" views of the camera equipment and staff. The livestream reflects our continual efforts to offer the best customer experience and will be available soon in other markets.

Slide 44: Zara Pre-owned rolled out in 14 additional European markets on 12 December

In terms of circularity, we continue the deployment of the Zara Pre-owned platform.

On the twelfth (12) of December the platform was launched in fourteen (14) European markets including Spain, expanding the service offered already in the United Kingdom and France.

Through this platform, we will continue helping our customers to extend the life cycle of their Zara garments through donation, repair and resale and will contribute to the reduction of waste.

Slide 45: People: Talent development

Our culture and values are a fundamental part of how we do things at Inditex. To this end, we have more than one hundred and sixty-five thousand (165,000) people who, on a daily basis, give life to our culture. With our teams in mind, and in line with our commitment to people, we continue to develop initiatives that reinforce our values, in all the markets in which we operate.

In October, we celebrated the fourth (4th) edition of Impact Week, reinforcing our commitment to people with disabilities. Twenty thousand (20,000) people across all our markets participated in different initiatives.

Our target is to recruit people with disabilities in order to reach a minimum of two percent (2%) in the global workforce by the end of twenty twenty-four (2024). In line with our commitment to the ILO Global Business and Disability Network, announced in January twenty twenty-three (2023).

Slide 46: Outlook 2023

Let me now move to the outlook for twenty twenty-three (2023).

We remain on track to deliver upon all of our long-term goals.

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

We offer a unique fashion proposition, defined by creativity, innovation, design and quality. The continuous optimisation of the customer experience is central to our approach.

The strength of the fully integrated business model that is operating at full pace has been clear in recent times. Inditex operates in two hundred and thirteen (213) markets with a low share in a highly fragmented sector and we see plenty of opportunities for both organic growth and expansion.

We see increased sales productivity in our stores going forward, and also expect the gross space growth in twenty twenty-three (2023) to be around three percent (3%). Optimisation of stores is ongoing. We expect space contribution to sales to be positive in twenty twenty-three (2023).

We are making investments that are scaling our capabilities, generating efficiencies, and increasing our competitive differentiation to the next level. For twenty twenty-three (2023), we estimate ordinary capital expenditure of around one point six billion euros (€1.6 billion).

Slide 47: 29% dividend increase

A brief reminder on the dividend. The final dividend payment for twenty twenty-two (2022) of zero point six euros (€0.60) per share was made on the second (2) of November.

Slide 48: 4Q2023

I would like to finish with a brief comment on our current performance.

Autumn/Winter collections continue to be very well received by our customers.

Store and online sales in constant currency between the first (1st) of November and the eleventh (11th) of December twenty twenty-three (2023) increased fourteen percent (14%).

Slide 49: Interim Nine Months 2023 Results

Thank you all for attending this results presentation. That concludes our presentation for today. We would be happy to answer any questions you may have.

QUESTIONS & ANSWERS

James O'Shaughnessy – Investor Relations

The telephone Q&A session starts now. If you would like to ask a question, please press star-five on your telephone keypad. If you wish to withdraw your question, please press star-five 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-five again after the next person's question has been addressed. Please ensure your phone is not on mute.

The first question goes to Geoff Lowery from Redburn. Go ahead, Geoff.

Geoff Lowery – Redburn - Analyst

Good morning, team. My question, your inventory turn has improved markedly, relative to pre-COVID/pre-virus. Is there further opportunity for you to increase turn, or do you think you've reached an optimal level? Thank you.

Marcos López – Capital Markets Director- Inditex

Thank you, Geoff. As you see, we're always trying to improve things. Obviously, we also have to look at market conditions. If you remember, last year, due to the possible risks in the supply chain, we decided to anticipate the dates in which we received the product, without changing the commitment. And this year, we are reversing that and that's why inventory is 5% lower. We continue trying to do things better all the time. There are a number of measures always in place that we believe can improve things. For example, obviously, having a fully integrated inventory for the stores or for online helps the way we improve our terms. Always trying to do things there.

However, the way we look at inventories is very much through the commitment. The fact that we have open-to-buy at the beginning of the season, a very substantial part of what we're going to sell, means that the risk that involved in our inventory is much lower than that in the industry in general. Why? Because we are adapting our collections continuously to demand, and it's something that you have seen this quarter.

On the other hand, there is a very clear comment that we can make, that due to the things we're implementing in the business model, the cash conversion of the company is also increasing as you have seen over recent months.

James O'Shaughnessy – Investor Relations

The next question comes from Georgina Johanan from JPMorgan. Go ahead.

Georgina Johanan – JP Morgan- Analyst

Hi! Thank you for taking my question. Regarding next year, please, just mindful that, obviously, you're facing a very successful year in 2023. And just wondering if you can give any early indications about the sort of level of growth that you would anticipate? And then, in that vein, whether it will be possible to see margin progress further next year, or rather, we would need to see sort of growth in double-digit territory for margin to move further on? Thank you very much.

Marcos López – Capital Markets Director- Inditex

Thank you for your question, Georgina. You know that we remain focused on the current season. The trading update that we have provided 14% sales growth in local currencies. The company remains totally committed to the current season.

We have also upgraded the gross margin guidance for the year based on the operating conditions and also the U.S. dollar/Euro exchange rate, and this is why we now expect the gross margin to be around 75 basis points higher this year, over the previous year.

In general, you know that our model provides very strong stability in margins, and if we want to add something, we will do it in March next year.

James O'Shaughnessy – Investor Relations

Thank you. The next question comes from Sreedhar Mahakali from UBS. Please, go ahead, Sreedhar.

Sreedhar Mahamkali – UBS – Analyst

Good morning, thank you for taking my question. So, really, just one, in terms of online participation and the statement you talked about increasing participation -- can you give us an idea where we are now this year so far, maybe up to nine months? Thank you.

Marcos López – Capital Markets Director- Inditex

Well, in the financial statement, we have mentioned that sales have been positive in stores and online, they have been positive in all the concepts, and they have been positive in all the key geographies.

Obviously, you should expect a secular growth in the online participation, but we think in a very, very healthy way, you know, with the performance we have been mentioning over this presentation.

James O'Shaughnessy – Investor Relations

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

Anne Critchlow – Société Générale – Analyst

Thank you. Good morning. We might have expected the gross margin to be up more strongly in Q4 compared to Q3. And that's not implied by the guidance. I'm just wondering if this reflects some price investments in Q4 or if it perhaps explains the acceleration in sales trends?

Marcos López – Capital Markets Director- Inditex

Well, as we have mentioned in the presentation, again, the gross margin performance over these nine months, plus 67 basis points, is very much the result of execution, some normalisation in the supply chain conditions, and a more favorable euro/U.S. dollar exchange rate.

As these two factors remain over the fourth quarter, we have updated the gross margin guidance for the full year and set it to around plus 75 basis points for the year. So, these are the results of the execution and then the operating circumstances we're finding right now in the market.

James O'Shaughnessy – Investor Relations

The next question comes from Richard Chamberlain at RBC. Thank you.

Richard Chamberlain – RBC- Analyst

Thanks, James. Good morning, team. Just a quick question on the financial results line, please. I see you've got another negative non-cash FX impact going through that line. I wonder, do you expect that to continue -presumably, you do- in the fourth quarter? But also for the first half of next year. Thank you.

Marcos López – Capital Markets Director- Inditex

Thank you, Richard. As you know, in the financials, there are three main lines:

The first one is the net financial income and losses, where we get the results of our treasury.

We also have the lease financial expenses, which is non-cash, according to IFRS.

And then we have the foreign exchange gains and losses, which is very much, as you know very well, this results on the non-cash translation of working capital in subsidiaries. You will have to wait for the end of quarter exchange rates to be able to see that.

Of these three components, obviously, the return on the treasury is cash, and the lease financial expenses and FX income and losses are non-cash. So, again, this is something that we cannot provide you guidance with, but clearly, again, in the treasury, we are obtaining more cash, and then it will be very much the results on the leases and on the FX income and losses.

One point that I would like to comment, and I think it is quite, quite relevant, is that in relation to the leases in the D&A line you see it grew by 1%, due to renegotiation of rents and the flexibilisation of contracts.

And as a result, the right of use has fallen 2% in the nine months to 4.9 billion euros, versus 5.1 in the nine months 2022, just to cover all the, the lease expense lines. And this is what we can tell at this moment.

James O'Shaughnessy – Investor Relations

The next question is from Nick Coultier at Citi. Go ahead, Nick.

Nick Coultier – Citi – Analyst

Hi, good morning. Please, can I ask about your performance in the Americas and if there's anything to call out there? Just mindful of a softer consumer environment in the U.S. Thank you.

Óscar García Maceiras - Inditex

Thank you. Well, like in previous quarter, we remain very satisfied with our performance in the different markets. Marcos has already referred the positive trend in the different geographical areas and for all of the concepts, both online and physical store channels. In the case of the U.S., that remains our second most important market. The business is working well, and we are happy, and we continue to see significant opportunities for selective growth there. Some of the projects that we announced during our annual results presentation have become a reality, such as the relocation of our store at Dadeland in

Miami or our store in Baton Rouge, in Louisiana, or our new store in San Antonio, Texas. And additional exciting projects will come during the next weeks, including, for instance, the reopening of our stores in Roosevelt Field Mall, at New York state. The business is performing well and we are happy with that.

James O'Shaughnessy – Investor Relations

The next question comes from Nicholas Champ from Barclays. Go ahead, Nicolas.

Nicolas Champ – Barclays - Analyst

Thank you. Good morning. A quick one on the increase in Bangladesh and also the increase in customs in Turkey, would you anticipate an increasing input costs over the coming months, and if so, do you plan to pass on this additional cost increase to your customers by raising prices?

Marcos López – Capital Markets Director- Inditex

Thank you very much for your question, Nicolas.

As you know, in the gross margin, there are many factors. There are mark-ups, mark-downs, currency, very specially the fashions prevailing. So, , we have provided a very clear guidance in terms of gross margin for the year, in the sense that based on the execution we're seeing in our business and the U.S. dollar/euro exchange rate that we're facing at the moment what we see is an estimated increase of the gross margin for the year of around 75 basis points.

So, when looking at the gross margin, you cannot just extrapolate one single factor; you have to put everything together. So, our model provides stronger, I would say stability, in terms of the margins, and this is what we keep on focusing on.

James O'Shaughnessy – Investor Relations

We'll move over now to the webcast platform and a couple of questions. The first of which is, "perhaps you can give us some comment on the success of the existing preowned platform in the UK and France. What are your targets for the Preowned platform, please?"

Óscar García Maceiras - CEO

Thanks for the question. We see this project as one of the key initiatives for our strategy in terms of circularity. As you know, through this platform, we will continue helping our customers to extend the life cycle of the Zara garments through the donation, repair and resale. Our journey began in the UK on the 5th of November of 2022, and France was the second market since September 2023, and are performing very well. And this week, we are very excited with the arrival at 14 new European markets, including Spain.

As a reminder, we announced during our last AGM in July that we have the commitment of launching Preowned or alternative circularity projects in all of our core markets by 2025.

James O'Shaughnessy – Investor Relations

Thank you. "Perhaps also you could provide some comment on the live stream initiative in China, please."

Óscar García Maceiras - CEO

Well, adapting to our customers trying to offer them the best experience everywhere, every time, is one of the key pillars of our strategy. And in China, it's obvious that digital is integrated into people's everyday life, and that's why we decided to launch some weeks ago this new weekly live stream experience there through that team.

Every week, we offer one live stream that runs for five hours with our highest standards in terms of quality and image, from a set located in Shanghai and with a team of more than 75 members, including two ambassadors.

Feedback received from our customers there in China has been very positive, and this type of live stream initiative, as a way of improving the experience of our customers, will be available soon in other markets.

James O'Shaughnessy – Investor Relations

Thank you. That concludes the webcast questions for today.

Óscar García Maceiras - 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 for the full-year 2023 results.