

INDITEX

1H2017 Results

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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.

1H2017 Results Conference Call

Inditex Participants

Pablo Isla - Chairman & CEO

Ignacio Fernández - CFO

Marcos López - Capital Markets Director

Conference Call Participants

Chiara Battistini JP Morgan – Analyst

Richard Chamberlain RBC – Analyst

Rebeca Maclellan Santander –Analyst

Andrew Hughes UBS – Analyst

Anne Critchlow Societe General – Analyst

Cedric Lecasble Raymond James – Analyst

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Operator

Good Morning Ladies and Gentlemen. Welcome to the presentation of Inditex Results for the Interim Half Year 2017. The presentation will be chaired by Mr. Pablo Isla, Chairman and CEO.

This presentation will be followed by a Q&A session comprising two parts: The first part will be dedicated to questions received on the telephone, followed by those questions received through the webcast platform. Mr. Isla you have the floor.

Slide 3

Good morning to all the participants in this webcast conference call regarding INDITEX Results for Interim Half Year 2017.

I am Pablo Isla and here with me today are Ignacio Fernández, our CFO and Marcos López, Capital Markets Director.

Slide 4: 1H17: Strong growth

The Interim half year of 2017 has been a period of strong growth for Inditex globally.

Slide 5: Global fully integrated store & online sales platform

We operate a global sales platform that fully integrates stores and online and offers huge growth potential. Our business model combines stores and digital seamlessly, and we are ready for the opportunities that this brings with current and new customers.

Slide 6: Interim Half Year 2017: Overview

Inditex has had a strong operating performance over the First Half 2017. Sales have increased 11.5%.

Like for like sales growth came in at 6% on top of a very demanding comparable. In the first half of this year LFL has been positive in all geographies.

We have opened stores in 35 different markets over the period, demonstrating the global reach of our business model.

Net Income grew 9% in the period.

Regarding the start of the Autumn Winter season let me tell you that sales in local currencies from the 1st of August to the 17th of September grew 12%.

We continue to see significant growth opportunities for Inditex globally.

Slide 7: Global fully integrated store & online sales platform

We maintained a strong rate of expansion in the First Half of 2017. We have achieved positive LFL sales growth in all geographical areas.

We have a global presence and we have further diversified our operations over the period.

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The year so far has been marked by very strong activity on many fronts. I would like to cover two recent initiatives carried out by Inditex.

Slide 8: Zara new image

We have reinforced significantly the differentiation of our key flagships with very visible openings.

I would like to highlight the enlargement and refurbishment of a Zara flagship in our hometown of La Coruña. Zara Marineda extends over 4,000 square metres and two floors. Strong architectural features, efficiency and sustainability are the characteristics of this store...

Slide 9: Zara new image

...it carries the latest and most innovative look to be rolled out in the new Zara flagships.

Slide 10: Zara Click&Collect

...The store includes an automated area for Online Click&Collect

Slide 11: Zara Self Check

...and Self Check out

Slide 12: Financial summary

Let me now hand over to Ignacio who will provide you with some detail behind the headline numbers and I will join you later for the Outlook section.

Slide 13: Interim Half Year 2017

Thank you.

Inditex has had a strong performance in the half year 2017. All the lines of the profit and loss account show significant growth.

We have achieved net sales of 11.7 billion Euros, EBITDA of 2.3 billion euros and net income of 1.4 billion Euros.

Slide 14: Strong sales growth

Starting with sales I would like to tell you that Inditex's performance has been satisfactory. Sales growth was +11.5%.

Let me highlight that like-for-like sales growth was strong at +6% in the first half 2017 on top of +11% in the same period last year. LFL has been positive in all geographies.

Slide 15: Gross Profit

Gross profit has increased 11% to 6.6 billion Euros, resulting in a 56.4% gross margin on sales. We have sustained our commercial policies over the period.

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The performance in the first half of 2017 was **mainly** due to the mix effect caused by the strong appreciation of the euro versus most major currencies since June. Inditex **also** took the commercial decision to make a quick transition from the Spring/Summer season into Autumn/Winter, programming in a strong launch of the campaign in August.

Slide 16: Operating Expenses

Operating expenses are tightly under control. They have grown 11.5% reflecting the growth in sales and include all the start-up costs.

Slide 17: Flexible Business Model

Operating working capital remains negative as a result of the business model. The working capital evolution is in line with the performance of the business.

Slide 18: Concepts

I will now hand over to Marcos who will elaborate on the performance of the Inditex concepts.

Slide 19: Sales by concept

Over the first half of 2017 we continued the consolidation of our global presence. We opened stores in 35 markets and extended the online presence in a fully integrated way.

Regarding the performance by concept in the half year 2017 Zara accounted for approximately 2/3rds of group sales, while the younger concepts accounted for around 1/3rd of sales.

Slide 20: Sales by concept

I would like to highlight the strong sales of the Group over the First Half of 2017.

Slide 21: Concepts

The younger concepts grouped together have grown very satisfactorily. Minor differences in the reported numbers result from the comparable base in the previous year.

I would like to highlight that Oysho, Bershka and Pull&Bear have performed very strongly.

Slide 22: Outlook

I will now hand over to Pablo for the outlook section.

Slide 23: Global growth opportunities

For the remainder of 2017 we will continue to invest in the expansion of our business across a number of markets, all of which offer attractive long term returns through our store and online platform.

Inditex is present on five continents and in all the key markets demonstrating the Group's global reach. We manage a diversified sales platform now in 94 markets. The current base offers huge growth potential for the coming years.

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We continue to see strong growth opportunities driven by our global fully integrated Store and Online model.

We are in a unique position as we enjoy a global platform that fully integrates stores and online as the best way to respond to the demands of our customers.

Slide 24: 2H17 Belarus

In August 2017 we launched Zara, Bershka, Massimo Dutti, Pull&Bear, Stradivarius, Oysho and Zara Home in Belarus with a very warm reception.

Slide 25: Global Online Sales

Inditex's online operations have seen a very rapid growth in recent years. Our business model allows a swift expansion of our online sales globally.

Zara has built an online sales presence across Europe, Asia and the Americas.

Slide 26: Online: Launch In Singapore, Malaysia, Thailand and Vietnam

We have extended the online presence of Zara in all key Asian markets with the rollout in Singapore, Malaysia, Thailand and Vietnam in the first quarter 2017.

Slide 27: Online: Launch In India on 4th October

The next step will be the launch of Zara online in India on the 4th of October.

Slide 28: Store & Online: Studio

We have programmed a strong launch of the Autumn/Winter campaign in a fully integrated way with recent initiatives such as the "Studio" Collection...

Slide 29: Store & Online: Utopia

...the "Utopia" collection...

Slide 30: Store & Online: Timeless

the "Timeless" editorial...

Slide 31: Store & Online: 70`s

And the "70`s" collection...

Slide 32: FY 2017 Outlook

Regarding the outlook for the Second Half of 2017 I would like to add that store and online sales in local currencies from the 1st of August to the 17th of September have grown by 12%.

With respect to expansion Ordinary Capital Expenditure for 2017 will be around 1.5 billion Euros.

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For the coming years we continue to see strong growth opportunities, with Capital Expenditure growing below space growth.

Just as a reminder we will make our final 2016 dividend payment of 0.34 euros per share on the 2nd of November.

And this is all from us. We will be pleased to answer any questions you may have.

Questions & Answers

Operator

Thank you very much. Ladies and gentlemen, the telephone Q&A session starts now. If you would like to ask a question, please press 01 on your telephone keypad. We request that you kindly limit yourself to only one question per turn. If you have further inquiries you might press 01 again after the next person's question has been addressed. If possible, we recommend that you don't use your mobile or hands-free cell phone. There will be a short silence while the questions are being registered. Thank you.

The first question comes from Chiara Battistini from JP Morgan. Please go ahead.

Chiara Battistini – JP Morgan - Analyst

Good morning. A question on the gross margin please. On whether you could comment on the kind of impact there was in Q2 from the initiatives to switch quickly from the Spring/Summer to the Autumn/Winter collections and also whether you could confirm your guidance for the full year. For gross margin, I think that you last said the upper end of your usual guidance, but I guess that has become a bit more negative now. So, if you can confirm that, please.

Pablo Isla - Inditex - Chairman & CEO

Thank you very much. The first thing we would like to say, as we were saying during the presentation, and as we always say, is that the gross margin in the first half has been satisfactory. The gross margin reached 6.6 billion euros and grew 11%. So it has been globally satisfactory and globally stable, plus/minus 50 basis points. And then, as you know, the gross margin is a combination of many factors, fashion trends, product mix, like for likes, markups, product management, currencies, the comparable... I think the key here and most important thing is the flexibility of our business model, which means stability in the gross margin from a long-term perspective.

That is why we always talk about a stable gross margins. Regarding this Spring/Summer season, the performance has been impacted by the mix effect caused by the strong appreciation of the euro versus most major currencies since June, and then also that we took this commercial decision to make a quick transition from the Spring/Summer season into Autumn/Winter programming a strong launch of the campaign in August which has a lot to do, as we were saying during the presentation with this fully integrated approach between stores and online. This idea of launching the collections, the Studio, the Utopia, Timeless collection, Monday to Friday, '70s collection in a fully integrated way between stores and online.

And then, answering your question about the full year gross margin, what we can say is that

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there has been a very strong movement of currencies in the recent months, but at this stage we continue seeing a stable gross margin for the full year knowing that for us stable means plus/minus 50 basis points.

Chiara Battistini – JP Morgan - Analyst

Thank you very much. And just for clarification, so while guidance was towards the upper end of the range until the Q1 stage you are now envisaging minus 50/plus 50?

Marcos López – CEO

Obviously, we have mentioned there has been a significant strengthening of the euro and what we would like to say is that at current exchange rates we see stable plus/minus 50 basis points.

Chiara Battistini – JP Morgan - Analyst

Thank you.

Operator

Thank you very much. The next question comes from Richard Chamberlain from RBC. Please go ahead, sir.

Richard Chamberlain - RBC - Analyst

Just to follow up on the first question, would the gross margin have been up in the first half if it was not for the currency mix effects taking place?

Pablo Isla - Inditex - Chairman & CEO

You know that we do not like to elaborate on a quarterly basis in terms of the gross margin. What we can say is that as I was saying to you before, that gross margin in the first half reached the 6.6 billion euros, grew 11%, it was inside the range with a major currency movements in June. So we prefer not to elaborate much more on a very short period of time.

Richard Chamberlain - RBC - Analyst

And just in terms of the RFID benefits that you are still seeing, that obviously have been helping sales in recent years. In terms of inventory control and increasing staff time to serve customers and perform more value added rolls in store, how long should we expect those benefits to last for? Will they carry on for the rest of this year and potentially next year as well?

Pablo Isla - Inditex - Chairman & CEO

Well, the RFID, as you know, is something that for us is very, very important as is the rollout of the RFID in all Zara stores across the world. As you know, we are implementing RFID in the other concepts progressively with the idea to have RFID fully implemented in the next two to three years having RFID fully implemented in our store network, so talking about all the brands. RFID is a relevant part of our approach to the business, but at the same time you also know that we never like to isolate one particular impact. Of course, the main reason behind RFID is customer service and the idea to offer a better service to our customers. RFID also is playing a very relevant role in this possibility that we are developing of fully integrated stock for online and stores. Without RFID it would be impossible to have this fully integrated approach to the stock between online and stores. So we believe very much in this project and the way we are implementing it and it also helps, as you know, in the replenishment of the

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stores. But finally, what we are trying to do is to improve our customer service and, as I was saying to you, we never try to isolate this or that impact. It really comes from the business model, from the flexibility of the business model, the ability to react during the season, this is the case to follow the fashion trend, the demand of our customers.

This idea of new garments arriving to our stores twice per week and also regarding our online offer and then a lot of initiatives that are in this direction, but we never like to isolate this or that impact.

Richard Chamberlain - RBC - Analyst

Okay. Thank you. But just to clarify, is it going into Massimo Dutti and Bershka this year? Is that right? Those formats?

Pablo Isla - Inditex - Chairman & CEO

We are in the process of implementation in Massimo Dutti and Bershka will be mainly next year.

Operator

Thank you. The next question comes from Rebecca McClellan from Santander. The floor is yours.

Rebeca McClellan - Santander - Analyst

The decision to make the quick transition into autumn, was that driven by changes in the competition and in the market or something internally? And if it was the former, would you expect to have a sort of changed commercial policy going into the latter part of autumn and winter?

Marcos López - Inditex

Not really. It has much more to do with the business model. The combination of our store and online launches. As we have mentioned in the presentation, we had programmed in a number of very strong initiatives for the beginning of August. You have seen the number of collections that we have launched both in stores and online since the 1st of August. We have talked about the Studio, the Utopia collection, the Timeless Editorial and the '70s collection and this is very much what we were trying to do. And you can see the result in the quite good with the trading update of 12% sales growth in local currencies from the 1st of August to the 17th of September.

Rebeca McClellan - Santander - Analyst

It is aligning with the different channels with the new initiative and top collections.

Marcos López - Inditex

Everything we do now is fully integrated, Rebecca. So, we think it was very, very important to start the season this way.

Rebeca McClellan - Santander - Analyst

Right. And my second question is we had negative effects from currencies in the first half. What would you expect it to be in the second half given the euro's movement since June?

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Marcos López - Inditex

Best expectation is to try to deliver very strong like-for-like. With very strong commercial initiatives, everything in terms of currencies is difficult to quantify. But well, in terms of the gross margin we have reaffirmed guidance. We see a stable gross margin, but regarding currencies, if you talk about the year you should consider at current exchange rates. We probably see between 1 to 1.5 percentage points.

Operator

Thank you very much. The next question comes from Andrew Hughes from UBS. Please go ahead.

Andrew Hughes - UBS - Analyst

Good morning. A question with regards to that autumn/winter transition. The fact that you mentioned it in the statement, is that because there has been an impact on H1 gross margin? Is this sort of implication that you have to clear through the spring/summer range more quickly than you would do on a normal basis to get your new ranges into store? Thanks.

Pablo Isla - Inditex - Chairman & CEO

We prefer not to elaborate much more regarding this topic. I think it has to do with this fully integrated approach between stores and online as we were saying. I would like to add, as we continue being particularly active regarding everything which has to do with the store optimisation plan, particularly in the first half or if we think about the second quarter. You know that we never like to analyze our company on a quarterly basis, but there has been very, very relevant refurbishment. I could mention, for example, Dubai mall, one of our most relevant stores in the world that is going to reopen this Friday. Or Century City in LA, that was opened after a big enlargement on the 7th of September. Nagoya in Japan reopened on 19th of August. Even here in London, Oxford East reopened on 31st of August after a refurbishment, or Corso Vittorio Emanuele, the men's wear store that reopened beginning of September. So, what we are focused on is the execution of our business model, combining all the different elements. Globally we think about the season, the spring/summer season. We have achieved the 6% like-for-likes against an 11% comparable, which is extremely demanding. We were mentioning that we have had a positive like-for-like in all the geographies and we have this split between Spain, Europe, Spain, the Americas and Asia. Regarding Spain, I would like also to mention that after achieving 20% sales growth in the last three years, we have achieved a 5% sales growth in the first half of this year. So, we continue with a very, very healthy evolution of our business in the Spanish market as in all the other markets. And this is what we are focused in, in the global execution of our business model through all these initiatives. The key element is the essence of our business model, the flexibility, the ability to react during the season, the proximity sourcing, the centralized stock or inventory position, and then now the second global element is the fully integrated approach from every point of view between stores and online. We are focused on the way we manage the company and we continue seeing strong growth opportunities through this fully integrated approach in all the different geographies.

Andrew Hughes - UBS - Analyst

Just a quick follow-up. In terms of the foreign exchange movement, you can see the weakness of the things like the Turkish lira, for instance, against the euro. As we move forward, does your business model help to get some sourcing benefit from the strength of the euro against some of these other currencies as that product comes into the store to help offset some of the negative translation?

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Marcos López - Inditex

You are right. Obviously, there is a delay but clearly the first half of 2018 will have an advantage. A strong euro would clearly benefit Asia sourcing in dollars.

Andrew Hughes - UBS - Analyst

Ok, thank you.

Operator

Thank you very much. The next question comes from Anne Critchlow from Societé Generale. Please go ahead.

Anne Critchlow - Societé Generale - Analyst

I have got two questions. Were the non-Zara concepts as well as Zara affected by the earlier transition to Autumn/Winter? And then my second question concerns warehouse development. Are you considering developing warehouses outside of Spain? So, not just dark stores, but warehouses? And would you be working on faster delivery for online orders to customers? Or is your focus more on the integration of online with the stores?

Pablo Isla - Inditex - Chairman & CEO

Regarding the first question, what I would mention is that it is a global approach. I think it is very remarkable when you see this first half results, when you see sales growth per brand, it is very remarkable. It is not only that globally sales growth has been 11.5%. It is that when you analyse the 8 different brands, sales growth has been very, very consistent. It has been in Stradivarius 9% and in all the other brands, double digit sales growth. So, the essence of the business model is the same and the approach and the fully integrated approach is the same regarding all the different brands. And then, regarding the second part of your question, I think what for us is key much more than saying that we have a logistic platform here or there, is that we have not at all in mind any idea about changing this idea of a centralised stock, centralised inventory position, which is key feature of our business model. And then, as you know, we are permanently having logistic investment because of the size of our company. And this happens in a very normal way, but we are not thinking at all about changing our business model from this point of view.

And regarding online, what we try to have is a very attractive proposition all over the world. We have next-day delivery now in most of the cities in the world. We are beginning to introduce the same day delivery, we are beginning in Madrid and our idea is to extend to many other cities, so, to have a very competitive approach from this point of view, but always with this idea of the fully integrated approach. You know that for us what is very relevant is in-store delivery, in-store returns, ordering online from the stores. So, all these elements, this fully integrated approach is a key characteristic of our online offer and we think it is very relevant and it has very significant growth prospects.

Anne Critchlow - Societé Generale - Analyst

Thank you.

Operator

Thank you very much. The next question comes from Cedric Lecasble from Raymond James.

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The floor is yours.

Cedric Lecasble – Raymond James - Analyst

Good morning, gentlemen. Most of my questions have been answered but I would have a last one on the online acceleration. Is this acceleration of the autumn, the fall winter collection, specific and something we should not necessarily expect in the future?

Marcos López - Inditex

Well, I think your question is very, very relevant. I think that what we are trying to do is to launch absolutely everything in a fully integrated way. I think this is the key message we would like to reaffirm. And this explains why, you know, with this number of initiatives we have presented to you during the Webcast, you know, launching all the collections from 1st of August, we have produced the trading update that we have released.

Cedric Lecasble – Raymond James - Analyst

Thank you.

Operator

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

Ignacio Fernández - CFO

Thank you. We have had a number of questions on the Webcast platform. First of which: Can you comment please on your online launches in Southeast Asia and how China is developing, please?

Pablo Isla - Inditex - Chairman & CEO

As we were mentioning during the presentation we launched in Singapore, Malaysia, Thailand and Vietnam in the spring with very strong reception and this launch has been successful. We are happy with the development and now we are planning to launch early October in India. You were mentioning also China, and China I would say we have a very healthy business, very strong activity, fully integrated between stores and online. We continue opening significant stores. In the coming months we have openings in Shenzhen, in Shanghai, so we continue opening significant stores as in all the geographies and at the same time combining it with this fully integrated approach with a very strong online business.

Also I would like to mention -not talking only about Zara- that very recently we have launched Oysho online in South Korea, we are launching in the coming weeks Bershka in Japan online business, so we continue with this approach, developing our online presence, not only with Zara, but with all the other brands in the most relevant markets in the world.

James O'Shaughnessy - IR

Perhaps you could put some comment on the performance of your flagship store in Mumbai.

Pablo Isla - Inditex - Chairman & CEO

We are talking in a previous presentation about this opening about this store. It is very relevant

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for us this opening because of being a unique building, a high-street store in India, and what we can say is that this store has had a very, very strong reception. I would say that both, in terms of the commercial performance, because this store since the opening at the beginning of May is the highest selling store in India, but it is relevant not only because of its commercial performance, but it is also very relevant for us because of the image that we are transmitting. Because what it means in terms of our presence in such a relevant market as it is India, and now at the beginning of October with this online sales launch.

James O'Shaughnessy - IR

Thank you. The third question we have is: Perhaps you could provide some color on the next day delivery service that you have.

Pablo Isla - Inditex - Chairman & CEO

I think that I covered it a little bit already. So what we try to do is specifically talking about our online offer is well, first of all, as you know, we offer this "click and collect" possibility, and we have significant part of our products sold online, which are picked up in the store, around one third. Also, as you know, we have a strong proportion of the returns that take place in the store. And then, now we are offering a next-day delivery in the majority of markets we are in globally, and we are beginning with this possibility, offering to our customers this possibility of same-day delivery. So, fully integrated approach, a significant advantage because of this combination, between online and stores, and at the same time, as you can imagine, trying always to be very competitive. For us it is very important not only the delivery but, if it is said, next-day delivery, which is, of course, something very relevant. But also the quality and that is why we pay a lot of attention to the packaging, we pay a lot of attention to how you receive at home or in the store the products that you have ordered online. We have included in the Marineda store something, a new technology for the in-store deliveries, which is very -I would say- very nice, and we are quite happy with the way it is working. It is very convenient for our customers. It takes between eight to ten seconds to get your package, and it is completely integrated into the image of the store. So, for many stores which have a lot of in-store deliveries it is going to be something that we could roll out because again, we think that it is something, I would say, unique of our fully integrated approach between stores and online.

James O'Shaughnessy - IR

Thank you. I think you have pretty much covered it all now. There is one final question regarding the use of technology in your stores but as I said, you have covered most of that.

Pablo Isla - Inditex - Chairman & CEO

I think so, because we have been covering, of course, RFID, which is extremely relevant. Also in the store in Marineda, in terms of image you will see if you have the opportunity to visit it or perhaps other stores in which we will implement these more. We have a lot of screens all across the store, which are showing the looks so in a sense replacing what used to be mannequins. So this has also to do with technology, we have the self-checkout, which is something that we continue to have in the cashiers. But the self-checkout, particularly thinking about busy days could be, if you talk about a shopping mall during the weekends, it is something very, very helpful in terms of the customer service, in terms of management of the store. And then, this technological possibility, I would say in terms of "click and collect". So, we continue developing a lot of initiatives. For us, when we think about our stores, we always have in mind technology and we always have in mind this fully integrated approach between stores and online.

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Pablo Isla - Inditex - Chairman & CEO

Thank you very much. And, of course, as always, we are ready to answer any further questions you could have through our capital markets department. Thank you very much.

Operator

Ladies and gentlemen, this now concludes our conference call. Thank you all for attending. You may now disconnect your line.

(Session concluded)