



**INDITEX
CONSOLIDATED RESULTS FOR 2019**

**CONFERENCE CALL SCRIPT
18 March 2020**

Important notice: Although we try to accurately reflect the speech delivered, the actual speech that was delivered may deviate from this transcript.

Inditex Participants

Pablo Isla – Executive Chairman

Ignacio Fernández - CFO

Marcos López - Capital Markets Director

Conference Call Participants

Annesha Sherman Bernstein – Analyst

Richard Chamberlain RBC – Analyst

Anne Critchlow Societe General – Analyst

Rebeca McClellan Santander - Analyst

Mariana Horn-Urbe UBS - Analyst

Introduction: Marcos López

Good Morning Ladies and Gentlemen. A warm welcome to the presentation of Inditex's Results for 2019. I am Marcos López, Capital Markets Director.

The presentation will be chaired by Inditex's Executive Chairman Pablo Isla. Here today with us are also our CEO Carlos Crespo and CFO Ignacio Fernández.

As usual, the presentation will be followed by a Q&A session starting with the questions received on the telephone and then those received through the webcast platform. Before we start we will take the disclaimer as read.

I will now hand over to Pablo.

Slide 4: Pablo Isla

Good morning to everybody and welcome to Inditex's 2019 results presentation.

First and foremost our thoughts are with all those affected by the Covid-19 pandemic. Our number one priority is the health and safety of local communities and our employees. We would like to give our thanks to our teams who's contribution in this difficult time has been truly inspiring.

Slide 5: Inditex: Strong fundamentals

All of you know us well but I would like to start my presentation highlighting the strength of Inditex's fundamentals.

2019 has been a year of very strong operating performance. The sales growth, healthy margins and strong cash flows prove the health of the business model.

The start of 2020 is affected by severe but temporary external factors and we are managing the situation in very close detail.

Let me tell you that we have total confidence in our business model and the long term potential of the group. We continue developing the key lines of our long term strategy to extend our fully integrated store and online platform.

Inditex is in a robust financial condition. We generate strong free cash flow, enjoy the flexibility provided by a net cash position and require lower capital intensity going forward.

We continue to see significant opportunities for global growth.

Slide 6: 2019: Outstanding performance

2019 has been very much about the continued roll out of our long term strategic initiatives with a very clear goal, to provide a unique customer experience.

These initiatives fuel the increasing differentiation of our model. Let me give you some numbers to illustrate the facts.

Sales in 2019 were very satisfactory at plus 8%. Lfl's sales grew 6.5%.

Online sales increased 23% to 3.9 billion euros, or 14% of group sales.

Gross profit reached 15.8 billion euros and includes an inventory provision of 287 million euros. Excluding this provision Net Income would have grown 12%.

We have also seen accelerating free cash flow generation reflected in the 8.1 billion euro net cash position.

Slide 7: Strength of business model reflected in LFL consistency

The strength of the business model is reflected in the consistency of our LFL sales performance. Last year LFL's reached 6.5% on a demanding comparable. Additionally, LFL sales were positive in store and Online and in all geographical areas.

Slide 8: Space optimisation a key competitive advantage

In 2019, we have been very active with our space portfolio. We have reinforced the differentiation of our key global flagships with the opening of very visible stores.

Slide 9: New space in prime locations globally grew 5% (2.5% net)

In 2019, gross new space in prime locations grew 5%. We continue the optimisation programme and the result was 2.5% net space growth.

Slide 10: Online globally

In 2019, Inditex has achieved sector leading online sales of 3.9 billion euros, an increase of 23%. Online sales account for 14% of group sales.

In 2019, online launches have taken place for Zara in Brazil, Egypt, Indonesia, Israel, Lebanon, Morocco, Serbia, South Africa, Kuwait, UAE, Qatar, Saudi Arabia, Bahrein, Jordan, Oman, Colombia, Philippines and Ukraine.

Slide 11: Dividend

The Board of Directors of Inditex, following the proposal of the Audit & Compliance committee, in view of the current uncertain situation due to the Covid-19 pandemic, considers that it is not the right moment to take a decision on the dividend to be proposed relating to FY2019. Consequently, the net income generated will be allocated to reserves with a view to submitting

a final proposal on dividends at a later board meeting prior to the AGM which will take place in July.

Slide 12: Start of FY2020

Initial collections for the Spring/Summer season have been very well received by our customers.

The Covid-19 pandemic is having a very significant impact. The online business continues to develop as normal in all markets. Our supply chain continues to operate normally due to the flexibility of the business model.

Due to Covid-19 Store and Online sales in local currencies decreased 4.9% from 1 February to 16 March 2020. Store and Online sales in local currencies decreased 24.1% from 1 March to 16 March 2020.

As of today 3,785 stores are temporarily closed in 39 markets. All stores in China are open with the exception of 11 stores.

While it is too early to quantify future impact, we are following events closely and we have total confidence in our business model and the long-term potential of the group.

Let me now hand you over to Ignacio for the Financial Section

Slide 13: Financial Summary

Thank you Pablo.

Slide 14: Strong operating performance in 2019

As a remainder Fiscal 2019 accounts have been prepared under IFRS 16. The standard has no impact either on the cash flows or the business itself.

As already pointed out we had a very strong performance in 2019.

Net sales grew 8% to 28.3 billion euros, gross profit increased 7% to 15.8 billion euros and net income increased 6% to 3.6 billion euros.

As explained we have booked an inventory provision of €287m to account for the impact that the Covid-19 pandemic might have in the net realisable value of the Spring/Summer inventory position at 31 January 2020.

Excluding this provision the reported net income would have grown 12% over FY2018.

The impact on net income of leases under the IFRS 16 rules was 88 million euros.

Slide 15: Strong sales growth

The evolution of sales was very satisfactory with net sales growth of 8% driven by a very good performance of the integrated business model. The strong execution in 2019 is well illustrated in like-for-like's growth at 6.5%.

Slide 16: Global Store & Online sales in 2019

Inditex continues expanding its global sales platform. Like-for-like sales growth has been positive in all geographic areas.

Slide 17: Disciplined execution shown in gross margin

Gross profit reached €15.8 billion, 7% higher than in FY2018. The gross margin reached 55.9% (-79 bps).

Based on current information and in accordance with IAS 2 and IAS 10, Inditex has booked an inventory provision of €287m to account for the impact that the Covid-19 pandemic might have in the net realisable value of the Spring/Summer inventory position at 31 January 2020.

Excluding this provision, the gross margin would have increased 22 basis points to 56.9% and the gross profit by 9% to €16.1 billion.

Slide 18: Strong operating efficiency

Once again, efficiency gains have allowed us to tightly control operating expenses in the period. Operating expense growth excluding the impact of Leases under IFRS16 rules in the period would have been plus 7.5%.

Slide 19: Financial results

The financial results line of income statement includes an impact of Leases under IFRS16 rules of 146 million euros.

Now let me hand you over to Marcos

Slide 20: Business model

Thank you Ignacio.

Slide 21: Flexible business model

The flexibility of the business model we run can be seen clearly in the healthy working capital.

This operating performance was facilitated by the integration of the stores and the online operations, as well as the ongoing space optimisation taking place. This helped to drive the growth in the net cash position of 20% to 8.1 billion euros.

Inventory excluding the 287 million euros provision fell 6%, demonstrating our ability to run our business more efficiently and with less inventory.

Slide 22: Cash flow summary

To summarise the cash flow evolution in the year let me tell you that Funds from Operations, including lease payments, grew 11% to 4.9 billion euros. The strong operating performance, the working capital inflow and lower net capital expenditure resulted in a free cash flow of 4 billion euros, up 54% from last year.

Let me now hand you back to Pablo

Slide 23: Outlook

Thank you Marcos

Slide 24: Inditex strong fundamentals

A few final comments on the outlook. The performance of Inditex in 2019 highlights the strength of the business model.

The start of 2020 is significantly impacted by the Covid-19 pandemic. We believe an underlying level of LFL sales growth of 4-6% is sustainable going forward. However, given the current situation we believe it is too early to give guidance for FY2020 at this stage.

Inditex is in a robust financial condition. We generate strong free cash flows, enjoy the financial flexibility provided by our net cash position and require lower capital intensity going forward.

We have total confidence in our business model and the long term potential of the group. We will continue developing our long term strategy. We continue to see very significant global growth opportunities.

Slide 25: 2019 Results

And that concludes our presentation today. We'll be happy to answer any questions you may have. Please Operator.

QUESTIONS & ANSWERS

Operator

Ladies and gentlemen, the telephone Q and A starts now. You if you would like to ask a question, please press star 1 on your telephone keypad. If you wish to remove your question, please press star 2. We request that you limit yourself to only one question per turn, so we can maximize the number of participants in the session. If you have further queries you may press star 1 again after the next person's question has been answered.

Please ensure your phone line is not muted locally.

The first question today comes from Annesha Sherman of Bernstein. Annesha, your line is now open.

Annesha Sherman - Bernstein - Analyst

Good morning. Thank you for taking my question. My question is about the online business. You said that online is now 14% of group sales. Can you give us a rough split of your store versus online distribution costs? I am trying to understand to what extent the closures of stores will proportionally bring down distribution costs. And the second piece is: do you see your online marketing structure deteriorating as customers are unable to return or pick up in your stores, which is a big part of your online and stores channel structure? Thank you.

Pablo Isla - Inditex – Executive Chairman

As you have seen, during last year our online business developed very strongly. We have raised 3.9 billion Euros of sales. Sales growth has been 23% for our online business. As we have said before, the online business is non-dilutive. We believe very much in this fully integrated approach going forward. Currently, of course, we are facing -I would say- a very extraordinary, a very unexpected situation. I think that it does not make a lot of sense to elaborate very much about this or that point, in particular regarding this very unexpected and unusual situation that we are facing with so many stores closed temporarily in the different markets. We continue believing very much in this fully integrated approach regarding stores and online. This is one of the key elements of our global strategy. Of course, once things come back to normality we will come back to this approach. What is very important for us is that in the different markets in which our stores are closed we continue offering our customers the possibility of buying our products online. This is what we are focused on, to continue developing our business as far as possible in the different markets.

Operator

The next question comes from Richard Chamberlain of RBC. Your line is now open.

Richard Chamberlain – RBC- Analyst

Thank you very much. I had a question on the inventory provision, please. I know it is very difficult, but can you just give us a little bit more colour on the assumptions that you have made to come up with that inventory provision? And then my other point was on the manufacturing and logistics in Spain, and the impact from COVID-19 virus, how you are minimising the risk from having, you know, fairly a centralised setup in Spain. It does not sound like it has been very disrupted so far. How are you thinking about minimising the risk going forward? Thank you.

Pablo Isla - Inditex - Executive Chairman

Thank you for your question. What we can say first of all, your question about manufacturing and logistics, regarding manufacturing, what we are saying in the note and in the presentation, is that as you know, we have a very flexible business model and from that point of view, at least until now we are not having any significant impact. And about logistics, what we will try is to continue running our business

as much as possible having in mind all the stores that we have now closed in many different markets around the world, I repeat, on a temporary basis. This is something which is very important to have in mind.

About the inventory, what I would say, and later I will pass to Marcos to elaborate a little bit more, but what is very, very remarkable is that, having in mind what has been our strategy during the last year, and particularly during this year, 2019, our inventory without the provisions or before the provision was minus 6%. So, we were able to have 8% sales growth with minus 6% inventory levels at the end of the period. Then, because of the situation and the potential impact on the inventory that we have at the end of the year, we have decided and we have thought that what was appropriate was to make this provision that Marcos you can elaborate a little bit more.

Marcos López - Inditex - Capital Markets Director

Yes, Richard. Very much, the assumption is based on the current information and in accordance with IAS2 and IAS10, we have booked the inventory provision of 287 million Euros to account for the impact that the COVID-19 pandemic might have in the net realizable value of the Spring/Summer inventory position at January 31st 2020. This is as far as we would like to go right now.

But I think what is very, very important and Pablo mentioned it, is the way that we were managing the inventory in a very, very tight way and as we have mentioned, last year without any provision, the gross margin would have increased 22 basis points to 56.9% and at the same time the inventory would have fallen 6%. So, the fundamentals of the business model remains very, very strong. I think the impact of the working capital is absolutely evident in the cash flow summary that we have presented to you. So, the fundamentals of the company remain very, very strong.

Operator

The next question comes from Anne Critchlow of Societé Generale. Anne, please go ahead.

Anne Critchlow – Societé Generale - Analyst

Good morning and thank you for taking my questions. Firstly, could you give us a space guidance number, increase in physical space that you are planning for the year in percentage terms? And then, secondly please, could you give us some insight into what happened in China during the store closure to your online business? Did you see online sales actually accelerate? If you could give a bit of colour around that it would be great. Thank you.

Pablo Isla - Inditex - Executive Chairman

Regarding your first question, what I would say is that we believe, as you can imagine, all our different plans for this year we are reviewing them because of this situation that we are facing. So, I think it is too early to think about any guidance for the 2020 year in terms of space growth, in terms of like for like sales growth. We hope that we will be able to give this guidance in the first quarter results presentation in month of June. But we think it is too early to give any type of guidance at this stage.

And regarding China, what I would say... First of all, during all the period, during the whole month of February our online business continued working in the Chinese market. I do not want to elaborate very much on this particular short period of time if online was growing or not or above or below what could be the average. What I think is relevant is that we continued developing our online business during the whole period and what is also very relevant to mention is that today, mid-March, all our stores with the exception of 11 are already opened and our online business continues developing in a very normal way

and we continue with this fully integrated approach as we are implementing in all the markets. I think that is what is relevant to mention right now. And regarding guidance, I repeat what I was saying, we hope we will be able to give you guidance in June in the first quarter results presentation conference call.

Operator

The next question comes from Rebecca McClellan of Santander. Rebecca your line is now open.

Rebeca McClellan - Santander - Analyst

Yes. Good morning every one. A couple of questions, please. Firstly, Inditex is a big corporate in Spain. Would it be able to enjoy the ERTE proposed by the government? And secondly, if you are in any sort of relief conversations, how amenable are you seeing the landlords in terms of trying to meet in the middle or not?

Pablo Isla - Inditex - Executive Chairman

Rebeca, thank you for your question, but we prefer not to elaborate on any specific market at this stage. As you can imagine, this situation is quite new in all the different European markets. And, of course, as you can imagine, we are analysing the situation on a country per country basis and we will take all the appropriate decisions having in mind all the elements, our employees, cost structure, our long term relations with our landlords, with our different suppliers. So, we will take always balanced decisions and having in mind all the different stakeholders involved in the decisions.

Operator

The next question comes from Mariana Horn-Urbe from UBS. Your line is now open.

Mariana Horn-Urbe - UBS - Analyst

Good morning. Thank you for taking my question. My question is about OPEX. I was wondering if you can provide some colour as to how much flexibility you have in terms of your cost base. So, for example, if you could provide an indication of what percentage of your cost base is fixed and what percentage is variable. And relating to this, if you can tell us whether in the stores that are closed, you are still paying the employees that work in those stores. And also, in terms of the current trading figure that you provided for the month of March, is it possible for you to provide some colour on how much of that came from online versus brick and mortar? Thank you very much.

Marcos López - Inditex - Capital Markets Director

Starting with your second question about the split between stores and online, we believe that at this stage it is not the right time to talk about that. As Pablo mentioned, we run a fully integrated model and we do not want to enter in that type of discussion.

Regarding the OPEX, it is true that INDITEX has a significantly flexible OPEX structure. If you look at numbers in the fiscal 2019 accounts, you will see that that is the case. We have a very significant variable component in our sales, but at this stage we would prefer not to enter into a discussion for the year.

Operator

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

James O'Shaughnessy - IR

Thank you. We have had a number of questions. I think most of them have actually been covered already. There is one remaining on inventory. How much further can you lower your inventory going forward?

Pablo Isla - Inditex – Executive Chairman

What I would say is that, first of all and we were saying during the presentation, we believe very much in the long term prospects of our group. I think this is the most important thing to say. And we believe very much in the strategy that we have been developing in the last few years. That is why much more than to focus on the short term impact and how much are we going to compensate related with costs, I think that what is very important is to have the long term view and we believe very much in this long term prospect of our group.

And the inventory position at the end of the year even before the provision was minus 6%. It shows the flexibility of our business model, it shows how healthy we are running our company. So I think this is the essential point. This is the most important element we wanted to transmit to you in this conference call and now we are having this temporary impact, which is very significant, as we are saying in the presentation. Many of our stores are closed, we hope for a short period of time, in the different markets, but we continue believing very much on our long term prospects and our long-term strategy. This is what I wanted to transmit to you today.

James O'Shaughnessy - IR

Thank you very much. That concludes the Webcast questions now.

Marcos López - Inditex - Capital Markets Director

Thank you very much. This concludes today's Q&A session. Now please let me hand over to Pablo for the closing remarks.

Pablo Isla - Inditex - Executive Chairman

And thank you everyone. And thank you for participating in this presentation. And once more, as I was saying at the beginning, our main concern now is the health, of course, of our employees and the local communities in which we operate. And, of course, for any additional questions you may have, we can continue during the day through our capital markets department. Thank you. Thank you very much.