

# INDITEX

**INDITEX**  
**CONSOLIDATED RESULTS FOR THE INTERIM NINE MONTHS 2018**

**CONFERENCE CALL SCRIPT**  
**12 December 2018**

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

## Nine Months 2018 Results

### Inditex Participants

**Pablo Isla** - Chairman & CEO

**Ignacio Fernández** - CFO

**Marcos López** - Capital Markets Director

### Conference Call Participants

**Anne Critchlow** Societe General – Analyst

**Rebecca McClellan** - Santander - Analyst

**Cedric Lecasble** – Main First – Analyst

**Chiara Battistini** – JP Morgan - Analyst

**Simon Irwin** - Credite Suisse – Analyst

**Michelle Wilson** - Berenberg - Analyst

## Nine Months 2018 Results

### Operator

Good Morning Ladies and Gentlemen. Welcome to the presentation of Inditex Results for the Interim Nine Months 2018. 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: We will start with the questions received on the telephone, followed by those 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 the Interim Nine Months 2018.

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

### Slide 4: Strong operating performance in 9 Months 2018

I would like to start the presentation telling you that the Interim Nine Months of 2018 has been a period of strong execution for Inditex globally.

### Slide 5: Global fully integrated Store & Online

We operate a unique 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 Nine Months 2018: Overview

Inditex performance in the period has been strong. Sales in local currencies have increased 7%. We have achieved positive LFL sales growth in all geographical areas over the period.

Our operations have also shown high efficiency and tight control. This is reflected in a strong gross margin performance.

We have opened stores in 51 different markets, demonstrating the reach of Inditex's business model. We have also continued our global online rollout.

We have a worldwide presence and have further diversified our operations over the period. We continue to see significant growth opportunities for Inditex globally.

### Slide 7: Zara: Paris flagship

We have reinforced the differentiation of our key global flagships with very visible stores.

Starting with Paris I would like to highlight the relocation of our Zara store in Boulevard Haussmann to a new site. The new global flagship at 54 Boulevard Haussmann comprises 3,000 square metres and will open tomorrow.

### Slide 8: Massimo Dutti: Lisbon Flagship

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Massimo Dutti has also opened a very impressive flagship in Lisbon at Avenida da Liberdade

### Slide 9: Bershka: Budapest flagship

Bershka recently opened a new flagship in Budapest.

### Slide 10: Pull&Bear: New image at Berlin flagship

Pull&Bear has fully refurbished its flagship in Berlin introducing its latest image.

### Slide 11: Stradivarius: Prints Collection

Stradivarius launched the Prints Collection that has been very well received.

### Slide 12: Zara Home: Join Life

Zara Home has introduced the sustainable collection Join Life.

### Slide 13: Oysho: Ski collection

Following on the success of its athletic lines Oysho has launched a ski collection

### Slide 14: Uterqüe: Reset collection

Uterqüe has introduced the Reset collection for the Festivities

### Slide 15: Financial summary

Let me now hand over to Ignacio who will present some of the key aspects of our financial performance and I will join you later for the Outlook section.

### Slide 16: Interim Nine Months 2018

Thank you.

In the Interim Nine Months of 2018 Inditex has had a good operating performance. This is reflected in the strong gross margin. As a result, Inditex has maintained the EBIT margin despite a -4.3% currency impact on sales.

Net sales reached 18.4 billion Euros, EBIT 3.1 billion Euros and Net Income 2.4 billion Euros. We have achieved strong growth in local currencies in Sales, Gross Profit and EBIT as you can see in the right hand side column of the chart.

### Slide 17: Sales

Starting with sales I would like to tell you that in the Interim Nine Months 2018 Sales in local currencies grew 7%. LFL sales growth has been satisfactory. The currency impact has been -4.3% in the nine months 2018 and -3.2% in the third quarter.

### Slide 18: Second Half 2018: Overview

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I would like to comment briefly on the evolution of Inditex over the second half of 2018. The execution of our model in the period has been satisfactory.

LFL in 2H18 to the end of November grew +3%, following a good start to the season, an extraordinarily warm September and +5% LFL in October/November.

Let me add that Inditex decided not to participate in the promotional activity widely seen in the sector since September. This high operational efficiency is reflected in the third quarter gross margin.

Inditex maintains its guidance for the second half 2018 LFL's and Gross Margins.

### Slide 19: Gross Profit

Given the strong execution of the business model the gross margin has grown 56 basis points to 58%. Gross profit has increased 4% to 10.7 billion euros. We have sustained our commercial policies over the period.

### Slide 20: Operating expenses

Operating expenses are tightly under control. They have grown 4% reflecting the growth in sales and include all the start-up costs.

### Slide 21: Current accounts

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, with very tight control of current accounts, specifically our inventory position which is up just 3%.

Let me also highlight the strong cash generation of the group.

### Slide 22: Concepts

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

### Slide 23: Performance by concept

Over the Interim Nine Months we have continued with our global expansion. We have opened stores in 51 markets so far this year. Global online launches continue at a very rapid pace.

Regarding the performance by concept in the Interim Nine months 2018 Zara continues to represent approximately 2/3rds of group sales, the younger concepts around 1/3<sup>rd</sup>.

### Slide 24: Performance by concept

The younger concepts grouped together have performed satisfactorily.

### Slide 25: Concepts

I would like to highlight that Stradivarius and Pull&Bear have performed strongly.

### Slide 26: Outlook

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

### Slide 27: FY 2018 Outlook

Ordinary Capital Expenditure for 2018 will be around 1.5 billion Euros.

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

Regarding the outlook, I would like to add that Inditex maintains its guidance for the second half 2018 LFL's and Gross Margins.

Just as a reminder, we also made our final 2017 dividend payment of 1.2 billion Euros on the 2nd of November.

### Slide 28: Global growth opportunities

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 sales platform that fully integrates stores and online.

Inditex is present on five continents and in all key markets demonstrating the Group's global reach. The current base offers huge growth potential for the coming years.

### Slide 29: Global Store & Online

Inditex's online operations continue to see very rapid growth. Our business model allows a strong development of our online sales with same day delivery in metropolises and next day as global standard.

In parallel with the total integration of inventory and full implementation of RFID, all Inditex concepts will offer online sales in any market in the world by 2020. We want to make our fashion collections available to all our customers wherever they are.

### Slide 30: Zara available in 202 markets

In November Inditex launched online sales for Zara in an additional 106 markets. Zara collections are now available in a total of 202 markets.

### Slide 31: Store & Online: Animal Print

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.

We continue developing new initiatives in a fully integrated way as Zara's recent Animal Print Collection...

### Slide 32: Store & Online: 70's Show

70's Show collection ...

### Slide 33: Store & Online: Dress Time

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The Dress Time collection...

Slide 34: Store & Online: Traveler Collection

The Traveler collection...

Slide 35: Store & Online: Join Life

... and the sustainable collection Join Life, now available in all our concepts.

Before closing I would like to highlight some selected Zara store openings and enlargements from recent months.

We continue to reinforce significantly the differentiation of our key global flagships with very visible stores.

Slide 36: Zara Milan

I would like to begin with the store that Zara opened last month in Milanofiori.

Slide 37: Zara Malta

Zara also refurbished recently its flagship in Malta.

Slide 38: Zara Philadelphia

We also opened recently at King of Prussia in Philadelphia.

Slide 39: Zara Shanghai

In Shanghai we have opened a flagship store of 3,200 square metres at Mix C World

Slide 40: Zara Tokyo

In Japan we have relocated our flagship at Roppongi Hills in Tokyo

Slide 41: Zara Bangkok

Zara also opened at Central World in Bangkok.

Slide 42: Zara Jakarta

We have opened a flagship in Indonesia at Jakarta's Senayan City.

Slide 43: FY2018 Results

We will release our FY2018 results on the 13 of March 2019.

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

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### Questions & Answers

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#### Operator

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 limit yourselves to only one question per turn so we can maximise the number of participants in the session. If you have further queries, you may press 01 again after the next person's question has been addressed.

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

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#### Anne Critchlow - Société Générale - Analyst

Thank you. Good morning all. My question is about the guidance. There were two main components to that, including like-for-like of 4% to 6% in the second half. I am just wondering whether there might be a bit of flexibility between the like-for-like and the gross margin. In other words, we might see weaker like-for-like and better gross margin than the guidance in the second half.

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#### Marcos López - Inditex

Well, Anne, I think that what we mentioned in the presentation is that we have very much gone for quality over this third quarter and you can see this reflected in the results. After the 3% like-for-like obtained in the third quarter to the end of November, and with 5% like-for-like s in October and November, we prefer to maintain guidance, as we believe it's feasible. In terms of gross margin, you can see that the execution has been very clear. We have decided to avoid all the promotional activities widely seen in the sector and to focus very much on execution. This is reflected in the very strong gross margin performance. This is why we have maintained the like-for-like and gross margin guidance for the second half of 2018.

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#### Anne Critchlow - Société Générale - Analyst

Okay, thanks. It would seem that you need about 7% like-for-like in the fourth quarter to make the guidance. Are you comfortable with that?

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#### Marcos López - Inditex

We prefer not to enter into detail over short periods of time. I think that we had a 3% like-for-like performance, as we mentioned, because we decided not to enter into promotional activity. The guidance remains what it is: 4% to 6% for the second half of the year.

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#### Anne Critchlow - Société Générale - Analyst

Okay, thank you.

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#### Operator

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



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**Rebecca McClellan - Santander - Analyst**

Yes, good morning. First question, do you think that not participating in promotional activities in the market has impacted your like-for-like performance over the period?

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**Pablo Isla - Inditex - Chairman & CEO**

Well, Rebecca, what we can tell you is what we were saying during the presentation, that this season has been a little bit volatile. We demonstrated in the presentation the public data in the month of September in various advanced countries. Overall, what we can say is that in the four month period our like-for-like growth was 3%, which we think is very healthy. And what we were stressing was the fact we believe very much in our business model, we believe very much in our collections. You can see that the inventory position at the end of the quarter is only growing 3%, along with a very healthy gross margin in the quarter. We prefer to maintain what we think is the best way to run our business, not to enter into the very significant promotional activity that has been widely seen in the sector.

I think the reality is that our sales are very healthy, our like-for-like sales growth in the four months was plus 3%. If we have in mind the quarter, we have a very strong gross margin for the quarter, remembering that without currency impact, the gross margin would have been higher than what we are presenting. What we presented is of course the gross margin with more than 3 negative points on sales coming from currencies. We think it is the right approach. We believe very much in our business model, in the execution of our business model, in the quality of our products, running the business with tight inventories and this has been the strategy of the company in quite a volatile period during the last few months because of different external factors.

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**Rebecca McClellan - Santander - Analyst**

Can I just follow up then in terms of the second half guidance, which I get you are reiterating? Are we going to get a slight shift back from the like-for-like and the gross margin because of Black Friday and the impact that has had in recent weeks or should we see a similar trend in terms of focus on full price sales and not just giving away to commercial activity and such.

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**Pablo Isla - Inditex - Chairman & CEO**

What we are saying, as Marcos was just explaining and we were saying during the presentation, is that we maintain our guidance for the second half of 2018 in like-for-like's and gross margins. To try to determine the impact from every last element, could be pointless. We think that globally, we can maintain the guidance for the second half 2018 that we anticipated to you during the month of September.

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**Rebecca McClellan - Santander - Analyst**

Okay, thank you.

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**Operator**

The next question comes from Cedric Lecasble from Main First. Please, go ahead.

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**Cedric Lecasble – Main First – Analyst**

Yes, good morning gentlemen and thank you for taking my question. I would be interested in

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the follow-up on promotional environment changes. Were the changes more aggressive? Where did you see this intensity in the promotional environment and maybe you could giving us some color on fast growing markets versus more mature markets? What was the behaviour of the different regions? Thank you very much.

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### Marcos López - Inditex

Thank you Cedric. You have seen that in the presentation we have included a chart with some of the main retail indices and you see that the key factors in September were weather related. This resulted in worldwide mid-season promotions. I would prefer not to enter into any geography specifically. The execution of the business model, has remained very healthy. We decided not to participate in this type of environment and execute according to the business model. This is reflected in our numbers. This is also reflected in the way we have managed the gross margin, in the tight inventory position growing just 3%. It is also shown in the cash generation of the company. And I think that the main message from us is that we have stuck to the fundamentals and on executing with discipline in this type of environment.

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### Pablo Isla - Inditex - Chairman & CEO

If we take a longer view, I think it is quite relevant to point out the fact that in the 9 month period we have minus 4% currency impact and even with that, we have maintained our EBIT margin. So I think this is something extremely remarkable and it shows the healthy way in which we are managing our business.

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### Cedric Lecasble – Main First – Analyst

If we consider, fast growing markets or so-called emerging markets like China in particular, my question relates to the rates of growth seen in the fast growing markets, the less mature markets. Did you still enjoy the same kind of more rapid growth that you have had in the past?

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### Pablo Isla - Inditex - Chairman & CEO

What we were saying in the presentation was that we had positive like-for-like growth in all the geographies in the 9 month period. So that is why I would prefer not to enter into this or that particular market over a short period of time. The way we think internally is never emerging markets versus non-emerging markets or fast growing markets. We believe we have growth potential in all the different markets we are in. As we have said to you during different presentations in the past, even in Spain, the market we have been present in for 40 years, we are constantly year after year generating positive like-for-like sales growth. So that is why internally we do not see our markets in this type of way. We see growth potential in all the markets. The idea of balanced growth all across the different markets is very important to us and we were saying that in this 9 month period we are having positive like-for-like in all geographies.

I will come back to what I was saying before, I think it is something also quite remarkable to have this positive like-for-like in all the geographies. It's down to a very consistent execution of our business model and if we come back to the last few months, what I would say is that it was a very volatile and challenging environment. We have been able to achieve positive like-for-like's, 3% in the 4 month period.

So in this 4 month period we were very close to our guidance for the second half with 3% like-for-like, with a very strong gross margin at the end of the quarter, with nearly zero inventory growth and very strong cash flow generation. Our net cash position increased 10% at the end of the third quarter. So, with everything combined, we believe it is a very healthy way of running our business and always

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having in mind the short-term, having also at the same time in mind the medium and the long term approach, and always based on the quality of our products, on the execution of our business model, running always with little inventory, focusing on the fashion, and the ability to react during the season. And this is what we continue to focus on. Then, of course, with this fully integrated approach, with stores and online, which, as you know, is an essential part of our strategy, our approach in all the different markets. We believe very much in this approach. Much more than to say if in the last month, three weeks, two weeks there has been this or that that could have impacted sales. So, if you analyse our performance in terms of like-for-like's or if you have in mind that if we had published our performance without the currency impact in the 9 month period, you can see this very healthy evolution of the business and the way we operate our business. It is remarkable in fact that we were able to do this with such a significant negative currency impact. We were able to maintain our margins. We have been able to maintain the EBIT margin, which we consider is something that shows the healthy execution of our business model over this year.

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**Cedric Lecasble – Main First – Analyst**

Thank you very much.

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**Operator**

Thank you. The next question comes from Chiara Battistini, from JP Morgan. Please, go ahead.

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**Chiara Battistini – JP Morgan - Analyst**

Good morning, thank you for taking my question, I had a follow-up question on your like-for-like comment as I'm hearing a few different numbers as implied for Q3 in the street. I know that you don't comment on a quarterly basis on like-for-like, but would you be able to confirm whether the like-for-like was around 2 to 3% in the 3<sup>rd</sup> quarter. And on your comment on like-for-like in October/November at around 5%, is that for October/November combined or should we assume that October and November were broadly at the same levels of mid-single digit. Thank you.

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**Marcos López - Inditex**

Ciara, I think that we have been very clear in the sense that we've mentioned that like-for-like for the third quarter to the end of November was + 3%, which is remarkable in the sector. I think we have mentioned that we started with very strong collections, we had an extraordinarily warm September as was very well documented in all the different statistics in the majority of the countries in which we operate. And then you have +5% like-for-like in October/November. I think that we wanted to profile this performance because it was a bit unusual. We also wanted to give you the gross margin performance because I think this is a very relevant factor. We said that we had decided not to participate in the sector wide promotional activity and stick very much to the business model. This resulted in a positive 108 basis points in gross margin and, very tidy inventory at the end of the quarter, and very strong cash generation. I think this reflects very much the performance more than what is the like-for-like in any given month and this is what we would like to say.

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**Chiara Battistini – JP Morgan - Analyst**

Thank you very much.

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**Operator**

Thank you. The next question comes from Simon Irwin from Credit Suisse. Please go ahead.

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**Simon Irwin - Credite Suisse - Analyst**

Good morning, everyone. Sorry for missing the earlier question. Could I just ask about opex leverage? Obviously, there's been a bit of opex leverage through both quarters this year. Could you talk about the medium term as to when you would expect to be leveraging your opex or are there one off elements to it this year that won't continue in other years?

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**Pablo Isla - Inditex - Chairman & CEO**

As we were saying during the presentation, I think the profit and loss account of the 9 month period or even of the quarter if we consider the quarter, shows very tight cost control all over the company. We are able to keep costs under control. You must have in mind that when there is such a significant currency impact as we've had in this 9 months period, it's more difficult to analyse what is going on regarding opex leverage. If you have in mind the profit and loss account in cost and currencies, you would see this type of leverage. What I can say overall all is that opex leverage will have a lot to do with like-for-like sales growth if we think about it in the medium and long term. It will be very much dependent on like-for-like sales growth. If you ask me do you consider there is a possibility of opex leverage in the coming years, of course, the answer is always yes. Because we think that we are going to be able to continue having healthy like-for-like's over the coming years. But the main element for that point of view is going to be, as always, like-for-like sales growth. And then, this combining between gross margin, opex growth and EBIT growth. There is no reason why we could not think about opex leverage in the coming years.

But, it has much more to do with the like-for-like sales growth evolution than with anything else, and when there is a strong or significant currency impact, then sometimes it's very difficult to analyse. If you have in mind that in the nine months period currency impact is 4%, then it's very difficult to analyse opex leverage because it depends very much on the currencies and on many different things. So, that is why we think about medium and long term. In fact, in terms of currencies, what we can say is that at current exchange rates there should not be any currency impact next year. So, at current exchange rates, we would continue having negative currency impact in the fourth quarter but for the year 2019 there should not be any negative currency impact. If we think about opex leverage in the year 2019, it would have a lot to do with like-for-like sales growth during the year.

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**Simon Irwin - Credite Suisse - Analyst**

Okay. Could I just ask a quick follow-up on the gross margin? You said you decided not to take part in widespread promotional activity across the market. In 4Q last year you had very significant markdowns, minus 138 basis points. So, if you're not taking part in widespread promotions this year, does that all come back on or have you effectively smoothed that gross margin through the whole second half?

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**Pablo Isla - Inditex - Chairman & CEO**

You know, we'd prefer at this stage to say we maintain our guidance for like-for-like's and gross margin growth during the second half. We prefer not to elaborate very much on 20, 25, 30 basis points up or down. For the second half at this stage our approach is to maintain our guidance as we anticipated to you in the month of September. If you ask me, are you satisfied with the evolution of the gross margin in the third quarter, the answer is, of course, yes. We are satisfied with the evolution of the gross margin during the third quarter. We think we have taken the right decision not only about the short-term, but thinking also about the medium and long term. We believe very much in the quality of our collections, in our business model, and in the execution of the business model. This is the reason we decided not to participate in these huge promotions that were taking place in the market around this time and to keep with our business model and focusing on the quality of our collections and focusing in

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on delivering new products and so on.

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**Simon Irwin - Credite Suisse - Analyst**

Thank you very much indeed.

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**Operator**

Thank you, the next question comes from Michelle Wilson from Berenberg. Please, go ahead.

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**Michelle Wilson - Berenberg - Analyst**

Good morning, thank you for taking my question. I just had a question on the like-for-like's and the profit contribution coming from those like-for-like's. I know you previously steered towards 3% like-for-like resulting in operating leverage. I guess that's kind of following on to the previous question. How would that profit contribution compare between a store like-for-like and an online like-for-like?

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**Pablo Isla - Inditex - Chairman & CEO**

Very similar. What we always say is that the online business is not dilutive and of course, this continues being the case. So, the online business is not dilutive in terms of margins. Of course, we will update you about our online business in the full year results as we did last year. But when you analyse global evolution of like-for-like's during any particular period, in terms of profitability, in terms of margins, there isn't any significant difference between store like for like's and online like-for-like's. It's not dilutive and this continues being the case.

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**Michelle Wilson - Berenberg - Analyst**

Okay, thank you.

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**Operator**

Thank you. The next question comes from Anne Critchlow from Societé Generale.

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**Anne Critchlow - Soci t  G n rale - Analyst**

Thanks, please could we have an update on the large logistics facilities that you were planning to open in the Netherlands. Where are you with that?

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**Pablo Isla - Inditex - Chairman & CEO**

We are finishing the construction. It will begin to operate in the month of May next year and we're in the final stages of the construction of this logistic platform. It will be for Zara. We currently have three big logistics platforms, one here in Coru a, other one in Madrid, another one in Zaragoza and this is going to be the fourth one, it will begin its operations next May. So, that is the plan that we have in mind and the construction is nearly finished.

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**Anne Critchlow - Soci t  G n rale - Analyst**

Which markets will it serve?

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**Pablo Isla - Inditex - Chairman & CEO**

It's not a question of markets. You know that for us what's very relevant for our business model

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is this idea of the centralised inventory position. In fact, in the three logistics platforms that we have today the split is much more by sections. We have the women's section in Zaragoza mainly, the men's section here in Coruña, and the children's section in Madrid. So, depending on the growth of each of the sections, certain elements of the different sections will move to the new logistic platform. But it won't be done by markets. For us this idea of centralized inventory position is very important.

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**Anne Critchlow - Société Générale - Analyst**

Thank you.

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**Operator**

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

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**James O'Shaughnessy - Investor Relations Inditex**

Thank you. We have two main areas covered by webcast questions. Perhaps, Pablo, you can give us an update on the RFID implementation.

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**Pablo Isla - Inditex - Chairman & CEO**

As you know, we have rolled out in all Zara stores. Now we are focusing on the different concepts: Massimo Dutti, Uterqüe, Pull&Bear, Oysho, Stradivarius and Zara Home in 2019. Our idea is to be fully rolled out across all concepts by 2020. We think it's a very important project. It's a project which is today very related to this idea of stock integration. This is extremely relevant for us. At this stage of the year we have currently rolled out full integration in all markets for Zara where we have stores and online. This is something this is very important, as you know, in terms of managing stocks, and our idea is that by 2020, we will have full integration between a store and online stockroom in all the different concepts across all the different countries in which we have store and online presence.

Both projects are very important, they have a lot to do with each other and we are totally on track in terms of the rollout. We think it's very positive for the business, very positive for customer service and also very positive for us in terms of the way we manage our stock. This idea of stock integration is a clear advantage.

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**James O'Shaughnessy - Investor Relations Inditex**

That concludes the webcast questions. You've covered the two main areas of RFID and stock integration. That's it for webcast questions.

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**Pablo Isla - Inditex - Chairman & CEO**

Thank you very much to all of you. And, of course, if you have additional questions for our capital markets department, they will be ready to answer them. Thank you very much.

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