

IDEXY Earnings Call Transcript

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Quarter: 3

James O'Shaughnessy: Good morning, and [Foreign Language]. We're happy to welcome you here today for Inditex' 9 Month 2025 Results Presentation. I'm James O'Shaughnessy, Investor Relations. The presentation today will be chaired by our CEO, Oscar Garcia Maceiras. As well as Oscar, we also have Andrés Sánchez, our CFO; and Gorka García-Tapia, Director of Investor Relations. Following this presentation, we will open the floor to a question-and-answer session, starting with the questions received on the phone and we'll then proceed to the webcast platform. Let's take the disclaimer as read. Oscar.

Oscar Maceiras: Good morning, and welcome to our results presentation. Thank you for joining us today. In the 9 months of 2025, we have generated a strong performance with sales growth in a complex market environment, while maintaining very satisfactory levels of profitability. This is all down to the consistent and strong execution of the group. Our high levels of diversification have underlined the resilience of our business model. This performance, as always, comes from the 4 key sources of strength that we have, our unique fashion proposition, our increasingly optimized customer experience, our focus on sustainability and the quality and commitment of our people. Our differentiation in the market is as a result of these factors. As you have already seen, our autumn/winter collections have been well received by customers. Andrés will provide some color on the third quarter results shortly. In the 9 months of 2025, sales in constant currency increased by 6.2%. This satisfactory growth rate extended to both stores and online. Sales were positive across each of the concepts and in constant currency across all geographies. In the 9 months of 2025, sales grew by 2.7% to reach EUR 28.2 billion. It's clear to see from the figures we have released this morning that good execution of the model has permitted us to generate both an excellent gross margin and also to exhibit disciplined cost control. Profit before tax increased by 3.6% to EUR 6 billion. At the bottom line, net income increased by 3.9%, to EUR 4.6 billion. This strong performance has continued into the fourth quarter. Store and online sales in constant currency between the 1st of November and the 1st of December grew by 10.6%. Between the 1st of November and the 24th of November, the sales growth in constant currency was 9%. Our presence across 214 markets in conjunction with low market penetration in almost all of these countries supports our diversification. We continue to enjoy significant global growth opportunities. This confidence comes from the fact that we have a unique model that permits us to build up on the increasing levels of differentiation. And now let's pass over to Andres, who will cover the numbers.

Andrés Sánchez Iglesias: Thanks, Oscar. Before turning to our 9-month figures, I would like to briefly comment on the performance over the third quarter. As you can see, sales grew at 4.9%, impacted by about 350 basis points of currency headwinds. Gross margin expanded 79 basis points, primarily driven by a strong execution of the business model. Playing a lesser role, but worth mentioning in anyway, we also had the negative currency impact on sales, as I mentioned previously, as well as a favorable U.S. dollar tailwind from our sourcing. OpEx in the period has been tightly controlled, growing 3%. Net profit rose 9%. Moving on to the 9-month figures now. You can see from the results released earlier this morning, and I hope you will agree with me that our performance as a company has been exemplary. In the face of substantial currency headwinds, our sales performance was robust at plus 2.7%. As a consequence of the disciplined management of operating expenses over the period, we can see a meaningful amount of operating leverage. There is no structural change taking place here. This is

purely a result of good execution and a good example of the flexibility of the business model. EBITDA advanced 4.2% to reach EUR 8.3 billion, while PBT increased 3.6% to EUR 6 billion, resulting in a PBT margin of 21.2%. Net income increased nicely at 3.9% to EUR 4.6 billion. The sales line has progressed well at plus 2.7% and has reached EUR 28.2 billion. In constant currency, that is sales growth of 6.2%. You will note that the third quarter saw the strongest sales growth for the year so far, offset by a negative currency impact, as I mentioned previously. Sales growth has been strong both in stores and online. Furthermore, sales growth was positive across all concepts and in constant currency in all geographies. At current exchange rates, the company reiterates its expectation of around minus 4% top line currency impact in the full year 2025. Over the first 9 months of 2025, the gross profit increased 3.2% to EUR 16.8 billion. The best explanation for this, as Oscar alluded to a few moments ago, is the successful execution of the business model over the period. The gross margin reached 59.7%. We reiterate our stable gross margin guidance for the full year 2025, perhaps with a slight bias to the positive side of the usual range we provide. Over the 9-month trading period, we've been able to closely monitor and control operating expenses across all departments and business areas. The accounts show 29 basis points of operating leverage for the 9 months. Taking into account all these charges, operating expenses grew 33 basis points below sales growth. In fact, on a stand-alone basis, Q3 also saw operating leverage of 187 basis points. Our structural negative operating working capital comes as a result of our model. As per usual, the evolution of operating working capital is aligned with the performance of the business over the period. We consider the quality of the closing inventory to be high. The net cash position was EUR 11.3 billion at the end of the period. And now Gorka, over to you.

Gorka Yturriaga: Thanks, Andres. Over the 9 months of 2025, the sales performance of the group has been remarkable. Perhaps one could say back-end weighted in terms of sales performance over the whole 9 months, but there is no doubt that the execution and commercial discipline has been good throughout as is reflected by the integrity of the P&L; over the period. This strong performance was consistent across all concepts. We're happy with the execution of the model over the period. Our global store expansion plan continues. In the 9 months, we opened stores across 39 markets all across the globe. This quarter, Bershka entered Denmark with its first store in Copenhagen. Oysho continues with its European expansion. After opening its first store in Amsterdam in September, it is opening its second store in Germany and Berlin, a market where it has been performing strongly online. The execution of the concepts have been highly satisfactory. Store sales have been strong. Online sales have been great. So all around an excellent performance. Let's stop for a few moments just to bring out an aspect of our business that sometimes passes people by, our diversification. Whether you're talking about diversification by number of concepts or by channel, online versus stores or by geography, as we've already mentioned, we have online presence in 214 markets, 97 markets if you're talking about physical stores. We're a company that enjoys a very broad level of diversification. We also have over 70 independent design teams across our 8 concepts looking to capture and react to fashion trends. Even if we're referring to diversification by sourcing markets, we source from over 50 different markets. This diversification has added an extra layer of resilience to our business model, as has been evidenced throughout this year. And now back to you, Oscar.

Oscar Maceiras: Thank you, Gorka. One of our goals is to continually strengthen the key elements that are at the heart of today's results. Our priority remains to continually increase the appeal of our fashion proposition. Creativity, innovation, design and quality at defining features of our collections and a key focus. As Gorka has just highlighted, we have more than 70 design teams across 8 concepts. All of them apply a meticulous design process that impacts every detail of our garments and collections, while striving to provide the latest quality fashion to customers around the world. The results of this unique approach can be clearly seen in the collections we offer every season and our rapid response to customer demands. We continue generating a very broad range of fashion propositions for each of our differentiated concepts. The focus on an ever more enhanced customer experience includes the continuous process of upgrading stores with strong architectural features and with highly curated internal spaces. One of the recent flagship projects has been the relocation of the Zara store in Osaka Shinsaibashi with a special Zacaaffe on the top floor. With around 2,000 square meters across 4 floors, the new store combines Japanese tradition and contemporary design. Similar to other projects in different countries, the existing Zara store nearby will become a stand-alone Zara Man store. Since

Zara arrived in the country in 1998 with its first store in Shibuya, Tokyo, it has improved our commercial presence today reaching 64 stores spread throughout Japan. We continue to see many opportunities to improve our presence in the world's prime locations as well as expanding to new cities and new territories. We continue innovating in how we enhance the customer experience. An example of this is our recently opened store in Diagonal Barcelona after a refurbishment designed in collaboration with Vincent Van Duysen. The store showcases our collections in a very unique and curated way. This week, we are opening a Zara Man stand-alone store in Palazzo Verospi, Rome as well as our store in Charlotte, North Carolina, expanding to our 26th state in the United States. For that same market, in October, we opened a new store in Las Vegas Forum Shops at Ceasars Palace. Of course, the improvement of our customer experience is also fostered, thanks to our use of technology. As you know, in 2025, we are rolling out the new security technology in the concepts beginning with Bershka and Pull&Bear.; The implementation was completed in Zara in 2024, and the feedback in the first full year of operation has been very positive. On the occasion of its 50th anniversary, Zara has presented the capsule collection 50 Creators, a solidarity project that brings together 50 professionals from different creative fields. Zara will donate all profits to the Women's Earth Alliance, an organization that promotes female leadership in environmental and community initiatives. On the 18th of November, the opening of the new Zara Home for&from; store in Porto was celebrated. With it, the group reaches a total of 17 stores of this format that since 2002 have generated job opportunities in Spain, Portugal, Italy and Mexico for almost 1,000 people with different disabilities in collaboration with local NGOs. In terms of Inditex's potential for long-term growth, in the current year, we are executing investments that are scaling up our capabilities and generating efficiencies that are being reinvested back into the business, increasing our competitive differentiation. The growth of annual gross space in the period 2025 to 2026 is expected to be around 5%. Over this time frame, Inditex expects net space to be positive, of course, in conjunction with strong online sales. We operate in 214 markets. In the vast majority of these markets, we have a very low market share of a sector which remains very fragmented. These 2 factors alone help to underpin the strong growth opportunities we see ahead of us. For 2025, we estimate ordinary capital expenditure of approximately EUR 1.8 billion. We continue to focus the ordinary capital expenditure on our global store base, the online platform and the rollout of technology programs aimed at enhancing the level of integration. In light of our view on Inditex's strong long-term growth opportunities, we have been rolling out the logistics expansion plan. This 2-year extraordinary investment program focusing on the expansion of the business allocates EUR 900 million per year to increase logistic capacities in each of the 2024 and 2025 financial years. In October of this year, the new building for Zara in Arteixo, A Coruña was inaugurated. This building is over 200,000 square meters in size and houses the product department teams for Zara Woman and Zara Kids with sustainability and technology as relevant features of this new space. A brief note on dividends. The final dividend payment for 2024 of EUR 0.84 per share was made on the 3rd of November. I would like to leave you with a brief comment on our current trading. Our autumn/winter collections have been well received by customers. Store and online sales in constant currency between the 1st of November and the 1st of December 2025 increased 10.6%. Between the 1st of November and the 24th of November, the sales growth in constant currency was 9%. Thanks to everyone for taking part in our presentation this morning. That's it for today. We will be happy to answer any questions you have.

James O'Shaughnessy: [Operator Instructions] The first question goes to Monique Pollard from Citi.

Monique Pollard: I was just interested in understanding from you, latest press reports are suggesting that the EU are planning to bring forward the legislation, which will remove duties exemptions on low-value parcels, the de minimis rules and whether you think that would remove some competitive pressure going into 2026 and 2027, please?

Gorka Yturriaga: Thank you, Monique. Thank you for your question. First of all, I'm going to keep my comments focused on Inditex rather than speak of the competitive landscape or any other competitors that you're referring to. You know that we don't use the de minimis rules in the way that we operate. We're focused on identifying the trends in the market, reacting as quick as possible. The business model that we're doing has been executing quite strong throughout this quarter. And as you've seen, we've come out at the beginning of quarter 4 with a strong trading update as well.

James O'Shaughnessy: The next question comes from Geoff Lowery from Redburn.

Geoff Lowery: Could you talk a little bit more about your step change in logistics infrastructure, in particular, what you think it can do for you in terms of future capacity, operating efficiency and how quickly you expect to really sort of bring it into full use.

Gorka Yturriaga: Great. Thank you, Geoff. I mean we're talking about logistics capacities, and you know the 2-year extraordinary CapEx program that we have, EUR 1.8 billion for the 2 years that we've been investing that we're going to be finishing up at the end of this year. We've mentioned during the presentation that this program is on track. You know that Zaragoza II, one of the major logistics centers that we've been talking about is now up and running, and we're just at the beginning of that ramp-up stage. Remember that the purpose of this logistics plan was to capture the future growth that we're seeing. And I think that in a way with the results today, you're really seeing reflected the growth that we're talking about for future. Thank you.

James O'Shaughnessy: The next question today comes from Warwick Okines from BNP Exane.

Alexander Richard Okines: You've talked a bit about operating leverage on the call. And you also talked about wanting to reinvest the benefits of efficiency. Do you think it's reasonable to assume that your staff costs grow more slowly than sales in the future?

Andrés Sánchez Iglesias: Thank you. In 9 months, as you have seen from our release, our OpEx grew slightly below sales, 29 basis points. If you look in Q3, that growth was even lower with an operating leverage of 187 basis points. As you see, those figures demonstrate the flexibility of our business model and the variable component of our OpEx line. As a reminder, you have to take into account that personnel costs and rental expenses, 2 of the main elements of this line are highly variable linked to the sales performance. So as we mentioned, there is no structural change here. This is a purely result of good execution and a good example of the flexibility of the business model. In any case, operating margins over the medium to long term are expected to be stable with a focus on driving demand for our products by executing the business model successfully in order to continue to generate highly fashionable collections and therefore, maximizing sales at full price. Thank you.

James O'Shaughnessy: The next question comes from Anne Critchlow from Berenberg.

Anne Critchlow: My question is on the EBIT margin, which reached above 24% in the third quarter. So just wondering if there's a level above which you would not want to see the margin progress, but rather invest back into the customer proposition.

Andrés Sánchez Iglesias: Thank you. We have seen positive evolution throughout the year so far. So in this sense, growth in 9 months was plus 6.2% in constant currency, with sales growth of plus 8.4% in Q3. So despite the significant impact on the supply chains and currency markets, our gross margin has remained broadly stable as a consequence of the consistent strong execution of our business model that continues allowing us to maximize full price sales and achieving this gross margin performance. For this upcoming year, 2025, we reiterate our stable gross margin guidance. However, given the current trends, as we repeated, we are likely to be slightly positive within the range. Regarding OpEx in 9 months, and as we repeated, so we have a very flexible structure in terms of costs. So there is no changes here. It's a pure good execution and a good example of the flexibility of the business model, but we continue expecting operating margin to be stable over the medium to long term. Thank you.

James O'Shaughnessy: The next question comes from Sreedhar Mahamkali from UBS.

Sreedhar Mahamkali: I guess if I can just get you to comment on the U.S., please. What price adjustments have you made in the U.S., what customer response have you seen and what are your thoughts on the potential for expansion in the midterm here? Has anything changed?

Oscar Maceiras: Thanks for the question. Well, we have mentioned several times in previous calls, U.S. is a very relevant market for us, and we continue to see opportunities to keep on executing our strategy of selective growth in that market. We should bear in mind that despite good results, we have a low market share, and we believe that growth is in our hands, not dependent on the performance of the broader market. 2025 has been a year full of relevant projects for us. Some examples have been the opening of our new flagship stores in L.A., The Grove, the recent opening of our store in Las Vegas Forum Shops at Ceasars Palace. As we mentioned during the presentation, this week, we are arriving at our 26th state with the opening of our store in Charlotte, North Carolina, and also, this same week, we are reopening after an important refurbishment, our store in Newbury Street in Boston City Center.

2026, we will be also full of new exciting projects the opening of our flagship store in 400 Post Street in San Francisco, an important refurbishment of our iconic Zara store in Fifth Avenue in New York and also, we can confirm that Bershka after a successful online performance in the U.S. will open in 2026, its first 2 stores in Miami area.

James O'Shaughnessy: The next question goes to James Grzinic from Jefferies.

James Grzinic: Really a factual question. I think you told us back in Q1 that the percentage of in-store data sales that were going through self-checkouts were around 30%. Can we have an update on what that number has reached now? That would be very helpful.

Gorka Yturriaga: Great. So I think you're right. We're talking about assisted checkouts, which have been implemented throughout the group. Remember that this is also in conjunction with soft tags, as the soft tag rollout really enhances the use of assisted checkouts for obvious reasons. And as this progresses throughout the year and the next year with the new concepts of Bershka and Pull&Bear; that we're rolling soft tags out, I think that this is going to have an increasing impact. The percentage of sales process through ACOs has been progressing nicely since we last spoke. I think what I can tell you at this stage, at least, is that in some of the larger flagship stores that really drive a lot of traffic, where you would think that these ACOs really should be coming in, in terms of usage, we're seeing close to 90% of total transactions in some of those stores. Thank you.

James O'Shaughnessy: The next question comes from Georgina Johanan from JPMorgan.

Georgina Johanan: I just wanted to ask a question on AI, and I appreciate it's sort of quite a high level at the moment. But how are you using AI in the business already in terms of driving efficiencies, but also thinking about ways to sort of support the consumer performance from here? And just any thoughts on how that would sort of develop over the coming 12 months would be really helpful, please.

Gorka Yturriaga: Sure. So I think you know that we've been historically a company that's really been data-driven for many years. We're trying to capture the trends in the market, reacting real time and adjusting our product offering through the in-season sourcing that we do in order to provide these trends into the market and capture that full price sales. What I would say initially with regards to AI, I think we're at a very incipient moment of artificial intelligence. And what we see at this stage is that AI is a tool that can really empower our people, but not really substitute them, right? There are a series of different things that we're doing, both on the web page with regards to, for example, concept searches, which is, I think, is a novel idea with regards to how you find a product on our web page. And of course, you can imagine in some of the back office functions, AI is really a great tool to go through contracts of different sorts and pull out interesting information. I hope that's helpful.

James O'Shaughnessy: We're going to proceed with the webcast questions now. We've had a few today. The first of which is, can you comment on why you took the decision to give a short trading update, please?

Gorka Yturriaga: Sure. So before I answer this question, maybe I'd just highlight the fact that in this particular quarter, it is a relatively short period. So we're talking about the 1st of November to the 1st of December. So for the rest of the year, we still have 2 whole months left. Secondly, you've seen that in the third quarter, we had constant currency sales of about 8.4%, and that's really still coming through in the trading update that we've provided of 10.6%, showing that we've started the fourth quarter well. We've also provided that 1st of November to 24th of November with a constant currency sales of 9%. And the reason we've provided the shorter period and that 9% is with the purpose of stripping out the last week for obvious reasons, as we think that this is a better reflection of the commercial sentiment our teams are seeing as of today in the market. In any case, I'd highlight that with regards to the last week, there's been no significant change in promotional activity this year, and we're completely focused on the execution of the business model. And to that point, I think we've reiterated throughout the presentation that for 2025, we have -- we're looking at stable gross margin, albeit perhaps with the current trends with a slightly positive range of that range that we normally provide. Thank you.

James O'Shaughnessy: The next webcast question relates to the concepts. Bershka, Stradivarius and Oysho are growing very strongly. Are you thinking about expanding these concepts? We've already spoken about the U.S. into perhaps other markets.

Oscar Maceiras: Well, thanks for the question. Well, we are happy with the positive performance of Zara and the rest of our concepts. I have already mentioned some projects for 2026 in the states,

including the opening of our first Bershka stores in Miami area. And besides, we keep on identifying good opportunities for expansion of our concepts in the rest of the markets. As an example, this year, this 2025 Stradivarius opening its first stores in Austria and Oysho in the Netherlands. We have the advantage of having not only a good knowledge of the different markets at group level, but also the advantage of having a global online presence for all of our concepts. Thank you.

James O'Shaughnessy: The next webcast question also relates to the concepts. Can you comment on the growth strategy for Oysho. Growth in H1 for Oysho was 6% reported, the highest of the group.

Oscar Maceiras: Well, again, we are seeing good growth opportunities for all of our 8 concepts. In the case of Oysho, that concept has pivoted a few years ago into selling more athleisure and sportswear and developing a very good strategy in terms of creating an Oysho community. The consequence has been a very positive performance that is also consistent with the expansion to new countries. And we mentioned during the presentation that -- well, Oysho not only entering the Netherlands with its first store in Amsterdam, but also has just opened its second store in Germany in Berlin. So many good opportunities to keep on growing in the future.

James O'Shaughnessy: The next webcast question. Inditex continues to experience good growth. Does this give you more confidence in your recent investments into stores and logistics?

Oscar Maceiras: Well, the growth that we have seen in recent years is driven by the good execution of our teams, our -- what we consider a unique business model and also a culture of investing to maintain the differentiation. We have to talk to you about investing in our retail optimization program for many years, building unique retail spaces that allows us to enhance the customer experience. Our stores in Osaka Shinsaibashi and Barcelona Diagonal, just to provide you 2 examples mentioned during our presentation, reflect this approach. And we also continue to invest in store technology, including assisted checkout, as has been covered a question by Gorka with very positive feedback from customers. What we see is that these investments, together with the fashion proposition, are driving growth. And our 2-year logistics extraordinary investment plan is also consistent with this view about the potential future growth of the group. So I guess that you should expect us to continue to invest in the business in order to keep on capturing new growth opportunities.

James O'Shaughnessy: Thank you. That concludes the webcast questions for today.

Oscar Maceiras: Well, thank you to all of those participating in the presentation today. For any additional questions you may have, please get in touch with our Investor Relations department and we will welcome you back in March for the full year 2025 results.