

INDITEX (BME: ITX) 1H17 RESULTS: IMPRESSIVE COMPARABLE SALES AND EPS IN LINE

	1H17	1H16	YoY Change
Revenues (EUR Mil.)	€10.47	€9.42	11.1%
Gross Margin	56.8%	58.1%	(130) bps
SG&A/Sales	36.6%	37.2%	(60) bps
Adjusted Operating Margin	15.3%	15.8%	(50) bps
Adjusted EPS (EUR)	€0.40	€0.38	7.7%

Fiscal halves ended July 31

Source: Company reports/Fung Global Retail & Technology

- **Inditex reported 1H17 normalized earnings per share (EPS) of €0.40, an increase of 7.7% over 1H16 and in line with the consensus estimate of €0.40. The company reported revenue increased by 11.1% to €10.47 billion, above the consensus estimate of €10.43 billion. Comparable-store sales in 1H17 increased an impressive 11% year over year, at constant currency.**
- **Earnings before interest and tax (EBIT) increased 7.9% to €1.6 billion, slightly above the consensus estimate of €1.59 billion. The company's 1H17 EBIT margin contracted by 50 basis points year over year to 15.3%.**
- **Inditex's results were supported by store and online expansion and strong comps. In FY17, the company plans to expand its store network and e-commerce operations in order to continue increasing revenue and profitability.**

1H17 RESULTS

Inditex, an international apparel retailer based in Spain, reported a 1H17 revenue increase of 11.1% to €10.47 billion, above the consensus estimate of €10.43 billion. EPS was €0.40, an increase of 7.7% versus 1H16 and in line with consensus of €0.40.

Gross profit increased 9% year over year to €5.9 billion and the 1H17 gross profit margin contracted by 130 basis points year over year. Operating expenses were tightly controlled and the selling, general and administrative (SG&A) margin declined 60 basis points to 36.6%.

The group reported growth of 7.9% in EBIT to €1.6 billion, slightly above the consensus estimate. The FY17 EBIT margin contracted 50 basis points year over year to 15.3%.

The company's results were underpinned by strong comps and store and online expansion. Comparable-store sales grew 11% year over year at constant currency in 1H17, boosted by positive comps in all geographies. The company opened a net 83 stores in 38 different markets, including 22 Zara Home stores, of which there are now a total of 7,096 stores in 91 markets. It opened stores in new markets such as Aruba, Paraguay and Nicaragua.

Inditex also introduced mobile payments in all Spanish stores on September 1, 2016.



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Sales by Concept

Among Inditex's concepts, Zara—which makes up 66.5% of total group sales—grew revenues by 13% to €7.0 billion during 1H17. Zara Home was the fastest-growing concept, with sales up 17% to €343.0 million. All other Inditex concepts recorded mid-to high single-digit sales growth, with the exception of Stradivarius, which grew sales by 2%.

Guidance

The group expects to incur capital expenditures of €1.5 billion in FY17.

Mobile payments will be introduced progressively across markets that have online businesses, beginning early next year.

Store and online revenues increased 13% in local currencies during the first weeks of 2H17, August 1 to September 18, 2016. The company opened its first store in Vietnam, in Ho Chi Minh City, in September.

Inditex will launch online sales in the Turkey market and open its first store in New Zealand in Auckland in October 2016.

Analysts estimate Inditex will generate €23.2 billion in net sales in FY17, along with €4 billion in EBIT and EPS of €1.02. Consensus estimates imply FY17 year-over-year revenue growth of 10.8%, EBIT growth of 8.3% and EPS growth of 10.9%



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