

UNDERSTANDING INDITEX

Zara opened its first store in A Coruña, Spain in 1975. Today, it is one of the world's most successful retail brands with over 2,000 stores. We believe Inditex, Zara's parent company, has demonstrated its agility on the shop floor and across the supply chain with cutting edge designs, operations and technologies.

THE SECRET SAUCE

In our view, Inditex doesn't just follow fashion trends, it shapes them. Inditex has a business model that is different from its peers. And that business model ultimately is all about getting the right fashion into the hands of consumers when they want it. What does that mean in practice? One of the key elements is proximity sourcing. The majority of what Inditex sells in its stores is manufactured in proximity to its headquarters in Spain – so, Spain, Portugal, Morocco, Turkey. The benefit of that is that the lead times are short. Inditex designs the clothes and gets them into stores within weeks.

The second important factor in the business model is the central inventory position. Zara's inventory is in a single inventory hub in Spain, and very little is held at the actual stores. Twice a week, every one of Zara stores globally gets a delivery from that central inventory position. This can help maximize its chances of selling something at full price. For example, they won't have something struggling to sell in Edinburgh when it could be in a New York store selling at full price.

Finally, tying it all together is the model whereby designers sit in A Coruña, its headquarters in Spain, with product specialists who are looking at what's selling in the market, speaking to store managers, looking at the online sales data, and understanding where the fashion trends are moving. Constant customer feedback from the store network is monitored daily, providing real-time insights into evolving fashion trends. That feedback is immediately incorporated into new product designs which can be manufactured on short-lead times by suppliers in close proximity to the group's global central inventory hub. This final element - the feedback loop - brings it all together and ultimately helps get the right fashion in the hands of the consumers when they want it.

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INVESTMENT VIEWS
FROM OUR PARTNERS AT
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KEY POINTS

- 1** Inditex has a business model that is about getting the right fashion into the hands of consumers when they want it.
- 2** Inditex has been investing in new stores that are larger and at premium retail locations where customers can get the full product offering on display.
- 3** Inditex operates in over 90 markets globally. There is an opportunity for continued growth and that growth is very geographically diverse.

AN EVOLVING BUSINESS

One of the big changes in retail is the shift from bricks and mortar to an increasing proportion of sales coming from online. Inditex realized this roughly a decade ago, and pivoted their business model to ensure that it remains relevant as e-commerce has become a more significant portion of the market.

Inditex has been closing its smaller stores, and investing in new stores that are larger and at premium retail locations where customers can get the full product offering on display. This is being done at a scale where the firm can invest in automated click and collect silos or self-checkout kiosks that consumers appear to be drawn toward to, which may lead to better store productivity.

A STRONG GLOBAL PRESENCE

Inditex operates in over 90 markets globally, with a strong presence in Spain and Portugal. In the other markets, it has a low single digit market share. This, in our opinion, is an opportunity for continued growth and that growth is very geographically diverse. Growth is expected to come not only from China or the emerging markets, but also from Western Europe, the UK, and the US. Historically, the company has been quite conservative about how it has approached the US market, but today it has a strong brand in Zara, an active online presence, and a focus on high quality stores in prime retail locations.

A FAMILY-OWNED BUSINESS

Inditex is a family owned and controlled business, with 60% owned by founder Amancio Ortega. The family is still involved in the business, both at a board level and operationally. In addition to Amancio's position on the board, his daughter, Marta, chairs the board and is involved in the day-to-day management of the business.

We view the family controlling stake as a positive and part of the reason why the company has taken big, bold, long-term views with respect to evolving the business, whether it's reducing the number of stores and forfeiting sales in the short term to achieve an omnichannel business, or whether it's in terms of the environmental footprint of the business and decarbonization.

BEYOND ZARA

Zara accounts for 70% of Inditex sales.¹ The other 30% are other fashion retailing concepts such as Pull&Bear, Bershka, Stradivarius, and Massimo Dutti.² These companies all follow the same business model as Zara and have the same differentiated fashion offering. These businesses may be dwarfed by the size and success of Zara but they also contribute to the growth and profitability of Inditex.

Walter Scott believes Inditex should continue to be a leader in the retail market over the next decade.

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¹Inditex Annual Report 2023

²ibid

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