Inditex reports record quarterly profit, develops its business model

By Triana Alonso - 9 June 2022

Óscar García Maceiras, who was appointed CEO of the Inditex group at the end of last year, made his solo debut on Wednesday, June 8, after having officiated the previous press conferences and presentations accompanied by the group’s longtime chairman, Pablo Isla, who was succeeded by heiress Marta Ortega on April 1. In parallel with the presentation of the Arteixo (A Coruña)-based group’s first quarter financial results, its top executive appeared before analysts, underlining the company’s growth potential. He indicated that it is in the “initial phase” of the development of the “integrated, digital, and sustainable business model”, the lever that “accelerates Inditex’s differentiation.”

"We recorded strong sales growth in the first quarter," said the former state lawyer, highlighting the outstanding performance of the Stradivarius, Pull&Bear and Bershka retail chains, as well as the "exceptional sales and a very solid performance" of its flagship brand Zara. Between February 1 and April 30, the company's turnover grew 36% to 6.74 billion euros. This result was driven by the "good reception" of the brands' spring/summer collections and the "strong traffic growth" in stores, for which the "optimization of stores has been fundamental."

1.1 billion euros invested in 2022

"The main driver of growth has been the desire of customers to return to normality," acknowledged the CEO of the company, which currently has 90% of its store network up and running. Store closures are only concerning 67 stores in China, given the impact of Covid-19, and in Russia and Ukraine, where both physical and online stores have been shut down since the beginning of the war. To offset the effect of the conflict on the company, Inditex added an extraordinary charge of 216 million euros in the first quarter accounts to "cover all expenses" estimated in both markets during the year. The company's net profit would have risen to 940 million euros if this provision had not been applied.

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While the CEO insisted it had recorded a "very remarkable performance across all regions" (of which does not provide segmented sales data in its quarterly results); the United States, which became Inditex's second largest market in terms of turnover last year, was highlighted thanks to its "strong progression." At the same time, the company announced an investment of 1.1 billion euros this fiscal year to boost its "differentiation, digitalization and sustainability."

"The goal is to increase our differentiation to offer a unique customer experience," the executive added.

In terms of physical stores, Inditex opened stores in a total of 16 international markets during the first three months of the year. At the end of the period, the group operated 6,423 stores, 335 fewer than on April 30, 2021. Although all the group's brands closed points-of-sale, Massimo Dutti became the brand with the highest number of store closures after the now defunct Uterqüe chain, with 117 closures, down to 633 stores. Zara remains the brand with the most developed retail network (1,947 stores, including Zara Home and Zara Kids), followed by Bershka (972) and Stradivarius (923).

Stable prices and progressive chargeback collection

Meanwhile, online sales at constant exchange rates were 6% lower than in the same period last year, when they grew by 67%, due to "the strong comparable base."

"By 2024, we expect online sales to exceed 30% of total turnover," said Maceiras. In 2019, before the pandemic hit, the online channel accounted for 14% of total sales.

Regarding price increases, the CEO opted to maintain a prudent stance. After having announced a selective price increase of up to 2% given inflation, during the presentation of the annual results last March, the executive explained that "Inditex will keep its pricing policy stable, with selective actions in the most affected markets to protect margins."

The Inditex group's director of capital markets, Marcos López, explained that the method of charging for online returns at home or at a collection point introduced at the end of last year, reflected in a flat fee of almost 2 euros, "is not having an impact" on either sales or customer satisfaction. For the executive, the goal of this initiative, which is already operating in 38 markets, is to "make the industry more efficient and sustainable."

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