Inditex had good news on Wednesday, returning to profitability as it recovered from the major hit it took at the height of the pandemic-linked lockdowns.

It reported net profit of €214 million in the second quarter that ran from May to July, compared with a €409 million loss seen in Q1. The first half overall was still loss-making however — it reported a net loss of €195 million, but that would have been a €39 million profit when excluding the previously announced €308 million provision for its advanced store digitalisation programme.

It had other good news too with strong online sales growth of 74% in the first half helping to counteract the negative impact of store closures. In fact, a million orders were received in a day for the first time ever at one point.

And the company also increased its net cash position by €734 million in Q2, leaving it with €6.5 billion. Meanwhile, second-quarter EBITDA topped the €1 billion mark to put first-half consolidated EBITDA at €1.5 billion.

Also encouraging was the fact that total sales recovered from a 44% drop in Q1 to ‘only’ a 31% drop in Q2, despite as many as 87% of its shops still being shut during May. Group sales for the first half as a whole reached €8 billion, a 37% decline.

At the moment, 98% of its stores are open and although there are restrictions still in place in some specific markets, the company’s recovery is continuing in the current quarter. It said the “sharply improving trend” was evident in sales in local-currencies between 1 August and 6 September, which were 11% below the same period of 2019 and against a tough comparable (+8%).

And even though most physical shops are now up and running, online sales “continue growing at a remarkable pace” while store sales “are recovering progressively”.

Looking back at H1, the gross margin also remained “very robust” at 56.2% of sales, compared to 56.8% a year earlier “thanks to the management of a business model able to adapt to demand. This management is also evident
in inventory levels, which were down 19%. Active cost control helped reduce operating expenses by 21%.

DIGITAL FOCUS

Executive Chairman, Pablo Isla, said that “the recovery and strong performance are due to the hard work, engagement and creativity of everyone in Inditex. I am particularly pleased with our online sales growth, which demonstrates the critical importance of our strategy to integrate store and online. This is a cornerstone of our unique business model”.

And that move to a more digital business will continue in the periods ahead. As well as helping it through the unusual set of circumstances earlier this year, the company also expects digital to help it when the retail world becomes more ‘normal’ but online grabs an increasing chunk of fashion sales.

The company is expecting online sales to account for more than 25% of its total turnover by 2022, compared with 14% in 2019.

So it’s continuing the digital upgrade of its stores as it revamps old ones, closes smaller units and opens brand new large-format locations. It opened large-format stores with major digital features in 14 markets during H1, and refurbished 72 stores, 35 of which were store expansions.

Some of the most prominent store openings and expansions in the first half took place in key shopping destinations such as Moscow, Paris, Madrid, Berlin, New Delhi, Lisbon and Amsterdam. During the second half, it will open high-profile stores in Monaco, Beijing, Paris, London and Doha, among other places.

And its online platform reached Argentina, Uruguay, Paraguay, Peru and Algeria for the first time in Q2. Meanwhile in Q3, Zara has added online sales to now-integrated local platforms in Chile, North Macedonia, Montenegro, Tunisia and Andorra. And new platforms in Nicaragua, Honduras, Costa Rica and Guatemala launch on Wednesday.

By Sandra Halliday

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