Inditex sales and profits dive, but recovery has begun and digital is key

By Sandra Halliday - 10 March 2021

Fashion retail giant Inditex hasn’t come out of the pandemic year unscathed. But the strength of its business model appears to have carried it through so far and its performance since its financial year ended has been encouraging.

The company said on Wednesday that its SS21 collections “have been very well received by our customers” and that “practically” 100% of its stores should be open by April 12, the date on which non-essential shops in England are allowed to reopen.

As of the beginning of this week, only 15% of its stores remained temporarily closed (compared to 21% in February) and in the first week of March, excluding the five most relevant markets in lockdown at the moment (Brazil, Germany, Greece, Portugal and UK), total sales grew 2%.

The company is clearly benefiting from gradual reopening and with locked-down markets included in the total, its sales in February were at 85% of the previous year’s level and March so far is at 96%.

But what actually happened in its business year that ended on January 31? Well, lockdowns meant trading hours were down 25.5% versus FY2019, but total store and online sales in constant currency were down slightly less than that at -24.5% versus 2019. As the year ended, 30% of stores were in full lockdown (versus 8% on 31 October) and 52% had restrictions. But for the year as a whole, total sales still reached €20.4 billion. Meanwhile gross profit fell to €11.4 billion from €15.8 billion and the gross margin dropped 6bps to 55.8%. Yet the gross margin in constant currency in FY2020 actually increased 170 bps to 57.6%, and it rose 257 bps in the second half alone.

Profitability was helped by a fall in operating expenses, which were down 17%, and the company said that EBITDA was down 40% at €4.6 billion, although net income was down 70% to €1.1 billion. But it was down only 38% in the second half.
Sales at every single one of its chains fell, with Zara for instance dropping to €14.1 billion from €19.5 billion a year earlier. All of its other chains are much smaller than Zara with the smallest, Uterqüe, falling to €75 million from €115 million, while the largest of the smaller concepts, Pull&Bear, fell to €1.4 billion from €1.9 billion. It was a similar story for profitability with pre-tax profit at Zara down to €971 million from €3.3 billion. And at Uterqüe it was down to €1 million from €9 million, while Pull&Bear fell to €95 million from €301 million.

Q4 sales for the whole company fell 25%, even though analysts had only expected a 21% drop.

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Those figures came in a financial year like no other and one that saw the company accelerating its focus on digital and fully implementing RFID and SINT (single inventory tech, enabling store inventory to help meet online demand) in all of its concepts. Its Inditex Open Platform (the company’s proprietary digital operating platform) is also 80% implemented with rollout to be completed by the end of FY2021. Construction of the new 67,000 sq m Zara online studios was also completed.

Digital had only accounted for 14% of sales pre-pandemic. But given its investment in digital and the overall environment during the year, it’s no surprise that its online sales in constant currencies increased 77% and reached €6.6 billion. And although the company launched its Zara brand online in as many as 25 new markets last year, it said that 95% of its online sales growth was organic. It also said SINT contributed €1.2 billion to online sales.

The group, which has 200 million followers on social media, said its online visits reached 5.3 billion, which was a rise of 50% and the disparity between that figure and the 77% sales increase shows that it’s converting visits to actual sales very strongly.

But stores remain key and it said gross new space in prime locations increased 2%, a clear sign that the company remains committed to physical retail, despite the changes happening in the fashion sector at present.

Yet as has been well publicised, the business is also exiting space in less-than-prime locations and said its store optimisation programme is in its final stages with 751 stores “absorbed” last year.
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