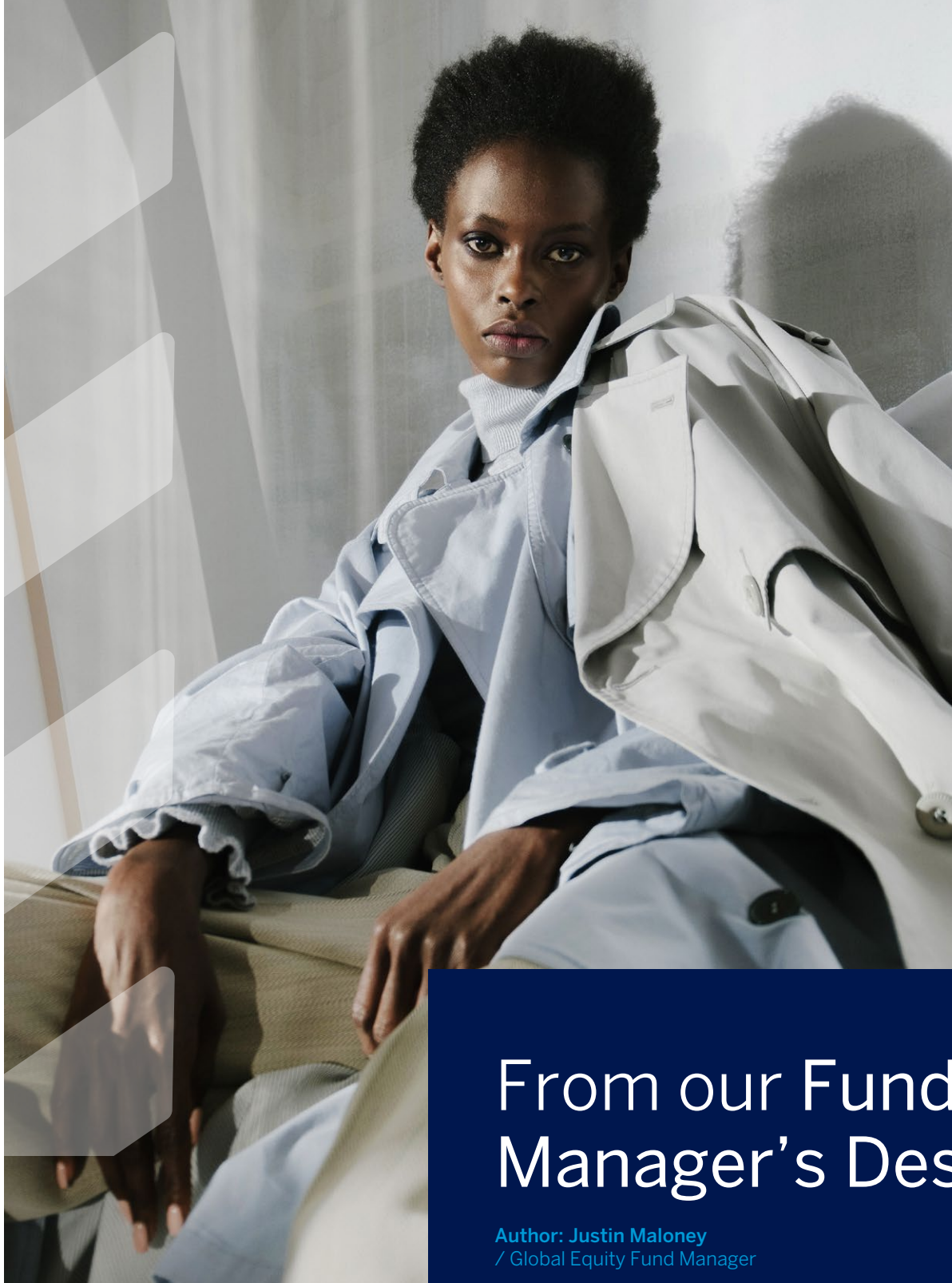




From our Fund Manager's Desk

Author: [Justin Maloney](#)
/ Global Equity Fund Manager

Inditex

We regularly explore the investment rationale of one of the companies held in the Melville Douglas Global Equity fund to articulate what we find compelling. This time round we have chosen Inditex.



Fashion's master of speed and discipline

In the apparel industry, where trends fade as quickly as they appear, few companies have managed to build enduring advantage. Inditex, the Spanish retail group behind Zara, is one of them. It has achieved what many rivals have long pursued but rarely matched: turning fast fashion into a consistently high-return business.

At its core, Inditex is a vertically integrated fast-fashion retailer operating across seven brands, with Zara contributing over 70% of group sales. The group's proposition is "affordable luxury" - offering trend-led products with perceived quality comparable to premium brands but at accessible price points. Beneath the surface lies a sophisticated machine, one built on speed, data, and operational control. The result is a company that not only keeps up with fashion trends but, increasingly, shapes them.

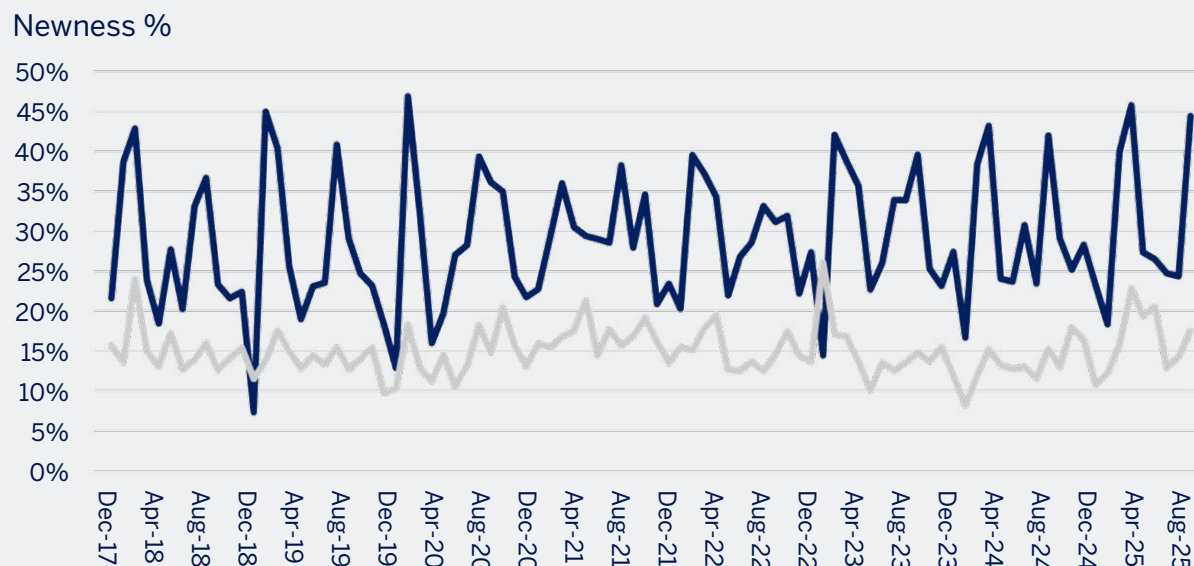
A model built for immediacy

The secret to Inditex's success is its unusually tight grip on the value chain. Unlike most apparel retailers, which outsource large portions of production to distant suppliers, Inditex keeps roughly half its manufacturing close to home in Spain and neighbouring countries.

This proximity allows the company to move from design to store in as little as three to four weeks - far faster than the industry norm of several months. Instead of betting on what customers might want seasons in advance, Inditex observes what they are buying today and adjusts tomorrow's production accordingly.

This "test-and-chase" approach creates a constant sense of novelty in stores. Shoppers know that what is available today may not be there next week - a subtle but powerful incentive to buy immediately rather than wait for discounts. Inditex consistently sells more at full price than its peers.

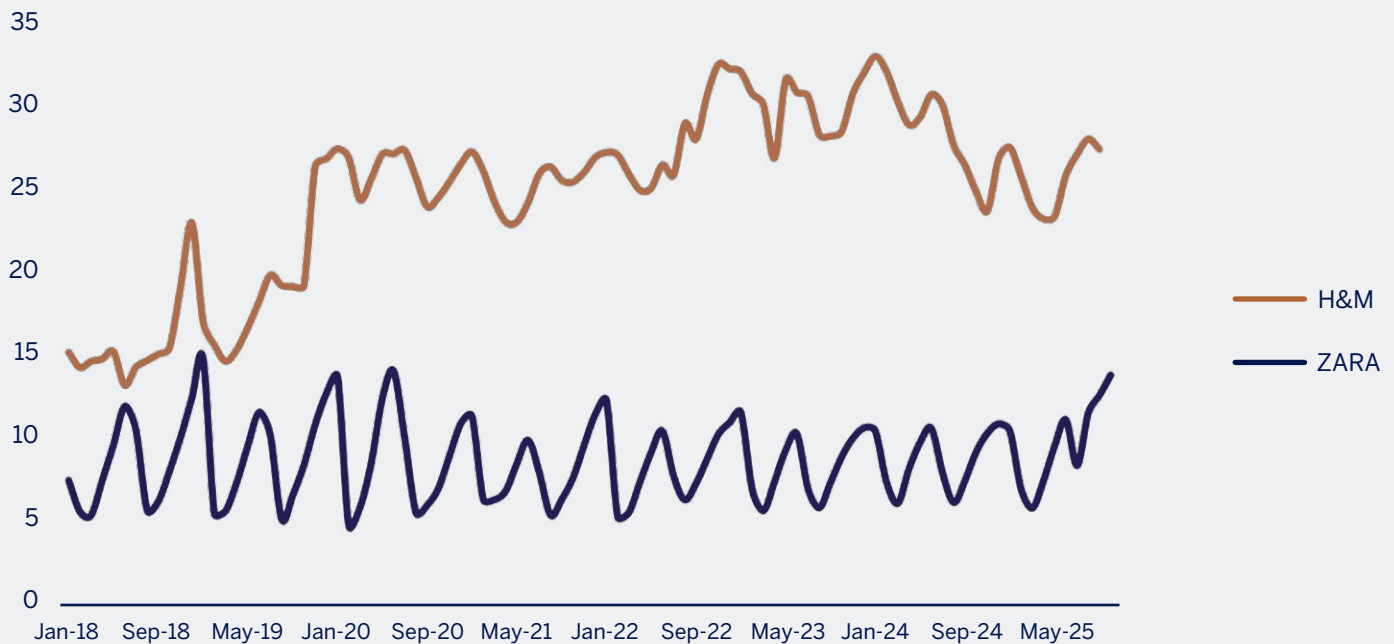
ZARA BRAND'S NEWNESS EDGE





LEAN AND MEAN - ZARA SELLS MORE AT FULL PRICE

INVENTORY WEEKS AVAILABLE



Source: UBS, Average of UK, US, Spain, Italy, Germany, France and China

The financial consequences are striking. Inventory moves quickly, markdowns are limited, and cash conversion is robust. Resulting in a highly profitable business with 58% gross margins and 20% operating margins. The business model's very healthy 25% return on invested capital provides the engine to drive compound returns for Inditex shareholders.

A sustained edge in a crowded field

Retail is notoriously unforgiving, yet Inditex has carved out a distinctive position. Traditional rivals such as H&M struggle to match its speed. Ultra-low-cost entrants, including online disruptors such as Shein, compete aggressively on price but often sacrifice quality or brand perception.

Inditex instead occupies the middle ground: offering fashion that feels premium without the corresponding price tag. This balance - supported by strong brand equity and relentless operational discipline - forms a competitive moat that has proven remarkably durable.

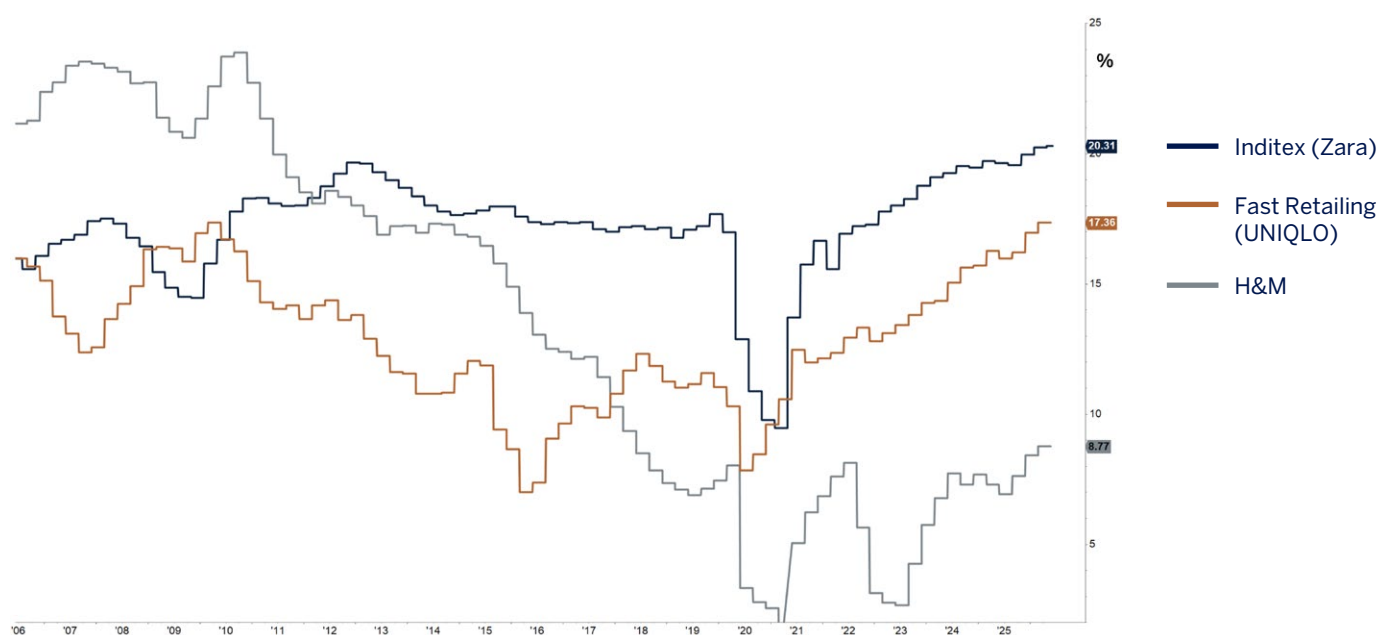
Attempts to replicate the model have repeatedly fallen short, largely because its strength lies not in any single element but in how design, sourcing, logistics, and retailing are tightly integrated.





ONE OF THE BEST BUSINESS MODELS IN THE INDUSTRY

OPERATING PROFIT MARGIN



Source: Melville Douglas, FactSet data

Growth: steady and dependable

Looking ahead, Inditex grows through a combination of volume, productivity and selective expansion. Key growth levers include:

- ✓ **Like-for-like sales growth**, driven by frequent product refreshes and repeat customer visits
- ✓ **Store optimisation**, with a shift towards larger, more productive flagship locations
- ✓ **E-commerce**, now accounting for roughly a quarter of sales
- ✓ **US market expansion**, a relatively underpenetrated market for Inditex
- ✓ **Operational enhancements**, such as electronic tags to improve stock visibility

Together, these drivers lead to earnings growth in the high single digits over the medium-term combining consistent revenue growth with incremental efficiencies.

Recent trading has been encouraging, with sales momentum improving into 2026, supported by well-received seasonal collections and firmer pricing.



The virtues of discipline

What sets Inditex apart is not just growth, but the quality of that growth. The company generates abundant free cash flow, supported by a rare advantage in retail: negative working capital. Customers pay quickly; suppliers, somewhat later.

Its balance sheet remains in robust health, with a substantial €12 billion net cash position. Capital allocation is measured - steady reinvestment in the business complemented by reliable shareholder distributions.

Ownership also matters. The Ortega family retains majority control, reinforcing a long-term perspective that favours durability over short-term gains.

These attributes support resilience through cycles and enable the business to reinvest for sustained growth.

Fashion is never risk-free

Even a well-run retailer is not immune to challenges. Inditex faces several that need to be monitored:

- / **Intensifying competition**, particularly from ultra-fast, low-cost online players
- / **Consumer sensitivity**, given its exposure to discretionary spending
- / **Geographic concentration**, with Europe still accounting for two-thirds of revenues
- / **Execution risk in the US**, a market where success has historically been harder to sustain
- / **Regulatory and sustainability pressures**, increasingly relevant in global apparel

That said, its responsive supply chain mitigates one of the industry's most persistent risks: getting fashion wrong.

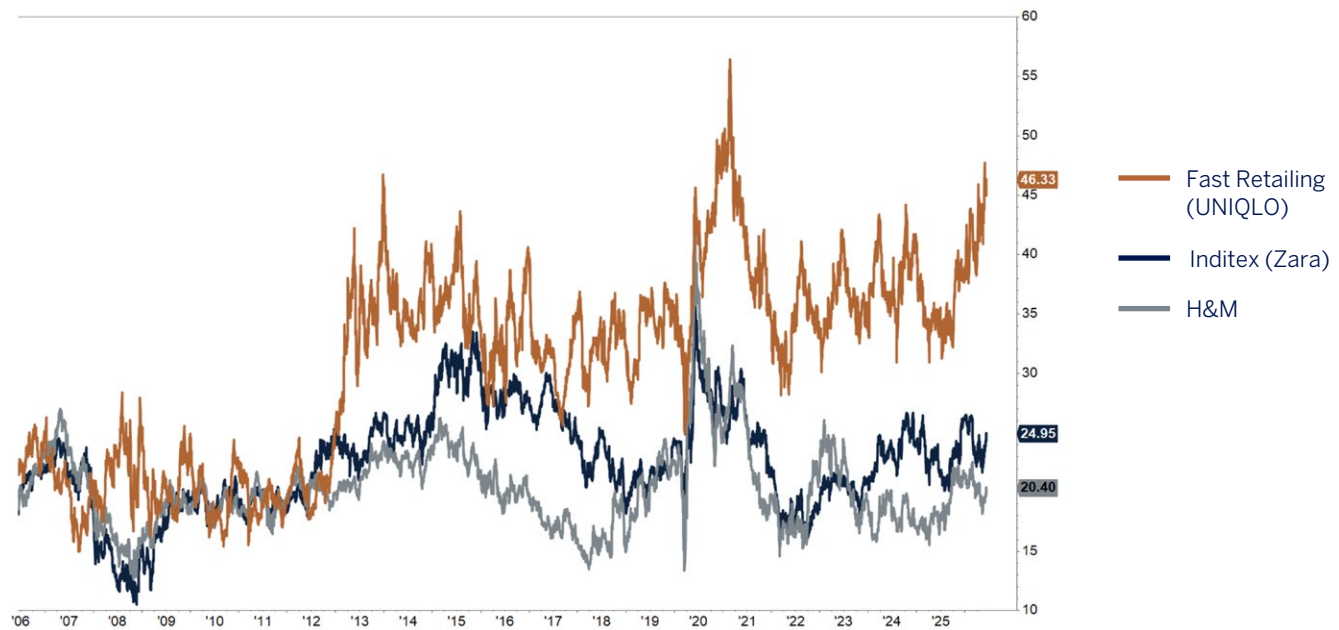


Valuation: quality at a reasonable price

Inditex trades around historic average price-to-earnings. It is only at a modest premium to slower growing and less profitable peer H&M. Arguably the company's superior economics and consistency are not fully priced into the share price.

QUALITY AT A DISCOUNT (LIKE ZARA)

PRICE-TO-EARNINGS RATIO OF INDITEX, H&M AND FAST RETAILING



Source: Melville Douglas, FactSet data

For investors, the question is less about short-term upside and more about the role Inditex plays in a portfolio. This is not a speculative turnaround or a cyclical recovery story. It is, rather, a compounding business - one that steadily builds value over time.

A rare find

In a sector where fortunes can change quickly, Inditex stands out for its stability as much as its agility. By marrying speed with discipline, it has created a model that is both resilient and profitable.

For long-term investors, that combination is rare and valuable.





Melville Douglas

Melville Douglas South Africa is a subsidiary of Standard Bank Group Limited. Melville Douglas Investment Management (Pty) Ltd. (Reg. No.1987/005041/07) is an authorised Financial Services Provider. (FSP number 595). Standard Bank Offshore Services (RSA) operates under the license of The Standard Bank of South Africa Limited ("SBSA"), an authorised Financial Services Provider (FSP11287).

This document has been issued by Standard Bank Jersey Limited. Melville Douglas is a registered business name of the Investment Services Division of Standard Bank Jersey Limited which is regulated by the Jersey Financial Services Commission and is a member of the London Stock Exchange. Standard Bank Jersey Limited is regulated by the Jersey Financial Services Commission, registered in Jersey No. 12999 with principal business address, Standard Bank House, 47 – 49 La Motte Street, St. Helier, Jersey, JE2 4SZ.

Standard Bank Jersey Limited is a wholly owned subsidiary of Standard Bank Offshore Group Limited whose registered office is Standard Bank House, 47-49 La Motte Street, St Helier, Jersey, JE2 4SZ. Tel +44 1534 881188, Fax +44 1534 881399, e-mail: mdclientservices@standardbank.com. Standard Bank Offshore

Group Limited is, in turn, a wholly owned subsidiary of Standard Bank Group Limited which has its registered office at 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg 2001, Republic of South Africa.

This document has been approved for the purposes of section 21 of the Financial Services and Markets Act 2000 (FSMA) by Standard Advisory London Limited, authorised and regulated by the Financial Conduct Authority (FCA). Prospective depositors resident in the UK should be aware that the protections provided to depositors by the UK regulatory system established under FSMA do not apply to any services or products provided by any entity within the Standard Bank Offshore Group. In particular, depositors will not be entitled to compensation from the UK Financial Services Compensation Scheme, nor will they be entitled to the benefits provided by the UK Financial Ombudsman Service or other protections to clients under FSMA.

Telephone calls may be recorded. Please refer to the Standard Bank Offshore Group Client Privacy Statement available from: <https://international.standardbank.com/legal>

It's Personal.