

## Quality Convictions – Industria de Diseno Textil SA (Inditex)

### *Inclusion in the International Equity Strategy*

#### **Key takeaways**

- *Fast fashion has reshaped global apparel by accelerating trend cycles, lowering real prices, and contributed to driving a 60% increase in per-capita clothing purchases through responsive supply chains.*
- *Inditex's stands as the dominant platform in the segment, with an integrated nearshored production, rapid inventory cycling, store-driven feedback loop, and a culture built around sensing and reacting to demand faster than competitors.*
- *Despite risks from rising costs, cyclical headwinds, and ultra-fast competitors, Inditex remains high-quality company through the PineStone lens given its differentiated business model, full price sell-through and constant market share gains. Its industry-leading financials and strong capital discipline consistently yield top-tier ROIC of +40% with strong cash-flow generation.*

### **Fast & Furious: A Market Constantly on the Move**

The global apparel industry—USD 1.2 trillion in scale—has undergone a structural rewiring over the past two decades. Within this broad industry, fast fashion represents the apparel industry's most accelerated, demand-responsive segment, built on compressing the journey from design concept to store shelf into mere weeks. Its defining characteristics include rapid product turnover, trend-driven assortments, low price points, and supply chains engineered for high flexibility. Retailers in this category use real-time data to interpret consumer preferences, adjust production volumes, and minimize fashion risk by replenishing proven sellers quickly while discontinuing slow-moving styles just as fast.

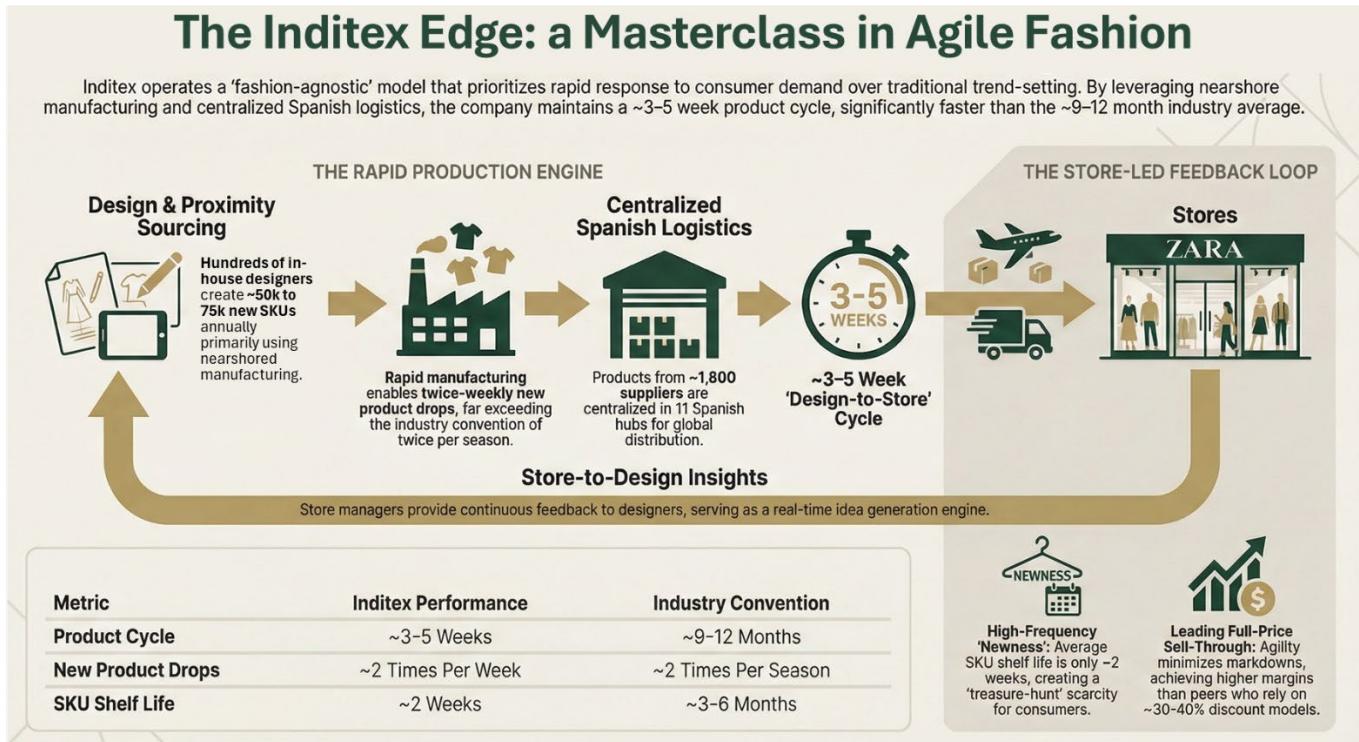
The underlying drivers are structural. Consumers increasingly seek novelty at accessible prices, with apparel real prices declining by 29%<sup>i</sup> since 2005 despite the post-COVID reflation. Another tailwind are advances in fabric technology, near-shoring, and vertically integrated logistics that have removed historical bottlenecks in design, manufacturing, and distribution. Lastly, social media has amplified fashion cycles, creating micro-trends that mature and fade within days – an environment well suited to players capable of rapid execution. All of these drivers have led to a 60%<sup>ii</sup> increase in the number of items of clothing purchased per capita since the early 2000s.

As a result, fast fashion has become a key growth area within global apparel, shaping consumer expectations around freshness and affordability while influencing the operational playbooks of adjacent segments.

### **Inditex: A Masterclass in Agile Fashion**

Inditex has been a leader in fast fashion for 50 years. It began in 1975 when Amancio Ortega opened the first Zara store in A Coruña, pioneering a supply-chain model that collapsed design-to-shelf timelines and reshaped global apparel retail. Throughout the 1980s and 1990s, the company expanded across Europe, built vertically integrated logistics hubs, and launched brands such as Pull&Bear, Massimo Dutti, and Bershka. Its 2001 IPO marked its transition into a global organization. Over the last two decades, Inditex has refined data-driven merchandising and accelerated omnichannel integration. Today, it stands as one of the world's most influential fashion groups, defined by speed, scale, and operational discipline.

Inditex’s long-standing ability to compound growth is often misunderstood. Investors frequently attribute the stock’s success to nearshoring or a handful of operational tricks. Yet the true differentiator sits deeper: Inditex is not a fashion house in the traditional sense, but a customer-centric network engineered to recognize, interpret, and respond to shifting consumer trends at a velocity unmatched in global apparel. Its founding philosophy – give customers what they want, not what designers think they should want – established a cultural architecture that still governs the business today. Unlike creative-led peers who build seasonal narratives, Inditex treats fashion as a rapidly updating information system, where desirability is observed, not declared.

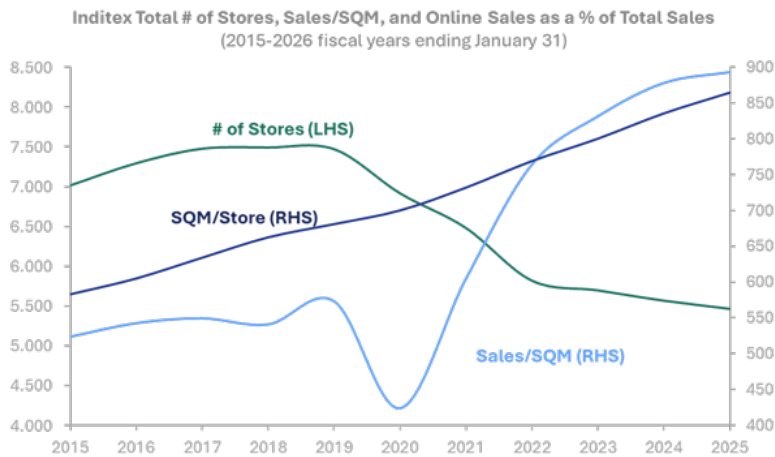


Sources: PineStone Asset Management research, Inditex

This mission shapes product outcomes. Hence, Zara abandoned the typical Autumn/Winter and Spring/Summer cadence decades ago, replacing it with a continuous release model. New silhouettes, colours, and materials appear weekly, directly informed by real-time signals from stores, social platforms, and customer behaviour. The result is persistent newness: a tempo of small, frequent drops that encourages shoppers to return often, knowing the assortment will look materially different each visit. This cadence also creates deliberate scarcity. With shallow initial buys and rapid sell-through expectations, customers quickly learn that hesitation means missing out. The psychological effect mirrors luxury – desire heightened by temporariness – but executed at mass scale.

Supporting this model is an infrastructure built for speed rather than cost minimization. Roughly half of production sits in Europe and North Africa, enabling lead times measured in weeks instead of months. Airfreight, typically a margin killer, becomes a strategic enabler when paired with shallow inventories and high open-to-buy flexibility. Factories, design teams, and distribution hubs operate as a tightly synchronized network, allowing rapid replenishment of proven sellers and equally rapid experimentation with emerging trends. Store managers play an unusually influential role, acting as field-level intelligence nodes. Their observations feed directly into buying decisions, ensuring each store’s assortment reflects local demand patterns while preserving global brand consistency.

A unified RFID-enabled inventory system allows the company to track product levels in real time, which minimizes overbuying, reduces markdowns, and lifts gross margins. This digital backbone integrates seamlessly with the omnichannel model, where stores double as fulfillment nodes. Roughly one-third of online orders are picked up in stores, and most returns flow back into the store network, lowering distribution costs and accelerating merchandise recirculation. Because storefronts function as micro-distribution centers, Inditex avoids many of the incremental costs that burden traditional e-commerce operations.

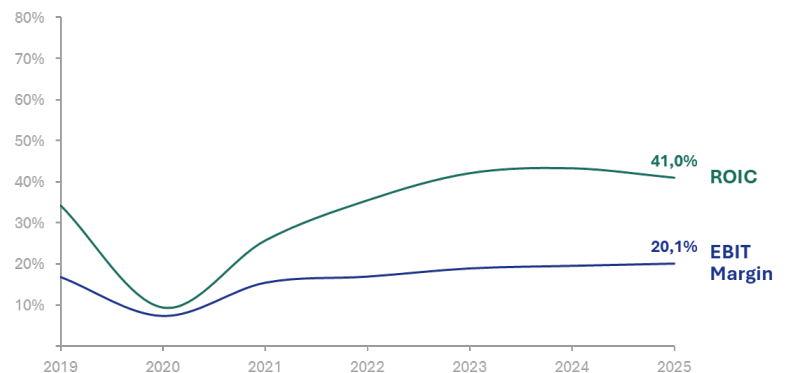


Sources: PineStone Asset Management research, Inditex. Data for fiscal years 2019 to 2026, ending January 31. SQM = Square meters

Store strategy has steadily shifted toward fewer but larger stores, creating higher density, better assortment breadth, and improved labor and space utilization. This evolution coincides with favorable lease renegotiation terms, as the company’s brand strength affords flexibility that many peers lack. Shorter lease durations (often two to three years) allow rapid adaptation to shifting foot-traffic patterns. The model’s scalability even supports broader size ranges, enabled by deeper assortments in larger, more productive locations. The combined effect is an ecosystem where inventory flows quickly, stores operate as synchronized logistics hubs, and customer experience improves alongside operational economics.

Financial outcomes flow naturally from this architecture. Higher price points relative to low-end peers fund the costlier, speed-focused supply chain while still offering strong value to customers. Product risk remains structurally lower because production is modular and reactive rather than committed months in advance. As a result, markdowns remain minimal—Inditex sells almost everything it makes at full price, unlike competitors who rely on promotions to clear seasonal inventory. The absence of material advertising spend further differentiates the model. Brand power derives from newness, availability, and relevance, not campaigns. Hence, the Inditex model protects margins while enhancing return on invested capital.

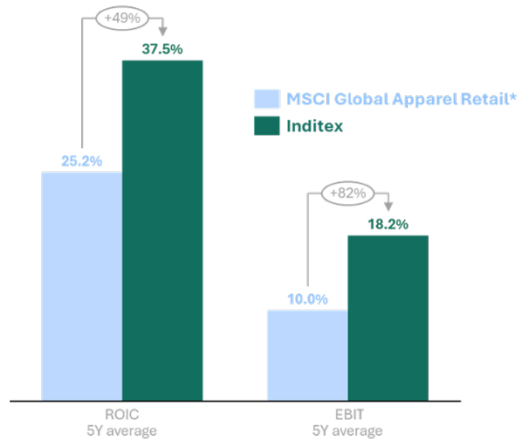
Inditex Return on Invested Capital\* (ROIC) & EBIT Margin (2019-2026 fiscal years ending January 31)



Sources: PineStone Asset Management research, Inditex. Data for fiscal years 2019 to 2026, ending January 31. \*ROIC is based on lease-adjusted net operating profit after tax (NOPAT) and invested capital.

What makes Inditex so difficult to replicate is not any single process but the interdependency of all of them. A competitor cannot simply nearshore without altering its buying model, pricing architecture, inventory philosophy, cultural mindset, and decision-making cadence. The flywheel functions only when every piece reinforces the others. At its core, Inditex is a cultural system disguised as a retailer – a decentralized network optimized for one outcome: delivering what customers want, faster and more precisely than anyone else.

Inditex versus MSCI Global Apparel Retail segment\*  
(5-Y average ROIC & Adjusted EBIT)



Sources: PineStone Asset Management research, FactSet. As of March 12, 2026. \* Excluding companies with market capitalizations lower than USD 10bn. ROIC for Inditex calculated on a lease-adjusted basis.

In contrast, the most substantial critique of the company focuses on its greatest strengths: centralized operations, tight proximity sourcing, and reliance on European manufacturing. Should consumer cycles accelerate further, or geopolitical tensions increase sourcing costs, Inditex’s short lead-time model could face margin pressure. Increasing share of online sales poses another potential structural risk, as its variable costs and higher return rates may weigh on profitability compared to store-based economics. The rise of ultra-fast platforms like Shein, with rapid trend detection and aggressive pricing, also introduces new uncertainty. Lastly, governance concerns, particularly around family control, can arise as investors undertake proper due diligence. Yet these risks must be balanced against Inditex’s multi-decade record of adapting to industry shifts while

sustaining returns on invested capital, a testament to its operational resilience and adaptability.

## Why now? Inditex Through the PineStone Quality Lens

We believe Inditex remains a high-quality franchise that aligns with PineStone's long-term, quality-oriented investment philosophy, notably:

- Highly differentiated business concept that enabled Inditex to achieve industry leading full price sell-through and consistently gaining market share with industry-leading financials in one of the most competitive industries, fashion & apparel.
- Strong capital discipline enables Inditex to achieve top-tier ROIC of +40% with strong cash-flow generation.
- Platform approach with best-in-class execution enables Inditex to capture the secular growth of faster fashion trends while minimizing fashion risks, ensuring consistent earnings compounding throughout decades.

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Senior Investment Specialist & Chief of Staff

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<sup>i</sup> U.S. Bureau of Labor Statistics, *The State of Fashion 2019, 2024 & 2025 Reports* from McKinsey & Company. PineStone Asset Management.

<sup>ii</sup> *Style that's sustainable: A new fast-fashion formula.* McKinsey & Company.