

EQUITY RESEARCH: GROUP INDITEX

Rita Tiago Rebelo

Master's Thesis
in Finance

Coordinator:

Prof. Doutora Clara Costa Raposo, Prof. Catedrática, ISEG Universidade de Lisboa,
Department of Management Studies

April 2013

I. ABSTRACT

A company valuation is a complex process that requires a rich set of assumptions from the analyst – understanding the mechanisms behind valuation is crucial to make value-added decisions. The aim of this thesis is to value Inditex, one of the world’s largest fashion retailers. For this end, different valuation methodologies are described, used and compared, (the reasons concerning them will be explained), combining the academic approach with the most used practices in the valuation market. The equivalence between different discounted cash flow methods (such as the weighted average cost of capital, the adjusted present value, and the flow to equity) is an element of pedagogical interest in this master’s final work. Finally, the valuation result obtained will be subject to sensitivity analysis, to comparison with the traded market value, and comparison with the results obtained from a well-known Portuguese investment bank (Banco Português de Investimento), evidencing the main differences between both analysis.

Key words: Valuation, Cash-flow, Firm value, Equity value

JEL Classification System: G30 (Corporate Finance and Governance: General), O22 (Project analysis)

II. RESUMO

A avaliação de empresas é um processo complexo que requer a definição de um vasto conjunto de pressupostos pelo analista. A compreensão dos mecanismos de suporte de uma avaliação é fundamental para que possam ser tomadas decisões de valor acrescentado. O objectivo desta tese é avaliar o Grupo Inditex, um dos maiores retalhistas de moda do mundo. Para este fim foram descritas, analisadas, aplicadas e comparadas diferentes metodologias de avaliação (as razões subjacentes a cada uma serão apresentadas), combinando a abordagem académica com as práticas mais utilizadas no mercado de avaliações. A equivalência existente entre os diversos métodos de discounted cash flow (tais como o weighted average cost of capital, o adjusted present value, e o flow to equity) é um elemento de interesse pedagógico neste trabalho final de mestrado. Por último, o resultado obtido da avaliação será sujeito a análises de sensibilidade, a comparações com o valor de mercado e com os resultados obtidos por um conhecido banco de investimento Português (Banco Português de Investimento), evidenciando as principais diferenças entre ambas as análises.

Palavras chave: *Valuation, Cash-flow, Firm value, Equity value*

III. ACKNOWLEDGMENTS

With the completion of this master thesis, I reach the top of my academic path until now. The master is a long and hard process and to achieve this goal I had the happiness to count with the support of many people, without them would have been almost impossible and for that I want to express my gratitude: Professor Clara Raposo, my coordinator in this thesis, which gave me the right mentorship and support, being always available; my family, simply and for the most important, never let me given up; Togu, for always inspire me to learn more; Belchior and Margarida, for the technical help and being always available, above all for the friendship; Inês, for the friendship of sharing the ups and downs of writing a thesis, and finally João, for all.

To all, thank you!

I. ABSTRACT	II
II. RESUMO	III
III. ACKNOWLEDGMENTS	IV
1. INTRODUCTION.....	7
2. LITERATURE REVIEW: VALUATION METHODOLOGIES	8
2.1 Introduction	8
2.2 Valuation methodologies.....	8
2.2.1 Discounted cash-flow valuation.....	9
2.2.1.1 Firm value	10
2.2.1.1.1 WACC - Weighted Average Cost of Capital	10
2.2.1.1.2 APV - Adjusted Present Value.....	13
2.2.1.2 Equity value	14
2.2.1.2.1 FTE - Flow to Equity	14
2.2.1.2.2 Cost of capital in the DCF valuations	16
2.2.1.2.3 Cost of debt.....	17
2.2.2 Liquidation and accounting valuation.....	17
2.2.3 Relative valuation	18
2.2.4 Contingent claim valuation.....	19
3. APPAREL INDUSTRY	21
3.1 Apparel industry overview	21
3.2 Key players and trends	22
4. INDITEX.....	25
4.1 History	25
4.2 Inditex nowadays	27
4.3 Market share evolution	30
4.4 Strategy.....	31
5. VALUATION	34
5.1 Macro-economic assumptions	35
5.2 Financial and operational analysis.....	36
5.3 Key drivers for projections.....	37
5.3.1 Stores expansion	37
5.3.2 Sales	39

5.3.3	Cost of sales.....	41
5.3.4	Operating costs	41
5.3.5	Working capital	43
5.3.6	Investment in fixed assets: CAPEX	44
5.4	WACC valuation	45
5.5	APV valuation.....	50
5.6	FTE valuation	52
5.7	Relative valuation	53
5.8	Sensitivity analysis.....	55
6.	VALUATION COMPARISON.....	56
7.	CONCLUSION.....	59
8.	APPENDIXES	60
8.1	Time line	60
8.2	Revenues build up.....	61
8.3	Cost of sales	62
8.4	Operating expenses build up	62
8.5	Income and cash flow statement	63
8.6	Cash flows.....	63
8.7	Consolidated balance sheet.....	64
8.8	Working capital	64
8.9	Equity value adjustments.....	65
8.10	Synthetic rating calculation	66
9.	BIBLIOGRAPHY	68

1. INTRODUCTION

The objective of this project is to determine the market value of Inditex, as of 31-12-2012 and the implicit value per share. By so doing, I apply different valuation methods studied during the Master in Finance, which are founded in the academic contributions in the field of Finance.

The starting point of my work is to identify the methodologies used for Inditex valuation by performing a literature review, where the main valuation methodologies are presented, considering the different perspectives of the related academics.

After an industry analysis is done, presenting the evolution of the apparel market, as well as its main players and key trends. Subsequently, a company analysis is also performed, by presenting the performance, strategy and culture of Inditex, one of the world's largest retailers.

Afterwards the valuation of Inditex is performed, presenting the macroeconomic assumptions, the valuation of the company through the Weighted Average Cost of Capital (WACC), Adjusted Present Value (APV), Flow to Equity (FTE) and relative valuation and the comparison with an equity research from BPI, highlighting the methodology discrepancies and final value differences.

Based on a set of clearly justified assumptions for valuation, I find a price target of around €47,43 by applying the three different versions of the Discounted Cash Flow method (WACC, APV and FTE), and showing their equivalence. I also contrast this result to “true” market price, and valuation performed by an investment bank's equity research group.

2. LITERATURE REVIEW: VALUATION METHODOLOGIES

2.1 Introduction

Valuation plays a key role in many areas of finance, understanding the mechanism of a company valuation is an indispensable requirement. This is not only because of the importance of valuation in mergers and acquisitions, but also, because the process of valuing the company and its business units helps to identify sources of economic value and destruction within the company.

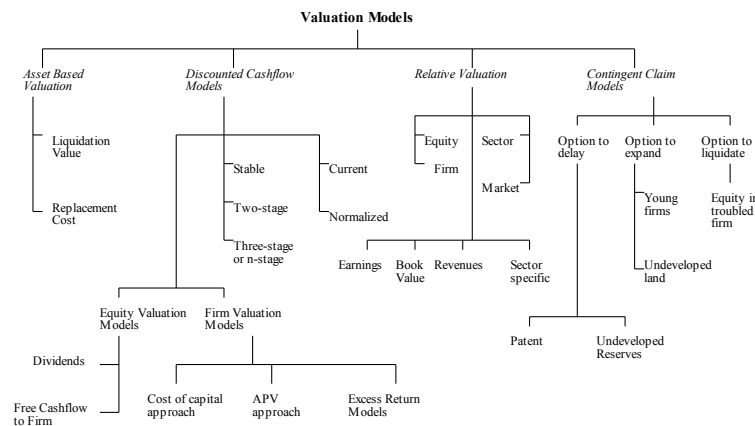
As Damodaran (2002) claims every asset has a value. The key to successfully investing in and managing these assets lies in understanding not only what the value is, but the sources of the value. If the objective in corporate finance is the maximization of the firm value, the relationship between financial decisions, corporate strategy, and firm value has to be delineated.

The value of a firm can be directly related to decisions that it makes. Understanding this relationship is key to making value-increasing decisions and sensible financial restructuring.

As stated by Copeland (2000), making good decisions depends on having good information, and value is the performance metric that uses the best, and most complete, information.

2.2 Valuation methodologies

There are many valuation Methodologies. In order to choose the right one, the final purpose of the valuation, the company environment and the available information must be considered. Although, Young, M., Sullivan, P., Nokhasteh, A., and Holt, W. (1999) defends that “most approaches are, in truth, different expressions of the same underlying model”, meaning that all valuation methods will have the same output if applied with the same information and evolution expectations. Damodaran (2002) claims that “the problem in valuation is not that there are not enough models to value an asset, is that there are too many”, shown as follows:



Picture 1 - Valuation methodologies (Damodaran, 2002)

Damodaran brings structure to the vast world of Valuation, by presenting four main Methodologies: the most used *Discounted Cash Flow valuation (DCF)*, which is the present value of the estimated cash flows in the future; *Liquidation and accounting valuation*, is the valuation of a company assets based on the accounting value; *Relative Valuation*, estimates the value of an asset by comparing a company with similar ones by their common variables (sales, cash flow, costs); and *Contingent claim valuation* that uses option prices models to calculate the assets value with characteristics similar to an option.

All these methods of valuation are solidly founded in the theory of corporate finance, from the seminal paper of Modigliani and Miller (1958) to many other influential articles.

It will now be more detailed the valuation methods used for Inditex valuation.

2.2.1 Discounted cash-flow valuation

The DCF considers that the value of an asset corresponds to the present value of the expected cash flows on the asset, discounted back, at a rate that reflects the risk of the asset.

The cash flow changes from asset to asset, depending on the variables under each company activity and the discount rate used to discount the cash flows, and that change depending on the risk that each asset represents. Assets with higher risks have higher discount rates and

assets with lower risk have lower discount rates. The general formula for the DCF methodology is the following (see for example, Fernández 2007):

$$V = \frac{CF_1}{1+R} + \frac{CF_2}{(1+R)^2} + \frac{CF_3}{(1+R)^3} + \dots + \frac{CF_n + RV_n}{(1+R)^n} \quad (1) \quad RV_n = \frac{CF_n \times (1+g)}{R-g} \quad (2)$$

Where:

CF_i = Cash flow generated by the company in the period i

RV_n = Residual value of the firm in the year n

R = Appropriate discount rate for the cash flows risk, that is, the cost of capital

g = Expected growth rate of the cash flows after the explicit period.

The DCF has two different valuation perspectives, the equity and the firm valuation. Damodaran (2006) explains that the equity valuation, values directly the equity stake in the business while the firm valuation values the entire business (enterprise value) and then subtracts the net debt to obtain the equity.

2.2.1.1 Firm value

2.2.1.1.1 WACC - Weighted Average Cost of Capital

The firm value is calculated by discounting the free cash flows to the firm at the weighted cost of capital (WACC). The WACC is a rate of return that tries to reflect the opportunity costs of the capital invested by the different types of investors in the firm (equity holders and debt holders), weighted by their relative positions in the firm's capital. Additionally, this rate takes into account the corporate tax savings associated with the service of debt.

It is this rate that is used to discount the estimated future free cash flows to the firm, defined as:

Free cash flow to firm = After-tax operating income – (Capital expenditures – Depreciation) – Changes in non-cash Working Capital

$$V = \frac{FCFF_1}{1 + WACC} + \frac{FCFF_2}{(1 + WACC)^2} + \dots + \frac{FCFF_n + TV_n}{(1 + WACC)^n} \quad (3) \quad TV_n = \frac{FCFF_n \times (1 + g)}{WACC - g} \quad (4)$$

Where:

$FCFF_i$ = Cash flow generated by the company in the period i

TV_n = Terminal value of the company in the year n

WACC = Appropriate discount rate for the cash flows risk, that is, the cost of capital

g = Expected growth rate of the cash flows after the explicit period.

The WACC is the weighted average cost of capital, calculated based on the Capital Asset Pricing Model (CAPM), and the cost debt, estimated based on the rating or risk of default of the company or listed debts yields.

$$WACC = R_E \times \frac{E}{V} + R_D \times \frac{D}{V} \times (1 - T_c) \quad (5)$$

Where:

R_E = Cost of equity

R_D = Cost of debt

E = Market value of the firm's equity

D = Market value of the firm's debt

$V = E + D$

E/V = Percentage of financing that is equity

D/V = Percentage of financing that is debt

T_c = Corporate tax rate

According to Vernimmen (2005) the WACC reflects the overall risk of the firm for providers of funds, representing the average cost of equity and debt financing. It is also seen as the minimum rate of return required by the sources of funding of the firm, shareholders and lenders. This perspective assumes that the risk of the tax shield is the same as the debt.

It is important to be aware of the fact that Free Cash Flow to the Firm (FCFF) is an indirect valuation method and therefore net debt shall be deducted to the enterprise value in order to obtain the equity value. Damodaran (2006) defends that even though there is a strong theoretical basis supporting WACC discounting; it undervalues the importance of the financing structure since the FCFF are the same in spite of the financing structure, but the discount rate changes according to the debt to equity ratio. The author also defends that the model is highly sensitive to changes in growth assumptions which is reinforced by the fact that the WACC rate is lower than the required rate of the return on equity.

Despite all different points of view, Graham and Harvey (2001) defend that this is one of the most common valuation methods since it works quite easily in a situation of a target debt to equity ratio, the reality of most companies.

2.2.1.1.2 APV - Adjusted Present Value

The APV approach values the company in separate parts by establishing a separation between the value of the assets and the value created by a favorable financial structure, regarding this the APV brings relevant information, once it not only realizes how much an asset is worth but also where the value is coming from.

APV is based more directly on the work of Modigliani and Miller (1958 to 1963) who studied the effects of leverage on the firm's value. The first proposition of Modigliani and Miller defends that in perfect markets without taxes, the firm value is independent from its capital structure, although in the presence of taxes, an incentive exists to take on debt due to the interest's tax shields.

$$V_L = V_U + V_{TS} = V_U + D \times t \quad (6)$$

For a constant perpetuity the value of the levered firm equals the sum of the unlevered firm (V_U) and the value of tax shields (V_{TS}). Later, Myers develops the APV model (1974) and Damodaran (2006) presents the following model:

Value on the unlevered firm (V_U) + Present value of expected interest tax shields – Present value of expected bankruptcy costs = Enterprise Value (EV)

$$V_U = \frac{FCFF_1}{1 + R_U} + \frac{FCFF_2}{(1 + R_U)^2} + \dots + \frac{FCFF_n + TV_n}{(1 + R_U)^n} \quad (7) \quad TV_n = \frac{FCFF_n \times (1 + g)}{R_U - g} \quad (8)$$

Where:

$FCFF_i$ = Current after tax operating cash flow to the firm generated in the period i

R_U = Unlevered cost of capital

g = Expected growth rate of the cash flows after the explicit period.

The present value of the interest tax shield is, then, discounted at the unlevered cost of capital itself (rate R_U). This is the appropriate rate to use if the firm chooses a target capital structure ratio of D/E, as will be the case in this study (see e.g., Berk and DeMarzo (2011)).

$$PV(\text{interest tax shield}) = \sum_{t=1}^{t=\infty} \frac{\text{taxe rate}_t \times \text{interest rate}_t \times \text{debt}_t}{(1 + R_U)^t} \quad (9)$$

Where:

R_U = Unlevered cost of capital

When the firm maintains a target leverage ratio, its futures interest tax shields have similar risk to the project's cash flow, so they should be discounted at the project's unlevered cost of capital.

2.2.1.2 Equity value

2.2.1.2.1 FTE - Flow to Equity

The free cash flow to equity valuation is a methodology that discounts directly the cash flows that are expected to shareholders (already after having remunerated the debt holders) at a rate of return that is appropriate for the equity risk in the company, according to Damodaran (2006).

The definition of free cash flow to equity is:

$FCFE = \text{Net income} + \text{Depreciation and amortization} - \text{Capital expenditures} - \text{Changes in working capital} - (\text{Debt repayments} - \text{New debt issued}).$

In which case the total equity value is:

$$\text{Equity Value} = \frac{FCFE_1}{1 + R_E} + \frac{FCFE_2}{(1 + R_E)^2} + \dots + \frac{FCFE_n + RV_n}{(1 + R_E)^n} \quad (10)$$

$$RV_n = \frac{FCFE_n \times (1 + g)}{R_E - g} \quad (11)$$

Where:

$FCFE_i$ = Cash flow generated by the company in the period i

RV_n = Residual value of the company in the year n

R_E = Appropriate discount rate for the cash flows risk, which is the cost of the equity

g = Expected growth rate of the cash flows after the explicit period.

According to Damodaran (2006) in the FCFE we assume that the cash flow will be paid to stockholders with more than one consequence: there will be no cash build up since after debt payments and reinvestments needs, the money available in the firm will be paid to stockholders and the expected growth in FCFE will be from operating assets and not from increase in market securities.

2.2.1.2.2 Cost of capital in the DCF valuations

The cost of capital is the minimum rate of return on the company's investment that simultaneously satisfy the shareholders (cost of equity) and the debt holders (cost of debt) by reflecting the company's total cost of financing. The cost of capital depends on the company financing structure, it can be unlevered cost of equity (100% equity) or a weighted cost of capital (WACC) by having in it financing structure both debt and equity. The Capital Asset Pricing Model (CAPM) is the most used risk and return model to calculate the cost of equity. According to Damodaran (2002) the model works under the assumption that investors are well diversified and concerned with systematic risk requiring a compensation for the risk added to his "market portfolio" and which is calculate through the company's beta¹.

$$R_E = R_F + \beta_L \times (R_M - R_F) \quad (12)$$

Where:

R_E = Cost of equity

R_F = Risk free

β_L = Levered beta

$R_M - R_F$ = market risk premium

An asset is risk free if we know exactly its expected return and by filling the follow conditions: it can be associated to default risk and there can't be no reinvestment risk, usually the risk free rate is a government default free security. It should have more or less the duration of the cash flows under analysis, being normally the yield on the country's 10-year Treasury bonds.

¹ The beta is a statistical measure of sensitivity of the returns of an asset to overall Market returns, according to the Capital Asset Pricing Model.

The market risk premium is the return for investors regarding the average risk stock investment as an alternative of investing in risk free. For Damodaran (2008) the expected return of an investment is the sum of the risk free rate with an extra compensation for risk.

2.2.1.2.3 Cost of debt

The cost of debt measures the current cost of debt to the firm, meaning the cost of debt financing a certain project according with Damodaran (2006). The cost of debt equals the sum of the risk-free rate and the company default spread, taking in consideration the tax advantaged associated with debt, separating the before and after tax cost of debt and the book and market value of debt (see e.g., Berk and DeMarzo (2011)).

To estimate the default spread we can look to the implicit yield-to-maturity (YTM) of the outstanding long-term bonds if they exist, provided, there is sufficient market liquidity.

2.2.2 Liquidation and accounting valuation

The value of an asset corresponds to the present value of the estimated future cash flow generated by the asset. And in valuation of a company, its value should correspond to the sum of its assets. According to Fernández (2007) in this method the value of the company lies essentially in its balance sheet. The question within this method is that it values the company from a static point of view, since it does not consider either the company evolution in the future or the value of money.

In a valuation it is necessary to define assumptions, not only for the existent assets but also for the future investments and return on the investments. In this regard, the main value of a company comes from the growth perspective of its assets. Although the *asset based valuation* focuses on existent assets valued separately, and for companies with growth perspectives this is a conservative methodology.

There are several methodologies that use this approach (*Book value, Adjusted book value, Substantial value*) but one of the most known is the *Liquidation*.

The liquidation value is the value of a company if it is going to be liquidated, its assets are sold and debts are paid off. The value is calculated by deducting the business liquidation expenses (tax expenses, redundancy payments to employees and other) from the adjusted net worth, Fernández (2007).

2.2.3 Relative valuation

In relative valuation, an asset is valued based on how other similar assets are priced in the market; it is also called peer comparison. Damodaran claims (2006) that in this methodology the value of an asset is what the market is paying for similar assets.

The model works when a set of comparable assets is found and an average market price to common variables is defined, being a key point the correction of any differences regarding specific features of the asset.

The company is valued at a multiple of its profit generating capacity; the enterprise value must be compared with operating data (EBITDA) and equity with a figure after interest expenses for example net profit or cash flow.

There are two types of multiples, the enterprise multiples that represent the total value of the company or equity multiples that represent the value to the shareholders.

Main multiples used, Fernández (2002):

1. P/E	Price earnings ratio	8. P/output	Price to output
2. P/CE	Price to cash earnings	9. P/units	Price to units
3. P/S	Price to sales	10. EV/EBITDA	Enterprise value do EBITDA
4. P/LFCF	Price to levered free cash flow	11. EV/S	Enterprise value to sales
5. P/BV	Price to book value	12. EV/BV	Enterprise value to book value
6. P/AV	Price to asset value	13. PEG	PER/growth of earnings per share in the next few years
7. P/Customer	Price to customer	14. EV/EG	EV/EBITDA/growth of EBITDA in the next few years

Picture 2 – Valuation Multiples

Koller, T., Goedhart, M., Wessels, D., McKinsey & Company (2005) suggests that enterprise value multiples, represent a better alternative than equity multiples, since these can be easily manipulated by earnings through changes in capital structure.

A comparable company is a company with similar cash-flows, potential growth and risk. It would be ideal if a company could be valued by observing how an identical company in terms of risk, growth and cash flows is valued. A comparable company does not have necessarily the same industry. This methodology can be difficult to implement when there are few listed companies in a country for the same business sector. As an alternative the analyst will look for companies with similar assumptions or consider all companies in the market as comparable ones and control the differences through statistics techniques, as stated by Damodaran (2006).

Fernández (2001) claims, that the valuations performed based on multiples should be useful in a second phase of valuation, by checking the valuation already performed and by identifying differences between the company valued and the comparable ones.

2.2.4 Contingent claim valuation

This methodology uses option pricing models to measure the value of assets that have the same option characteristics such as patents or oil reserves not developed. Real options are a valuable valuation method whenever investment flexibility is important for the company, Vernimmen (2005).

Damodaran (2002) states that this valuation can be used for assets with two specific characteristics: they derive their value from other assets value and the cash flows on the assets are contingent on the occurrence of specific events. These assets are called options and can be of two types, American or European, depending on the moment when they can be exercised. The binomial and Black-Scholes models are the most common for options valuation.

This methodology gives companies a bigger flexibility to analyze investment decisions or operations (postpone an investment, expand production, or change technology among others). Although there are some boundaries to the method since variance assumptions (constant) and

dividend yields are not contested in the short-term, but only when the asset has a long life. On other side when the assets are not listed, the assumptions cannot be extracted from the capital markets and must be estimated; regarding this the error margin can be higher than the financial options.²

² Given that this is still not the most common approach for company valuations, this will be left out of our valuation of Inditex.

3. APPAREL INDUSTRY

3.1 Apparel industry overview

Inditex is the key player in the apparel industry. In accordance with Datamonitor this industry consists on selling all men’s wear, women’s wear and children’s wear. The global apparel retail industry had total revenues of \$1.175,4 billion in 2011, representing a Compound Annual Growth Rate (CAGR) of 2,7% between 2007 and 2011. The performance of the industry is forecast to accelerate, with an anticipated CAGR of 2,8% for the five-year period from 2011 to 2016, which is expected to drive the industry to a value of \$1.348,1 billion by the end of 2016.³

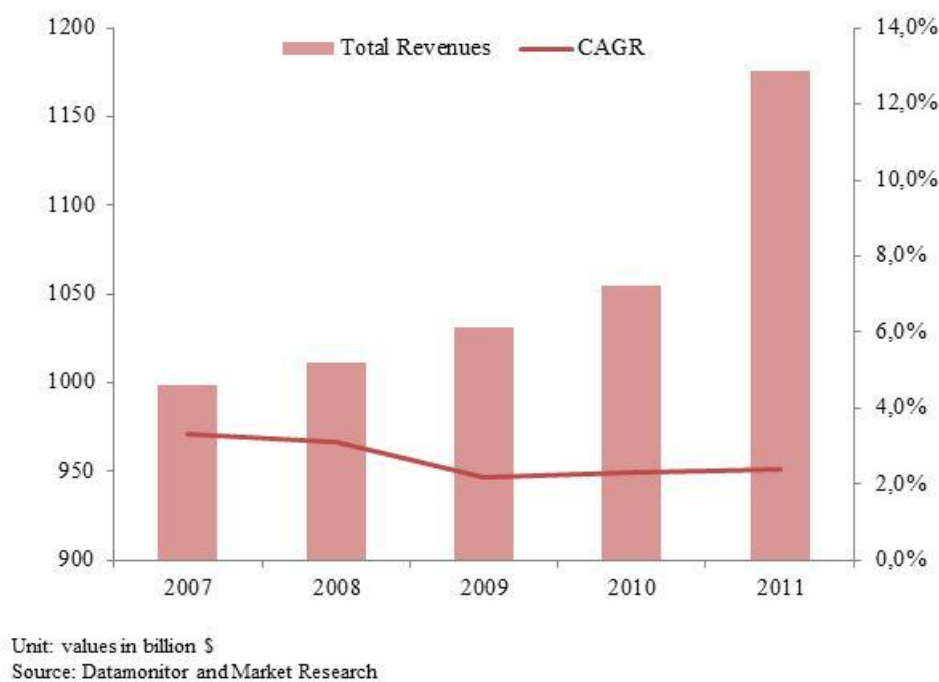


Chart 1 - Market performance

The Women’s wear segment was the industry’s most lucrative, with a total revenue of \$600,5 billion, equivalent to 51,1% of the industry's overall value.

³ Global Apparel Retail; Market Research

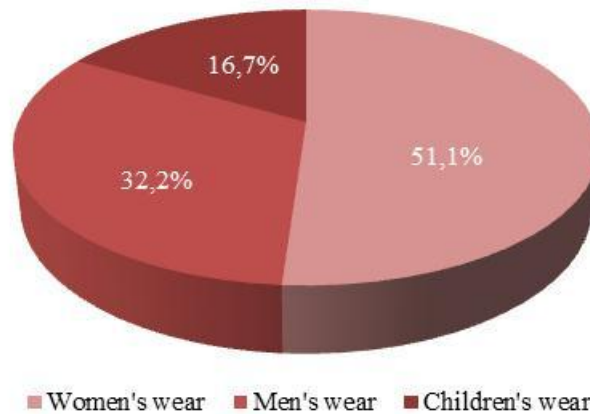


Chart 2 - Market by gender

3.2 Key players and trends

In the last decade China has dominated the apparel manufacturing operations and developed nations producers such as the United States and Canada have suffered with this Chinese domination. To European and North American consumers, the Chinese expansion has represented low retail prices for goods with reasonable quality. Most recently because of the Chinese currency appreciation and also because of the rising labor costs, China is becoming less competitive. There are several other nations competing in the low labor costs categories, such as African countries, as well as Vietnam, Sri Lanka, Mauritius, Malaysia, Cambodia, Bangladesh, Pakistan and the Philippines.

There are several Chinese firms massive in size, with closely integrated units able to provide fast design, manufacturing and logistics. Among these companies there is one particularly interesting, the Esquel Group of Companies, one of the world's biggest cotton shirts producers. Esquel is responsible for manufacturing clothes on behalf of brands such as Banana Republic, Tommy Hilfiger, Hugo Boss, Brooks Brothers, Abercrombie & Fitch and Nike, among others, as well as private-label items for retailers such as Marks & Spencer. The companies' fabrics are transformed into premium men's and women's wear at plants in China, Hong Kong, Malaysia, Mauritius, Sri Lanka and Vietnam. The group also has its own

brand, PYE and offices in several locations around the world, including New York City and regional locations convenient to key accounts.

Most manufacturers outside Asia have a different way of approaching business. These companies have become specialists in reacting to consumer trends and Inditex is definitely the reference in this category. Inditex is well known for its lean inventory and fast-fashion strategy, being able to obtain a new item of clothing in two weeks, making it through its design teams, manufacturing plants and into more than 4.600 stores.

Recent developments in the industry are showing the return of some of the business to a model where plants are located in the country where significant sales are made. These companies are finding that their orders do not have sufficient size to attract major offshore plants and also they need to ensure fast delivery making it impossible to use overseas manufacturers. While wages continue to rise in emerging nations, and shipping costs continue to be affected by high fuel prices, some part of clothing manufacturing will continue to re-shore.

Apparel stores sales are recovering around the world and simultaneously the luxury apparel, shoes and accessories market is thriving in fast growing economies such as Brazil and China. The world top luxury brands are opening big numbers of new stores in these markets. At this point we are able to say that the apparel market players can be divided into four different categories, as follows:

Multilabel retailers and department stores	Vertically integrated retailers	Hybrid wholesalers	Mass merchandisers
El corte Ingles Macy's Harrod's	Inditex H&M GAP Uniqlo	Espirit Adidas Nike Hugo Boss	Walmart Kohl's Target
Big multilabel department stores with growing private label business Small to midsize local/regional multilabel apparel retailers	Apparel retailers controlling the complete value chain from design to shelf	Pure-play apparel wholesalers that are increasing their control of the retail space via own stores and franchising	Hypermarkets, hard discounters and apparel discounters mainly focusing on private-label products

Source: Market Research, McKinsey and own analysis

Picture 3 - Type of players in the market

Through the analysis of apparel market and company's annual reports it is easily understood that the hybrid wholesalers and vertically integrated retailers are the ones with higher growths in the past years.

This is an industry known for being a tough, highly competitive business, where many chains rise dramatically and then fail just-in-time inventory, supported by highly computerized supply chain management systems represents an enormous asset to major retailers. Main discounters like Walmart, Target and Kohl's are responsible for a huge price pressure and consequently for keeping profit margins thin at stores that sell reasonably priced apparel. The "fast fashion" stores selling the latest designs at very low prices have been growing in the world's biggest markets, such as Zara, H&M and Uniqlo.

Department stores historically known as sellers of every type of product, arranged by category in well-defined spaces within giant buildings, have changed their business models radically. Nowadays the majority department stores in America are above all apparel and accessories stores. This change has created several issues within the industry, as managers developed the routine of incessantly discounting apparel in sale events in order to face competition and consequently reducing margins. At the same time consumers have developed the ability to wait for items to go on sale before they make purchases and therefore stores profit margins are lower. In spite of these facts these stores are still top players in apparel retailing today.

Another aspect to consider as a trend for this business is the increasing success of e-commerce. Major players are creating synergies between very active web sites and their retail stores. There are also some players, such as Bluefly.com, that sell only through the Internet and often at discount prices.

4. INDITEX

4.1 History

Amancio Ortega Gaona (Busdongo of Arbas, Leon, 28, March 1936) is a Spanish entrepreneur dedicated to the textile sector whose career began at the age of fourteen in La Coruña as an employee of two clothing stores.

In 1963 Amancio Ortega set up his first workshop making dressing gowns, along with his first wife, Rosalía Mera. The business grew steadily over the decade and in 1972, Confecciones GOA (his initials in reverse), began producing on a large scale. Ortega and his wife distributed their textile goods in Spain and abroad, with dressing gowns still, the stock-in trade.

In 1975 he opened his first store, a local retail store in a central street of La Coruña, that would grow into the enormously popular chain of fashion stores called Zara. This store was initially conceived to be an outlet for canceled orders.

From 1975 to 1980 Confecciones GOA continued to open stores around La Coruña but shortly afterwards the company began to establish a nationwide presence, opening Zara stores all over Spain.

In 1985 Inditex was born, as the holding company for the shops and factories under the control of Amancio Ortega.

Internationalization began in 1988 when Inditex had already more than 60 shops throughout Spain and opened the first shop abroad, in Oporto, Portugal. By 1989 Inditex had already opened stores in New York, and a year later, in Paris.

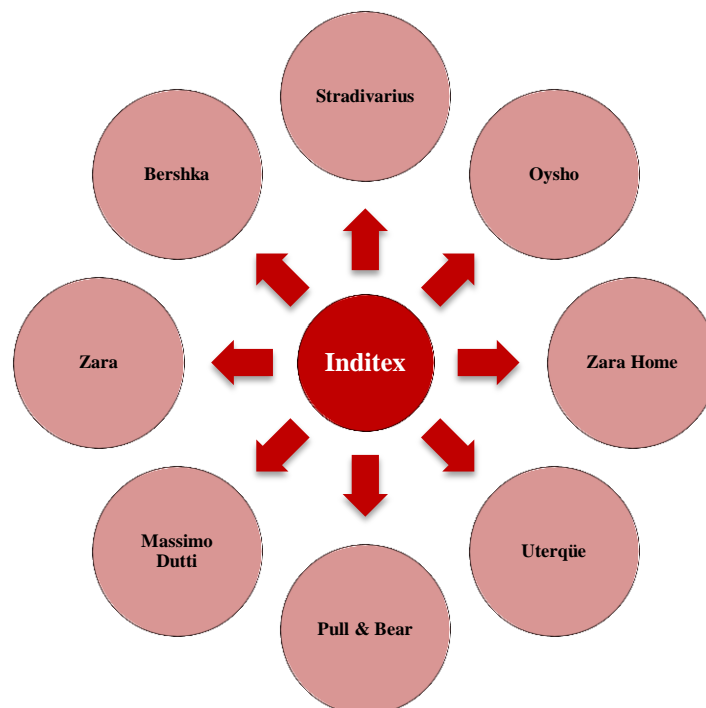
In 1991 Inditex buys 65% of men's fashion retailer Massimo Dutti, and creates Pull & Bear, targeted to a youth market. In 1998, Ortega sets up Bershka, targeted to young women. A year later he buys Stradivarius, and in 2000 launches the lingerie chain Oysho. In 2003 he set up Zara Home and in 2008 starts Uterqüe.

By 2001 with 997 shops in 30 countries around the world, Inditex goes public and enters the stock market with capital of €92 million. Shares go on sale at €14,70. A few days after launch, shares have risen to €18. They have continued to rise since.

Almost two decades after the opening of the first Zara store, Hong Kong hosted the company store number 2.000 it was the year of 2004. By that time Inditex had already expanded its global footprint to 56 countries and 4 continents.

In the next four years Inditex doubled the number of stores and by 2008 reached de number of 4.000 stores, granting its presence in 73 countries. The extension of stores continued and by the year 2010 there were already 5.000 stores.

Today, despite the crisis, the group continues to grow, opening new stores that should take Inditex to 6.000 in 85 nations, working eight different formats, from lingerie to home-ware going through several clothing concepts; each of them has a defined offer and operates independently from the others.



Source: Inditex annual report

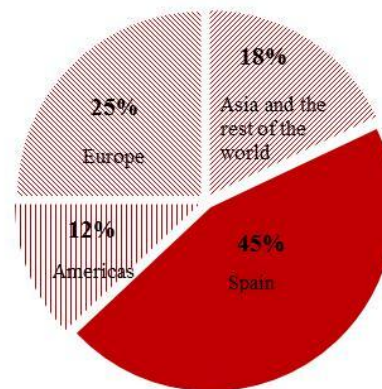
Figure 1 - Inditex commercial formats in 2011

4.2 Inditex nowadays

The group headquarters remains in La Coruña, Spain, the city where the Group first began doing business. Its stores can now be found in prime locations in more than 400 cities on five continents. Inditex has now more than 100 companies operating in textile design, manufacturing and distribution.

During 2011 the group was able to consolidate Inditex strategy of global expansion, by opening 200 new stores in Europe and 165 in Asia. At the moment (2011) Inditex has commercial activities in all five continents, and is increasing the commitment with the electronic retail business.

Europe and Asia remain the main focus of the group for expansion. By the end of 2011 they represented 45% and 18% of the company sales, respectively.



Source: Inditex annual report

Chart 3- Inditex sales per region

According to the last annual report Inditex net sales reached €13.793 million, being Zara the main contributor, with around 65% of the total sales.

2011 Highlights by format	Sales	Contributions	N° of stores	Net openings	New markets	Countries
Zara	8.938	64,8%	1.830	107	5	82
Pull&Bear	957	6,9%	747	65	3	49
Massimo Dutti	1.013	7,3%	573	43	1	51
Bershka	1.316	9,5%	811	91	7	57
Stradivarius	871	6,3%	684	91	3	46
Oysho	313	2,3%	483	51	6	31
Zara Home	317	2,3%	310	26	3	30
Uterqüe	68	0,5%	89	9	1	17

Source: Inditex annual report

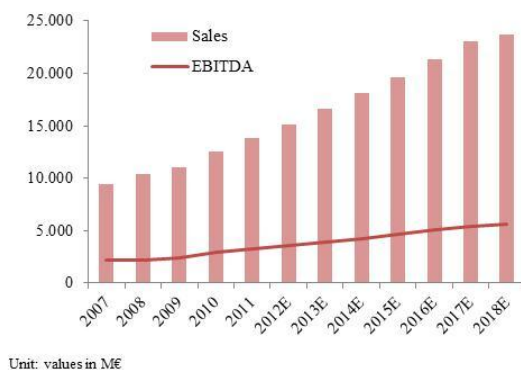
Table 1 - 2011 Highlights

During 2011 Inditex created 9.374 new jobs, bringing its workforce to 109.512 employees. Also this year Inditex opened 483 stores in 49 markets, bringing the Group's total number of stores to 5.527 and expanding its footprint in all geographic areas.

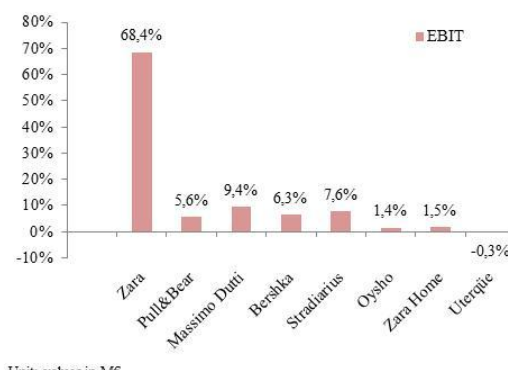
General information	2007	2008	2009	2010	2011
Number of stores	3.691	4.264	4.607	5.044	5.527
Net openings	560	573	343	437	483
Square meters	1.657.300	1.914.494	2.180.889	2.587.647	2.838.980
N° of markets with commercial presence	68	73	74	77	82
Number of employees	79.517	89.112	92.301	100.138	109.512

Source: Inditex annual report

Table 2 - Inditex general information



Unit: values in M€



Unit: values in M€

Chart 4 - Sales and EBITDA breakdown

Chart 5 - EBIT breakdown per concept

The gross profit of Inditex rose to €8.180 million, reaching a gross margin of 59,3% at financial year (FY) 2011 a growth of 11%. FY 2011 EBITDA was €3.258 million, and EBIT €2.522 million both with a growth of 10% from last year. EBITDA margin reached 24% of sales.

In the FY 2011 the Group's net income totaled €1.9 billion, an increase of 12% from the previous year. During the press release it was announced that “The Board of Directors will submit a proposal to the Annual General Meeting of Shareholders for 12,5% increase in the company's dividend, to a total of €1,80 euros per share”.

4.3 Market share evolution

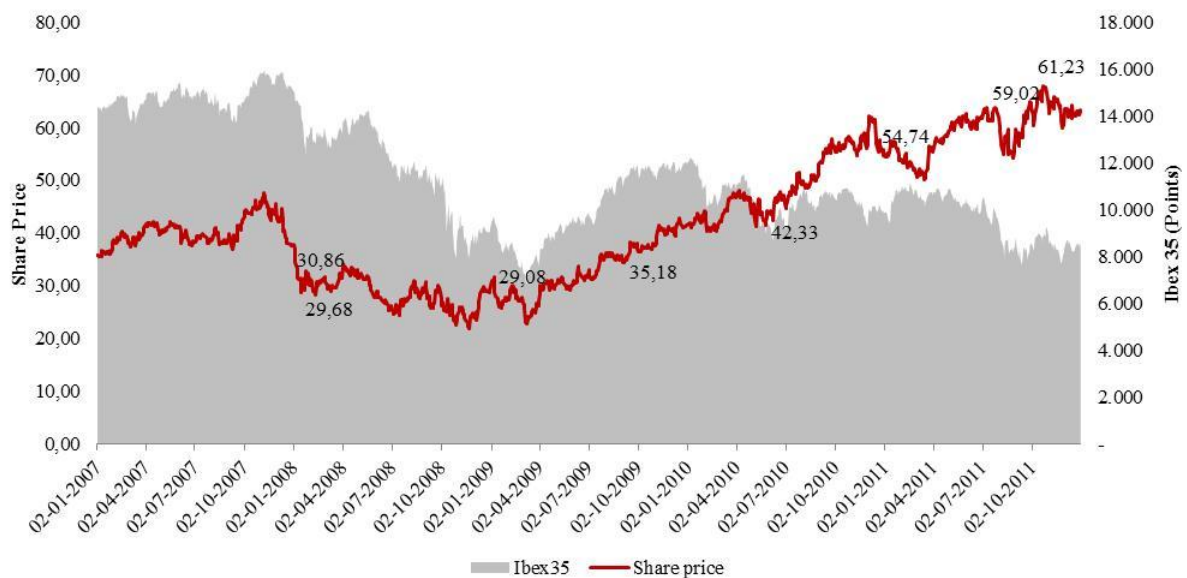


Chart 6 - Share price evolution vs. Ibx 35

By May 2001 the Ortega family advanced with an Initial Public Offer (IPO) of 26% of the company with a price of €14,70 per share, the group was valuing €9.000 million. Ortega family reduced their shares to 70% being the remaining 4% held by the management and employees.

Even though the IPO did not bring cash into the company, with its strong financial structure and its constant increasing negative Working Capital, result of a self-sustainable model, Inditex was able to maintain its financing of capital expenditures and continued growing.

Inditex - Industria de Diseño Textil, S.A. is now a public company listed on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia, and on the Automated Quotation System, since 23, May 2001 under the ISIN code: ES0148396015; incorporating, with its shares being traded by the end of 2011 at €63,28.

Inditex has the following shareholders structure:

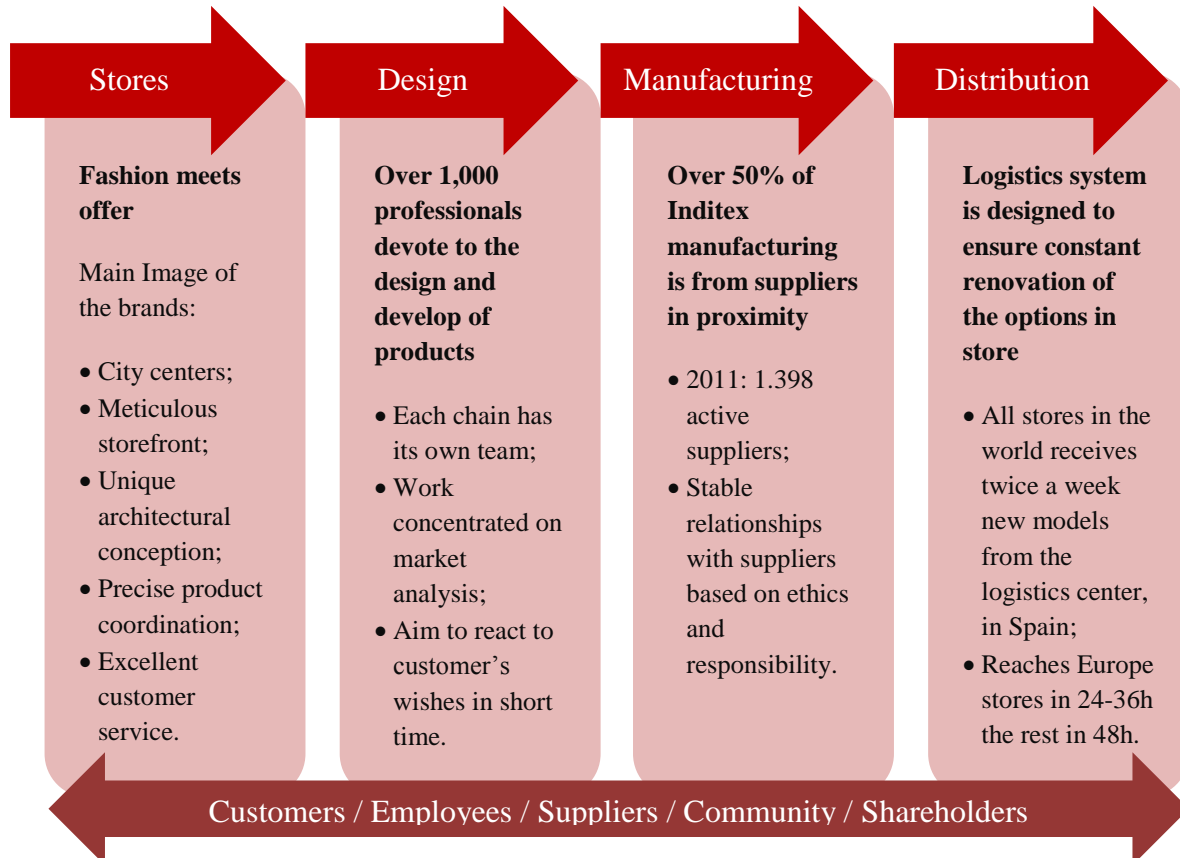
Shareholders	Shares	%
Individuals	24.060.555	3,86
Institutions	229.669.782	36,85
Partler 2006, S.L.	57.872.465	9,28
Gartler, S.L.	311.727.598	50,01
Total	623.330.400	100

Source: Inditex annual report

Table 3 - Inditex Shareholders

4.4 Strategy

The unique business model, based on innovation and flexibility, made of Inditex a group with a unique success. Its approach to fashion is based on creativity, quality design and rapid turnaround by adjusting its performance, to everyday market demands, allowing a fast internationalization and excellent feedback to the collections.



Source: Inditex annual report and own analysis

Figure 2 - Inditex business plan

According to Inditex press release, nowadays, the Group strategy is related with Emblematic locations by siting stores in prime shopping areas, often in well-known buildings. During 2011 there were several openings, including new Zara stores on the most popular shopping streets in Sydney and Melbourne and in Taiwan's capital.

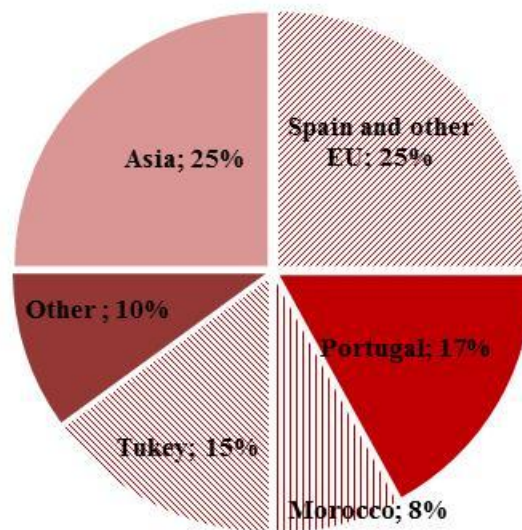
Bershka landed in Japan with a four-store establishment in the Shibuya district. It also opened in expensive locations in Lausanne and Istanbul. Meanwhile, Bershka in downtown Berlin revealed its most sophisticated eco-efficient store.

Inditex also controls sales by product per store and every store can offer different products trying to reach consumers desires and therefore avoiding inventory risk. Along with the product management per store Inditex also limits its production not allowing restocks of a best seller. As a result store managers have to work in order to define why a product was a best seller so that this reason can also assist the creation of other products.

In Inditex there is a very close relation between product teams, merchandisers and stores staff since the designers create in reaction to customers' behavior. Regarding this the season collection begins with a small number of products allowing to understand trends, and be the trigger for the creation of the remaining collection.

Inditex strategy is to source half of its products from Spain, Portugal and north Morocco, costing more but creating a proximity sourcing, shortening its supply chain, by contrast the majority of apparel retailers source most of their products from Asia. Additionally factory wages in Europe are much higher than in Asia making products more expensive to source, being the bought-in margins lower than the ones achieved when sourcing in Asia.

However, Inditex can quickly react to new trends and is able to beat tomorrow's new look, since their concepts (mainly Zara) can wait to see what customers are buying and produce only those products selling at full prices, while others get stuck with unwanted stock.



Source: Morgan Stanley Research - Inditex

Chart 7- Location of Inditex suppliers in 2011

Inditex products distribution to stores is ensured by its own distribution network (using third-party logistic suppliers) their distribution centers are located in Spain, employing over 4.000 people in logistic platforms with more than 1.2 million square meters. All Inditex stores around the world are supplied by this distribution centers.

Logistics platforms	Location	Concept served	Space (000 Sqm)
Galicia	Arteixo	Zara	500
	Naron	Pull & Bear	52
Leon	Onzonilla	Zara	40
Madrid	Meco	Zara / Zara Home / Uterque	160
	Tordera	Massimo Dutti / Oysho / Uterque	175
Cataluna	Palafolls	Bershka	65
	Sallent de Llobregat	Stradivarius	75
Zaragosa	Zaragosa	Zara	175
Elche	Elche	All chains (footware)	45

Source: Morgan Stanley Research - Inditex

Table 4 - Location of the logistics platforms

As explained the highly differentiated Inditex business model results of the staff involvement in the entire value chain, going from design to production through merchandising to retail stores.

5. VALUATION

Taking in consideration the main types of valuation already referred in my literature review, I performed Inditex valuation based on the following discounted cash flow financial models: WACC (Weighted Average Cost of Capital), APV (Adjusted Present Value) and FTE (Flow to Equity).

For a more detailed analysis, Inditex valuation should be performed considering an assessment by segment and geographical region (mainly Spain, Rest of Europe, Asia and America) to better evidence the different kind of Cash-flows and their impact in the company value. However considering the available public information it was not possible to obtain more detailed (P&L, Balance sheet or Cash flow statements) financial information since only detailed consolidated accounts and reports were available.

Since Inditex is an unlevered company (100% of equity) I decided to support my valuation considering a still conservative target rate of 10% of debt in the company structure in order to create a richer valuation as well as allowing a Corporate Tax impact analysis. For this I performed a Synthetic Rating Estimation from which Inditex resulted in an AAA rating company.

For the relative valuation I defined a peer group per region and used the EV/EBITDA and P/E multiples.

5.1 Macro-economic assumptions

In this section the most relevant macro-economic assumptions for the valuation analysis of Inditex were identified.

Regarding Inditex strategy of global expansion the Gross Domestic Product (GDP) and Inflation rate were weighted considering the company expansion by region. The sales percentage of each of the global regions in which Inditex operates were for 2011: 70% in Europe, 18% in Asia and 12% in America and the main countries were Spain, China and Brazil, respectively.

Considering this, the weighted GDP and Inflation were based on the percentages of the sales per region and the GDP and Inflation of the respective countries:

Macro economical indicators	2007/2011	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E
GDP (%) Spain	0,7%	-2,2%	-0,3%	0,7%	1,4%	1,7%	1,7%	1,7%
Inflation Spain	3,1%	1,6%	2,1%	1,9%	1,8%	1,9%	1,9%	1,9%
GDP (%) Brasil	4,2%	1,0%	3,5%	3,8%	3,5%	3,7%	3,5%	3,5%
Inflation Brasil	5,2%	5,4%	5,7%	5,4%	5,0%	4,8%	4,8%	4,8%
GDP (%) China	10,5%	7,8%	8,5%	7,8%	7,7%	7,3%	6,4%	6,4%
Inflation China	3,7%	2,6%	4,3%	4,1%	3,9%	4,2%	4,0%	4,0%
Weighted GDP		0,0%	1,7%	2,4%	2,8%	2,9%	2,8%	2,8%
Weighted Inflation		2,2%	2,9%	2,7%	2,6%	2,7%	2,6%	2,6%

Source: The Economist Intelligence Unit 2013 for Spain, Brazil and China

Table 5 - Macroeconomic indicators

5.2 Financial and operational analysis

KPI's	2007	2008	2009	2010	2011
Sales (€M)	9.434	10.406	11.084	12.526	13.793
<i>YoY Growth</i>	<i>n.a.</i>	<i>10,3%</i>	<i>6,5%</i>	<i>13,0%</i>	<i>10,1%</i>
EBITDA (€M)	2.148	2.186	2.375	2.966	3.258
<i>Margin (% of sales)</i>	<i>22,8%</i>	<i>21,0%</i>	<i>21,4%</i>	<i>23,7%</i>	<i>23,6%</i>
EBIT (€M)	1.652	1.608	1.729	2.290	2.522
<i>Margin (% of sales)</i>	<i>17,5%</i>	<i>15,4%</i>	<i>15,6%</i>	<i>18,3%</i>	<i>18,3%</i>
Net debt (€M)	1.052	1.219	2.380	3.427	3.465
Net debt / EBITDA	<i>49,0%</i>	<i>55,8%</i>	<i>100,2%</i>	<i>115,5%</i>	<i>106,3%</i>
Working Capital (€M)	-542	-330	-698	-835	-713
<i>Margin (% of sales)</i>	<i>-5,7%</i>	<i>-3,2%</i>	<i>-6,3%</i>	<i>-6,7%</i>	<i>-5,2%</i>
ROIC	<i>52,1%</i>	<i>43,8%</i>	<i>55,0%</i>	<i>73,0%</i>	<i>63,3%</i>
NOPLAT (€M)	1.652	1.608	1.729	2.290	2.522

Table 6 - Inditex main Key Performance Indicators

The previous table shows the key indicators of Inditex. In the last five years Inditex was able to have slight improvements in EBITDA and EBIT margins, with sales presenting an annual average growth rate around 10%. The net cash position had a continuous increase, in a practically debt free company, thus auto financing its capital expenditures needs through the years.

Net financial position	2007	2008	2009	2010	2011
Cash & cash equivalents	1.466	1.466	2.420	3.433	3.467
Current financial debt	371	234	35	3	1
Non - current financial debt	42	13	5	4	2
Net debt	1.052	1.219	2.380	3.427	3.465

Unit: values in €M

Table 7 - Inditex net debt

Inditex increasing ROICs are mainly due to the stated above profitability and strong financial structure, due to the continuous negative growth of the net debt and slow increase of its equity, in line with the ambitious dividend pay-out policy.

Year	2007	2008	2009	2010	2011
Dividend pay-out ratio	42%	52%	50%	43%	52%

Table 8 - Inditex dividend pay ratio

5.3 Key drivers for projections

5.3.1 Stores expansion

The evolution of the total number of stores (company managed and franchising) per year (from 2012 to 2018) was based on the average calculation of the historical information (from 2007 to 2011). Inditex total number of stores per year shows that the company is more or less stable with year on year (YoY) growths from 6% to 10% with exception for 2008 that was a significant expansion year for Inditex.

Stores per year	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Number of stores	3.691	4.264	4.607	5.044	5.527	6.006	6.485	6.965	7.444	7.923	8.402	8.642
<i>YoY growth</i>	<i>n.a.</i>	16%	8%	9%	10%	9%	8%	7%	7%	6%	6%	3%
Net openings	560	573	343	437	483	479	479	479	479	479	479	240
<i>YoY growth</i>	<i>n.a.</i>	2%	(40%)	27%	11%	(1%)	0%	0%	0%	0%	0%	(50%)

Table 9 - Inditex stores per year

In the 2011 Inditex annual report, the company foresees for 2012 a range of net openings from 480 to 520, stating that the openings are mainly associated with Inditex strategy of global expansion.

Expected opens for 2012	Range	
Zara	125	130
Pull&Bear	50	55
Massimo Dutti	55	60
Bershka	70	75
Stradiarius	90	95
Oysho	45	50
Zara Home	40	45
Uterqüe	5	10
Total	480	520

Source: Inditex annual report

Table 10 - Inditex expected opening for 2012

Inditex in accordance with the international expansion referred during the last press release that “Going into China is like beginning again in Europe for us”. During 2011 Inditex opened 179 new stores in Asia, 156 of them in China. Although, the expansion in China will not be as smooth as in Europe as China as specific tastes and behaviours according to their cultural difference. At the moment Zara has already Chinese designers to assess this question. During last year some difficulties were found when trying to enter into that market:

- Zara's clothes were far pricier than local rivals and because of the distance from La Coruña, Zara must charge more in absolute terms as well;
- It has to convince Chinese shoppers that it is luxurious enough to justify the price tag;
- Must watch the quality of its products since consumers already attacked Zara for poor quality.⁴

A new business model may need to be considered to Asia if sales grow, considering both logistics and design in China in order to address the previous situations.

⁴ Fashion Forward; The Economist, 24th March, 2012

Considering the economic situation in the Euro zone I choose to estimate net openings based on an average calculation of the historical net openings (from 2007 to 2011) that resulted in the opening of 479 stores, resulting on a YoY growth between 6% to 10% of the total stores per year.

For the last year estimation I decided to stabilize the number of stores for half of the net openings average in the previous years, since is expected that the company will continue the opening of stores mainly in the emergent markets, but with a different YoY growth due to the cultural differences of the markets.

5.3.2 Sales

By the end of 2011 Inditex was operating in 82 countries reaching total revenues of €13.793 million, 30% obtained outside Europe.

To calculate the sales I started by analysing historical information and forecasted several inputs, as follows:

Sales estimation	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Number of stores	3.691	4.264	4.607	5.044	5.527	6.006	6.485	6.965	7.444	7.923	8.402	8.642
Net openings	560	573	343	437	483	479	479	479	479	479	479	240
Square meters	1.657.300	1.914.494	2.180.889	2.587.647	2.838.980	3.040.310	3.244.944	3.449.578	3.657.906	3.867.332	4.077.585	4.077.585
Square meters/stores	2.094	2.176	2.403	2.693	2.726	2.695	2.675	2.659	2.648	2.640	2.634	2.562
Sales per square meter (€M)	0,04	0,04	0,05	0,04	0,04	0,04	0,04	0,04	0,04	0,04	0,05	0,05
Sales (€M)	9.434	10.406	11.084	12.526	13.793	15.096	16.577	18.096	19.674	21.348	23.094	23.701
YoY growth	n.a.	10%	7%	13%	10%	9%	10%	9%	9%	9%	8%	3%

Table 11 - Sales forecast

I projected the number of stores per year as explained (consider point 5.3.1) by defining the net opening in each year, maintaining a sustainable YoY growth.

With the number of stores per year (including the net openings) I was able to define the square meters (sqm) per store for the historical data. With the average of sqm per store of the historical data and the net openings for 2012 (projected) I was able to calculate the new sqm

for 2012. By adding the total of sqm of the previous year I was able to calculate the total sqm for 2012, the same was performed for the rest of the projected years.

To calculate the sales for 2012 I used the sales per sqm of the previous year and with the total sqm of 2012 I reached the total sales for that year, considering also the 2,6% impact of inflation (consider point 5.1). The same was performed for following years.

The total stores and net openings as well as all the calculations for the sales projections were performed by concept:

Sales by Concept %	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Zara	66,40%	65,58%	63,85%	64,57%	64,80%	64,50%	64,22%	63,98%	63,75%	63,55%	63,37%	63,37%
Pull&Bear	6,51%	6,92%	6,96%	6,84%	6,94%	6,90%	6,87%	6,84%	6,82%	6,80%	6,78%	6,78%
Massimo Dutti	7,38%	6,94%	7,13%	7,16%	7,34%	7,27%	7,21%	7,15%	7,09%	7,03%	6,98%	6,98%
Bershka	9,80%	9,86%	10,62%	9,96%	9,54%	9,66%	9,76%	9,86%	9,94%	10,02%	10,09%	10,09%
Stradarius	5,52%	6,08%	6,33%	6,23%	6,31%	6,49%	6,64%	6,77%	6,90%	7,01%	7,11%	7,11%
Oysho	2,26%	2,33%	2,53%	2,43%	2,27%	2,34%	2,40%	2,45%	2,50%	2,54%	2,58%	2,58%
Zara Home	2,13%	2,13%	2,19%	2,35%	2,30%	2,34%	2,38%	2,41%	2,45%	2,47%	2,50%	2,50%
Uterqüe	n.a.	0,16%	0,40%	0,47%	0,49%	0,51%	0,53%	0,54%	0,56%	0,58%	0,59%	0,59%

Table 12 - Forecasted sales by concept

Since the currency impact is very difficult to foresee and Inditex has the ability to charge different prices per location, I assumed that the impact of currency would have no expression on the sales projections.

5.3.3 Cost of sales

It was estimated for the cost of sales that its evolution would be similar to the sales evolution, as follows:

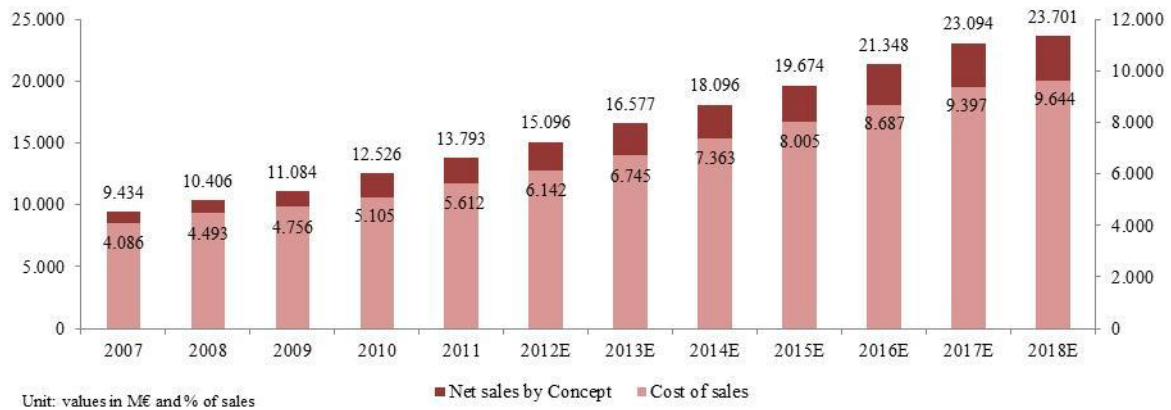


Chart 8 - Forecasted sales vs. cost of sales

5.3.4 Operating costs

Regarding the operating costs the best proxy to calculate its growth is the space growth since Inditex main operating costs are staff and rent.

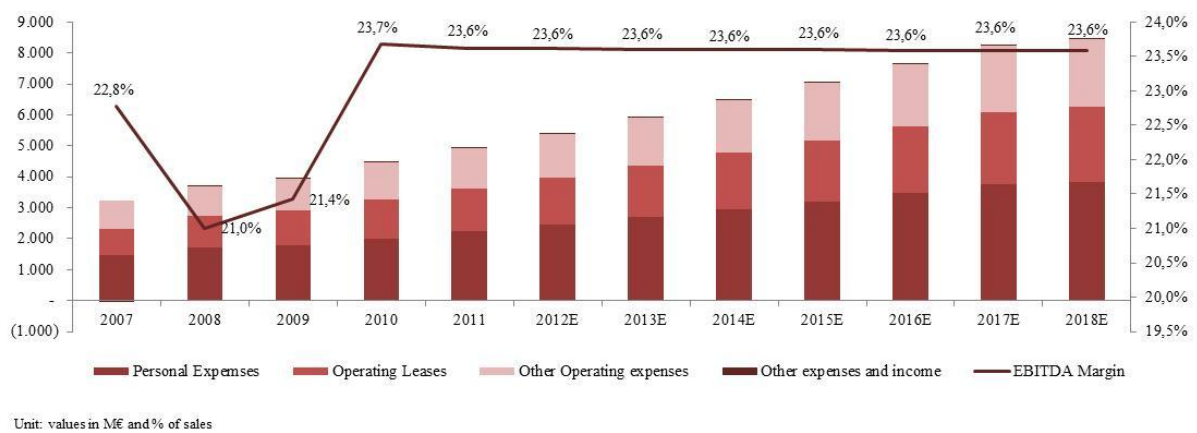


Chart 9 - Operation expenses evolution

Personal Expenses were calculated and forecasted taking into consideration the historical number of employees per square meter for 2011 and an average cost per employee considering this, the number of employees increased in accordance with the number of square meters growth per year (based on the net openings) the total of personal cost was obtained by multiplying the total number of employees per year by the average cost, considering also the 2,6% impact of inflation (consider point 5.1).The same was performed for the following years.

The operating lease charges were estimated based on the historical percentage of sales that they represent in the previous years. Since the sales were already calculated by considering the sqm per year in accordance with the new openings, this is implicitly included.

The other operating expenses include expenses related with store operations, logistics, electricity, commissions on credit and debit card payments, travel, decoration, communications and all kinds of professional services, their evolution was considered in accordance with the sales evolution.

5.3.5 Working capital

Inditex presents a successive and increasingly negative working capital, once the available resources are significantly higher, comparing with the requirements. This is a consequence of the business model and is mainly related to Inditex supply chain and store management along with the short receivable periods.

The working capital is mainly composed in detail as follows:

- Receivables: trade receivables, sales for franchising, receivables from public entities and other current receivables;
- Requirements: trade payables, payables to personnel, payables from public entities and other current payables. Additionally an adjustment was performed in the cash and equivalents amount to consider an extra value for working capital in stores, the value was calculated in order to have an amount around €12.500 per store;
- Inventories: Raw materials and consumables, working progress and finished goods for sale.

The following evolution of the working capital is expected:

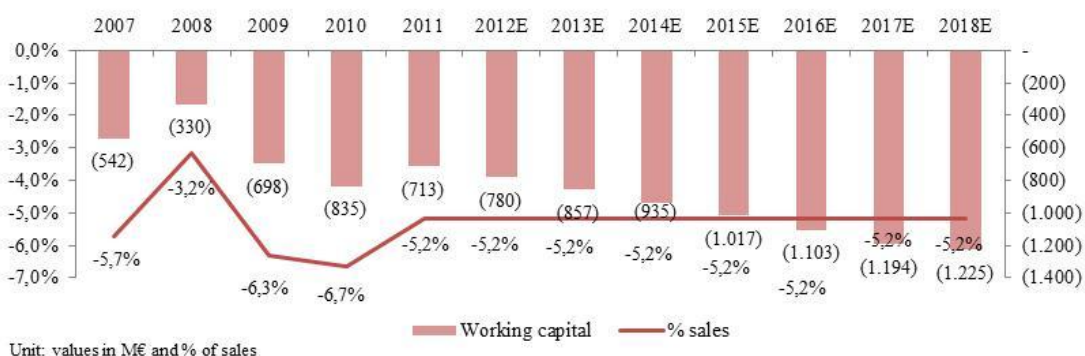


Chart 10 - Working capital evolution

5.3.6 Investment in fixed assets: CAPEX

The Capital Expenditures (CAPEX) for Inditex are related to the company expansion and investment policy, as detailed:

Tangible assets: Land and buildings, machinery and furniture plant and equipment, leasehold improvements and other property. This is mainly related to new store and stores update including the logistics platforms, which are also set to receive facility expansions and upgrades, including pioneering textile industry technology.

Intangible assets: Rights over leased premises that include amounts paid in respect of lease transfer rights, access premiums or tenancy right waivers and indemnities in order to lease commercial premises.

Other intangible assets: include amounts paid for the registration and use of group brand names, industrial designs of items of clothing, footwear, accessories, household goods and external costs of software applications.

During 2011 the main additions were in land and buildings with the acquisition of premises in Milan's Corso Vittorio Emanuele shopping district, which housed the flagship Zara store and additions in assets under construction including the investment for the acquisition of premises on Fifth Avenue in New York for a world flagship Zara store.

It is expected that the investment in CAPEX will be in line with the forecasted depreciations, and considering that in perpetuity they will be similar.

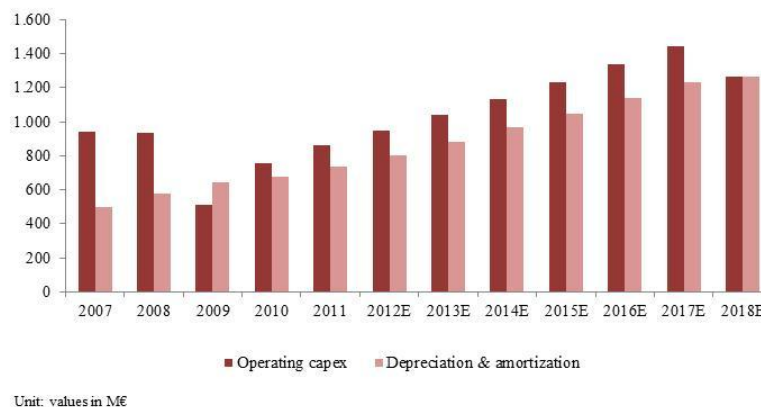


Chart 11 - CAPEX and D&A evolution

5.4 WACC valuation

Inditex is practically a debt free company, meaning that the WACC should be practically equal to the cost of equity (R_E).

However, in my valuation, in order to perform a more complete analysis and in order to better compare the valuation models chosen (WACC, APV, and FTE) it was considered that the company should contemplate a 10% of debt in the capital structure (Debt / Equity = 10%).

Since Inditex has no debt in its capital structure, as well as all the main competitors in the apparel market (result of the business model) it was not possible to obtain a rating from a comparable company. Considering this, Inditex rating was calculated based on a synthetic rating estimation model created by Damodaran, using comparable ratings for large manufacturing companies.

Interest coverage ratio for large manufacturing firms is			
>	\leq to	Rating is	Spread is
-100000	0,199999	D	12,00%
0,2	0,649999	C	10,50%
0,65	0,799999	CC	9,50%
0,8	1,249999	CCC	8,75%
1,25	1,499999	B-	6,75%
1,5	1,749999	B	6,00%
1,75	1,999999	B+	5,50%
2	2,2499999	BB	4,75%
2,25	2,49999	BB+	3,75%
2,5	2,999999	BBB	2,50%
3	4,249999	A-	1,65%
4,25	5,499999	A	1,40%
5,5	6,499999	A+	1,30%
6,5	8,499999	AA	1,15%
8,50	100000	AAA	0,65%

Source: <http://www.bondsonline.com>

Table 13 – Interest coverage ratio for large manufacturers

For the rating calculation the following information was considered (for a detailed calculation of the synthetic rating please consider appendix 8.10):

Synthetic rating calculation	
<i>Operating leases</i>	
Current year 2011	1.286,00
1	1.399,00
2	1.524,00
3	1.651,00
4	1.781,00
5	1.918,00
6 and beyond	2.061,00
Reported debt 2011	92,97
EBIT 2011	2.552,00
Interest expenses 2011	17,7
Long term government bond rates*	1,50%
Output	
Interest coverage ratio	12,36
Estimated Bond Rating	AAA
Estimated Default Spread	0,65%
Estimated Cost of Debt **	2,15%
Unit: values in €M	
* Germany government-bonds - Bloomberg	
** Long term government bond rates+ spread	

Table 14 - Synthetic rating calculation obtained from Damodaran model

After calculating the rating, for the WACC the following values were used:

$$R_E = R_F + \beta_L \times (R_M - R_F) \quad (13)$$

- R_F = Risk free rate - yield on the Germany's 10 - year government bonds plus the estimated default spread as showed in table 13.

- β_L = Beta Levered calculated through the unlevered β of the Apparel industry considered by Damodaran.
- $R_M - R_F$ - total risk premium - Country default spreads and risk premiums calculated by Damodaran, although the Euro zone is under a sovereign crisis, they should be outdated.

WACC	
Risk free MT10	2,15%
Total risk premium	7,28%
Unlevered beta	1,22
Levered beta	1,31
Cost of equity	11,71%
Risk Free MT10	2,15%
Spread	0,65%
Cost of debt	2,80%
Debt risk free of taxes	2,13%
D/E	10%
D/(D+E)	9%
Tax rate	24%
WACC	10,79%

Table 15 - WACC calculation

As previously mentioned in the literature review the value of the firm was obtained by discounting the free cash flows to the firm at the weighted average cost of capital (WACC) as follows (for detailed income statement, cash flow and balance sheet, please consider from appendix 8.2 to 8.7):

Valuation	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Perp.
<i>EM</i>								
EBIT	2.759	3.029	3.305	3.593	3.897	4.215	4.326	4.440
(-) Taxes @	(662)	(727)	(793)	(862)	(935)	(1.012)	(1.038)	(1.065)
Tax rate	24,0%	24,0%	24,0%	24,0%	24,0%	24,0%	24,0%	24,0%
NOPLAT	2.097	2.302	2.512	2.730	2.962	3.204	3.288	3.374
(+) Depreciation and Provision	805	884	965	1.049	1.139	1.232	1.264	1.297
Operating Cash Flow	2.902	3.186	3.477	3.780	4.101	4.435	4.552	4.671
(-) Inv. Working Capital	67	77	78	82	87	90	31	32
(-) Capex	(946)	(1.038)	(1.134)	(1.232)	(1.337)	(1.447)	(1.264)	(1.297)
Free Cash Flow	2.024	2.224	2.422	2.629	2.850	3.079	3.319	3.406
Enterprise value 2012	32.524							
Present Value of Free Cash Flow	12.158							
Perpetuity	20.367							
EV / EBITDA '12	8,3 x							
EV / EBITDA '13	7,6 x							

Table 16 - Valuation through WACC

Since Inditex is a mature company, with most of its sales coming from Europe (70%) Asia (18%) and Americas (12%) I assumed that from 2018 onwards the perpetuity will grow at the weighted Inflation rate of 2,6% from the three mentioned geographical areas, as previously mentioned (consider point 5.1). Additionally it was assumed an operational efficiency maintenance that would converge the CAPEX to the amortizations value.

The Enterprise Value (EV) obtained is the EV without the FCF_0 (2011), if this cash flow was included we would obtained an EV_0 of €34.797 million, finding the same EV_0 as the one obtained in the APV and FTE valuation methods (please consider point 5.5 and 5.6).

After computing the Enterprise Value I made the necessary adjustments to obtain the Equity Value. For this an adjustment of €2.957 million, related to the net debt of the time “zero” was performed, reaching an Equity Value of €29.567 million. The Equity value obtained is the same as the one obtained for APV and FTE (please consider point 5.5 and 5.6), considering in both that the Equity Value does not include the FCF_0 .

By the end of 2011 Inditex had 623.330.400 shares, considering the obtained Equity Value the share price of the valuation performed is €47,43. The value obtained is considerably lower than the Inditex market value by the end of 2011, which was €63,28. The significant variation may have several justifications: Inditex is a company without debt, and for the valuation performed was considered a debt capacity of 9%, the market value may include the FCF_0 and the adjustments performed to the Enterprise Value may be different than the ones considered in my valuation, such as financial investments, deferred taxes, other current assets and liabilities and minority interests (please consider appendix 8.9).

5.5 APV valuation

The APV methodology is an alternative to the WACC. As previously mentioned in the literature review the APV approach values the company in separate parts by establishing a separation between the value of the assets and the value created by a favourable financial structure.

Valuation	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Perp.
<i>€M</i>									
EBIT	2.522	2.759	3.029	3.305	3.593	3.897	4.215	4.326	4.440
(-) Taxes		(662)	(727)	(793)	(862)	(935)	(1.012)	(1.038)	(1.065)
NOPLAT	2.522	2.097	2.302	2.512	2.730	2.962	3.204	3.288	3.374
(+) Depreciation and Provision	736	805	884	965	1.049	1.139	1.232	1.264	1.297
Operating Cash Flow	3.258	2.902	3.186	3.477	3.780	4.101	4.435	4.552	4.671
(-) Inv. Working Capital	(122)	67	77	78	82	87	90	31	32
(-) Capex	(864)	(946)	(1.038)	(1.134)	(1.232)	(1.337)	(1.447)	(1.264)	(1.297)
Free Cash Flow	2.272	2.024	2.224	2.422	2.629	2.850	3.079	3.319	3.406
Present Value of Free Cash Flow @ WACC	32.524	34.010	35.455	36.858	38.206	39.478	40.658	41.726	42.822
EV₀	34.797	36.033	37.679	39.280	40.835	42.328	43.737	45.045	46.228
Debt capacity	2.957	3.092	3.223	3.351	3.473	3.589	3.696	3.793	3.893
Annual Interest Tax shield		2012E	2013E	2014E	2015E	2016E	2017E	2018E	Perp.
Interest Paid @ cost of debt (Rd)	2.1%	62,9	65,8	68,6	71,3	73,9	76,4	78,7	80,7
Interest Tax shield	24.0%	15	16	16	17	18	18	19	19
Present Value of the Interest Tax shield		194							
Unlevered Enterprise Value APV		32.330							
Enterprise Value APV		32.524							
EV₀ including FCF₀		34.797							
Enterprise value WACC		32.524							

Table 17 - Valuation through APV

In order to compute the APV it was necessary to define the company debt capacity, obtained by using the enterprise value calculated through the WACC valuation year by year. After this, the enterprise value was calculated *as if* it was unlevered, by discounting the free cash flows to the firm at the unlevered cost of capital (R_U). The R_U obtained was 10,84%, based on:

$$R_U = R_E \times \left(1 - \frac{D}{D+E}\right) + R_D \times \frac{D}{D+E} \quad (14)$$

From the debt capacity I estimated the annual interest payments, and after that the present value of the interest tax shield, also discounted at the unlevered cost of capital (R_U).

By using the APV we conclude that the obtained Enterprise Value is the same as the one obtained through the WACC, which confirms consistency of the methods and of its applications.

After computing the annual Interest Tax Shield and by adding it to the Unlevered Enterprise Value, an Enterprise Value (EV0) of €34.797 million was reached, when including the FCF of the starting date of the analysis (2011). By making the same adjustments performed in the WACC method section, I would find the same share price estimate.

5.6 FTE valuation

The Free Cash Flow to Equity valuation as previously mentioned in the literature review discounts the cash flows that are expected to shareholders (taking into account the expected payments to the creditors, such as the interest payments described in the previous section) at a rate of return that is appropriate for the equity risk in the company. The cash flows are discounted at the equity cost of capital (R_E), taking into account all payments to and from debt holders. The cost of equity used for the FTE is similar to the one used for the WACC calculation, 11,71%. The $R_E > R_U > WACC$ (11,71% > 10,84% > 10,79%).

Valuation	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Perp.	
<i>€M</i>										
EBIT	2.522	2.759	3.029	3.305	3.593	3.897	4.215	4.326	4.440	
(-) Taxes		(662)	(727)	(793)	(862)	(935)	(1.012)	(1.038)	(1.065)	
NOPLAT	2.522	2.097	2.302	2.512	2.730	2.962	3.204	3.288	3.374	
(+) Depreciation and Provision	736	805	884	965	1.049	1.139	1.232	1.264	1.297	
Operating Cash Flow	3.258	2.902	3.186	3.477	3.780	4.101	4.435	4.552	4.671	
(-) Inv. Working Capital	(122)	67	77	78	82	87	90	31	32	
(-) Capex	(864)	(946)	(1.038)	(1.134)	(1.232)	(1.337)	(1.447)	(1.264)	(1.297)	
Free Cash Flow	2.272	2.024	2.224	2.422	2.629	2.850	3.079	3.319	3.406	
Present Value of Free Cash Flow @ WACC	32.524	34.010	35.455	36.858	38.206	39.478	40.658	41.726	42.822	
EV0	34.797	36.033	37.679	39.280	40.835	42.328	43.737	45.045	46.228	
Debt capacity	2.957	3.092	3.223	3.351	3.473	3.589	3.696	3.793	3.893	
Annual Interest Tax shield										
		2012E	2013E	2014E	2015E	2016E	2017E	2018E	Perp.	
Interest Paid @ cost of debt (Rd)	2,1%	62,9	65,8	68,6	71,3	73,9	76,4	78,7	80,7	
Interest Tax shield	24,0%	15	16	16	17	18	18	19	19	
Net Borrowing		2.957	135	131	128	123	116	107	100	
FCFE		5.229	2.111	2.306	2.498	2.697	2.909	3.128	3.356	3.445
Equity Value including FCF₀		34.797								

Table 18 - Valuation through FTE

Additionally to the calculation already explained in the APV was obtained the net borrowing by comparing the debt capacities each year ($D_t - D_{t-1}$).

By using the FTE we conclude that the obtained Equity Value is the same as the one obtained through the APV or the WACC method. By taking the Equity Value at time “zero” (including the $FCFE_0$) and subtracting the $FCFE_0$ (€5.229 million) we find the same equity value of €29.567 million.

5.7 Relative valuation

Although the cash flows methodology is more complete, the relative valuation has the aim to complement the analysis performed as well as sustains the obtained values. The purpose of this analysis is to estimate the actual value of Inditex, based on the value of companies that are being transacted in the capital market. For this, data from Thomson Financial, Reuters and Equity researches was used.

To select the peer group I considered the principal companies in the apparel market worldwide, resulting in a peer group of five companies. The selection of the companies also considered the sales growth in the last years.

The variables used to perform the relative valuation were the commonly used in the equity researches. Therefore in order to analyse the business it was used the Enterprise Value to EBITDA, which does not consider the debt structure of Inditex and the Price to Earnings that relates the net result with its respective market capitalization.

Company	Market Capitalization	Share Price	P/E	Total Debt/Equity	EV/EBITDA	ROA	ROE	ROIC
H & M Hennes & Mauritz	45.639 €	27,58 €	24,3 x	0,0 x	15,9 x	27,46%	47,98%	34,87%
M&S - Marks And Spencer Group	7.036 €	4,38 €	11,2 x	0,8 x	6,1 x	8,38%	18,78%	11,85%
NEXT	7.132 €	43,34 €	14,0 x	3,0 x	9,1 x	27,09%	208,75%	57,69%
DEBENHAMS	1.433 €	1,13 €	10,1 x	0,5 x	5,6 x	6,75%	17,85%	12,56%
ASOS	1.794 €	22,00 €	62,6 x	0,1 x	37,6 x	15,41%	26,62%	26,58%
Mean			18,1 x		10,1 x			
Median			11,2 x		6,4 x			
High			62,6 x		37,6 x			
Low			0,9 x		0,8 x			
Valuation Result					8,3 x			

Table 19 - Valuation through multiples

Based on the peer group, we can compare the prices per share, although please consider the following remarks:

- The only truly comparable firm of Inditex is H&M, with equivalent multiples;

- The distinctive business model of Inditex, its long term growth perspectives and strong financial structure, justify higher multiples than the ones resulting from this analysis.

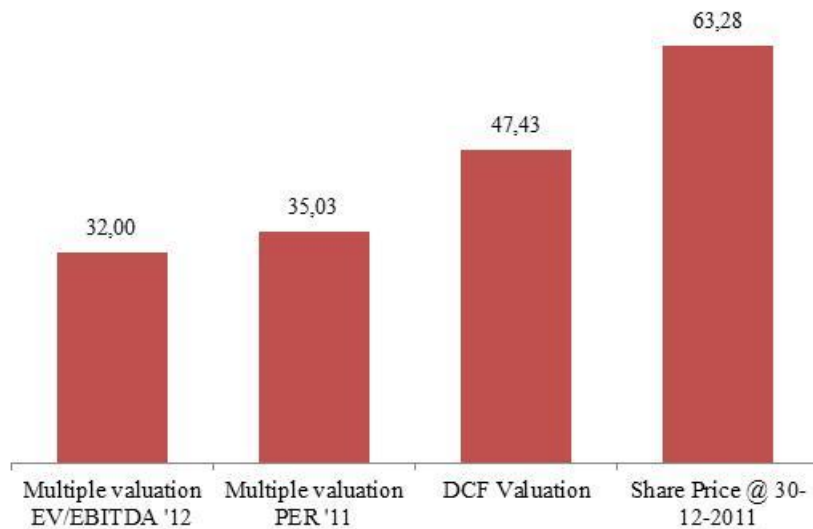


Table 20 - Shares prices comparison

The share price is higher than fair value given from the peer group and the DCF, meaning that Inditex performance is having a positive reflection in the market. Although Europe is facing a sovereign crisis, with the Euro growing to the USD but losing its value to the other non-European currencies Inditex is growing mainly due to the economic growth of the emergent markets, where the company is increasing its activity.

5.8 Sensitivity analysis

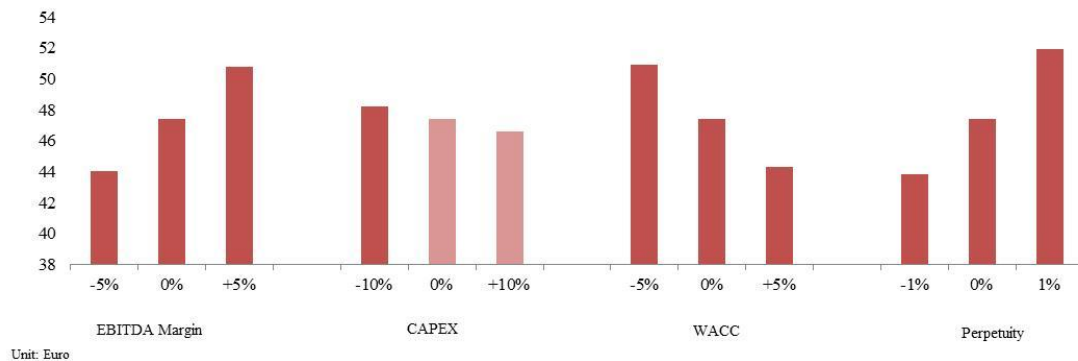


Table 21 - Sensitivity analysis

Over the past years Inditex had always in perspective the efficiency of its fixed costs in order to optimize the results. In the base scenario was considered that the EBITDA Margin would converge from 22,4% to 24,8% from 2011 to 2018, assuming a variation of 5% in the EBITDA margin with an impact in the share price of 7,1%.

The CAPEX is essential for Inditex since, as previously mentioned (consider point 4.4), the company comprises its strategy in siting stores in prime shopping areas. Considering this it was performed a sensitivity analysis of a 10% variation in the CAPEX investment leading to an impact of only 1,7% in the share price.

The WACC is an indicator that depends of several parameters that can have distinctive methodologies. In the base scenario it was used a WACC of 10,79%. A variation of 5% has impact in the share price of -6,5% or 7,5% for the worst and the best case scenario, respectively.

The perpetuity value is essential for valuation, the considered growth rate being crucial. Therefore, a sensitivity analysis was performed considering a 1% growth rate. The result shows an impact in the price share of -7,5% and 9,6% for the worst and the best case scenario, respectively.

6. VALUATION COMPARISON

In this section I compare the valuation previous performed with an equity research report from a Portuguese investment bank, BPI, dated June 2012. BPI estimates in its report a share price target of €98, largely exceeding my share price of €47,43 calculated by using the DCF WACC based approach. The main values reached and assumptions were analyzed, in order to identify the main discrepancies with my valuation model. In the tables below are the specific details of each model:

	BPI				Inditex Valuation performed in this study			
	2011	2012	2013	2014	2011	2012	2013	2014
Sales	13.793	15.530	17.529	19.771	13.793	15.096	16.577	18.096
<i>Growth</i>	<i>n.a.</i>	<i>12,6%</i>	<i>12,9%</i>	<i>12,8%</i>	<i>n.a.</i>	<i>9,4%</i>	<i>9,8%</i>	<i>9,2%</i>
Gross Margin	8.180	9.318	10.552	11.942	8.181	8.953	9.832	10.733
EBITDA	3.258	3.821	4.345	4.913	3.258	3.564	3.913	4.271
EBITDA Margin	23,6%	24,6%	24,8%	24,8%	23,6%	23,6%	23,6%	23,6%
D&A	736	803	844	899	(736)	(805)	(884)	(965)
EBIT	2.522	3.018	3.501	4.014	2.522	2.759	3.029	3.305
EBIT Margin	18,3%	19,4%	20,0%	20,3%	18,3%	18,3%	18,3%	18,3%
Taxes	613	730	848	973	613	662	727	793
Operating Cash Flow	3.258	3.186	3.529	3.985	3.258	2.902	3.186	3.477
Capex	(864)	(957)	(1.085)	(1.314)	(864)	(946)	(1.038)	(1.134)
IWC	122	95	32	45	122	67	77	78
Free cash-flow	2.516	2.324	2.476	2.716	2.516	2.024	2.224	2.422

Table 22 - Valuation comparison with BPI equity research

- BPI as higher expectation for the opening of stores, forecasting higher sales, although except for the last year BPI estimated lower CAPEX and depreciations/amortizations.
- The gross margins are consequently lower than the ones forecasted by BPI as a consequence of the lower forecasted sales.
- The changes in working capital for both valuations are not the same due to different assumptions in the cash conversion cycle, not explained in BPI report.

- Due to the higher forecasted sales and the assumptions of the Operational Expenditures (OPEX), BPI reached higher EBITDA values than the ones in my model.
- For the Enterprise Value (EV) obtained in my valuation the FCF_0 (2011) was not considered, BPI may have considered this value for the EV (please consider point 5.4).
- BPI used for its DCF WACC based model an explicit period of four years, instead of seven as used in mine.

Assumptions	Inditex Valuation performed in this study	BPI
Re	11,71%	9,5%
Rf+CRP	-	4,9%
Rf	2,15%	-
β_e	1,31	0,77
Mkt premium	7,28%	6,0%
Tax rate	24%	24%
D/(D+E)	9%	0%
Rd	2,80%	5,90%
WACC	10,79%	9,50%

Table 23 - comparison of valuation assumptions

The discount factor used by BPI is smaller than the one used in my valuation mainly because it was considered the existence of debt for a more detailed valuation and a richer comparison with other methodologies. Also the assumptions for the market risk premium and the beta were different (consider point 5.8). The following values were used:

- Risk free rate - yield on the Germany's 10 - year government bonds plus an estimated default spread.
- β - Beta calculated by Damodaran.

- Total risk premium - Country default spreads and risk premiums calculated by Damodaran, although the Euro zone is under a sovereign crisis, they should be outdated.

Valuation	Inditex Valuation performed in this study	BPI
EV	32.524	55.296
EV / EBITDA	8,3 x	9,8 x
Equity value	29.567	61.094
Share Price	47,43	98,00

Table 24 - Valuation results comparison

Adjustments performed to the Enterprise Value may be different than the ones considered in my valuation, such as financial investments, deferred taxes, other current assets and liabilities and minority interests (please consider point 5.4).

Since BPI used higher EBIT values and different assumptions to calculate the FCFF, BPI reached higher numbers than the ones I used in my calculations, the WACC ($=R_E$) used and the adjustments to the enterprise value, led to different prices per share.

7. CONCLUSION

With this thesis I performed Inditex equity valuation by using three different methodologies, the Weighted Average Cost of Capital, Adjusted Present Value and Flow to Equity concluding that the price targets obtained were aligned, as expected.

Additionally I performed a Relative Valuation to complement the previously analysis, concluding that the equity value obtained is above the peer group. The share price achieved was also compared to an equity research from BPI, being the value inferior to the one of the equity research.

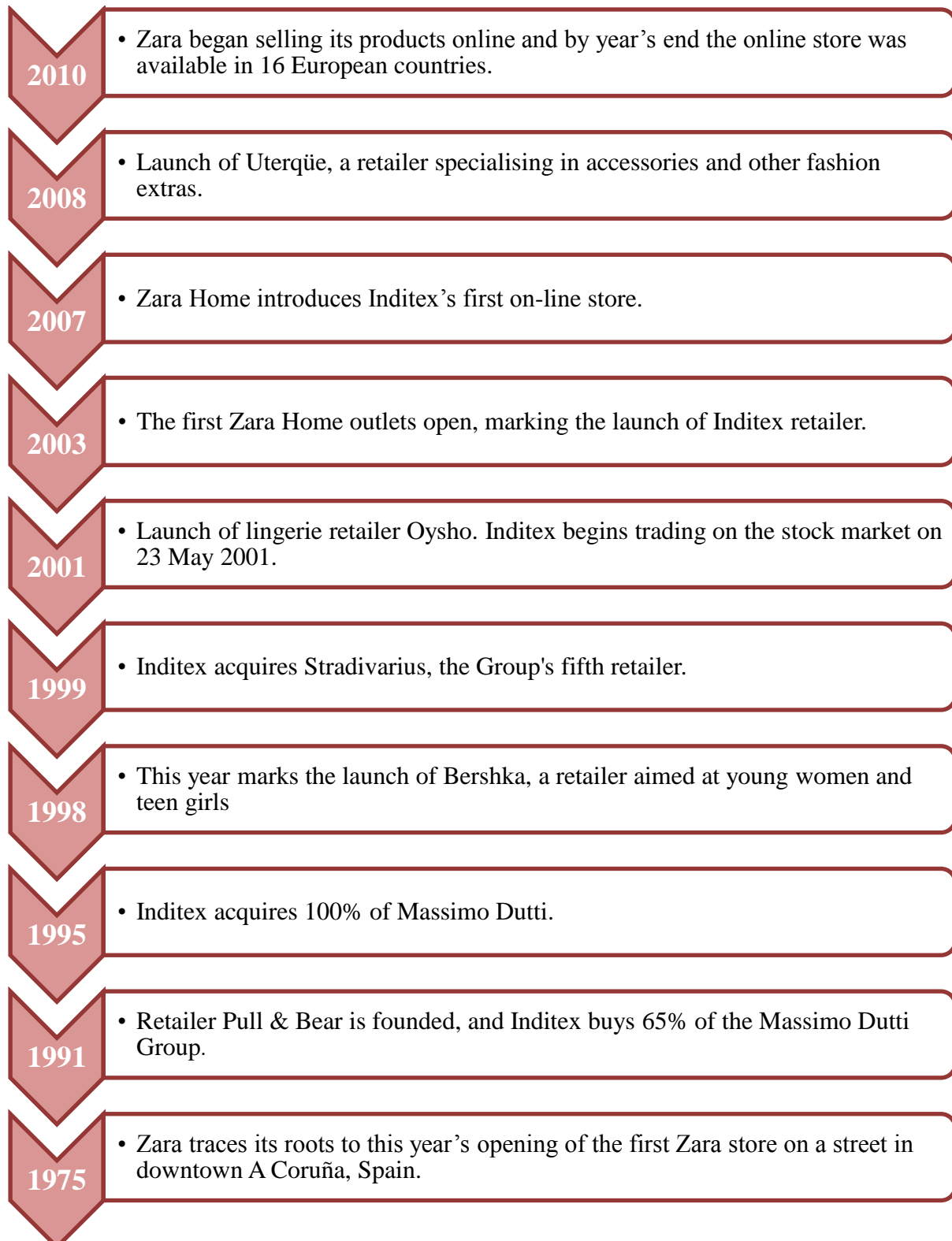
The work performed has two different relevant aspects, by one side to show the valuation of one of the most well-known company in the apparel market and successful case study of a growing company in a crisis period, and on the other side to evidence the application of three valuation methods learned during the master classes as well as their consistency taking in consideration all the General Financial such as the CAPM and Modigliani and Miller.

Through the valuations and analysis performed can be concluded that the direct causes of differences in valuation are the assumptions and judgments implicit to each model, and not the model it-self.

That is why the target priced reached was different from one obtained in BPI valuation or even from the Market Value. Especially considering that Inditex has a unique strong financial structure, debt free, and that for the valuation performed different assumptions were taken, in order to accomplish a richer valuation and better reflect the relation between the valuation methods used.

8. APPENDIXES

8.1 Time line



8.2 Revenues build up

Revenues Buildup	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Perp.					
Net openings	560	573	343	437	483	479	479	240	240				
Zara	186	159	88	115	107	131	131	131	66				
Pull&Bear	52	64	43	56	65	56	56	56	28				
Massimo Dutti	27	44	27	33	43	35	35	35	17				
Bershka	77	81	60	69	91	76	76	76	38				
Stradarius	77	75	59	78	91	76	76	76	38				
Oysho	89	84	18	40	51	56	56	56	28				
Zara Home	52	35	22	23	26	32	32	32	16				
Uterqüe	0	31	26	23	9	18	18	18	9				
Total Stores	3.691	4.264	4.607	5.044	5.527	6.006	6.485	6.965	7.444	7.923	8.402	8.642	8.881
Zara	1.361	1.520	1.608	1.723	1.830	1.961	2.092	2.223	2.354	2.485	2.616	2.682	2.747
Pull&Bear	519	583	626	682	747	803	859	915	971	1.027	1.083	1.111	1.139
Massimo Dutti	426	470	497	530	573	608	643	677	712	747	782	799	817
Bershka	510	591	651	720	811	887	962	1.038	1.113	1.189	1.265	1.302	1.340
Stradarius	381	456	515	593	684	760	836	912	988	1.064	1.140	1.178	1.216
Oysho	290	374	392	432	483	539	596	652	709	765	821	850	878
Zara Home	204	239	261	284	310	342	373	405	436	468	500	515	531
Uterqüe	0	31	57	80	89	107	125	142	160	178	196	205	214
Square meters	1.657.300	1.914.494	2.180.889	2.587.647	2.838.980	3.040.310	3.244.944	3.449.578	3.657.906	3.867.332	4.077.585	4.077.585	4.077.585
Zara	1.138.287	1.290.035	1.447.313	1.687.949	1.824.753	1.944.276	2.065.525	2.186.774	2.309.987	2.433.793	2.558.048	2.558.048	2.558.048
Pull&Bear	111.429	133.752	158.927	196.320	223.687	238.082	252.846	267.609	282.790	298.095	313.496	313.496	313.496
Massimo Dutti	113.604	121.176	130.618	143.023	152.614	161.826	171.046	180.267	189.498	198.732	207.968	207.968	207.968
Bershka	152.327	180.852	211.436	262.009	300.351	325.507	351.095	376.684	402.754	428.966	455.284	455.284	455.284
Stradarius	77.580	98.351	116.835	154.253	178.231	195.967	214.014	232.060	250.444	268.926	287.481	287.481	287.481
Oysho	27.540	39.717	51.925	60.474	68.261	75.197	82.288	89.379	96.637	103.943	111.285	111.285	111.285
Zara Home	36.533	50.611	59.655	72.748	79.001	86.145	93.427	100.708	108.141	115.618	123.128	123.128	123.128
Uterqüe	-	-	4.180	10.871	12.082	13.310	14.703	16.096	17.655	19.259	20.895	20.895	20.895
Square meters/stores	2.094	2.176	2.403	2.693	2.726	2.695	2.675	2.659	2.648	2.640	2.634	2.562	2.494
Zara	836	849	900	980	997	991	987	984	981	979	978	954	931
Pull&Bear	215	229	254	288	299	296	294	292	291	290	289	282	275
Massimo Dutti	267	258	263	270	266	266	266	266	266	266	266	260	255
Bershka	299	306	325	364	370	367	365	363	362	361	360	350	340
Stradarius	204	216	227	260	261	258	256	254	253	253	252	244	236
Oysho	95	106	132	140	141	139	138	137	136	136	135	131	127
Zara Home	179	212	229	256	255	252	250	249	248	247	246	239	232
Uterqüe	0	0	73	136	136	125	118	113	110	108	107	102	98
Sales	9.434	10.406	11.084	12.526	13.793	15.096	16.577	18.096	19.674	21.348	23.094	23.701	24.323
Zara	6.264	6.824	7.077	8.088	8.938	9.736	10.646	11.578	12.543	13.567	14.634	15.019	15.413
Pull&Bear	614	720	771	857	957	1.041	1.138	1.238	1.341	1.451	1.567	1.608	1.650
Massimo Dutti	696	722	790	897	1.013	1.098	1.195	1.293	1.394	1.501	1.612	1.655	1.698
Bershka	925	1.026	1.177	1.247	1.316	1.458	1.619	1.784	1.956	2.139	2.330	2.391	2.454
Stradarius	521	633	702	780	871	979	1.101	1.226	1.357	1.496	1.641	1.684	1.728
Oysho	213	242	280	304	313	353	397	443	491	542	596	612	628
Zara Home	201	222	243	294	317	353	394	437	481	528	577	592	608
Uterqüe	-	17	44	59	68	77	87	98	110	123	137	141	145
Revenues per square meter	0.04	0.04	0.05	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.05	0.05	0.05
Zara	5.503	5.290	4.890	4.792	4.898	5.008	5.154	5.294	5.430	5.575	5.721	5.871	6.025
Pull&Bear	5.510	5.383	4.851	4.365	4.278	4.374	4.502	4.624	4.743	4.869	4.997	5.128	5.263
Massimo Dutti	6.127	5.958	6.048	6.272	6.638	6.786	6.985	7.174	7.358	7.554	7.753	7.956	8.165
Bershka	6.072	5.673	5.567	4.759	4.382	4.480	4.611	4.736	4.857	4.987	5.117	5.252	5.390
Stradarius	6.716	6.436	6.008	5.057	4.887	4.996	5.142	5.282	5.417	5.562	5.708	5.858	6.011
Oysho	7.734	6.093	5.392	5.027	4.585	4.688	4.825	4.956	5.083	5.218	5.356	5.496	5.640
Zara Home	5.502	4.386	4.073	4.041	4.013	4.102	4.222	4.337	4.448	4.567	4.687	4.810	4.936
Uterqüe	-	-	10.526	5.427	5.628	5.754	5.923	6.083	6.239	6.405	6.574	6.746	6.923
Total sales	9.434	10.406	11.084	12.526	13.793	15.096	16.577	18.096	19.674	21.348	23.094	23.701	24.323
YoY Growth	n.a.	10,3%	6,5%	13,0%	10,1%	9,4%	9,8%	9,2%	8,7%	8,5%	8,2%	2,6%	2,6%

8.3 Cost of sales

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Perp.
Cost of sales	(4.086,0)	(4.492,7)	(4.755,5)	(5.104,6)	(5.612,2)	(6.142,4)	(6.745,4)	(7.363,2)	(8.005,4)	(8.686,7)	(9.397,1)	(9.643,9)	(9.897,1)
As % of sales	43,3%	43,2%	42,9%	40,7%	40,7%	40,7%	40,7%	40,7%	40,7%	40,7%	40,7%	40,7%	40,7%
YoY Growth	n.a.	10,0%	5,8%	7,3%	9,9%	9,4%	9,8%	9,2%	8,7%	8,5%	8,2%	2,6%	2,6%
% of sales	(43,3%)	(43,2%)	(42,9%)	(40,8%)	(40,7%)	(40,7%)	(40,7%)	(40,7%)	(40,7%)	(40,7%)	(40,7%)	(40,7%)	(40,7%)

8.4 Operating expenses build up

Operating Expenses Buildup	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Perp.
n° of employees per square meter	0,048	0,047	0,042	0,039	0,039	0,039	0,039	0,039	0,039	0,039	0,039	0,039	0,039
n° of employees	79.517	89.112	92.301	100.138	109.512	117.278	125.172	133.065	141.102	149.180	157.290	157.290	157.290
Personnel expenses	(1.473)	(1.703)	(1.792)	(2.009)	(2.234)	(2.446)	(2.687)	(2.934)	(3.191)	(3.464)	(3.748)	(3.846)	(3.947)
Personnel expenses in average	(0,019)	(0,019)	(0,019)	(0,020)	(0,020)	(0,021)	(0,021)	(0,022)	(0,023)	(0,023)	(0,024)	(0,024)	(0,025)
Personnel expenses	(1.473)	(1.703)	(1.792)	(2.009)	(2.234)	(2.446)	(2.687)	(2.934)	(3.191)	(3.464)	(3.748)	(3.846)	(3.947)
YoY Growth	n.a.	15,6%	5,2%	12,2%	11,2%	9,5%	9,9%	9,2%	8,8%	8,5%	8,2%	2,6%	2,6%
% of sales	(15,6%)	(16,4%)	(16,2%)	(16,0%)	(16,2%)	(16,2%)	(16,2%)	(16,2%)	(16,2%)	(16,2%)	(16,2%)	(16,2%)	(16,2%)
Operating leases	(855)	(1.028)	(1.134)	(1.272)	(1.399)	(1.531)	(1.681)	(1.835)	(1.995)	(2.165)	(2.342)	(2.404)	(2.467)
As % of sales	7,7%	9,3%	10,2%	10,2%	10,1%	10,1%	10,1%	10,1%	10,1%	10,1%	10,1%	10,1%	10,1%
YoY Growth	n.a.	20,2%	10,3%	12,2%	10,0%	9,4%	9,8%	9,2%	8,7%	8,5%	8,2%	2,6%	2,6%
% of sales	(9,1%)	(9,9%)	(10,2%)	(10,2%)	(10,1%)	(10,1%)	(10,1%)	(10,1%)	(10,1%)	(10,1%)	(10,1%)	(10,1%)	(10,1%)
Other Operating expenses	(898)	(976)	(1.027)	(1.171)	(1.286)	(1.408)	(1.546)	(1.688)	(1.835)	(1.991)	(2.154)	(2.211)	(2.269)
As % of sales	9,5%	9,4%	9,3%	9,3%	9,3%	9,3%	9,3%	9,3%	9,3%	9,3%	9,3%	9,3%	9,3%
YoY Growth	n.a.	8,7%	5,2%	14,0%	9,9%	9,4%	9,8%	9,2%	8,7%	8,5%	8,2%	2,6%	2,6%
% of sales	(9,5%)	(9,4%)	(9,3%)	(9,3%)	(9,3%)	(9,3%)	(9,3%)	(9,3%)	(9,3%)	(9,3%)	(9,3%)	(9,3%)	(9,3%)
Other expenses and income	26,5	(19,5)	(1,1)	(3,6)	(3,4)	(4,1)	(4,5)	(4,9)	(5,3)	(5,8)	(6,3)	(6,4)	(6,6)
As % of sales	(0,3%)	0,2%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
YoY Growth	n.a.	(173,6%)	(94,3%)	222,4%	(5,8%)	20,5%	9,8%	9,2%	8,7%	8,5%	8,2%	2,6%	2,6%
% of sales	0,3%	(0,2%)	(0,0%)	(0,0%)	(0,0%)	(0,0%)	(0,0%)	(0,0%)	(0,0%)	(0,0%)	(0,0%)	(0,0%)	(0,0%)
Total of Operating expenses													
Personal Expenses	(1.473)	(1.703)	(1.792)	(2.009)	(2.234)	(2.446)	(2.687)	(2.934)	(3.191)	(3.464)	(3.748)	(3.846)	(3.947)
Operating Leases	(855)	(1.028)	(1.134)	(1.272)	(1.399)	(1.531)	(1.681)	(1.835)	(1.995)	(2.165)	(2.342)	(2.404)	(2.467)
Other Operating expenses	(898)	(976)	(1.027)	(1.171)	(1.286)	(1.408)	(1.546)	(1.688)	(1.835)	(1.991)	(2.154)	(2.211)	(2.269)
Other expenses and income	27	(19)	(1)	(4)	(3)	(4)	(4)	(5)	(5)	(6)	(6)	(6)	(7)
Total of operating expenses	(3.200)	(3.727)	(3.954)	(4.456)	(4.923)	(5.389)	(5.919)	(6.462)	(7.027)	(7.626)	(8.250)	(8.467)	(8.689)
YoY Growth	n.a.	16,5%	6,1%	12,7%	10,5%	9,5%	9,8%	9,2%	8,7%	8,5%	8,2%	2,6%	1,2%
Total EBITDA	2.148	2.186	2.375	2.966	3.258	3.564	3.913	4.271	4.642	5.036	5.447	5.590	5.737
YoY Growth	n.a.	1,8%	8,6%	24,9%	9,9%	9,4%	9,8%	9,1%	8,7%	8,5%	8,2%	2,6%	0,1%
EBITDA Margin	22,8%	21,0%	21,4%	23,7%	23,6%	23,6%	23,6%	23,6%	23,6%	23,6%	23,6%	23,6%	23,6%

8.5 Income and cash flow statement

Income and Cash Flow Statement	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Perp.
Sales	9.434	10.406	11.084	12.526	13.793	15.096	16.577	18.096	19.674	21.348	23.094	23.701	24.323
<i>Growth</i>	-	10,3%	6,5%	13,0%	10,1%	9,4%	9,8%	9,2%	8,7%	8,5%	8,2%	2,6%	2,6%
EBITDA	2.148	2.186	2.375	2.966	3.258	3.564	3.913	4.271	4.642	5.036	5.447	5.590	5.737
<i>Margin</i>	22,8%	21,0%	21,4%	23,7%	23,6%	23,6%	23,6%	23,6%	23,6%	23,6%	23,6%	23,6%	23,6%
<i>Growth</i>	-	1,8%	8,6%	24,9%	9,9%	9,4%	9,8%	9,1%	8,7%	8,5%	8,2%	2,6%	2,6%
D&A	(497)	(578)	(646)	(676)	(736)	(805)	(884)	(965)	(1.049)	(1.139)	(1.232)	(1.264)	(1.297)
<i>As % of Sales</i>	5,3%	5,6%	5,8%	5,4%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%
EBIT	1.652	1.608	1.729	2.290	2.522	2.759	3.029	3.305	3.593	3.897	4.215	4.326	4.440
<i>Margin</i>	17,5%	15,4%	15,6%	18,3%	18,3%	18,3%	18,3%	18,3%	18,3%	18,3%	18,3%	18,3%	18,3%
<i>Growth</i>	-	(2,7%)	7,5%	32,4%	10,2%	9,4%	9,8%	9,1%	8,7%	8,5%	8,2%	2,6%	2,6%
Operating capex	942	937	510	754	864	946	1.038	1.134	1.232	1.337	1.447	1.264	1.297
<i>As % of Sales</i>	10,0%	9,0%	4,6%	6,0%	6,3%	6,3%	6,3%	6,3%	6,3%	6,3%	6,3%	6,3%	6,3%
<i>Growth</i>	-	(0,5%)	(45,6%)	47,8%	14,6%	9,4%	9,8%	9,2%	8,7%	8,5%	8,2%	(12,6%)	2,6%
Working capital	(542)	(330)	(698)	(835)	(713)	(780)	(857)	(935)	(1.017)	(1.103)	(1.194)	(1.225)	(1.257)
<i>As % of Sales</i>	(5,7%)	(3,2%)	(6,3%)	(6,7%)	(5,2%)	(5,2%)	(5,2%)	(5,2%)	(5,2%)	(5,2%)	(5,2%)	(5,2%)	(5,2%)
Change in WC	542	(212)	368	137	(122)	67	77	78	82	87	90	31	32
<i>As % of Sales</i>	(5,7%)	(3,2%)	(6,3%)	(6,7%)	(5,2%)	(5,2%)	(5,2%)	(5,2%)	(5,2%)	(5,2%)	(5,2%)	(5,2%)	(5,2%)

8.6 Cash flows

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Perp.
<i>000 Eur</i>													
EBIT	1.652	1.608	1.729	2.290	2.522	2.759	3.029	3.305	3.593	3.897	4.215	4.326	4.440
(-) Taxes @ Tax rate						(662)	(727)	(793)	(862)	(935)	(1.012)	(1.038)	(1.065)
NOPLAT	1.652	1.608	1.729	2.290	2.522	2.097	2.302	2.512	2.730	2.962	3.204	3.288	3.374
(+) Depreciation e Provisões					736	805	884	965	1.049	1.139	1.232	1.264	1.297
Operating Cash Flow					3.258	2.902	3.186	3.477	3.780	4.101	4.435	4.552	4.671
(-) Inv. Working Capital						67	77	78	82	87	90	31	32
(-) Capex						(946)	(1.038)	(1.134)	(1.232)	(1.337)	(1.447)	(1.264)	(1.297)
Free Cash Flow					3.258	2.024	2.224	2.422	2.629	2.850	3.079	3.319	3.406

8.7 Consolidated balance sheet

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Perp.
Total Net Assets	5.019	5.620	6.066	7.154	8.257	10.354	12.656	15.168	17.898	20.861	24.064	27.352	30.726
Non Current Assets	4.124	4.513	4.392	4.624	5.522	5.662	5.817	5.985	6.168	6.367	6.581	6.581	6.581
Fixed assets Tang and intangible	3.710	3.999	3.840	3.970	4.697	4.837	4.992	5.160	5.343	5.542	5.756	5.756	5.756
Goodwill	126	132	132	132	218	218	218	218	218	218	218	218	218
Investments	36	14	15	9	10	10	10	10	10	10	10	10	10
Deferred tax assets	133	203	234	299	356	356	356	356	356	356	356	356	356
Others	120	165	170	213	241	241	241	241	241	241	241	241	241
Current Assets	895	1.107	1.674	2.530	2.735	4.692	6.839	9.183	11.731	14.494	17.483	20.771	24.145
Working capital	-542	-330	-698	-835	-713	-780	-857	-935	-1.017	-1.103	-1.194	-1.225	-1.257
Cash and equivalents	1.437	1.437	2.372	3.365	3.397	5.421	7.645	10.068	12.697	15.547	18.626	21.945	25.351
Other Financial assets	0	0	0	0	51	51	51	51	51	51	51	51	51
Shareholders' Funds	4.217	4.749	5.371	6.423	7.456	9.552	11.854	14.366	17.097	20.059	23.263	26.550	29.924
Group Share	4.193	4.722	5.329	6.386	7.415	9.512	11.814	14.326	17.056	20.018	23.222	26.510	29.884
Minority Interests	24	27	41	37	41	41	41	41	41	41	41	41	41
Total Liabilities	802	871	695	731	802	802	802	802	802	802	802	802	802
Non Current Liabilities	430	637	660	728	801	801	801	801	801	801	801	801	801
Bank Loans	42	13	5	4	2	2	2	2	2	2	2	2	2
Deferred tax liabilities	111	214	173	173	183	183	183	183	183	183	183	183	183
Provisions	48	102	127	157	147	147	147	147	147	147	147	147	147
Others	229	308	355	395	469	469	469	469	469	469	469	469	469
Current Liabilities	371	234	35	3	1	1	1	1	1	1	1	1	1
Bank Loans	371	234	35	3	1	1	1	1	1	1	1	1	1
ROIC	52,1%	43,8%	55,0%	73,0%	63,3%	51,7%	55,7%	59,5%	63,1%	66,7%	70,2%	72,6%	75,0%
NOPLAT	1.652	1.608	1.729	2.290	2.522	2.097	2.302	2.512	2.730	2.962	3.204	3.288	3.374
Tangible and intangible assets	3.710	3.999	3.840	3.970	4.697	4.837	4.992	5.160	5.343	5.542	5.756	5.756	5.756
Working Capital	(542)	(330)	(698)	(835)	(713)	(780)	(857)	(935)	(1.017)	(1.103)	(1.194)	(1.225)	(1.257)
Working Capital/Sales	-5,7%	-3,2%	-6,3%	-6,7%	-5,2%	-5,2%	-5,2%	-5,2%	-5,2%	-5,2%	-5,2%	-5,2%	-5,2%

8.8 Working capital

Working Capital	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Perp.
Cyclical requirements	1.545.077	1.827.076	1.572.087	1.837.648	1.989.188	2.177.047	2.390.752	2.609.719	2.837.363	3.078.813	3.330.599	3.418.060	3.507.819
% sales	16,4%	17,6%	14,2%	14,7%	14,4%	14,4%	14,4%	14,4%	14,4%	14,4%	14,4%	14,4%	14,8%
Trade Debtors	463.716	585.311	421.781	481.844	531.048	581.200	638.252	696.709	757.483	821.942	889.161	912.510	936.473
% sales	4,9%	5,6%	3,8%	3,8%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%
Inventories	1.007.213	1.054.840	992.570	1.214.623	1.277.009	1.397.610	1.534.803	1.675.374	1.821.516	1.976.521	2.138.161	2.194.309	2.251.932
% sales	10,7%	10,1%	9,0%	9,7%	9,3%	9,3%	9,3%	9,3%	9,3%	9,3%	9,3%	9,3%	9,3%
Other current assets	43.112	142.257	93.671	55.554	94.561	103.491	113.650	124.059	134.881	146.359	158.328	162.486	166.753
% sales	0,5%	1,4%	0,8%	0,4%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%
Income tax receivable	1.719	15.342	15.663	16.958	17.235	18.863	20.714	22.611	24.584	26.676	28.857	29.615	30.393
% sales	0,0%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%
Cash and equivalents	29.317	29.326	48.402	68.669	69.335	75.883	83.332	90.964	98.899	107.315	116.091	119.140	122.268
% sales	0,3%	0,3%	0,4%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%
Cyclical resources	2.086.791	2.156.811	2.269.902	2.672.225	2.702.088	2.957.274	3.247.568	3.545.009	3.854.238	4.182.220	4.524.244	4.643.050	4.764.977
% sales	22,1%	20,7%	20,5%	21,3%	19,6%	19,6%	19,6%	19,6%	19,6%	19,6%	19,6%	19,6%	19,6%
Trade Creditors	1.975.251	2.073.141	2.103.029	2.419.583	2.475.140	2.708.892	2.974.805	3.247.264	3.530.521	3.830.956	4.144.253	4.253.081	4.364.767
% sales	20,9%	19,9%	19,0%	19,3%	17,9%	17,9%	17,9%	17,9%	17,9%	17,9%	17,9%	17,9%	17,9%
Income tax payable	111.540	83.670	166.873	213.368	204.068	223.340	245.264	267.727	291.081	315.851	341.681	350.654	359.862
% sales	1,2%	0,8%	1,5%	1,7%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%
Others current liabilities	0	0	0	39.274	22.880	25.041	27.499	30.017	32.636	35.413	38.309	39.315	40.348
% sales	0,0%	0,0%	0,0%	0,3%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
Working capital	(541.714)	(329.735)	(697.815)	(834.577)	(712.900)	(780.226)	(856.815)	(935.290)	(1.016.875)	(1.103.408)	(1.193.645)	(1.224.990)	(1.257.158)
% sales	-5,7%	-3,2%	-6,3%	-6,7%	-5,2%	-5,2%	-5,2%	-5,2%	-5,2%	-5,2%	-5,2%	-5,2%	-5,2%

8.9 Equity value adjustments

Financial Investments	
Investment securities	5,7
Investment in Economic Interest Groupings	2,6
Loans and other credit facilities	1,2
Total	9,5

Deferred taxes		
Assets		
Provisions	51	51
Subsidiary valuation adjustments	41	41
Tax losses	48	48
Intragroup transactions	81	81
Other	51	51
	272	272
Liabilities		
Intragroup transactions	35	35
Subsidiary Valuations adjust.	46	46
Reinvestment of profits	4	4
Other	52	52
	137	137
Total		135

Other non current assets	
Guarantees	220
Others	21
Total	241

Other non current liabilities	
Options with partners	7
Lease incentives	449
Other	14
Total	470

8.10 Synthetic rating calculation

Inputs for synthetic rating estimation

Please read the special cases worksheet (see below) before you use this spreadsheet.

Before you use this spreadsheet, make sure that the iteration box (under calculation options in excel) is checked.

Enter the type of firm = (Enter 1 if large manufacturing firm, 2 if smaller or riskier firm, 3 if financial; Small: <\$5 billion)
 Do you have any operating lease or rental commitments?
 Enter current Earnings before interest and taxes (EBIT) = (Add back only long term interest expense for financial firms)
 Enter current interest expenses = (Use only long term interest expense for financial firms)
 Enter current long term government bond rate =

Output

Interest coverage ratio =
 Estimated Bond Rating =
 Estimated Default Spread =
 Estimated Cost of Debt =

If you want to update the spreads listed below, please visit <http://www.bondsonline.com>

For large manufacturing firms

If interest coverage ratio is		Rating is	Spread is
>	≤ to		
-100000	0,199999	D	12,00%
0,2	0,649999	C	10,50%
0,65	0,799999	CC	9,50%
0,8	1,249999	CCC	8,75%
1,25	1,499999	B-	6,75%
1,5	1,749999	B	6,00%
1,75	1,999999	B+	5,50%
2	2,249999	BB	4,75%
2,25	2,499999	BB+	3,75%
2,5	2,999999	BBB	2,50%
3	4,249999	A-	1,65%
4,25	5,499999	A	1,40%
5,5	6,499999	A+	1,30%
6,5	8,499999	AA	1,15%
8,50	100000	AAA	0,65%

Operating lease inputs

Operating lease expense in current year = \$ 1.286,00

Operating Lease Commitments (From footnote to financials)

Year	Commitment	! Year 1 is next year,
1	\$ 1.399,00	
2	\$ 1.524,00	
3	\$ 1.651,00	
4	\$ 1.781,00	
5	\$ 1.918,00	
6 and beyond	\$ 2.061,00	

Pre-tax Cost of Debt = 2,15% ! If you do not have a cost of debt, use the attached ratings estimator

From the current financial statements, enter the following

Reported Operating Income (EBIT) = \$ 2.552,00 ! This is the EBIT reported in the current income statement

Reported Debt = \$ 92,97 ! This is the interest-bearing debt reported on the balance sheet

Reported Interest Expenses = \$ 17,70

Output

Number of years embedded in yr 6 estimate = 1 ! I use the average lease expense over the first five years to estimate the number of years of expenses in yr 6

Converting Operating Leases into debt

Year	Commitment	Present Value	
1	\$ 1.399,00	\$ 1.369,55	
2	\$ 1.524,00	\$ 1.460,52	
3	\$ 1.651,00	\$ 1.548,93	
4	\$ 1.781,00	\$ 1.635,73	
5	\$ 1.918,00	\$ 1.724,47	
6 and beyond	\$ 2.061,00	\$ 1.814,04	! Commitment beyond year 6 converted into an annuity for ten years
Debt Value of leases =		\$ 9.553,25	

Restated Financials

Operating Income with Operating leases reclassified as debt = \$ 2.757,39

Debt with Operating leases reclassified as debt = \$ 9.646,22

Full Operating lease adjustment

Reported Operating income =	\$2.552,00
+ Current year's operating lease expense =	\$1.286,00
- Depreciation on leased asset =	\$1.592,21
Adjusted Operating Income	\$2.245,79

9. BIBLIOGRAPHY

Academic material

Berk, J., and DeMarzo, P., (2011) *Corporate Finance: The Core*, Pearson Education Limited

Black, F., Jensen, M. C. and Scholes, M., (1972) *The Capital Asset Pricing Model: Some Empirical Tests*, *Studies in the Theory of Capital Markets*, Michael C. Jensen, ed. Praeger Publishers Inc.

Black, F., (1972) *Capital Market Equilibrium with Restricted Borrowing*, *The Journal of Business*, v.45, no.3, 444-455

Copeland, T., Koller T. and Murrin, J. (2000), *Valuation: Measuring and Managing the Value of Companies*, McKinsey & Company, Inc., John Wiley & Sons, Inc.

Damodaran, A., (2002) *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset*. Second Edition. New York: John Wiley & Sons

Damodaran, A., (2004) *Applied Corporate Finance*, Second Edition, New York: John Wiley & Sons

Damodaran, A., (2006) *Valuation Approaches and Metrics: A Survey of the Theory and Evidence*, Stern School of Business

Damodaran, A., (2008) *What is the riskfree rate? A Search for the Basic Building Block*, Stern School of Business

Damodaran, A., (2011) *Equity Risk Premiums (ERP): Determinants, Estimation and Implication* - The 2010 Edition, Stern School of Business

Fernández, P., (2002) *Valuation using multiples. How do analysts reach their conclusions?* IESE Business School, University of Navarra, Research paper no 450

Fernández, P., (2004) *Equivalence of ten different discounted cash flow valuation methods*, IESE Business School, University of Navarra, WP No 549

Fernandez, P., (2007) *Company Valuation methods. The most common errors in valuations*, IESE Business School, University of Navarra

Fernandez, P., (2007) *The value of tax shields is NOT equal to the present value of tax shields*, IESE Business School, University of Navarra

Fernández, P., (2009) *Valuing Companies by Cash Flow Discounting: 10 Methods and 9 Theories*, IESE Business School, University of Navarra

Fernández, P., (2011) *WACC: Definition, Misconceptions and Errors*, IESE Business School, University of Navarra

Graham, J. R. and Harvey, C., (2001) *The Theory and Practice of Corporate Finance: Evidence from the field*, *Journal of Financial Economics*, 60

Koller, T., Goedhart, M., Wessels, D., McKinsey & Company (2005), *Valuation: Measuring and Managing the Value of Companies*, John Wiley & Sons, Inc.

Modigliani, F. and Miller, M. H., (1963) *Corporate Income Taxes and the Cost of Capital: a Correction*, *The American Economic Review*, Vol. 53, No. 3 (June 1963), pp. 433-443

Modigliani, F. and Miller, M., (1958) *The Cost of Capital, Corporation Finance and the Theory of Investment*, *The American Economic Review*, v48, no 3, 261-297

Myers, S. C., (1974) *Interactions of Corporate Financing and Investment Decisions-Implications for Capital Budgeting*, *The Journal of Finance*, v 29, no. 1 (Mar., 1974), 1-25

Vernimmen, P., Quiry, P., Dallochio, M., Fur, Y. and Salvi, A., (2005) *Corporate Finance: Theory and Practice*, John Wiley & Sons, Inc.

Young, M., Sullivan, P., Nokhasteh, A. and Holt, W., (1999) *All Roads Lead to Rome - An Integrated Approach to Valuation Models*, Goldman Sachs Investment Research, September 1999

Reports

Credit Suisse (28 of January 2013), “Inditex”, Europe Equity Research

BPI (18 of June 2012), “Inditex”, Europe Equity Research

Datamonitor (December 2011), “Industry Profile - Global Apparel Retail”

Group Inditex (2008), “Annual Report 2007”

Group Inditex (2009), “Annual Report 2008”

Group Inditex (2010), “Annual Report 2009”

Group Inditex (2011), “Annual Report 2010”

Group Inditex (2012), “Annual Report 2011”

Market Line (February 2012), “Apparel Retail in Europe”

Market Line (February 2012), “Apparel Retail in Spain”

Morgan Stanley (4 of February 2013), “Inditex”, Europe Equity Research

Sadif (12 of December 2012), “Will Inditex SA Deliver Long-Term Returns?”, Summary Due Diligence Report

The Economist Intelligence Unit Limited (January 2013), “Country Forecast Brazil”

The Economist Intelligence Unit Limited (January 2013), “Country Forecast China”

The Economist Intelligence Unit Limited (January 2013), “Country Forecast India”

The Economist Intelligence Unit Limited (January 2013), “Country Forecast Russia”

Internet Based Sources and databases

Aswath Damodaran website - <http://people.stern.nyu.edu/adamodar/>

Bloomberg databases

Bloomberg website - <http://www.bloomberg.com>

Boston Consulting Group - <http://www.bcg.com/>

Bureau Van Dijk, Amadeus database

European Apparel and Textile confederation (Euratex) - <http://www.euratex.org/>

Fats retailing Website - <http://www.fastretailing.com/eng/>

Harvard Business School - <http://www.hbs.edu>

Inditex website - <http://www.inditex.com>

International Textile and apparel Association – <http://www.itaaonline.org/>

London Business School - <http://www.london.edu/>

Market Research - <http://www.marketresearch.com>

Mckinsey & company - <https://www.mckinseyquarterly.com>

Reuters - <http://www.reuters.com/>

The economist - <http://www.economist.com/>

Thomson One Banker - <http://banker.thomsonib.com/>

Yahoo Finance - <http://finance.yahoo.com/>