

Inditex and its position in the Fast Fashion Industry

Fast Fashion: Origins, Impact, and Market Dynamics

Fast fashion, a term that has become ubiquitous in the modern apparel industry, refers to the rapid production of inexpensive clothing that mirrors current fashion trends. This model emphasizes speed and affordability, enabling consumers to access the latest styles almost immediately after they appear on the runway or in popular culture. Retail giants such as Inditex, H&M, and Fast Retailing epitomize this approach, offering a constant influx of new designs to satiate the ever-evolving tastes of fashion-conscious individuals.

The origins of fast fashion can be traced back to the late 20th century, a period marked by significant shifts in manufacturing and consumer behavior. Advancements in supply chain management, particularly the adoption of “quick response” manufacturing methods, allowed retailers to reduce the time between design conception and retail availability. This agility enabled brands to capitalize on emerging trends, fostering a culture of immediacy in fashion consumption. Zara, a Spanish retailer, is often credited with pioneering the fast fashion model. By maintaining tight control over its production processes and responding swiftly to market demands, Zara set a precedent that many others would follow. Brands like H&M and Uniqlo (under Fast Retailing) soon adopted similar strategies, emphasizing rapid turnover of styles and affordable pricing to attract a broad customer base. The rise of e-commerce further accelerated this trend, with online platforms enabling even faster dissemination of fashion trends globally.

The economic implications of fast fashion are profound. By 2019, global retail sales of apparel reached \$1.9 trillion, with projections estimating growth to \$3 trillion by 2030. Companies employing this strategy have reported substantial revenues; for instance, Inditex, Zara’s parent company, reported sales of €35.95 billion in 2023. However, this financial success comes with challenges, including growing scrutiny over labor practices and environmental impacts. Indeed, the environmental footprint of fast fashion is significant. The industry is responsible for approximately 10% of global carbon emissions and is the second-largest consumer of water worldwide. Waste generation, water pollution, and chemical-intensive production methods contribute to a growing ecological crisis. At the same time, social concerns, from exploitative labor to poor factory conditions, have triggered global outcry, with incidents like the 2013 Rana Plaza collapse in Bangladesh serving as a wake-up call.

To fully understand the current dynamics of fast fashion, we must be aware of the industry’s dominant players and its emerging challengers. We make this distinction by creating two categories:

Tier 1 Players: These are the global giants, Inditex, H&M Group and Fast Retailing (Uniqlo), that generate substantial sales, have a large international reach, and hold significant operational complexity. While their business models differ slightly, Uniqlo for instance diverges from ultra-trendy fast fashion to focus on high-quality basics, each of them defines the direction and influence of the industry at large.

Tier 2 Players: This tier includes brands such as Boohoo, ASOS, Abercrombie & Fitch, and the now-restructured Forever 21. These companies are characterized by strong digital presence, rapid inventory turnover, or regional market strength, yet they operate at a smaller scale and often face greater volatility and pressure from larger competitors.

To further understand the performance of fast fashion companies, in the following section we analyze one of the three Tier 1 players referenced above.

Stock Information

Company Name: Industria de Diseño Textil, S.A. (Inditex)

Ticker Symbol: ITX

Exchange: BMO

Industry/Sector: Retail and Sale of Clothing

Dividend Yield: 2.49%

Business Overview

Inditex's business model is based on full vertical integration. That means the company controls almost every stage of its fashion process, from design to final sales, both in stores and online. This setup allows Inditex to react fast to new trends and customer feedback, which is one of its biggest competitive advantages. The company operates through several brands like Zara, Pull&Bear, Bershka, Stradivarius, Oysho, Massimo Dutti and Zara Home. All of them follow the same agile structure, though each targets different market segments.

A key pillar of this model is proximity manufacturing. A large part of the garments, 50-55%, are produced close to its headquarters – mainly in Spain, Portugal, Morocco, and Turkey. This allows the firm to keep a tight inventory and reduce the time from design to store shelves. Their stores and online inventory are integrated, so customers can access all available products from anywhere, increasing efficiency and sales chances. The production runs are short and adapted to demand, minimizing unsold stock – in 2023, surpluses were just 0.67% of total articles sold.

While Inditex operates in 214 markets, its market share is still considered relatively low because the fashion industry remains highly fragmented. This is seen internally as a major opportunity for growth, especially as many competitors lack the same level of logistics efficiency and vertical control.

In 2024, Inditex pushed forward with its Climate Transition Plan, aiming for net-zero emissions by 2040. By 2030, they target a 95% cut in Scope 1 and 2 emissions and 51% in Scope 3, with a 20% reduction across all scopes already set for 2027. The Fibers Plan is also central: by 2030, 100% of textile fibers are expected to come from lower-impact sources. They're also designing clothes with recyclability and circularity in mind. On biodiversity, a new Ecosystems and Biodiversity Policy was launched, committing to stop deforestation and support regenerative agriculture. This was developed with groups like WWF and Canopy. Finally, ESG targets are now linked to executive pay, making sustainability part of top-level accountability.

Financial Performance

Table 1. Inditex KPIs from the last 5 fiscal years

KPIs	2020 FY	2021 FY	2022 FY	2023 FY	2024 FY
Total Revenue Growth	-0.28%	35.85%	17.51%	10.37%	7.47%
Gross Profit Margin	53.00%	54.86%	54.74%	55.70%	55.86%
EBITDA Margin	13.65%	20.05%	20.81%	22.67%	22.98%
EBIT Margin	8.16%	15.39%	17.11%	19.07%	19.66%
Net Income Margin	5.42%	11.70%	12.68%	14.97%	15.18%
Normalized Diluted EPS	\$0.41	\$1.23	\$1.39	\$1.87	\$2.03
Normalized Diluted EPS Growth	-69.61%	193.34%	27.31%	30.37%	8.96%
Return on Assets	11.93%	4.69%	9.63%	11.82%	13.66%
Return on Equity	24.62%	7.49%	21.45%	25.29%	30.22%
Total Debt/Equity	45.82%	42.37%	37.19%	32.02%	29.82%

Table 2. Statistics of firms in the Fast Fashion Industry

Name	Gross Margin LTM	EBITDA Margin LTM	EBIT Margin LTM	Net Income Margin LTM	Revenue Growth LTM	EBITDA Growth LTM	Debt to Capital LTM	Debt to EBITDA LTM
H&M Hennes & Mauritz AB (OM:HM B)	52.86%	9.74%	7.03%	4.65%	0.56%	-0.10%	62.70%	2.15
Zalando SE (XTRA:ZAL)	40.69%	5.06%	3.71%	2.38%	4.23%	47.11%	39.30%	2.56
NEXT plc (LSE:NXT)	43.50%	20.75%	17.92%	12.03%	11.42%	17.60%	51.58%	1.33
Fast Retailing Co., Ltd. (TSE:9983)	-	-	-	-	-	-	-	-
The Gap, Inc. (NYSE:GAP)	41.28%	10.71%	7.39%	5.60%	1.32%	43.05%	62.65%	1.91
Industria de Diseño Textil, S.A. (BME:ITX)	55.86%	22.98%	19.66%	15.18%	7.47%	8.96%	22.55%	0.55
Median	41.28%	9.74%	7.03%	4.65%	1.32%	17.60%	51.58%	1.91
Average	35.67%	9.25%	7.21%	4.93%	3.51%	21.53%	43.25%	1.59

Both horizontal (Table 1) and relative (Table 2) comparisons highlight Inditex's success. Despite the company's sales growth decreasing YoY since its Post-Covid boom, a reasonable trajectory given its massive size and influence in the space already, growth is still expected to be in the upper single digit in the foreseeable future. In addition, comparing its latest revenue growth figure to its competitors, all of whom are much smaller, only NEXT plc outperformed Inditex, 11.42% to 7.47%. Zara and Zara Home are its main revenue and growth drivers and combined generated about €30.9 billion euros in 2024, over 80% of total revenues, with Bershka and other brands making up the rest. As growth prospects decrease, the fashion group has focused on steadily increasing all its margins to maximize its bottom line, outcompeting others in the industry. The most notable improvement is its Net Income Margin, which went from 5.42% in 2020 to 15.18% in 2024.

Investors have benefitted from all these developments, as they saw EPS follow a growing trajectory, much like ROA and ROE, along with steady dividend payments.

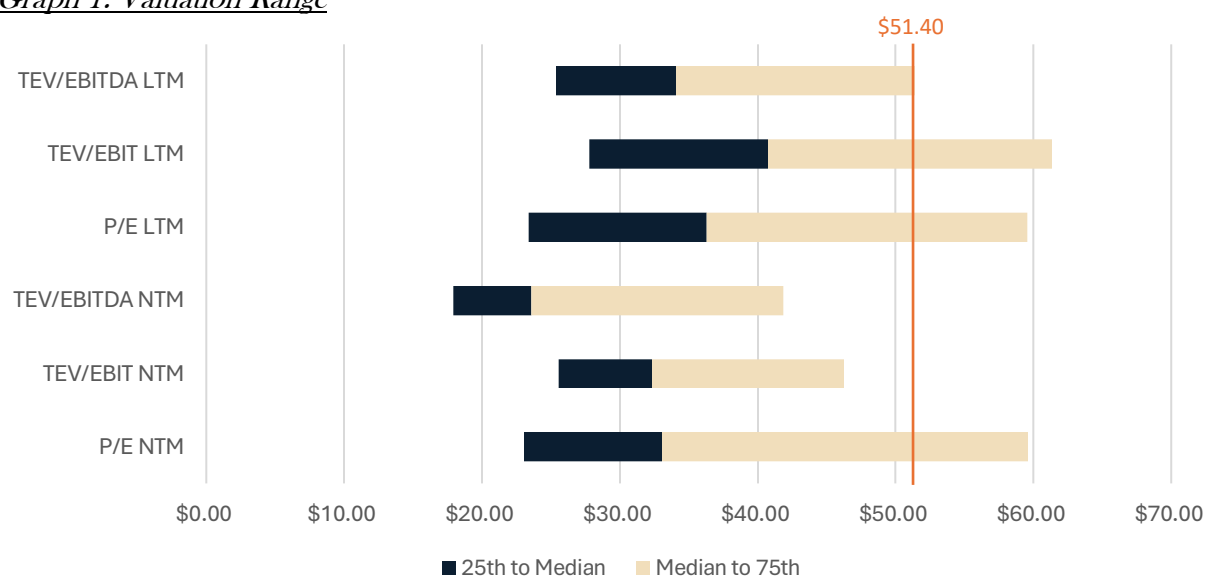
As for the capital structure, the company also boasts a strong situation, deleveraging in the last 5 years and holding significantly less debt compared to its competitors. In 2024, its Debt to Capital was 22,55% compared to the 43.25% average, almost half. By the end of the year, Inditex had €11.495 billion in net cash, the highest cash position ever reported by the group and a further indication of solvency and liquidity.

Valuation Metrics

Table 3. Market Comparables

Name	TEV/Revenue LTM	TEV/EBITDA LTM	TEV/EBIT LTM	P/E LTM	TEV/Revenue NTM	TEV/EBITDA NTM	TEV/EBIT NTM	P/E NTM
H&M Hennes & Mauritz AB (OM: HMB)	1.23x	12.60x	17.47x	19.23x	1.10x	6.38x	14.40x	14.76x
Zalando SE (XTRA:ZAL)	0.91	17.95	24.50	31.37	0.62	7.63	12.67	25.57
NEXT plc (LSE:NXT)	2.40	11.56	13.38	17.05	2.27	10.33	12.80	15.99
Fast Retailing Co., Ltd. (TSE:9983)	4.35	19.39	27.35	31.78	3.50	15.89	21.61	32.11
The Gap, Inc. (NYSE:GAP)	0.81	7.55	10.94	7.73	0.62	5.48	7.84	7.56
Industria de Diseño Textil, S.A. (BME:ITX)	3.70	16.08	18.80	23.32	3.16	11.44	16.00	21.56
Minimum	0.81	7.55	10.94	7.73	0.62	5.48	7.84	7.56
25th Percentile	0.86	9.55	12.16	12.39	0.62	5.93	10.26	11.16
Median	1.23	12.60	17.47	19.23	1.10	7.63	12.80	15.99
Average	1.94	13.81	18.73	21.43	1.62	9.14	13.87	19.20
75th Percentile	3.38	18.67	25.93	31.58	2.88	13.11	18.01	28.84
Maximum	4.35	19.39	27.35	31.78	3.50	15.89	21.61	32.11

Graph 1. Valuation Range



Looking at Graph 1, the current share price of \$51.40 sits at the upper end of the fair valuation range across all multiples, especially considering forward-looking (NTM) valuations. This suggests limited immediate upside unless the market re-rates the sector upward. This shows how the markets have re-assessed the fast fashion industry in a negative approach due to economic uncertainty with the introduction of tariffs. However, the trading premium for Inditex is justified by its superior profitability, low leverage, and stable growth, key traits for a sector leader. It must also be said that in the absence of similar sized competitors, the use of smaller companies undermines these results due to multiples discrepancies. More specifically, the smaller the comparable companies, the smaller the multiples, therefore reducing the upside on all the valuation ranges used. For this reason, we believe that with more similar sized companies, the multiples, and hence the right tail, would be far more positive than it currently is. Despite this, the company's defensive strength, margins expansion and cash generation make it an attractive long-term hold, especially in a volatile retail environment.

Risks

Macro Risks

Geopolitical Instability: A new wave of protectionist trade policies, poses a notable geopolitical risk to Inditex. Although the Americas represented just 18.6% of group sales in 2024, the U.S. remains a strategic market. The threat of new or expanded tariffs on European textile imports has heightened operational uncertainty. While Inditex's CEO has expressed confidence in the group's ability to maintain pricing stability and absorb shocks through supply chain flexibility, price increases have already been observed in the U.S., with Zara dress prices rising 22% YoY. This indicates real-time inflation transmission, contradicting corporate optimism and revealing the fragility of market resilience under geopolitical strain.

Currency Volatility: Operating in multiple currencies exposes Inditex to exchange rate risks. Fluctuations, especially in emerging markets like Brazil and Mexico, can affect the company's financial performance. Currently, this risk is strongly correlated to the previous argument, with uncertainty over a true currency reserve fomenting volatility.

Industry-Specific Risks

Intense Competition: Inditex, among others, explicitly identifies competition as a key risk area. The fashion retail industry is characterized by low concentration levels and fragmented market shares, even among the largest players. This creates an environment of intense rivalry across geographies and customer segments. Despite its global scale, in its latest report, Inditex acknowledges that it commands a relatively low share of the overall market, which implies both vulnerability to disruption and opportunity for expansion. To address this challenge, the Group applies a multi-brand, multi-concept strategy, leveraging its seven major commercial formats (Zara, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home) to diversify positioning and reduce direct overlap with competitors; each brand targets distinct demographic and psychographic segments.

ESG Pressures: Consumer sentiment is pivoting toward ethical consumption and sustainability. Fashion cycles are slowing, and resale/recycling trends are gaining ground. Despite Inditex's strong ESG narrative, its business model still depends on high-volume turnover—potentially misaligned with long-term shifts toward durability and circularity. In addition, Stakeholders increasingly expect full transparency on sourcing and labor practices. Any failure to meet transparency standards could lead to reputational backlash and increased compliance burdens, particularly under upcoming EU supply chain due diligence regulations.

Unfair Labor Practices: Inditex has faced allegations related to labor practices, including instances of poor working conditions and labor exploitation in its supply chain. Reports have highlighted issues in countries like Brazil, Argentina, India, and Turkey, where unauthorized subcontracting led to labor rights violations.

Company-Specific Risks

Legal Proceedings: Inditex is currently involved in multiple legal proceedings that, while not deemed financially material by the company, touch on significant reputational and strategic areas, particularly in relation to ethical sourcing and intellectual property protection. For the former, in April 2021, several French NGOs filed a complaint against Inditex and other fashion giants, accusing them of benefiting from the use of forced labor of Uyghurs in China's Xinjiang region. The companies were specifically charged with "concealment of forced labor and crimes against humanity". Investigations were never formally opened, and the case was dismissed. For the latter, in 2024, the Spanish Supreme Court ruled in favor of Inditex in a long-standing case against Buongiorno MyAlert. The dispute originated in 2010 when Buongiorno used the ZARA trademark in a promotional campaign, advertising a cash prize as a "ZARA gift card", without authorization or the existence of such a card. This was deemed as trademark infringement.

Controversial Product Designs: Zara, a flagship brand of Inditex, has encountered backlash over product designs perceived as culturally insensitive. Incidents include the release of a toddler T-shirt resembling concentration camp uniforms and a handbag featuring a swastika. These controversies have prompted public apologies and product withdrawals.

Conclusion

Inditex's greatest threat for its continued development is a large trade war, specifically in countries where it produces and sells. Therefore, if the United States doesn't agree to trade deals with the EU, China, and other Asian countries, Inditex will likely be impacted through margins reduction. Its strong vertical integration is also a benefit in this situation, as they are more reactive and flexible in supply chain shocks. If these conflicts were to be solved, Inditex will likely carry on with dominating the fast fashion sector through margin expansion and continued brand loyalty as it gradually improves its ESG standings, the second greatest risk to the retail industry.

Despite the current stock price floating in the upper part of our comparables valuation, we are confident that the multiples used from its decisively smaller competitors diminish the upside in our ranges. This gives us the illusion of a smaller implied share price and hence does not give an accurate picture of its true potential and strong fundamentals.

With markets still spooked by tariffs, and the POTUS starting to open trade talks, we see this as an opportunity to get in at a discounted position. For these reasons, we give Inditex a BUY rating.

Citations

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