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**НАЦІОНАЛЬНИЙ УНІВЕРСТИТЕТ БІОРЕСУРСІВ
І ПРИРОДОКОРИСТУВАННЯ УКРАЇНИ**
Факультет аграрного менеджменту

ДОПУСКАЄТЬСЯ ДО ЗАХИСТУ
Завідувач кафедри адміністративного менеджменту та ЗЕД

_______________ **Олена КОВТУН**
(підпис)
"____" _____________ 2024 р.

БАКАЛАВРСЬКА КВАЛІФІКАЦІЙНА РОБОТА

на тему
Управління витратами компанії Inditex
«Cost management of the company "Inditex, S.A."»

Спеціальність **073 «Менеджмент»**

Гарант освітньої програми
д.е.н., професор _________________ **Віра БУТЕНКО**
(підпис)

Керівник бакалаврської кваліфікаційної роботи
к.е.н, доцент _______________ **Олена КОВТУН**
(підпис)

Виконала ___________ **Марія ДАЦЕНКО**
(підпис)

КИЇВ – 2024

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ЗАТВЕРДЖУЮ
В.о. завідувача кафедри
адміністративного менеджменту та ЗЕД
к.е.н., доц. _________ Олена КОВТУН
(підпис)
"____" _____________ 2023 р.

ЗАВДАННЯ
на виконання бакалаврської кваліфікаційної роботи студенту
Даценко Марії Олександрівні

Спеціальність **073 «Менеджмент»**

Тема бакалаврської кваліфікаційної роботи: **Управління витратами компанії Inditex «Cost management of the company "Inditex, S.A."»** затверджена наказом ректора НУБіП України від «14» грудня 2023 р. №2270 «С»

Термін подання завершеної роботи на кафедру ______**2024.05.27**________
Вихідні дані до бакалаврської кваліфікаційної роботи: законодавчі акти, навчальна та наукова література, офіційні статистичні матеріали, звіти та оперативні матеріали, дані міжнародної статистики та публікації наукових установ______________________________

Перелік питань, які потрібно розробити:

1. Характеристика компанії та облікова політика.
2. Оцінка фінансового стану та управління активами.
3. Оцінка здатності компанії генерувати дохід та ефективність операцій.
4. Аналіз рентабельності та операційної ефективності компанії.

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Керівник бакалаврської кваліфікаційної роботи _______________ Олена КОВТУН

Завдання прийняв до виконання _______________ Марія ДАЦЕНКО

Content

RESUME

Inditex, a global leader in the fashion retail sector, has garnered significant attention with its creative business strategy and outstanding financial results. This bachelor's project aims to offer valuable insights into the operational efficiency and financial stability of Inditex, S.A., by examining the nuances of the company's profitability dynamics.

Important information about Inditex's financial performance and strategic positioning in the global retail industry can be obtained from a comparative study of the company's profitability trends from the fiscal years 2020 to 2023.

A crucial aspect of financial management is profitability analysis, which sheds light on the efficiency, performance, and strategic positioning of a company. This bachelor's thesis explores the significance, techniques, and theoretical foundations of profitability analysis with a specific focus on the case of Inditex, S.A., a major player in the global fashion and retail industry.

The theoretical part of the review provides a thorough understanding of profitability indicators and cost analysis. Cost analysis examines all company expenses, such as operating expenses, cost of goods sold, net sales, marginal costs, and absorption costs. Key indicators like gross profit margin, net profit margin, return on equity (ROE), contribution margin, return on assets (ROA), and return on investment (ROI) are also presented in the profitability analysis. The importance of profitability analysis in strategic decision-making, performance evaluation, and investor confidence in the business environment is highlighted in this section.

This thesis aims to clarify the dynamics of Inditex's profitability through an in-depth examination of its financial performance. The study looks at key financial indicators

and measures to provide insights into the company's competitive advantage, operational efficiency, and potential for creating long-term value.

The methodology used to analyze Inditex's profitability is described in the methodological section. It explains the procedures and tools used to gather data, including annual reports and financial statements. Additionally, it provides a rationale for the chosen methodology and clarifies its significance for the analysis, ensuring thorough and meaningful research. An extensive overview of Inditex's financial performance is provided in the results section, which begins with a company profile and a list of selected accounting policies. An in-depth analysis of income statements, balance sheets, and key financial indicators is included, offering insights into intangible assets, equity, net sales, gross profit, operating expenses, and net profit. Based on parameters such as gross profit margin, net profit margin, gross operating profit (EBITDA) and EBITDA margin, net operating profit (EBIT) and EBIT margin, contribution margin, ROA, ROE, and ROI, the profitability analysis assesses Inditex's performance and provides meaningful information about the company's financial condition and profitability.

The paper provides thorough summaries of the company's financial performance and strategic approach across several sections. The company profile, which describes its chosen accounting policies, comes first. Next, we examine the balance sheet, which includes information on equity, long-term liabilities, short-term liabilities, total assets, and intangible assets. Important financial indicators are highlighted to understand the company's financial stability.

In the income statement section, net sales, cost of goods sold, gross profit, operating expenses, profit, amortization, depreciation, financial results, profit before tax, income tax, and net profit are covered in detail. This detailed breakdown allows for a comprehensive understanding of the company's revenue sources, costs, and profitability drivers.

Overall, this bachelor's thesis contributes to the understanding of profitability analysis within the fashion and retail industry by providing detailed information on Inditex's strategic focus and financial management methods. The aim is to provide stakeholders with valuable information for informed decision-making and strategic planning through a thorough analysis of financial data and performance indicators.

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INTRODUCTION

An essential component of overseeing a business's financial well-being and strategic decision-making process is profitability analysis. To ascertain the overall profitability, it entails evaluating the costs incurred by the business in providing goods or services and contrasting them with the income received. The core ideas, procedures, and significance of profitability analysis in contemporary corporate operations will all be covered in this theoretical material **(F. Brigham and M. C. Ehrhardt, 2017).**

The sustainability and performance of businesses across industries are critically dependent on the efficient management of the pursuit of profitability in a dynamic and competitive business environment. A fundamental concept in corporate finance and strategic management is the complex link between cost and profitability. Businesses must comprehend the subtleties of profitability measures as they navigate through changing consumer demands, technology improvements, and changing market situations **(A. Ross, W. Westerfield, and J. Jaffe, 2020).**

Fashion retail is a dynamic and competitive sector of the global economy, characterised by rapidly changing customer preferences, dynamic market trends, and intense competition among big corporations. Inditex, S.A. has emerged as a significant player in this regard, renowned for its innovative business approach, extensive brand portfolio, and adaptability to shifting market conditions. As the parent company of well-known fashion brands with a global presence, such as Pull&Bear, Massimo Dutti, Bershka, and Zara, Inditex, S.A. has established itself as a formidable player in the global retail sector. Understanding Inditex, S.A.'s financial performance and strategic stance is vital for stakeholders, investors, analysts, and scholars. Analyzing profitability trends in particular offers insightful information about the company's operational effectiveness, competitive edge, and capacity to create long-term value in a highly competitive industry **(Inditex, S.A. Annual Report, 2023).**

The study's importance lies in its capacity to expand our understanding of Inditex, S.A.'s strategies for profit generation, cost-cutting initiatives, and financial management approaches. Furthermore, by situating the analysis within the broader context of the fashion retail industry, this thesis aims to provide helpful insights and recommendations for stakeholders wishing to enhance their understanding of financial performance and competitive stance **(A. R. Pandey, 2019).**

Research establishes the foundation for a thorough analysis of the profitability dynamics of Inditex, S.A. and emphasises the significance of this research in shedding light on the financial performance and strategic orientation of one of the most important players in the global fashion retail sector. Through a careful examination and interpretation of financial data, this thesis seeks to offer significant insights into financial management practices and their implications for stakeholders in the fashion retail industry **(M. Y. Khan and P. K. Jain, 2007).**

1. THEORETICAL REVIEW

1.1Cost Analysis

1.1.1 Definition

In any organisation, cost analysis is a vital component of financial management **(Smith, 2018)**. Businesses can optimise operations, maximise profitability, and sustain market competitiveness by making well-informed decisions based on a thorough assessment of all sorts of expenses **(Jones et al., 2020)**. fundamentally entails a careful analysis of the financial environment in which a business function **(Johnson, 2020)**. It goes beyond the domain of statistics and explores the core principles of organisational efficacy and efficiency **(Jones et al., 2018)**. This all-inclusive procedure includes the recognition, classification, and assessment of every expense a business incurs in the course of its regular business operations **(Brown & White, 2021)**. It offers priceless information for well-informed resource allocation and decision-making.

It includes a number of elements, including indirect costs like overhead, marketing expenses, and administrative costs, as well as direct costs like labour, raw materials, and utilities **(Jones et al., 2018)**. Efficient cost analysis depends on careful classification, in which costs are methodically arranged into discrete groups according to their type and significance to the enterprise **(Anderson, 2017)**. This division makes it easier for stakeholders to gain detailed insights into spending trends and distinguish between necessary expenses for running the company and optional costs that should be carefully examined for possible optimisation **(Garcia, 2022)**.

1.1.2 Costs

Costs incurred by the company fall into many major categories:

- Salary
- Rent and Utilities

- Hardware and Software (The expenses for buying, renting, and maintaining servers, computers, software, and other equipment are included in this category.)
- Marketing and publicizing
- All other costs that do not fit into another area are included in this category, including office supplies, travel, and legal fees **(Steven M. Bragg, 2019).**

1.1.2.1 Absorption Costing

The process of locating, evaluating, and assigning expenses related to the production of goods or services inside a company is known as costing. It entails the methodical analysis and categorization of several production-related costs, such as labour and raw materials, as well as indirect costs like overhead and administrative expenditures. Costing is crucial to managerial decision-making because it sheds light on the company's cost structure and aids in pricing, performance evaluation, and strategic decision-making to maximise resource use and profitability **(Charles T. Horngren, Srikant M. Datar, Madhav V. Rajan, 2018).**

A popular accounting technique for assigning manufacturing costs to products is absorption costing. It is predicated on the idea that the units produced should cover all manufacturing expenses, both variable and fixed. This approach includes both variable and fixed manufacturing costs in the cost of goods sold and inventory valuation since it treats them as product expenses. In contrast to variable costing, which treats fixed manufacturing costs as period expenses and only variable manufacturing costs as product costs, absorption costing treats all manufacturing costs as variable **(Drury, Colin, 2018)**.

1.1.2.2 Marginal Costing

A managerial accounting method for examining the connection between expenses, volume, and profits is marginal costing. It focuses on separating expenses into fixed and variable costs in order to comprehend how shifts in production levels affect a product or service's profitability. The cost of manufacturing an extra unit is determined only by variable costs in marginal costing; consequently, the term "marginal" refers to the cost of producing one extra unit **(Charles T. Horngren, Srikant M. Datar, Madhav V. Rajan, 2012).**

The contribution margin, or the difference between sales revenue and variable costs, is a useful concept that may be understood with the help of marginal costing. Managers can evaluate each product or service's profitability and decide on pricing, production quantities, and product mix by computing the contribution margin **(Jerry J. Weygandt, Paul D. Kimmel, Donald E. Kieso, 2017).**

Tab. 1

Comparison between Costing and Marginal Costing

Aspect	Absorption Costing	Marginal Costing
Treatment of Fixed Costs	Included in product cost	Excluded from product cost
Product Cost Calculation	Includes both variable and fixed costs	Only variable costs are included
Valuation of Closing Stock	Includes both variable and fixed costs	Only variable costs are included
Periodic Profit Calculation	May differ based on production levels due to fixed costs allocation	Remains constant regardless of production levels
Decision Making	Suitable for long-term pricing and decision making	Suitable for short-term pricing and decision making
Contribution Margin	Not explicitly calculated	Emphasized, used for decision-making
Inventory Management	Encourages higher inventory levels as fixed costs are absorbed	Encourages lower inventory levels as fixed costs are expensed immediately
Compliance	Generally accepted accounting principles (GAAP)	Generally accepted accounting principles (GAAP)

Income Statement	Operating income may fluctuate with production levels	Operating income remains stable regardless of production levels

Source: Drury (2018)

1.1.2.3 Net Sales

The total money received by a business from the sale of goods or services, less allowances, returns, and discounts, is referred to as net sales. This figure, which is normally located at the top of the income statement, is a crucial measure of a business's operational performance. Because it takes into consideration variables that may lower the actual income a business keeps, it gives a more realistic picture of revenue than gross sales. Net sales provide a more accurate picture of the company's capacity to make money from its core business operations by eliminating these deductions **(Libby R., Libby P. A., and Hodge F. D., 2020).**

Net sales computation is a crucial component of financial analysis and decision-making. Net sales is a metric used by analysts and investors to evaluate a company's profitability, efficiency, and rate of growth over time. It also acts as a starting point for the computation of other crucial financial measures, like return on sales and profit margins. Additionally, by revealing information about the performance of their sales techniques and the state of the market, a company's awareness of net sales can aid in strategic planning, budgeting, and forecasting. Financial accounting textbooks, including "Financial Accounting" by Libby, Libby, and Hodge, and expert resources, such as the Financial Accounting Standards Board (FASB) standards, are among the literary materials that go into great detail about net sales. These resources provide thorough justifications and illustrations to aid in comprehending the significance and computation of net sales **(FASB, 2021).**

1.1.2.4 Costs of Sales

The direct costs incurred in the production of goods or services that a business sells are represented by costs of sales, often known as cost of goods sold. This covers the price of labour used directly in production, raw material costs, and other costs directly related to the manufacturing process. One important indicator of a company's performance is its gross profit, which is determined by deducting COGS from total revenue. Businesses must accurately monitor and control these expenses in order to assess profitability and make deft decisions about pricing, budgeting, and day-to-day operations **(Kieso D. E., Weygandt J. J., and Warfield, T. D., 2019).**

The importance of costs of sales for financial statements and general firm health is emphasised in the financial accounting literature, which has addressed the issue extensively. Financial planning and corporate strategy depend on comprehending and managing COGS, according to **Libby, Libby, and Hodge's "Financial Accounting" (2020)**. Similary, **Kieso, Weygandt, and Warfield's "Intermediate Accounting" (2019)** goes into further detail about how COGS influences a company's financial outcomes and directs inventory management procedures. These resources emphasise how crucial costs of sales are to preserving competitive advantage and guaranteeing long-term financial viability.

1.1.2.5 Operating Expenses

The term "operating expenses," or "OPEX," refers to the costs a firm incurs on a regular basis in order to maintain its functionality and make money. These costs cover a wide range of regular expenses, including rent, utilities, payroll, marketing, administrative, and equipment upkeep. While operating expenses are usually short-term charges that are entirely deducted in the accounting period in which they are spent, capital expenditures are investments in long-term assets. For a business to continue to be profitable and run efficiently, operating expenses must be managed effectively **(Bragg, S. M., 2010)**.

Financial health requires an understanding of and strict control over operating expenses since they have a direct bearing on a company's cash flow and net income. Companies frequently examine their running costs to find areas where they can make savings without sacrificing effectiveness or quality. OPEX can be greatly decreased, for instance, by introducing energy-saving techniques, negotiating better prices with suppliers, or workforce levels optimisation. Controlling operating costs can improve a business's competitive advantage by freeing up capital for expansion and innovation. A company's financial strategy and operations can be better understood by stakeholders when they have access to financial statemen **(Wild, J. J., Shaw, K. W., & Chiappetta, B., 2018).**

1.1.3 Revenues

Revenues, also known as sales or income, are the entire sum of money that a firm makes from its main activities over the course of a given time period. This financial statistic is essential for evaluating the health and viability of a company's finances, as it acts as a fundamental indicator of its performance. Sales of goods or services, interest income, rental income, and any other money the company receives are all included in its revenues. Revenues are essentially the amount of money that is brought in as a result of providing goods or services to consumers or clients (**P. D. Kimmel, J. Weygandt, and D. E. Kieso, 2018).**

Comprehending revenues entails not only calculating the overall earnings but also examining the makeup and factors that influence the various income streams. There may be differences in the profitability, growth potential, and risk of various revenue streams. Furthermore, assessing a company's stability and growth possibilities requires careful consideration of the timing and reliability of revenue generating. In order to maintain sustainable corporate growth, effective revenue management encompasses methods to maximise sales, optimise pricing strategies, diversify revenue streams, and improve customer relationships **(F. Allen, R. A. Brealey, S. C. Myers, 2019).**

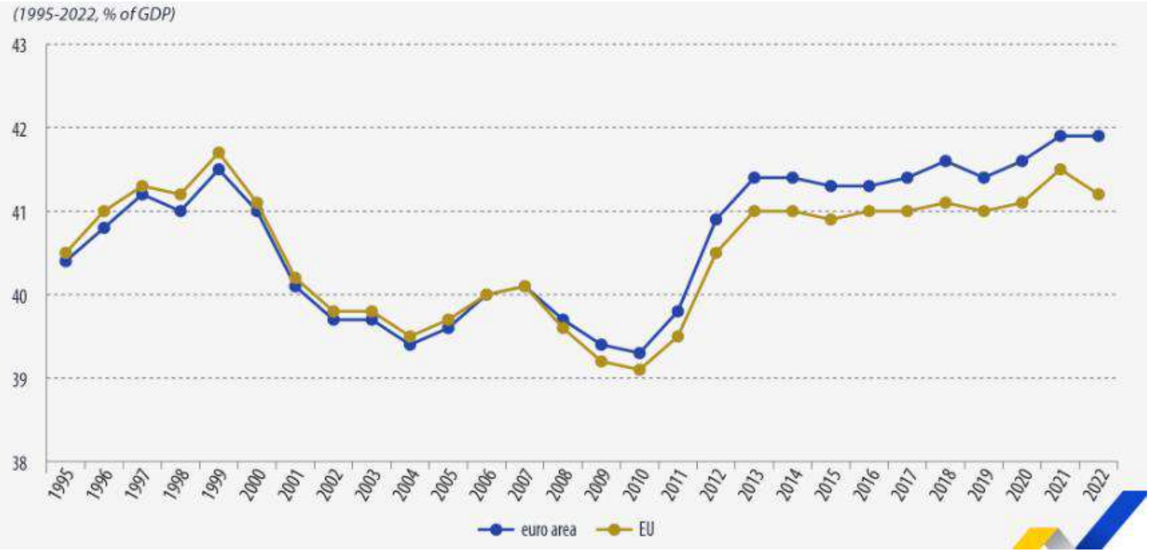

Fig. 1

Total revenue from taxes and social contributions

Source:* *Eurostat (gov_10a_taxag)

1.2 Profitability Analysis

1.2.1 Definition

Profitability analysis is a vital part of financial management and strategic decision-making inside firms. It entails evaluating a company's capacity to turn a profit in relation to its assets and expenditures. Profitability analysis's primary goal is to assess how well a business generates returns for its investors, owners, and management through its activities. Typically, this study entails assessing a range of financial measures and ratios in order to determine how profitable particular business components—such as divisions, goods, services, or segments—are. Businesses can improve overall profitability and sustain growth by identifying operational strengths and weaknesses, identifying opportunities for improvement, and making well-informed decisions through the use of profitability analysis **(Koller, T., Goedhart, M., & Wessels, D., 2010).**

Several indicators are available for use in profitability analysis, such as return on assets (ROA), net profitability, and return on equity (ROE) **(Johnson et al., 2020)**. As an illustration, net profitability determines the ratio of net profit to sales revenue and provides insight into the effectiveness of operations following the deduction of all costs, including interest and taxes **(Brown & Lee, 2017).**

While ROE gauges the return on shareholders' investment, ROA shows how well a business uses its assets to produce profits **(Chen & Wang, 2016).** For stakeholders, such as investors and business management, profitability analysis is essential for determining how best to use resources to generate profits **(Anderson & Smith, 2019)**. It makes it easier to pinpoint areas for improvement and create plans of action to raise profitability and improve overall financial performance **(Kim et al., 2020).**

1.2.2 Key Metrics

1.2.2.1 Gross Profit Margin

One of the most important measures of a company's performance is its gross profit, which lets you assess how well it is using its resources. A high gross profit margin is a sign of effective resource management and well-managed manufacturing processes **(Smith, 2018)**. According to **Johnson et al. (2020)**, it can also be used as a gauge for a business model's degree of success. Low gross profit levels might be a sign of inefficient resource utilisation or issues with controlling manufacturing costs, necessitating more investigation and modifications to corporate procedures **(Brown & Miller, 2019)**. A crucial technique for evaluating a company's financial standing and determining how efficiently it uses its resources is gross profit analysis **(Jones, 2017)**.

1.2.2.2 Net Profit Margin

One important financial indicator that companies use to assess their performance is net profit margin. It shows what proportion of revenue, after all costs are subtracted, is turned into profit. It offers perceptions on how well a business controls expenses and turns a profit. **(Kenton, "Net Profit Margin Definition")**.

A corporation is more effective at turning income into profit if it has a higher net profit margin; conversely, a lower margin denotes higher expenses in relation to revenue. Over time, net profit margin can be used to evaluate a company's operational effectiveness and overall financial health. It makes it possible to compare businesses operating in the same sector or industry, giving information on how profitable each is relative to the others. Since larger margins indicate higher returns, investors frequently take net profit margin into account when assessing how appealing an investment opportunity is **(Kenton, 2020).**

1.2.2.3 EBITDA Margin

A financial measure called EBITDA Margin evaluates an organization's operating profitability as a percentage of its overall sales. To compute the percentage, divide Earnings Before Interest, Taxes, Depreciation, and Amortisation (EBITDA) by Total Revenue. Then, multiply the quotient by 100. When non-operational elements like interest costs, taxation, and the non-cash accounting items of amortisation and depreciation are subtracted, this margin offers information on how efficiently a company's core operations are carried out. Given that a greater percentage of sales is being turned into operating profit, a company with a higher EBITDA margin is likely more efficient and profitable overall. This metric is especially helpful for comparing businesses in the same sector because it lessens the impact of disparate capital structures and tax environment **(Berman, K., & Knight, J., 2013).**

Analysts and investors use the EBITDA Margin extensively to assess a company's performance and financial health. It is a helpful tool for evaluating profitability between businesses and sectors since it eliminates the influence of accounting and funding choices. EBITDA Margin is frequently cited as a crucial performance metric in books on corporate finance and financial analysis, such as Karen Berman and Joe Knight's "Financial Intelligence". Furthermore, publications such as McKinsey & Company's "Valuation: Measuring and Managing the Value of Companies" highlight its significance in the processes of investment decision-making and valuation. These sources emphasise that even though EBITDA Margin isn't a perfect indicator of profitability, it's a great tool for figuring out how efficiently a business runs and how much cash it can produce **(Koller, T., Goedhart, M., and Wessels, D., 2020).**

1.2.2.4 EBIT Margin

Operating margin, commonly referred to as EBIT margin, is a financial term that assesses how profitable a business is by dividing earnings before interest and taxes (EBIT) by revenue. When tax and interest effects are taken out, this ratio shows how well a business is controlling its operating costs and making a profit from its main operations. It is simple to calculate EBIT Margin by dividing EBIT by total revenue and expressing the result as a percentage. In comparison to revenues, a company with a greater EBIT Margin is more efficient and has more control over its operational costs **(R. A. Brealey, S. C. Myers, and F. Allen 2019).**

Investors and analysts should understand EBIT Margin since it shows a company's operational performance independent of its capital structure and tax environment. This indicator is especially helpful for comparing businesses in the same industry since it makes operating performance easy to evaluate. A company that has a greater EBIT Margin than its competitors, for example, is probably more adept at turning revenues into real profit, which could make it more appealing to investors. The books **"Financial Statement Analysis" by K.R.** Subramanyam and **"Principles of Corporate Finance" by R. A. Brealey, St. C. Myers, and F. Allen** are important sources of information on this subject since they offer in-depth analyses of how to calculate and interpret profitability ratios like EBIT.

1.2.2.5 Contribution Margin

A crucial financial indicator that clarifies a product or service's profitability is contribution margin **(Smith, 2018)**. After deducting variable costs, it measures the amount left over to pay for fixed expenses and turn a profit **(Jones & Brown, 2020)**. Businesses must comprehend contribution margin in order to allocate resources, set prices, and choose their product mixes **(Johnson et al., 2019).**

Contribution Margin is a fundamental component of a successful business strategy and goes beyond simple financial analysis. Businesses can achieve optimal financial performance and ensure viability and success in the current dynamic market scenario by understanding and utilising Contribution Margin **(Jones & Brown, 2019).**

1.2.2.6 Return on Assets

Businesses utilise return on assets (ROA), a basic financial indicator, to evaluate how well they are using their assets to generate profits. Investors, analysts, and managers use it extensively as a crucial financial performance indicator to assess the profitability and operational effectiveness of a company. The purpose of this dissertation is to examine ROA's concept, computation techniques, importance, and implications as they relate to assessing business performance **(Brigham, E. F., & Houston, J. F., 2018).**

A financial ratio called return on assets (ROA) gauges a company's capacity to produce a profit in relation to its total assets. It sheds light on how well a business uses its resources to produce profits **(Penman, S. H., 2013).**

1.2.2.7 Return on Equity

A key financial indicator used to evaluate a company's profitability and effectiveness in producing returns for its shareholders is return on equity, or ROE. The return on equity (ROE) of a firm indicates its capacity to make money off of the stock that shareholders have placed in it. It basically shows how well a business uses its equity to produce net income. ROE is commonly represented as a percentage and is computed by dividing net income by shareholders' equity. A company's ability to generate profits from shareholder capital is often indicated by a higher return on equity (ROE); conversely, a lower ROE may imply inefficiencies or financial hardship **(Brigham, Eugene F., and Joel F. Houston., 2018).**

For investors, analysts, and other stakeholders, return on equity (ROE) is a crucial indicator since it offers important information about a company's long-term financial success and well-being. In order to help investors determine whether companies are more efficient at producing returns on equity investments, it is frequently used for comparative study between businesses within the same sector or industry. A higher ROE can indicate a stronger potential for creating shareholder value, which makes it a crucial metric for assessing the overall attractiveness of an investment opportunity. Investors and managers alike must comprehend the factors that influence return on equity (ROE) and how these factors affect a company's financial performance in order to make wise strategic and investment choices **(Penman, Stephen H., 2012).**

1.2.2.8 Return on Investment

One important statistic for assessing the efficacy and efficiency of investments is ROI (Return on Investment) **(Jones, 2018)**. It helps investors make wise judgements by offering insightful information about the relative returns of various investment possibilities **(Smith & Johnson, 2020)**. A positive return on investment (ROI) denotes a profit that exceeds the initial cost of the venture, whereas a negative ROI represents a loss **(Brown, 2019)**. ROI plays a major role in decision-making processes for corporations, organisations, and individuals **(Williams et al., 2017)**. It helps to optimise resource allocation by helping to prioritise investments based on their potential returns **(Chen & Wang, 2021)**.

ROI also makes it possible for stakeholders to assess the performance of previous investments and ascertain whether they were in line with financial goals **(Lee & Kim, 2018)**. Finding the projects or initiatives with the greatest prospective returns can be accomplished by comparing their ROIs **(Garcia et al., 2019)**. By allocating resources to the most promising projects, this strategy maximises overall profitability **(Roberts, 2020)**. Furthermore, knowing ROI makes it easier to evaluate the risk of an investment, empowering investors to make risk-adjusted choices **(Taylor, 2016)**.

1.2.3 Importance of Profitability Analysis

1.2.3.1 Strategic Decision Making

The process of determining, assessing, and choosing the best courses of action that support the long-term goals and overarching mission of an organisation is known as strategic decision making. High-level factors that significantly affect the organization's performance over time, competitive position, and direction are usually taken into account while making these decisions. Strategic choices are frequently difficult because they involve risk, uncertainty, and the requirement to foresee and adapt to changes in the external environment **(Fred R. David and Forest R. David, 2010).**

1.2.3.2 Performance Evaluation

Businesses must evaluate their performance in order to determine their operational effectiveness and financial stability **(Smith, 2020)**. Companies can learn a great deal about their strengths, shortcomings, and areas for improvement by examining important metrics and indicators **(Jones et al., 2018).** Evaluating the company's financial situation is a crucial component of performance evaluation. Examining financial statements like the cash flow statement, balance sheet, and income statement is part of this **(Johnson, 2019).**

Evaluating how well the business uses its resources is another facet of performance evaluation **(Smith, 2018).** This covers both material resources, such as buildings and machinery, and immaterial resources, such as intellectual property and human capital **(Jones et al., 2020).** Assessing productivity metrics like income per worker, output per unit of input, and asset turnover can assist in determining how effectively resources are being used to produce income **(Brown & White, 2019).** Companies can optimise resource allocation and streamline operations by keeping an eye on expenses and pinpointing inefficient areas **(Johnson, 2017).**

1.2.3.3 Investor Confidence

Any company's potential to generate returns and attract stakeholders is reflected in the confidence that investors have in it **(Smith, 2020).** Investor confidence and trust play a critical role in determining a company's course and rate of expansion **(Jones & Brown, 2018).** Investor trust is based on financial statements **(Johnson, 2019).** Stability and growth potential are indicated by positive trends in sales, high profit margins, and steady cash flow **(Brown & Lee, 2021).** The company's financial strength is demonstrated by graphs showing cash flow statements, profit margins, and sales growth **(Chen et al., 2022).**

Market share and competitive edge show how well a business can survive in a competitive environment **(Adams, 2017).** Market research and surveys highlight the company's positioning and potential for expansion **(Roberts, 2023).** Innovation communicates to investors the company's adaptability and future significance, which increases investor trust **(Williams & Garcia, 2020).** Innovation-driven initiatives are supported by R&D spending, product development pipelines, and patents **(Anderson, 2019).**

2. OBJECTIVES

The main objective of this bachelor's thesis is to assess profitability of the chosen company, Industria de Diseño Textil, S.A., (Inditex, S.A). This analysis aims to shed light on the company's financial situation and strategy orientation within the global fashion retail sector.

- In order to comprehend the context in which financial data is provided and evaluated, it is necessary to give a summary of the company's characteristics, including the chosen accounting policies.
- To evaluate the company's financial health and asset management, examine the balance sheet, paying particular attention to non-current assets, current assets, total assets, equity, non-current liabilities, and current liabilities.
- To assess the company's ability to generate revenue and run its operations efficiently, one should look at the income statement and break down each component, including net sales, cost of sales, gross profit, operating expenditures, profit before tax, income tax, and net profit.
- To measure the company's profitability and operational performance, a thorough profitability analysis should be carried out, taking into account indicators like gross profit margin, net profit margin, gross operating profit (EBITDA) and EBITDA margin, net operating profit (EBIT) and EBIT margin, and contribution margin.
- To determine the company's potential to generate profit in relation to its assets, equity, and investments, respectively, it is specifically necessary to study important profitability ratios such as return on assets (ROA), return on equity (ROE), and return on investments (ROI).

3. METHODOLOGY

3.1 Description of methods and tools used for the analysis of Inditex`s, S.A. profitability

Large Spanish retailer Inditex, S.A. is the owner of several well-known brands, including Massimo Dutti, Pull&Bear, and Zara. The company's cost and profitability analysis necessitates the application of a number of techniques and instruments in order to evaluate the firm's financial standing and ascertain the viability of its business plan. Techniques and instruments support the assessment of its financial performance, the identification of areas in need of development, and the creation of plans to increase profitability. Operating by **Lee, David et al. (2019)** there is a list of necessary formulas below:

Gross Profit Margin:

$$\frac{\text{Gross Profit}}{\text{Net Sales}} * 100\% \tag{3.1}$$

Net Profit Margin:

$$\frac{\text{Net Profit}}{\text{Net Sales}} * 100\% \tag{3.2}$$

EBITDA Margin:

$$\frac{\text{EBITDA}}{\text{Sales}} * 100\% \tag{3.3}$$

EBIT Margin:

$$\frac{\text{EBIT}}{\text{Sales}} * 100\% \tag{3.4}$$

Contribution Margin:

$$\frac{\text{Net Sales} - \text{Costs of Sales}}{\text{Sales}} * 100\% \tag{3.5}$$

Return on Assets (ROA):

$$\frac{\text{Net Profit}}{\text{Total Assets}} * 100\% \tag{3.6}$$

Return on Equity (ROE):

$$\frac{\text{Net Profit}}{\text{Equity}} * 100\% \tag{3.7}$$

Return on Investments (ROI):

$$\frac{\text{Net Profit}}{\text{Average Investments}} * 100\% \tag{3.8}$$

1. Review the balance and income statements. Understanding a company's profitability and current financial status is made simpler by Inditex **(Inditex, S.A. Annual Report, 2023).**
2. Calculating and analysing ratios such as the gross profit margin, return on assets, and net profit margin to revenue ratios help evaluate how well resources are allocated and how profitable a business is overall (**Inditex, S.A. Financial Statements, 2023).**
3. Competitiveness and strengths and weaknesses can be evaluated by comparing its financial performance to those of its market rivals.
4. By breaking down company's revenue into several components and calculating margins, the most profitable business sectors can be found (**Inditex, S.A. Financial Statements, 2023).**

3.2 A rationale for the approach used and an explanation of how it relates to this investigation

It is advised that Inditex, S.A. assess costs and profitability using a financial analysis approach that includes key performance indicators and financial reporting methods.

1. Financial reporting techniques:

- Income Statement: This report enables you to evaluate the overall profitability of a business over a given period of time. This report includes all of the company's income and costs as well as the essential components of its profit. **(Inditex, S.A., Annual Report, 2023)**
- Balance Sheet: Offers a breakdown of the company's assets, liabilities, and capital as of a given date. This makes it possible for us to assess its s overall strength and financial condition. **(Inditex, S.A., Annual Report, 2023)**

2. Important performance indicators:

- Return on Equity (ROE): Shows how profitable a business is compared to the amount of equity it has invested. This measure will help determine the efficiency with which its internal resources are being employed **(Inditex, S.A., Annual Report, 2023).**

- Return on Assets (ROA): Indicates how efficiently a company utilizes its assets to generate profit. This ratio measures the company's ability to convert its investments in assets into net income, providing insight into operational performance and asset management. **(Inditex, S.A., Annual Report, 2023).**
- Return on Investment (ROI): Evaluates the profitability of an investment relative to its cost, expressed as a percentage. This metric helps assess the efficiency of an investment or compare the efficiency of several different investments **(Inditex, S.A., Annual Report, 2023).**

It will therefore be able to conduct a thorough and objective examination of costs and profitability by using financial analysis techniques, giving us the capacity to make decisions that would maximise its financial operations.

4. RESULTS

4.1 Company´s profile

Based in Arteijo, Spain, Industria de Diseño Textil, S.A. (commonly known as Inditex, S.A.) is a multinational fashion retail corporation. Inditex has grown to become one of the biggest and most significant fashion retailers globally, recognised for its wide range of brands and creative business approach **(Ch. Duhigg, 'The New York Times').**

Inditex's dedication to sustainability, innovation, and agility is the foundation of its success. The business controls every step of the value chain, from design and manufacture to distribution and retail, thanks to its vertically integrated business strategy. With the help of this integration, Inditex is able to quickly adapt to shifting consumer preferences and quickly introduces new runway trends to shop shelves. **(Sh. Lu, 'Journal of Fashion Marketing and Management').**

Several well-known brands, including Zara, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Uterque, and Zara Home, are part of Inditex's portfolio. These brands each serve distinct market niches and customer tastes. Offering a large selection of stylish and reasonably priced clothing, accessories, and footwear, Inditex has made a name for itself as a leader in the fast-fashion sector with its presence in more than 90 countries and extensive network of retail locations **(Cl. Henninger, M. Lemaire, 'Journal of Fashion Marketing and Management').**

Beyond its financial success, Inditex is dedicated to social responsibility and sustainability. The company employs a number of strategies to reduce its environmental impact, such as trash reduction programmes, energy-efficient retail locations, and sustainable sourcing methods. Furthermore, Inditex places a high priority on moral labour standards throughout its supply chain to guarantee decent working conditions and cultivate enduring relationships with suppliers **(L. Ripollés, P. Archel, 'International Journal of Production Economics').**

Inditex is widely known and praised in the fashion industry for its commitment to innovation, sustainability, and customer-centricity. Striving for a more sustainable and inclusive society, Inditex continues to build the future of fashion commerce with a solid foundation based on creativity, adaptability, and social responsibility **(M. A. Coto, 'European Journal of Business and Management').**

4.1.1 Selected accounting policies

1. Subsidiaries
2. Jointly controlled entities
3. Harmonisation of criteria
4. Intra-Group eliminations
5. The financial statements of companies with a functional currency other than the euro, except in the case of hyperinflationary countries, have been translated as follows:
    - Assets and liabilities are translated to euros at the exchange rates prevailing at year-end.
    - Items composing the equity of these companies are translated to euros at the historical exchange rates (or, for retained earnings, at the average exchange rates for the year in which they were generated).
    - Income and expenses are translated to euros at the exchange rates prevailing at the dates on which they were recognised, while average exchange rates are used in those cases in which the application of this simplifying criterion does not generate significant differences.
6. Financial statements in hyperinflationary economies
7. Companies with a reporting date that differs from that of the Group

Source: (Inditex, S.A., Annual report, 2022).

4.2 Balance Sheet

Over the years, Inditex, S.A., a prominent player in the global fashion retail sector, has exhibited significant financial stability and operational efficacy. This study looks at Inditex's balance sheet from January 31, 2020, to January 31, 2023, with an emphasis on important trends, ratios, and financial health-related information.

Tab.2

Balance Sheet accumulation from 2020 to 2023

Amounts in millions of EUR				
Positions	**31.01.2020**	**31.01.2021**	**31.01.2022**	**31.01.2023**
Non-Current Assets	16,977	15,46	15,343	15,344
Other intangible assets	410	444	589	810
Property, plant, and equipment	8,355	7,401	7,481	7,591
Current financial investments	3,319	176	2,374	4,522
Financial investments	249	261	307	334
Other non-current assets	456	380	340	278
Current Assets	11,414	10,957	13,602	14,639
Inventories	2,269	2,321	3,042	3,191
Trade and other receivables	780	715	842	851
Income tax receivable	174	257	219	238
Other current assets	78	88	82	85
Other financial assets	14	2	22	8
Current financial investments	3,319	176	2,374	4,522
Cash and cash equivalents	4,78	7,398	7,021	5,561
Total Assets	28,391	26,418	28,945	29,963
Equity	14,949	14,55	15,759	17,033

Non-Current Liabilities	6,136	5,529	5,157	5,157
Provisions	217	252	287	283
Other non-current liabilities	380	280	248	222
Financial debt	6	3	1	0
Current Liabilities	7,306	6,338	8,03	8,137
Financial debt	32	11	35	13
Other financial liabilities	40	27	22	46
Lease liability	1,649	1,552	1,562	1,517
Income tax payable	142	88	211	264
Trade and other payables	5,443	4,659	6,199	6,297
Equity and Liabilities	28,391	26,418	28,945	29,983

Source: Annual reports 2020-2023 of the company Inditex, S.A.

Accumulation – source of own elaboration

4.2.1 Non-Current Assets

Non-current assets have shown a slight decline from 16,977 million EUR in 2020 to 15,344 million EUR in 2023. This reduction is primarily due to changes in property, plant, and equipment, which decreased from 8,355 million EUR in 2020 to 7,591 million EUR in 2023, indicating potential divestment or depreciation of physical assets. Conversely, other intangible assets increased significantly from 410 million EUR in 2020 to 810 million EUR in 2023, reflecting ongoing investments in brand value, patents, and technology **(Tab.2) (Fig.2)**.

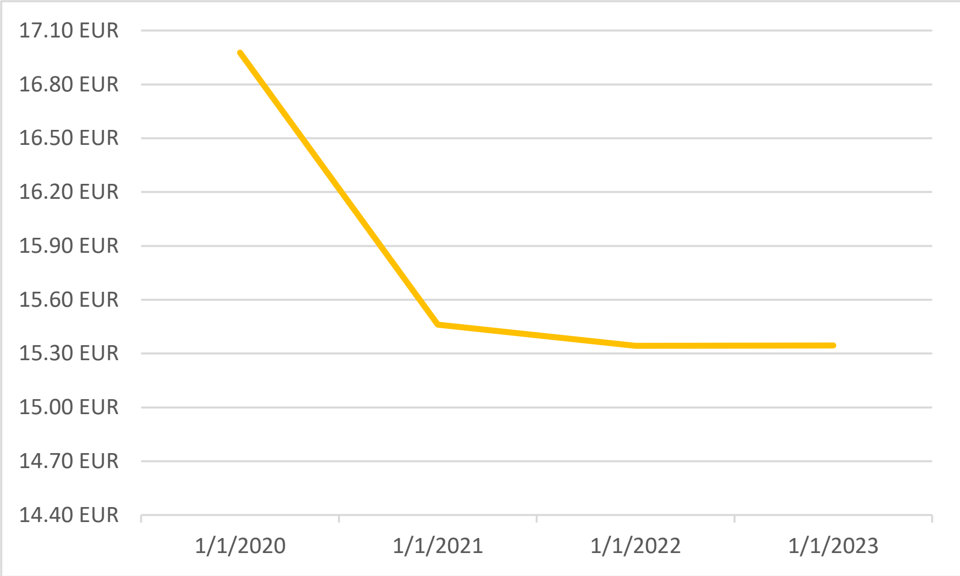

Fig.2

Non-Current assets

Source: own elaboration

4.2.2 Current Assets

Due to a significant increase in inventory and current financial investments, current assets increased from 11,414 million EUR in 2020 to 14,639 million EUR in 2023. From 2,269 million EUR in 2020 to 3,191 million EUR in 2023, inventories rose, indicating deliberate hoarding to control supply chain interruptions or fulfil demand. The amount of current financial investments increased from 176 million EUR in 2021 to 4,522 million EUR in 2023, demonstrating effective short-term investment planning and strong liquidity management **(Tab.2) (Fig.3)**.

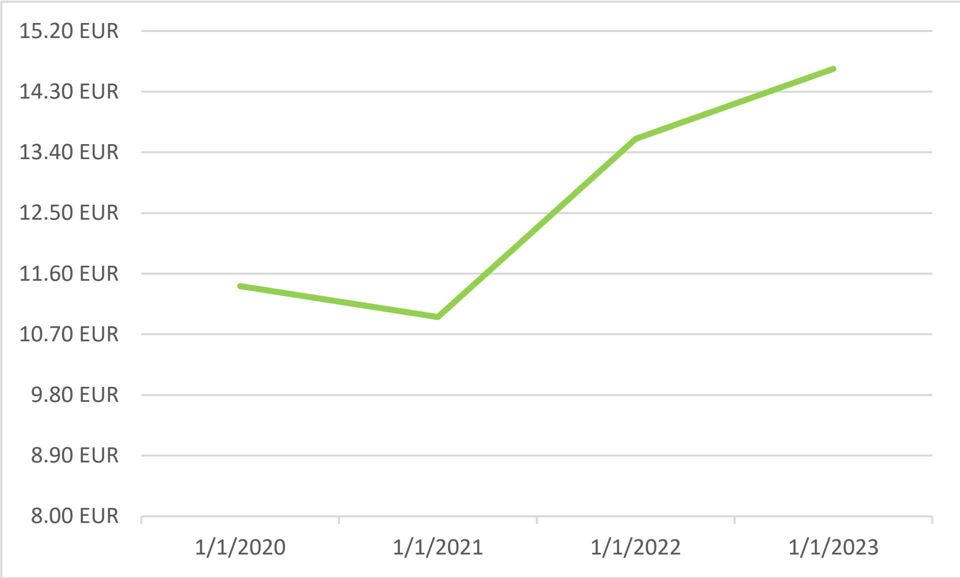

Fig.3

Current assets

Source: own elaboration

4.2.3 Total Assets

The entire amount of assets has changed over time, falling to 26,418 million EUR in 2021 and rising to 29,963 million EUR in 2023. This comeback demonstrates Inditex's resilience to market shocks, which may have been caused by the COVID-19 pandemic's effects on retail operations in 2020–2021 **(Tab.2) (Fig.4).**

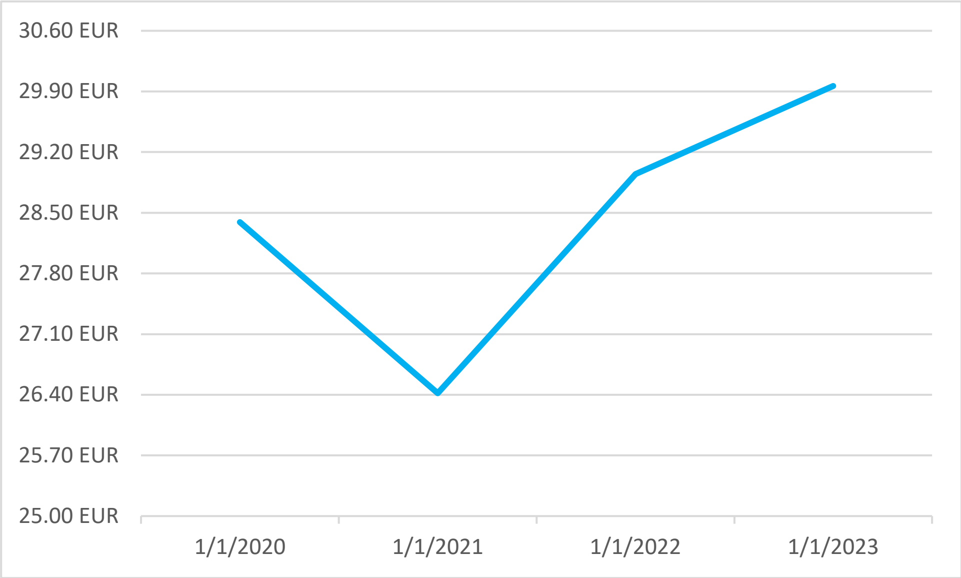

Fig.4

Total Assets

Source: own elaboration

4.2.4 Equity

Equity has consistently increased from 14,949 million EUR in 2020 to 17,033 million EUR in 2023. This steady growth reflects Inditex's strong profitability and effective retention of earnings. The equity increase is indicative of a robust financial foundation, providing a buffer against market volatility and economic downturns **(Tab.2) (Fig.5).**

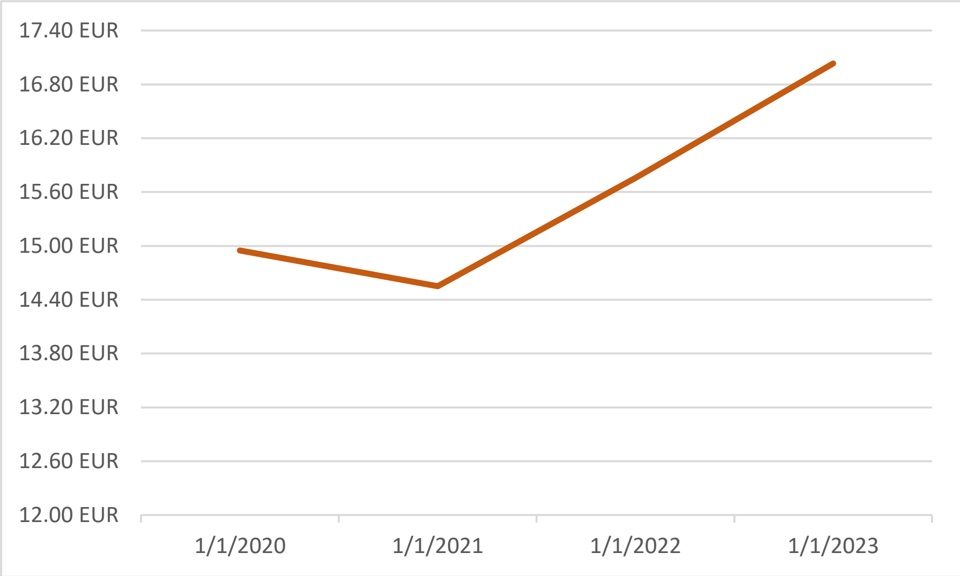

Fig.5

Equity

Source: own elaboration

4.2.5 Non-Current Liabilities

From 6,136 million EUR in 2020 to 5,157 million EUR in 2023, non-current liabilities have reduced. Provisions and other non-current liabilities, which have decreased and represent better financial stability and fewer long-term financial responsibilities, are among the important components. Notably, by 2023, financial debt will have almost completely disappeared, having dropped from 6 million EUR in 2020 **(Tab.2) (Fig.6)**.

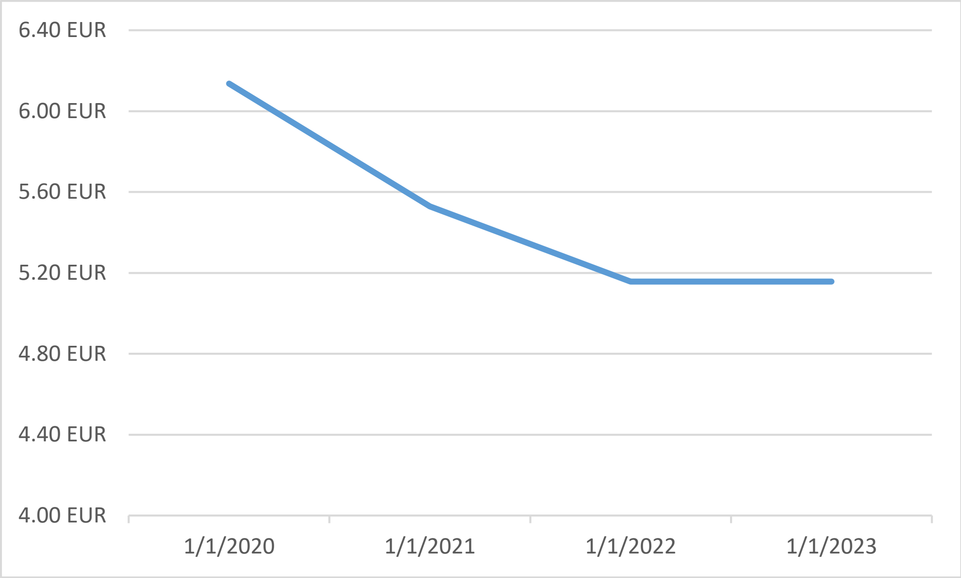

Fig.6

Non-Current Liabilities

Source: own elaboration

4.2.6 Current Liabilities

The amount of current liabilities has fluctuated over time, falling to 6,338 million EUR in 2021 and then increasing to 8,137 million EUR in 2023. The bulk is made up of trade and other payables, which increased from 5,443 million EUR in 2020 to 6,297 million EUR in 2023 as a result of increased operational activity and supplier participation. Even with a little decrease from 1,649 million EUR in 2020 to 1,517 million EUR in 2023, the lease liability is still substantial **(Tab.2) (Fig.7).**

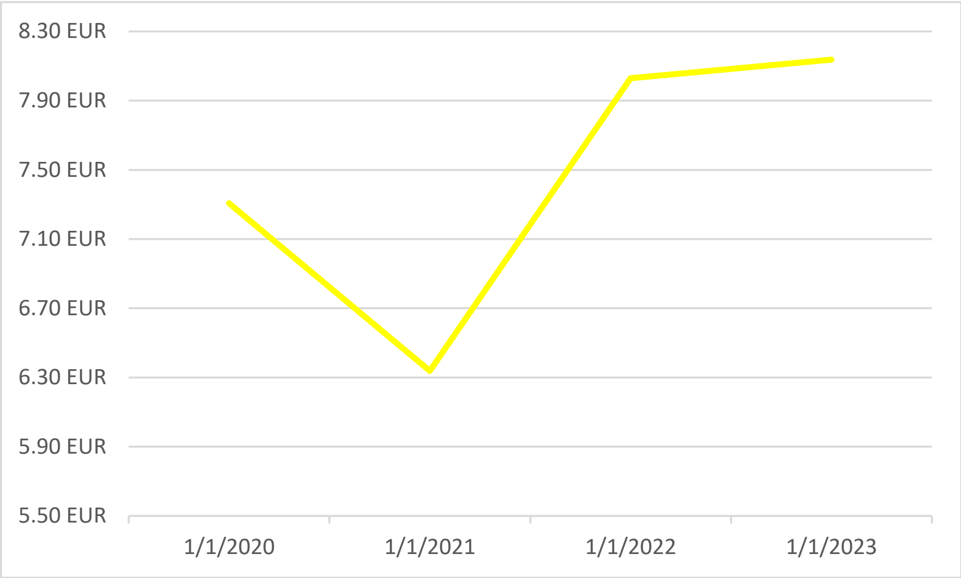

Fig.7

Current Liabilities

Source: own elaboration

4.2.7 Key Financial Ratios

1. **Liquidity Ratios**

	2020	2021	2022	2023
Current Ratio	1.56	1.73	1.69	1.80

From 1.56 in 2020 to 1.80 in 2023, the current ratio increased, demonstrating increased short-term liquidity.

2. **Solvency Ratios**

	2020	2021	2022	2023
Solvency Ratio	0.90	0.82	0.84	0.78

In 2023, the debt to equity ratio dropped from 0.90 in 2020 to 0.78, indicating a more favourable distribution of debt and equity funding.

4.3 Income Statement

The income statement of Inditex, S.A. for the four fiscal years 2020, 2021, 2022, and 2023 is examined in this analysis. The emphasis is on seeing patterns in income, costs, and profitability as well as utilising important financial statistics to assess the business's operational effectiveness and financial success.

Tab.3

Income Statetment accumulation from 2020 to 2023

Amounts in millions of EUR				
Position	**2020**	**2021**	**2022**	**2023**
Net sales	20,402	27,716	32,569	35,947
Cost of sales	9,013	11,902	14,011	15,186
Gross profit	11,390	15,814	18,558	20,762
Operating expenses	6,807	8,596	9,867	10,853
Other losses and income, net	31	35	43	59
Gross operating profit (EBITDA)	4,552	7,183	8,649	9,85
Amortisation and depreciation	3,045	2,901	2,899	3,041
Net operating profit (EBIT)	1,507	4,282	5,52	6,809
Financial results	139	142	214	11
Results of companies accounted for using the equity method	33	58	53	72
Profit before taxes	1,401	4,199	5,358	6,87
Income tax	297	949	1,211	1,475
Net profit	1,104	3,25	4,147	5,395
Net profit attributable to non-controlling interests	2	7	17	14,000
Net profit attributable to the parent	1,106	3,243	4,13	5,381

Basic and diluted earnings per share, Euros	0.355	1.042	1.327	1.729

Source: Annual reports 2020-2023 of the company Inditex, S.A. Accumulation – source of own elaboration

4.3.1 Net Sales

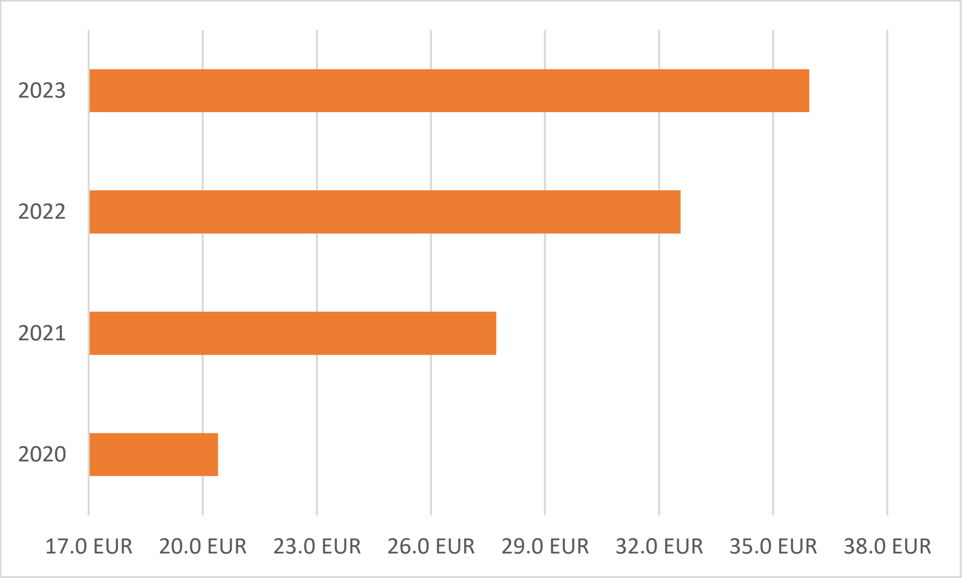

Fig.8

Net Sales

Source: own elaboration

Net sales at Inditex, S.A. increased significantly, with a compound annual growth rate of about 20.7%. The solid demand for Inditex's products and its successful expansion tactics are indicated by this strong rising trend (**Tab.3) (Fig. 8).**

4.3.2 Cost of Sales

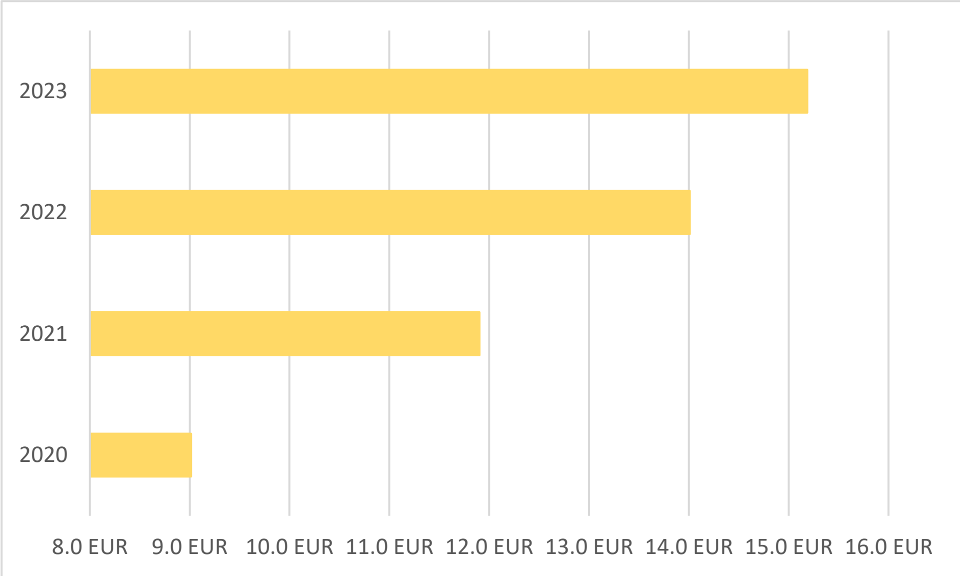

Fig.9

Costs Sales

Source: own elaboration

The cost of sales also climbed, but at a significantly lower rate compared to net sales. Over time, this led to an increase in the gross profit margin **(Tab.3) (Fig. 9).**

4.3.3 Gross Profit

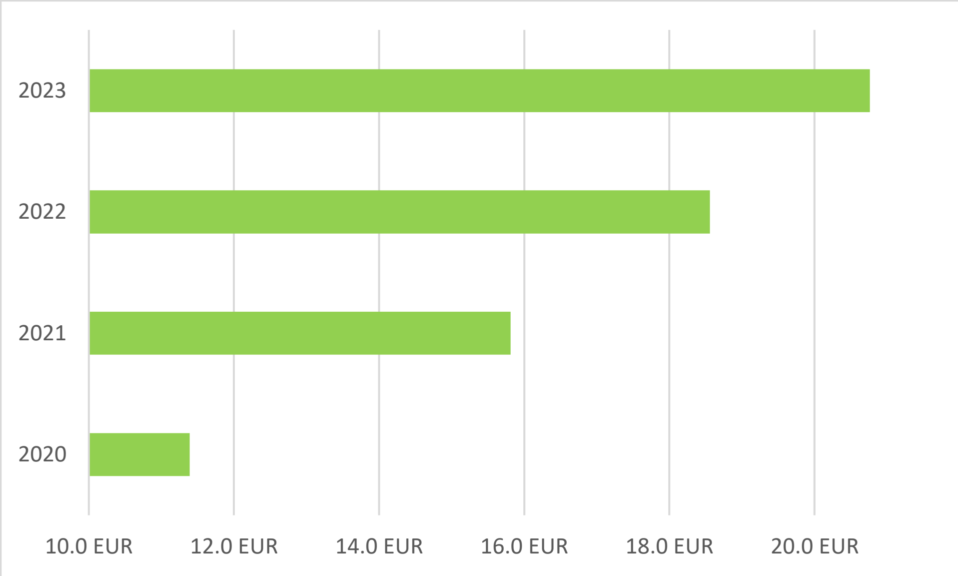

Fig.10

Gross Profit

Source: own elaboration

From 11,390 million EUR in 2020 to 20,762 million EUR in 2023, the gross profit margin increased, demonstrating Inditex's effectiveness in controlling manufacturing costs in relation to its revenue growth (**Tab.3) (Fig. 10).**

4.3.4 Operating Expenses and Profit

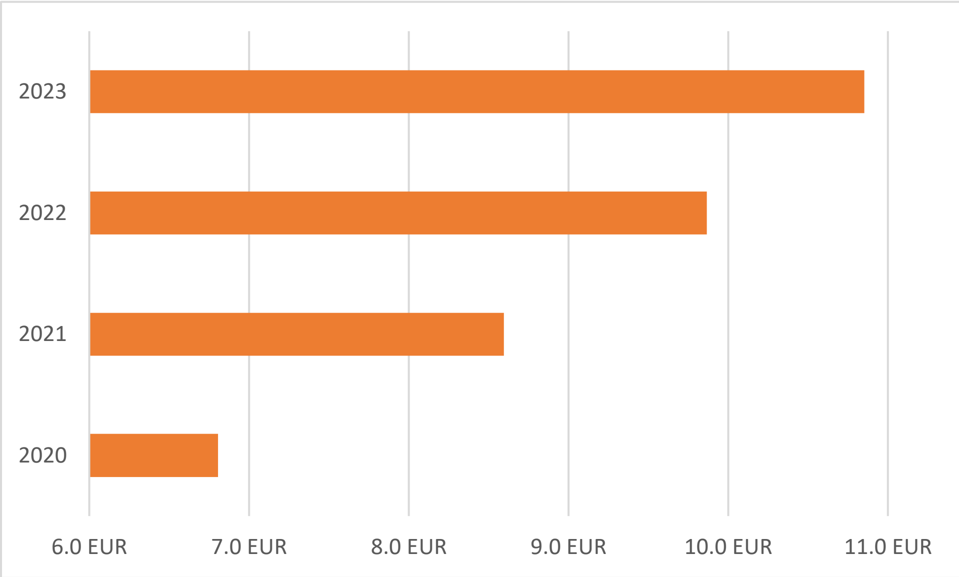

Fig.11

Operating Expenses and Profit

Source: own elaboration

With the growth of the company, operational expenses also climbed, but at a controlled rate that made sure a sizable amount of gross profit went towards operating profit **(Fig. 11).**

4.3.5 Amortisation and Depreciation

Depreciation and amortisation both stayed comparatively steady, indicating a steady investment in long-term assets **(Fig. 12).**

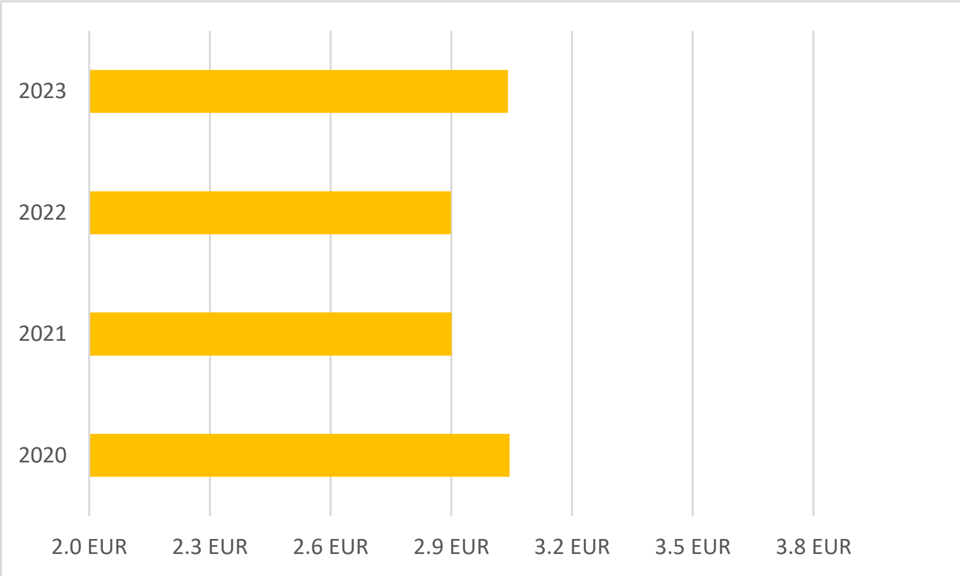

Fig.12

Amortisation and Depreciation

Source: own elaboration

4.3.6 Financial Results and Profit Before Tax

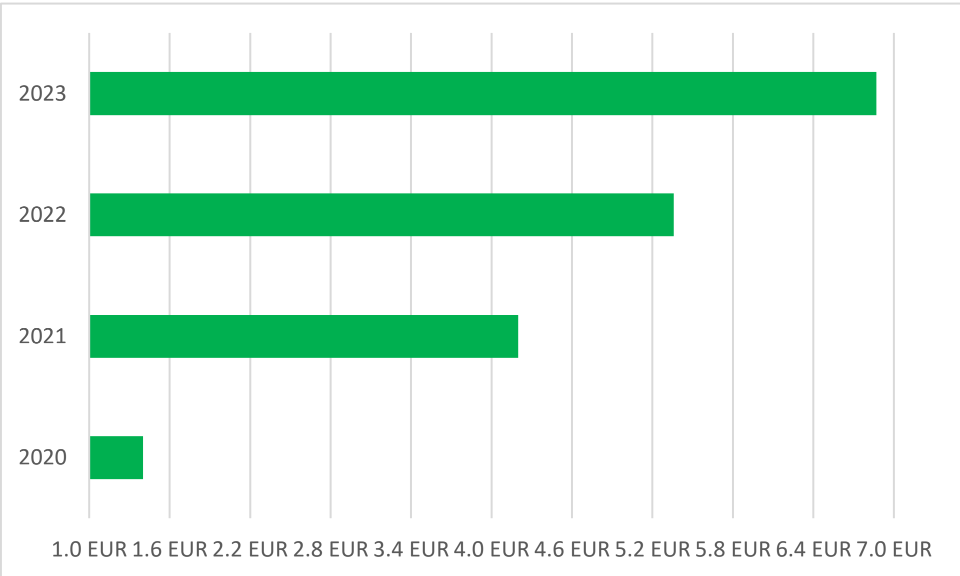

Fig.13

Profit Before Tax

Source: own elaboration

The financial figures exhibit volatility, with a notable decline in 2023, indicating either lower revenue or more costs. Strong profitability and growth in pre-tax earnings are indicated by the significant increase in profit before taxes **(Fig. 13).**

4.3.7 Income Tax and Net Profit

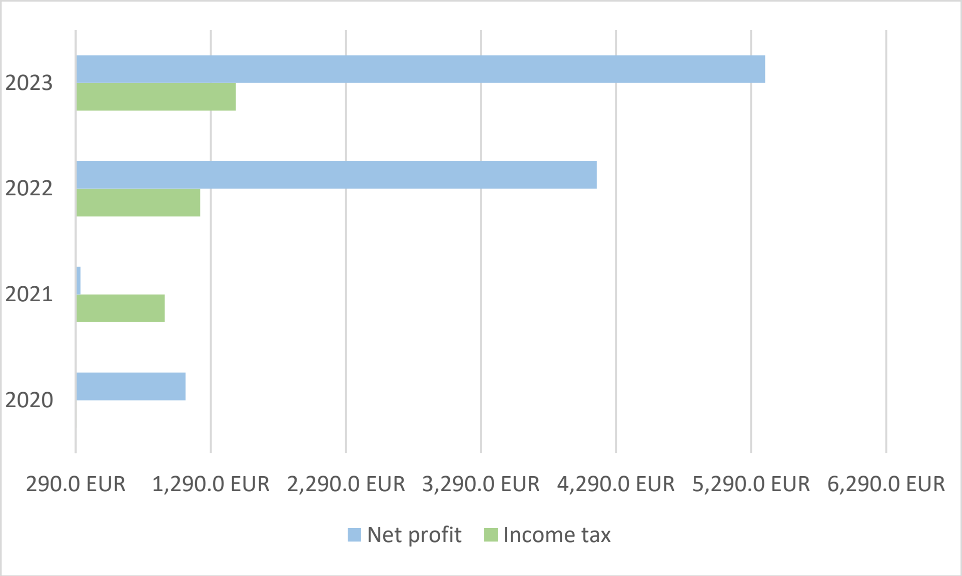

Fig.14

Income Tax and Net Profit

Source: own elaboration

Income tax expenditures increased in tandem with the growth in pre-tax profit, preserving an effective tax rate of approximately 21–22%. With a compound annual growth rate of almost 67.5%, the parent company's net profit climbed from 1,106 million EUR in 2020 to 5,381 million EUR in 2023. This demonstrates Inditex's, S.A. robust profit growth and skillful cost control (**Tab.3) (Fig. 14).**

4.4 Profitability analysis

4.4.1 Gross Profit Margin

Over the course of the analysis, Inditex, S.A. shows a consistent gross profit margin, averaging between 55.8% and 57.8%. This consistency suggests that the company uses effective cost-management strategies and reasonable price practices for each of its product lines. The company's competitive positioning and operational efficiency are highlighted by the fact that it has maintained its gross profitability despite fluctuations in operating expenses and other factors. The persistent enhancement and sustenance of a substantial gross profit margin demonstrate the company's capacity to produce significant earnings from sales while managing direct expenses. This pattern bodes well for Inditex's future development and profitability as it demonstrates the company's sound financial standing and effective operations **(Tab.3) (Fig. 15).**

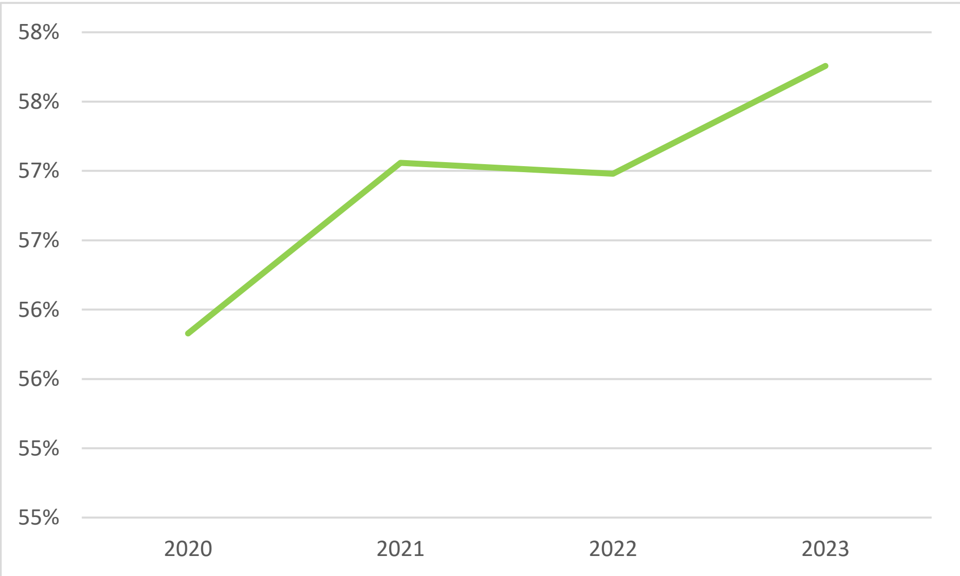

Fig. 15

Gross Margin

Source: own elaboration

4.4.2 Net Profit Margin

Inditex`s, S.A. net profit margin increased from 5.4% in 2020 to 15.0% in 2023, indicating a notable rise during the time. This notable increase is indicative of the company`s improved capacity to turn sales into real profit, which shows efficient cost control and smooth operations. The significant increase in net profit margin from 2020 to 2021 can be ascribed to Inditex`s, S.A recuperation from the COVID-19 epidemic, during which time it probably took strategic steps to optimise operations and cut expenses **(Tab.3) (Fig. 16)**.

The net profit margin increased from 2021 to 2023, albeit more slowly, and it reached 15.0% in 2023. This continuous expansion indicates that Inditex`s, S.A. has been able to profit from rising sales volumes while keeping strict control over expenditures, such as operating costs and financial management. The company's capacity to increase profitability and provide shareholders with more value through strategic investments and operational improvements is further demonstrated by the improvement in net profit margin. All things considered, the steady rise in net profit margin points to a solid and steady financial performance **(Fig. 16).**

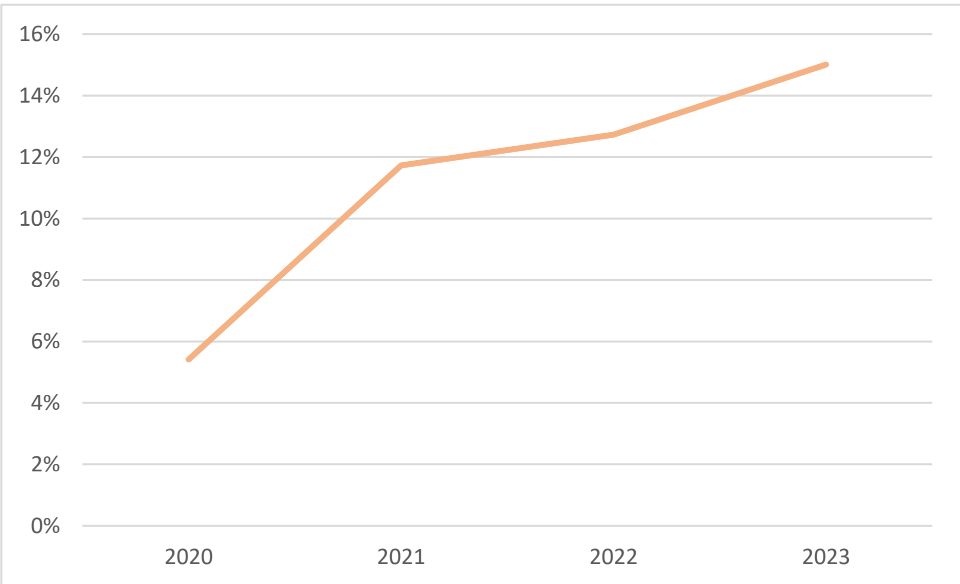

Fig. 16

Net Profit Margin

Source: own elaboration

4.4.3 Gross Operating Profit (EBITDA) and EBITDA Margin

EBITDA increased steadily, demonstrating excellent operational performance and effective control of both direct and indirect expenses **(Fig.17).**

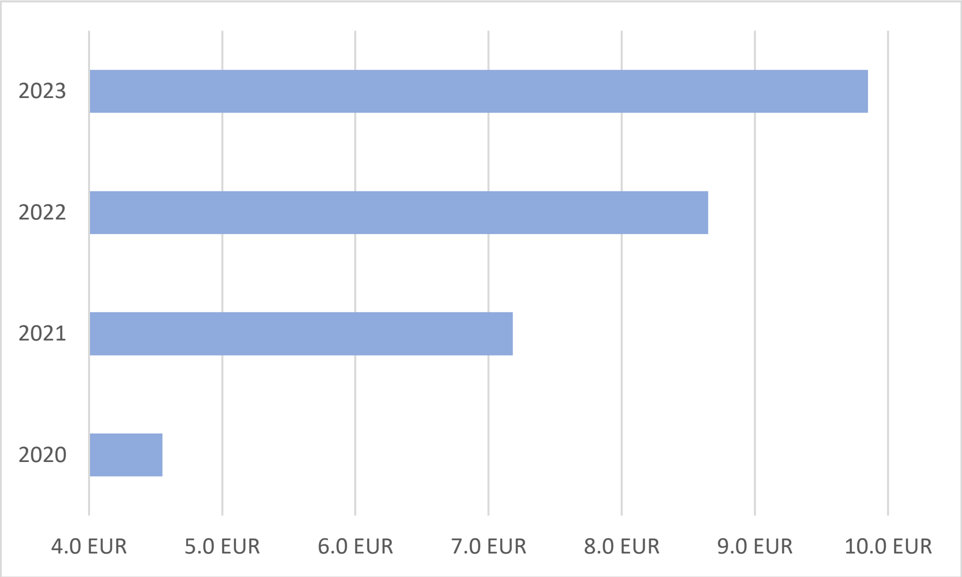

Fig.17

Gross Operating Profit (EBITDA)

Source: own elaboration

Inditex, S.A.'s EBITDA margin increased steadily and favourably from 22.3% in 2020 to 27.4% in 2023. This increasing tendency suggests that, in comparison to its revenue growth, the company has handled its operating expenditures successfully. The notable rise in 2021, from 22.3% to 25.9%, implies that the business effectively capitalised on the dynamics of the post-pandemic recovery, maximising operational effectiveness and reaping the rewards of higher customer demand. The fact that 2022 and 2023 will see even more progress highlights Inditex's capacity to grow its business while keeping cost discipline **(Tab.3) (Fig. 17).**

A higher EBITDA margin reflects the company's robust operational performance and financial health, highlighting its efficiency in converting revenue into earnings before interest, taxes, depreciation, and amortization. This sustained growth in EBITDA margin enhances Inditex's attractiveness to investors by showcasing its capability to generate substantial operating profits and maintain competitive advantage in the fast-fashion retail sector. The margin improvement over the four years demonstrates the company's resilience and strategic effectiveness in navigating market challenges and seizing growth opportunities **(Fig.18).**

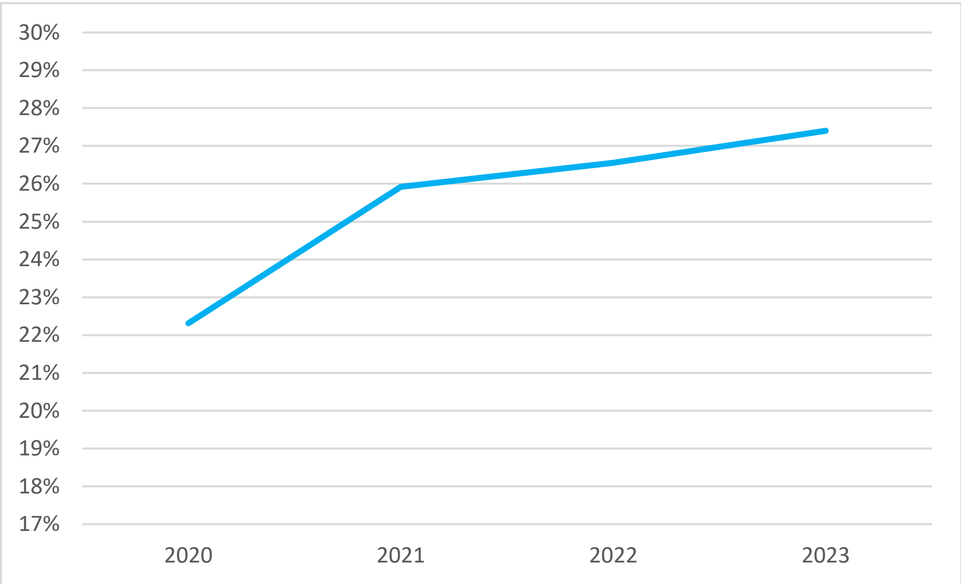

Fig.18

EBITDA Margin

Source: own elaboration

4.4.4 Net Operating Profit (EBIT) and EBIT Margin

The Net Operating Profit improved significantly from 1,507 million EUR in 2020 to 6,809 million EUR in 2023, reflecting increased operational efficiency and profitability (**Tab.3) (Fig. 19).**

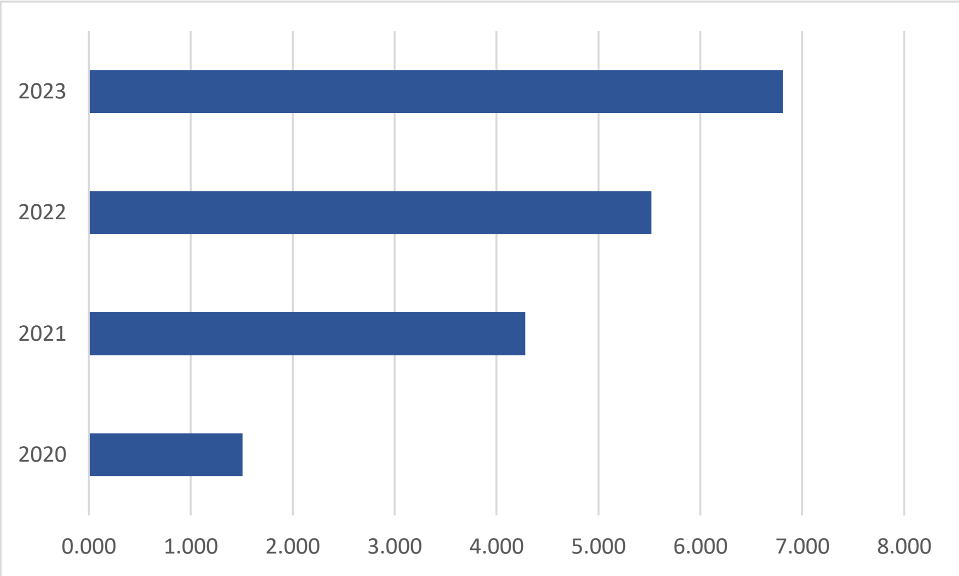

Fig. 19

Net Operating Profit (EBIT)

Source: own elaboration

The four-year period from 2020 to 2023 has seen a notable improvement in Inditex`s, S.A. EBIT margin. 2020's EBIT margin of 7.39% was a reflection of the difficulties encountered during the pandemic, which most likely included supply chain interruptions and retail closures. But starting in 2021, Inditex saw a notable comeback, with its EBIT margin more than doubling to 15.45%. This large rise is indicative of both a robust resurgence in sales and successful cost-control initiatives that improved overall operational effectiveness **(Tab.3) (Fig. 20).**

As of 2023, the EBIT margin stood at 18.94%, indicating a steady upward trend and the company's capacity to produce more profits from its sales. The increased trend in the EBIT margin is indicative of Inditex's ability to effectively adjust to shifting market conditions, as well as its deliberate investments in e-commerce and technology, and its methodical approach to cost containment. Overall, the company's strong operational performance and financial stability are highlighted by the steady improvement in the EBIT margin, which puts it in a strong position for growth and profitability in the cutthroat retail sector **(Fig. 20).**

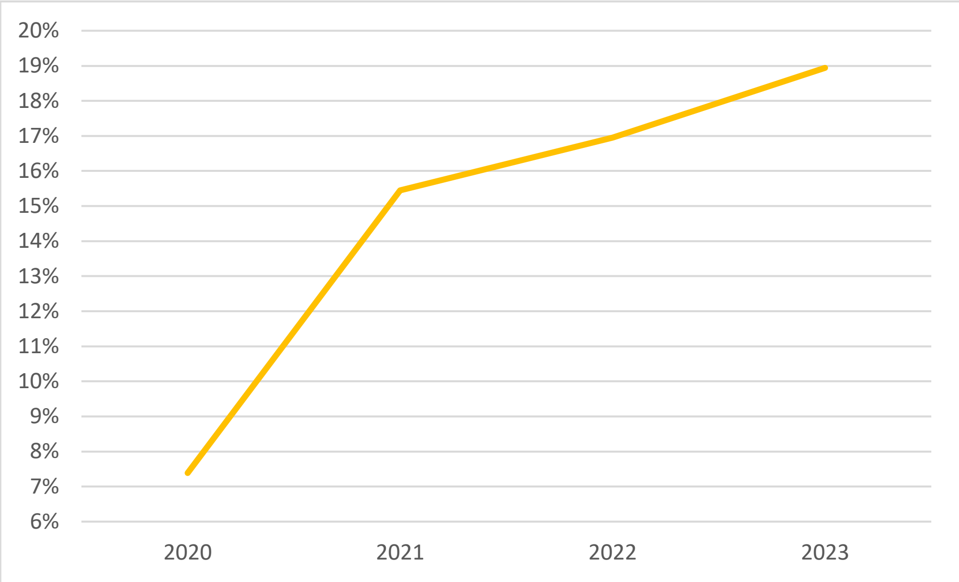

Fig. 20

EBIT Margin

Source: own elaboration

4.4.5 Contribution Margin

The contribution margin percentages for Inditex, S.A. show that the company's capacity to pay fixed expenses and turn a profit from sales income is stable and getting better. The contribution margin went from 55.82% to 57.76% in 2020–2023. The continuous enhancement indicates that Inditex has been proficiently handling its variable expenses in proportion to revenues, an essential aspect of preserving profitability and competitiveness within the retail sector (**Tab.3) (Fig. 21).**

An increased contribution margin is indicative of the company's ability to effectively manage cost of sales while driving more net sales. Economies of scale, improved supply chain management, and perhaps a more aggressive pricing strategy that enables the business to keep more income as profit are all responsible for this efficiency. The steady increase in contribution margin also suggests that Inditex has a compelling value offer, which enables it to keep advantageous cost structures in place in spite of changes in the market. This puts Inditex in a strong position for long-term, profitable growth **(Fig. 21).**

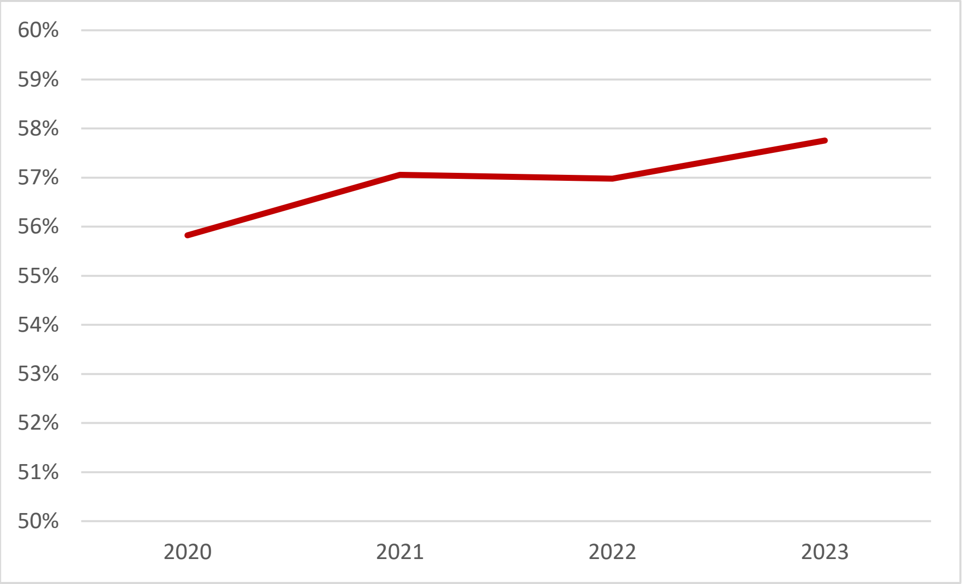

Fig. 21

Contribution Margin

Source: own elaboration

4.4.6 Return on Assets (ROA)

The Return on Assets (ROA) of Inditex, S.A. increased dramatically from 3.89% in 2020 to 18.00% in 2023. This significant rise is a reflection of the company's improved capacity to turn a profit during the course of the analysis from its asset base. The noteworthy growth in net profit during this era, even in the face of a decrease in total assets, can be the reason for the notable improvement in ROA from

2020 to 2021. This pattern persisted as the business maintained strong profitability growth and effective asset utilisation, which were further reinforced by rising ROA in the following years (**Tab.3) (Fig. 22).**

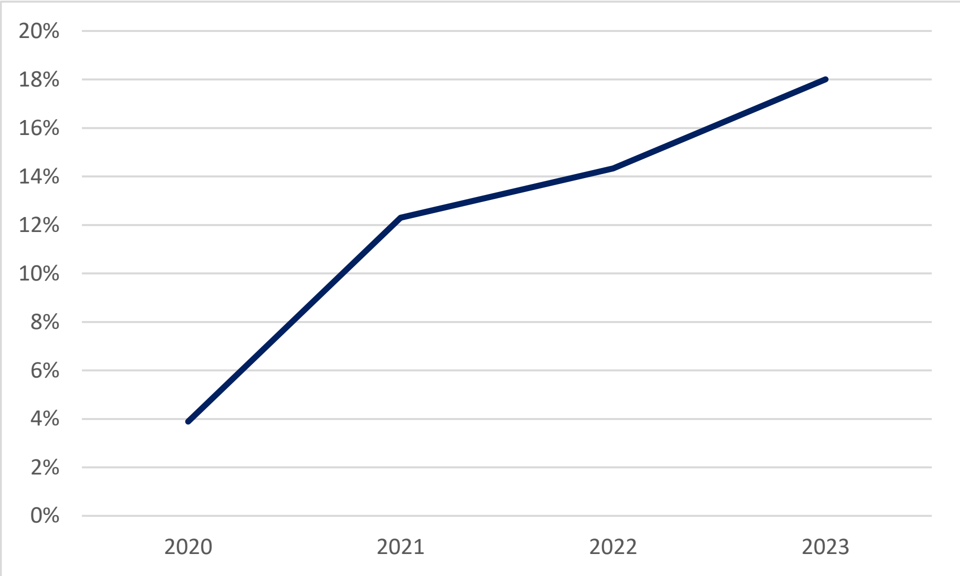

Fig. 22

Return on Assets (ROA)

Source: own elaboration

Inditex's successful strategic measures, including increasing market presence, controlling costs, and optimising operating efficiencies, are demonstrated by the steady improvement in ROA. A better return on assets (ROA) is a good sign for investors and stakeholders as it shows that the company is not only increasing its earnings but also making the most of its asset investments. This pattern indicates that Inditex is in a strong position to maintain its profitability and keep making the most use of its resources to fuel expansion in the future **(Fig. 22).**

4.4.7 Return on Equity (ROE)

Inditex`s, S.A. Return on Equity (ROE) shows a significant upward trend from 2020 to 2023, increasing from 7.38% in 2020 to 31.67% in 2023. This substantial improvement in ROE reflects the company's ability to effectively utilize its shareholders' equity to generate profits. The sharp increase from 2020 to 2021 can be attributed to the company's robust recovery post-pandemic, as net profit surged due to a rebound in sales and effective cost management. The continued growth in ROE over the subsequent years indicates sustained profitability and efficient management of equity capital **(Tab.3) (Fig. 23).**

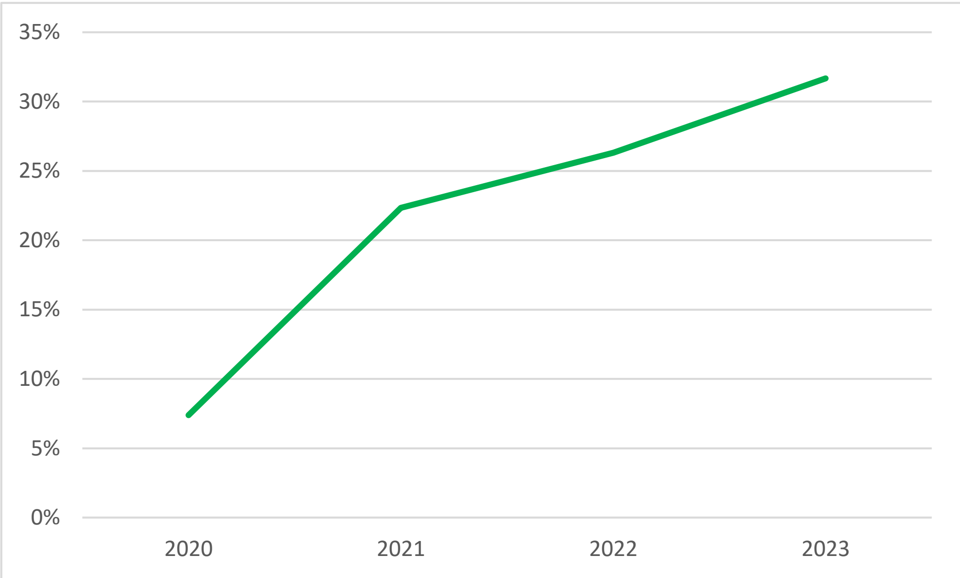

Fig. 23

Return on Equity (ROE)

Source: own elaboration

The high ROE in 2023 indicates that Inditex is giving its shareholders large returns in addition to robust earnings. This kind of performance shows that the company has effectively exploited its resources to maximise profitability, demonstrating a highly efficient use of equity funding. In the retail sector, a ROE of 31.67% is especially noteworthy, highlighting Inditex's competitive edge and strategic competence in preserving high profitability while skillfully managing equity. This pattern demonstrates the company's sound financial standing and its ability to keep providing investors with large profits **(Fig. 23).**

4.4.8 Return on Investments (ROI)

Over the years 2020 to 2023, Inditex, S.A. has proven to be exceptionally successful at producing returns on its financial investments. From roughly 0.2 % in 2020 to roughly 12% in 2023, the ROI grew steadily, demonstrating a significant improvement in the business's investment efficiency. Inditex's efficient use of its financial resources has produced considerable profit production in relation to the average amount of investments made, as evidenced by the rising trend in ROI. These remarkable returns point to prudent financial management techniques and wise strategic choices, which put Inditex in a good position to maximise its investment portfolio and increase shareholder value (**Tab.3) (Fig. 24).**

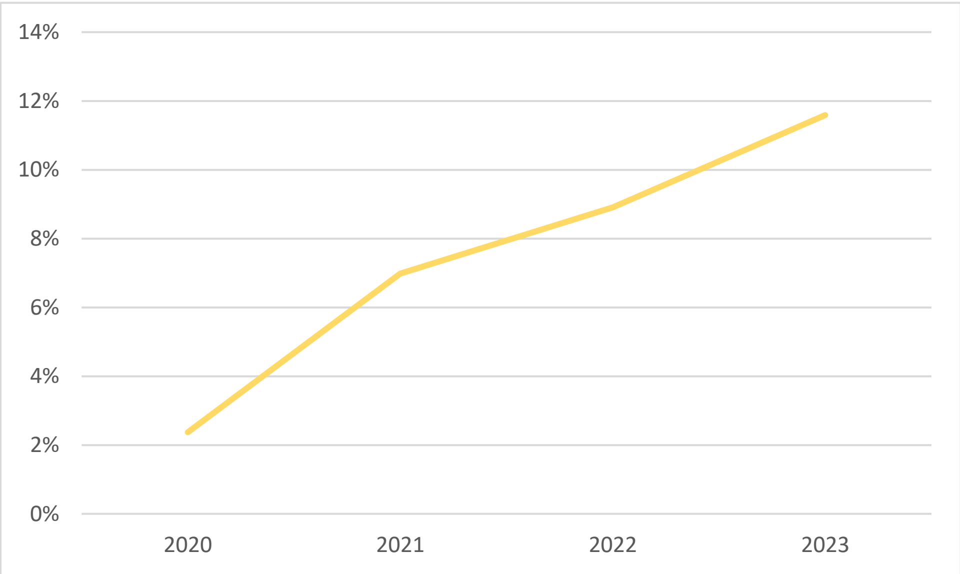

Fig. 24

Return on Investments (ROI)

Source: own elaboration

4.5 Recommendations

The first sector I want guidance in will be Cost Reduction, especially in specific sectors such as:

1. Supply Chain Optimization:
    - Consolidate suppliers and optimize delivery routes to reduce logistics costs.
    - Consider relocating some production to countries with lower labor costs.
2. Personnel Cost Reduction:
    - Conduct a thorough human resources analysis and optimize staffing levels.
    - Revise the pay system to align with performance and competitiveness.
    - Implement training programs to enhance employee skills and productivity.
3. Rental and Operating Cost Reduction:
    - Negotiate with landlords for rent reduction or consider relocating to more cost-effective premises.
    - Introduce energy-saving measures and leverage modern technologies for operational efficiency.

The second recommendations will be implemented as part of Revenue Increase by increasing specific indicators:

1. Range Expansion:
    - Develop new products and services catering to current trends and customer preferences.
    - Expand product offerings across different price categories.

    - Collaborate with designers or influencers to create capsule collections.
2. Market Expansion:
    - Identify and strategize entry into promising sales markets.
    - Adapt products and marketing campaigns to suit local market demands.
    - Utilize online sales channels to reach a broader customer base.

Customer Loyalty Enhancement is another essential component:

1. Personalized Marketing:
    - Utilize customer data for targeted marketing campaigns and personalized recommendations.
    - Offer discounts and incentives to foster customer loyalty.
2. Improved Customer Service:
    - Enhance customer service quality across all communication channels.
    - Train employees in customer-centric skills and feedback management.
3. Community Building:
    - Foster an online community around the Inditex brand through events and promotions.
    - Utilize social media platforms for customer engagement and feedback gathering.

Lastly, it will be beneficial to adopt innovation each year:

1. Technology Integration:

- Leverage artificial intelligence for personalized offerings and process optimization.
- Explore augmented and virtual reality solutions to enhance the shopping experience.
- Implement blockchain technology for supply chain transparency.

2. Online Platform Development:
    - Enhance the functionality and user experience of the website and mobile application.
    - Expand online sales capabilities and delivery options.

SUMMARY

Leading the worldwide fashion retail industry, Inditex has garnered significant recognition for its innovative business approach and exceptional financial performance. This diploma project examines the subtleties of Inditex's cost structure and profitability dynamics with the aim of providing relevant information on the company's operational effectiveness and financial stability.

A comparison of the company's profitability trends from fiscal years 2020 to 2023 can provide significant insights into Inditex, S.A.'s financial performance and strategic posture in the global retail business.

Through a number of sections, the thesis offers a thorough summary of a company's financial performance and strategic approach. The company profile, which outlines its chosen accounting policies, comes first. Now let's look at the balance sheet, which includes information on equity, non-current liabilities, current liabilities, total assets,

and non-current assets. To provide an understanding of the company's financial health, important financial ratios are emphasised.

Net sales, cost of sales, gross profit, operational expenditures, profit, amortisation, depreciation, financial results, profit before tax, income tax, and net profit are all covered in detail in the income statement section. A complete grasp of the company's revenue sources, costs, and profitability drivers is made possible by this comprehensive breakdown.

The focus of the paper shifts to profitability analysis, which looks at a number of indicators including contribution margin, net profit margin, gross profit margin, gross operating profit (EBITDA) and its margin, and net operating profit (EBIT) and its margin. These indicators provide a detailed picture of the business's profitability and operational effectiveness.

Particular focus is placed on return on assets (ROA), which shows how well the business uses its assets to make money, return on equity (ROE), which gauges profitability with regard to equity investment, and return on investments (ROI), which assesses the profitability of investments in relation to their cost. These metrics offer insightful information about the business's ability to generate value for stakeholders as well as its financial performance.

All things considered, the document functions as a thorough financial analysis tool, providing in-depth understanding of the business's financial statements, important financial ratios, and profitability measurements. It gives stakeholders useful data to evaluate the company's long-term development and profitability prospects, strategic direction, and financial stability.

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LIST OF ANNEXES

Annex 1

(AMOUNTS IN MILLIONS OF EUROS)	(NOTES)	31/01/2021	31/01/2020
ASSETS			
NON-CURRENT ASSETS		15,460	16,977
Rights of use	(15)	5,477	6,043
Other intangible assets	(14)	444	410
Goodwill	(16)	201	207
Property, plant and equipment	(13)	7,401	8,355
Investment property		21	21
Financial investments	(17)	261	249
Other non-current assets	(18)	380	456
Deferred tax assets	(24)	1,276	1,236
CURRENT ASSETS		10,957	11,414
Inventories	(12)	2,321	2,269
Trade and other receivables	(11)	715	788
Income tax receivable	(24)	257	174
Other current assets		88	78
Other financial assets	(25)	2	14
Current financial investments	(20)	176	3,319
Cash and cash equivalents	(20)	7,398	4,780
TOTAL ASSETS		**26,418**	**28,391**

EQUITY AND LIABILITIES			
EQUITY		14,550	14,949
Equity attributable to the Parent		14,520	14,913
Equity attributable to non-controlling interests		30	36
NON-CURRENT LIABILITIES		5,529	6,136
Provisions	(21)	252	217
Other non-current liabilities	(22)	280	380
Financial debt	(20)	3	6
Lease liability	(15)	4,599	5,163
Deferred tax liabilities	(24)	396	370
CURRENT LIABILITIES		6,338	7,306
Financial debt	(20)	11	32
Other financial liabilities	(25)	27	40
Lease liability	(15)	1,552	1,649
Income tax payable	(24)	88	142
Trade and other payables	(19)	4,659	5,443
TOTAL EQUITY AND LIABILITIES		**26,418**	**28,391**

Annex 2

(Amounts in millions of euros)	(Notes)	31/01/2022	31/01/2021
ASSETS			
NON-CURRENT ASSETS		**15,343**	**15,460**
Rights of use	(15)	5,224	5,477
Other intangible assets	(14)	589	444
Goodwill	(16)	202	201
Property, plant and equipment	(13)	7,481	7,401
Investment property		21	21
Financial investments	(17)	307	261
Other non-current assets	(18)	340	380
Deferred tax assets	(24)	1,179	1,276
CURRENT ASSETS		**13,602**	**10,957**
Inventories	(12)	3,042	2,321
Trade and other receivables	(11)	842	715
Income tax receivable	(24)	219	257
Other current assets		82	88
Other financial assets	(25)	22	2
Current financial investments	(20)	2,374	176
Cash and cash equivalents	(20)	7,021	7,398
TOTAL ASSETS		**28,945**	**26,418**
EQUITY AND LIABILITIES			
EQUITY		**15,759**	**14,550**
Equity attributable to the Parent		15,733	14,520
Equity attributable to non-controlling interests		26	30
NON-CURRENT LIABILITIES		**5,157**	**5,529**
Provisions	(21)	287	252
Other non-current liabilities	(22)	248	280
Financial debt	(20)	1	3
Lease liability	(15)	4,262	4,599
Deferred tax liabilities	(24)	359	396
CURRENT LIABILITIES		**8,030**	**6,338**
Financial debt	(20)	35	11
Other financial liabilities	(25)	22	27
Lease liability	(15)	1,562	1,552
Income tax payable	(24)	211	88
Trade and other payables	(19)	6,199	4,659
TOTAL EQUITY AND LIABILITIES		**28,945**	**26,418**

Annex 3

(Amounts in millions of euros)	(Notes)	31/01/2023	31/01/2022
ASSETS			
NON-CURRENT ASSETS		15,344	15,343
Rights of use	(16)	4,910	5,224
Other intangible assets	(15)	810	589
Goodwill	(17)	193	202
Property, plant and equipment	(14)	7,591	7,481
Investment property		24	21
Financial investments	(18)	334	307
Other non-current assets	(19)	278	340
Deferred tax assets	(25)	1,203	1,179
CURRENT ASSETS		14,639	13,602
Non-currents assets held for sale	(33)	183	-
Inventories	(13)	3,191	3,042
Trade and other receivables	(12)	851	842
Income tax receivable	(25)	238	219
Other current assets		85	82
Other financial assets	(26)	8	22
Current financial investments	(21)	4,522	2,374
Cash and cash equivalents	(21)	5,561	7,021
TOTAL ASSETS		29,983	28,945

EQUITY AND LIABILITIES			
EQUITY		17,033	15,759
Equity attributable to the Parent		17,008	15,733
Equity attributable to non-controlling interests		25	26
NON-CURRENT LIABILITIES		4,813	5,157
Provisions	(22)	283	287
Other non-current liabilities	(23)	222	248
Financial debt	(21)	-	1
Non-current lease liability	(16)	3,924	4,262
Deferred tax liabilities	(25)	385	359
CURRENT LIABILITIES		8,137	8,030
Financial debt	(21)	13	36
Other financial liabilities	(26)	46	22
Current lease liability	(16)	1,517	1,562
Income tax payable	(25)	264	211
Trade and other payables	(20)	6,297	6,199
TOTAL EQUITY AND LIABILITIES		29,983	28,945

Annex 4

(AMOUNTS IN MILLIONS OF EUROS)	(NOTES)	2020	2019
Net sales	(3)	20,402	28,286
Cost of sales	(4)	(9,013)	(12,479)
GROSS PROFIT		**11,390**	**15,806**
		55.8%	55.9%
Operating expenses	(5)	(6,807)	(8,176)
Other losses and income, net	(6)	(31)	(33)
GROSS OPERATING PROFIT (EBITDA)		**4,552**	**7,598**
Amortisation and depreciation	(7)	(3,045)	(2,826)
NET OPERATING PROFIT (EBIT)		**1,507**	**4,772**
Financial results	(8)	(139)	(152)
Results of companies accounted for using the equity method	(17)	33	61
PROFIT BEFORE TAXES		**1,401**	**4,681**
Income tax	(24)	(297)	(1,034)
NET PROFIT		**1,104**	**3,647**
NET PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**(2)**	**8**
NET PROFIT ATTRIBUTABLE TO THE PARENT		**1,106**	**3,639**
BASIC AND DILUTED EARNINGS PER SHARE, EUROS	**(9)**	**0.355**	**1.168**

Annex 5

(Amounts in millions of euros)	(Notes)	2022	2021
Net sales	(4)	32,569	27,716
Cost of sales	(5)	(14,011)	(11,902)
GROSS PROFIT		18,559	15,814
		57.0 %	57.1 %
Operating expenses	(6)	(9,867)	(8,596)
Other losses and income, net	(7)	(43)	(35)
GROSS OPERATING PROFIT (EBITDA)		8,649	7,183
Other results	(33)	(231)	-
Amortisation and depreciation	(8)	(2,899)	(2,901)
NET OPERATING PROFIT (EBIT)		5,520	4,282
Financial results	(9)	(214)	(142)
Results of companies accounted for using the equity method	(18)	53	58
PROFIT BEFORE TAXES (PBT)		5,358	4,199
Income tax	(25)	(1,211)	(949)
NET PROFIT		4,147	3,250
NET PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		17	7
NET PROFIT ATTRIBUTABLE TO THE PARENT		4,130	3,243
EARNINGS PER SHARE, euros	(10)	1.327	1.042

Annex 6

(Amounts in millions of euros)	(Notes)	2023	2022
Net sales	(4)	35,947	32,569
Cost of sales	(5)	(15,186)	(14,011)
GROSS PROFIT		20,762	18,559
		57.8 %	57.0 %
Operating expenses	(6)	(10,853)	(9,867)
Other losses and income, net	(7)	(59)	(43)
GROSS OPERATING PROFIT (EBITDA)		9,850	8,649
Other results	(33)	-	(231)
Amortisation and depreciation	(8)	(3,041)	(2,899)
NET OPERATING PROFIT (EBIT)		6,809	5,520
Financial results	(9)	(11)	(214)
Results of companies accounted for using the equity method	(18)	72	53
PROFIT BEFORE TAXES (PBT)		6,870	5,358
Income tax	(25)	(1,475)	(1,211)
NET PROFIT		5,395	4,147
NET PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		14	17
NET PROFIT ATTRIBUTABLE TO THE PARENT		5,381	4,130
EARNINGS PER SHARE, euros	(10)	1.729	1.327