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**UNDERSTANDING COMPANY VALUATION:
A PRACTICAL APPROACH APPLIED TO INDITEX**

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1. Introduction

1.1. Background and relevance of business valuation

Few questions in finance carry as much weight, or as much disagreement, as what a company is actually worth. Every trading decision, every merger, every capital raise and every analyst target price ultimately rests on an answer to it, and yet that answer is never given for free: it has to be built. Two analysts looking at the same company, with the same public accounts in front of them, can reach values that differ by tens of per cent simply because they chose different methods or different assumptions about the future. That is what makes valuation worth studying. It is not a mechanical calculation but a disciplined act of judgement, and learning to do it well means learning where that judgement enters and how much it changes the answer.

The root of that difficulty is a distinction that is easy to state and hard to pin down: price is not value. A listed share has a price quoted every second, but that price is only what the market is willing to pay at a given moment. Value is something else, an estimate of the cash the business can generate over its life, brought back to today. The two are related but they drift apart constantly, and that gap is exactly where the opportunity, and the risk, lives. An investor who can argue that a share is worth more than it trades for has a reason to buy; one who reaches the opposite conclusion has a reason to sell. Putting a defensible number on that value, and being honest about how fragile it is, is the whole point of the exercise.

Inditex is an unusually good company to test this on. It is one of the largest apparel retailers in the world and one of the most closely followed stocks in Europe, which means an independent valuation can be measured against a deep bench of professional estimates rather than produced in a vacuum. It is also, almost by design, a textbook case for the methods studied here: its worth lies in its brand, its integrated operating model and its future cash flows, not in factories or property, so the intuition that value comes from what a business will earn, not from what it owns, is visible in its purest form. Add a long record of stable margins, heavy cash generation and a balance sheet with more cash than debt, and Inditex becomes a company where the theory and the numbers can be brought together cleanly, and where the result can be judged against what the market actually thinks.

1.2. Objectives and structure of the work

This work has two objectives, one conceptual and one practical. The first is to understand the main methods used to value a company and, more importantly, to understand when each one earns its place and when it misleads. The second is to put that understanding to work on a real company, valuing Inditex, S.A. from the ground up and arriving at a per-share figure that can stand on its own. The test of the exercise is not whether that figure matches the market, but whether it can be defended: whether the assumptions behind it are explicit, whether the methods agree once the company's particular features are taken into account, and whether the points of disagreement with the analysts who cover the stock can be traced to a small number of clearly identified inputs.

The argument moves from the general to the particular: first the toolkit, then the company. The theoretical part fixes the language and lays out the families of methods with their strengths and limits, so that the choices made later are not arbitrary; the practical part then builds the valuation of Inditex on that foundation, triangulating a discounted cash flow model against trading multiples and a dividend discount model before drawing the threads together. The detailed map of how this unfolds is set out in the index

2. Theoretical framework: business valuation methods

2.1. Purpose and importance of valuation

2.1.1. What is business valuation?

Business valuation is the process of estimating the economic value of a company, a business unit, an equity stake or a specific asset. Unlike accounting, which records what has already happened, valuation looks forward: it asks the analyst to assess the company's expected ability to generate future economic benefits. For that reason, valuation is not the mechanical application of formulas. It is an analytical process that combines financial theory, market evidence, accounting information and judgement about the future.

The International Valuation Standards Council defines value as an opinion of the amount that would be paid for an asset in a transaction, under a specific basis of value and at a specific valuation date (IVSC, 2021). The definition matters because it makes clear that value is not directly observable in the way a market price is. A share price can be observed on a screen; intrinsic value has to be estimated. The quality of a valuation therefore depends on three things: the coherence of the assumptions, the suitability of the chosen method, and the reliability of the available information.

A key reason why valuation is needed in the first place is that accounting book value often differs from economic value. Balance sheets are largely built on historical cost and on accounting recognition rules, which do not fully capture intangibles such as brand equity, customer relationships, human capital, technology or organisational know-how. The gap is especially relevant for companies whose value comes from their ability to generate future cash flows, rather than from the resale value of their recorded assets (Damodaran, 2012). Valuation acts as the bridge between accounting information and economic decision-making.

2.1.2. Bases of value

Any rigorous valuation has to start by defining the relevant basis of value. Treating "value" as a single, universal concept leads to methodological errors, because the same company can be worth different amounts depending on the purpose and on whose perspective is being taken.

Fair value. Under IFRS 13, fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the

measurement date (IFRS Foundation, 2011). It is market-based and not specific to any particular investor. It is the relevant base for financial reporting, impairment testing, purchase price allocation and the valuation of financial instruments.

Intrinsic or stand-alone value. This is the value of a company based on its own expected future cash flows, independently of its current market price or the identity of a specific buyer. It is the natural base for equity research, investment analysis and most corporate finance decisions. It is also the base used in the practical valuation of Inditex later in this work.

Transaction-specific value. This is the value of a business to a particular buyer or investor. It can include synergies, tax benefits, financing capacity, strategic advantages or required returns. A strategic acquirer, for example, can value a target higher than a financial investor if it expects to generate revenue or cost synergies after the deal.

IVS 105 (IVSC, 2021) makes the choice of basis of value the first criterion in any valuation, before the choice of method. The other three criteria are the strengths and weaknesses of each method, how well the method fits the asset, and the reliability of the available inputs. Two ideas in the standard frame the rest of this chapter. The first is that no single method works for every situation. The second is that observable market evidence is usually the strongest evidence of value but is rarely enough on its own, so it normally has to be combined with judgement and adjustments.

2.1.3. Value, price and market interpretation

Within any chosen basis of value, a common source of confusion is to mix up value and price. Fernández (2019) is firm on this: value is a possibility, while price is a fact established by an actual transaction. Two parties can agree on a price while disagreeing on value, and any voluntary transaction in fact requires such a disagreement, since the buyer sees value above the price and the seller below it.

The distinction also clarifies the role of markets. In efficient markets, prices and intrinsic values should not diverge for long, but in reality markets are exposed to behavioural biases, liquidity effects, information asymmetries and short-term sentiment. A defensible intrinsic valuation gives the analyst a benchmark against which to interpret market prices. That benchmark is useful both for investors looking for mispriced securities and for corporate decision-makers who need to separate strategic from financial value.

2.1.4. Main purposes of valuation

Valuation is carried out in a wide range of contexts. Following the taxonomies of Damodaran (2012), Fernández (2019) and Koller et al. (2020), the main purposes can be grouped as follows.

Mergers, acquisitions and divestitures. The buyer estimates a maximum price above which the transaction would destroy value, and the seller estimates a minimum price below which it will not sell. The overlap between the two defines the zone of possible agreement.

Public equity research and portfolio management. Sell-side and buy-side analysts value listed firms to issue target prices, recommendations and portfolio decisions. Comparing intrinsic value with quoted prices is the central activity in this context.

IPOs and capital raises. Valuation provides the basis for setting the price range of an IPO and, more generally, for any issuance of equity, including rights issues, secondary offerings and convertible securities.

Internal management and value-based management. Companies value not only the firm as a whole but also its business units, geographies, product lines and major projects, so that capital can be allocated to the activities that actually create value. Many long-term incentive plans are tied to internal valuation metrics such as Economic Profit or EVA (Koller et al., 2020).

Strategic planning and corporate restructuring. Valuation supports decisions about which businesses to expand, which to divest, and how to structure transactions such as carve-outs, spin-offs and joint ventures.

Litigation, arbitration and taxation. Disputes over shareholder oppression, divorce, breach of fiduciary duty, transfer pricing or inheritance need independent and defensible valuations. The methodology has to hold up under cross-examination, which usually means choosing transparency and replicability over sophistication.

Regulation and financial reporting. Fair-value accounting under IFRS 13 and US GAAP ASC 820, goodwill impairment testing under IAS 36 and the marking-to-market of financial instruments all require periodic valuations performed under standardised frameworks (IFRS Foundation, 2011; IVSC, 2021).

This variety of purposes has direct methodological implications. A valuation prepared for litigation, where defensibility matters most, is unlikely to rely on real-options analysis or other techniques whose assumptions are hard to defend in court. A valuation prepared for an internal capital-allocation decision can use more forward-looking and judgement-heavy methods. There is no single correct methodology; there is only a method that fits the purpose.

2.2. Overview of valuation approaches

The IVSC (2021) groups valuation methods into three main approaches: the cost approach, the income approach and the market approach. The cost approach estimates value by reference to the cost of acquiring or reproducing an asset of equivalent utility. The income approach estimates value by discounting expected future cash flows or earnings. The market approach estimates value by reference to the prices or multiples observed for comparable companies or transactions.

The following sections are organised around this classification. Asset-based methods are linked to the cost approach, income-based methods to the income approach, and market-based methods to the market approach. A final section also reviews other techniques that are commonly used in specific contexts, such as leveraged buy-out analysis, sum-of-the-parts valuation and real options analysis.

One point is important across all methods: the cash flow and the discount rate must be consistent with each other. Free cash flow to the firm is discounted at the weighted average cost of capital (WACC) and produces an enterprise value. Free cash flow to equity and dividends are discounted at the cost of equity and produce an equity value directly. When the valuation produces an enterprise value, the final step is to bridge it to equity value by adding non-operating assets and subtracting net financial debt and other non-equity claims.

2.2.1. Asset-based methods

Asset-based methods estimate the value of a company by adding up the value of its assets and subtracting its liabilities. The logic is relatively static: the value of the business is based on what it owns today, rather than on the cash flows it may generate in the future. For this reason, these methods are most useful for asset-heavy companies, holding companies, distressed businesses or liquidation scenarios. They are less informative for companies whose value

depends mainly on brands, know-how, customer relationships or other internally generated intangibles (Fernández, 2019; IVSC, 2021).

Book value. This is the simplest version: it equates the value of the firm with the accounting value of equity reported in the balance sheet. It is easy to compute, but its scope is limited. Balance-sheet figures are based on historical cost and accounting rules, so they may differ significantly from economic value, and they often fail to capture internally generated intangibles (Parra Barrios, 2013).

Adjusted net asset value. This more refined version restates each asset and liability at its current market value. Real estate, inventory, receivables, provisions, off-balance-sheet items and other relevant items are adjusted to reflect their economic value more accurately. The result is more meaningful than book value, but it still does not capture the going-concern value created by operating all the assets together.

Replacement and reproduction cost. Both belong to the cost approach. Replacement cost measures the cost of obtaining an asset with equivalent utility, using current technology and materials, whereas reproduction cost measures the cost of building an exact replica. Replacement cost is usually more relevant in practice, because a buyer normally pays for the function of an asset rather than for its exact physical characteristics. In both cases the analyst must adjust for physical deterioration, functional obsolescence and economic obsolescence (IVSC, 2021).

Liquidation value. This estimates what the company's assets would be worth if they were sold, either in an orderly sale or under forced conditions, after deducting the costs of liquidation. It usually acts as a floor value, because a rational owner would not sell the business for less than what could be obtained by liquidating it.

For a company such as Inditex, asset-based methods are not the most relevant approach. The Group's value comes less from the resale value of its recorded assets and more from its brands, logistics network, integrated operating model and ability to generate cash flows. Asset-based valuation can therefore provide a useful reference point, but not the main estimate of value.

2.2.2. Income-based methods

The income approach is based on the idea that the value of a business equals the present value of the cash flows it is expected to generate in the future. This approach is especially relevant

for going-concern companies with relatively predictable operating performance. A complete income-based valuation requires the analyst to forecast the cash flows, estimate an appropriate discount rate and calculate the value of the cash flows generated beyond the explicit forecast period.

(a) Discounted cash flow (DCF)

The discounted cash flow model is the main income-based method. In its most common form, the value of a company equals the present value of the free cash flows generated during an explicit forecast period, plus a terminal value that captures the cash flows generated after that period:

$$V_0 = \sum [FC_t / (1 + k)^t] + TV_n / (1 + k)^n$$

where FC_t is the free cash flow in year t , k is the discount rate and TV_n is the terminal value at the end of the explicit forecast period.

There are two main versions of the DCF. Free Cash Flow to the Firm (FCFF) measures the cash flow available to all providers of capital and is discounted at the WACC, producing an enterprise value. Free Cash Flow to Equity (FCFE) measures the cash flow available only to shareholders after interest payments and net debt movements, and is discounted at the cost of equity, producing equity value directly. In practice, FCFF is usually preferred when the objective is to value the operating business independently of its financing structure.

FCFF is commonly calculated as:

$$FCFF = EBIT \times (1 - t) + D\&A - CapEx - \Delta NWC$$

where EBIT is earnings before interest and taxes, t is the effective tax rate, D&A is depreciation and amortisation, CapEx is capital expenditure and ΔNWC is the change in net working capital. This formula starts from operating profit after tax, adds back non-cash charges and subtracts the cash reinvested in fixed assets and working capital.

For an FCFF valuation, the discount rate is the WACC:

$$WACC = (E / (D + E)) \times Ke + (D / (D + E)) \times Kd \times (1 - t)$$

where Ke is the cost of equity, Kd is the cost of debt, E is the market value of equity and D is the market value of debt. The cost of equity is usually estimated using the Capital Asset Pricing Model (Sharpe, 1964):

$$Ke = Rf + \beta \times (Rm - Rf)$$

where Rf is the risk-free rate, β is the levered equity beta and $(Rm - Rf)$ is the equity risk premium. The CAPM has well-known empirical limitations (Fama & French, 2004), but it remains the dominant model in valuation practice because it is simple, transparent and easy to apply consistently across companies (Koller et al., 2020).

The terminal value is usually the most important component of a DCF. Since a company is assumed to continue operating after the explicit forecast period, the analyst needs to estimate the value of all cash flows generated beyond that point. The two most common methods are the perpetuity growth method and the exit multiple method.

Under the perpetuity growth method, terminal value is calculated as:

$$TV_n = FCF_{n+1} / (WACC - g)$$

where g is the perpetual growth rate. This rate must be reasonable and consistent with the long-term growth of the economy in which the company operates. For mature companies, it is normally assumed to be close to long-term nominal GDP growth.

Under the exit multiple method, terminal value is calculated by applying a market multiple, usually EV/EBITDA or EV/EBIT, to a normalised level of earnings at the end of the forecast period. This method is common in practice, but it is less purely intrinsic than the perpetuity growth method, because it imports a relative-valuation multiple into an otherwise intrinsic model (Nissim, 2019).

The main strength of the DCF is that it forces the analyst to make explicit assumptions about growth, margins, reinvestment and risk. Its main weakness is that the result is highly sensitive to long-term assumptions, especially the WACC and the perpetual growth rate, because the terminal value typically represents most of the total enterprise value (Steiger, 2010). This is why sensitivity analysis is essential in any serious DCF valuation.

(b) Dividend discount model (DDM)

The dividend discount model, formalised by Williams (1938) and later popularised by Gordon (1962), values equity directly by discounting expected future dividends at the cost of equity. The logic is straightforward: the value of a share equals the present value of the cash flows that shareholders expect to receive.

$$P_0 = \Sigma [D_t / (1 + Ke)^t]$$

In the simplest version, where dividends grow at a constant rate forever, the model reduces to the Gordon growth formula:

$$P_0 = D_1 / (Ke - g)$$

The DDM is most useful for mature companies with stable growth, stable leverage and a dividend policy that reflects the cash actually available to shareholders. If a company retains a large amount of cash instead of distributing it, the DDM may undervalue the business, because dividends will not fully reflect its economic capacity to generate cash. For this reason, the DDM is often used as a cross-check rather than as the main valuation method.

(c) Adjusted present value (APV)

The adjusted present value method, originally proposed by Myers (1974), separates the value of the business from the value created by financing decisions. First, the company is valued as if it had no debt, by discounting unlevered free cash flows at the unlevered cost of equity. Then, the present value of the tax shields generated by debt is added, and any expected costs of financial distress are subtracted.

The APV method is especially useful when leverage is expected to change materially over time, such as in leveraged buy-outs, recapitalisations or distressed situations. For companies with stable capital structures, the WACC approach is usually more straightforward.

(d) Residual income and Economic Value Added (EVA)

Residual income models value a company by focusing on whether it earns more than its cost of capital. At equity level, value is expressed as the current book value of equity plus the present value of future residual income:

$$V_0 = BV_0 + \Sigma [(ROE_t - Ke) \times BV_{t-1} / (1 + Ke)^t]$$

where BV is book value of equity and ROE is return on equity. The same logic can be applied at firm level through Economic Value Added (EVA), popularised by Stewart (1991), which measures the profit generated after deducting a charge for the capital invested in the business.

These models are useful because they connect valuation with accounting profitability and capital efficiency. However, they depend heavily on the quality of the accounting data and on the clean surplus relation, under which all changes in book value, other than transactions with

shareholders, pass through profit or loss. They are also less commonly used as the primary valuation method in standard equity research. In this work, they are relevant mainly as a conceptual complement to the DCF, since Inditex's high return on capital is one of the key reasons behind its valuation premium.

2.2.3. Market-based methods

The market approach estimates the value of a company by looking at how similar companies are valued by the market or how similar businesses have been valued in recent transactions. The logic is based on comparison: if investors are paying a certain multiple for comparable companies, that multiple can be used as a reference for the company being valued.

There are two main versions of this approach. The first is trading comparables, which uses the market prices of listed peer companies. The second is precedent transactions, which uses the prices paid in past M&A transactions involving comparable businesses. In both cases, the process is similar: select the peer group, calculate the relevant multiples, adjust for differences between the companies and apply the selected multiple to the target company.

The most important step is the selection of comparable companies. As Damodaran (2012) stresses, comparability is not only about operating in the same sector: it also depends on growth, margins, risk, geographic exposure, size, capital structure and business model. Two companies may sell similar products but have very different valuation profiles if one is growing faster, generating higher margins or operating with a stronger balance sheet. This is particularly relevant in the case of Inditex, because the company operates in the same broad industry as other apparel retailers but has a higher margin profile and a stronger cash position than most of its peers.

A second important distinction is between enterprise value multiples and equity value multiples. Enterprise value multiples, such as EV/Sales, EV/EBITDA and EV/EBIT, compare the value of the whole business with pre-debt operating metrics, and are useful when companies have different capital structures. Equity multiples, such as P/E or P/B, compare the market value of equity with metrics that belong only to shareholders. The key rule is consistency: the numerator and denominator of the multiple must refer to the same group of capital providers.

The most common multiples each have advantages and limitations. EV/Sales is useful for companies with low or negative profitability, but it does not capture differences in margins. EV/EBITDA is widely used because it is less affected by differences in capital structure, taxes

and depreciation policies, which makes it one of the most common multiples in M&A practice (Rosenbaum & Pearl, 2022), although it can be less appropriate for capital-intensive businesses. EV/EBIT adjusts for depreciation and therefore gives a better view of operating profitability. P/E is easy to understand and widely used by investors, but it is affected by leverage, tax rates and one-off items.

Trading comparables and precedent transactions also differ in what they measure. Trading multiples reflect the value of minority stakes in listed companies. Precedent transaction multiples usually reflect the price paid for control of a company and may include control premiums and expected synergies. For that reason, transaction multiples are often higher than trading multiples, but they also depend heavily on the market conditions and the strategic logic of each deal.

Market-based methods are useful because they are grounded in observable market evidence and provide a reality check for intrinsic valuation models such as the DCF. However, they should not be applied mechanically. The analyst must understand why a company trades at a premium or a discount to its peers and whether that difference is justified by fundamentals. In this work, trading multiples are used as a market cross-check for Inditex, while the DCF remains the primary valuation method.

2.2.4. Other valuation approaches

Beyond the three main valuation approaches, there are other techniques that are useful in specific contexts. The most relevant for this work are leveraged buy-out analysis, sum-of-the-parts valuation and real options analysis.

Leveraged buy-out (LBO) analysis. This values a company from the perspective of a financial sponsor. The buyer acquires the company using a significant amount of debt, projects its cash flows, estimates debt repayment during the holding period and assumes an exit multiple. The entry price is then tested against the sponsor's target return, usually measured through the IRR and the money-on-money multiple (Rosenbaum & Pearl, 2022). This method does not estimate intrinsic value in the same way as a DCF; instead, it shows the maximum price a financial buyer could pay while still achieving its required return.

Sum-of-the-parts (SOTP) valuation. This is used for companies with several business units that have different growth profiles, margins or risk levels. Instead of valuing the whole company with one multiple or one discount rate, each segment is valued separately and then

added together. The approach can be useful for diversified groups, but it depends on the availability of reliable segment-level information.

Real options valuation. This is used when managerial flexibility has material value. A standard DCF assumes a fixed path of future cash flows, but in reality companies may be able to expand, delay, abandon or modify projects depending on how conditions evolve. Real options analysis, which adapts the option-pricing framework of Black and Scholes (1973) and Merton (1973), tries to capture this flexibility. It is most relevant in sectors such as natural resources, pharmaceuticals, technology or infrastructure, where uncertainty and optionality are especially important.

For a mature listed company such as Inditex, these additional approaches are not the main valuation tools. However, they are useful to understand the broader valuation landscape and to clarify why the practical case in Chapter 3 focuses on the DCF, trading multiples and the dividend discount model.

2.3. Strengths, weaknesses and main applications

No single technique is universally superior. The IVSC (2021) sets out a four-criterion test for choosing among methods: the basis of value required by the engagement, the strengths and weaknesses of each method, how well it fits the nature of the asset, and the availability of reliable input information. The choice is therefore contextual, not categorical. The following discussion summarises the trade-offs.

Asset-based methods work best when the value of the firm is closely tied to the separable value of its assets: holding companies, asset-heavy businesses, distressed situations and liquidation scenarios. They give a tangible floor value that can be independently audited. Their weakness is that they capture poorly the going-concern value generated by the joint productivity of the assets, and they almost ignore internally generated intangibles such as brands, customer relationships and organisational capital (Damodaran, 2012; Fernández, 2019). For a company like Inditex, whose competitive advantage comes from logistics, design, vertical integration and brand equity, asset-based valuation is informative only as a floor.

Income-based methods, and DCF in particular, are the most theoretically complete approach for a going concern. DCF forces explicit assumptions about growth, margins, reinvestment and risk, and it can accommodate any pattern of cash flows or changes in capital structure. The

weaknesses follow from the same source: the inputs are hard to estimate, the terminal value usually dominates the result and the model is highly sensitive to long-horizon assumptions (Steiger, 2010). The DDM is a special case appropriate for stable, dividend-paying firms with a payout close to FCFE; outside that domain it is better used as a cross-check. APV is the natural choice when leverage is itself a central decision variable. Residual income and EVA models work well when accounting earnings and book value are more informative than dividends or free cash flow, as long as the clean surplus relation holds.

Market-based methods provide speed, anchoring in observable prices and a useful reality check on intrinsic valuations. Their limitations are structural. First, they assume the peer group is properly valued by the market; sectoral mispricing carries straight through to the target. Second, comparability is never perfect, even after careful adjustments. Third, the multiple is a compressed summary of information, and using it without understanding the fundamentals that justify it reduces the analysis to a simple rule of three (Damodaran, 2012).

Among the additional methods, LBO analysis gives the value of the firm to a sponsor with a specific return target; SOTP captures the separate dynamics of distinct business segments; real options capture the value of managerial flexibility in uncertain projects.

When several methods are applied to the same target, they rarely produce identical results. IVS 105 is clear about how to handle that divergence: if the methods give materially different indications, the analyst should investigate the cause of the divergence before weighting the results, because a mechanical average between widely diverging numbers is rarely informative (IVSC, 2021). The football field chart commonly used in investment-banking valuations is one way to present the range of estimates produced by different techniques and to highlight the area of overlap, which is usually read as the most defensible range for the firm's intrinsic value.

For the practical application in Chapter 3, the company being valued (Inditex) is a mature listed going concern with predictable cash flows, a stable capital structure, an established dividend policy and a well-defined peer group of global apparel retailers. Under the IVSC criteria, this profile points to the income approach as the primary technique (DCF using FCFE and WACC), the DDM as a cross-check on the equity value and trading multiples on the listed peer group as a market reality check. Asset-based valuation and LBO analysis are not central here, but they are mentioned briefly as a floor and as a sanity check.

3. Practical case: valuation of Inditex

3.1. Methodology of the case

This chapter applies the framework from Chapter 2 to value the equity of Inditex, S.A. The basis of value is intrinsic, stand-alone equity value, which is the perspective used by the sell-side analysts who cover the stock. The valuation date is 31 January 2026, the close of the company's 2025 fiscal year (FY25), so the most recent audited accounts can be used in full. All figures are in millions of euros unless stated otherwise.

Inditex closes its fiscal year on 31 January. Following the company's own convention, FY24 is the year ended 31 January 2025 and FY25 the year ended 31 January 2026; forecast years are written FY26E, FY27E and so on.

Three of the methods discussed in Chapter 2 are used. The discounted cash flow (DCF) model is the primary technique, because Inditex is a mature listed firm with stable margins and a long record of free cash flow generation. Trading multiples on a peer group of listed apparel retailers act as a market reality check. A two-stage dividend discount model (DDM) is added as an equity-side cross-check, since the payout ratio has stayed above 80 percent and dividends are therefore a good proxy for distributable cash. Asset-based methods and an LBO analysis are deliberately left out, for the reasons given in section 2.3: the first ignores the intangibles and going-concern cash flows that drive the value of this business, and the second needs a change-of-control scenario that does not apply to a firm with a 59 percent family stake. Precedent-transaction multiples are also excluded, because there are no recent deals of comparable size and business model in global fashion retail to build a clean reference set.

The financial data come from Inditex's FY2025 consolidated results and audited annual accounts (Inditex, 2026). External benchmarks for forecasts, cost of capital and target prices come from the sell-side notes published after the FY25 results: Deutsche Bank (Cochrane et al., 2026), Banco Santander (Conde & Szachtman, 2026), Citigroup (Pollard, 2026), J.P. Morgan (Johanan, 2026), Barclays (Clements, 2026), UBS (Mahamkali, 2026), RBC Capital Markets (2026) and Morningstar (2026). Industry data come from GlobalData (2026) and Plunkett Research (2026), and the cost-of-capital inputs (risk-free rate, equity risk premium, country risk premium and unlevered betas) from Damodaran's online database (Damodaran, 2024). The whole valuation is built in a single linked Excel model (Inditex_Valuation_Model.xlsx) covering the historical accounts, the assumptions, the

projected income statement, the cash-flow build, the DCF, the sensitivity table, the trading multiples and the DDM.

3.2. Inditex: company overview

3.2.1. History and corporate identity

Industria de Diseño Textil, S.A. (Inditex) is headquartered in Arteixo (A Coruña, Spain) and is one of the largest apparel retailers in the world. The Group traces back to 1963, when Amancio Ortega started a small garment manufacturer in A Coruña; the first Zara store opened there in 1975. Inditex was incorporated as a holding company in 1985 and listed on the Spanish stock exchanges in May 2001. At the close of FY25 it operated 5,460 stores and reached customers in 214 markets through its online platforms (Inditex, 2026). The year 2025 also marked the 50th anniversary of the first Zara store, which management has used as a reference point for its long-term growth ambition.

What defines Inditex is not any single brand but a vertically integrated model built around speed: short product cycles, proximity sourcing and a centralised logistics network. That model has stayed essentially unchanged in its core principles for decades, and it took the Group from a regional Spanish retailer to a global leader without any material acquisition. As of FY25 every operating subsidiary is controlled directly or indirectly by the parent, and the only joint venture of note is the Tempe group (footwear).

3.2.2. Brand portfolio and operating segments

Inditex runs eight commercial formats, each aimed at a different segment of the apparel market. Zara, the flagship, targets a broad audience with fashion-forward collections at mid-market prices; Zara Home (homeware) and Lefties (value) are reported together with it. The other formats are Pull&Bear and Bershka (youth casualwear), Stradivarius (young women's fashion), Massimo Dutti (premium and tailored) and Oysho (lingerie and athleisure) (Inditex, 2026). Table 1 shows net sales and pre-tax profit by format in FY25.

Table 1. Inditex net sales and PBT by format, FY25

Format	Net sales (€M)	% of total	PBT (€M)	PBT margin
Zara (incl. Zara Home & Lefties)	28,051	70.4%	5,601	20.0%
Bershka	3,286	8.2%	657	20.0%
Stradivarius	3,002	7.5%	707	23.5%
Pull&Bear	2,546	6.4%	422	16.6%
Massimo Dutti	2,019	5.1%	434	21.5%
Oysho	960	2.4%	198	20.7%
Total Group	39,864	100.0%	8,020	20.1%

Source: Inditex (2026).

The breakdown shows how much the Group still leans on Zara, which generates around 70 percent of sales and dwarfs the rest of the portfolio. GlobalData (2026) flags this concentration as the main single-name risk, since any setback affecting Zara would feed straight through to Group results. The smaller formats are nonetheless profitable on their own (PBT margins run between 17 and 24 percent) and add useful diversification across age groups and price points.

3.2.3. The integrated business model

Inditex's competitive advantage comes from integrating design, sourcing, logistics and distribution into one system built for speed. Collections are designed and tested throughout the year rather than in fixed seasonal drops, and production starts in small batches that are restocked or dropped quickly depending on early sales (Inditex, 2026). Roughly half of garments are sourced in proximity markets close to Spain, which shortens lead times and lets the Group react to demand within the season.

Distribution runs through a small number of centralised logistics hubs that serve both stores and online customers. Two technologies tie the model together: radio-frequency identification (RFID) tags that track every garment individually from factory to checkout, and a single integrated stock system (SINT) that pools inventory across formats and channels, so any unit can be sold either in store or online. The roll-out of soft-tag alarm technology and assisted checkout continued in FY25 and now covers the full physical store base (Inditex, 2026).

Store and online sales are reported as one integrated stream. In FY25 online sales reached €10,656 million, around 27 percent of the total, and the Group continued to invest in the platform, including the AI-based Zara Try-on tool launched late in the year (Inditex, 2026; Cochrane et al., 2026).

3.2.4. Geographic footprint

Inditex sells in 214 markets and generates close to half of its revenue outside Europe. Table 2 shows the split of sales by region in FY25.

Table 2. Inditex sales by geography, FY25

Region	% of sales FY25	% of sales FY24
Europe (ex-Spain)	51.3%	50.6%
Americas	17.8%	18.6%
Spain	15.9%	15.1%
Asia and rest of world	15.0%	15.7%
Total	100.0%	100.0%

Source: Inditex (2026).

Europe, including Spain, accounts for about two thirds of sales, and Spain alone for roughly 16 percent. The Americas, led by the United States and Mexico, is the Group's main growth region and a clear medium-term priority: management confirmed it will end 2026 with around 110 stores in the US, plus new Bershka and Massimo Dutti openings there (Inditex, 2026). Asia represents a smaller share than its weight in the global apparel market would suggest, partly because of the rationalisation of the store estate in mainland China since 2021 and the suspension of operations in Russia in 2022.

3.2.5. Shareholder structure

Inditex has 3,116 million ordinary shares of €0.03 nominal value, listed on the four Spanish exchanges and part of the IBEX 35. The main shareholder is Pontegadea, Amancio Ortega's investment vehicle, with a direct and indirect stake of around 59 percent; the rest is largely held by institutional investors, leaving a free float close to 40 percent. This concentrated ownership has historically meant a stable shareholder base and a generous, consistent dividend. For FY25 the Board will propose a dividend of €1.75 per share (€1.20 ordinary plus €0.55 extraordinary), up from €1.54 the previous year, which represents about 84 percent of net profit (Inditex, 2026).

3.3. Industry and competitive analysis

3.3.1. The global apparel market

The global apparel market was worth roughly USD 1.5 trillion in 2024 and is expected to grow at a low-single-digit annual rate over the next five years, with online the main engine of

incremental demand (GlobalData, 2026). It is a large but highly fragmented market: even the biggest players hold only low-single-digit global shares, and Inditex, at around 2 to 3 percent, is already the largest listed pure apparel retailer in the world. Management frames this fragmentation as the core of the long-term growth opportunity, since a low share in a large market leaves plenty of room to keep gaining ground (Inditex, 2026).

3.3.2. Sector dynamics

Four structural trends are reshaping the industry. First, the continued shift to online, which now accounts for an estimated quarter to a third of apparel sales in developed markets. Second, the rise of ultra-fast-fashion players such as Shein and Temu, which compete on price and assortment breadth using direct-from-factory sourcing (Cochrane et al., 2026). Third, the growing weight of sustainability and ESG regulation, especially in Europe. Fourth, the partial nearshoring of supply chains in response to recent shocks, from COVID-19 to Red Sea disruption and US tariff debates.

Inditex is well placed against most of these. Its proximity-sourcing model and single inventory pool give it a natural edge in flexibility and ESG reporting (Inditex, 2026). The ultra-fast-fashion threat is more nuanced: Inditex's products and price points only partly overlap with Shein's, but the latter's success among younger shoppers, especially in the US, has put some pressure on Bershka, Pull&Bear and Stradivarius, which compete most directly for that customer (Cochrane et al., 2026).

3.3.3. Peer group selection

As discussed in section 2.2.3, a good peer group requires similarity in fundamentals, not just in industry label (Damodaran, 2012). Starting from the comparable set used by GlobalData (2026) and the sell-side, the most relevant listed peers for Inditex are large apparel retailers with a multi-channel model and meaningful international exposure: H&M, Fast Retailing (Uniqlo), Associated British Foods (owner of Primark), GAP and Next. Luxury names (Kering, Valentino) are excluded because their pricing and margin dynamics are structurally different; Puig is dominated by fragrances and cosmetics; and Mango is private, so it has no observable market price. Table 3 summarises the selected peers.

Table 3. Selected listed peers of Inditex, FY24-25

Company	Country	Revenue (€M)	EBIT margin	Business model
Inditex	Spain	39,864	20.1%	Vertically integrated fast fashion
H&M	Sweden	21,598	5.6%	Multi-brand fast fashion
Fast Retailing (Uniqlo)	Japan	22,305	15.1%	Basics, vertically integrated
Assoc. British Foods (Primark)	UK	17,656	8.7%	Value fast fashion
GAP Inc.	US	15,366	6.9%	Multi-brand mid-market
Next plc	UK	9,093	18.5%	Online platform + UK retail

Source: GlobalData (2026); Plunkett Research (2026); company accounts. Inditex figures are FY25.

Two points stand out. First, Inditex is both the largest listed apparel retailer by sales and the most profitable by EBIT margin, well ahead of its closest direct competitor, H&M. Second, the only peer that approaches its profitability is Next, whose online-platform model has a very different cost structure. This profitability gap is the main reason Inditex trades at premium multiples, as section 3.7 discusses.

3.3.4. Risk factors

Several risks bear directly on the valuation. Foreign exchange is material: most sales are generated outside the eurozone while a large part of central costs is euro-denominated, and management guides to a roughly 1 percent currency drag on 2026 sales (Inditex, 2026). Raw-material prices (cotton, polyester) move gross margin with a lag, although the short production cycle softens the impact. Geopolitics has been a recurring theme, from the suspension of Russian operations to Red Sea shipping disruption and, around the FY25 results, temporary store closures in parts of the Middle East (Cochrane et al., 2026). Finally, the business carries an inherent fashion-cycle risk: the ability to read trends quickly is one of the Group's key strengths and, by the same token, one of its main vulnerabilities.

3.4. Financial analysis

This section reviews the recent financial performance of Inditex over FY20A to FY25A, covering the income statement, the balance sheet, cash flow and returns. It provides the empirical basis for the projections built in section 3.5.

3.4.1. Income statement evolution

Inditex came out of the COVID-19 disruption with a stronger profitability profile than before it. Net sales fell to €20.4 billion in FY20 under the store closures, then recovered steadily to €39.9 billion in FY25, a new record and roughly 40 percent above the pre-pandemic peak.

Growth in FY25 was +3.2 percent as reported, held back by a currency drag, but +7.0 percent in constant currency, positive across every format and, in constant currency, across every region (Inditex, 2026). Table 4 summarises the headline P&L.

Table 4. Inditex consolidated income statement, FY21A-FY25A (€M)

	FY21A	FY22A	FY23A	FY24A	FY25A
Net sales	27,716	32,569	35,947	38,632	39,864
YoY growth	+35.8%	+17.5%	+10.4%	+7.5%	+3.2%
Gross profit	15,812	18,559	20,762	22,343	23,222
Gross margin	57.1%	57.0%	57.8%	57.8%	58.3%
EBITDA	7,152	8,589	9,749	10,728	11,267
EBITDA margin	25.8%	26.4%	27.1%	27.8%	28.3%
EBIT	4,251	5,690	6,708	7,554	7,997
EBIT margin	15.3%	17.5%	18.7%	19.6%	20.1%
Net profit	3,243	4,130	5,381	5,866	6,220
EPS (€)	1.04	1.33	1.73	1.88	2.00

Source: Inditex (2026); audited consolidated accounts FY25.

Two features of this history are worth dwelling on. Gross margin has held remarkably steady around 57 to 58 percent throughout, reaching 58.3 percent in FY25 (+42 basis points), supported by full-price selling and the short, flexible production cycle. EBIT margin, by contrast, has expanded sharply, from 15.3 percent in FY21 to 20.1 percent in FY25, as operating costs grew below sales. This margin expansion, on a steadily growing top line, is the single biggest driver of the Group's recent profit growth and a central question for the projections (Cochrane et al., 2026).

3.4.2. Balance sheet and capital structure

Inditex runs an unusually conservative balance sheet. It has effectively no financial debt: at 31 January 2026 financial debt was just €2 million against €5,276 million of cash and €5,684 million of short-term financial investments, for a net cash position of €10,957 million (Inditex, 2026). Table 5 summarises the consolidated balance sheet.

Table 5. Inditex consolidated balance sheet, FY24 vs FY25 (€M)

Item	31/01/2025 (FY24)	31/01/2026 (FY25)
Property, plant and equipment	10,014	11,142
Right-of-use assets (IFRS 16)	5,269	5,542
Intangible assets	1,607	1,840
Other non-current assets	1,467	1,423

Item	31/01/2025 (FY24)	31/01/2026 (FY25)
Non-current assets	18,358	19,947
Inventories	3,321	3,249
Cash and financial investments	11,502	10,960
Other current assets	1,533	1,482
Current assets	16,356	15,691
Total assets	34,714	35,638
Equity	19,676	20,395
Lease liabilities (IFRS 16)	5,722	5,933
Trade and other payables	8,590	8,587
Other liabilities	726	723
Total equity and liabilities	34,714	35,638

Source: Inditex (2026).

Two items on the balance sheet matter for the valuation. The first is the IFRS 16 lease liability (€5,933 million at FY25), since Inditex leases most of its store estate; the treatment of leases affects both the enterprise-to-equity bridge and the definition of EBITDA used in the multiples. This work follows the post-IFRS 16 convention used by most sell-side houses: EBITDA is taken as reported, and cash lease payments are subtracted explicitly in the free-cash-flow build, so lease liabilities are not added again to net debt in the bridge. The second is the large net cash position, which represents around 7 percent of market capitalisation and adds directly to equity value once enterprise value is computed.

3.4.3. Cash flow and capital allocation

Cash generation is one of the most attractive features of the business. Lease-adjusted funds from operations grew 7 percent in FY25, and free cash flow reached €4,686 million after a step-up in investment (Inditex, 2026). Table 6 summarises the main cash-flow lines.

Table 6. Inditex cash flow summary, FY24 vs FY25 (€M)

Item	FY24	FY25
Funds from operations (lease-adjusted)	7,684	8,200
Change in working capital	(198)	(803)
Cash from operations	7,486	7,398
Investment (capex)	(2,672)	(2,712)
Free cash flow	4,814	4,686
Dividends paid	(4,797)	(5,235)

Source: Inditex (2026). Funds from operations include fixed lease payments.

Capital expenditure stayed elevated at €2,712 million in FY25, completing the two-year extraordinary logistics programme (around €900 million of extra capacity in each of 2024 and

2025). For 2026 management guides to ordinary capex of about €2,300 million, focused on commercial space, technology integration and the online platform (Inditex, 2026). Beyond the forecast horizon, the sell-side converges on a normalised capex-to-sales ratio close to 5 percent. Dividends rose to €5,235 million, a payout of roughly 84 percent of net profit, among the highest in the sector, and the persistent build-up of net cash shows the Group still generates more cash than it distributes.

3.4.4. Return on capital and value creation

Return on capital employed (ROCE) is the metric management and the sell-side watch most closely. It held at 40 percent in FY25 (ROE at 31 percent), far above any reasonable estimate of the cost of capital and well ahead of peers, which mostly sit between 10 and 20 percent (Conde & Szachtman, 2026; GlobalData, 2026). Within the Group, the smaller formats post the highest returns, but every format earns well above its cost of capital. The combination of high, stable ROCE with near-full conversion of operating profit into cash is the structural reason Inditex trades at a premium to its peers, and the main reason a DCF-based approach fits this case well.

The financial position described here, and in particular the steady margin expansion and the elevated capex programme, are the empirical basis for the projections in section 3.5. The forecasts lean on management guidance and sell-side consensus for the near-term inputs, while keeping an independent view on the long-term assumptions that drive the terminal value.

3.5. Forecast assumptions and projections

The projections behind the DCF cover the five years FY26E to FY30E. Rather than building the forecasts from scratch, the operating assumptions are anchored to a broker consensus: the mean of the post-FY25 estimates published by Deutsche Bank (Cochrane et al., 2026), UBS (Mahamkali, 2026), J.P. Morgan (Johanan, 2026) and Banco Santander (Conde & Szachtman, 2026), the four houses that publish a complete multi-year model. Using a consensus rather than a single source avoids importing any one analyst's bias and keeps the forecasts within a defensible market range. The four houses cover FY26E to FY28E explicitly; FY29E and FY30E extrapolate the same trend toward a steady state. All inputs sit in one Assumptions sheet, so any of them can be changed to test alternative scenarios.

3.5.1. Revenue

Group revenue is projected to grow from €39,864 million in FY25 to roughly €53,600 million in FY30E, a compound rate of about 6 percent. The consensus has growth of around 5 percent in FY26E (held back by the guided 1 percent currency drag), accelerating to 7 percent in FY27E-FY28E and then easing back toward 5 to 6 percent as the European store base matures. This is consistent with management's framing of a low market share in a fragmented industry, with annual gross space growth guided at around 5 percent and a positive net-space contribution (Inditex, 2026).

3.5.2. Margins

Gross margin is held broadly stable around 58 percent, in line with management guidance of a stable gross margin within plus or minus 50 basis points (Inditex, 2026). On the back of modest operating leverage, the consensus EBITDA margin rises from about 28.6 percent in FY26E to 29.2 percent by FY28E, and EBIT margin from around 20.4 percent to 21.2 percent. Beyond FY28E the model holds margins flat at the FY28E consensus level rather than assuming further expansion, which is the more conservative choice and avoids baking optimism into the terminal value.

3.5.3. Capital expenditure and working capital

Capital expenditure is the main near-term adjustment. Management guides to ordinary capex of around €2,300 million in FY26E after the two-year extraordinary logistics programme, and the model normalises capex toward roughly 5 percent of sales thereafter, in line with the pre-expansion historical average (Inditex, 2026; Cochrane et al., 2026). Working capital stays a small cash drag, consistent with the near-neutral working-capital intensity of the model, where inventory growth is largely offset by trade payables.

3.5.4. Tax and below-the-line items

The effective tax rate is held at 22 percent over the explicit horizon, in line with the FY23-FY25 average and below the 25 percent Spanish statutory rate, a gap that reflects the geographic mix of profits. That stability is what justifies using the effective rate for the forecast years. In perpetuity the choice is different: an effective rate persistently below statutory is unlikely to hold forever, so the terminal free cash flow is recomputed at the 25 percent statutory rate, which is the conservative and more defensible assumption for a perpetuity. Net financial result stays slightly negative and converges toward zero as the lease finance cost is offset by

interest on the net cash pile, and the contribution from associates (mainly the Tempe footwear joint venture) is held near €100–160 million a year.

3.5.5. Summary projected income statement

Table 7 summarises the projected income statement. FY25A is shown for reference.

Table 7. Projected consolidated income statement, FY25A-FY30E (€M)

	FY25A	FY26E	FY27E	FY28E	FY29E	FY30E
Net sales	39,864	41,817	44,682	47,533	50,384	53,156
YoY growth	+3.2%	+4.9%	+6.9%	+6.4%	+6.0%	+5.5%
EBITDA	11,267	11,960	12,868	13,879	14,712	15,521
EBITDA margin	28.3%	28.6%	28.8%	29.2%	29.2%	29.2%
EBIT	7,997	8,531	9,249	10,077	10,682	11,269
EBIT margin	20.1%	20.4%	20.7%	21.2%	21.2%	21.2%
Net profit	6,220	6,697	7,285	7,950	8,442	8,916
EPS (€)	2.00	2.15	2.35	2.56	2.71	2.86

Source: author's model; FY26E-FY28E are the mean of Deutsche Bank, UBS, J.P. Morgan and Banco Santander estimates (2026); FY29E-FY30E extrapolate the consensus trend. FY25A from Inditex (2026).

Projected EPS reaches about €2.86 by FY30E, a CAGR of roughly 7.5 percent from the FY25A base, in line with the sell-side's mid-to-high single digit growth expectation and with the Group's recent track record. The FY26E EPS of €2.15 sits almost exactly on the Sabadell (€2.15) and J.P. Morgan (€2.16) estimates, which confirms the consensus is well calibrated.

3.6. Discounted cash flow valuation

3.6.1. Cost of capital

The cost of capital uses the CAPM approach from section 2.2.2, with inputs from public references. The risk-free rate is set at 3.20 percent, the ten-year Spanish sovereign yield in early 2026. A deliberate choice follows from that: because the Spanish yield already embeds the country's sovereign risk over the Bund, adding Damodaran's 0.71 percent Spanish country premium on top would count that risk twice. I therefore build the equity risk premium from the mature-market figure alone, 4.60 percent (Damodaran, 2024), and keep the Spanish premium out of the total; it is shown in Table 8 for reference but not added. The starting point is the unlevered (asset) beta of 0.90, the average for the listed apparel-retail peer group (Damodaran, 2024). Since the CAPM prices equity risk through the levered beta, this is re-levered with the Hamada relation, $\beta_L = \beta_U \times (1 + (1 - t) \times D/E)$; at Inditex's near-zero leverage (D/E around

0.05) the levered beta is only marginally higher, 0.94, and it is this levered figure that feeds the cost of equity. Table 8 shows the build-up.

Table 8. WACC calculation for Inditex

Input	Value	Source / note
Risk-free rate (Rf)	3.20%	Spanish 10Y bond, Jan 2026
Equity risk premium (mature)	4.60%	Damodaran (2024)
Country risk premium (Spain)	0.00%	Excluded (see note below)
Total equity risk premium	4.60%	Computed
Unlevered beta	0.90	Damodaran (2024), asset beta
D/E target	5%	Conservative (Inditex is net cash)
Levered beta	0.94	Hamada: $\beta_U \times (1 + (1-t) \cdot D/E)$
Cost of equity (Ke)	7.50%	$R_f + \beta_L \times ERP$
After-tax cost of debt	3.12%	$K_d 4.0\% \times (1 - 22\%)$
Weight of equity / debt	96.40% / 3.60%	Market cap vs lease debt
WACC	7.34%	Weighted average

Source: Damodaran (2024); author's model (Assumptions sheet).

The resulting WACC of 7.34 percent sits close to the lower end of the range used by the sell-side, where Banco Sabadell applies 7.8 percent and Deutsche Bank around 8.0 percent (Banco Sabadell, 2026; Cochrane et al., 2026). The central case uses 7.34 percent, and section 3.6.5 tests the conclusions for moves of plus or minus around one percentage point around it.

3.6.2. Free cash flow to the firm

Unlevered free cash flow is built from the consensus projections using the FCFE definition from section 2.2.2. Cash lease payments are treated as an operating outflow, in line with Banco Sabadell's approach: EBITDA is taken as reported (post-IFRS 16) and cash lease payments are subtracted explicitly, so lease liabilities are not added again to net debt in the bridge. Table 9 shows the build.

Table 9. Projected free cash flow to the firm, FY26E-FY30E (€M)

	FY26E	FY27E	FY28E	FY29E	FY30E
EBIT	8,531	9,249	10,077	10,682	11,269
Tax on EBIT (22%)	(1,877)	(2,035)	(2,217)	(2,350)	(2,479)
NOPAT	6,654	7,214	7,860	8,332	8,790
(+) D&A	3,429	3,619	3,803	4,031	4,252
(-) Cash lease payments	(1,861)	(1,966)	(2,068)	(2,167)	(2,259)
(-) Capital expenditure	(2,300)	(2,502)	(2,614)	(2,670)	(2,711)
(-) Change in working capital	(171)	(183)	(171)	(186)	(181)

	FY26E	FY27E	FY28E	FY29E	FY30E
FCFF	5,751	6,182	6,810	7,339	7,891

Source: author's model (DCF sheet).

FCFF grows from about €5,751 million in FY26E to €7,891 million in FY30E, a compound rate of roughly 8 percent, with the FCFF-to-sales ratio settling around 14 to 15 percent, consistent with the Group's historical cash conversion.

3.6.3. Terminal value

The terminal value is computed at the end of FY30E with the perpetuity-growth formula from section 2.2.2, using a long-term growth rate of 2.5 percent. This is below long-run eurozone nominal growth and in line with the rate used by Deutsche Bank and Banco Sabadell (Cochrane et al., 2026; Banco Sabadell, 2026). The terminal free cash flow is taxed at the 25 percent statutory rate rather than the 22 percent effective rate used in the explicit years, for the reason given in section 3.5.4. Discounted back at the WACC, the terminal value represents about 80 percent of enterprise value, which is normal for a mature firm and underlines why the sensitivity analysis matters.

3.6.4. Enterprise value to equity value bridge

Table 10 and Figure 1 show the bridge from the present value of the cash flows to the implied per-share value. The valuation date is 31 January 2026.

Table 10. DCF valuation bridge

Item	Amount (€M)
PV of FCFF, FY26E-FY30E	27,292
PV of terminal value	112,151
Enterprise value	139,444
(+) Net cash (FY25A)	10,957
Equity value	150,401
Shares outstanding (m)	3,116
Implied value per share (€)	48.27
Market price (€)	52.46
Implied upside / (downside)	(8.0)%

Source: author's model. Market price as of 11 March 2026 (results day).

Inditex — DCF enterprise-to-equity value bridge

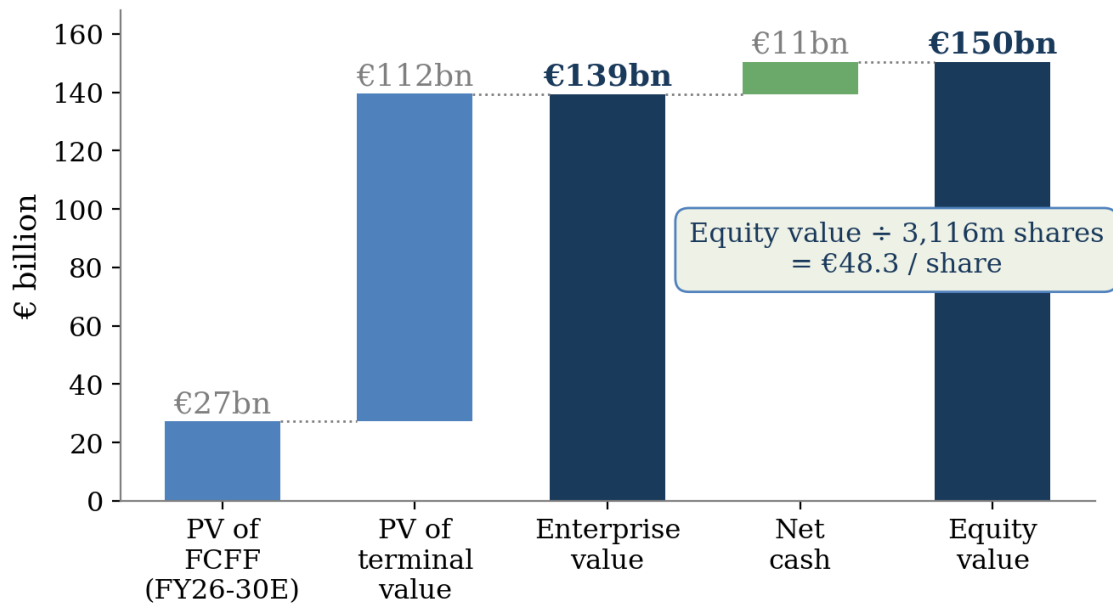


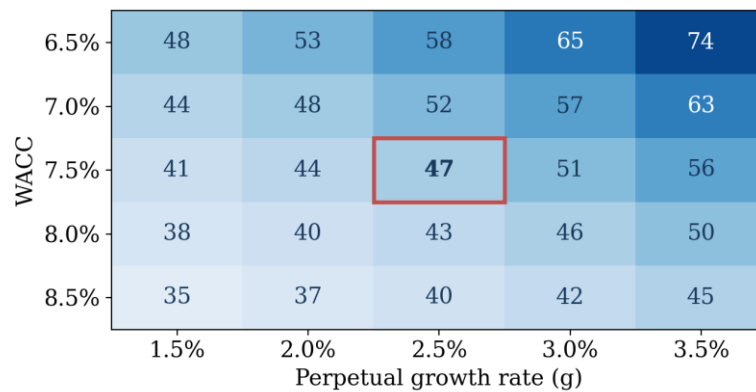
Figure 1. DCF enterprise-to-equity value bridge (€ bn).

The implied value of €48.27 per share is about 8 percent below the €52.46 reference price, so the DCF, under these central assumptions, places the stock slightly above intrinsic value rather than far from it. Two caveats are worth keeping in mind before reading too much into that. The result is, to begin with, highly sensitive to the WACC and the growth rate, as section 3.6.5 shows. On top of that, the model holds the EBIT margin flat at the FY28E consensus level of 21.2 percent; a slightly more optimistic long-term margin would lift the value further, and a marginally higher long-term growth rate would do the same. These points are picked up in the synthesis of section 3.9.

3.6.5. Sensitivity analysis

Figure 2 shows how the implied per-share value moves with the WACC and the perpetual growth rate, holding the projected cash flows constant.

Inditex – implied €/share sensitivity to WACC and g



Red box \approx central case (WACC 7.34%, g 2.5% = €48). Market price €52.5 falls in the WACC 6.5–7.0%, g 2.5–3.0% region.

Figure 2. Sensitivity of implied value per share (€) to WACC and g.

The implied value ranges from about €35 per share in the most conservative corner (WACC 8.5 percent, g 1.5 percent) to roughly €74 in the most optimistic one (WACC 6.5 percent, g 3.5 percent). The market price of €52.46 sits in the region defined by a WACC of around 6.5 to 7.0 percent and g of 2.5 to 3.0 percent, just above the central case. In other words, given the consensus cash flows, the market is pricing terminal-period assumptions only slightly more favourable than the central case used here, rather than a different operating story.

3.7. Trading multiples valuation

The peer group from section 3.3.3 (H&M, Fast Retailing, Associated British Foods, GAP and Next) is used for a market-based cross-check, applying the methodology of section 2.2.3. Four forward multiples are computed for each peer on FY26E consensus estimates: EV/Sales, EV/EBITDA, EV/EBIT and P/E. Table 11 summarises the result.

Table 11. Peer group trading multiples, FY26E (consensus)

Company	EV/Sales	EV/EBITDA	EV/EBIT	P/E
H&M	0.8x	6.5x	14.5x	17.0x
Fast Retailing (Uniqlo)	3.4x	17.5x	24.0x	30.0x
Associated British Foods	0.7x	6.5x	11.5x	12.5x
GAP Inc.	0.4x	5.5x	9.0x	12.0x
Next plc	1.7x	12.0x	14.0x	17.5x
Median (peers)	0.8x	6.5x	14.0x	17.0x
Inditex (at €52.5)	3.6x	12.8x	17.9x	24.4x

Source: GlobalData (2026); Plunkett Research (2026); sell-side consensus; author's model.

The comparison brings out two points. The peer group is, first of all, heterogeneous: Uniqlo trades close to Inditex on a similar profitability profile, while ABF and GAP trade at clear

discounts that reflect business-mix dilution and weaker margins, so the median is a more meaningful summary than the mean. Beyond that, Inditex trades at a clear premium to the peer median on every multiple, from about 28 percent on EV/EBIT to 44 percent on P/E. That premium is structurally justified by its higher margins, stronger growth and net-cash balance sheet, as Banco Sabadell also notes when it places Inditex on around 24x forward P/E versus a peer average closer to 23x (Banco Sabadell, 2026).

Applying the peer-median multiples to Inditex’s FY26E metrics, and so ignoring that structural premium, gives the implied values in Table 12.

Table 12. Implied per-share value from peer-median multiples

Method	Multiple	Metric (€M)	Equity (€M)	Per share (€)
EV / EBITDA	6.5x	11,960	88,695	28.46
EV / EBIT	14.0x	8,531	130,387	41.84
P / E	17.0x	6,697 (NP)	113,847	36.54
Mean of methods				35.62

Source: author’s model (Comps sheet). The EV-to-equity bridge adds FY25A net cash of €10,957M.

The peer-median multiples imply a value of roughly €28 to €42 per share, with a mean of €35.6, well below both the DCF and the market price. This gap is simply the quantitative expression of the premium Inditex commands. A more meaningful reading for a firm of this quality is to apply its own ten-year average multiples, around 25x forward P/E and 14x forward EV/EBITDA (Cochrane et al., 2026), which lifts the implied value into the €54 to €55 range, much closer to the DCF and the consensus.

3.8. Dividend discount model cross-check

The dividend discount model is used as an equity-side cross-check. Inditex pays out a large share of profit (a payout above 80 percent, confirmed as the working policy), so dividends are a reasonable proxy for distributable cash (Inditex, 2026). The model is implemented in two stages: an explicit five-year horizon (FY26E-FY30E) plus a perpetual-growth terminal value, discounted at the 7.50 percent cost of equity from section 3.6.1, with the same 2.5 percent long-term growth as the DCF. Projected dividends per share follow the consensus payout applied to forecast EPS.

The DDM gives an implied value of about €44.6 per share, roughly 8 percent below the DCF central estimate and 15 percent below the market price. As anticipated in section 2.2.2, it is

more conservative than the DCF because it ignores the cash Inditex retains rather than distributes: the net cash pile keeps building (it reached €10,957 million at FY25 close) even after a payout near 84 percent, which means dividends understate the Group’s true cash-generating capacity. The DDM is therefore best read as a floor for the equity value in this case.

3.9. Results synthesis

Figure 3 brings together the per-share ranges from the three methods, alongside the sell-side consensus and the market price. The football-field chart is the standard summary tool in investment-banking valuations: it shows the range produced by each technique and highlights where they overlap.

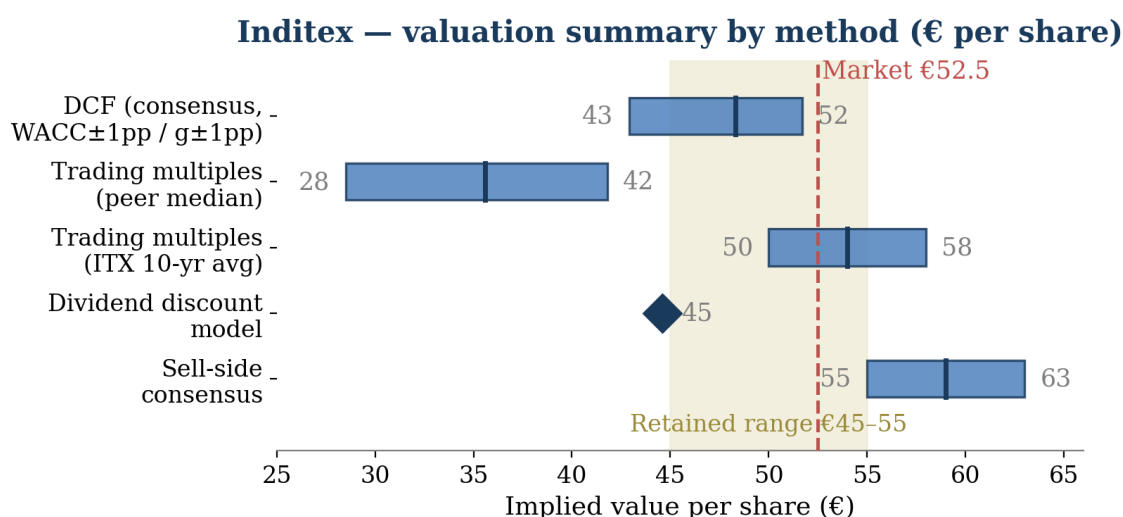


Figure 3. Inditex valuation summary by method (€ per share).

Table 13. Summary of valuation results (€ per share)

Method	Low	Central	High
DCF (consensus, sensitivity)	42.9	48.3	51.7
Trading multiples (peer median)	28.4	35.6	41.8
Trading multiples (ITX 10-yr avg)	50.0	54.0	58.0
Dividend discount model	-	44.6	-
Sell-side consensus	55.0	59.0	63.0
Market price (11-Mar-26)	-	52.5	-
Retained range	45.0	50.0	55.0

Source: author’s model and sell-side reports cited.

A few things come out of putting all the methods side by side. The first is how wide the raw range is, from about €28 (peer-median EV/EBITDA) to €63 (top of the sell-side range), and yet how much it narrows once the structural features of Inditex are properly reflected: the DCF

central case of €48, the DDM at €45 and the lower end of the Inditex-specific multiples (€50) cluster tightly just below the €52.5 market price. The peer-median multiples sit well below, and that distance is really just the market's premium for Inditex's superior fundamentals showing up in the numbers.

The second is that my central case still sits below the sell-side, though by less than before. The €59 average target is a little above a fifth higher than the DCF of €48. The gap no longer comes from the discount rate: at 7.34 percent my WACC is actually below the 7.8 percent Banco Sabadell uses, which on its own would push my value the other way. What is left is the operating story — a slightly higher long-term EBIT margin than the flat 21.2 percent assumed here, drifting toward 22 percent, together with a marginally higher terminal growth rate, brings the DCF up into the mid-50s, the lower end of the sell-side range. I have kept the more conservative margin and growth on purpose: it preserves an independent stance and makes the few assumptions that drive the difference explicit, rather than fitting the model to the consensus.

Taken together, the methods place Inditex around fair value at the valuation date. The retained range of €45 to €55, centred near €50, leaves the €52.5 market price just inside its upper half. From an investor's standpoint the risk-reward looks balanced: the upside depends on continued margin execution and a sustained low discount rate, while the downside is cushioned by the large net cash position and the diversified, cash-generative model. As both Koller et al. (2020) and IVS 105 (IVSC, 2021) argue, the value of the exercise is not a single point estimate but the triangulation across methods and the transparency about what drives the differences between them.

4. Conclusions

This work set out to do two things: review the main methods used in business valuation, and apply that framework to a real case, the valuation of Inditex, S.A. as of 31 January 2026. The findings can be grouped into a theoretical conclusion, an empirical one and a set of practical lessons.

On the theoretical side, the review confirmed that no single method is universally superior; the right choice depends on the basis of value, the nature of the asset and the data available, as the IVS 105 framework sets out (IVSC, 2021). For a mature going concern like Inditex, the discounted cash flow model is the most rigorous technique, but its output hinges on a few long-horizon assumptions, so it only becomes defensible when paired with sensitivity analysis and cross-checked against other methods. Trading multiples add a market reality check but depend on the peer group being correctly priced, and the dividend discount model, while useful for a steady payer, understates the value of a firm like Inditex that retains a large part of its cash flow.

On the empirical side, the valuation produced a retained range of €45 to €55 per share, with a central estimate of €50, roughly 5 percent below the €52.5 reference price. Three independent methods converge inside that band: the consensus-based DCF at €48, the DDM at €45, and the lower end of the Inditex-specific historical multiples at €50. The peer-median multiples sit lower, at €28 to €42, and that gap is precisely the structural premium the market pays for Inditex's higher margins, stronger growth and net-cash balance sheet. The sell-side consensus of €59 lies a little above a fifth higher than the central DCF; with my WACC already below the sell-side's, that remaining gap is driven by a long-term EBIT margin drifting toward 22 percent and a marginally higher terminal growth rate, rather than the flatter assumptions kept here. Taken together, the evidence points to a stock trading close to fair value, with a broadly balanced risk-reward.

A few practical lessons stay with me from the exercise. The clearest is that a DCF is an interpretive exercise, not a mechanical one: the same model produces values from about €35 to €74 across a plausible WACC-and-growth grid, so the analyst's judgement on a handful of inputs drives the result. Multiples, in turn, are only informative when the analyst asks whether the peers are fairly priced and whether the target deserves a premium; applied blindly they collapse into a rule of three. And anchoring the forecasts to a broker consensus rather than a

single source, and documenting every divergence transparently, makes the valuation more defensible than any single point estimate, however sophisticated the model.

The work has clear limitations. The five-year horizon leans heavily on the terminal value, which is about 80 percent of enterprise value; the cost of capital rests on point estimates of the equity risk premium and beta that a Monte Carlo simulation could stress; and the peer set excludes Shein, a private but increasingly relevant competitor for the younger formats. The valuation is also a snapshot, sensitive to moves in the WACC, growth and margins in later quarters. Even so, the exercise met its objectives: the framework of Chapter 2 supported the choices made in Chapter 3, which produced a defensible value range, isolated the assumptions behind the gap with the sell-side, and placed the market price within that range. The valuation of Inditex, like any valuation, remains an opinion rather than a fact — but an opinion built on an explicit chain of assumptions and triangulated across complementary methods, which is the discipline this work set out to demonstrate.

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Declaración de uso de herramientas de IAG

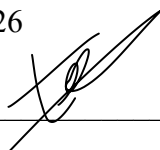
Por la presente, yo, Teresa Suquía Vega, estudiante de 5º de E2 + Analytics B de la Universidad Pontificia Comillas al presentar mi Trabajo Fin de Grado titulado "Understanding company valuation: A practical approach applied to Inditex", declaro que he utilizado la herramienta de Inteligencia Artificial Generativa ChatGPT u otras similares de IAG de código sólo en el contexto de las actividades descritas a continuación:

1. **Brainstorming de ideas de investigación:** Utilizado para idear y esbozar posibles áreas de investigación.
2. **Referencias:** Usado conjuntamente con otras herramientas, como Science, para identificar referencias preliminares que luego he contrastado y validado.
3. **Constructor de plantillas:** Para diseñar formatos específicos para secciones del trabajo.
4. **Corrector de estilo literario y de lenguaje:** Para mejorar la calidad lingüística y estilística del texto.
5. **Generador previo de diagramas de flujo y contenido:** Para esbozar diagramas iniciales.
6. **Sintetizador y divulgador de libros complicados:** Para resumir y comprender literatura compleja.
7. **Revisor:** Para recibir sugerencias sobre cómo mejorar y perfeccionar el trabajo con diferentes niveles de exigencia.

Afirmo que toda la información y contenido presentados en este trabajo son producto de mi investigación y esfuerzo individual, excepto donde se ha indicado lo contrario y se han dado los créditos correspondientes (he incluido las referencias adecuadas en el TFG y he explicitado para que se ha usado ChatGPT u otras herramientas similares). Soy consciente de las implicaciones académicas y éticas de presentar un trabajo no original y acepto las consecuencias de cualquier violación a esta declaración.

Fecha: 02/06/2026

Firma: _____

A handwritten signature in black ink, consisting of a stylized 'T' followed by a cursive flourish, written over a horizontal line.