Bloomberg Intelligence

Aritzia Equity Research


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1. Aritzia: Equity Outlook

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(Bloomberg Intelligence) -- THESIS: Aritzia's rise in women's accessible luxury apparel, sold mostly at full price, could boost revenue 72% by 2027 in our scenario, below consensus' 77% increase. US expansion -- opening 8-10 new boutiques and expanding 3-5 existing ones annually -- will be the main driver, aided by online growth as it employs a new digital marketing plan. Ebitda margin may more than double to the low-20% range, vs. consensus for 16%, as new stores exceed targets and the more profitable US segment outweighs a mature Canadian portfolio. Increased efficiency and lower product costs can also raise profitability. (01/11/24)

Key Topics

Multiyear US Growth

Aritzia Sales Could Double on US Expansion, Greater Awareness

Aritzia has a long runway to expand in the US, which could double sales by 2027 as brand familiarity grows and its model of combining compelling design with broad appeal in aspirational boutiques and online allows for mostly full-price selling. Ebitda margin could expand by 800 bps as the luxury fashion retailer scales up and cuts costs. (10/31/23)

2. Setting Up Significant White Space Potential

Aritzia's plan to lift revenue 60% to C$3.5-C$3.8 billion by 2026 could prove conservative, we believe. With just 48 stores in the US, the company is still early in its expansion. Its growth plan includes three parts: opening 8-10 boutiques and expanding 3-5 a year, increasing digital sales, and raising brand awareness. Aritzia's "everyday luxury" niche, with on-trend design and quality fabrics is building a strong following -- over 2 billion TikTok impressions and 2 million Instagram followers, mostly unaided by marketing. A mobile app and buy online/pick up in store have yet to debut.

Aritzia continues to build out distribution centers and invest in technology to enhance the customer experience, increasing support to its growing footprint and adding omnichannel capabilities. It also is creating an online marketing plan. (10/31/23)

Key Points:

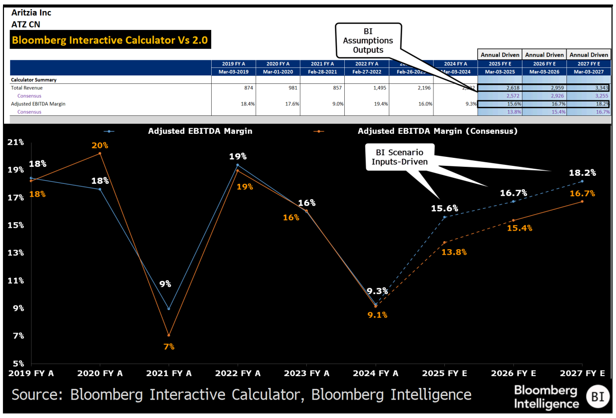
- Boutiques Total 68 in Canada, 48 in the US
- Digital Was 35% of Trailing 12-Month Sales
- Seasonality: 2H Makes Up 60% of Sales
- Private Brands Are 95% of Sales: Wilfred 28%, Babaton 30%, TNA 26%, Super Puff 7-8%, Denim Forum, Sunday Best and Reigning Champ 3-4% Each
- US Accounts for 51% of Sales; Canada, 49%
- Aritzia.com Ships to 200+ Countries
- Sourcing Raw Materials: China, India, Italy, Japan, South Korea, Taiwan; Finished Goods: Cambodia, China, India, Peru, Portugal, Romania, Sri Lanka, Vietnam
- Demographic Appeal: Women 15-45 Years Old, Household Income $100,000-$150,000

3. Margin Could Climb 33% More Than Consensus

Aritzia's Ebitda margin could expand by 780 bps by 2025 from 2023, and possibly more if comparable sales are higher. Guidance is for a 500 bps improvement in 2024, but our scenario shows a 630-bp rise as increased product costs and temporary warehousing expenses give way to higher initial markups, price increases, lower material costs and efficiencies. Management targets a 19% margin by 2026 -- we think it might reach over 20% -- as the more profitable US and online segments supersede Canada.

The boost to margin in 2024 will have four components: 150 bps from select price increases and lower product costs; 150-200 bps from 150 initiatives, including better processes and vendor negotiations saving C$60 million annualized; 125 bps from eliminating temporary warehousing; and sales leverage. (01/09/24)

Bloomberg Interactive Calculator (Click to Open)

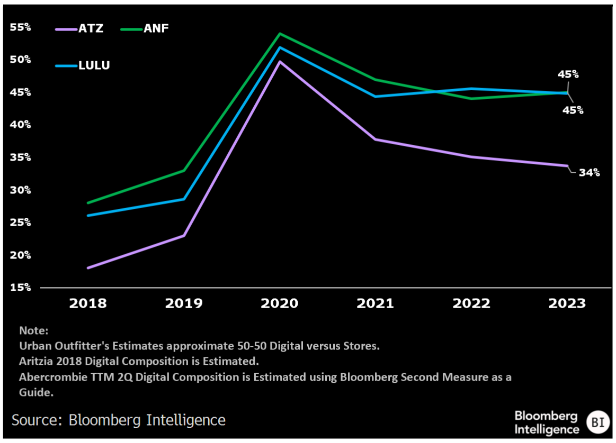


4. Digital Sales Appear Poised to Double by 2027

Aritzia's C$800 million of digital sales could rise to C$1.6 billion by 2027 on store openings. That's as it attracts new customers, expands performance-based digital marketing from almost none previously and launches omnichannel capabilities, including buy online/pick up-in-store and buy online/ship-from-store. Omnichannel customers spend 3X single channel shoppers and have higher retention rates. A trial that launched in Canada in early September surpassed expectations, and a US rollout is set for early 2024.

Critical to Aritzia's plan to double digital sales over the next three years is personalizing shopping via the eCommerce 2.0 initiative. Its customization uses geography and preferences to create relevant product assortments from the company's wide offering. (01/09/24)

Digital Sales vs. Total Revenue



5. New Marketing Strategy Can Add Fuel to Growth

Aritzia is developing its third growth vector -- raising brand awareness -- by incorporating a marketing plan that's primarily focused on digital. The initiative still is in its early stages as the company builds a team and formulates a plan, but some limited paid search in 2H could boost sales, generating a bigger benefit in 2024. Stores and social media postings have been the primary drivers to raising brand awareness.

In our channel checks, an Aritzia stylist of five years said that sales at its Los Angeles flagship climbed when it garnered over 2 billion views on TikTok from customer postings. (10/31/23)

Bloomberg Transcript

"We've just started up the digital marketing...the majority of that is to protect and propel our brand and our product franchises and of course overall to drive traffic and conversion...the early indicators...we're performing at industry, if not better than industry, when we are compared to many in our peer set."

Jennifer Wong - Chief Executive Officer, Aritzia
2Q Earnings call transcript, May 2, 2024

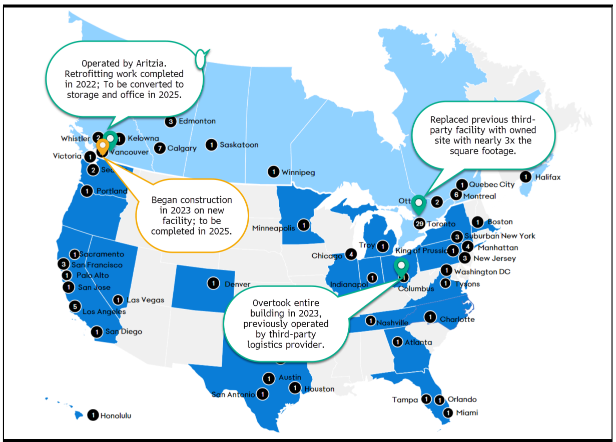
Quote located on page 9, click to view entire transcript

6. Distribution Network Is Set to Grow

The recent opening of Aritzia's Toronto distribution center is expected to boost operating margin by 125 bps in 2024 once it subleases remaining vacated facilities and since temporary fulfillment functions have ended. Within five weeks of coming online, Toronto is performing at 90% of targeted productivity, with fill rates equal to those of the company's British Columbia center. The 150,000-square-foot structure in BC will be replaced by a 380,000-sq-ft facility nearby, which is set to break ground next year.

The company operates three distribution centers: two in Canada (including the new 550,000-sq-ft Toronto facility) and one in Columbus, Ohio, that will double to 480,000 sq ft once the entire building is taken over later this year. Retrofits made to existing locations also will allow Aritzia to handle additional volume. (10/31/23)

Distribution Centers, Store Locations



Source: Bloomberg Intelligence

Expanding US Footprint

Aritzia's US Boutique Expansion Potential Looms Large (Correct)

Aritzia can triple US sales by 2027 -- boosting revenue by almost C$700 million, we believe -- as it opens boutiques in new markets and expands existing units. The women's accessible-luxury apparel retailer may add 40-50 US shops to its current 48 and has identified 100 locations. With established peers operating well over 300 stores, growth potential is substantial. (Corrects possible revenue increase.) (11/03/23)

7. Adding 33% More Stores by 2025 Could Lift US Sales 51%

Aritzia's US sales may rise at a 20% CAGR through 2025, our analysis shows. It's adding 18 stores to the 54 expected to be opened by the end of 2023, with newer and expanded sites outperforming hurdle rates. The company plans to open 8-10 boutiques and expand 3-5 existing ones each year, doubling the square footage in some cases. Including an anticipated lift in e-commerce sales and, to a lesser extent, from same-store sales, Aritzia can add more than C$625 million to US revenue over two years.

Stores that opened in 2022 raised digital revenue by as much as 80%. There's opportunity to increase online sales separate from store growth as the Canadian company employs specific e-commerce measures. The digital sales scenario considers gains from new stores, plus recent performance-based marketing and personalization strategies. (01/09/24)

US Boutique Expansion Scenario Analysis

(CAD millions)	% of Total	2022	2023	2024 CE	2025 CE	2026 CE	2027 CE
Total Revenues (Actual/CE)		$2,196	$2,332	$2,572	$2,926	$3,255	$3,584
Ebitda (Actual/CE)		$351	$217	$356	$454	$547	$614
Ebitda Margin		16%	9%	14%	16%	17%	17%
Bricks & Mortar	66%	$1,426	$1,547				
Digital	34%	$770	$785				
US Store Platform		46	51	59	68	77	86
Number of New Stores (Avg Sq Ft = 8,000)		7	5	8	9	9	9
Scenario Sales Added (80% of 1st Year)				$59	$70	$72	$72
Prior Year(s) Maturation Lift**				$30	$30	$40	$43
Number of Store Expansions				4*	3	3	3
Scenario Sales Added (70% of Store's Prior Sales)				$46	$27	$27	$27
Sales Contribution From New Store Openings/Expansions				$135	$127	$139	$142
Cumulative Sales Lift From New Stores (including maturation cycle)				$135	$262	$401	$544
Scenario US Same Store Sales				3.8%	3.8%	3.8%	3.8%
US Store Sales Est		$728	$814	$979	$1,143	$1,325	$1,517
Scenario US E-Commerce Sales Growth				25.0%	30.0%	35.0%	37.5%
US E-Commerce Sales		$393	$413	$516	$671	$906	$1,246
Total US Sales		$1,121	$1,226	$1,495	$1,814	$2,231	$2,762
Scenario Same Store Sales				1.5%	2.0%	3.0%	2.0%
Sales From Stores in Canada		$1,075	$1,106	$1,122	$1,145	$1,179	$1,203
Total Revenues		$2,196	$2,332	$2,618	$2,959	$3,410	$3,965

Note:
*2024 Store Expansions Consider Repositioning to Larger Flagships at Higher Productivity; 2 in NYC and 1 in Chicago.
**Gradual Incremental Sales Lift; Newer Stores Typically Mature Over Three Years.

Source: Bloomberg Intelligence

8. Boutiques' Draw Begets Strong Economics

Aritzia's stores -- located exclusively in triple-A-rated malls, lifestyle centers and streets -- average 8,000 square feet. They generate C$8 million in sales in their first year, which we believe can grow to C$13 million in three. The boutiques feature an array of high-quality, well-designed apparel and draw a broad range of middle- to higher-income female customers. Stores opened over the past year fully covered the initial investment within 12 months -- some in 10, ahead of the company's target of 12-18 months, meaning their economics were better than expected.

Aritzia's new-shop metrics are stronger than Lululemon's two-year payback and C$1,400 in sales per square foot. (01/09/24)

Aritzia New Stores vs. Peers

Aritzia Inc. (ATZ CN)		Lululemon Athletica Inc. (LULU US)		Abercrombie & Fitch (ANF US)	
US Store Base 2023	51	US Store Base	367	US Store Base	612
US Store Base in 5 Years CE	101	US Store Base in 5 Years CE	397	US Store Base in 5 Years CE	611
Implied CAGR (%)	*14.5%*	*Implied CAGR (%)*	*1.6%*	*Implied CAGR (%)*	*0.0%*
2024 Comparable Sales CE	4%	2024 Comparable Sales CE	10%	2024 Comparable Sales CE	10%
New Store Payback Timeframe	12-18 Mo	New Store Payback Timeframe*	2 Years	New Store Payback Timeframe	2 Years
(CAD millions)		(USD millions)		(USD millions)	
Average 1st Year Sales/Store	$8				
Sales Per Sq Ft	$1,000				
2nd Year Sales/Store Est	$10				
Sales Per Sq Ft Est*	$1,250				
Sales/Mature Store	$13				
Sales Per Sq Ft	$1,600	Sales Per Sq Ft	$1,400	Sales Per Sq Ft*	$771

*Estimated Figures.
Aritzia Invests $3 Million Net For a New Store; Lululemon, $1 Million.

Source: Bloomberg Intelligence

9. Relying on Triple-A Real Estate, at a Discount

With many US apparel retailers closing stores after overbuilding, Aritzia is on track to more than double its number of boutiques in high-traffic, triple-A locations over the next five years -- and still have the ability to double its footprint again. Existing stores are being expanded as well, lifting sales above expectations. Instead of retrenching during the pandemic, Aritzia grabbed the opportunity to secure superior, larger flagship locations in New York (at triple the previous size) and Chicago, along with other locations -- all at reduced costs. The flagships are set to open in 2024. (11/01/23)

Bloomberg Transcript

"We are disciplined and patient and do not compromise on our real estate selections. We look for AAA real estate, whether that be in a shopping center, a street or lifestyle center. We choose locations that have high productivity, heavy traffic and top-performing adjacencies. We have a prioritized target list that we go after.... Not a lot of retailers can say this, but all of our stores are profitable.... We're able to negotiate favorable economics and lease conditions as a result of our exquisite boutiques and great sales productivity."

Karen James - Executive vice president for real estate, Aritzia
Investor day transcript, Oct. 27, 2022

Quote located on page 15, click to view entire transcript

Sustainability Plays Catch-Up

Aritzia's Sustainability Program Needs a Lift to Join Peers

Aritzia's ESG journey, which began in 2017 when it established a baseline for greenhouse gas emissions, will set more targets in 2024 (for GHG and water use) and establish sustainability goals for 2026 and 2027. That includes verifying that 100% of supplier facilities are fair and safe, as well as using 100% sustainable cotton and 45% recycled polyester. (11/02/23)

10. Materials Sourcing Comes Under Focus

Aritzia aims to lower suppliers' water consumption by shifting to recycled materials and working with Better Cotton. In 2022, about 32% of its materials were cotton, with 60% of it sourced sustainably: 50% from Better Cotton, 9% from organic and about 1% from recycled. That was a tad below American Eagle (with 62% sustainably sourced cotton) but well ahead of Abercrombie & Fitch (23%). Synthetics (polyester and nylon) accounted for 44% of materials, with 22% of that recycled (19% polyester and 3% nylon). American Eagle uses polyester for only 28% of its fabrics, sourcing 25% of it from recycled fibers.

Aritzia lags behind peers in reducing or eliminating polybags, having only begun a test. But 80% of its retail bags are made from 40% post-consumer waste paper, with handles either 30% recycled or 100% recyclable. (11/02/23)

Aritzia Use of Recycled Materials

	2021		2022	
	% Sustainable	% Recycled	% Sustainable	% Recycled
Nylon	N.A.	1%	N.A.	3%
Cashmere*	60%	1%	60%	1%
Polyester	N.A.	8%	N.A.	19%
Cotton	60%	<1%	60%	<1%
Down**	100%	4%	98%	2%
Wood-Based Cellulosic***	100%	N.A.	100%	N.A.
All Animal-Derived	10%	N.A.	26%	N.A.
All Synthetic Materials	5%	N.A.	9%	N.A.

Note:
44% and 61% of Styles Contained a Lower-Impact Material in 2021 and 2022, respectively.
*Evaluated through Good Cashmere Standard (GCS)
**Evaluated through Responsible Down Standard (RDS)
***Fibers from Non-Endangered or Non-Ancient forests

Bloomberg Intelligence

Source: Company Filings, Bloomberg Intelligence

11. Emissions Targets to Be Set in 2024

Since it's younger and smaller than peers, Aritzia has also been later to establish some ESG goals. Next year, it aims to set targets to lower Scope 1, 2 and 3 greenhouse gas emissions. American Eagle by 2022 had already cut Scope 1 and 2 emissions by 31% from its 2018 base, and Abercrombie has decreased its emissions by 38%. For reducing water usage, Aritzia expects to create a strategy by 2025. Yet American Eagle saved 13 gallons per pair of jeans in 2022, and

Abercrombie has cut water use in denim production by 30% since 2019 -- three years ahead of plan.

Aritzia hasn't set diversity and inclusion targets, but said 73% of senior leadership roles and 40% of board seats are held by women. It hasn't reported on race or ethnicity. (11/02/23)

Apparel Sustainability Comparison

	Aritzia Inc.		American Eagle		Abercrombie & Fitch	
	Goal	Progress	Goal	Progress	Goal	Progress
Greenhouse Gas	Establish GHG Emission Targets by 2024	Submitted Letter of Intent to the Science Based Targets	Reduce Carbon Emissions 40% by 2030	23% Renewable Energy Sources in 2022	Reduce Scope 1, 2 GHG Emissions 47% by 2030	Reduced Scope 1, 2 Emissions 38% in 2022
Sustainable Products	100% In-Scope Higg FEM Verified Fabric Supplier Facilities	97% of Finished-Goods Supplier's Environmental Evaluated	100% Sustainably Sourced Cotton, 50% Polyester by 2028	62% of Cotton was Sustainable in 2022	Source 25% Better Cotton by 2025	Achieved 23% in 2022
Packaging Materials	90% Lower-Impact, Recyclable Materials by 2026	Select Products Transported Without Polybags	Reduce Plastic 30% by 2028	N/A	Undefined	N/A
Waste or Water	Establish Water-Usage Reduction Strategy by 2024	Better Cotton Partnership on Efficient Water Usage	Reduce Water per Jean Production 30% by 2023	13 Gallons Saved Per Pair of Jeans	Reduce Denim Production Water 30% by 2022	30% Reduction in 2019
Diversity & Inclusion	Undefined	40% of Board are Women	Undefined	50% of Board is Diverse by Gender, Ethnicity	Leadership, Board 50%+ Director Hires URC*	66% of Board are Women
	100% Participation in Employee Survey	88% in 2022	Undefined	49% of Executives are Women	Well-Being, Empowerment Programs for 50,000 Supply Chain Workers	6% as of 2022

Note:
* "URC" -- Under Represented Communities

Bloomberg Intelligence

Source: Bloomberg Intelligence

Focus Idea

BI Focus: Aritzia's Triple-A Focus Nets Growth

Aritzia's Accessible Luxe Points to Outsized US Growth: BI Focus

Thesis: Aritzia's profit margin could climb by a third more than analysts forecast by 2025 and sales top consensus on streamlined operations and ramped-up US expansion, based on our analysis. The largest advance may come this year, with the retailer cutting warehousing costs, hiking prices and lowering product expenses. Its small US presence and burgeoning Super Puff franchise indicate a growth opportunity after the stock dropped about 40% in 2023. (01/09/24)

12. New Stores, Online Sales and Tailwinds Could Lift Margin

We believe these catalysts could act as important triggers for this idea in the coming months. (01/09/24)

Timeline of Key Catalysts:

- January: Urban Outfitters and Abercrombie, Frequented by Aritzia Customers, Are Expected to Report 4Q Sales Update Ahead of ICR Conference
- January: Aritzia Reports 3Q Earnings; Management Sees Net Sales Flat to Slightly Down, With Gross Margin Falling 200 Bps; Company Likely Provides Indication That December Sales Rose
- May: Aritzia Reports 4Q Results, Likely Provides Guidance for the Coming Year; Consensus Sees Operating Margin of 12% vs. 7% Expected in 2023

Financial Review

Earnings

13. Aritzia 1Q Sales to Rise on Newness, Expansion: Earnings Outlook

Post-4Q Earnings Outlook: Aritzia's comparable sales may grow in 1Q, potentially above analysts' 3% gain, on more new merchandise, balanced inventories (down 27% to start the quarter) and as new store openings are added to the comparable base. The retailer sees total sales up 3-7%, with consensus at the high end. New stores (and expansions) are reaching breakeven mostly within 12 months, vs. its goal of 12-18 months, with online sales in those markets rising 70%. Slated to open this year are 13 new and three repositioned stores, mostly in 2H, with adjusted Ebitda seen rising 400-500 bps on higher initial markups, fewer markdowns and lower warehousing costs.

Bloomberg Second Measure's consumer-transaction data indicates 1Q-to-date adjusted observed US sales are tracking slightly above consensus, accelerating in April. (05/06/24)

Highlights From Recent Results:

- 4Q Comparable Sales Down 3%, With 1Q Net Revenue Expected to Rise 3-7%, Based on Guidance
- Gross Margin Climbed 30 Bps to 38.3%, a Tad Under Consensus' 38.4%, on Select Price Increases, Lower Warehousing and Freight Expenses, Offset in Part by Pre-Opening and Inflation Costs
- Inventory Down 27%
- Adjusted EPS Fell 15% to 34 Canadian Cents, Topping Consensus' 32 Cents

Additional Resources:

- Analyzer | BI »
- Earnings Release | DOCV »
- Earnings Call Transcript | DOCV »

Long-Term Drivers

14. Aritzia's US Store Build-Out, Online Marketing to Fuel Growth

Aritzia's US store footprint could triple over the next several years from 48 currently, with 100 locations identified as meeting its standards. As recent boutique openings exceed hurdle rates and new e-commerce marketing takes hold, sales and margin expansion may top expectations, provided that Middle East instability doesn't escalate. The company's model of selling mostly at full price -- we estimate that it makes up 80% of sales -- distinguishes Aritzia in a US market loaded with promotions. Only Lululemon takes a similar tack, which is likely a big factor in its 26% Ebitda margin.

Aritzia's 2027 target for a 19% Ebitda margin can be exceeded by 100-200 bps as the company begins to market online, since the fast growing US e-commerce business is more profitable than in-store. (11/07/23)

Bloomberg Interactive Calculator (Click to Open)

Aritzia Inc
ATZ CN

Bloomberg Interactive Calculator

Aritzia Inc

	2022	2023	2024	2025	2026
Key Drivers					
Total Revenue					
E-Commerce	564	770	793	925	1,153
Y/Y Change	*32.5%*	*36.4%*	*3.0%*	*16.6%*	*24.7%*
Consensus			793	925	1,153
Retail	930	1,426	1,513	1,605	1,808
Y/Y Change	*115.6%*	*53.3%*	*6.1%*	*6.1%*	*12.6%*
Consensus			1,513	1,605	1,808
Key Financial Metrics					
Total Revenue	1,495	2,196	2,306	2,530	2,961
Consensus			2,300	2,588	2,973
Operating Margin	15.8%	13.1%	7.0%	12.7%	14.4%
Consensus			6.9%	12.0%	13.4%
Diluted EPS	1.36	1.63	0.78	1.75	2.50
Consensus			0.86	1.85	2.46

Source: Bloomberg Interactive Calculator, Bloomberg Intelligence

Valuation

Valuation Multiple Subdued

Aritzia Multiple Downplays Potential for Growth, Brand Franchise

Aritzia's lease-adjusted enterprise value at 6.3x forward Ebitdar is slightly above the multiples of slower-growing peers Abercombie and Urban Outfitters and below Lululemon, which boasts a higher margin. But Aritzia's multiple could improve as sales climb, select brands (like the Super Puff) gain traction and Ebitda margin expands. (11/06/23)

15. Fundamentals Can Support Higher Multiple

Aritzia's lease adjusted EV multiple of 6.3x appears low, based on 2024 consensus and the retailer's prospects for midteens sales growth. That's just a small premium to Urban Outfitters (including the Anthropologie and Free People brands) and Abercrombie & Fitch -- top destinations for Aritzia customers. It's also above Oxford Industries (Tommy Bahama, Johnny Was), which has lower expected growth (3%) but higher cash conversion (54%). Aritzia's valuation can increase as sales climb and Ebitda margin rises (with a company target at 19% by 2026, and we believe may reach the low 20% range). The multiple at Lululemon, also a top Aritzia customer haunt, trades well higher on strong marquee metrics.

Select Aritzia private brands -- like Super Puff jackets -- appear to be gaining a strong following that add franchise value. (11/06/23)

Forward Adjusted Enterprise Value

2024 Consensus Estimates (in millions)	Aritzia Inc.	Lululemon Athletica	Urban Outfitters	Abercrombie & Fitch	Oxford Industries	American Eagle
3 Year Forward Sales CAGR	15.8%	12.2%	4.0%	1.9%	3.0%	2.9%
Revenues	$2,588	$10,892	$5,342	$4,142	$1,641	$5,250
Gross Margin	42%	58%	33%	61%	64%	39%
Ebitda	$385	$2,875	$544	$525	$286	$598
Ebitda Margin	15%	26%	10%	13%	17%	11%
% Chg in Margin vs. 2019	-15%	0%	9%	79%	40%	0%
Ebitdar	$530	$3,310	$948	$931	$364	$1,007
Excess Cash Flow Conversion *	37%	42%	36%	36%	54%	46%
Excess Cash Return on Equity **	6%	2%	6%	6%	12%	8%
Debt + PVOL (@8x)***	$1,161	$3,486	$3,229	$3,543	$678	$3,275
Adj Net Debt Leverage:	1.9x	0.3x	2.8x	2.8x	1.7x	2.7x
Market Capitalization	$2,370	$51,059	$3,241	$3,188	$1,342	$3,616
Adj EV to Forward Ebitdar	6.3x	15.7x	6.2x	6.2x	5.3x	6.3x

* Excess Cash Flow After Consensus Working Capital Changes Before Dividends Divided by Ebitda.
** Excess Cash Flow Divided by Equity Market Capital.
*** Lease Term's Average Weighted Life <7 Years.
**** 2026 Oxford Industries & American Eagle Outfitters Grown From 2025 Consensus
***** Aritzia Year-End Cash Estimated; Consensus Appears High

Bloomberg Intelligence

Source: Company Filings, Bloomberg Intelligence

16. Super Puff Brand's Value Could Top C$300 Million

The Super Puff brand may have an enterprise value, distinct from Aritzia, that exceeds C$300 million, or about 1.5x revenue -- just a tad above the multiple at Canada Goose and almost three turns below Moncler, based on our analysis. The assortment features exceptional design and function with prices about a third those of Canada Goose and lower still than Moncler. Outerwear typically boasts higher margins than other apparel, which can support a larger sales multiple.

The Super Puff, which we calculate accounts for 5-10% of Aritzia sales, has been sought by shoppers because of its fashion and fit, array of colors and options, and performance in freezing temperatures. It took off in 2018 when Kendall Jenner sported a bright red Super Puff, and other celebrities have flocked to the jackets. (01/09/24)

The Super Puff Valuation Scenario

2024 Consensus Estimates (In Millions)	
Aritzia 2024 Revenue Est. ($CAD)	$2,588
Super Puff Mix Est.	7.5%
Super Puff Revenue Est.	$194
Mid EV/Sales	1.5x

	1.2x	1.3x	1.4x	1.5x	1.6x	1.7x	1.8x
$ 150	$180	$195	$210	$225	$240	$255	$270
$ 160	$192	$208	$224	$240	$256	$272	$288
$ 170	$204	$221	$238	$255	$272	$289	$306
$ 180	$216	$234	$252	$270	$288	$306	$324
$ 190	$228	$247	$266	$285	$304	$323	$342
$ 200	$240	$260	$280	$300	$320	$340	$360
$ 210	$252	$273	$294	$315	$336	$357	$378
$ 220	$264	$286	$308	$330	$352	$374	$396
$ 230	$276	$299	$322	$345	$368	$391	$414
$ 240	$288	$312	$336	$360	$384	$408	$432
$ 250	$300	$325	$350	$375	$400	$425	$450

	3 Year Forward Sales CAGR	Revenues	EBITDA	EBITDA Margin (%)	EV/SALES	EV/EBITDA
Canada Goose	16%	$1,486	$307	21%	1.3x	6.1x
Moncler SpA	9%	€3,252	€1,288	40%	4.2x	12.7x

Bloomberg Intelligence

Source: Company Filings, Bloomberg Intelligence

17. Ebitda Multiple Tops Many Peers While Stock Trails

Aritzia's enterprise valuation-to-forward Ebitda of 6.2x is above Abercrombie's (5.5x) and Urban Outfitters' (4.9x), but well below Lululemon's (17.4x). The latter's premium is likely due to its strong international expansion, comparable sales growth and high Ebitda margin (26% vs. 15% at Aritzia and less at Abercrombie and Urban Outfitters). Aritzia's multiple lead on Abercrombie and Urban Outfitters could grow as its sales increase -- possibly by the midteens -- and its margin rises to its historical high-teens or possibly above 20%.

Aritzia's shares have underperformed peers and the broader market for the past year, falling 59% as the company's rapid sales growth slowed sharply. Abercrombie advanced 260%, Urban Outfitters, 52%, and Lululemon, 27%, while the S&P 500 gained 18%. (11/06/23)

Apparel Brands Forward Relative-Value Analysis

	Forward P/E	Forward EV/EBITDA	EV/ Forward Sales	Forward Gross Margin	Excess Cash Flow Conversion	Forward Ebitda Margin	Forward (EBITDA-Capex) Margin
Aritzia Inc.	12.0x	6.2x	0.9x	42%	37%	15%	10%
Lululemon Athletica	29.0x	17.4x	4.6x	58%	42%	26%	19%
Urban Outfitters, Inc.	10.3x	4.9x	0.5x	33%	36%	10%	6%
Abercrombie & Fitch Co.	14.9x	5.5x	0.7x	61%	36%	13%	9%
Oxford Industries Inc.	7.8x	4.8x	0.8x	64%	54%	17%	12%
American Eagle Outfitters	13.3x	5.8x	0.7x	39%	46%	11%	8%

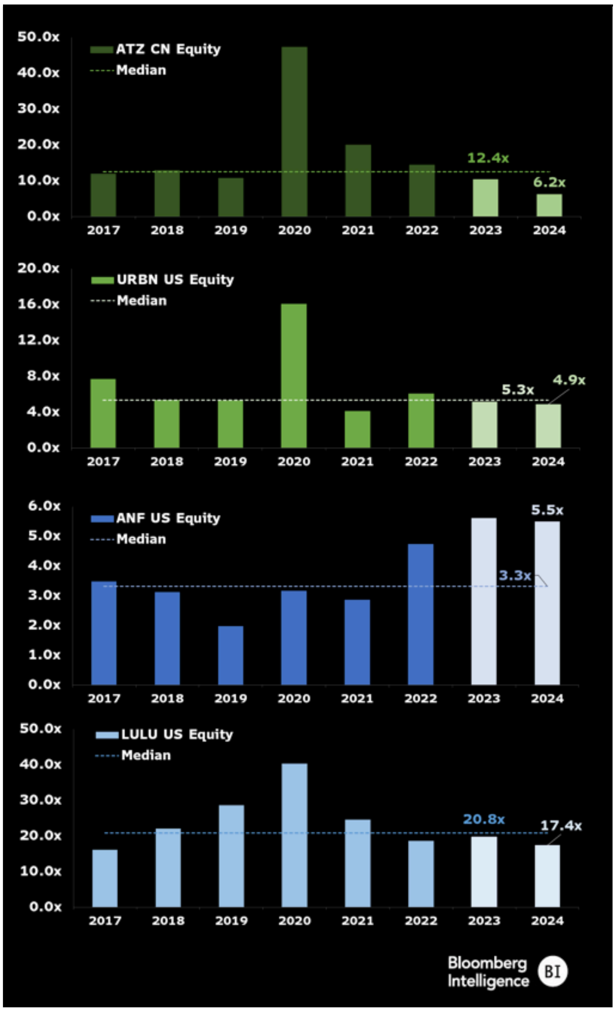
Bloomberg Intelligence

Source: RV <GO>, Bloomberg Intelligence

18. Enterprise Multiple Is Half Its Historical Trend

Aritzia's expansion potential in the US and new digital growth drivers could boost its multiple of enterprise value-to-forward Ebitda back toward its historical median above 12x. Its peers' multiples -- at 4.9x-17.4x -- also are below their medians, except for Abercrombie. Aritzia is further than peers from its historical trend. Abercrombie's is 3.3x, Urban Outfitter's, 5.3x, and Lululemon's, 21x. (11/06/23)

Enterprise Value-to-Forward Ebitda Multiples



Source: GF <GO>, Bloomberg Intelligence

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