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Aritzia Sets Stage for Multiyear US Expansion



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Aritzia Sales Could Double on US Expansion, Greater Awareness

(Bloomberg Intelligence) -- Aritzia has a long runway to expand in the US, and could double sales by 2027 as brand familiarity grows and its model of combining compelling designs with broad appeal in aspirational boutiques and online allows for mostly full-price selling. Ebitda margin may expand by 800 bps as the luxury fashion retailer scales up and cuts costs. (06/27/24)

1. Aritzia's Growth Plan Sets Up Significant White-Space Potential

Aritzia's 2022 plan to lift revenue 60% to C\$3.5-C\$3.8 billion appears achievable, though it may take until 2027-28 vs. the 2026 target. With just 51 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 designs and an aim for quality fabrics, is building a following -- over 2 billion TikTok impressions in 2022 and 1.6 million Instagram followers. A mobile app and buy online/pick up in store program is in its pilot phase, mostly in Canada.

Aritzia continues to invest in technology to enhance customer experience, increasing support for its growing footprint and adding omnichannel capabilities. It's also investing in online marketing. (06/27/24)

Key Points:

- Boutiques Total 68 in Canada, 51 in the US
- Digital Was 33.7% 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 and Sunday Best 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

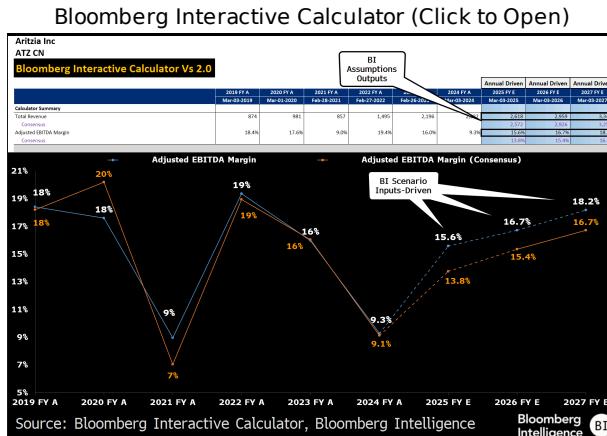
2. Margin May Climb 33% Above Consensus

Aritzia's Ebitda margin could expand by 740 bps 2023-25, particularly if comparable sales are higher. Guidance is for a 400-500 bps improvement in 2024, but our scenario shows a 630-bp increase, as higher product costs and temporary warehousing expenses give way to bigger initial markups, price hikes, lower material costs and efficiencies. Management targets a 19% margin by 2026 -- we think it could reach over 20% -- as the more profitable US and online segments supercede 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 initiatives that include better processes and vendor

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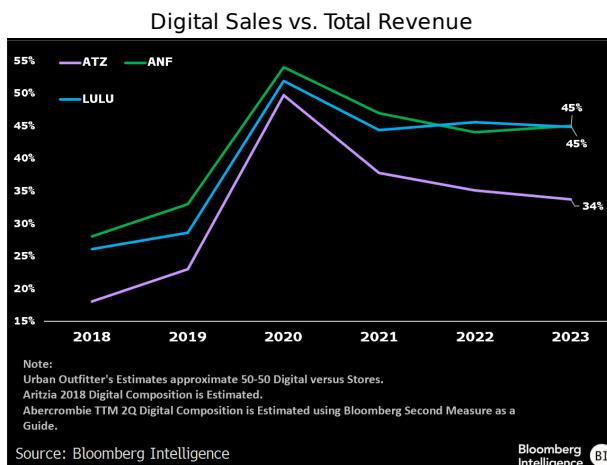
negotiations saving an annualized C\$60 million; 125 bps from eliminating temporary warehousing and about 25 bps sales leverage. (06/27/24)



3. Digital Sales Poised to Double by 2027

Aritzia's C\$800 million of digital sales could rise to C\$1.6 billion by 2027 as new stores open. That's as the company attracts new customers, expands performance-based digital marketing and rolls out omnichannel capabilities, including buy online for in-store pick up (currently in trial in Canada) and shipping online orders from stores (rolled out in Canada in 3Q). Omnichannel customers spend 3x single-channel shoppers and have higher retention rates. A US rollout was launched in 4Q for buy online/in-store pick up in select markets.

Critical to Aritzia's plan to double digital sales over the next three years is personalizing shopping via the eCommerce 2.0 initiative that uses geography and recorded preferences to create customized product assortments. (06/27/24)



4. New Marketing Strategy Can Boost Growth

Aritzia is developing its third growth vector -- raising brand awareness -- with a marketing plan that's primarily digital. The initiative, which began in 2023, is in the early stages as it works to set a baseline for online advertising and content spending. The company employed a digital agency in 4Q and has assembled a team focused on executing its strategy that began in 2H.

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The company's online growth over the past couple of years benefited from opening new stores and unaided and unpaid influencers' social media postings. The brand gained over two billion TikTok impressions in 2022. (06/27/24)

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"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

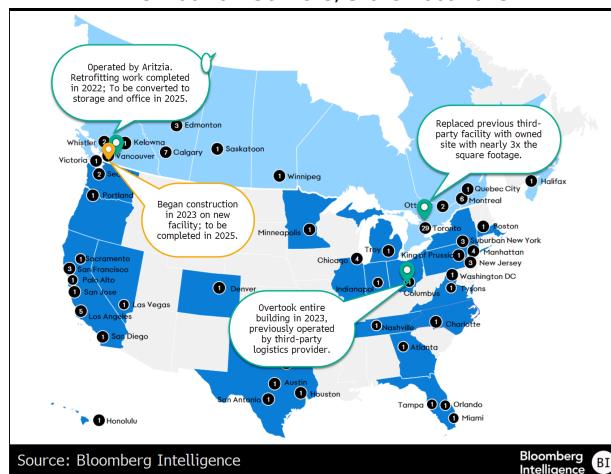
Quote located on page 9, click to view entire transcript

5. Distribution Network Expanding

Aritzia's new 550,000-square-foot Ontario facility is ramping up ahead of internal targets with pick-and-pack metrics 70% above that of its previous third-party operated facility. That will significantly lower labor and inventory-management costs in 2024. This could add 125-150 bps to margin, particularly now that the company has vacated all temporary facilities. The 223,000-square-foot structure in British Columbia will be replaced by a 380,000-sq-ft facility nearby, which broke ground in 2023 and is expected to be completed in 2025.

The company operates three distribution centers: two in Canada (including the newly-opened 550,000-sq-ft Toronto facility) and one in Columbus, Ohio, that was more than doubled to 560,000 sq ft in 2023, with plans for retrofits this year to handle additional volume. (06/27/24)

Distribution Centers, Store Locations



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