

Bloomberg Intelligence

Aritzia Sales to Build on US Bricks and Mortar

Read Research Report: Aritzia Equity Research



Mary Ross Gilbert
Team: Retail
BI Senior Industry Analyst

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

(Bloomberg Intelligence) -- 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)

1. 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	\$3,285	\$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

2. 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

This report may not be modified or altered in any way. The BLOOMBERG PROFESSIONAL service and BLOOMBERG Data are owned and distributed locally by Bloomberg Finance LP ("BFLP") and its subsidiaries in all jurisdictions other than Argentina, Bermuda, China, India, Japan and Korea (the "BFLP Countries"). BFLP is a wholly-owned subsidiary of Bloomberg LP ("BLP"). BLP provides BFLP with all the global marketing and operational support and service for the Services and distributes the Services either directly or through a non-BFLP subsidiary in the BLP Countries. BFLP, BLP and their affiliates do not provide investment advice, and nothing herein shall constitute an offer of financial instruments by BFLP, BLP or their affiliates.

Bloomberg Intelligence

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 (%)	14.3%	Implied CAGR (%)	1.4%	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				
2nd Year Sales/Store Est	\$10				
Sales Per Sq Ft Est	\$1,200				
Sales/Mature Store	\$1,313	Sales Per Sq Ft	\$1,400	Sales Per Sq Ft	\$771
Sales Per Sq Ft	\$1,600				
*Estimated figures. Aritzia invests \$3 Million Net For a New Store; Lululemon, \$1 Million.					
Source: Bloomberg Intelligence				Bloomberg Intelligence	

3. 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	

To contact the analyst for this research:

Mary Ross Gilbert at mgilbert66@bloomberg.net