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

Read Research Report: Aritzia Equity Research

Mary Ross Gilbert
Team: Retail
BI Senior Industry Analyst

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

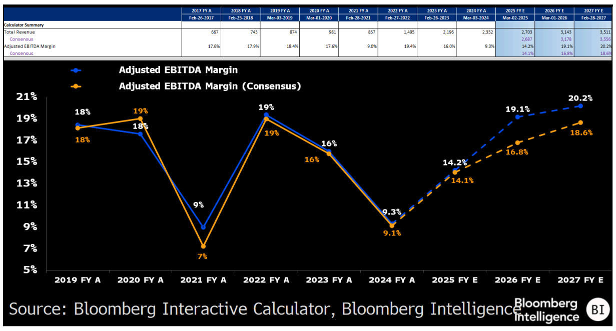
(Bloomberg Intelligence) -- Thesis: Aritzia's profit margin could climb 190 bps more than analysts' estimates by 2026, with sales topping consensus on streamlined operations and ramped-up US expansion, based on our analysis. The largest gains may come this year, with the retailer cutting warehousing costs, hiking prices and lowering product expenses. Its small US presence and burgeoning Super Puff franchise indicate a multiyear growth opportunity even after the year-to-date stock advance. (08/23/24)

## 1. Margin Could Climb 190 Bps Above Consensus

Aritzia's Ebitda margin could expand 960 bps by 2026 from 2023, and possibly more if comparable sales are higher. Guidance is for an improvement of 400-500 bps in 2024, though our scenario shows a 650-bp rise as elevated 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 can 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. (08/23/24)

Bloomberg Interactive Calculator (Click to Open)



Source: Bloomberg Interactive Calculator, Bloomberg Intelligence

## 2. New Stores, Online Sales and Tailwinds May Lift Margin

We believe these catalysts could act as important triggers for this idea in the coming months. (08/23/24)

Timeline of Key Catalysts:

- September: Aritzia Reports 2Q, Expects Net Revenue Up 7-10% With Gross Margin Advancing 450 Bps
- January: Aritzia Reports 3Q Earnings Against Easier Comparisons to 3Q23 When Comparable Sales Were Flat and Ebitda Margin Declined 520 Bps
- May: Aritzia Reports 4Q Results, Likely Provides Guidance for the Coming Year, Including Sales From Nine New Boutique Openings (8 in 3Q)

## 3. Triple-A Real Estate at a Discount Gives Advantage

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 in the next five years -- with the ability to double its footprint again. Existing stores are being expanded as well, lifting sales above expectations.

Instead of retrenching during the pandemic, the company took 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 this year. (08/23/24)

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 Janes - Executive vice president for real estate, Aritzia
Investor Day transcript, Oct. 27, 2022

Quote located on page 15, click to view entire transcript

## 4. Boutiques' Draw Gives Rise to Strong Economics

Aritzia's stores -- located exclusively in triple-A-rated malls, lifestyle centers and streets -- average 8,000 square feet. They generated C$8 million in sales in their first year, which we believe will reach C$13 million in year 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 ahead of the company's 12-18-month target, 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. (08/23/24)

Aritzia's 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

To contact the analyst for this research:

Mary Ross Gilbert at mgilbert66@bloomberg.net