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Aritzia Sets Stage for Multiyear US Expansion

Read Research Report: Aritzia Equity Research



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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, 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)

1. 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

2. Margin Can Increase at Least 500 Bps in 2024

Aritzia's Ebitda margin could expand by 500 bps next year, possibly more if comparable sales are higher than expected. That compares with a projected 600-bp decline this year on higher product costs and temporary warehousing expenses. The company anticipates that margin will reach 19% by 2026 -- though we think it could climb above 20% -- as the more profitable US and online segments supersede Canada.

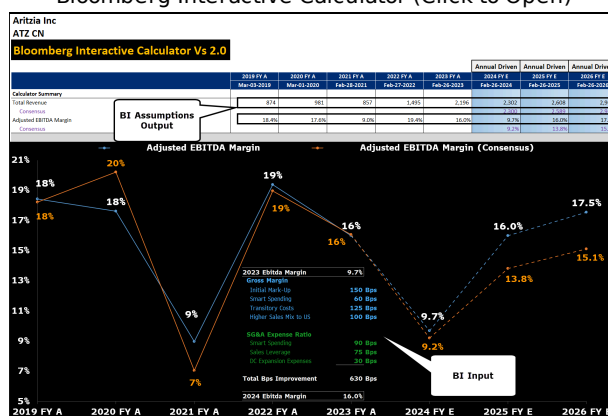
Improving margin in 2024 will have four components: 150 bps associated with select price increases and lower product costs, 150-200 bps from about 150 initiatives such as process

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improvements and vendor negotiations for total run-rate savings of C\$60 million, 125 bps from eliminating temporary warehousing expenses and lease amortization, and, finally, sales leverage. (10/31/23)

Bloomberg Interactive Calculator (Click to Open)



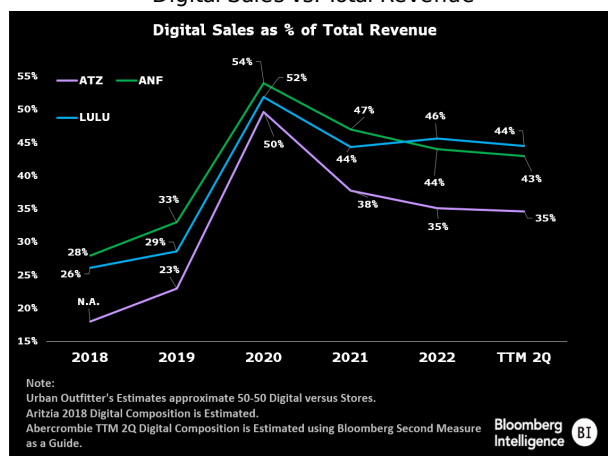
Source: Bloomberg Intelligence

3. Digital Sales Poised to Double by 2027 (Correct)

Aritzia's C\$800 million of digital sales could rise to C\$1.6 billion by 2027 on new store openings as it attracts new customers; performance-based digital marketing, having previously done almost none; and by launching 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. (Corrects digital sales potential in headline and text.)

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. (11/03/23)

Digital Sales vs. Total Revenue



Source: Bloomberg Intelligence

4. 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

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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

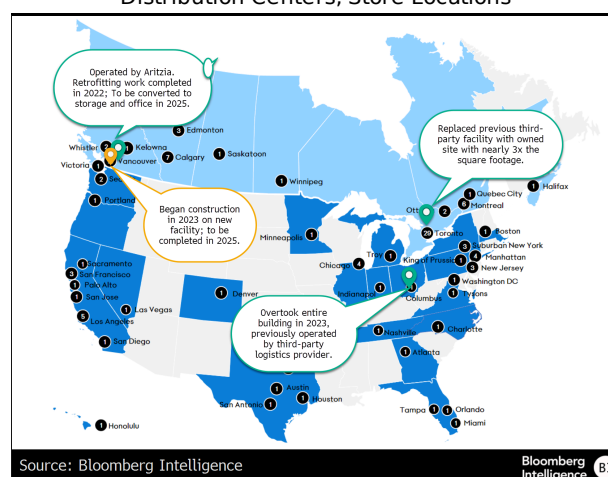
Quote located on page 9, click to view entire transcript

5. 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



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