

Bloomberg Intelligence

Aritzia Equity Research



Mary Ross Gilbert
Team: Retail
BI Senior Industry Analyst

1. Aritzia's Hip Luxury for Everyday Fueling Growth: Equity Outlook

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(Bloomberg Intelligence) -- THESIS: Aritzia is gaining momentum in the US with its accessible luxury women's apparel sold mostly at full price. Store economics and e-commerce could lift 2025 revenue above consensus' 18.4% growth, especially with plans to open 10-12 new stores and the relocation and expansion of 4-5 existing ones, plus the full-year benefit from openings in 2024. Its Canadian unit is improving, rising 5% in 3Q, adjusting for sales events. Ebitda margin may reach 17% on higher initial markups, lower warehousing costs, less clearance and as it leverages fixed costs. (01/10/25)

Focus Idea

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

2. Aritzia's Affordable Luxury Spurs Outsized US Growth: BI Focus

Closing Focus Idea: With Aritzia having beaten analysts' estimates for sales and Ebitda in the past four quarters, as we'd anticipated, we're closing our Focus Idea. Ebitda margin could be on track to reach our 15.6% scenario for the year ending March vs. consensus' 14%, and transaction data indicates 4Q-to-date US sales are tracking well ahead of estimates.

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.

(02/25/25)

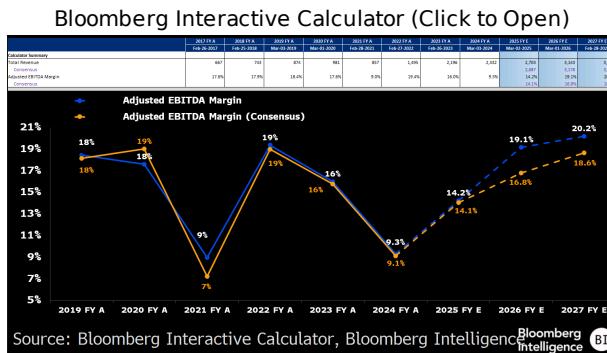
3. Margin Could Climb 190 Bps Above Consensus

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

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negotiations saving C\$60 million annualized; 125 bps from eliminating temporary warehousing; and sales leverage. (08/23/24)



4. 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)

5. 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)

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"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

6. Boutiques' Draw Gives Rise to Strong Economics

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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	367
US Store Base In 5 Years CE	101	397
Implied CAGR (%)	14.5%	1.6%
2024 Comparable Sales CE	4%	10%
New Store Payback Timeframe	12-18 Mo	New Store Payback Timeframe*
(CAD millions)	(USD millions)	(USD millions)
Average 1st Year Sales/Store	\$8	\$1.25
2nd Year Sales/Store Est	\$10	\$1.25
Sales Per Sq Ft Est	\$1,200	\$1,400
Sales/Mkt Share	\$13	\$771
Sales Per Sq Ft*	\$1,600	

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

Source: Bloomberg Intelligence

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Financial Review

Earnings

7. Aritzia's US Expansion, Styles Fueling Growth: Earnings Outlook

Post-3Q Earnings Outlook: Aritzia could meet the high end of 4Q sales guidance of 31% growth (adjusting for the extra week) to C\$850 million, driven by three upsized flagship reopenings -- two in New York and one in Chicago -- along with 11 new boutiques opened. It could also achieve a comparable sales increase in the high teens. The flagships are the equivalent of 10 regular stores. Ebitda margin, which expanded 450 bps year to date, is poised to grow another 500 bps in 4Q, on higher initial mark-ons, lower clearance and as the company leverages fixed costs.

Bloomberg Second Measure's consumer-transaction data indicates 4Q-to-date adjusted observed US sales are tracking well above consensus, supporting guidance for a 25% rise, with one less week this year vs. last. (01/09/25)

Highlights From Recent Results:

- 3Q Comparable Sales Rose 6.6% (Up 9.2% Normalizing Sales Events), With 4Q Net Revenue (Ex-53rd Week) Expected to Increase 28-31%, According to Guidance
- Gross Margin Expanded 430 Bps to 45.8%, 30 Bps Ahead of Consensus' 35.5%, on Lower Markdowns, Higher Initial Mark-Ons, Lower Warehousing Costs, Efficiencies
- Inventory Up 16.4%, Missing Analysts' 9.5% Rise
- Adjusted EPS Increased to 71 Canadian Cents, Topping Consensus' 62 Cents, Up from 47 Cents in 3Q23

Additional Resources:

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

Basics

Aritzia's US Sales Lead Growth

Aritzia's Double-Digit Growth Possibilities Have Margin Upside

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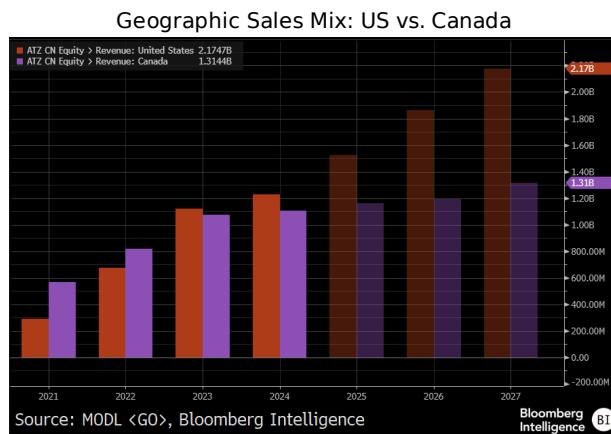
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Aritzia's US expansion has room to run with less than 60 stores, a fairly quick payback on new stores (usually near one year) and a boost to online sales. Most US specialty apparel retailers operate hundreds of stores -- 200 to more than 500 in some cases. Digital marketing can also aid US online growth, boosting margin.

To access live data and charts, please click on the links under the images below. (10/11/24)

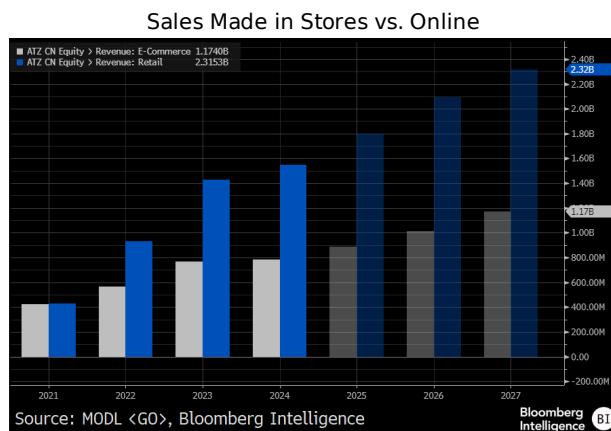
8. US Sales Over Half of Total With Upside to 60% by 2026

(10/11/24)



9. E-Commerce Sales Account for 34% of Revenue

(10/11/24)



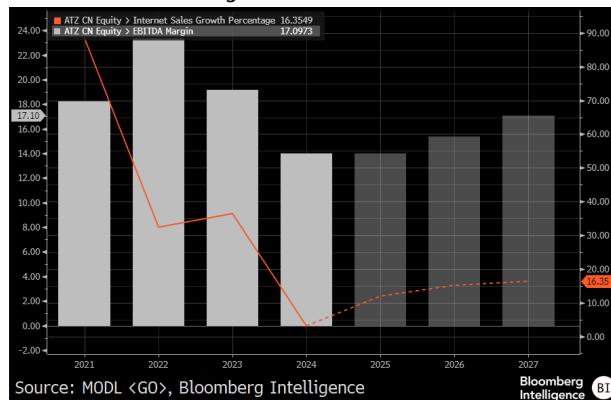
10. US Online Revenue Growth Drives Higher Margin

(10/11/24)

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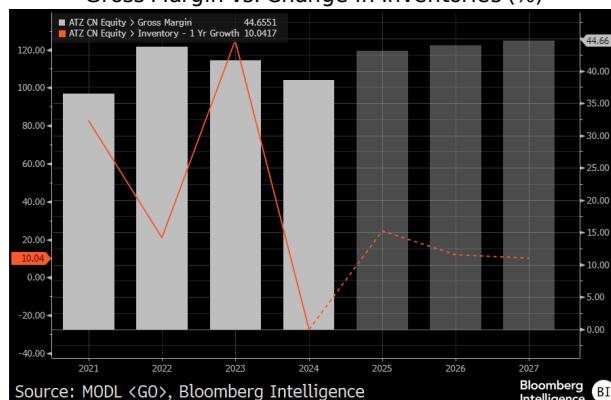
Ebitda Margin vs. Online Sales Growth



11. Higher Inventory Turns Aid Gross-Margin Lift

(10/11/24)

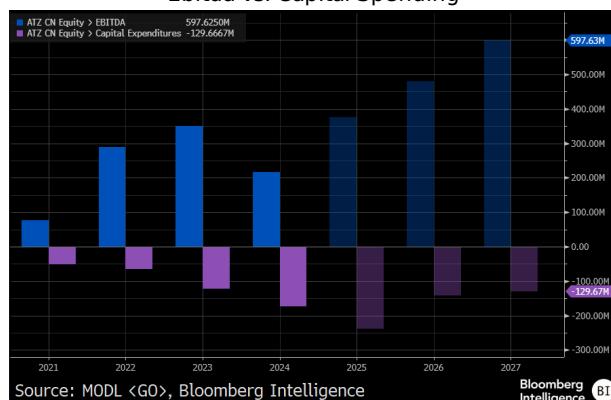
Gross Margin vs. Change in Inventories (%)



12. As Ebitda Margin Expands, Excess Cash Conversion Could Rise

(10/11/24)

Ebitda vs. Capital Spending



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Peer Comparison

Aritzia's Growth Prospects Bright

Aritzia's Luxury for Everyday Offers Niche to Millennials, Gen-Z

Aritzia's sales-growth prospects and margin expansion appear solid, given its accessible luxury is a draw to its core millennial and Gen-Z cohort. More than 90% of sales are derived from its own brands, including Babaton, Wilfred and Sunday Best. Margin has upside on more new styles, lean inventories and US online growth.

To access live data and charts, please click on the links under the images below. (10/10/24)

13. Five-Year Compound Annual Growth Rate 7x Peer Average

(10/10/24)

Specialty Apparel Retail Five-Year CAGR (%)

Name	2018	2019	2020	2021	2022	2023
• SY CAGR Sales Growth						
• Family Apparel	2.7	2.4	-1.9	2.8	2.1	1.1
• Women's Apparel	1.3	1.1	-3.0	1.7	1.5	0.5
American Eagle Outfitters Inc	4.6	4.5	-1.5	3.9	4.2	3.2
Abercrombie & Fitch Co	4.1	5.6	1.3	6.8	5.6	5.4
Aritzia Inc	-2.7	-0.7	-2.3	2.2	1.1	3.6
J Jill Inc	18.3	18.1	9.6	17.5	24.2	21.7
Kontoor Brands Inc	9.1	7.4	-5.1	-1.7	-2.5	-3.1
Levi Strauss & Co	3.6	3.4	-0.2	4.8	4.7	2.1
Oxford Industries Inc	3.8	4.1	-5.0	2.2	5.4	7.2
PVH Corp	3.4	3.8	-2.3	2.2	0.2	-0.9
Ralph Lauren Corp	-3.3	-4.2	-9.9	-1.3	0.8	1.0
Tapestry Inc	4.6	3.4	5.0	8.3	2.9	2.1
Urban Outfitters Inc	5.1	3.7	0.0	5.1	5.8	5.5
Victoria's Secret & Co						-5.3

Source: Bloomberg Intelligence

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14. Ebit Margin Below Peer Average, Yet Could Surpass That

(10/10/24)

US Specialty Apparel Retail Ebit Margins

Name	2018	2019	2020	2021	2022	2023
• EBIT Margin						
• Family Apparel	8.7	7.9	3.7	11.7	6.6	7.5
• Women's Apparel	7.4	6.4	3.4	7.1	2.8	5.5
American Eagle Outfitters Inc	9.9	8.8	1.7	12.6	12.3	10.8
Abercrombie & Fitch Co	6.5	4.4	0.2	12.0	5.4	7.1
Aritzia Inc	3.9	2.3	1.7	9.6	7.9	11.4
J Jill Inc	13.3	13.1	5.5	15.8	13.1	6.8
Kontoor Brands Inc	8.9	3.4	-17.4	10.1	13.0	14.1
Levi Strauss & Co	12.0	12.2	10.9	14.3	13.9	12.8
Oxford Industries Inc	10.6	4.1	12.4	11.6	9.0	
PVH Corp	8.2	8.8	-5.7	15.3	16.6	13.8
Ralph Lauren Corp	10.1	9.4	-0.5	10.7	9.5	10.1
Tapestry Inc	11.5	10.3	4.8	13.4	13.7	12.4
Urban Outfitters Inc	15.8	8.8	18.8	18.2	17.6	18.7
Victoria's Secret & Co	9.7	6.5	0.6	9.0	4.7	7.7

Source: Bloomberg Intelligence

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15. Inventory Turns Above Industry Average

(10/10/24)

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Specialty Apparel Retail Inventory Turns

Name	2017	2018	2019	2020	2021	2022	2023
▪ Inventory Turnover							
• Family Apparel	4.2	4.1	4.1	3.6	4.1	3.6	3.6
• Women's Apparel	3.5	3.4	3.4	2.7	2.9	2.9	3.0
American Eagle Outfitters Inc	4.2	4.0	4.0	3.5	3.8	3.4	3.3
Abercrombie & Fitch Co	6.4	6.2	6.4	6.1	6.3	5.7	5.3
Aritzia Inc	3.4	3.3	3.4	2.9	3.0	3.1	3.3
J Jill Inc	5.9	5.6	5.6	4.1	4.4	3.8	3.5
Kontoor Brands Inc	3.2	3.1	3.5	2.8	3.3	3.6	3.4
Levi Strauss & Co	3.2	3.1	3.0	2.5	2.8	2.3	2.0
Oxford Industries Inc	3.5	3.3	3.1	2.4	3.6	3.1	3.0
PVH Corp	2.8	2.6	2.7	2.2	2.8	2.5	2.4
Ralph Lauren Corp	3.1	3.1	3.2	2.1	2.4	2.2	2.2
Tapestry Inc	3.6	2.7	2.3	2.3	2.4	2.0	2.0
Urban Outfitters Inc	7.0	7.2	7.0	4.9	6.4	5.8	6.0
Victoria's Secret & Co					4.9	4.1	3.9

Source: Bloomberg Intelligence

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Intelligence BI

16. Return on Equity Below Group Average

(10/10/24)

US Specialty Apparel Retail Return on Equity

Name	2018	2019	2020	2021	2022	2023
▪ Return on Equity						
• Family Apparel	18.3	13.1	-2.8	27.4	11.6	16.7
• Women's Apparel	12.8	12.9	-4.6	19.2	6.4	20.8
American Eagle Outfitters Inc	17.1	11.4	-6.5	30.9	30.8	14.7
Abercrombie & Fitch Co	20.7	15.1	-17.9	33.4	8.3	10.2
Aritzia Inc	6.1	3.5	-11.4	29.8	0.4	37.9
J Jill Inc	23.9	25.7	5.6	35.2	30.8	10.6
Kontoor Brands Inc	15.5	-101.9				
Levi Strauss & Co	17.1	10.8	88.3	167.9	123.1	74.2
Oxford Industries Inc	31.8	31.3	-8.9	37.3	31.9	12.6
PVH Corp	14.6	13.6	-20.5	28.8	31.2	10.9
Ralph Lauren Corp	13.1	7.2	-21.6	19.0	3.9	13.1
Tapestry Inc	12.8	12.9	-4.6	23.3	21.0	26.5
Urban Outfitters Inc	19.0	-22.5	30.1	30.9	41.0	31.5
Victoria's Secret & Co	21.4	11.4	0.1	19.3	9.0	14.7

Source: Bloomberg Intelligence

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17. Net-Leverage Ratio Above Peer Average

(10/10/24)

US Specialty Apparel Retail Net Leverage

Name	2017	2018	2019	2020	2021	2022	2023
▪ Net Debt/EBITDA							
• Family Apparel	0.0	0.0	2.7	3.1	1.2	2.1	2.0
• Women's Apparel	0.2	0.3	2.0	3.5	1.4	2.6	1.3
American Eagle Outfitters Inc	0.1	-0.1	6.8	2.3	1.2	1.6	1.4
Abercrombie & Fitch Co	-0.9	-0.8	1.5	3.5	1.3	1.4	0.9
Aritzia Inc	-1.4	-1.4	1.6	0.8	0.5	1.5	0.2
J Jill Inc	0.1	-0.2	1.9	2.7	0.7	1.6	2.0
Kontoor Brands Inc	2.3	2.0			2.9	2.1	1.7
Levi Strauss & Co	0.3	3.8	3.7	1.9	1.9	1.6	
Oxford Industries Inc	0.8	0.5	0.0	2.8	1.1	1.4	2.0
PVH Corp	0.3	0.0	1.4		0.2	1.2	1.5
Ralph Lauren Corp	2.7	1.9	3.1		1.5	2.8	1.7
Tapestry Inc	-1.8	-1.5	1.0	0.9	0.3	1.1	0.7
Urban Outfitters Inc	0.4	0.3	29.0	0.9	1.4	1.5	0.9
Victoria's Secret & Co	-1.3	-1.4	1.7	2.2	0.8	1.1	0.4

Source: Bloomberg Intelligence

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To contact the analyst for this research:

Mary Ross Gilbert at mgilbert66@bloomberg.net