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# Aritzia Equity Research



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## Aritzia Sales, EPS Beat as Luxury Offering Gets Traction: React

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(Bloomberg Intelligence) -- RECENT EVENT REACTION: Aritzia's 27% normalized US growth in 3Q, fueled by three upsized flagship locations and 11 new boutique openings, demonstrate that its assortments are resonating with millennial and Gen-Z consumers. This limited clearance, boosting Ebitda margin by 470 bps year-over-year in the quarter. The company projects 4Q sales will rise 22-25%, compared with consensus for 14%, and gross margin is seen gaining 400 bps.

(01/09/25)

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

THESES: Aritzia is gaining momentum in the US with its accessible luxury women's apparel sold mostly at full price. Store economics could boost revenue above consensus' 10.9% in 2024, especially with 14 new stores and the relocation and expansion of four existing ones. Though its Canadian unit slowed in early 3Q, full-year comparable sales may rise above consensus' 3.7% on strong US sales as the brand gains awareness -- aided by digital marketing and images of actress Blake Lively in an Aritzia top. Ebitda margin may clear 14% on higher initial markups, lower warehousing costs and less clearance. (10/11/24)

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## Focus Idea

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

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

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)

### 2. 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

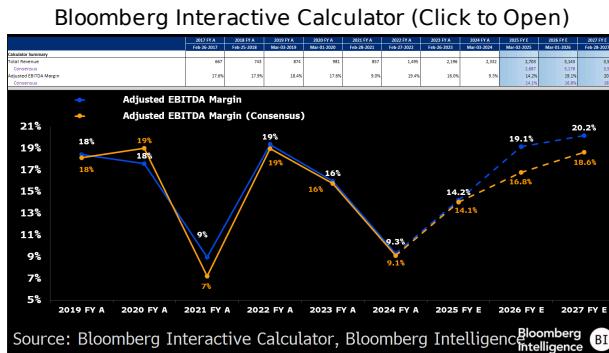
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give way to higher initial markups, price increases, lower material costs and efficiencies. Management targets a 19% margin by 2026 -- we think it can reach over 20% -- as the more profitable US and online segments supersede Canada.

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)



### 3. 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)

### 4. 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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### 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

## 5. 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	367
US Store Base in 5 Years CE	101	612
Implied CAGR (+%)	14.5%	10%
2024 Comparable Sales CE	4%	0.9%
New Store Payback Timeframe	12-18 Mo	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/Mature Store	\$12	
Sales Per Sq Ft	\$1,600	Sales Per Sq Ft*
		\$1,400
		\$771

\*Estimated Figures.  
Aritzia Invests \$3 Million Net for a New Store; Lululemon, \$1 Million.  
Source: Bloomberg Intelligence

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## Financial Review

### Earnings

#### 6. 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)

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### 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

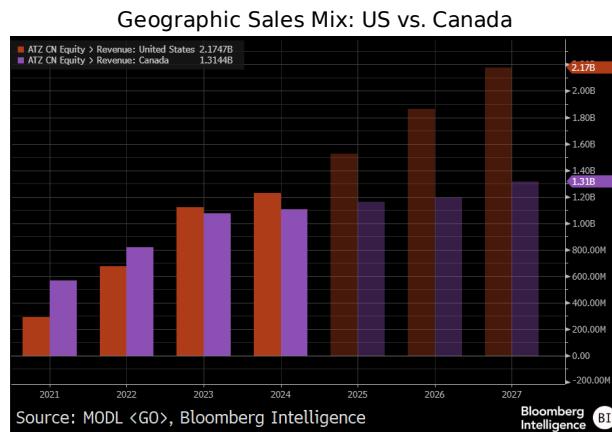
Aritzia's Double-Digit Growth Possibilities Have Margin Upside

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)

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

(10/11/24)



### 8. E-Commerce Sales Account for 34% of Revenue

(10/11/24)

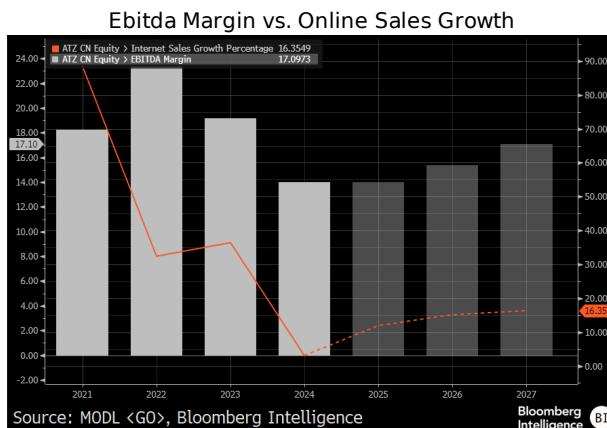
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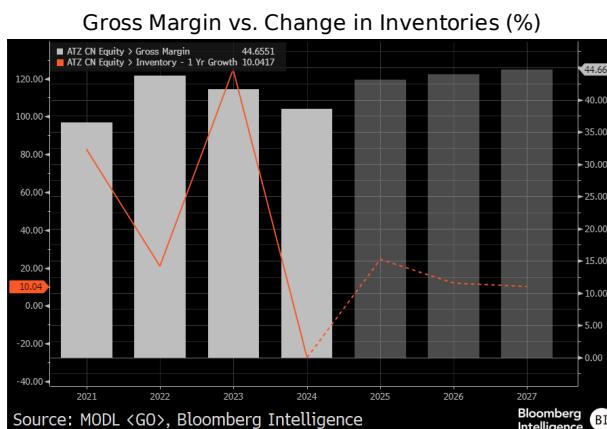
### 9. US Online Revenue Growth Drives Higher Margin

(10/11/24)



### 10. Higher Inventory Turns Aid Gross-Margin Lift

(10/11/24)

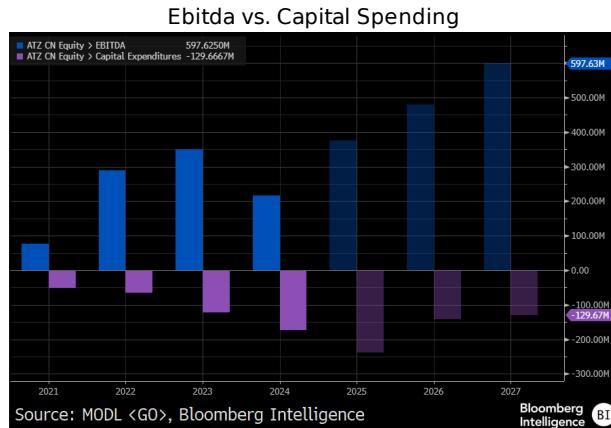


### 11. As Ebitda Margin Expands, Excess Cash Conversion Could Rise

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(10/11/24)



## 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)

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

(10/10/24)



### 13. Ebit Margin Below Peer Average, Yet Could Surpass That

(10/10/24)

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### US Specialty Apparel Retail Ebit Margins

Name	2018	2019	2020	2021	2022	2023
EBIT Margin	8.7	7.9	3.7	11.7	6.6	7.5
Family Apparel	7.4	6.4	3.4	7.1	2.8	5.5
Women's Apparel	9.9	8.8	1.7	12.6	12.3	10.8
American Eagle Outfitters Inc	6.5	4.4	0.2	12.0	5.4	7.1
Abercrombie & Fitch Co	3.9	2.3	1.7	9.6	2.9	11.4
Aritzia Inc	13.3	13.1	5.5	15.8	13.1	6.8
J Jill Inc	8.9	3.4	-17.4	10.1	13.0	14.1
Kontoor Brands Inc	12.0	12.2	10.9	14.3	13.9	12.8
Levi Strauss & Co	10.6	4.1	12.4	11.6	9.0	
Oxford Industries Inc	8.2	8.8	-5.7	15.3	16.6	13.8
PVH Corp	10.1	9.4	-0.5	10.7	9.5	10.1
Ralph Lauren Corp	11.5	10.3	4.8	13.4	13.7	12.4
Tapestry Inc	15.8	8.8	18.8	18.2	17.6	18.7
Urban Outfitters Inc	9.7	6.5	0.6	9.0	4.7	7.7
Victoria's Secret & Co				12.8	8.9	5.3

Source: Bloomberg Intelligence

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### 14. Inventory Turns Above Industry Average

(10/10/24)

### Specialty Apparel Retail Inventory Turns

Name	2017	2018	2019	2020	2021	2022	2023
Inventory Turnover	4.2	4.1	4.1	3.6	4.1	3.6	3.6
Family Apparel	3.5	3.4	3.4	3.2	2.9	3.0	3.0
Women's Apparel	4.2	4.0	4.0	3.5	3.8	3.4	3.3
American Eagle Outfitters Inc	6.4	6.2	6.4	6.1	6.3	5.7	5.3
Abercrombie & Fitch Co	3.4	3.3	3.4	2.9	3.0	3.1	3.3
Aritzia Inc	5.9	5.6	5.6	4.1	4.4	3.8	3.5
J Jill Inc	3.2	3.1	3.5	2.8	3.3	3.6	3.4
Kontoor Brands Inc			3.3	3.1	3.9	3.1	2.8
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	6.4	6.4	5.8	6.0
Victoria's Secret & Co				4.9	4.9	4.1	3.9

Source: Bloomberg Intelligence

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### 15. 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	18.3	13.1	-2.8	27.4	11.6	16.7
Family Apparel	12.8	12.9	-4.6	19.2	6.4	20.8
Women's Apparel	17.1	11.4	-6.5	30.9	30.8	14.7
American Eagle Outfitters Inc	20.7	15.1	-17.9	33.4	8.3	10.2
Abercrombie & Fitch Co	6.1	3.5	-11.4	29.8	0.4	37.9
Aritzia Inc	23.9	25.7	5.6	35.2	30.8	10.6
J Jill Inc	15.5	-101.9				
Kontoor Brands Inc	17.1	10.8	88.3	167.9	123.1	74.2
Levi Strauss & Co	31.8	31.3	-8.9	37.3	31.9	12.6
Oxford Industries Inc	14.6	13.6	-20.5	28.8	31.2	10.9
PVH Corp	13.1	7.2	-21.6	19.0	3.9	13.1
Ralph Lauren Corp	12.8	12.9	-4.6	23.3	21.0	26.5
Tapestry Inc	19.0	-22.5	30.1	30.9	41.0	31.5
Urban Outfitters Inc	21.4	11.4	0.1	19.3	9.0	14.7
Victoria's Secret & Co			-6.5	112.5	108.7	27.3

Source: Bloomberg Intelligence

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### 16. 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	0.0	0.0	2.7	3.1	1.2	2.1	2.0
Family Apparel	0.2	0.3	2.0	3.5	1.4	2.6	1.3
Women's Apparel	0.1	-0.1	6.8	2.3	1.2	1.6	1.4
American Eagle Outfitters Inc	-0.9	-0.8	1.5	4.5	1.3	1.4	0.9
Abercrombie & Fitch Co	-1.4	-1.4	1.6	0.8	0.5	1.5	0.2
Aritzia Inc	0.1	-0.2	1.9	2.7	0.7	1.6	2.0
J Jill Inc	2.3	2.0			2.9	2.1	1.7
Kontoor Brands Inc	-0.3	3.8	3.7	1.9	1.9	1.6	
Levi Strauss & Co	0.8	0.5	0.0	2.8	1.1	1.4	2.0
Oxford Industries Inc	0.3	0.0	1.4		0.2	1.2	1.5
PVH Corp	2.7	1.9	3.1		1.5	2.8	1.7
Ralph Lauren Corp	-1.8	-1.5	1.0	0.9	0.3	1.1	0.7
Tapestry Inc	0.4	0.3	29.0	0.9	1.4	1.5	0.9
Urban Outfitters Inc	-1.3	-1.4	1.7	2.2	0.8	1.1	0.4
Victoria's Secret & Co			29.7	2.3	1.4	2.1	2.6

Source: Bloomberg Intelligence

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