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Aritzia Sales to Build on US Bricks and Mortar



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Aritzia's US Store-Expansion Potential, Sales Lift Loom Large

(Bloomberg Intelligence) -- Aritzia could more than double US sales by 2027 -- boosting them by about C\$1.3 billion, we believe -- as it opens boutiques in new markets and expands existing units. The women's accessible-luxury apparel retailer may add 35 US shops, possibly more, to its 51 and has identified 100 locations. With established peers operating well over 300 stores, growth potential appears substantial. (06/27/24)

1. Adding 33% More Stores by 2025 May Lift US Sales 48%

Aritzia's US sales may rise at a 19% CAGR through 2025, our analysis shows. It's adding 17 stores to the 51 at the end of 2023, with newer and expanded sites outperforming hurdle rates. The company aims to open 8-10 boutiques and expand 3-5 existing ones yearly, 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\$587 million to US revenue over two years.

Stores that open in new markets raise digital revenue by as much as 70%, according to its 4Q earnings call. There's opportunity to increase online sales separate from store growth as Aritzia employs specific e-commerce measures. The digital-sales scenario considers gains from new stores, plus recent performance-based marketing and personalization strategies. (06/27/24)

US Boutique Expansion Scenario Analysis							
(CAD millions)	% of Total	2022	2023	2024 CE	2025 CE	2026 CE	2027 CE
Total Revenue (Actual/CE)		\$2,150	\$2,352	\$2,572	\$2,926	\$3,255	\$3,564
EBITDA (Actual/CE)		\$351	\$217	\$356	\$454	\$547	\$634
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%	25.0%	20.0%
US E-Commerce Sales		\$392	\$413	\$516	\$671	\$839	\$1,007
Total US Sales		\$1,121	\$1,226	\$1,495	\$1,814	\$2,164	\$2,523
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	\$3,343	\$3,726
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.							

2. 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 generate C\$8 million in sales in their first year, which we believe will reach C\$13 million in three. The boutiques feature an array of high-quality, well-

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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-store metrics are stronger than Lululemon's two-year payback and C\$1,400 in sales per square foot. (06/27/24)

Aritzia New Stores vs. Peers

Aritzia Inc. (ATZ CN)	Lululemon Athletica Inc. (LULU US)	Abercrombie & Fitch (ANF US)
US Store Base 2023 US Store Base in 5 Years CE Implied CAGR (%) 2024 Comparable Sales CE	51 101 14.5% 2024 Comparable Sales CE	367 397 1.6% 2024 Comparable Sales CE
New Store Payback Timeframe	12-18 Mo	New Store Payback Timeframe* 2 Years
(CAD millions)	(USD millions)	(USD millions)
Average 1st Year Sales/Store 2nd Year Sales/Store Est Sales/Mature Store Sales Per Sq Ft	+ \$8 \$10 \$13 \$1,400	(USD millions) \$1,400 Sales Per Sq Ft*

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

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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. (06/27/24)

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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 James - Executive vice president for real estate, Aritzia
Investor day transcript, Oct. 27, 2022

Quote located on page 15, click to view entire transcript

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