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Aritzia Sales to Build on US Bricks and Mortar

Read Research Report: Aritzia Equity Research



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Aritzia's US Boutique Expansion Potential Looms Large (Correct)

(Bloomberg Intelligence) -- Aritzia can triple US sales by 2027 -- boosting revenue by almost C\$700 million, we believe -- as it opens boutiques in new markets and expands existing units. The women's accessible-luxury apparel retailer may add 40-50 US shops to its current 48 and has identified 100 locations. With established peers operating well over 300 stores, growth potential is substantial. (Corrects possible revenue increase.) (11/03/23)

1. Doubling US Fleet Can Add Over C\$700 Million (Correct)

Aritzia's US sales could rise at a 20% CAGR through 2027, our analysis shows, as it adds 42 stores to the 48 operating at the end of 2Q -- with newer stores outperforming. The current plan is to open 8-10 boutiques and expand 3-5 existing ones each year, doubling the square footage in some cases. Without considering the lifts to comparable and e-commerce sales, Aritzia can add nearly C\$700 million to revenue over the period. (Corrects possible CAGR and revenue gain, and analysis in exhibit.)

Stores that opened in 2022 raised digital sales as much as 80%. There's opportunity to increase online sales separate from store growth as the Canadian company employs specific e-commerce measures. The digital sales scenario considers gains from new stores, plus recent performance-based marketing and personalization strategies. (11/03/23)

US Boutique Expansion Scenario Analysis

(CAD millions)	% of Total	2022	2023 CE	2024 CE	2025 CE	2026 CE	2027 CE
Total Revenues (Actual/CE)		\$2,196	\$2,300	\$2,589	\$2,942	\$3,573	\$4,140
Ebitda (Actual/CE)		\$351	\$226	\$376	\$484	\$595	\$656
Ebitda Margin	16%	10%	15%	16%	17%	16%	16%
Bricks & Mortar	65%	\$1,426					
Digital	35%	\$770					
US Store Platform		46	54	63	72	81	90
Number of New Stores (Avg Sq Ft = 8,000)		7	8	9	9	9	9
Scenario Sales Added (80% of 1st Year)		\$62	\$70	\$72	\$72	\$72	\$72
Prior Year(s) Maturation Lift**		\$14	\$36	\$40	\$43	\$43	\$43
Number of Store Expansions		4	4*	3	3	3	3
Scenario Sales Added (70% of Store's Prior Sales)		\$36	\$46	\$27	\$27	\$27	\$27
Sales Contribution From New Store Openings/Expansions		\$112	\$152	\$139	\$142	\$142	\$142
Cumulative Sales Lift From New Stores (including maturation cycle)		\$112	\$264	\$404	\$546	\$688	
Scenario US Same Store Sales		-2.0%	3.8%	3.8%	3.8%	3.8%	3.8%
US Store Sales Est		\$701	\$799	\$981	\$1,157	\$1,342	\$1,535
Scenario US E-Commerce Sales Growth		2.0%	25.0%	30.0%	35.0%	37.5%	
US E-Commerce Sales		\$420	\$429	\$536	\$697	\$941	\$1,293
Total US Sales		\$1,121	\$1,228	\$1,517	\$1,854	\$2,283	\$2,828
Scenario Same Store Sales		0.0%	1.5%	2.0%	3.0%	2.0%	
Sales From Stores in Canada		\$1,075	\$1,075	\$1,091	\$1,113	\$1,146	\$1,169
Total Revenues		\$2,196	\$2,302	\$2,608	\$2,966	\$3,429	\$3,997

Note:
*X20% 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.

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Source: Company Filings, Bloomberg Intelligence

2. Boutiques' Draw Begets Strong Economics

Aritzia's stores -- located exclusively in triple-A malls, lifestyle centers and streets -- average 8,000 square feet. They generate \$8 million in sales in their first year, which we believe can

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grow to \$13 million in 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 within 12 months -- some in 10 -- ahead of the company's target of 12-18 months, meaning their economics were greater than expected.

Aritzia's new-shop metrics are stronger than Lululemon's two-year payback and \$1,400 in sales per square foot. (11/01/23)

Aritzia New Stores vs. Peers		
Aritzia Inc. (ATZ CN)	Lululemon Athletica Inc. (LULU US)	Abercrombie & Fitch (ANF US)
US Store Base 2022 US Store Base In 5 Years CE Initial AGR (%) 2024 Comparable Sales CE	46 93 15.1% 7%	350 402 2.8% 15%
New Store Payback Timeframe	12-18 Mo	New Store Payback Timeframe+ 2 Years
(USD millions) Average 1st Year Sales/Store Sales Per Sq Ft 2nd Year Stores Est Sales Per Sq Ft Est*	\$8 \$1,600 19 \$1,250 \$13 \$1,600	(USD millions) Sales Per Sq Ft \$1,400
+Estimated Figures. Aritzia Invests \$3 Million Net for a New Store; Lululemon, \$1 Million.		Sales Per Sq Ft+ \$771

Source: Company Filings, Bloomberg Intelligence

3. Relying on Triple-A Real Estate, at a Discount

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 over the next five years -- and still have the ability to double its footprint again. Existing stores are being expanded as well, lifting sales above expectations. Instead of retrenching during the pandemic, Aritzia grabbed 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 in 2024. (11/01/23)

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 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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