# Overview

Aritzia is a Canadian women's fashion company with three main sources of revenue: retail sales, e-commerce, and wholesale. 96% of the revenue comes from brands under the Aritzia portfolio. These brands each offer a unique aesthetic perspective and constantly design new products to keep up with seasonal and general trends in fashion. The diversity of their brands under their portfolio and their innovation allows them to satisfy a variety of customers and build loyalty. Aritzia also controls the design, merchandise planning, sourcing, production, and retail functions of its exclusive brands, making it relatively independent of other companies. The target market of Aritzia is women from 16 to 35 years old who are fashion conscious and willing to buy high-quality, on-trend products. Generally, their products range from $100 to $300. Currently its stock is trading at 41.22 CAD.

# Competitive advantages

1. A-OK

Aritzia has a unique loyalty program, A-OK, which has a cafe and bar in their stores. Considering their target market of young women, this follows up with a common habit of theirs: drinking beverages. Aritzia also allows customers who spend over a certain amount on their products to have a free drink, which once again entices increased expenditures. Not many other clothing retailers offer this service.

2. Durability and quality

When compared to other brands such as Shein, Aritzia's materials are more durable and high-quality, which pulls in consumers looking for high-quality brands. However, Aritzia has begun straying away from this quality over recent years.

3. Cheaper costs than competitors in their specific target market

Recently, Aritzia's management has identified that their target market is a similar one to that of Lululemon. Thus, they copied the style of Lululemon and sold products of this type at a fraction of the price that Lululemon offers. However, their copies tended to be of lower quality.

4. Collaboration and promotion with celebrities

Aritzia's collaborations with celebrities such as Emma Chamberlain and Kendall Jenner have brought attention to its products outside of Canada and broadened its publicity. These celebrities align well with Aritzia's target market. This is an indicator of management's competence in identifying and targeting their specific market.

**Rating: 5/10**

Aritzia has demonstrated several small competitive advantages. However, most of these are not durable and can be adopted by competing firms. However, competing firms taking on such changes would face difficulties in pleasing their current customers. This lack of durable competitive advantage exists within almost all fashion companies. Thus, the performance of Aritzia will fall more on how management adapts to changing trends and markets.

# Risks and Weaknesses

1. Economics: Aritzia is, to a limited extent, inelastic. As shown by the lack of sales decline when they raised prices over the past few years, Aritzia's customers are willing and able to pay higher prices of their products. However, during recessions and economic slowdowns, Aritzia will likely see reduced sales as consumers have less access to disposable income and become less able to spend on Aritzia.

2. Customer services: Aritzia's business model of paying sales associates primarily in commissions has encouraged them to use aggressive sales tactics. This has given many customers uncomfortable experiences and weakened brand loyalty. While only a small portion of employees have taken to such practices, management has not publicly recognized this. This means that the problem could grow into something more problematic if left unchecked for extended periods of time.

3. Dependence on key personnel: Aritzia is highly dependent on its designers and senior management. It is critical for Aritzia's success that these key figures do not leave the company. Whether an issue concerning this arises in the future is difficult to gauge, presenting an element of uncertainty with Aritzia's business.

4. Supply chain disruptions: Aritzia's business depends heavily on the sales of its clothing and accessories. Although they manufacture their products internally, they do depend heavily on external suppliers for raw materials. Any disruptions to the supply of raw materials can create large delays for the production and selling of their products.

**Rating: 3/10**

Although these risks and weaknesses do not spell catastrophe for Aritzia's business individually, it is extremely difficult to mitigate their effects moving forward. These weaknesses are embedded deep within Aritzia's business model and can plague the company's performance over the long run.

# Finances

Aritzia has had continuous and mostly consistent growth in revenue, gross profit, and net income over the dozen quarters. During this period, the company has proven capable of expanding into new markets and building customer loyalty within these new markets. However, Aritzia has also increased its liabilities significantly over the last three years, from 705 million to 894 million. Most of these liabilities are quite concerning because they require monetary payments to the debtors as opposed to stockholders. Luckily, this is offset by their increase in total assets from 231 million to 522 million over the same timeframe.

Aritzia stock is sitting at a P/E ratio of 25.80 and as of March 17, 2023, which is much greater than the industry standard of 9.47. However, when looking at Lululemon, the closest company to Aritzia, they have a high P/E ratio of 32.41, which suggests that a company of Aritzia's nature is estimated to have strong growth potential. Furthermore, Aritzia has historically traded with a P/E ratio above 20 due to their rapid growth. However, a P/E ratio almost three times as high as the industry standard is still concerning for a company with so little comparative advantage and would only be justified if the company can continue its past growth.

**Rating: 7/10**

Aritzia's consistency in net income growth and increase in assets indicate a relatively healthy income flow and balance sheet. However, its high P/E ratio of 32.41 is not attractive for a stock investment

**Annual Income Statement (All numbers in thousands)**

| **Breakdown** | **TTM** | **2022-02-28** | **2021-02-28** | **2020-02-29** |
|---|---|---|---|---|
| Total Revenue | 2,002,370 | 1,494,630 | 857,323 | 980,589 |
| Cost of Revenue | 1,151,032 | 839,678 | 544,818 | 577,165 |
| Gross Profit | 851,338 | 654,952 | 312,505 | 403,424 |
| Operating Expenses (Selling and Administration) | 578,328 | 418,933 | 261,417 | 251,152 |
| Interest Expense | 27,670 | 24,901 | 28,208 | 28,107 |
| Net other Income/Expenses | 9,028 | 7,183 | 1,951 | 1,021 |
| Income Before Tax | 256,384 | 219,600 | 26,202 | 126,138 |
| Income Tax Expense | 71,909 | 62,683 | 6,975 | 35,544 |
| Net Income | 184,475 | 156,917 | 19,227 | 90,594 |

**Quarterly Income Statement (All numbers in thousands)**

| **Breakdown** | **2022-11-30** | **2022-08-31** | **2021-05-31** | **2020-02-28** |
|---|---|---|---|---|
| Total Revenue | 624,615 | 525,523 | 407,910 | 444,322 |
| Cost of Revenue | 353,952 | 305,250 | 227,014 | 263,816 |
| Gross Profit | 270,663 | 220,273 | 180,896 | 179,506 |
| Operating Expenses (Selling and Administration) | 175,295 | 156,135 | 120,952 | 125,946 |
| Interest Expense | 9,010 | 6,612 | 6,002 | 6,046 |
| Net Other Income/Expenses | 11,448 | 5,809 | -7,027 | -1,202 |
| Income Before Tax | 98,306 | 63,976 | 47,374 | 46,728 |
| Income Tax Expense | 27,578 | 17,715 | 14,113 | 12,503 |
| Net Income | 70,728 | 46,261 | 33,261 | 34,225 |

## Catalysts for Growth

The fashion industry is undoubtedly among the industries that is the most difficult to grow in. The titans of this sector such as Louis Vuitton and Hermès are built on centuries of innovation, slow growth and the development of their reputation over such long timespans. Acknowledging this, Aritzia's opportunities for significant growth both in the fashion industry as a whole and in their specific niche are scarce and difficult to take advantage of.

An example of a catalyst for Aritzia would be a situation where Lululemon's customers find their products to be unaffordable during the foreseeable recession, many might turn to Aritzia for similar products at lower prices. This would allow Aritzia to temporarily capture a larger market share for their specific niche. If management is able to retain these temporary customers and convert them to long-term loyal buyers, Aritzia could very well come out of the recession in a stronger position. However, these are only possibilities and should not be relied on for investment. This task is tremendously difficult for any management to pull off. Furthermore, the demand for Aritzia itself is quite elastic. So, depending on the extent of the recession, Aritzia's business could instead suffer and come out weaker.

Another opportunity for Aritzia's growth is an expansion in their retail locations. Aritzia currently has 111 stores in Canada and the U.S., with the majority of them concentrated in large cities. This is efficient because most of Aritzia's customers are likely to live in urban areas with strong economies. However, there is still much room for Aritzia in these urban regions. If successful, this development could bring massive increases to sales revenue and strengthen brand publicity. The largest blockade for the opening of new stores is the heavy capital investment required. Moreover, opening stores in regions that did not previously have an Aritzia presents challenging competitors that are more well-known within the local community.

**Rating 2/10**

Once again, the fashion industry is an immensely competitive one built on centuries of reputation and slow growth. Though Aritzia has several opportunities for growth, they are difficult to capture and involve many variables to align perfectly. Thus, these catalysts are unreliable for investment.

## Analysis

Currently, Aritzia as a business is at most mediocre. It has a strong income flow and balance sheet, but is lacking durable competitive advantages. Furthermore, it has multiple long term weaknesses that are extremely difficult to patch up. On top of this, it is trading at a P/E ratio much higher than the industry standard and the company would need to grow at a rapid speed or cut its costs significantly, which is nearly impossible for a company grounded in producing physical goods, in order to justify such a stock price. Considering that Aritzia has more debt than it has assets, the margin of safety is also weak. Overall, we give Aritzia sell rating due its low probability of sustaining the growth it achieved over the past few