

Aritzia

Consumer Discretionary

TSX: ATZ

Outperform | Buy

November 25, 2021

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Return on Investment

Current Share Price	\$51.75
Target Price	\$58.80
Implied Return	13.62%

Market Profile

52-Week Range High/Low	\$53.46 / 22.72
Market Capitalization (mm)	\$4,580
Net Debt (mm)	\$393.23
Enterprise Value (mm)	\$6,140
Beta (5-Year Monthly)	1.74

Metrics

Revenue (mm)	\$857.32
EBITDA (mm)	\$159.78
EPS	0.23
EV/EBITDA	26.28x

Figure 1: Locations

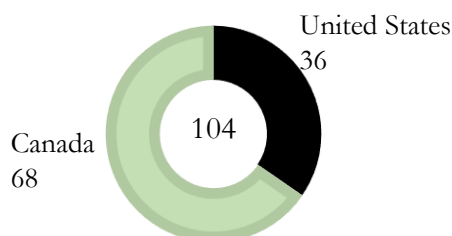
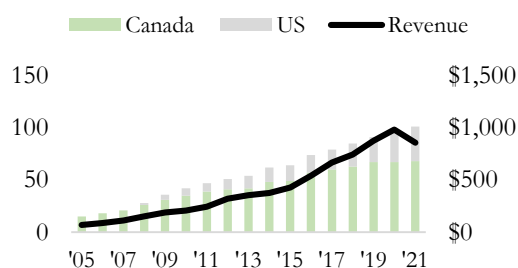


Figure 2: Store Growth Vs Total Revenue



Investment Summary/Thesis and Catalysts

The HFC Consumers team views Aritzia as an attractive growth play with a relatively cheap market price when compared to intrinsic value. Aritzia utilizes strategic inventory management, geographically diversified supply chains, and expedited freight to ensure there is little to no slowdowns in business operations. These factors combined with peak season in Q4 (Fiscal Q3) will allow Aritzia to outperform its peers.

Business Overview

Aritzia is a vertically integrated, innovative design house based in Vancouver, Canada with a global platform offering everyday luxury online, as well as in its boutiques. Aritzia prides itself of creating immersive, and highly personable shopping experiences. It offers 12 of its own brands that combine for 94% of overall revenue for the company.

Executive Management

Brian Hill founded the company in 1984 and has been the CEO and Chairman since its inception. Management is committed to returning capital to shareholders via share repurchases and strategic acquisitions but refrains from dividends as management prefers to reinvest in the company.

Financial Analysis and Valuation

A discounted cash flows intrinsic valuation with a 50/50 EV/EBITDA, Gordon Growth Method blend was used to land at a target price of \$58.80. Furthermore, the HFC believes that Aritzia is set to outperform its peers. Furthermore, the HFC Consumers team deems that ATZ is a buy, with a target price of \$58.80 and an implied return of 13.62%.

ARITZIA

Haskayne Finance Club
November 25th, 2021



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Summary

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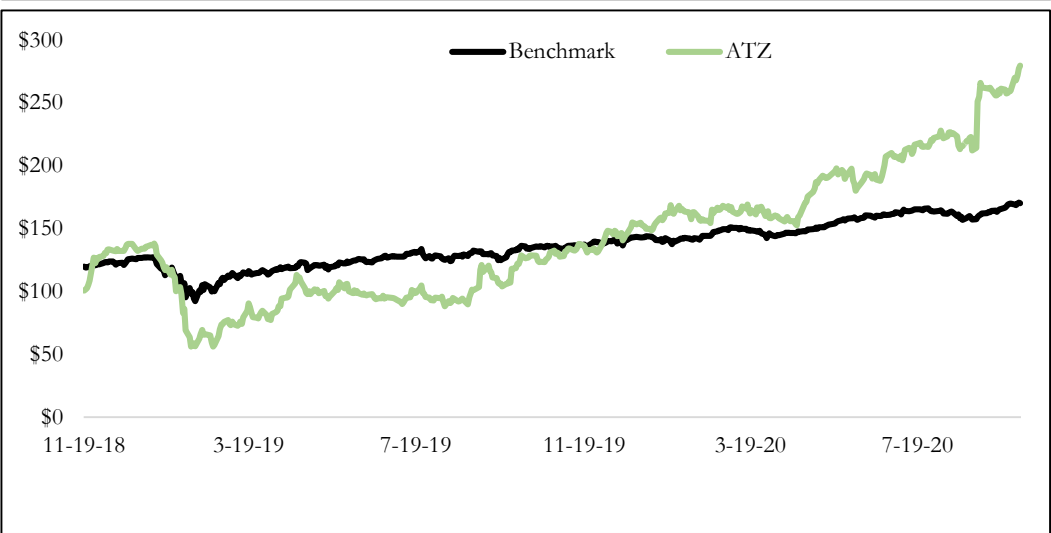
Recommendation

Target Price		\$58.80
Rating		Sector Outperform
Action		Buy

Rationale

- Aritzia is a strong, vertically integrated, design house positioned for industry leading growth over the coming quarters
- The managing team at Aritzia is still lead by CEO and founder Brian Hill and has a vast track record of utilizing entrepreneurship and flexibility in its business
- The company's expansion into the United States (US) over the past quarters as well as recent growth in US presence allows the company to utilize and build on momentum
- The introduction of a men's clothing line will establish Aritzia as a true competitor to Lululemon

Historical Stock Performance (Indexed to \$100)

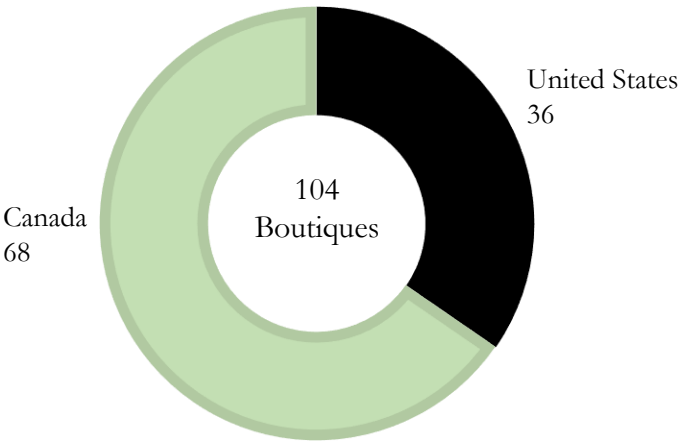


Key Metrics	Unit
Gross profit	311.4 mm
Total asset turnover	0.8x
Gross margin	36.3%
Inventory turnover	4.1x
Cash from operations	133.9 mm

Company Overview

- Founded in 1984 Aritzia is a vertically integrated, innovative design house based in Vancouver, Canada with a global platform offering everyday luxury online, as well as in its boutiques.
- Aritzia prides itself of creating immersive, and highly personable shopping experiences.
- Promoted as “Everyday Luxury” brand
- 12 of its own brands: ~94% of overall revenue
- IPO on October 3, 2016 (TSX: ATZ)

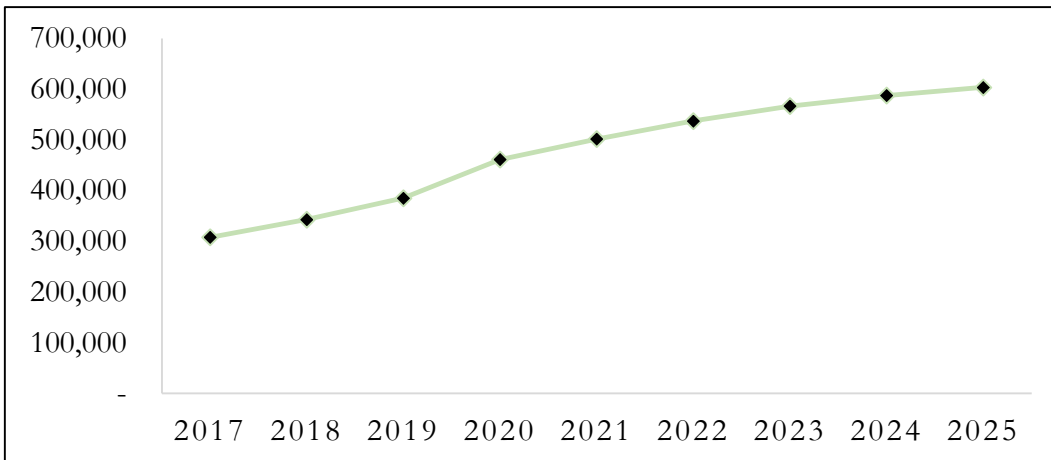
Locations



Sustainability

- Companies that are not fully transparent about their sustainability practices risk public backlash
- The second-hand market is growing in Canada, with apparel, shoes, and accessories being the most popular second-hand commodities sold on internet marketplaces.
- This has created and developed a fashion a circular fashion movement.

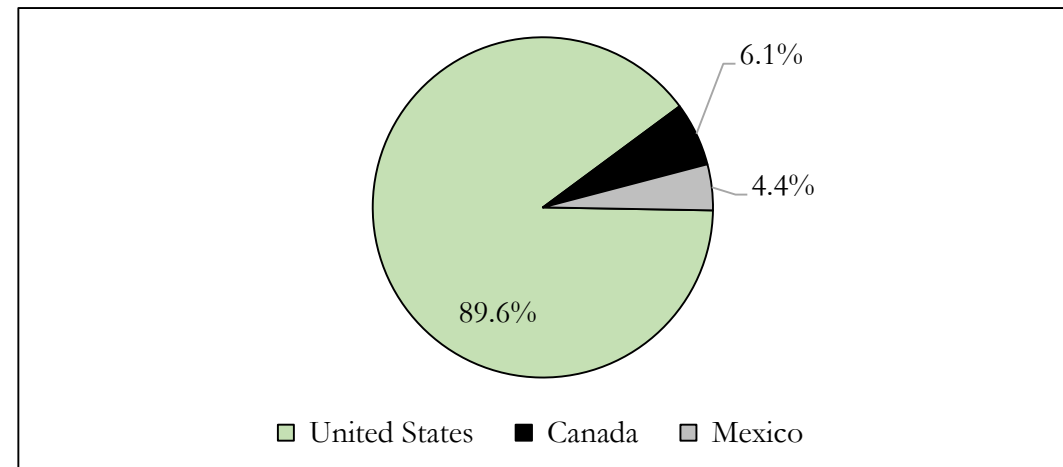
North American E-commerce Growth (\$USD Millions)



Industry Trends in Canada

- Aritzia competes in the extremely competitive retail apparel industry.
- In 2020 this industry shrank by around 22.8% but going forward the industry is forecasted to increase 41.6% through 2025.
- In Canada, Womenswear makes up 55.3% of the market segment.

North American Retail Apparel Segments



Labour Shortages

- As of September 2021, labor force participation rate has stayed stagnant at nearly 2% lower than pre-pandemic levels of 63.4%.
- Businesses have taken this issue into their own hands by lowering brick-mortar exposure and focusing on technology to develop e-commerce

Supply Chain Issues

- The pandemic shocked the supply retail supply chain, as of August 2021 inventory levels have not yet reached the level they were before the pandemic.
- Freight prices have also increased significantly during this period, due to the seasonality of this industry these issues are becoming more apparent

Inflation

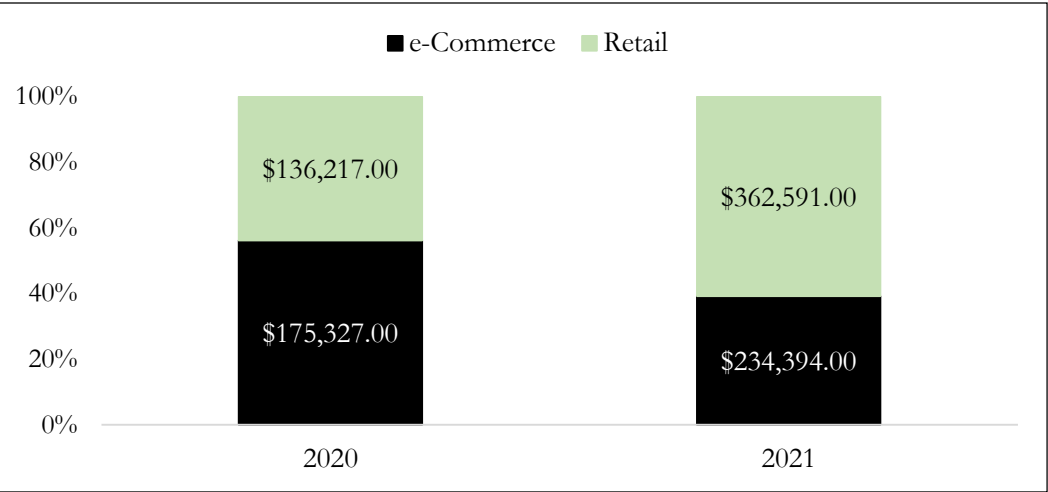
- In September 2021, the Consumer price index rose 5.4% from the previous year.
- This resulted in overall increases in freight costs and raw materials costs causing a sharp YOY decrease in margins
- This issue particularly effecting the e-commerce sales in the apparel industry
- In August 2021, this number spiked up to 15.52%



Recent Acquisitions

- On June 25, 2021, ATZ acquired 75% of **CYC Design Corporation's** common shares: **\$63mm USD**
- Reigning Champ, which is under CYC design, focuses on **men's athletic wear**
 - **Remaining 25%** equity interest held by Reigning Champ's management shareholders will be converted into ATZ shares in up to **three instalments from 2024 to 2026**.
 - Set to deliver **~\$25mm in revenue**, and **~\$5mm adjusted EBITDA** in 2021 calendar year

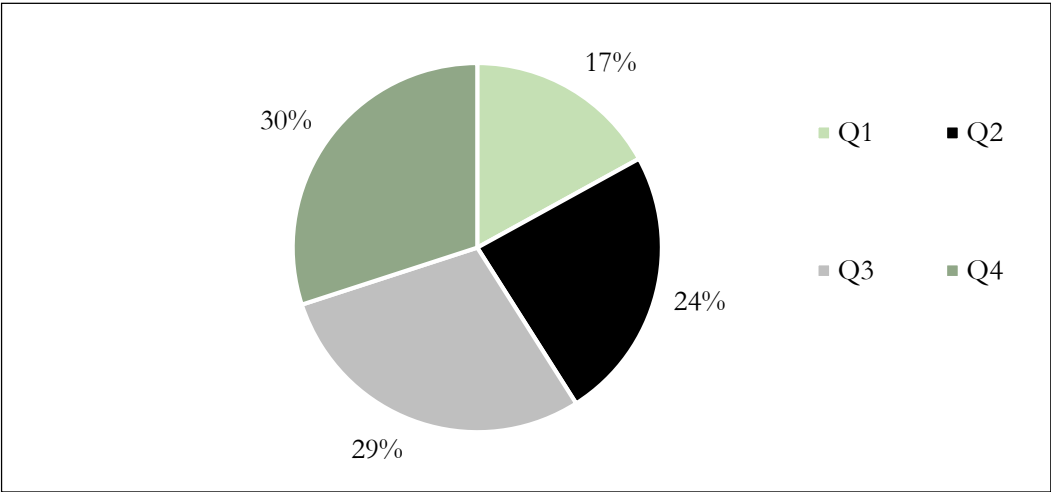
Revenue Proportion – Channel Impact



ATZ's Focus



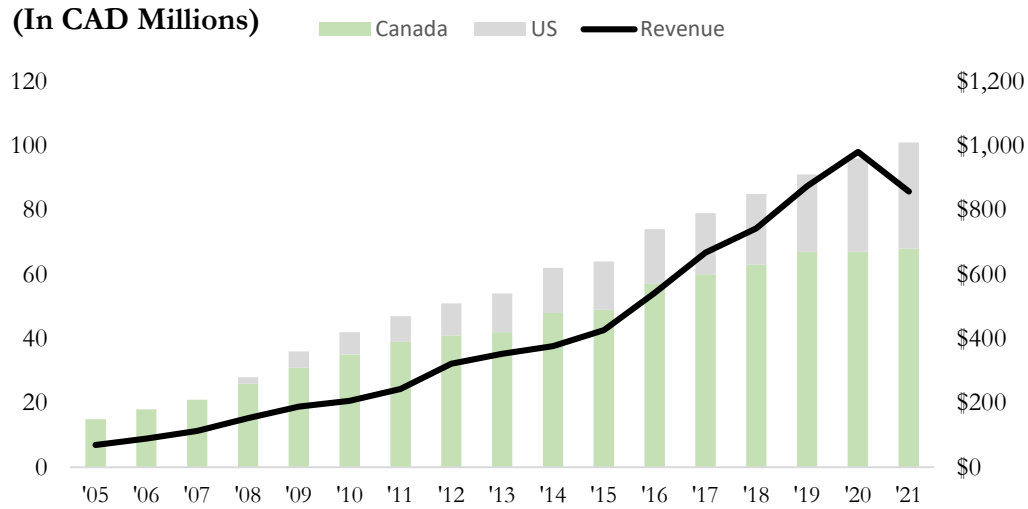
Revenue Proportion – Quarterly Data



Business Analysis (cont.)

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Retail Store Growth (LHS) vs Total Revenue (RHS)



Key Drivers for Future Growth

- E-Commerce and Omni channel innovation
- Geographic expansion
- Product expansion
- Brand awareness and customer expansion

COVID-19 Impact

- All boutiques in Canada and U. S. were closed on March 16, 2020. Distribution centres were open to support e-Commerce system.
- Some reopening and reclosing of boutiques, mainly in Ontario, Quebec, and Nova Scotia.
- **As of July 12, 2021, all boutiques have reopened.**
- Running with new health and safety measures including **mandatory** face covering, frequent **sanitization**, social distancing guide markers, **reduced** boutique and fitting room **capacity**
- ATZ did not lay off a single employee due to the impact of COVID-19

Management Team

- Brian Hill: founder, current CEO & Chairman
- Jennifer Wong, President, ~ 2015
- 9 Board members in total

Source(s): S&P Capital IQ, Company Filings, Statista

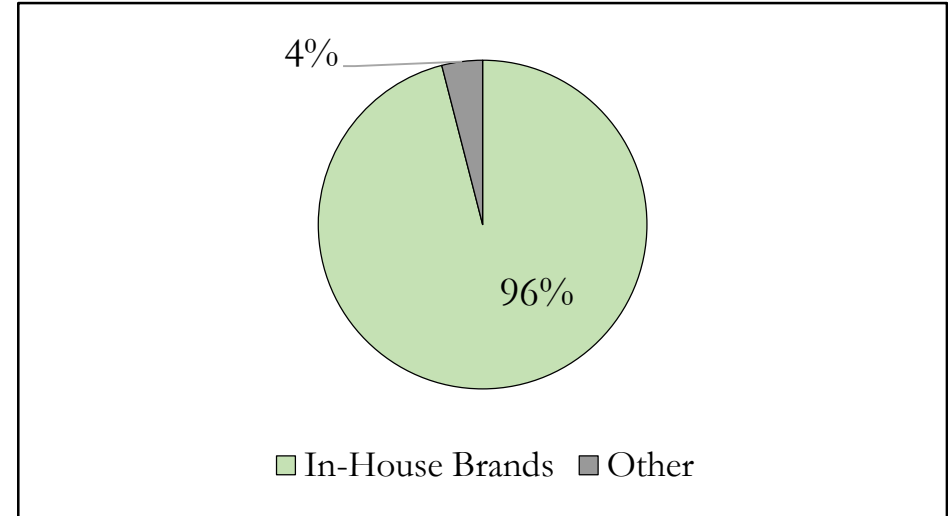
Competitive Advantage

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Proprietary Brands

BABATON	TEN BY BABATON	The Group BABATON
wilfred	wilfred free	SUPER WORLD™
Tna	SUNDAY BEST	DENIM FORUM

Revenue Stream Make-Up



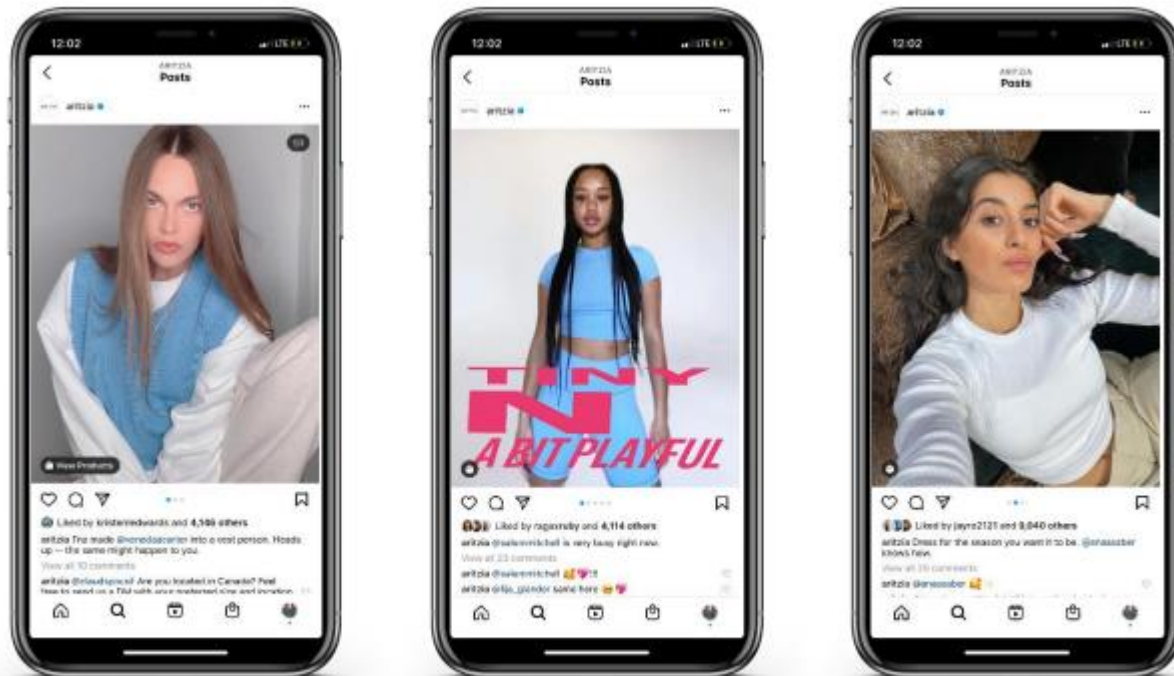
Key Metrics

- March 2020, Covid-19 Pandemic caused all store locations to shutdown
- Share prices declined by over 60%
- Aritzia leveraged their eCommerce platform and saw growth of over 125%
- Recently announced they reached pre-pandemic revenues and cashflows which continue to rise with restrictions easing and social media marketing

Competitive Advantage (cont.)

ARITZIA

Successful Brand Launches and Campaigns



Source(s): S&P Capital IQ, Company Filings, Forbes

Environment

- 40% of Aritzia's styles use either recycled materials, responsible forestry or organic materials
- Introduced Higg Facility Environmental Module (Higg FEM) in 2018. This is industry wide as used by suppliers to report on environmental waste management in seven key areas: Energy Management Systems, Water, Effluent, Chemicals, Energy, Emissions and Waste

Annual Water Consumption (In Cubic Metres)

Raw Material Production	6,316,946
Fabric & Yard Production	616,799
Garment Production	308,400
Offices & Retail Stores	74,038
Consumer Use (Washing)	68,732
Distribution	-
End of Life	-

Social and Governance

- Aritzia has a goal to ensure it contributes to a healthy and productive society and uphold human rights of those who work with it.
- Utilize the United Nations Guiding Principles for Business and Human rights in product lines
- 9 board members that sit on a combined total of 15 boards
- 7/9 board members are deemed "independent" and "external"

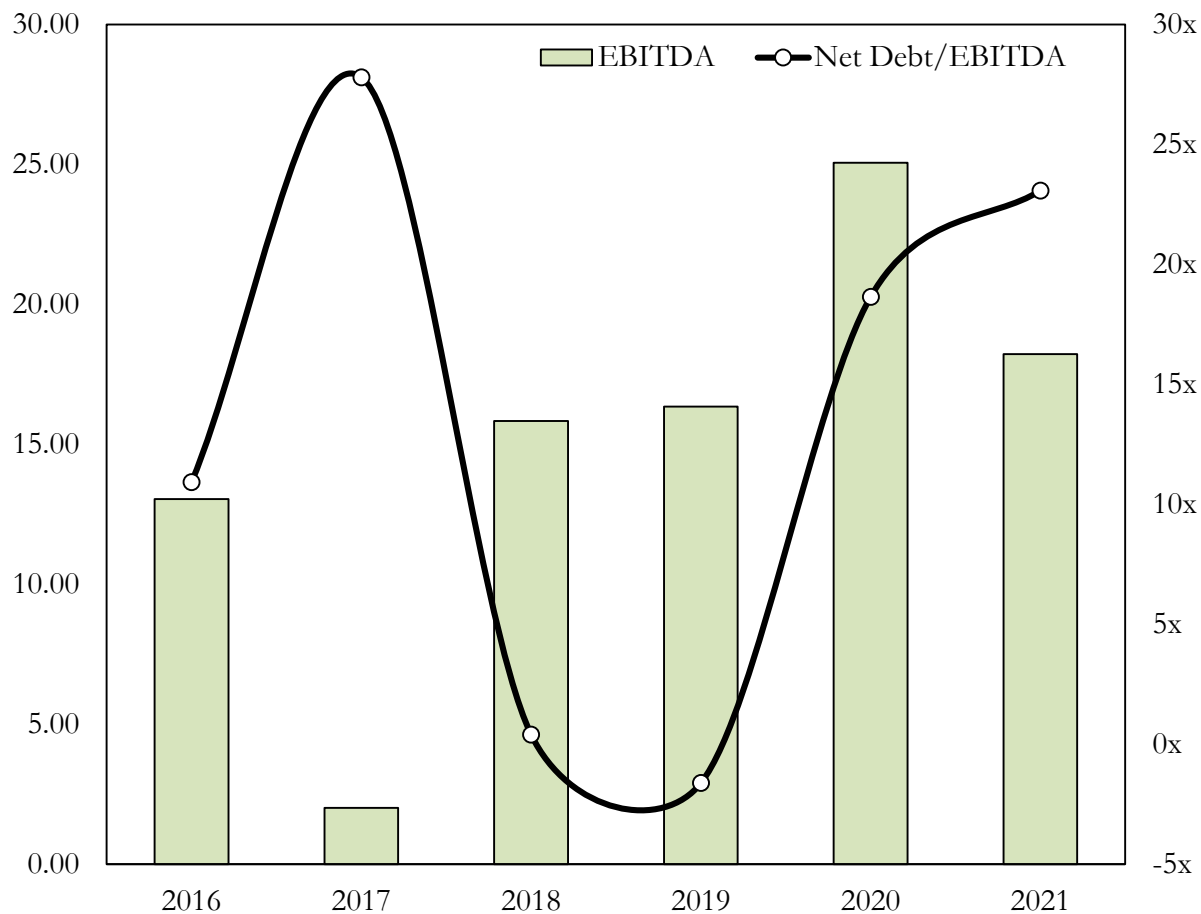
Overall ESG Rating

- Environment Pillar: B-
- Social Pillar: B-
- Governance Pillar: C
- Combined Score: C+
- Aritzia's ESG score improved 11% in the past fiscal year with improvements coming in 9 of 10 ESG categories

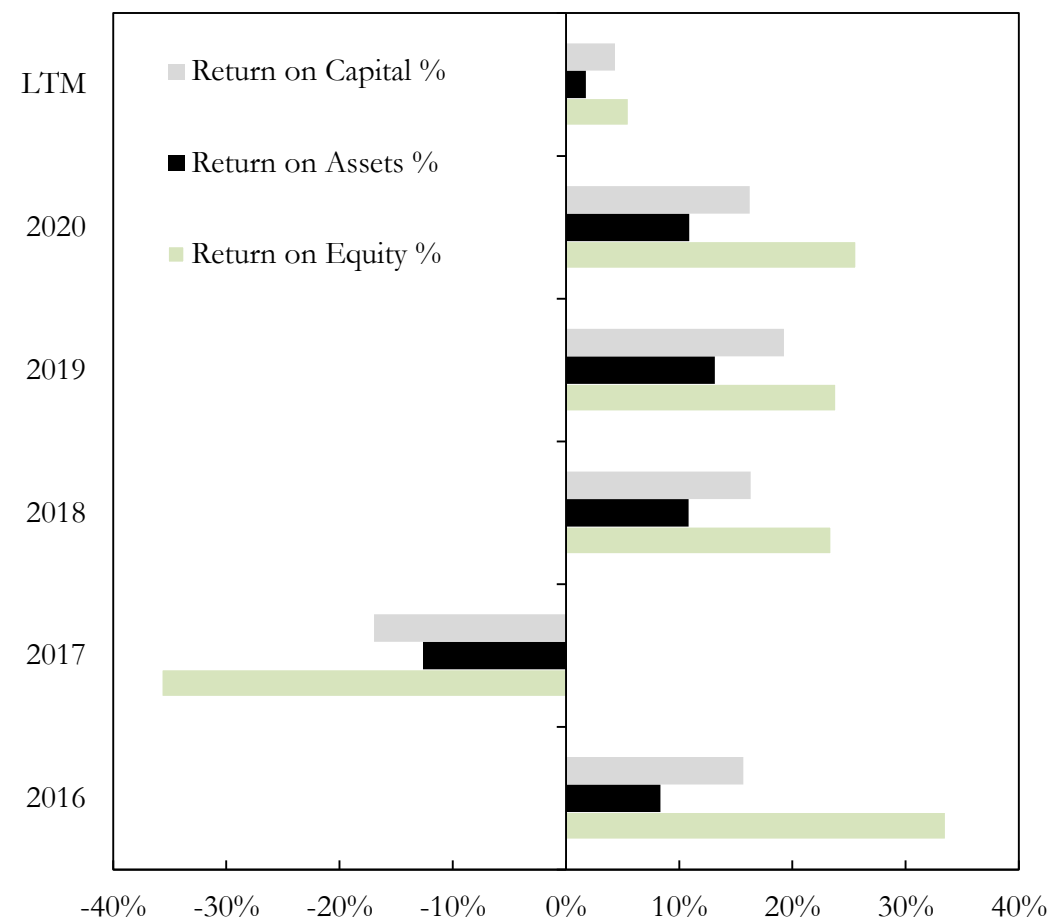
Financial Overview

ATZ has been relatively stable regarding EBITDA generation and has maintained stable debt.

Earnings (LHS) vs Leverage (RHS)



Profitability Ratios



Valuation - Comparable

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Ticker	Company Name	Price Latest (\$/share)	MC Latest (\$mm)	% 52 W H Latest (%)	Div. Yield Latest (%)	EV/EBITDA Latest (x)	EV/Revenue 2020 (x)	P/E Latest (x)
\$ATZ	Aritzia	52.46	5,887.53	98.07%	-	26.28x	5.50x	60.69x
\$LULU	Lululemon	568.41	75,966.46	95.27%	-	37.89x	10.73x	70.52x
\$GES	Guess? INC	28.17	1,841.53	74.90%	-	6.90x	0.93x	7.88x
\$ANF	American Eagle	33.77	5,877.82	70.45%	2.13%	7.07x	1.21x	15.37x
\$AEO	Abercrombie and Fitch	57.37	3,528.52	94.11%	1.89%	5.94x	0.88x	10.05x
	Mean	148.04	18,620.37	86.56%	2.01%	16.82x	3.85x	32.90x
	Median	52.46	5,877.82	94.11%	2.01%	7.07x	1.21x	15.37x

Source(s): S&P Capital IQ, Equity Research

Valuation & Recommendation

Methodologies

% of Blend		Sensitivity
GGM	EV/EBITDA	Target Price
70.0%	30.0%	44.65
60.0%	40.0%	51.72
50.0%	50.0%	58.80
40.0%	60.0%	65.87
30.0%	70.0%	72.95

Recommendation

