
# Aritzia Inc.

(TSE: ATZ) | September 15th, 2023

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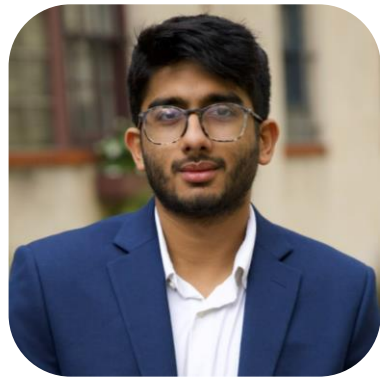
# Meet Your Stylists

ARITZIA

*Would you take their clothing and styling advice for fashion?*

**Winston Yin**
*Portfolio Manager*



**Rahul Parikh**
*Senior Analyst*

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*Junior Analyst*

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*Junior Analyst*

# Company Overview

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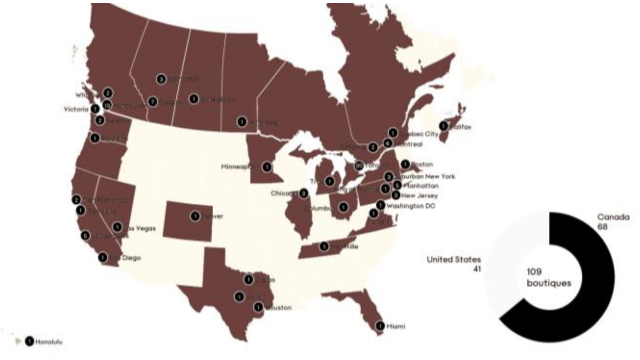
## Company Offerings

- Aritzia is a Canadian-based design house and fashion retailer focused on providing every-day wear, work wear, and athletic wear to women ages 15 and 45.

- They exist in the **Everyday Luxury** space:






In Millions, CAD

| Financial Snapshot | | | | | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** | **2022** |
| **Revenue** | 743 | 874 | 981 | 857 | 1,495 |
| **Gross Profit** | 295 | 343 | 403 | 313 | 655 |
| **Operating Profit** | 94 | 116 | 152 | 51 | 236 |
| **Net Income** | 57 | 79 | 91 | 19 | 157 |

# Industry Overview

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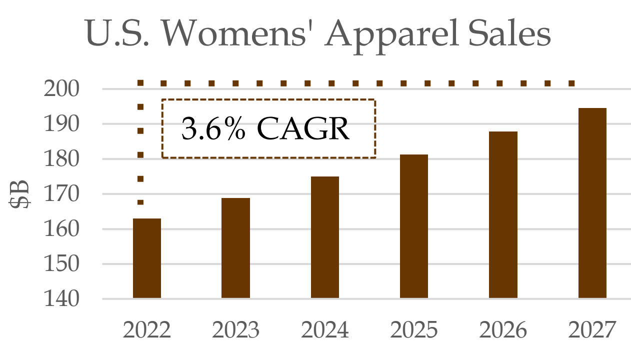
## What Industry is Aritzia in?

- Aritzia competes in the women’s apparel industry. It faces a wide range of competition from lower-end players and luxury brands (Walmart to H&M to Zara).
- Apparel Retail is a notoriously tough industry – countless brands that were once in style are now irrelevant, (Abercrombie & Fitch, American Eagle, Urban Outfitters, etc.)
- Companies have no sustainable competitive advantage that allows them to consistently earn high ROIC

## Where’s the Industry Headed?




## Who does Aritzia Compete With?

- Zara is higher-end, more diverse, less trend-based retailer.
- Lulu focuses on athletic apparel at a premium price. One of the best retail performers of the decade.
- H&M is slightly lower end and focused on both men and women’s clothing.

# Situation Overview

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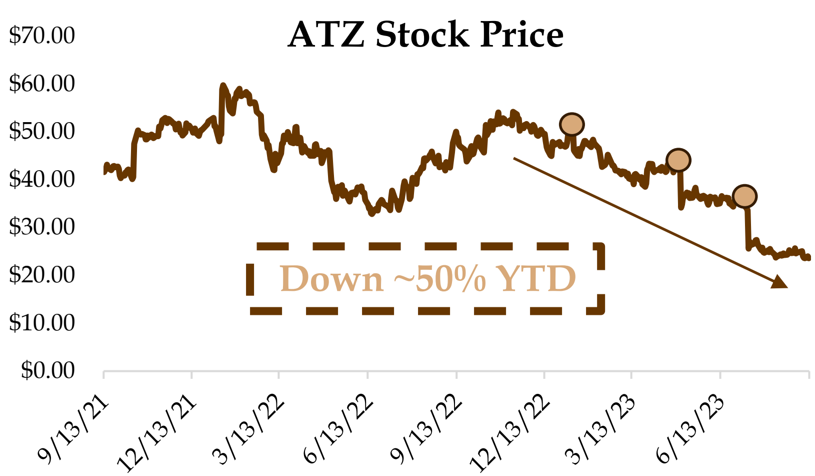
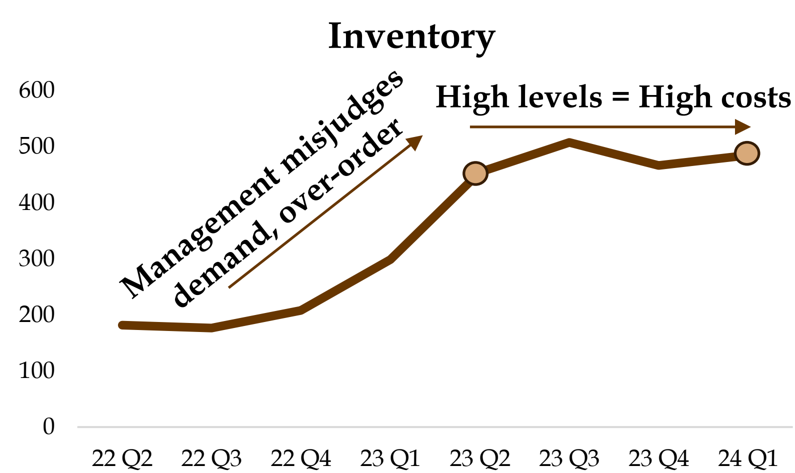
Poor earnings and business quality concerns caused investor sell-off

| Recent Earnings Print | Investor Reaction | |
|---|---|---|
| **Q3 '23:** Margin compression due to costs associated with persistent high inventory | Inventory mishap hurts LT brand image | Down 300 BPs in gross margin |
| **FY '23:** Weak FY24 earnings guidance due to macro, inventory & distribution expenses | Long-Term Margin Compression | Projected FY loss 400 BPs EBITDA |
| **Q1 '24:** Lower sales guidance from weak consumer demand and margin reduction | Not adaptive to current macro backdrop | Revision of 6-7% decline in sales |



# Situation Overview

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Sell-side's short term view creates an attractive investment opportunity

## Do we believe current issues are short-term?

### Sell Side View

- Margins will fail to recover from inventory de-stocking and warehouse costs
- ATZ will face difficulty recovering sales with macro affecting consumer demand
- Fear of a 'fad' business that over-earned and will gradually lose wallet share

### Our View

- Inventory situation is transitory and will subdue in the near-term
- Macro environment and consumer demand will eventually normalize
- ATZ historical success is not fad-driven with several brand execution levers

## Conviction in LT Business Quality?

**Clear store expansion path in the U.S.**

**Industry leading unit economics**

**Opportunity to fully develop eCommerce**

**Brand durability is underappreciated**

## Time Arbitrage Opportunity

Institutional and retail investors sell off stock due to depressed short term outlook

+

We have conviction that long term business fundamentals will be strong

=

Opportunity created through time horizon

**IAG's investment philosophy is to buy high quality companies that are trading at attractive prices**

# Thesis 1

Brand Durability

# Thesis #1: Brand Durability

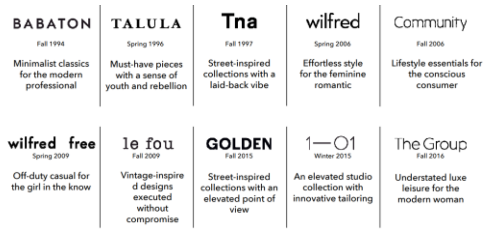
ARITZIA

*Aritzia's Brand Strategy Equation is Key to its Success*

House of Brands + Marketing + Store Planning + Sales Associates + Management = **Revenue Growth**

## House of Brands

- In **Consumer Discretionary** companies, the ability to shift **product mix** to match changes in consumers' tastes is important.
- Aritzia has a **House of Brands**




- Aritzia is **very fluid** with their product mix, but always runs all brands.
  - *During the COVID Pandemic…*

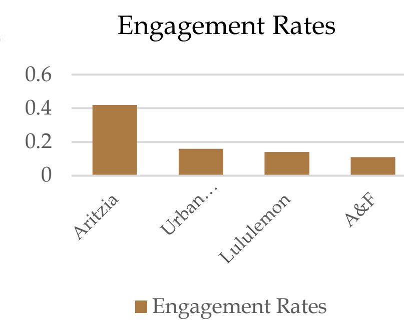
Wilfred → Tna

  - *During the Back-to-Office era…*

Tna → BABATON

## Marketing

- Marketing drives **market share growth** and **brand loyalty** by enticing new customers to purchase and old customers to purchase more
- Aritzia has achieved consistent resonation with their core target market through:
  - *Compelling social media posts that tell the brand's stories*
  - *Emphases on user-generated content*
  - *Notable influencer collaborations*

# Thesis #1: Brand Durability

ARITZIA

*Aritzia's Brand Strategy Equation is Key to its Success*

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## Store Planning

- **Brick & Mortar**: store location and design is key when trying to attract more **foot traffic** and **increase sales per sq ft.**
- Aritzia puts an emphasis on store layout and customer experience…
  - *Semi-public changing rooms*
  - *Comfortable waiting spaces––the famous "Aritzia couches"*

- As well as the placement of the stores, which are always in AAA real-estate
  - *Aritzia has signed the most expensive leases in NYC and Chicago!*

## Sales Associate Structure

- Work culture is important for **maximizing efficacy of sales personnel** and **sales per sq ft.**
- Aritzia's sales associate structure is unique
  - *Associates are paid mostly through commission: base salaries are comparatively low*
  - *Associates are forced to requalify for commission every 6 months*
- This leads to a cutthroat, sales associate culture that allows Aritzia to have **industry leading** sales per square foot

**Associates can make $100K+**

**…and become the CEO**

# Thesis #1: Brand Durability

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*Aritzia's Outstanding Management Team Leads to Phenomenal Strategy Execution*

House of Brands + Marketing + Store Planning + Sales Associates + Management = **Revenue Growth**

## Tenured Management Team + Methodical Decision-Making

**Founder and Exec Chair: Brian Hill**
Has been with the company since its inception in 1984; family started Aritzia.

**CEO: Jennifer Wong**
Served as president & COO for 7 years; entire tenure is 30+ years. Started as an ATZ sales associate!

**CPCO: Karen Kwan**
Was VP and CPCO at Lulu; transformed their HR and c-suite. Started as an ATZ sales associate!

**Retail EVP: Pippa Morgan**
Manages ATZ's sales and employee retention; tenure of 13 years. Started as an ATZ sales associate!

**The ABC Method**

- Aritzia uses the ABC model and requires a write-up for **every decision** made by management.
  - *"Aritzia is more rigorous in their operations than any organization I've ever stepped foot in…the smallest decision, to remerchandise a section of the website, to hire a model, to do anything. You have to have an ABC."*

**Remaining in Style**

*Generation of New Seasonal Collection* → *Customize Mix to Locality* → *Order % of Expected Demand* → *Order % of Expected Demand* → *Order % of Expected Demand* → *Successfully Being On Trend*

# Thesis #1: Brand Durability

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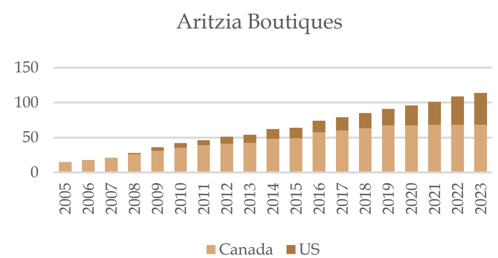
*Aritzia's Execution Leads to Best-In-Class KPIs…*

House of Brands + Marketing + Store Planning + Sales Associates + Management = **Revenue Growth**

## Superb Key KPIs

- **Strong consistent store openings:**



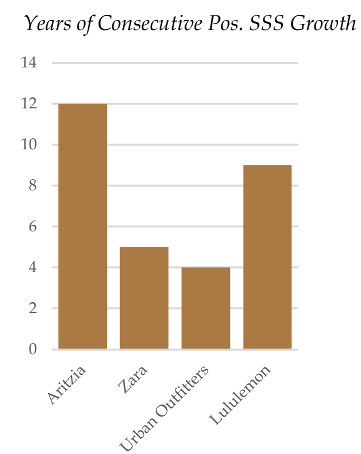

- *With tons of white space to grow into, while competitors have hit a ceiling with value generated per new store.*
  - *Zara: 3000 stores*
  - *Urban Outfitters: 700 stores*

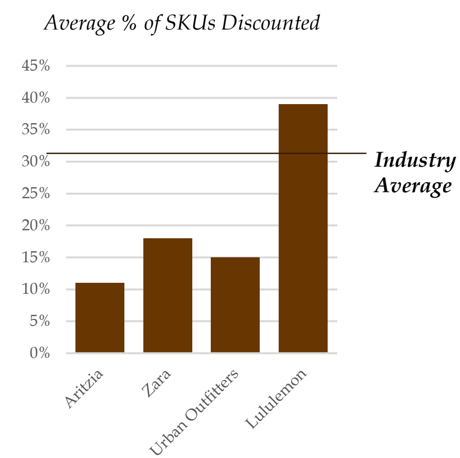
- **Brand Awareness & Prestige:**

| ***Average Ranking (Max = 7)*** | | | | |
|---|---|---|---|---|
| *Brand* | *Quality* | *Trendiness* | *Total* | *Average* |
| *Aritzia* | 3.04 | 2.95 | 5.99 | 3.00 |
| *Reformation* | 3.36 | 3.43 | 6.79 | 3.40 |
| *Abercrombie* | 4.46 | 4.04 | 8.5 | 4.25 |
| *Free People* | 4.17 | 4.34 | 8.51 | 4.26 |
| *Anthropologie* | 3.99 | 4.74 | 8.73 | 4.37 |
| *Revolve* | 4.59 | 4.18 | 8.77 | 4.39 |
| *Urban Outfitters* | 5.34 | 4.12 | 9.46 | 4.73 |

## Top-Line Growth

- **Best-in industry SSS:** $23M yearly sales per store, average growth of *36.7% per quarter* in 2022




- **Pricing Power:** Average discounting of 11% of all SKUs versus industry average of 32%; higher ARPU

# Thesis #1: Brand Durability

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*…And Bodes Well for Future Top-Line Growth*

House of Brands + Marketing + Store Planning + Sales Associates + Management = **Revenue Growth**

## Strong Store Unit Economics

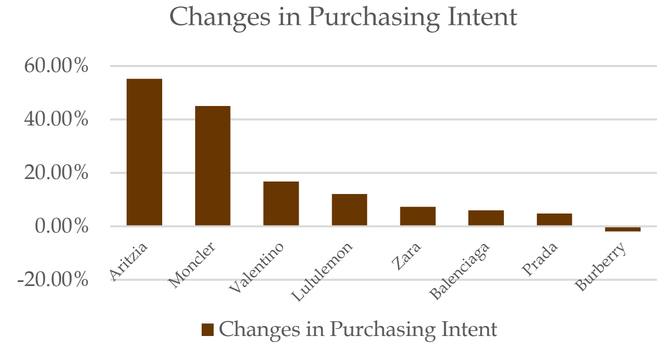
- **Store Expansion Plan:** Aritzia guides for 150 stores by '27, meaning an addition of 8-10 stores per year
- **Aritzia has phenomenal store unit economics:**

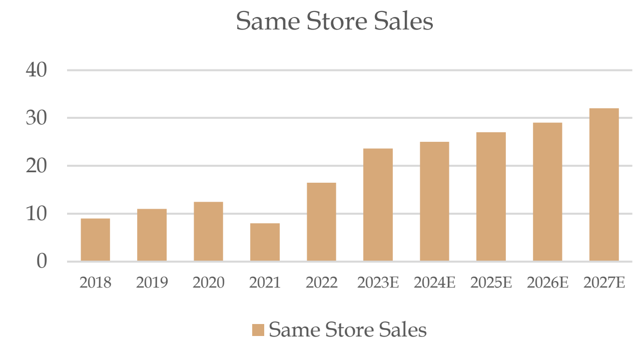
| | New Store | Store Expansion |
|---|---|---|
| **Estimated 1 Year Contribution** | Sales/Sq. Ft. 1000<br>Total Sq. Ft 6000<br>Revenue 6000000 | Sales/Sq. Ft. 1000<br>Total Sq. Ft 3500<br>Revenue 3500000 |
| **Estimated Net Investment** | 2500000 | 2000000 |
| **Average Payback** | **24 Months** | **24 Months** |

- Physical store growth also translates into **e-commerce revenue growth!**
  - *New physical stores boost e-commerce sales in that locality by 80%+*

## Strong Future Top-Line Projections

- According to BofA, **73%** plan to purchase the same amount or more, and **27%** plan to purchase less.



# Thesis 2: Clear Path to Sales Target

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Expansion in U.S. will dispel investor growth concerns

## Conviction in Store Expansion Story

**Projected 100 stores in next several years**

**Current levels reveal only 40% penetrated**

**Management guides for 8-10 stores annually**

**0.8% share in $160bn women's apparel market**

**U.S. Whitespace**

- **54** available 300k> pop. cities
  - **99** possible stores targets
- **41** existing cities with ATZ store
  - **82** possible store targets

**$270mm Incremental Revenues from U.S. Expansion**

| New Store Sales Ramp Up | | | |
|---|---|---|---|
| Note: Revenue Per Store of $8.6mm FY 2022 | | | |
| | Year 1 | Year 2 | Year 3 |
| New City Discount | 50% | 25% | 0% |
| Sales/New City Store | $4,307 | $6,460 | $8,614 |
| Existing City Discount | 57.5% | 28.8% | 15% |
| Sales/Existing City Stores | $3,661 | $6,137 | $7,322 |

| Incremental U.S. Revenue Waterfall | | | | |
|---|---|---|---|---|
| *Figures in $K* | 2023E | 2024E | 2025E | 2026E |
| 2023 | $37,212 | $55,817 | $74,423 | $74,423 |
| 2024 | | 45,212 | 67,818 | 90,424 |
| 2025 | | | 41,068 | 61,601 |
| 2026 | | | | 44,148 |
| Total | $37,212 | $101,029 | $183,309 | $270,597 |

# Thesis 2: Clear Path to Sales Target

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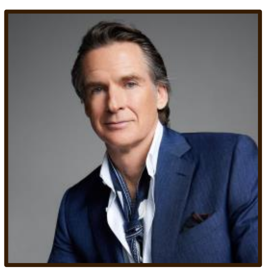
Low hanging fruit with eCommerce

## eCommerce Is Underdeveloped

Only 35% of LTM revenue came online, **lagging industry average** of 45%

Ex-CEO Brian Hill's employed **conservative approach** to digital platforms

eComm attracts online buyers, increasing **customer stickiness** and **sales volume**



"I don't even think he has a laptop still. He's brick and mortar"

"She's the fast mover"
"The opposite of Brian."

## Catalysts for eCommerce Growth

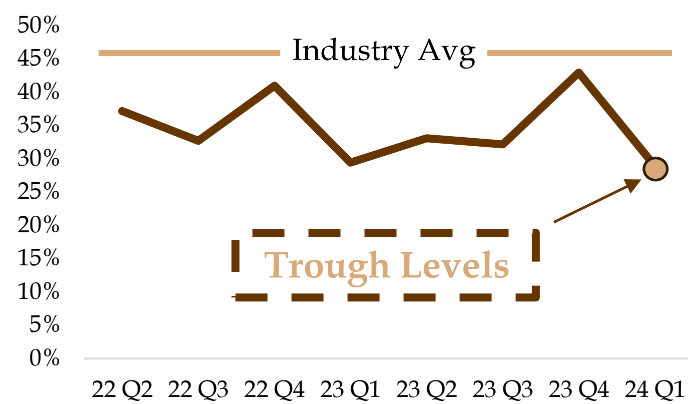
**CEO Jennifer Wong**

- Wong **pushing eCommerce** towards 45% of Long-Term Revenue
- Already built **eCommerce 2.0 platform**

**Store Expansion**

- Opening first store in city drives **Google searches up 2-3x**
- **80%** local **eCommerce impact**

eCommerce % of Sales



# Thesis 2: Clear Path to Sales Target

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Putting the growth pieces together to surpass $2.5 billion target

## U.S. Incremental Revenues

$8m per store × 35 to 40 stores = $300m sales

## eCommerce Uplift

$288m online sales × 13.7% CAGR = $550m sales

$300m + $550m + $1.6b 2022 + $200m S-S sales = $2.65b 2027E sales

# Thesis 3: Margin Expansion (Cont.)

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*We view a number of the factors that are temporarily depressing margins as transitory.*

## Why Are Margins Compressed?

| Margin Analysis for Q1 2023 | |
|---|---|
| Pricing Pressure + Inflation | -3.0% |
| Warehousing Expenses | -2.0% |
| Markdown Normalization | -2.0% |
| Pre-Opening Lease Amortization | -1.0% |
| Airfreight Rates Tailwind | +2.0% |
| Back Office Labour Invetsments | -1.5% |
| Retail Labour Investments | -1.5% |
| Distribution Center Excess Spending | -1.0% |
| **Net Impact** | **-10.0%** |

- Need to destock didn't allow ATZ to push costs onto consumers.
- Storing excess inventory costs more than usual.
- ATZ grew back-office labor to facilitate growth.
- ATZ's own distribution center isn't fully operational yet, so they are spending on a 3Ps

**2023 Adj. EBITDA Margins**

**16.0%**

↓

**6.8%**

# Thesis 3: Margin Expansion

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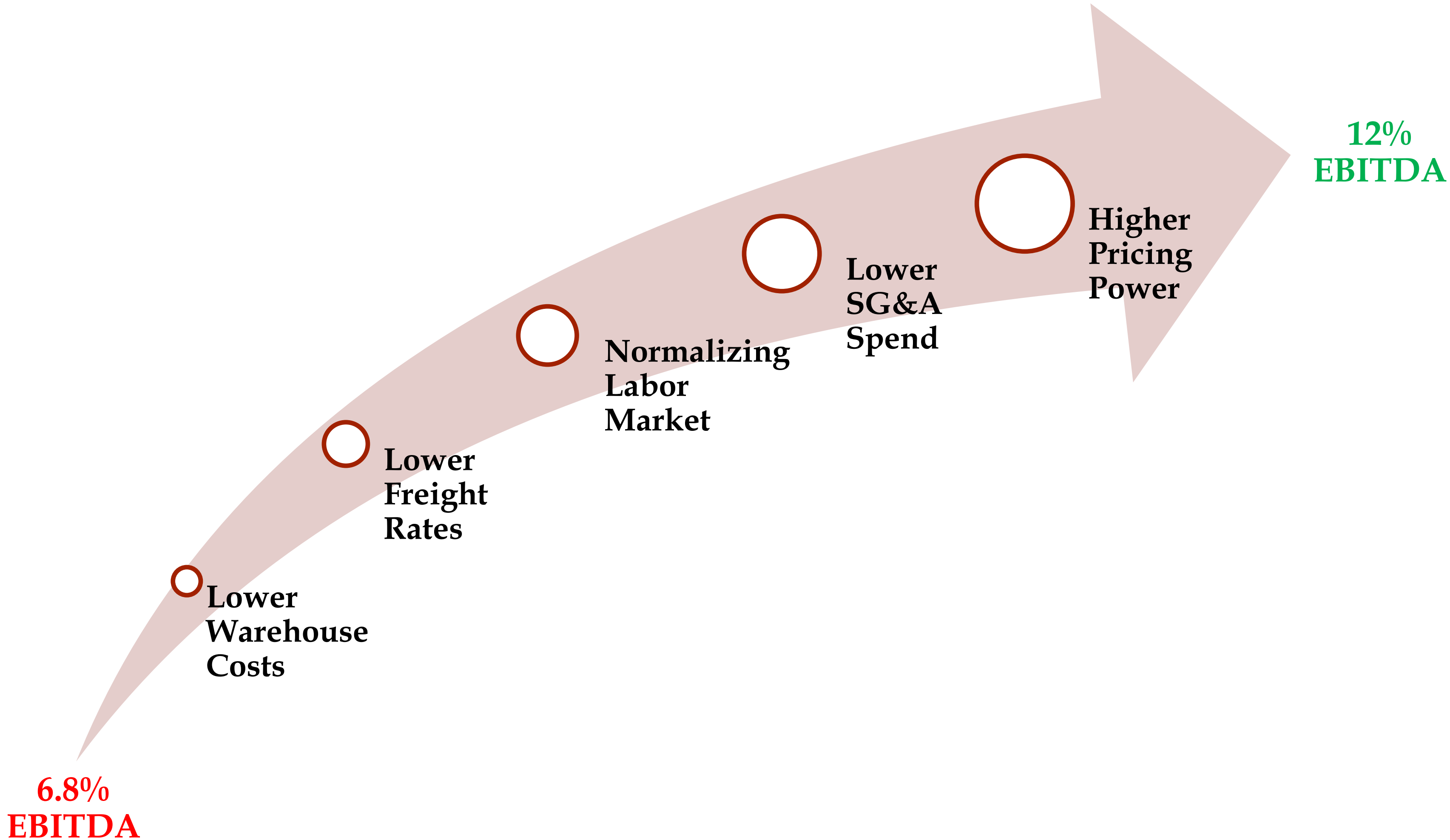
*We view many of the factors that are temporarily depressing margins as transitory.*



# Operating Leverage 101

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*High Operating Leverage is key to the Aritzia thesis*

**What are fixed costs and what are variable costs?**

Fixed costs don't change as the number of units sold increases. Variable costs increase with volume.

**What are the fixed and variable costs for a theme park ride? What's larger, fixed or variable costs**

Fixed costs = initial construction expenses. Variable costs = labor as well as the maintenance expenses.

**What happens if no one goes on the ride in the first year?**

| Year | 1 |
|---|---|
| Number of Rides | 0 |
| Price per Ride | 10 |
| **Total Revenue** | **0** |
| Fixed Costs | 50 |
| Variable Costs | 0 |
| **Operating Profit** | **-50** |

**What happens to operating profit growth when the number of rides start increasing?**

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Number of Rides | 0 | 10 | 20 | 30 | 40 |
| Price per Ride | 10 | 10 | 10 | 10 | 10 |
| **Total Revenue** | **0** | **100** | **200** | **300** | **400** |
| *Growth%* | | | *100%* | *50%* | *33%* |
| Fixed Costs | 50 | 50 | 50 | 50 | 50 |
| *Margin%* | | *50%* | *25%* | *17%* | *13%* |
| Variable Costs | 0 | 10 | 20 | 30 | 40 |
| *Margin%* | | *10%* | *10%* | *10%* | *10%* |
| **Operating Profit** | **-50** | **40** | **130** | **220** | **310** |
| *Growth%* | | | **225%** | **69%** | **41%** |

# Thesis 3: Margin Expansion (cont.)

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*Growth initiatives should also allow for margins to expand.*

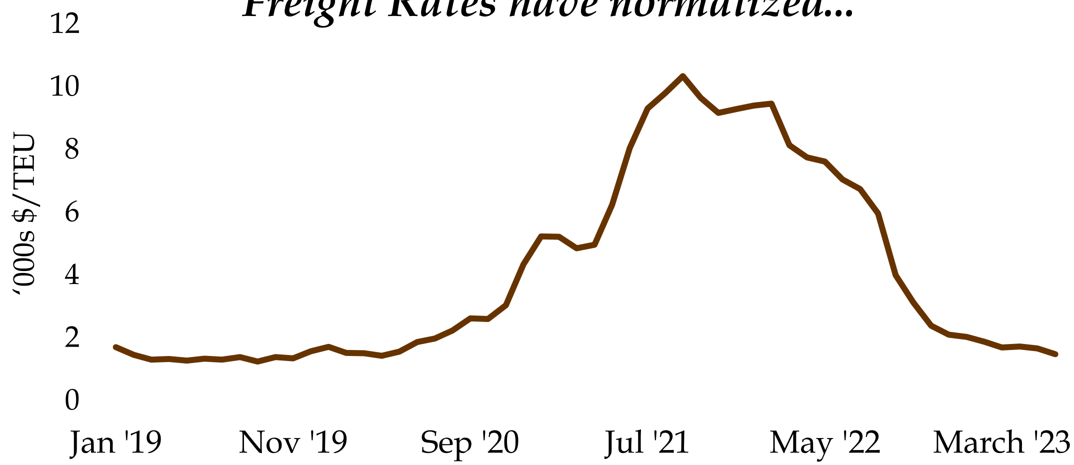
## Better Lease Terms and Lower Freight to drive Margin Expansion

- Better lease terms as ATZ stores become ‘anchors’
- Rent terms should converge to competitor levels

**+ 100 - 150 bps**
EBITDA margin

| Rent Expense Calculations (ex '21 & '22) | 2017 | 2018 | 2019 | 2022 | 2023 |
|---|---|---|---|---|---|
| Aritzia Rent/Sq. Ft | 168 | 160 | 162 | 151 | 144 |
| Lululemon Rent/Sq. Ft | 96 | 98 | 94 | 74 | 73 |
| Abercrombie & Fitch Rent/Sq. Ft | 60 | 54 | 56 | 77 | 79 |
| Ralph Lauren Rent/Sq. Ft | 124 | 117 | 112 | 157 | 157 |

***Freight Rates have normalized…***




**+ 200 – 300bps**
EBITDA margin

# Catalysts & Risks

## What Will Help/Hurt Our Theses From Being Realized?

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| Catalysts | Risks |
|---|---|
| Full sell-through of current inventory selection | Permanent brand value damage from discounting |
| Full ramp-up of growth investments | Failure to get fashion cycle right in the future |
| Earnings calls reflect fundamental improvement in sales and margins | Deceleration in Canada |

# Valuation

## Foundational Principles - Multiples

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### What is a Valuation Multiple?

A multiple is essentially the price you're paying for an asset benchmarked to an underlying business **KPI** (Key Performance Indicator!).

$$Multiple = \frac{What\ you\ are\ paying\ for\ an\ asset}{What\ you\ are\ getting\ from\ the\ firm}$$

### Our Multiple of Choice: Enterprise Value / Adjusted EBITDA (EV/EBITDA)

*Enterprise Value = Net Debt + Market Capitalization*
*Adjusted EBITDA = Revenue – COGS – SG&A + D&A + One-Time Costs (Cash Flow Estimate)*

### Valuation: Predicting the Future

1. Project out ATZ's future EBITDA (approx. cash flow)
2. Assign an EV/EBITDA multiple to that future profit number
3. Subtract out net debt to figure out future market cap.

*Future EBITDA = Future Sales * EBITDA Margin*

*Future EV = Future EBITDA * Assigned Multiple*

*Future Market Cap = Future EV – Net Debt*

# Valuation

## Revenue Build – U.S.

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| Aritzia U.S. Revenue Build | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **All USD ($)** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** |
| Beginning Store Count | 22 | 24 | 29 | 33 | 39 | 46 | 53 | 59 | 65 |
| Stores Renovated | 4 | 3 | 4 | 5 | 4 | 2 | 2 | 2 | 2 |
| *% of BoP* | *18.2%* | *12.5%* | *13.8%* | *15.2%* | *10.3%* | *4.3%* | *3.8%* | *3.4%* | *3.1%* |
| Stores Added | 6 | 5 | 5 | 5 | 8 | 7 | 6 | 6 | 5 |
| *% of BoP* | *27.3%* | *20.8%* | *17.2%* | *15.2%* | *20.5%* | *15.2%* | *11.3%* | *10.2%* | *7.7%* |
| Stores Closed | -1 | 0 | -1 | -2 | -1 | 0 | 0 | 0 | 0 |
| *% of BoP* | *4.5%* | *0.0%* | *3.4%* | *6.1%* | *2.6%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| End Store Count | 24 | 29 | 33 | 39 | 46 | 53 | 59 | 65 | 70 |
| Avg. New Stores | 3 | 2.5 | 2.5 | 2.5 | 4 | 3.5 | 3 | 3 | 2.5 |
| New Store avg. Revenue | 6.5 | 7 | 7.5 | 8 | 8 | 8 | 8 | 8 | 8 |
| *New Store Productivity* | *70.0%* | *70.0%* | *40.0%* | *65.0%* | *65.0%* | *70.0%* | *70.0%* | *70.0%* | *70.0%* |
| New Store Revenue | 13.65 | 12.25 | 7.50 | 13.00 | 20.80 | 19.60 | 16.80 | 16.80 | 14.00 |
| Avg. Renovated Stores | 2.00 | 1.50 | 2.00 | 2.50 | 2.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Sales/Renovated Store | 10.00 | 10.00 | 11.00 | 11.00 | 12.00 | 12.00 | 12.00 | 12.00 | 12.00 |
| Renovated Store Productivity | *85.0%* | *85.0%* | *85.0%* | *85.0%* | *85.0%* | *85.0%* | *85.0%* | *85.0%* | *85.0%* |
| Renovated Store Revenue | 17.00 | 12.75 | 18.70 | 23.38 | 20.40 | 10.20 | 10.20 | 10.20 | 10.20 |
| Avg. Mature Stores | 21.5 | 24 | 28.5 | 32 | 38.5 | 46 | 53 | 59 | 65 |
| Sales/Mature Store | 6.02 | 7.03 | 3.11 | 9.18 | 12.83 | 12.19 | 12.55 | 12.93 | 13.32 |
| *SSS Growth (%)* | *8%* | *17%* | *-56%* | *195%* | *40%* | *-5.0%* | *3.0%* | *3.0%* | *3.0%* |
| Mature Store Revenue | 129.33 | 168.80 | 88.65 | 293.71 | 493.85 | 560.55 | 665.22 | 762.75 | 865.52 |
| **Retail Revenue** | **159.98** | **193.80** | **114.85** | **330.08** | **535.05** | **590.35** | **692.22** | **789.75** | **889.72** |
| **E-Commerce Revenue** | **39.99** | **57.89** | **114.85** | **200.60** | **288.10** | **316.91** | **380.29** | **456.35** | **547.62** |
| *% of eCommerce (Est.)* | *20.0%* | *23.0%* | *50.0%* | *37.8%* | *35.0%* | *34.9%* | *35.5%* | *36.6%* | *38.1%* |
| *Growth Rate (%)* | *53%* | *45%* | *98%* | *75%* | *44%* | *10.0%* | *20.0%* | *20.0%* | *20.0%* |
| **US Revenue** | **199.97** | **251.68** | **229.69** | **530.68** | **823.15** | **907.26** | **1072.52** | **1246.10** | **1437.35** |
| *Growth Rate (%)* | *30.2%* | *25.9%* | *-8.7%* | *131.0%* | *55.1%* | *10.2%* | *18.2%* | *16.2%* | *15.3%* |

# Valuation

## Revenue Build - Canada

ARITZIA

| Aritizia Canada Revenue Build | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue Breakdown** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** |
| Beginning Store Count | 63 | 67 | 67 | 68 | 67 | 68 | 70 | 72 | 74 |
| Stores Renovated | 1 | 0 | 1 | 2 | 1 | 1 | 1 | 1 | 1 |
| *% of BoP* | *1.6%* | *0.0%* | *1.5%* | *2.9%* | *1.5%* | *1.5%* | *1.4%* | *1.4%* | *1.4%* |
| Stores Added | 4 | 0 | 1 | 0 | 1 | 2 | 2 | 2 | 2 |
| *% of BoP* | *6.3%* | *0.0%* | *1.5%* | *0.0%* | *1.5%* | *2.9%* | *2.9%* | *2.8%* | *2.7%* |
| Stores Closed | 0 | 0 | 0 | -1 | 0 | 0 | 0 | 0 | 0 |
| *% of BoP* | *0.0%* | *0.0%* | *0.0%* | *1.5%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| End Store Count | 67 | 67 | 68 | 67 | 68 | 70 | 72 | 74 | 76 |
| Avg. New Stores | 2 | 0 | 0.5 | 0 | 0.5 | 1 | 1 | 1 | 1 |
| New Store avg. Revenue | 4.875 | 5.25 | 5.625 | 6 | 6 | 8 | 8 | 8 | 8 |
| *New Store Productivity* | *70%* | *70%* | *40%* | *65%* | *65%* | *70%* | *70%* | *70%* | *70%* |
| New Store Revenue | 6.83 | 0.00 | 1.13 | 0.00 | 1.95 | 5.60 | 5.60 | 5.60 | 5.60 |
| Avg. Renovated Stores | 0.50 | 0.00 | 0.50 | 1.00 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Sales/Renovated Store | 7.50 | 7.50 | 8.25 | 8.25 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 |
| Renovated Store Productivity | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 |
| Renovated Store Revenue | 3.19 | 0.00 | 3.51 | 7.01 | 3.83 | 3.83 | 3.83 | 3.83 | 3.83 |
| Avg. Mature Stores | 63 | 67 | 67 | 67.5 | 67 | 68 | 70 | 72 | 74 |
| Sales/Mature Store | 5.82 | 5.62 | 3.25 | 5.82 | 7.57 | 7.19 | 7.26 | 7.34 | 7.41 |
| *SSS Growth (%)* | *1.1%* | *-3.5%* | *-42.1%* | *78.7%* | *30.2%* | *-5.0%* | *1.0%* | *1.0%* | *1.0%* |
| Mature Store Revenue | 366.55 | 376.26 | 218.02 | 392.57 | 507.17 | 489.01 | 508.42 | 528.18 | 548.28 |
| **Retail Revenue** | **376.56** | **376.26** | **222.65** | **399.58** | **512.95** | **498.43** | **517.85** | **537.60** | **557.70** |
| **E-Commerce Revenue** | **82.66** | **103.05** | **222.65** | **242.83** | **276.20** | **303.82** | **364.59** | **419.28** | **473.78** |
| *% of eCommerce (Est.)* | *18.0%* | *21.5%* | *50.0%* | *37.8%* | *35.0%* | *37.9%* | *41.3%* | *43.8%* | *45.9%* |
| *Growth Rate (%)* | *12.2%* | *24.7%* | *116.1%* | *9.1%* | *13.7%* | *10.0%* | *20.0%* | *15.0%* | *13.0%* |
| **CAN Revenue** | **459.23** | **479.32** | **445.31** | **642.42** | **789.15** | **802.26** | **882.44** | **956.88** | **1031.49** |
| *Growth Rate (%)* | *6.0%* | *4.4%* | *-7.1%* | *44.3%* | *22.8%* | *1.7%* | *10.0%* | *8.4%* | *7.8%* |

# Valuation

## Operating Build

ARITZIA

| Operating Build | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 731.00 | 675.00 | 1,173.10 | 1,612.30 | 1,709.51 | 1,954.95 | 2,202.98 | 2,468.83 |
| *Growth (%)* | | *-7.7%* | *73.8%* | *37.4%* | *6.0%* | *14.4%* | *12.7%* | *12.1%* |
| COGS | (430.2) | (429.0) | (659.0) | (941.1) | (1,094.1) | (1,212.1) | (1,321.8) | (1,456.6) |
| Gross Profit | 300.77 | 246.02 | 514.06 | 671.16 | 615.43 | 742.88 | 881.19 | 1,012.22 |
| *GP Margin (%)* | *41.1%* | *36.4%* | *43.8%* | *41.6%* | *36.0%* | *38.0%* | *40.0%* | *41.0%* |
| Sq. Ft (000s) | 576.00 | 606.00 | 742.00 | 912.00 | 1,003.20 | 1,103.52 | 1,213.87 | 1,335.26 |
| *Growth (%)* | *5.5%* | *5.2%* | *22.4%* | *22.9%* | *10.0%* | *10.0%* | *10.0%* | *10.0%* |
| Rent/Sq. Ft | N/A | N/A | 151.42 | 143.50 | 139.20 | 135.02 | 130.97 | 127.04 |
| *Growth (%)* | *N/A* | *N/A* | *N/A* | *-5.2%* | *-3%* | *-3%* | *-3%* | *-3%* |
| Rent Expense | N/A | N/A | (112.36) | (130.88) | (139.64) | (149.00) | (158.98) | (169.64) |
| *% of Revenue* | *N/A* | *N/A* | *9.6%* | *8.1%* | *8.2%* | *7.6%* | *7.2%* | *6.9%* |
| Other SG&A | (181.41) | (197.42) | (195.94) | (311.53) | (358.26) | (394.09) | (421.67) | (442.76) |
| *% of Revenue* | *24.8%* | *29.2%* | *16.7%* | *19.3%* | *21.0%* | *20.2%* | *19.1%* | *17.9%* |
| *Growth (%)* | *144.8%* | *8.8%* | *-0.7%* | *59.0%* | *15.0%* | *10.0%* | *7.0%* | *5.0%* |
| Cost Savings Adjustment | | | | | 30.00 | 65.00 | 65.00 | 65.00 |
| SBC | (5.81) | (8.42) | (20.51) | (17.89) | (20.51) | (23.46) | (26.44) | (29.63) |
| *% of Revenue* | *0.8%* | *1.2%* | *1.7%* | *1.1%* | *1.2%* | *1.2%* | *1.2%* | *1.2%* |
| Other Income/expense-net | 1.63 | 2.78 | 6.89 | 5.81 | 0.00 | 0.00 | 0.00 | 0.00 |
| *% of Revenue* | *-0.2%* | *-0.4%* | *-0.6%* | *-0.4%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| Finance Expenses | (21.11) | (22.38) | (19.78) | (22.96) | (24.10) | (25.31) | (26.58) | (27.90) |
| *Growth (%)* | *480.7%* | *6.0%* | *-11.6%* | *16.1%* | *5.0%* | *5.0%* | *5.0%* | *5.0%* |
| **EBT** | **94.07** | **20.59** | **172.36** | **193.72** | **102.90** | **216.03** | **312.53** | **407.30** |
| *EBT Margin (%)* | *12.9%* | *3.1%* | *14.7%* | *12.0%* | *6.0%* | *11.1%* | *14.2%* | *16.5%* |
| Provision for Income Tax | (26.50) | (5.49) | (49.20) | (55.97) | (29.33) | (60.49) | (85.94) | (109.97) |
| *Implied Tax Rate (%)* | *28.2%* | *26.7%* | *28.5%* | *28.9%* | *28.5%* | *28.0%* | *27.5%* | *27.0%* |
| **Net Income** | **67.58** | **15.10** | **123.16** | **137.75** | **73.57** | **155.54** | **226.58** | **297.33** |
| Share Outstanding - Diluted | 112.128 | 112.844 | 115.784 | 115.301 | 115.301 | 115.301 | 115.301 | 115.301 |
| **EPS** | **0.60** | **0.13** | **1.06** | **1.19** | **0.64** | **1.35** | **1.97** | **2.58** |

# Valuation

## Final Pieces!

ARITZIA

| Adjusted EBITDA Bridge | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|
| Net Income | 94.07 | 20.59 | 172.36 | 193.72 | 73.57 | 155.54 | 226.58 | 297.33 |
| D&A | 25.66 | 30.61 | 34.98 | 38.81 | 42.74 | 48.87 | 55.07 | 61.72 |
| *% of Revenue* | *3.5%* | *4.5%* | *3.0%* | *2.4%* | *2.5%* | *2.5%* | *2.5%* | *2.5%* |
| Depr on Right-Of-Use Assets | 44.04 | 52.19 | 53.42 | 59.51 | 65.47 | 72.01 | 79.21 | 87.14 |
| *Growth (%)* | | *18.5%* | *2.4%* | *11.4%* | *10.0%* | *10.0%* | *10.0%* | *10.0%* |
| Finance Expense | 21.11 | 22.38 | 19.78 | 22.96 | 24.10 | 25.31 | 26.58 | 27.90 |
| Income Tax Expense | 26.50 | 5.49 | 49.20 | 55.97 | 29.33 | 60.49 | 85.94 | 109.97 |
| SBC | 5.81 | 8.42 | 20.51 | 17.89 | 20.51 | 23.46 | 26.44 | 29.63 |
| Depr of RoU Assets | (44.04) | (52.19) | (53.42) | (59.51) | (65.47) | (72.01) | (79.21) | (87.14) |
| Interest Exp on Lease Liabilities | (23.76) | (23.67) | (22.35) | (27.34) | (29.33) | (31.29) | (33.39) | (35.62) |
| *% of Rent Expense* | | | *19.9%* | *20.9%* | *21.0%* | *21.0%* | *21.0%* | *21.0%* |
| Rent Impact from IFRS Leases | (67.80) | (75.86) | (75.76) | (86.85) | (94.79) | (103.30) | (112.60) | (122.76) |
| CYC Integration and Acquisition Costs | | | (25.55) | (4.13) | 0.00 | 0.00 | 0.00 | 0.00 |
| **EBITDA** | **143.61** | **55.62** | **228.48** | **280.13** | **140.54** | **259.04** | **360.91** | **461.43** |
| *EBITDA Margin (%)* | *19.6%* | *8.2%* | *19.5%* | *17.4%* | *8.2%* | *13.3%* | *16.4%* | *18.7%* |

| Quick Valuation | |
|---|---|
| FY27 EBITDA | 461.4 |
| FY27 Multiple | 12.00x |
| Implied EV | 5,537.1 |
| (+) Net Cash | 26.3 |
| Implied QV | 5,563.5 |
| Shares Outstanding | 115.301 |
| Implied Share Price | $48.25 |
| Current QV | 2,746.0 |
| **Implied IRR** | **22.4%** |

**What is IRR?**

*IRR = discount rate to make the NPV of a project zero*

$$IRR: \frac{CF_1}{(1+IRR)} + \frac{CF_2}{(1+IRR)^2} + \frac{CF_2}{(1+IRR)^2} + \cdots + \frac{CF_n}{(1+IRR)^n} = 0$$

Think of it as the annual rate you earn on an investment!


# A Fashion Disaster?

### Let's Hear From Someone With Real Style...

# Devil's Advocate: The Short on Aritzia

# Devil's Advocate

ARITZIA

Not Too Fast…

## What Could Go Wrong?

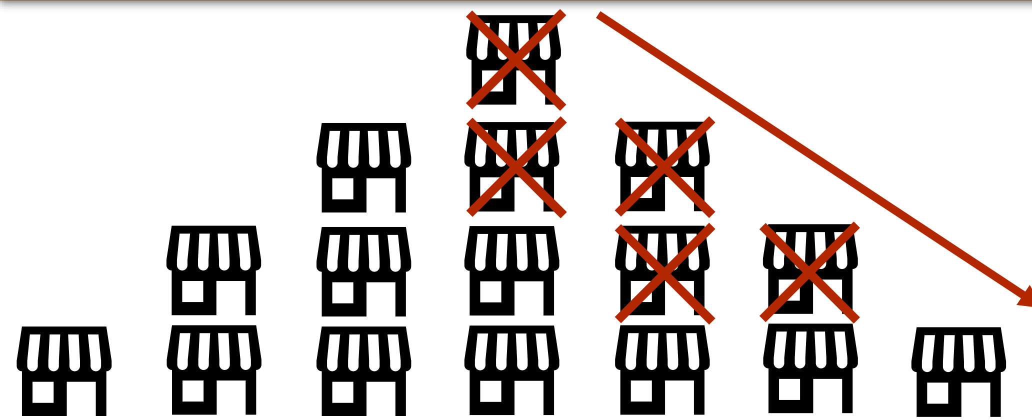
### Competitive Dynamics

AMERICAN EAGLE OUTFITTERS

ZARA

URBAN OUTFITTERS

### Overstated Store Growth



### True Margin Potential