

ARITZIA

Aritzia Inc.(TSE: ATZ)

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- Aritzia is a vertically integrated, innovative design house of exclusive fashion brands
- Together with its subsidiaries, Aritzia designs apparels and accessories for women
- Founded in 1984 with its current headquarters in Vancouver, Canada, Aritzia has over 90 boutiques across Canada and the United States



Brian Hill
CEO

Brian Hill is the Founder and CEO, serving as a Board member since 2005. He has led Aritzia since the Hill family opened the first store in Vancouver in 1984 and has helped drive growth year-over-year.



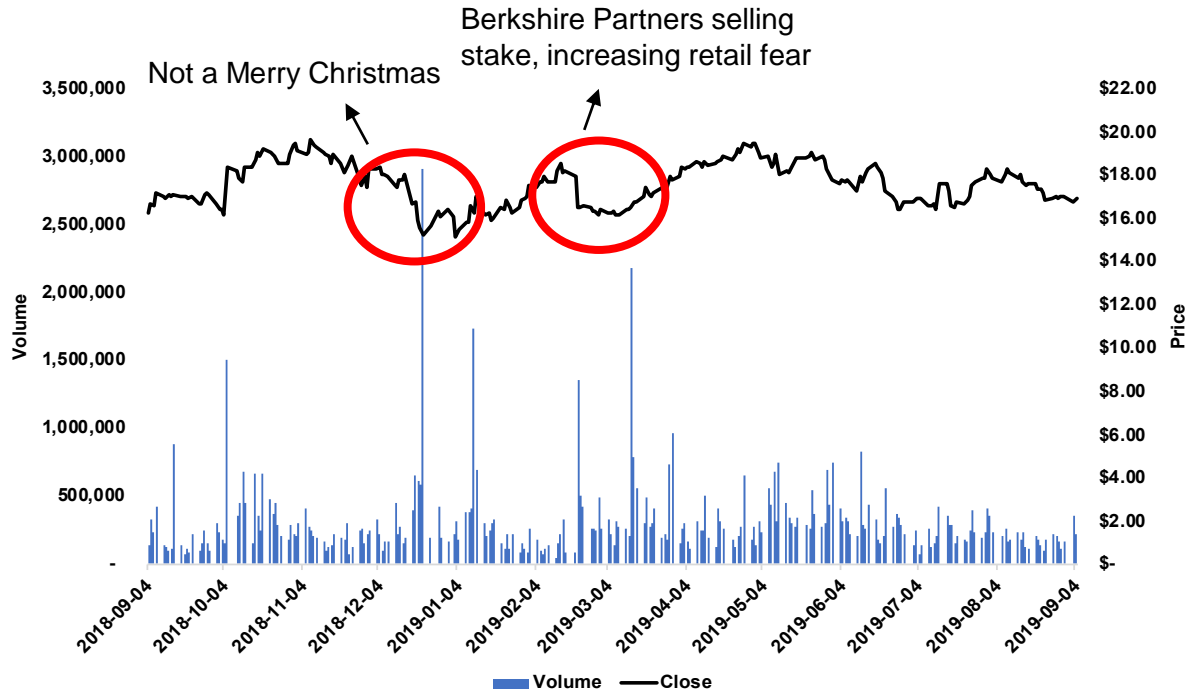
Jennifer Wong
Pres, COO

Jennifer Wong was named COO in 2007- she created and led the executive committee as its chair. She has served as an executive sponsor to several strategic initiatives.



Todd Ingledew
CFO

Todd Ingledew is Aritzia's CFO, responsible for all finance functions including financial planning & analysis, financial reporting, internal controls and tax. Previous CFO at Steve Nash World.

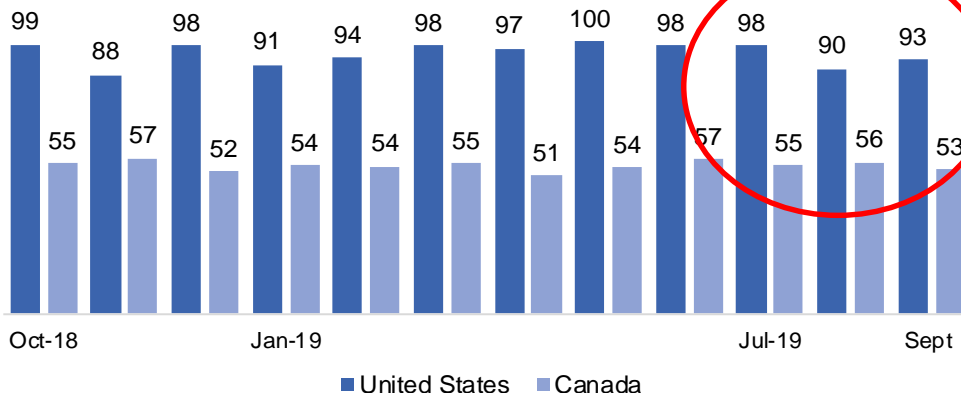


Aritzia Stock Summary

Share Price (05/09/19)	\$17.04
52 Week Range	\$15.07-\$19.79
Shares Outstanding (M)	111.85
Market Cap (\$M)	\$1,906
Net Debt (\$M)	\$63.61
Enterprise Value (\$M)	\$1,970
EPS (TTM)	0.70
Free Cash Flow (F19)	34.17
FCF Yield	1.79%
P/E	24.35x
EV/EBITDA	12.80x

Consumer Confidence

- Consumer confidence had a steep decline in September, this was the biggest drop in nine months
- Uncertainty has diminished confidence in an expansion



Trade Wars

- University of Michigan's Surveys of Consumers in September showed that a number of consumers cited trade policies as a negative factor weighing on the economy
- Consumers drive the economy through consumer spending, accounting for around two-thirds of the American economy

Consumer Spending

- Consumer spending could be on track for the worst year in a decade
- A slowing economy would result in consumer spending falling, contributing to this is a low household savings rate
- The jobs market has helped sustain spending this year and could lead to a slow growth next year



Retail Apocalypse?

- **The outlook for retail companies hasn't been very positive.**
- A "retail apocalypse" is occurring with department stores (Macy's, Sears, JCPenny) and retailers (Abercrombie & Fitch, BCBG) closing dozen of stores.
- Recently Forever 21 has considered filing for bankruptcy.
- Although there has been negative headwinds, companies have reaffirmed a positive 2019 outlook by beating earnings estimates and reaping the benefits of online sales

2019



2018



Industry Trends

- **Companies need to adapt to the changing landscape and consumer preferences or get left behind.**
- Brands are increasingly using a Direct-to-Consumer business model shifting away from traditional brick and mortar stores.
- E-Retailers are building a seamless way for consumers to shop online and have a personalized experience using Artificial Intelligence and the Internet of Things. Pop-up stores have acted as a way for companies to build brand awareness, have their products viewed as scarce by only having a limited supply and address consumers wanting to be in a physical store.

Aritzia

- **Aritzia (ATZ) has proven why they are a top growth retailer.** Retail has faced significant headwinds, but ATZ has continued to grow and deploy an innovative strategy to their boutiques.



Strong Financial Performance Supporting 2021 Targets

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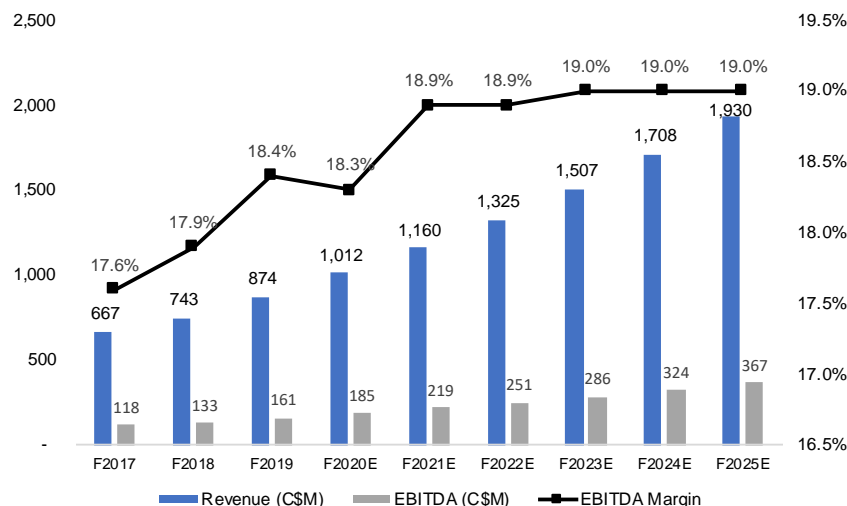
Shutting Down Retail Concerns

- 9.8% comparable sales growth in F19, following 6.6% in F18, ATZ has had 18 consecutive quarters of positive comparable sales growth with continued momentum
- Revenue has grown at a 17.2% CAGR hitting \$874M in F19, ATZ has had net revenue growth every year for over 20 years and has not closed a boutique in its 35-year history
- Track record supported by: distinct market position, operational excellence and relentless focus on long term objectives

Value to ATZ & Investors

- EBITDA has grown at a 24% CAGR to 161 in F19 with margins consistently improving overtime
- Investors have been able to participate in the upside of ATZ along with their F19 EPS of \$0.81 representing a 24.6% growth from F18 at \$0.65

Consistent Growth



Growth Supported by:

1. Sales growth from comparable sales, new, expanded/repositioned boutiques
2. Continued optimization of sourcing/production processes
3. Operating leverage through higher sales volume



eCommerce Growth with Omni-Channel Strategy

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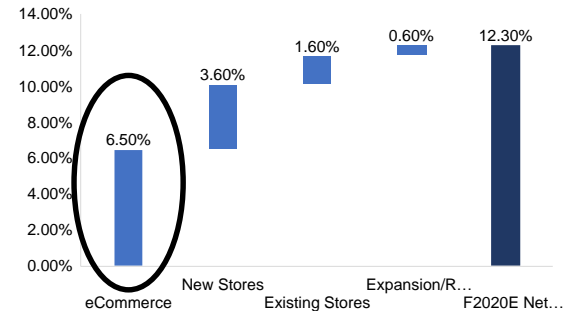
Ecommerce Penetration

- ATZ plans to target eCommerce penetration as 25% of total net revenue by the end of fiscal 2021
- Strategies supporting this target include: capitalize on digital marketing channels (has helped increase traffic by 34%), core site optimization, growth in clientele program, enhancements in international website
- DTC revenue supported by eCommerce has grown from 21.8% to 26.1% in 2018 and started at 12% of sales in 2016

Strength of Omni-Channel Distribution

- Striving for a better omni-channel experience can help retain more customers, increase consumer spending and can increase engagement levels
- In doing so, ATZ is able to adapt to changing consumer preferences while delivering exceptional client service no matter where they choose to shop
- By tripling the size of its pre-existing distribution centre Aritzia can readily service its customers on the west coast whilst operating as a hub for the rest of their growing network

Revenue Breakdown



Supporting Investments



Boutique Growth with Strong Brands

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Untapped Geographic Presence

- ATZ's plan is to add 5-6 new boutiques per year to the network and expand or reposition an additional 4-5 boutiques per year (through to the end of fiscal 2021) for a meaningful expansion across North America
- Capex per new store is \$2.5M, with a payback target of less than two years ATZ has generated a ROE of 25.3% and ROIC of 26.6%. ATZ has a \$100M revolver to support their capex



Driving Brand Awareness

- ATZ has continuous marketing strategies to attract new clients throughout North America such as enhancing social capabilities, leverage influencers and elevating PR strategies
- ATZ had an increase of 700% in sales of a product following a post from an Instagram influencer with 16M followers

Diverse Brand Portfolio

BABATON

Fall 1994

Minimalist classics for the modern professional

TALULA

Spring 1996

Must-have pieces for the modern youth and rebellion

Tna

Fall 1997

Street-inspired collections with a laid-back vibe

wilfred

Spring 2006

Effortless style for the feminine romantic

Community

Fall 2006

Lifestyle essentials for the conscious consumer

wilfred free

Spring 2009

Off-duty casual for the girl in the know

le fou

Fall 2009

Vintage-inspired designs executed without compromise

GOLDEN

Fall 2015

Street-inspired collections with an elevated point of view

1—01

Winter 2015

An elevated studio collection with innovative tailoring

The Group

Fall 2016

Understated luxe leisure for the modern woman



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Catalysts

Loyalty Program

- Aritzia has launched a new loyalty program that will incorporate new digital sales tools to help drive an increase in revenue
- Their 3,000 style advisors will have new client data allowing a more personalized shopping experience
- This new program will allow staff to better assist customers and have product recommendations in real-time

US & eCommerce

- Aritzia plans to open around six new stores in the U.S next year as popularity rapidly grows with revenue from U.S sales in Q3F19 growing by 40%
- Leveraging their eCommerce presence has allowed them to enter new markets and by being supported by social media it has been an important driver of accelerating growth in the U.S

Catalyst Summary

- Aritzia is now staying on top of consumer data to drive sales in the future and provide the best experience possible to help retain customers increasing their lifecycle with the brand
- With their \$100M revolver, Aritzia is able to continuously support their growth plans and expand across North America.
- Their new marketing efforts will allow Aritzia to reach a broader market and increase brand awareness

Risks

Declining Mall Traffic

- U.S retails have announced that they will shut 5,994 stores in 2019 and foot traffic is said to have peaked in 2018
- Headwinds have affected class "B" and "C" malls with "A" performing much better
- Aritzia only targets prime store locations and an increased brand awareness will help increase foot traffic to stores

Fashion Risk

- Changing fashion trends pose a risk to any brand in a fashion-driven industry
- Trends need to be anticipated and companies must deliver on time and on trend products to consumers
- Aritzia has mitigated this risk through 19 consecutive quarters of positive sales growth due to their innovative design team and diverse brand portfolio for all lifestyle and fashion needs

Risk Summary

- With the current retail headwinds, declining mall traffic and the constant fear of fashion risk lingering around, fears about retailers are warranted.
- Aritzia has continuously outperformed and mitigated the risks present in the broader market with their ability to drive foot traffic into their boutiques while continuously innovating within their brand portfolio to stay on top of trends



Discounted Cash Flow

DCF Valuation Results

	Forecast				
	2020E	2021E	2022E	2023E	2024E
EBIAT	96	104	113	119	129
Add: Depreciation & Amortization	26	34	43	54	63
Less: CapEx	(60)	(60)	(60)	(65)	(65)
Less: Change in Net Working Capital	(24)	(5)	13	(7)	15
Unlevered Free Cash Flows	37	73	108	101	142
<i>Discount Period</i>	1.0	2.0	3.0	4.0	5.0
<i>WACC</i>	7.8%	7.8%	7.8%	7.8%	7.8%
<i>Discount Factor</i>	0.93	0.86	0.80	0.74	0.69
PV of Unlevered Free Cash Flows	35	63	86	75	97

DCF Valuation Results

Gordon Growth Method		Terminal Multiple Method	
PV of Forecast Period	355	Cumulative PV of Free Cash Flow	355
<i>% of Enterprise Value</i>	17.2%	<i>% of Enterprise Value</i>	13.6%
Terminal Value		Terminal Value	
Terminal Year UFCF	142	Terminal Year EBITDA	236
Perpetuity Growth Rate	2.0%	EBITDA Multiple	14.0x
Terminal Value	2,496	Terminal Value	3,300
PV of Terminal Value	1,714	PV of Terminal Value	2,267
<i>% of Enterprise Value</i>	82.8%	<i>% of Enterprise Value</i>	86.4%
Enterprise Value	2,070	Enterprise Value	2,622
Less: Net Debt	(44)	Less: Net Debt	(44)
Equity Value	2,026	Equity Value	2,578
Fully Diluted Shares Outstanding	113	Fully Diluted Shares Outstanding	113
Implied Share Price	\$18.01	Implied Share Price	\$22.92
Current Share Price	\$17.04	Current Share Price	\$17.04
Implied Margin of Safety	5.7%	Implied Margin of Safety	34.5%



Sensitivity Analysis

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Sensitivity Analysis

Terminal Growth	WACC				
	6.8%	7.3%	7.8%	8.3%	8.8%
1.0%	18.68	17.04	15.64	14.44	13.39
1.5%	20.26	18.34	16.73	15.36	14.18
2.0%	22.16	19.89	18.01	16.43	15.08
2.5%	24.51	21.76	19.53	17.68	16.14
3.0%	27.48	24.06	21.36	19.18	17.37

Exit Multiple	WACC				
	6.8%	7.3%	7.8%	8.3%	8.8%
13.0x	22.47	21.97	21.48	21.00	20.54
13.5x	23.23	22.71	22.20	21.70	21.22
14.0x	23.98	23.44	22.92	22.41	21.91
14.5x	24.73	24.18	23.64	23.11	22.60
15.0x	25.49	24.91	24.36	23.81	23.29

Terminal Growth	WACC				
	6.8%	7.3%	7.8%	8.3%	8.8%
1.0%	9.6%	0.0%	-8.2%	-15.3%	-21.4%
1.5%	18.9%	7.6%	-1.8%	-9.9%	-16.8%
2.0%	30.1%	16.7%	5.7%	-3.6%	-11.5%
2.5%	43.9%	27.7%	14.6%	3.8%	-5.3%
3.0%	61.3%	41.2%	25.4%	12.5%	1.9%

Exit Multiple	WACC				
	6.8%	7.3%	7.8%	8.3%	8.8%
13.0x	31.9%	28.9%	26.0%	23.3%	20.5%
13.5x	36.3%	33.2%	30.3%	27.4%	24.6%
14.0x	40.7%	37.6%	34.5%	31.5%	28.6%
14.5x	45.2%	41.9%	38.7%	35.6%	32.6%
15.0x	49.6%	46.2%	42.9%	39.8%	36.7%



Comparables Analysis

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Company	TK	Price 09/11/2019	Market Cap (M)	Sales Per SQ Feet	TTM	P/E FY1	FY2	TTM	EV/EBITDA FY1	FY2
<i>Luxury fashion</i>										
Capri Holdings Limited	CPRI-US	\$32.0	4,255	\$3,490	10.6x	5.7x	5.3x	8.8x	7.5x	7.2x
Tiffany & Co	TIF-US	\$94.4	11,027	\$2,951	19.2x	18.8x	17.6x	11.6x	11x	10.3x
Tapestry, Inc	TPR-US	\$26.1	6,795	\$1,940	11.3x	9.3x	8.6x	6.5x	5.9x	5.7x
Group Average					13.7x	11.3x	10.5x	8.9x	8.1x	7.7x
<i>Lifestyle</i>										
Canada Goose Holdings, Inc	GOOS-CA	\$56.4	5,813	n.m	43.7x	30.7x	24.7x	29.5x	20.1x	16.2x
lululemon athletica inc.	LULU-US	\$197.3	26,514	\$1,579	51.3x	41.8x	35.2x	-	25.5x	22x
NIKE, Inc.	NKE-US	\$86.8	138,965	n.m	35.6x	30.6x	26.2x	24.3x	22x	19.4x
Roots Corp.	ROOT-CA	\$2.3	105	n.m	14.5x	5x	4.6x	9.6x	8x	7.2x
Under Armour, Inc.	UAA-US	\$21.4	8,419	\$549	145.8x	57.5x	39.4x	27.5x	20.3x	16.5x
V.F Corporation	VFC-US	\$90.5	34,884	n.m	29.5x	25.8x	22.6x	18.6x	18.4x	16.7x
Group Average					53.4x	31.9x	25.5x	21.9x	19.1x	16.3x
Aritzia, Inc.	ATZ-CAN	\$17.1	2,216	\$1,584	20.9x	17.5x	14.5x	12.8x	10.4x	8.8x

Recommendation

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Analyst Recommendations			Valuation Summary			Current Price
Company	Target \$	Buy/Sell/Hold	Analysis	Target \$	Weight	\$17.04
Canaccord Genuity	\$24.00	BUY	Street Consensus	\$23.00	10%	Target Price \$22.11
TD Securities	\$19.00	HOLD	Gordon Growth	\$17.19	10%	
Scotiabank	\$24.00	Sector Outperform	Terminal Value	\$22.92	40%	Upside 30%
RBC	\$25.00	BUY	Company Comparable Analysis	\$22.30	40%	
Average	\$23.00	BUY	Final Recommendation: BUY			

- 1) Aritzia
- 2) Deloitte
- 3) KPMG
- 4) Bloomberg Markets
- 5) Beeketing
- 6) CNBC
- 7) Thomson One
- 8) TD Securities
- 9) CIBC World Markets
- 10) Canaccord Genuity
- 11) Scotiabank
- 12) RBC
- 13) Camion Associates
- 14) The Guardian
- 15) CBC
- 16) Forbes

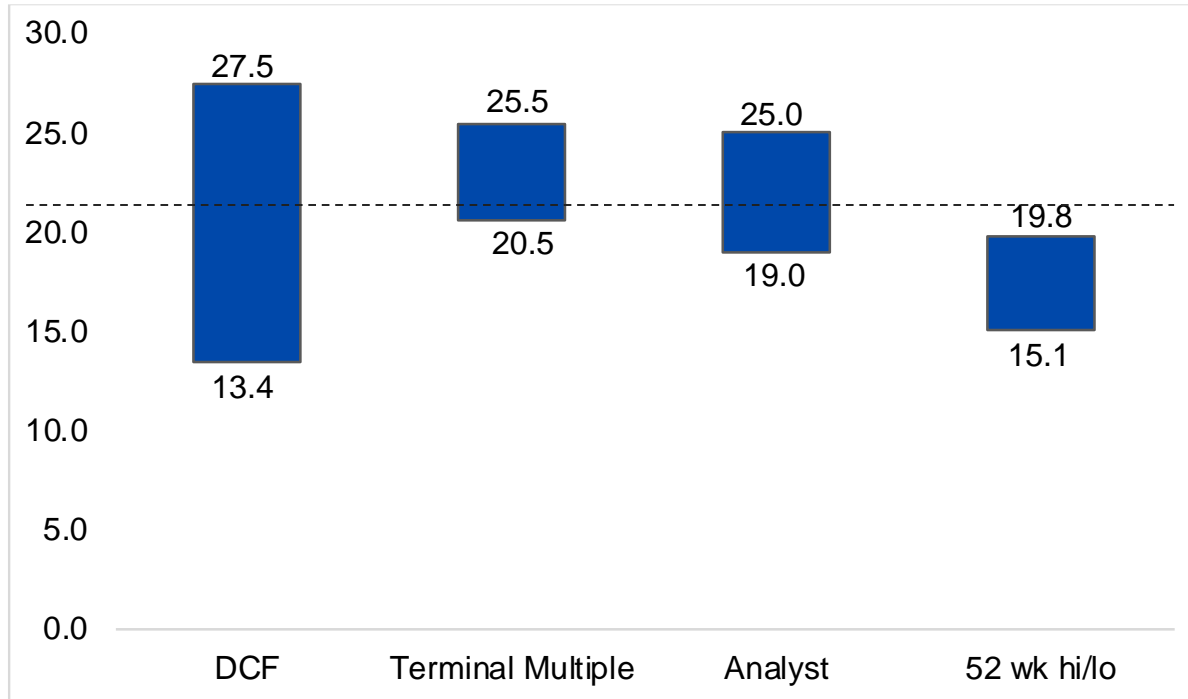
ATZ Targets

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	Target	Implied FY16-FY21 CAGR	Fiscal 2017	Fiscal 2018	Fiscal 2019	3 Year CAGR	Status
Net Revenue	~\$1.1-1.2B	15%-17%	23.0%	11.4%	17.6%	17.3%	On plan
Expand Boutique Network	5-6 new per year		5	6	7		On plan
Select Expansion / Repositinng of Boutiques	4-5 boutiques repositioned per year		5	7	4		On plan
Adj EBITDA	~\$195-220M	18%-21%	38.50%	12.80%	21.30%	23.80%	Ahead of plan
Adj Net Income	~\$115-130M	23%-26%	60.40%	17.50%	24.50%	32.90%	Ahead of plan

We are strategically positioned in the global fashion landscape as Everyday Luxury





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