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# Aritzia, Inc. (ATZ.CA)

## Q1 2022 Earnings Call


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# CORPORATE PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Thank you for standing by. This is the conference operator. Welcome to Aritzia's First Quarter Fiscal 2022 Results Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there'll be an opportunity to ask questions. [Operator Instructions]

I will now turn the conference over to Helen Kelly, Vice President of Investor Relations. Please go ahead.

## Helen Kelly
*Vice President-Investor Relations, Aritzia, Inc.*

Thank you, Ariel, and thank you for joining Aritzia's first quarter fiscal 2020 earnings conference call. On the call today, I'm joined by Brian Hill, our Founder, Chief Executive Officer, and Chairman; Jennifer Wong, our President and Chief Operating Officer; and Todd Ingledew, our Chief Financial Officer. Following management's discussion, we'll host a question-and-answer period open to analysts and investors.

Please note that the remarks on this call may include our expectations, future plans, and intentions that may constitute forward-looking statements. Due to the material impact of COVID-19 on business operations in fiscal 2021, certain references to our pre-pandemic result in first quarter fiscal 2020 have been included where management deemed to be a more meaningful measurement of performance. The uncertain nature of COVID-19 and its ongoing impact could continue to materially alter our performance. We would refer you to our most recently filed management discussion and analysis and our annual information form, which will include a summary of the material assumptions as well as risks and factors that could affect our future performance and our ability to deliver on these forward-looking statements. Our earnings release, the related financial statements and


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MD&A, as well as an updated investor presentation are available on SEDAR and the Investor Relations website at aritzia.com.

I will now turn the call over to Brian.

## Brian Hill

*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

Thank you, Helen. And thank you all for joining us this afternoon. I am pleased alongside with Jennifer and Todd to share with you our Q1 results. We've had a terrific start to fiscal 2022. Our multichannel business is thriving and we're emerging from the pandemic with sustained growth in eCommerce and accelerating sales in the United States.

Adding to our already strong business momentum, as of the last two weeks, all our Canadian boutiques are now reopened with most capacity restrictions coming off of the remaining 50% of our Canadian boutiques this coming Friday. With our entire business open, our clients everywhere can now enjoy the Everyday Luxury experience whenever, wherever and however they choose.

Our future is bright and I could not be more grateful and proud of our extraordinary team as we drive forward together meaningful growth, leveraging our world-class infrastructure and strong financial position to expedite investments across our four strategic growth drivers.

While Todd will provide the details on our Q1 financials, I'm extremely pleased to share with you our performance highlights. We saw net revenue grow 122% from CAD 111 million last year to CAD 247 million this year and 26% from CAD 197 million two years ago. This was despite half our Canadian boutiques remaining closed for two-thirds of the quarter and ongoing capacity restrictions in open Canadian boutiques.

In the United States, our brand affinity deepened wherein Q1 net revenues grew 63% in US dollars from two years ago and 243% from last year. In our eCommerce channel, revenues continue the positive trend growing 19% which we are pleased with given that during Q1 last year eCommerce grew 125% whilst our boutiques were all closed for the majority of the quarter. In addition, eCommerce made up 42% of our business in Q1 compared to 20% in the same quarter two years ago, more than doubling its contribution.

We continue to fuel our surging eCommerce business by elevating our Everyday Luxury experience digitally. This quarter, we delivered numerous online enhancements and moved forward on our omni capabilities initiative, ensuring we are well-positioned to launch the various omni client services throughout this coming year.

To further advance digital services in our boutiques, we continued the rollout of our Clientele App across all locations. I am very pleased by our boutique performance as retail sales productivity in open boutiques returned to nearly pre-COVID-19 levels. This was led by the United States where comp boutiques returned positive single-digit growth and our new boutiques continued to outperform expectations. During the quarter, the productivity of our open Canadian boutiques further improved despite ongoing capacity restrictions.

Suburban locations continue to outperform urban over the ongoing pandemic recovery across North America and the resulting increase in activity in downtown [ph] course (00:05:26) bodes well for the future boutique recovery.

Turning to product, our clients respond exceptionally well to our Spring/Summer Collection with expanded development in almost every category. As restrictions eased and active social lifestyles return, so has our clients' desire to refresh and extend their wardrobes.


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Casual clothing continues to perform exceedingly well. And as our clients enjoy reducing – reduced COVID-19 restrictions, we're excited to see increased performance in less casual fashion styles. Our strong inventory position going into Q1 enables us to successfully capitalize on our clients' enthusiasm and our sustained growth in eCommerce and accelerating business in the United States. It also protected us from the well-documented ongoing global supply chain disruptions as a result of the pandemic's recovery.

At the end of the quarter, our inventory was up 44% by design as our business continues to grow and supply chain challenges remain. Of note, we're up 83% as of the end of the Q4, which strategically helped to fuel our increase in sales in Q1. We remain confident we will finish the season in a clean inventory position as usual.

In marketing, we continued delivering captivating communications that seamlessly translated across all our channels and platforms, engaging our clients with brand and feature-focused campaign throughout the launch of spring and summer. With exciting opportunities in digital marketing, we further invested in world-class talent specifically in social media and influencer where we're developing strategies to continue to capitalize on these high-potential areas.

We remain steadfast in our commitment to being responsible for the planet and the people who live on it. This was highlighted in the quarter with the launch of two incredibly successful capsule collections in support of our partner organizations and becoming a participant of the UN Global Compact as part of our overall ESG strategy.

I will now turn the call over to Jennifer where she will further discuss this and share her perspectives on key areas of our operations.

## Jennifer Wong

*President, Chief Operating Officer, Corporate Secretary & Director, Aritzia, Inc.*

Thanks, Brian, and good afternoon, everyone. Building on our strong operational foundation, we are extremely pleased to see the momentum in our business as the building blocks we put in place continue to fuel our growth.

Today, I'll touch on four areas in operation: first, an update on our distribution, logistics and concierge operations; second, infrastructure investments to support future growth; third, our ongoing investment in talent; and finally, our progress on ESG.

As Brian noted, disruptions related to the pandemic continue to reverberate through the global supply chain. While we're not immune to the industry-wide challenges, our teams have continued to successfully employ resourceful solutions to minimize the impact. As noted on the last call, we've ramped up use of expedited freight to offset longer lead times caused by limited [ph] vessels and sailing (00:08:47). And in response to ongoing port congestion in L.A., we continue to redirect freight to transferring our goods through Canada to our DC in Ohio effectively reducing potential delays by 30% to 50%.

Our DC and logistics team continued their exceptional performance in support of the increased demand. During the quarter, our DC processed a record 11 million units. We had a 50% increase in units picked, packed and shipped compared to pre-pandemic levels including a tripling of our eCommerce units.

If you've been in the distribution center the size of ours, you'll know that this level of demand can put real stress on operations and requires meticulous attention as inventory is coming in, is being processed, picked, packed and shipped all at the same time. Every detail is carefully considered at our DCs to ensure the end results whether it's our product arriving at our boutiques or at the doorsteps of our clients delivers our Everyday Luxury experience.


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Our growing concierge team kept pace with our DCs, clocking in nearly 800,000 client interactions so far this year. With eCommerce as our largest boutique, this team is the human connection to our brand when clients shop on aritzia.com. With a revamped organizational structure in place, we are optimizing processes and evolving technology to further empower our concierge stylists as we elevate how we connect, service and delight our clients who shop online.

During the quarter, we introduced dynamic routing to direct [ph] client directions (00:10:35) to the right advisor at the right time to deliver a truly world-class experience. Going forward, we're building up analytics and reporting capabilities to provide real-time KPIs to drive overall productivity, performance, and job satisfaction for this important team and revenue center.

Throughout Aritzia's history, we've prided ourselves on growing infrastructure ahead of the curve to enable our growth. Our ability to meet demand in Q1 is testimony to the solid operational foundation. To support numerous ongoing product expansion initiative and accelerated eCommerce growth, we are expanding two of our three distribution centers as mentioned on our last call. First, we're adding 50% more usable space to our Vancouver DC. We're in the midst of completing detailed designs with the targeted completion for spring/summer 2022.

Second, I am excited to announce the insourcing, relocation, and expansion of our DC in the Greater Toronto Area. At CAD 35 million, this will be the single largest infrastructure investment in our history. Our new DC will be 550,000 square feet, more than three and a half times the size of our existing Toronto DC. This is the equivalent of roughly 6.5 Canadian football fields. Our new facility will service the eastern half of Canada and our growing volume of eCommerce orders in the US. We will optimize costs and enhance our delivery times further leveraging what has become a core competency for us. As this milestone project progresses, I look forward to sharing more details with you.

Our eCommerce team is the busiest they've ever been with ongoing optimizations to enhance our clients' digital experience with improved size charts and product details, upgraded checkout and country-specific content personalization. Our technology team is working hard to enhance the enterprise-wide technologies to support our growth. We recently embarked on a number of projects to upgrade our primary systems including our point-of-sale system in retail, our warehouse management system at our DC, Phase 2 of our product lifecycle management system to support product expansion, and continued progress on our omni capabilities including all of the key elements to support the launch of store inventory visibility later this year.

As always, I'm so grateful for the dedication and hard work of everyone on our team and a special shout out to those busy behind the scenes working diligently to meet our evolving business demands, all the while building the necessary infrastructure we rely on to support our growth.

As we look forward, we remain acutely aware that our people are quite simply everything. We are continuously investing in our team from training to workplace upgrades and more and we remain committed to developing our next generation of leaders while recruiting top talent to Aritzia. Our people and culture team is laser focused on filling a multitude of key positions across all areas and all levels of our business.

We were delighted to welcome Reigning Champ to our Aritzia family in June which Brian will speak more too shortly. From an operation standpoint, we are partnering with their leadership team through a transition period. This will allow us to take the necessary time to learn their business, identify where we can best leverage their strengths and ours and to maximize business results, develop a comprehensive go-forward – and develop a


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comprehensive go-forward plan. As with all of our major initiative, we have a separate integration team undertaking this in an orderly and thoughtful manner so we can stay focused on running our business.

Finally, as Brian touched on earlier, we are very proud to have become a participant in the UN Global Compact as part of our commitment to our ESG strategy. As diversity, racial equality, and social justice continue to be shared societal goals, we remain committed to listening, learning, and taking action. Because real change starts from within, we've been working on this from the inside out. During the quarter, we held internal education sessions on racial allyship and anti-Asian violence, and celebrated pride with our team through our partnership with the Stonewall Community Foundation. We shared learnings and counsel on how we can be even better allies and the positive change that each of us can amplify through our individual spheres of influence.

In using our platform to give back and effect positive change, we also launched three successful brand campaigns. We launched two capsule collections: one in support of women and children in need; and the other amplifying women's voices and furthering progress towards gender equality and inclusivity. In total, we raised over CAD 200,000 and we shone the light on revolutionary individuals who are paving the new path for the LGBTQIA2S+ community through our Pride Now, Proud Forever (sic) [Proud Today, Pride Forever] (00:16:38) campaign. All of these campaigns received tremendous response and we're extremely pleased with how we meaningfully engaged and deepened our connections with our loyal clientele.

In closing, there's never been a more exciting time for our people as dedicated brand ambassadors and our loyal clients as we elevate both their worlds, through everyday luxury.

I'll now turn the call over to Todd to discuss our financial results.

## Todd Ingledew

*Chief Financial Officer, Aritzia, Inc.*

Thanks, Jennifer, and good afternoon, everyone. Our strong performance in the first quarter reflects our growing brand affinity in the United States and the strength of our multichannel business. For the first quarter, we generated net revenue of CAD 247 million, an increase of 122% from last year and 26% from the first quarter two years ago pre-COVID-19. This was despite the closure of 34 boutiques in Canada for over two-thirds of the quarter. Of particular note, sales productivity in our open boutiques was essentially flat to the first quarter of fiscal 2020 returning to pre-COVID-19 levels faster than anticipated. US boutiques comp positively compared to pre-COVID-19 levels, while open boutiques in Canada began to build momentum despite ongoing capacity restrictions in the first quarter.

Our eCommerce momentum continued in the first quarter as well, as our strategic investments continued to pay dividends. ECommerce revenues were CAD 104 million, a 19% increase on top of the 125% increase in the first quarter last year at the start of the pandemic when all of our boutiques were closed. eCommerce penetration in the quarter was 42%, more than double the 20% from the first quarter two years ago.

Lastly, our business in the United States saw acceleration of sales as our brand affinity continued to grow and the country began to emerge from the pandemic. Our US net revenues in the quarter grew 205% from the prior year and 51% when compared to two years ago. In US dollars, excluding the impact of foreign exchange, net revenue grew 243% and 63%, respectively.

Please note, I will compare gross profit and SG&A to fiscal 2020 two years ago pre-COVID-19 as it is a more relevant comparison. We delivered gross profit of CAD 109 million, up 28% compared to CAD 86 million in the first quarter of fiscal 2020. Gross profit margin was 44.2% in the quarter, expanding 70 basis points from 43.5%


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two years ago. Improvement in gross profit margin was primarily due to the strengthening of the Canadian dollar, improved leverage on store occupancy, and lower markdowns. These gains were personally offset by higher warehousing and distribution center costs driven by the volume growth in our eCommerce business.

SG&A expenses in the quarter were CAD 70 million, up 29% compared to CAD 54.4 million in the first quarter of fiscal 2020. SG&A as a percent of net revenue was 28.5% in the quarter, up 80 basis points from 27.7% two years ago. The 80-basis point increase was driven by continued investment and challenge across eCommerce, marketing, and IT to support the future growth of our business. SG&A also included CAD 3 million of incremental COVID-19-related expenses.

Overall, we generated CAD 41 million of adjusted EBITDA in the first quarter or 16.6% of net revenue, compared to CAD 35 million or 18% of net revenue in fiscal 2020. Considering we have 34 boutiques closed for two-thirds of the quarter and continued COVID-19 expenses, we're very pleased with these results.

Inventory was CAD 165 million at the end of the quarter, up 44% from last year. As a reminder, our increase in inventory is comprised largely of strategic buys and proven sellers from our feature programs that successfully fueled our revenue growth in the first quarter and are driving our performance in the second quarter. We ended the quarter with ample liquidity comprised of CAD 158 million in cash and full access to the CAD 100 million under our revolving credit facility.

Subsequent to the quarter, we closed the acquisition of 75% of Reigning Champ based on a total enterprise value of approximately CAD 63 million. The initial 75% or CAD 47 million will be paid with cash, with CAD 33 million paid at closing and a CAD 14 million pullback to be paid over the next two years. The remaining 25% equity interest held by Reigning Champ's management shareholders will be converted into Aritzia shares in up to three installments for 2024 to 2026. We are excited about the acquisition and with the opportunity for men to become a meaningful part of our business.

Another subsequent event which just closed today is the refinancing of our credit facility, extending it four years to fiscal 2026. As part of the refinancing, we repaid our CAD 75 million term loan and at the same time, increased our revolving credit facility from CAD 100 million to CAD 175 million. This ensures we have access to the same liquidity and generates interest savings of approximately CAD 1.2 million per year. Today, after the term loan repayment, we are zero drawn on the revolving credit facility and have approximately CAD 120 million in cash on hand.

Looking ahead, we're pleased with the sustained momentum in the second quarter to date. We are on track to deliver second quarter net revenue of between CAD 290 million and CAD 300 million, representing growth of 45% to 50% compared to last year. Our strong performance reflects continued accelerate growth in the United States across both channels in addition to the ongoing retail recovery and the reopening of all of our boutiques in Canada over the last two weeks. We're also seeing the continued easing of restrictions across Canada with Ontario increasing store capacity this Friday.

While pandemic-related challenges aren't completely behind us, we believe we're well-positioned for the remainder of the second quarter.

Given our strong performance to-date, we have raised our outlook for fiscal 2020 (sic) [2022] (00:23:43) and now expect net revenue to be CAD 1.15 billion to CAD 1.2 billion, up from our previous guidance of CAD 1.11 billion to CAD 1.16 billion.


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For the fiscal year, we continue to expect gross profit margin to remain relatively flat to fiscal 2020. We anticipate gains in the first half, resulting from leverage on fixed costs and the strengthening Canadian dollar will be offset by increased cost pressures in the back half from higher warehousing and distribution center costs, continued investment in product [ph] talent (00:24:15), and the impact of higher costs related to expedited freight.

SG&A as a percent of net revenue is expected to increase compared to fiscal 2020. Accelerated investments in people, processes, and technology are expected to more than offset the leverage on fixed costs, contributing to an approximately 75-basis point increase over fiscal 2020.

In addition, we expect to incur ongoing operating expenses related to COVID-19 of approximately CAD 9 million for the year, a further 75 basis points. Reigning Champ is expected to deliver CAD 25 million in revenue and CAD 5 million in adjusted EBITDA for the full year. For reporting purposes, we will fully consolidate Reigning Champ's financial position and results from operations for only eight months from the June 25 closing date through to the end of the fiscal year and remove the 25% noncontrolling interest from adjusted EBITDA.

Therefore, Reigning Champ is expected to add approximately CAD 17 million in revenue and CAD 3 million in adjusted EBITDA for the remainder of our fiscal 2022. These amounts are incremental to the Aritzia outlook provided.

In summary, we are pleased with the strength of our business across all channels. Our product continues to resonate with our clients, our eCommerce is sustaining its momentum, our US business is accelerating, and all of our boutiques are now reopened and performing on average at pre-pandemic levels.

With our strong balance sheet position, we are accelerating investment in our strategic initiatives. We're excited about our future and are confident that our history of operational discipline and track record of driving profitable growth will continue to position us to deliver meaningful shareholder value.

With that, I'll now turn the call back to Brian.

## Brian Hill

*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

Thank you, Todd. As Todd discussed, we've had a strong start to Q2, which we kicked off with our multi – our much loved annual summer sale. We continue to see an acceleration of sales across both channels in United States as well as sustained growth in our eCommerce business in Canada. And we are delighted with the reopening now of all our Canadian boutiques.

As I had previously suggested, as a result of COVID-19, people have changed how they're going about doing things. However, they have not changed what they do: socializing and going out, attending events, and starting to travel again. And they need fashionable Everyday Luxury product to do so. Our expanding product assortment serves us well in repossesses – in responding to increasing demand, and we'll continue to do so in the future.

As the pandemic continues to evolve, there are however ongoing impacts as we anticipated. While we could not be more excited by our results, we are maintaining vigilance. Like all global businesses, as I mentioned previously, we too are experiencing ongoing supply chain disruptions expected to carry on throughout the remainder of the fiscal year.


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We are mitigating this through continued strategic order management that's proven effective. However, as Jennifer mentioned, we are meaningfully increasing our use of expedited freight, ensuring we enter the fall/winter season in a strong inventory position.

Building on the momentum of our business, we are driving hard on our four strategic growth levers and continue to make meaningful progress. First, eCommerce and omnichannel innovation. We are capitalizing on our multichannel client relationship by progressing our omni initiative and [ph] personalizational (00:28:03) capabilities. We expect to launch store inventory visibility come August, quickly followed by buy online, ship from store and buy online, pickup in store beginning to rollout by the end of the fiscal year.

Second, geographical expansion. We remain on target to open six to eight new boutiques this year in premiere US markets, and six expansions of existing boutiques across North America, with additional deals under way. Already this quarter, we have opened Topanga in Canoga Park, California, and we're very excited to open The Grove, our first boutique in West Hollywood, California later this year.

We're also planning for our Super World pop-up boutiques in time for our fall/winter season come August, the first reopening in the heart of SoHo, New York, and the second new boutique opening on iconic Melrose Avenue in Los Angeles.

Third, brand awareness and customer expansion. We are capitalizing on growth opportunities in United States, including the ongoing build-out of our paid media program, and are developing both our customer acquisition and retention strategy.

And fourth, product expansion. We are meaningfully expanding our product lines by progressing with the development of new categories, extending our depth and widening our breadth.

Over the last few decades, while we consider an expansion into men's, we've always maintained a disciplined focus on our women's business. However, when the opportunity to acquire Reigning Champ was presented earlier this year, it was too perfect to pass up. As I mentioned on the analyst call at the time of the acquisition, although there are cost saves in synergies, this isn't a cost saving exercise, it is a revenue growth opportunity. We look forward to capitalizing on our world-class operational expertise and infrastructure as men's merchandise independently will become a meaningful part of Aritzia's platform and corresponding growth.

We are emerging from the pandemic confident in our ability to consistently deliver profitable growth. Our business momentum led by the continued acceleration of sales in United States and sustained eCommerce growth will be supported with ongoing investments in strategic infrastructure including the recruitment of targeted world-class talent, continuously optimized processes, meaningfully enhanced technology, and the significant expansion of our distribution network.

I remain deeply grateful for our people's unwavering commitment to Aritzia and our clients' enduring loyalty to our Everyday Luxury experience. I could not be more excited about our future. Thank you.

## Helen Kelly

*Vice President-Investor Relations, Aritzia, Inc.*

Ariel, with that, let's open the line up for questions.


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# QUESTION AND ANSWER SECTION

**Operator**: Certainly. We will now begin the question-and-answer session [Operator Instructions] Our first question comes from Mark Altschwager of Baird. Please go ahead.

**Mark R. Altschwager**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Hi. Good afternoon and congrats on the continued momentum here. So, it's great to hear that all of boutiques are reopened in Canada. I'm curious, how are you thinking about pent-up demand with the stores now reopened? I guess, it seems you've very effectively captured demand in your digital channel through this period of disruption. So I'm trying to think through how much incremental growth you think you could see from here in the coming quarters versus perhaps just more of a normalization with some of these channel dynamics.

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

A

I'm going to start and I'll pass this over the Todd here with the actual numbers, if he has any. But it's too soon with Toronto. The other Canadian stores that were open, half are Canadian stores in the West. The challenge we had is that they were – they stayed open during times oscillating up and down COVID numbers. So, people felt comfortable and then not comfortable and comfortable and not comfortable. And so, there wasn't really definitive sort of spike in eCommerce business when people felt less comfortable and vice versa. So, it was pretty hard to judge.

And so far with Ontario opening, we think we probably get a pretty good read, but we're not really going to get a good read until – to be able to answer that question until these stores get open to figure out how much is actual incremental versus not. Well, the stores are open until they get full capacity starting this Friday.

So, I don't know if we have an answer. Todd, do you have a feel for that yet? It's too...

**Todd Ingledew**
*Chief Financial Officer, Aritzia, Inc.*

A

I think it is too early to...

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

A

Yeah.

**Todd Ingledew**
*Chief Financial Officer, Aritzia, Inc.*

A

...comment.

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

A


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Too early to comment. But what we have seen in the United States is our stores reopened and our eCommerce business continue to grow from last year. So we're hoping that the same – we're cautiously optimistic that same things going to happen here in Canada.

**Mark R. Altschwager**
*Analyst, Robert W. Baird & Co., Inc.*

Q

[ph] Yeah (00:33:29). That's helpful. And then, separately, you guys pulled back on your typical sale period I think in the first half of the calendar year here. I'm curious how you're thinking about sale events and promotional strategies for the back half relative to what the company has done historically.

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

A

So, what we're thinking at, we lost our regular Lighten Up Sale in the spring. I'm not sure if we're going to have our regular Layer it On Sale in the fall. We'll determine if we're going to have that. We'll [ph] have to – little bit (00:34:03) to do with how our strategy and sale strategy, but also with supply chain disruptions and how businesses and how much inventory we have. So we're going to be monitoring that. We delayed our American sale going early prior to Memorial Day to the beginning of June. And that we're going to continue. That's done. We're not going to go back to [indiscernible] (00:34:31) change that for a decade now. So that's now fixed.

But I think there's two points here. One is our marketing department feels that we're talking about sale a little too much, but the product department needs to have sale to clear out inventory. And we have a addiction at Aritzia to starting [ph] the season (00:34:56) squeaky clean inventory and we always will try to do that. So, maybe the solutions decoupling and have us continuing with different sale periods and various sale periods, but [ph] have marketing speak to them less (00:35:10). And so we've been debating that of late. But our objective is to be on sale of less than we have been in the past. And so, we're going to sort of figure out and try and navigate that [ph] just to see (00:35:22) how that manifests.

**Mark R. Altschwager**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Okay. Thank you for the detail. I'll jump back in the queue.

**Operator**: Our next question comes from Mark Petrie of CIBC. Please go ahead.

**Mark Petrie**
*Analyst, CIBC World Markets, Inc.*

Q

Yeah. Good afternoon. I just want to ask about the differences you're seeing between the Canadian and US market. And separate from the differences in opening restrictions, have you observed any differences in sort of consumer demand, what people are actually buying? And does that have any implication about how you plan or position for upcoming season?

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

A

I think that's a good question. It's going to be interesting to see because we've all seen the pictures of celebrations and festivals and music and get-togethers in United States. I saw two months ago a video that just blew my mind on, I think it was a Vegas poolside theme. It didn't even look like COVID ever even existed, let alone even happened. So, we'll see how Canadians react to that. Our sense is there's been less euphoric


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response to COVID, or maybe we're just a little bit more cautious here. I don't know. So your guess is as good as mine on what's going to happen there.

As far as product goes, we always did have a great mix of product, and that's one of the things we've always been the most proud of is not just through the department – the various product types: T-shirts, blouses, sweaters, jackets, dresses, coats, whatever. Also, across having different product for our customer and her needs, whether she's going to work, whether she's going out, whether she's hanging out on the weekend, whether she's exercising, whatever. We've always tried to have – be there for her regardless of what her activities.

When COVID first hit, we saw a definitive drop immediately in going out clothes as well as professional wear. We've seen a rebound now in the going out wear, but we haven't seen a rebound in the professional wear quite as much. But time will tell and then we'll see what gets mandated come fall. And we're optimistic that people are going to want to refresh their wardrobes regardless of what they're up to.

So, we haven't really got a good read on the US versus Canada, but that's a little bit – has to do with the seasons, too. People don't typically dress up in the same manner in the summer and they're a bit more casual and a little less clothing. So, we'll be able to answer that question a little bit more on our next earnings call after we see a reaction to our fall assortment.

But we're optimistic that people's wardrobes are going to be going back to normal here and how they'd previously purchase. And as I mentioned, we're set up at Aritzia to do whatever it may be, whatever way the wind blows here on clothing and what she wants we're there for her.

**Mark Petrie**
*Analyst, CIBC World Markets, Inc.*

Q

Yeah. Okay. Thanks. And I guess just following up, but maybe a slightly separate topic. I'm just curious. Maybe it's difficult to answer given the noise of the pandemic, but is there any difference in how the Canadian consumer or the US consumer has responded to your efforts around additional colors, cuts, and sizes or is it pretty consistent across the two markets?

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

A

It's pretty consistent across the two markets. We're going to see some differences I think in color, particularly come fall and winter in United States where we have a lot of growth in the Southern United States. But up to this point time, it's been pretty consistent. The reaction has been very positive both in Canada and United States.

**Mark Petrie**
*Analyst, CIBC World Markets, Inc.*

Q

Okay. And then one more if I could. This one maybe for Todd, I'm not sure. But I guess just generally, there's obviously a lot of puts and takes on margin. But fundamentally, as the business exits the pandemic, has the underlying profitability of the business shifted given the changes in product and geographic mix or other factors? I mean, you highlighted some relatively meaningful SG&A costs that you expect this year, but presumably that layers out over the course of time. But do you think the business exits the pandemic fundamentally different from a profitability perspective?

**Todd Ingledew**
*Chief Financial Officer, Aritzia, Inc.*

A


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No. No, we do not. We're still, as I discussed, experiencing COVID-related expenses that are material. And we've made investments over the last two years in our people. Last year during the pandemic, we continue to invest as we have done this year. And those investments in IT and eCommerce and marketing, they will all generate what we feel is outpaced growth in the years ahead. And so, no, we don't believe there's any fundamental shift.

Having said that, as our business grows in the United States and that becomes a more meaningful part of our business, especially the eCommerce channel, I think we've talked about that quite a bit, that is our most – our highest margin channel and the most accretive. So, as that continues to grow, we do expect margins over time will expand from that dynamic.

**Mark Petrie**
*Analyst, CIBC World Markets, Inc.*

Q

Understood. Appreciate all the comments, and all the best.

**Operator**: Our next question comes from Derek Dley of Canaccord. Please go ahead.

**Derek Dley**
*Analyst, Canaccord Genuity Corp.*

Q

Yeah. Hi. Thanks. I was just wondering if you could talk about how you envision now that you're starting to see brick-and-mortar reopened across the board here, the mix between eCommerce and brick-and-mortar stores. And I guess more curious in terms of your plan to – in the past with the eCommerce strategy, you were offering more sizes. Are you still going to have more sizes online versus in the store? How do you [indiscernible] (00:41:51) sort of managing that mix?

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

A

Yeah. I mean our stores have been getting bigger over the years and they continue to get bigger. A lot of the stores are opening now albeit the growth, we're about to open isn't particularly large. But some of the stores we've been opening have been meaningfully larger than we have in the past. It's helping us. We have some expansions happening in Canada with some flagship opportunities that we're expanding in as well. So, from a size perspective, our stores are getting bigger, but they are not in any way shape or form keeping pace with the growth of our product online.

So, whereas, our stores are growing – our average store size is growing 10% a year because we have 100 stores. So they're not growing particular. They're sort of getting repositioned. Our product mix is growing far faster than that and larger than that. And so we don't have any stores now that house our whole product assortment. And as we continue to expand in colors, sizes, lengths and other categories, our stores are not going to be able to hold our product, [indiscernible] (00:43:01) to be able to hold even less percentage of the product. But that's fine because we have a robust eCommerce channel and that's one of the benefits of eCommerce is you can sell as much as your warehouse can hold and your distribution centers can hold. That's why Jennifer is embarking on a big expansion of our distribution network right now to accommodate the expansion of our product, specifically online.

The stores, we've been pleasantly surprised with how they've bounced back. We don't know if this is just pent-up demand or this is going to continue. We don't know at this point of time, sort of a high-class problem, wondering whether your stores will come back down to earth as we predicted. But I think that the stores and the positioning of the stores although they are profit centers for Aritzia and although we sell a lot of product in our stores, the role


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of the stores starts to change. And it's about the presentation of your brand and the experience the customer had, and setting that up in real life versus online.

So I think it's a combination and I will continue to say I think we're extremely well positioned having world-class retail and world-class eCommerce and we think that's a strategic advantage for Aritzia in particular both today and going forward. So, we don't see that changing. So, the expansion of our product not just in sizes and shapes and colors and things like that, categories, and all sorts of things. A lot of that expansion will occur online only.

**Derek Dley**
*Analyst, Canaccord Genuity Corp.*

Q

Okay. That's really helpful. And then, just one more just in terms of the expansion of the distribution centers. [indiscernible] (00:44:48) it sounds like that was predominantly meant for eCommerce in Eastern Canada than the US market. But is there any update on an international strategy beyond North America or is it sort of too early to ask that question?

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

A

Yeah. We're just really focusing on the international a few years back and then sort of dawned on us, maybe we're better off looking at the easy low-hanging fruit of the United States which is right there and that's one of the reasons our business has grown so fast in the last 24 and 12 months is through [indiscernible] (00:45:25) certainly since last year is due to the fact that we've focused on the US and the US is driving our growth right now. So, our international is certainly back on our radar now and we're certainly putting strategies together to continue to grow our international but our focus is still firmly in the US. There's a huge opportunity for us there. We're going to continue to explore that while we can. But the international is certainly back on the drawing board per se and figuring out strategies on how we're going to grow that too.

**Derek Dley**
*Analyst, Canaccord Genuity Corp.*

Q

Okay. Great. Thank you very much.

**Operator**: Our next question comes from Irene Nattel of RBC Capital Markets. Please go ahead.

**Irene Nattel**
*Analyst, RBC Dominion Securities, Inc.*

Q

Thanks and good afternoon, everyone. Just kind of thinking about the conversation that's been happening so far, so I guess the first question is, obviously, as you expand the offering both in terms of categories and in terms of sizes, colors et cetera, how do you effectively communicate that to your existing customer base to the extent that a lot of that is going to be available online as opposed to in-store?

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

A

Well, hi, Irene. Thank you for that question. I think there's a matter of with colors and things like that. We are going to start promoting color in general. There's a lot of our competitors promote color out there right now. And so we're going to start probably spending a little bit more time promoting color. I think from a sizing perspective and length perspective, we have just – we don't have sizes and lengths in all our styles at the moment. It's been


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successful. Well, we're in a position that we feel confident that we can sort of promise to our customer that those sizes and lengths are there and deliver on those that's when we'll probably start speaking about it a little bit more.

It's going to be pretty simple. We have a robust direct to consumer communication channels. We have social media. We have our website. So, it's going to be pretty and then we, obviously, have our retail stores. It's going to be pretty simple to communicate that. We just want to make sure that we're comfortable with the length offering, the size offering in some of these other offerings.

And then I think from a new product category perspective, I think the customers are going to be able to – we're going to be promoting those as they launch it. So I don't think it's going to be any secret to anybody this product and I think it'll be quite simple to communicate that. We just have to make sure that we have our docks all lined up or pretty comfortable before we start communicating too much about it.

**Irene Nattel**
*Analyst, RBC Dominion Securities, Inc.*
Q

That makes a lot of sense. Thank you, Brian. And then just sort of continuing the discussion about sort of potential impact of all of this, if we go back to – pre-COVID you were on this great trajectory of let's call it mid-teens plus or minus in any given year sort of top line growth. But is it reasonable, Brian, to think that over the next several years as you do launch so many of these initiatives that we could actually see an acceleration in that top line growth rate?

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*
A

Jennifer is always reminding both Todd and myself to plan for the worst and hope for the best. So, we're planning that same level of growth. We're hoping it will grow and we may see some more robust growth as well. And we're certainly setting ourselves up for that but we're planning – we're being conservative on our planning and making sure that whatever it is that we're planning for is something that we feel pretty comfortable because there's a lot of moving parts whether it'd be distribution center size, IT systems, headcounts, all sorts of things. And we don't want to be sitting here coming to you and one day and saying, hey we invested all [ph] the same sales to the proper suit (00:49:34). So, we're going to be conservative and – on how we plan everything and how our – or hopefully going to set us – we're going to set ourselves up and hope that we will achieve some higher growth rates for sure.

**Irene Nattel**
*Analyst, RBC Dominion Securities, Inc.*
Q

Okay. And then finally, the last question on this topic, I promise. Again, just continuing to think this through, you've been investing in all this talent which is great because it's enabling you to do all that stuff. So presumably at some point and I don't know if it's two years and it's probably too hard to put a pin in, but we should see sort of more of a convergence in terms of – or we should see sort of I guess some of the SG&A grow into the sales levels. Is that a way to think about it?

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*
A

Yes. Yes, Irene, exactly. I think as I was answering to Mark, that's exactly how we're looking at it. And this year is still being pressured again by COVID expenses and then two years' worth of growth in our – or investments in our people that will contribute to outpace growth in the coming years and we fully expect to return and then likely exceed our previous margin levels.


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**Irene Nattel**
*Analyst, RBC Dominion Securities, Inc.*

Q

That's very helpful. Thank you. I'll get back in the queue. Thanks.

**Operator**: Our next question comes from Stephen MacLeod of BMO Capital Markets. Please go ahead.

**Stephen MacLeod**
*Analyst, BMO Capital Markets Corp. (Canada)*

Q

Thank you. Good afternoon. Lots of great ground covered so far, but I just wanted to follow up on two things. The first one was, Brian, in your prepared remarks, you talked a little bit about investments in social media and influencer-type marketing. Can you just elaborate a little bit on what those investments might look like? Is the magnitude material? And are these more focused on specific offerings, specific products, or more broad-based in terms of brand building?

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

A

I think, first of all, I'll go backwards here. I think it's a combination of specific products if we have specific products to promote and brand building in cases where we don't. We have been doing some in the past. We've brought on some people now. I haven't seen to kind of [indiscernible] (00:52:13) our strategy here overall in those areas.

I mean, we brought on someone in social. However, we have a fairly robust social platform right now. Is it perfect? No. Do we have holes in it? Yes. Can we be doing better? Yes. But we have extremely high engagement on Instagram people, and places like that, like some of them in the top quartile of the industry, so I've been told anyways.

But the – we're waiting for strategy. We brought on some real professionals here who've got a lot of experience in this area. [indiscernible] (00:52:48) and we will note that TikTok has come to the forefront now and slightly for a reason too. There's a lot – Instagram was a Wild West for a while there. And now, they've smartened up, and it's becoming expensive and the algorithms have been changing and things. So [indiscernible] (00:53:13) to get through your customers [indiscernible] (00:53:17). So, the one thing I do know is that the social landscape changes fairly regularly and evolving on a daily basis. And so it's important that you stay ahead of that. So it's not like you can put a strategy in place around three to four years. You have to evolve that strategy. So we're always really looking at this and we have some real professionals now coming in. I haven't seen sort of the next iteration of what our strategy is but I am hoping to see it in the next few weeks and go from there once I see it.

**Stephen MacLeod**
*Analyst, BMO Capital Markets Corp. (Canada)*

Q

Okay. That's great. Thank you. And then maybe just following up, Todd, on something – in the last questions that you were talking about with respect to SG&A leverage. Is the way to think about where we are today that this SG&A, the impact from the investments as well as, obviously, COVID will be isolated to this year or presumably? But in terms of the SG&A that you're taking on to support some of the investments that you've made, do you expect that to continue to weigh like into the next fiscal year or is it too soon to tell? I'm just trying to get a sense as to when you expect to leverage those SG&A investments in a more material way.

**Todd Ingledew**
*Chief Financial Officer, Aritzia, Inc.*

A


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Yeah. Hi, Steve. I think the best thing to do is just note that as we've been discussing for like the last 12 months or maybe even 18 months, we're planning to provide a revised multiyear plan which will, obviously, include the projected revenue growth as well as our margin expectations. And we are still targeting to do that this fall. But obviously, we need to ensure that the business continues to normalize here over the next two to three months. So I think I would leave it till then. But as I said, we expect our margins will – or our EBITDA margins will return to pre-COVID levels over time and then grow beyond that.

**Stephen MacLeod**
*Analyst, BMO Capital Markets Corp. (Canada)*

Q

Okay. That's helpful. That's great. Totally understandable. And then maybe just finally with respect to Reigning Champ, I know you're in the early days of ownership. But I'm just curious what kind of industry feedback you've gotten on that acquisition and maybe even potential client feedback as well.

**Brian Hill**
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

A

That's an interesting question you ask. We haven't – the client feedback hasn't gotten made its way up to me and anecdotally, I have friends and people that are congratulating me. But from an industry perspective, we've gotten a lot of great feedback from people we do business with, prospective employees and senior employees that are coming on super excited about it. Internal employees are super excited about it. So we've got some really great feedback.

And the good news has been as well is that Craig and the team from Reigning Champ have received multitudes of positive feedback from their end of the industry, both in men's wear industry. So I think a lot of people felt this was a really great arrangement. And up to this point in time, it's early days as you mentioned, but we couldn't be more thrilled how we're going about the integration. Everything Jen mentioned, but just anecdotally as well, talking with Craig a couple of times a week and what we're able to do and some of the shifts we've already made, and I think it's going to be a great partnership here going forward.

**Stephen MacLeod**
*Analyst, BMO Capital Markets Corp. (Canada)*

Q

Great. Thanks so much.

**Operator**: Our next question comes from Patricia Baker of Scotiabank. Please go ahead.

**Patricia A. Baker**
*Analyst, Scotia Capital, Inc.*

Q

Thank you very much and good afternoon, everyone. Jennifer, I wonder if we could talk a little bit more about the Toronto DC. You noted that it's the largest project in the company's history. Are there any incremental capabilities that will come to Aritzia from having this facility, I mean apart from the fact that it's going to be 3.5 times larger than your existing DC?

**Jennifer Wong**
*President, Chief Operating Officer, Corporate Secretary & Director, Aritzia, Inc.*

A

One of the big functionalities that we'll be able to offer by insourcing is we'll be able to ship cross-border from this distribution center. So, right now, we ship cross-border from our Vancouver DC and for various reasons, it's


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difficult to do that with the 3PL that – right now. So I think that will – that's going to add a ton of volume in particular. But just having that functionality to ship cross-border will be a big game changer for us.

And then in addition to that, we are exploring various levels of automation that might make it more cost-effective, although what we have found with our business in being such a unit-oriented business and highly personalized with packaging and whatnot that it will – the level of automation will be very, very minimal in comparison to, say, an Amazon. But other than that, I think [ph] we'll find (00:58:53) having control by insourcing it will be a real game changer.

### Patricia A. Baker
*Analyst, Scotia Capital, Inc.*

Q

No. Absolutely. Thank you. And then just lastly with respect to Q1, were there any particular product wins in the quarter?

### Brian Hill
*Founder, Chief Executive Officer & Chairman, Aritzia, Inc.*

A

I think we've – what we've seen more so in Q1 and a continuation in Q2 is we had shortages of product in fall and winter. We were light on inventory as I think a lot of retailers were. And we saw our business do extremely well in Q3 and Q4 last year but we could have done better. And that's why you saw our inventory levels rise at the end of Q4 because we started finally getting enough product in to fuel our sales and our sales growth.

So, as far as winds go, I wouldn't say there's any particular item. It's just the fact that we have rightsized our inventory for our growing business. And it took us a while to catch up. It surprised us. And we were quite bullish on fall and winter but we still didn't have enough inventory in. And so the great news is our inventory is in great position right now and levels are really great and we're seeing that. We're seeing that – we saw that in Q3, Q4 sales. But as I mentioned, it could have been better but we've seen that's what's fueled our great Q1 and our strong outlook for Q2 now and, hopefully, that continues into the fall. But we've had a – when our businesses is good, typically, we have a lot of different products that are resonating with the consumer not just one or two.

### Patricia A. Baker
*Analyst, Scotia Capital, Inc.*

Q

Thank you very much, Brian.

**Operator**: This concludes the question-and-answer session. I would like to turn the conference back over to Helen Kelly for any closing remarks.

### Helen Kelly
*Vice President-Investor Relations, Aritzia, Inc.*

Thank you, Ariel. And thanks again to everyone for joining us this afternoon. We'll be available after the call to answer any of the questions you might have. And if we don't see you, enjoy your summer and we look forward to speaking with you again soon. Thank you.

**Operator**: This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.


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