
# Is Aritzia Inc. the Next Lululemon Athletica Inc.?

## Description

**Aritzia Inc.** (TSX:ATZ) has been trading flat for the two months that it's been trading on the TSX as investors don't know what to expect from this brand new fashion play. Could it follow **Lululemon Athletica Inc.'s** (NASDAQ:LULU) footsteps to be a terrific growth play in the stretch-pants business, or is the future gloomy for this company as the fashion industry is rather unstable as a long-term investment?



**Should you buy with prices near the IPO price?**

If you bought the stock right now, then you'd be paying very close to the IPO price of $16 per share. I believe the IPO price is very expensive, and the stock hasn't really gone anywhere since it started trading on the TSX. Investors who jumped into the IPO are expecting the same level of growth the company enjoyed in its previous two years, where it saw great growth numbers.

It's important to realize that fashion retail is a business that is very fickle, and one fantastic quarter could be followed by an abysmal one. The fashion business has huge ups and downs, and it's nearly impossible to say whether or not Aritzia will be the next of the many fashion retailers to go down.

It's difficult to predict earnings for fashion companies, and this is why there's a higher level of risk involved. The risk is amplified further considering the high IPO price to go with high expectations on this stock.

**Bold branding choices look to be paying off**

Aritzia does have an interesting management team. They've made some unique and interesting branding decisions in order to increase interest in its products. The company owns the TNA brand, which it spun off into its very own store–a very interesting move. It adds a fresh take on a loved brand. The store-branding strategy seems to be paying off, as the company reported a very impressive 30.1% net revenue increase with a strong 16.9% sales growth for its latest quarter.

Aritzia has ambitious plans of expanding its business; it has 30 new stores planned to be opened by 2021 to beef up its U.S. presence.

The company takes pride in the fact that it has never closed a store in over 30 years–something I would not be bragging about if I were on the management team. If there's a location that isn't producing as many sales as the others, I would much rather shut down that location and find a better location. Keeping a store open regardless of how it performs is not a good strategy for increasing operational efficiency.

**Could Aritzia be the next Lululemon?**

It's much too early to tell, but the biggest difference between Aritzia and Lululemon is that Aritzia has its focus on general fashion with less emphasis on sports apparel. I believe this makes the business a lot riskier, as non-sport-related fashion is more subject to fads, and like food items, these clothing items could spoil based on whether or not the item is in fashion.

Because of this large amount of uncertainty, I think Aritzia is a much riskier stock than Lululemon was when it was an IPO, and given the company's expensive valuation, I would avoid Aritzia like the plague right now.



This stock is no Lululemon–not even close.

I wouldn't touch this stock even if it were a lot cheaper because the Canadian retail space is a dangerous place to invest, and you could end up losing your shirt. It has no dividend, a dual-class share structure, unpredictable earnings, and it's in a scary industry; just stay away.

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