



## When Does Aritzia Inc. Become a Buy?

### Description

**Aritzia Inc.** ([TSX:ATZ](#)) soared in the first few days of trading but has since pulled back to give up all of its gains. Many pundits, like Kevin O’Leary, slammed the IPO, and there’s been quite a bit of insider and private investor selling going on early in the game. Could this be a warning sign that Aritzia is heading for a nasty plunge? If it does plunge, when does the stock become a buy?

IPO investing can be a very dangerous game, especially if you’re betting on a stock in the cyclical fashion retail industry. Aritzia is a fashion retailer that designs its own clothes. The company sells a large variety of different fashion products under several different brands like TNA, Talula, and Wilfred.

The management team is quite creative in the way it markets its many products. There are many different brands under the Aritzia umbrella, and the team decided to spin-off its popular brands into their own stores, which I believe is a very smart and creative move to get customers in its stores.

The popular brands TNA and Wilfred both have their own stores. The brands are well known, and many customers know that they’re still buying it from Aritzia, but the spun-off stores give the illusion of a new experience. This new experience will drive store traffic because of the different interior designs and selection of products that lure customers in its stores.

There’s no question that retail is a tough place to be as an investor. But hats off to the management team at Aritzia for finding new ways to attract its customers’ attention.

The company is in full growth mode and plans to add 30 new stores that will open in 2021. The management team has also expressed interest in expanding into the U.S., which I believe is a terrific hedging strategy.

The management team has ambitious plans for growth, but there are some huge risks that the company will face in the years ahead. The fashion retail industry is a very risky sector, and it can be very difficult to forecast the direction of earnings for a given quarter or year.

Fashion changes fast. If you design and sell as many products as Aritzia does, you’re going to have issues with excess inventory once a fashion fad dies. The company is known to command high prices,

but it will have to resort to discounting to eliminate excess inventory that may accumulate over the course of a year. The amount of discounting depends on the amount of excess supply, so if Aritzia is having a huge sale, then it may be time to start getting worried about decreasing margins for an upcoming quarter.

With shares trading near the IPO price, I would still avoid the stock because of the high level of unpredictability and risk associated. The stock has great growth prospects and a creative management team, but personally, the Canadian fashion retail industry scares me.

If you really want to pick up shares, then your best bet is to wait until after a disastrous quarter.

Stay smart. Stay cautious. Stay Foolish.

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