



## Why Aritzia Inc. Is Down Over 7%

### Description

**Aritzia Inc.** ([TSX:ATZ](#)), one of Canada's leading designers and retailers of apparel and accessories, released its fiscal 2018 second-quarter earnings results and provided its outlook on the third quarter after the market closed yesterday, and its stock has responded by falling over 7% as of 9:45 A.M. EST.

The company's stock now sits more than 32% below its 52-week high of \$19.40 reached back on October 13, 2016, so let's break down the quarterly results, its third-quarter outlook, and the fundamentals of its stock to determine if we should consider using this weakness as a long-term buying opportunity.

### Breaking down the quarterly results

Here's a quick breakdown of 10 of the most notable financial statistics from Aritzia's 13-week period ended August 27, 2017, compared with its 13-week period ended August 28, 2016:

Metric	Q2 2018	Q2 2017	Change
Net revenue	\$173.97 million	\$157.92 million	10.2%
Gross profit	\$63.13 million	\$56.67 million	9.5%
Gross margin	36.3%	35.9%	40 basis points
Adjusted EBITDA	\$20.70 million	\$19.81 million	4.5%
Adjusted EBITDA margin	11.9%	12.5%	(60 basis points)
Adjusted net income	\$10.38 million	\$9.28 million	11.8%
Adjusted net income per diluted share (EPS)	\$0.09	\$0.08	12.5%
Comparable-store sales growth	5.4%	16.4%	N.M.
New stores adding during period	2	1	100%

Number of stores at end of period	83	75	10.7%
-----------------------------------	----	----	-------

### Q3 Outlook

Following its financial breakdown of the second quarter, Aritzia provided its outlook on the third quarter; here's a direct quote from the release:

“At the start of the third quarter, comparable sales were trending higher than in the second quarter until the unseasonably warm weather across the continent arrived in the latter half of September. The resulting pressure on outerwear sales impacted comparable sales growth such that third quarter to date, comparable sales are trending slightly below that of the second quarter. However, based on product trends to date, the company currently expects sales to regain the prior momentum once seasonable weather patterns return.”

The company went on to state that it has already opened one new store and expanded an existing store in the third quarter, and that it plans to open another two stores and expand or reposition three to four existing stores by the end of the fiscal year, all of which will help drive growth going forward.

### What should you do with the stock now?

The second quarter was a great success for Aritzia, and it capped off a very strong first half of the fiscal year for the company, in which its net revenue increased 12.2% to \$319.01 million, its comparable-store sales increased 7.1%, its adjusted EBITDA increased 11.8% to \$44.7 million, and its adjusted EPS increased 25% to \$0.20 compared with the year-ago period. However, its outlook on the third quarter created cause for concern, so I think the drop in its stock is warranted.

With all of this being said, I think Aritzia's stock now represents a very attractive long-term investment opportunity for two fundamental reasons.

First, it's one of the retail industry's best growth stocks. Aritzia achieved revenue growth of 23% to \$667.18 million and adjusted EPS growth of 61.8% to \$0.55 in fiscal 2017, and revenue growth of 12.2% to \$319.01 million and adjusted EPS growth of 25% to \$0.20 in the first half of fiscal 2018, which puts it on pace to achieve analysts' expectations of revenue growth of 16.4% to \$776.86 million and adjusted EPS growth of 18.2% to \$0.65 in the full year of fiscal 2018. Analysts expect further growth in fiscal 2019, with current projections calling for revenue growth of 16.8% to \$907.02 million and adjusted EPS growth of 21.5% to \$0.79.

Second, it's undervalued based on its growth. Aritzia's stock now trades at just 20 times fiscal 2018's estimated EPS of \$0.65 and only 16.5 times fiscal 2019's estimated EPS of \$0.79, both of which are inexpensive given its aforementioned growth rates and its estimated 18.3% long-term earnings-growth rate.

With all of the information provided above in mind, I think Foolish investors should strongly consider using the post-earnings weakness in Aritzia's stock to begin scaling in to long-term positions.

### CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:ATZ (Aritzia Inc.)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## Category

1. Investing

### Date

2025/08/20

### Date Created

2017/10/06

### Author

jsolitro

default watermark

default watermark