



## Aritzia Inc. (TSX:ATZ): Next Stop \$20 or \$10?

### Description

Hats off to **Aritzia Inc.** ([TSX:ATZ](#)) stock.

Last August, I was so convinced that its stock would drop to \$10 or less, I wrote an article with the headline, "[Aritzia Inc.: Next Stop \\$10?](#)"

And it almost did. Trading around \$12.70 at the time, it bottomed at \$10.10 on November 3, 2017. Eight months later it hit a high of \$18.03, 79% higher than where it was trading before Christmas and, more importantly, 13% above its \$16 IPO price.

If you'd bought Aritzia stock in those dark days of 2017, kudos to you for having the nerve to buy at a time when Mr. Market appeared ready to put a real hurt on its share price.

I've never been a big fan of Aritzia, but you've got to give credit where credit is due. It's clawed its way back.

### Can it keep the momentum going?

I'd honestly forgotten about Aritzia until I saw a U.S. article July 21 about how the company's benefited from Meghan Markle's fondness for its clothes. Before Markle became the Duchess of Sussex, she lived in Toronto and worked on the TV show *Suits* and was a big promoter, and still is, of Canadian apparel brands.

The star has become such a media darling that a picture of her wearing a Babaton trench coat in Toronto with Prince Harry for the Invictus Games caused it to sell out within six hours.

It's this relationship that helped its same-store sales grow 10.9% in the first quarter ended May 28 — 160 basis points higher than in the same quarter a year earlier. Aritzia's same-store sales had been slowing in recent quarters, so this uptick is a very good sign.

Fool contributor Joey Frenette made an astute [observation](#) recently about Markle's popularity, the brand, and its expansion into the U.S., suggesting that the American's fondness for British royalty, especially now that one of their own is part of the family, will provide immense help as it moves into the American market.

I hadn't thought about that, but it totally makes sense. As long as Markle keeps buying Aritzia clothing, the promotional value of her association is priceless.

If revenues and income keep improving along with margins, I don't see why its stock price can't keep moving higher.

### **The fly in the ointment**

On July 19, Aritzia announced that Berkshire Partners, the company's largest shareholder, was selling 5.9 million shares for \$16.55 each in a secondary offering. On the surface, that might be construed as a victory, because the offering price is \$0.55 above its IPO.

Unfortunately, at the time of this secondary-sale announcement, Aritzia stock was trading closer to \$18, suggesting to some investors that Berkshire Partners is keen to move on from its investment, which began in December 2005.

Thirteen years is a long time for a private-equity investment, so it's more likely that it's simply trying to take a little off the table to distribute to its very patient investors.

I don't view this in any other way than a smart business decision, because it will still own more than 25 million shares after the offering.

### **Is \$10 or \$20 next?**

I didn't think I would ever be able to say this a year ago, but unless the floor falls out from under Aritzia's business, which doesn't look possible, I could see \$20 by the end of the year.

I'm a convert. Aritzia is a buy.

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