Why Aritzia (TSX:ATZ) Is Worth $24.04 Per Share

Description

When you think of the words “investment opportunity” the retail industry is probably not the first thing that springs to mind. While this is understandable, **Aritzia** (TSX:ATZ) will give you good reason to second-guess yourself.

Aritzia is unlike any other retail companies out there because it has been profitable for three of the past four years. For those of you familiar with **Hudson’s Bay**, that company has faced an entirely difference experience, with mounting losses each year.

What makes Aritzia so special is two-fold. First, it’s a vertically integrated company, which means that it’s responsible for the design, manufacturing and selling of its clothing.

Second, the company is internally controlled through AHI Holdings Inc., which is headed by a director and officer of Aritzia.

As an investor, this means that the company has significant influence on its supply chain, and management has a vested interest in the success and growth of Aritzia.

The company has 67 boutiques in Canada and 24 boutiques in the United States as of March 3, 2019. Assuming that the company focuses on a United States-centric growth strategy — whereby stores increase to 67 with an average revenue of $11 million per store and net income margin of 9% — the stock could be worth $24.04 in the future – *an increase of 35%*.

Vertically integrated company

Aritzia’s mission statement reads as follows: “*We believe in high-quality, beautifully designed product. We believe in aspirational environments and experiences. And we believe that all of this should come at a price that is truly attainable.”*

As a vertically integrated company, Aritzia is responsible for manufacturing some of its clothing lines, allowing the company greater controls over cost and production.

By owning its manufacturer, the company is able to interact directly with its suppliers, allowing the company to ensure the quality of the materials it receives.

This is important for investors, as many retail companies do not have a direct relationship with suppliers, which means that the onus for the quality is on the manufacturer.

Second, through a vertically integrated company, Aritzia has full control over which materials it buys and who it buys them from.

Certainly, this benefits investors, as the company is able to quickly adapt to changing consumer and economic trends that may require the company to cut costs or change materials.

Internally controlled

Before August 2018, the company was ultimately controlled by Canada Retail Holdings, L.P. and Berkshire Partner LLC. Following a secondary sale of shares in August 2018, the company was no longer ultimately controlled by Canada Retail Holdings, L.P. or Berkshire Partner LLC.

In March 2019, the company repurchased 6,333,653 subordinated voting shares and multiple voting shares for cancellation, including the remaining shares owned by Berkshire Partners LLC.

As of March 8, 2019, the company is ultimately controlled by AHI Holdings Inc, an entity controlled by a director and officer at Aritzia.

As an investor, this is a good sign, as it indicates the management has a vested interest in the success of Aritzia.

Bottom line

At a time when retail companies are experiencing mounting losses and facing bankruptcy, Aritzia is a diamond in the rough.

Being a vertically integrated company allows it to respond quickly to changing consumer and economic trends. This is vital in the retail industry, as shifts in consumer spending and preferences put pressure on companies to adapt.

As of March, 2019, the company is ultimately controlled through AHI Holdings Inc., which is controlled by a director and officer at Aritzia. By having skin in the game, management is enticed to make decisions that benefit the company.

As the retail industry undergoes a major transformation, it’s well worth your time to look into Aritzia.

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Date
2025/08/18
Date Created
2019/08/06
Author
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