Aritzia (TSX:ATZ) Earnings Just Moved the Shares to Record Territory

Description

Aritzia Inc (TSX:ATZ) one of the top growth stocks in the retail industry, reported earnings this morning and once again the initial reports seem strong. The shares rallied to a new 52-week high before the close yesterday, and this morning the stock opened up more than 5%.

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Investors have loved Aritzia because of the rapid growth rate it has been achieving while a lot of its competitors struggle to stay in business. Retail, one of the most competitive industries, has been getting even more competitive with the growth in online shopping.

What stands out in the report is that the company continues to see growth in total revenue, mostly from the United States. It has also seen strong double-digit revenue growth in e-commerce. The company is confident in the work it's doing to drive e-commerce and that e-commerce will drive growth for the company going forward.

E-commerce investment

Aritzia has invested a lot money in its cloud-based Customer 360 platform, to better serve customers and offer them deals that fit their personal shopping preferences. The company expects the technology to help it target customers individually, which will help it to continue growing its e-commerce business.

The cloud-based system tracks consumer information to provide a full view of customers and their personal preferences. This connects with Aritzia's new marketing communications initiative, which sends marketing emails containing personalized offerings and deals. The company believes it owes a lot of its success to its marketing strategy, which has also focused heavily on both paid and unpaid influencers.

A lot of the company's focus is prudently on e-commerce, but Aritzia remains committed to theboutique model that remains the core of its business. The company opened a new boutique in Denverduring the third quarter, and renovated a number of boutiques in Canada. Boutiques drive a largenumber of sales for the company, but what's even more important is that the stores are vital in helpingAritzia grow its brand awareness.

In the third-quarter earnings of its fiscal 2020 year, Aritzia's net revenue grew by roughly 10%, helped by the new boutiques that have come online as well as strong comparable sales growth. For comparison, its revenue grew by 12.9% in last year's third quarter. Revenue was negatively affected by the timing of its warehouse sale, which took place in the second quarter this year rather than in the third quarter as in last year. This was somewhat offset by a record Black Friday for the company, which it believes will help to carry momentum into the holiday season and the fiscal fourth quarter.

The company's adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) in the quarter was up by just over 2%, as it was negatively impacted by the $2.5 million it spent developing its Customer 360 platform. This led the company to report adjusted net income that was essentially flat, growing from $0.31 to $0.32 on a per-share basis.

Its balance sheet remains strong. The company has more than $95 million in cash and nothing drawn on its revolving credit facility, leaving it in a positive net debt position.

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More growth ahead

Going forward, Aritzia expects comparable sales growth in the high single digits for the fourth quarter and low double digits for the full year. It has two more store openings planned in the fourth quarter, which will bring its total to five for the year, all in the United States.

It has warned that higher raw materials and tariffs could continue to impact its costs and it expects SG&A could rise faster than revenue as it invests in technology and the roll out of phase two of its customer service technology.

Its major initiatives for fiscal 2021 include website optimization, expanding and improving its omni-channel fulfillment capabilities, and looking for high-quality locations to open more boutiques in the United States.

The possibilities are endless for Aritzia and given its expectations to continue its impressive growth rate into fiscal 2021, it's no wonder why the shares are trading at all-time highs after this morning's earnings report.

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