



3 Reasons Why Aritzia (TSX:ATZ) Stock Has Already Gained 25% in 2020

Description

Investors would love to own a stock that gains 25% in a year. But imagine an investment that has already generated double-digit gains in the first 10 trading days of the year. I had identified **Aritzia** (TSX:ATZ) [as a solid pick for 2020 last week](#). But on the back of strong fiscal third-quarter 2020 results (year ending in February), Aritzia stock is up 25% since the start of CY 2020.

Aritzia is a vertically integrated fashion brand. It designs apparel and accessories for its exclusive brands. The company has 67 boutiques in Canada and 27 in the United States with an average store spanning 6,000 square feet mostly located in top-tier shopping locations.

Aritzia sells its products through aritiza.com and no other online channel, giving the firm significant control in terms of pricing and product marketing as well as product presentation. Here we look at the reasons behind Aritzia's stellar quarterly performance.

Strong revenue growth

Aritzia has managed to grow sales from \$153 million in fiscal 2008 to \$874 million in fiscal 2019 — an annual growth rate of 17%. Analysts expect sales to grow by 12.6% to \$984.2 million in 2020 and 14.3% to \$1.12 billion in 2021.

In the October quarter, comparable sales growth was up 5% year over year, which was the 21st consecutive quarter of positive growth. Net revenue rose 10% to \$267.3 million driven by strong performance across geographies and channels.

In the first three quarters of 2020, comparable sales growth was up 6.9%, while net revenue grew 14.6% year over year. Adjusted net income and EBITDA also gained 14.8% and 9.9%, respectively, in this period.

The company has attributed this growth to increasing brand recognition. Aritzia's press release states, "We have become a well known and deeply loved brand by our clients in Canada with growing client awareness and affinity in the United States and outside of North America. Maintaining, enhancing and

growing our brand appeal within our addressable market is critical to our continued success.”

Network expansion

One of the key reasons supporting Aritzia’s stellar top-line growth is the opening of new boutique stores. In the first three quarters of 2020, it opened three new stores compared to seven new stores in the same period in 2019. With just 27 stores in the United States, Aritzia is optimistic about the growth opportunity south of the border.

Its growing brand awareness among consumers and landlords is fueling new opportunities, helping the firm secure prime locations in major markets. In its 35 years of existence, Aritzia has never closed a boutique, as it continues to focus on enhancing footprint, layout, and assortment, which drives customer engagement higher.

Robust growth in e-commerce

Aritzia launched its e-commerce business in fiscal 2013 and has managed to consistently grow online traffic over the years. Similar to other online platforms, Aritzia wants to capitalize on digital marketing channels to drive client acquisition and retention.

It continues to refine its e-mail marketing strategy and update its marketing communications platform, allowing the firm to create and execute e-mail marketing campaigns targeting specific segments.

Aritzia recently partnered with **SAP** to develop a comprehensive customer program that will enable the company to provide a personalized approach and improve client engagement. The fashion powerhouse is keen to leverage business intelligence and behaviour analytics to tailor shopping experiences in boutiques as well in the e-commerce channel.

Analysts expect Aritzia sales to touch \$1.27 billion in fiscal 2022. Comparatively, its EBITDA is expected to double from \$161 million in 2019 to \$332 in 2022. The company’s earnings are expected to rise at an annual rate of 14.5% in the next five years. Comparatively, its price-to-earnings multiple stands at 22.4, which is reasonable considering the company’s future growth.

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