Desautels Capital Management

Aritzia Inc. (TSE: ATZ)

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November 21, 2017

DESAUTELS Capital Management Gestion de capitaux

Table of Contents

Retail At DCM

SECTION I

DESAUTELS Capital Management
Gestion de capitaux

Previous Retail & Apparel Investments

DCM's Retail Portfolio Hasn't Been Performing Well

(in $ millions, unless noted)

Historical DCM Retail Portfolio Overview

macy's

- Omnichannel retailer operating through department stores that thrived in retail boom focusing on apparel, cosmetics, home, and other goods
- Thesis depended on real estate monetization through closing of non-core stores
- Thesis was materializing but overall pessimism ignored these developments

✗

PERFORMANCE SPORTS GROUP

- Designs, manufactures and markets sports equipment and apparel
- One of major clients went bankrupt
- Filed for Chapter 11 bankruptcy in October 2016

✗

TJX

- Off-price apparel and home fashions retailer operating through Marmaxx, Homesense, TJX Stores

✓

Reasons for Poor Performance?

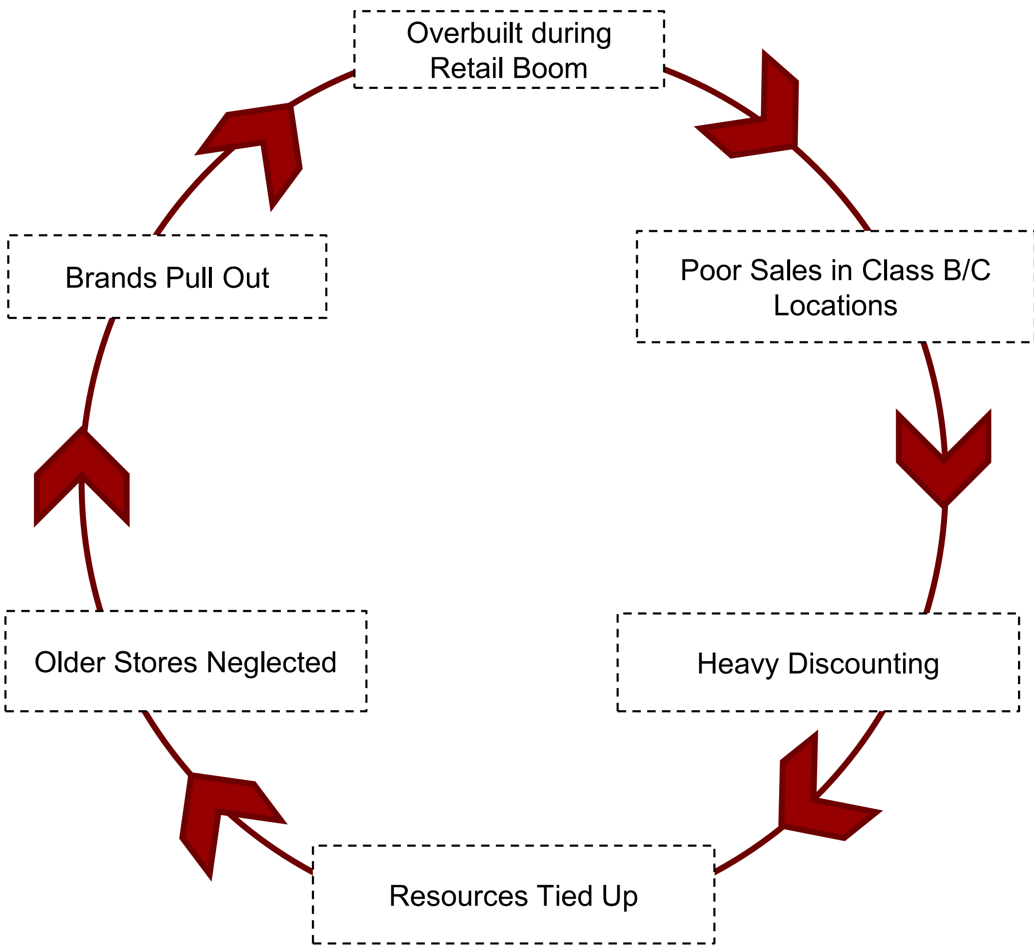
Source: DCM Reports, Company filings.

What Did These Holdings Have In Common?

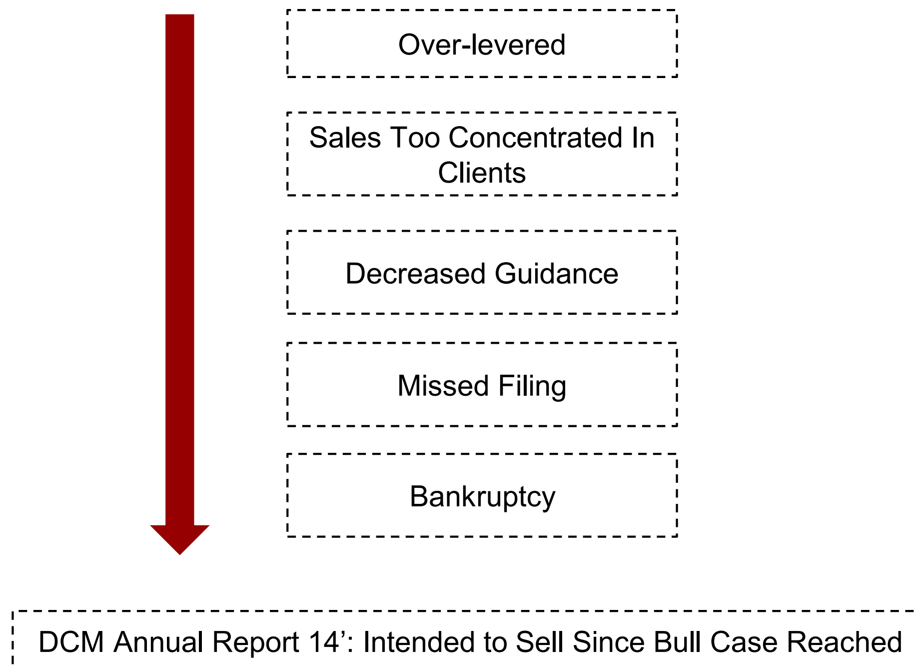
We Should Learn From Our Previous Retail Holdings

(in $ millions, unless noted)

What Was Fundamentally Wrong with Macy's?



PSG?



Need To Move Away From Traditional Retailers Like Macy's Who Overbuilt During Retail Boom

Source: Company filings, DCM Annual Report, CNBC.

Investment Criteria

5 Main Investment Criteria

1 Exclusive Unique Brands	✓ Strong brand loyalty, ideally exclusive offerings ✓ A strong brand is the best protection from online threats
2 Store Density	✓ Low store density ideal to prevent self-cannibalization & inefficiencies
3 Financial Flexibility	✓ Ability to remodel stores, invest in expansion or other opportunities; shouldn't have your capital tied up
4 Growth Opportunity	✓ Ability to expand and penetrate new markets either geographically or through new channels
5 Attractive Price	✓ Want an attractive valuation

Select An Attractively Priced Retailer With These Fundamentals

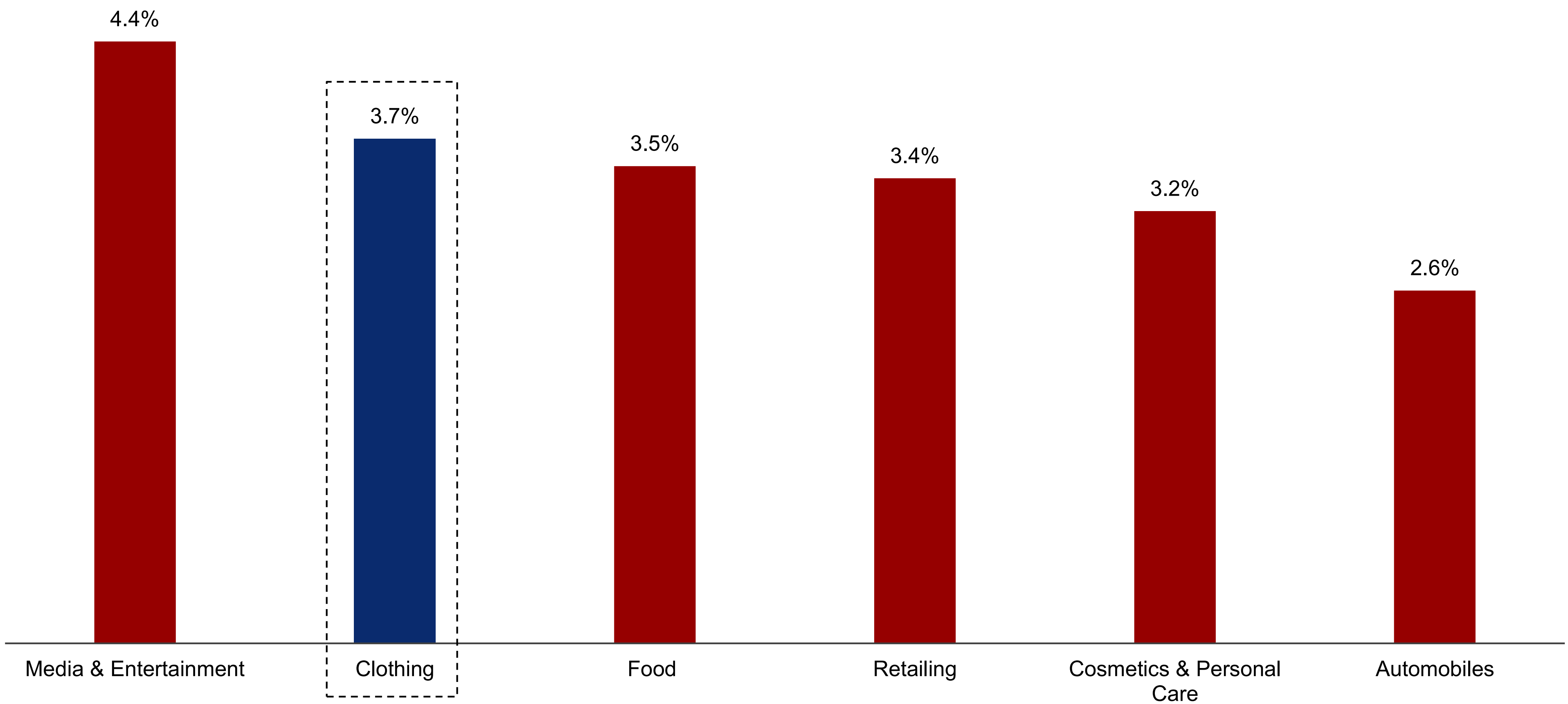
Source: Company filings.

Consumers Discretionary Opportunities

Fastest Growing Segment Aside From Entertainment Is Fashion

(in $ millions, unless noted)

Looking to Continue Investing in High Growing Sectors of Consumer Discretionary



Want To Continue Capturing High Growth Areas In Consumers

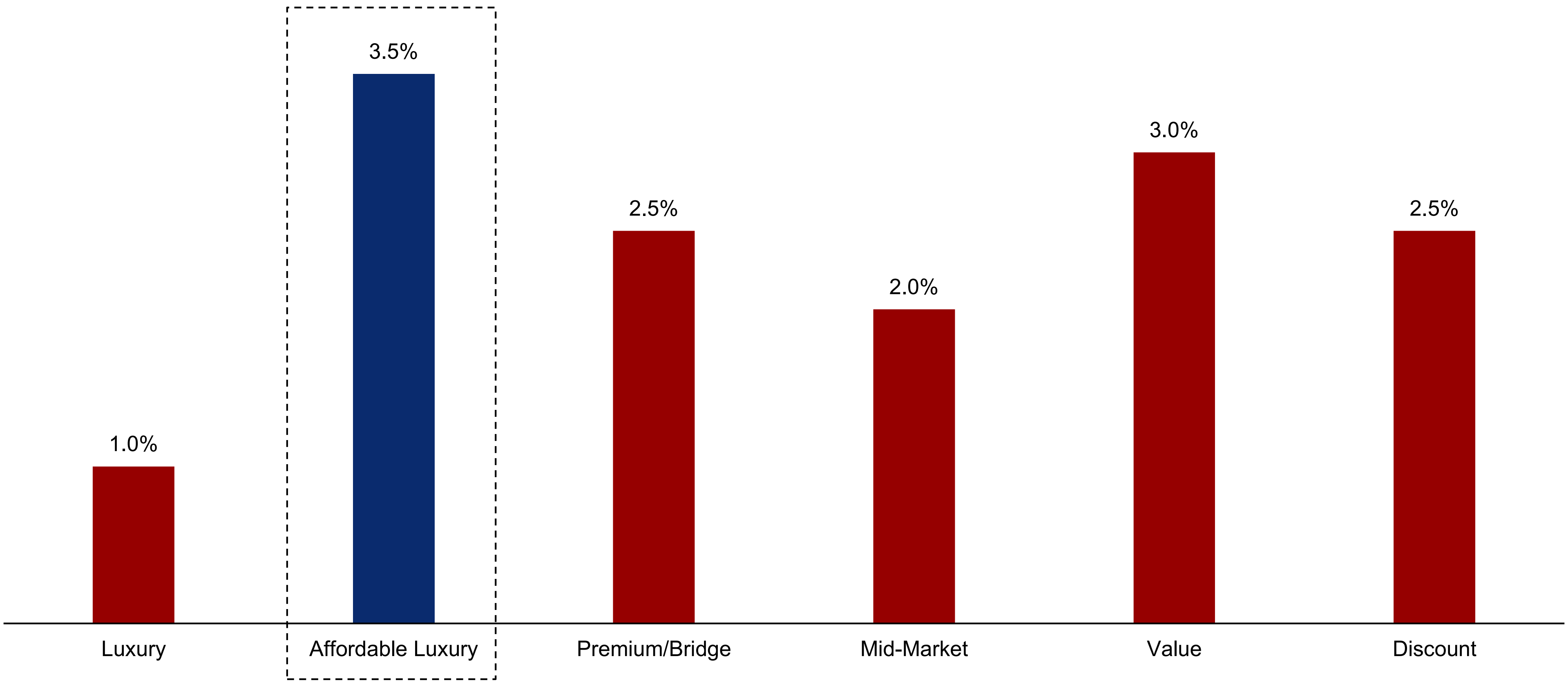
Source: PwC, McKinsey, Company filings.

Consumers Discretionary Opportunities

Affordable Luxury Segment Offers High Growth

(in $ millions, unless noted)

Within Clothing, Affordable Luxury Offers Highest Growth Opportunities



DCM Should Look Into Affordable Luxury Options

Source: McKinsey, Company filings.

Affordable Luxury

Trend Towards Affordable Luxury Driven By Millennials

(in $ millions, unless noted)

What Are The Different Categories Within Apparel?

Luxury	Affordable Luxury	Fast Fashion	Off-Price / Discount
Men's jeans basket: **>$315**	Men's jeans basket: **$156-$315**	Men's jeans basket: **$41-$95**	Men's jeans basket: **$20-$40**

Trend Towards Affordable Luxury Due To…

1. Struggling luxury market & Discount Market
   - Decreasing popularity for the traditional "branded luxury product"
   - Shift in spending power to millennials who value quality & uniqueness but have negative perceptions towards super high-end

2. Luxury Buyers Switching Down, Many Fast Fashion Buyers Switching Up
   - Affordable Luxury
   - Fast Fashion

Consumer Trends & Perceptions Will Spur Growth in Affordable Luxury Segment

Source: Forbes, McKinsey, Company filings.

Investment Criteria

Investment Opportunities in Affordable Luxury

(in $ millions, unless noted)

	Exclusive, Unique Brands	Low Store Density	Financial Flexibility	Growth Opportunity	Attractive Price
	✓	✓	✓		✓
MICHAEL KORS	✓		✓		✓
CANADA GOOSE ARCTIC PROGRAM	✓	✓		✓	
Aritzia	✓	✓	✓	✓	✓

Aritzia is the most attractive opportunity within affordable luxury based on previously identified investment criteria

Source: Company filings.

Company Overview

SECTION III

DESAUTELS Capital Management
Gestion de capitaux

Executive Summary

A Brief Overview

(in $ millions, unless noted)

$1.2B Market Cap

Price Target: $16.90

Trades at
42% discount to peers
on 2018E EV/EBITDA

1 Investors Clumping Aritzia With Traditional Brick & Mortars, When They Are More Comparable To Modern Retailers Because of:

- **A** "Amazon proof" product mix driven by premium private label brands
- **B** Low-density store portfolio in premier high-traffic locations
- **C** Strong balance sheet & low leverage will prevent them from befalling same fate as retail peers

2 Investors Failing to Price in Growth Potential

- **A** Market underestimating U.S. store expansion opportunities
- **B** Only recently launched e-commerce platform to drive growth in future

Recommend a BUY with a Price Target of $16.90 (45% Upside)

Source: Bloomberg, Forbes, Company filings.

Company Overview

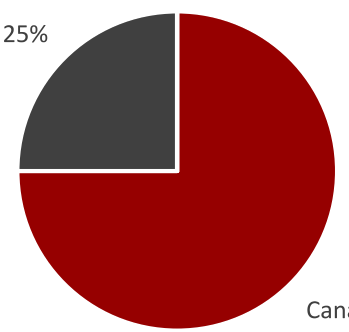
Aritzia

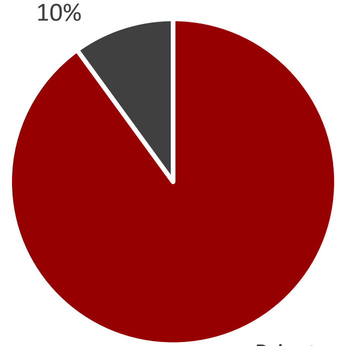
(in $ millions, unless noted)

Business Description and History

- Aritzia is a Canadian women's fashion brand
- Positioned as an "affordable luxury" product
- Founded in Vancouver by CEO Brian Hill in 1984
- Target market is women aged 14-30
- Sells in-house brands such as Wilfred, Le Fou, TNA, etc. as well as third-party brands like Levi's, Nike, Mackage, and more
- Went public on the Toronto Stock Exchange in September 2016
- Currently has 81 stores across Canada and the US

Revenue Breakdown by Geography and Segment





Public Market Overview

Aritzia Inc. (CAD$)	
Current Price	$11.50
Dividend Yield	N/A
52-Week High	$18.75
52-Week Low	$10.10
Diluted Shares Outstanding (mm)	110.4
Market Cap (mm)	**$1,270**
Add: Total Debt (mm)	134.5
Add: Value of Preferrred Shares	-
Add: Minority Interest	-
Less: Cash & ST Investments (mm)	56.2
Enterprise Value	**$1,348**

Valuation Summary

	2015A	2016A	2017E	2018E
Revenue	**427**	**542**	**667**	**756**
YOY Growth %		26.9%	23.1%	13.4%
EBITDA	**65.0**	**85.0**	**118.0**	**131.2**
YOY Growth %		30.8%	38.8%	11.2%
EV/Revenue			**2.0x**	**1.8x**
EV/EBITDA			**11.4x**	**10.3x**

Recommendation: Buy

Source: Capital IQ 11/18/2017, Company filings.

Management Team

Dedicated to the Company

Brian Hill
Founder, Chief Executive Officer
Tenure: 33 Years

Jennifer Wong
President, Chief Operating Officer
Tenure: 29 Years

Pippa Morgan
Executive Vice President, Retail
Tenure: 25 Years

Dave MacIver
Chief Information Officer
Tenure: 11 Years

Dave MacIver
Chief Financial Officer
Tenure: 1 Year ☹

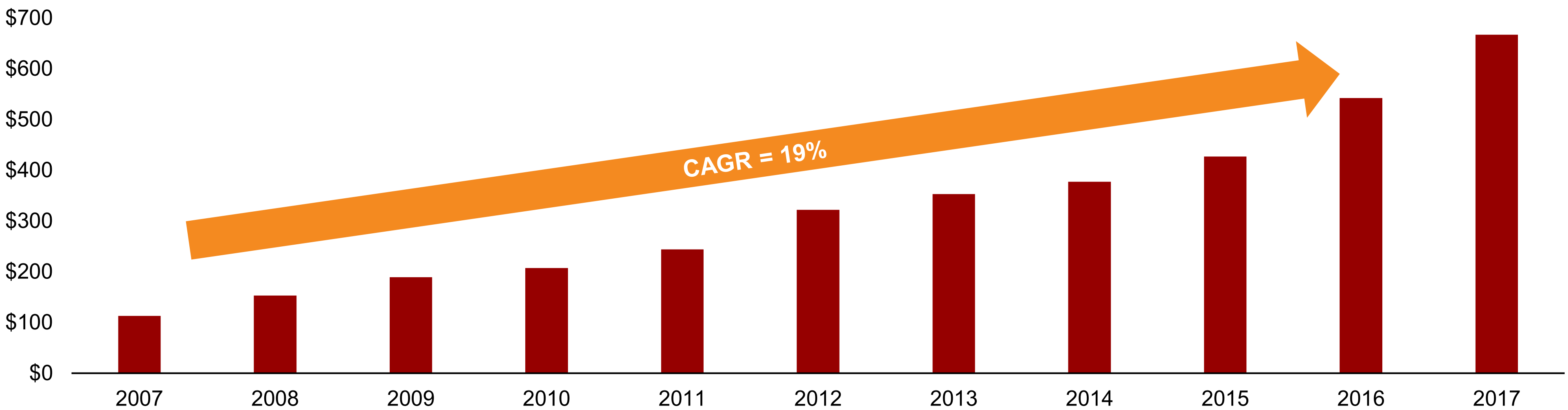
Senior management team with average tenure of over 19 years

Source: Company filings.

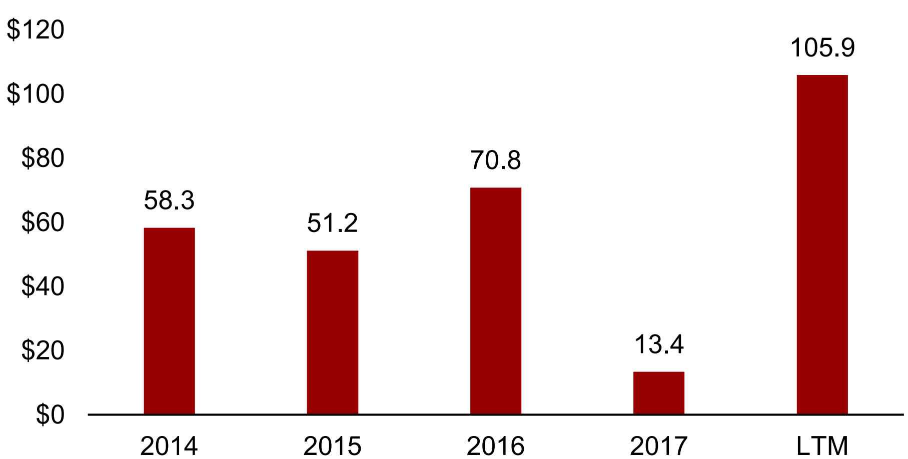
Solid Financial Performance In Past Years

(in $ millions, unless noted)

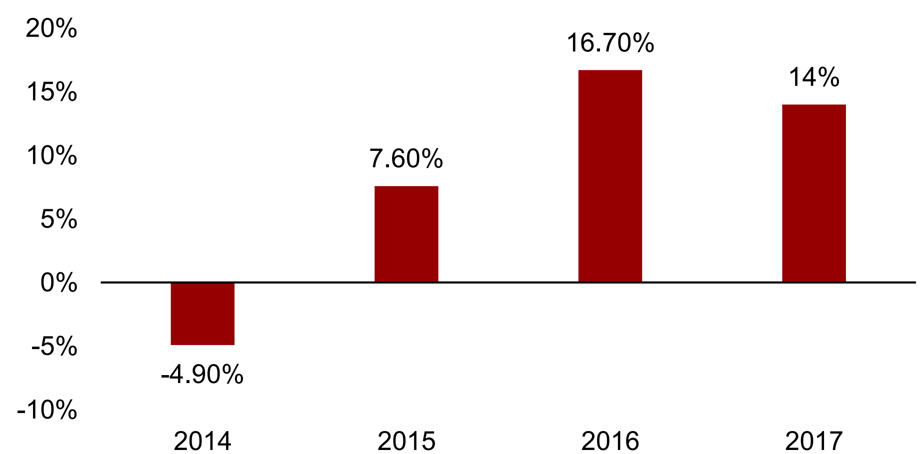
Net Revenue Shows History of Strong Sales Growth – Even Through the Recession (CAD)



Historical EBITDA Growth (CAD)



Historical SSS Growth (%)



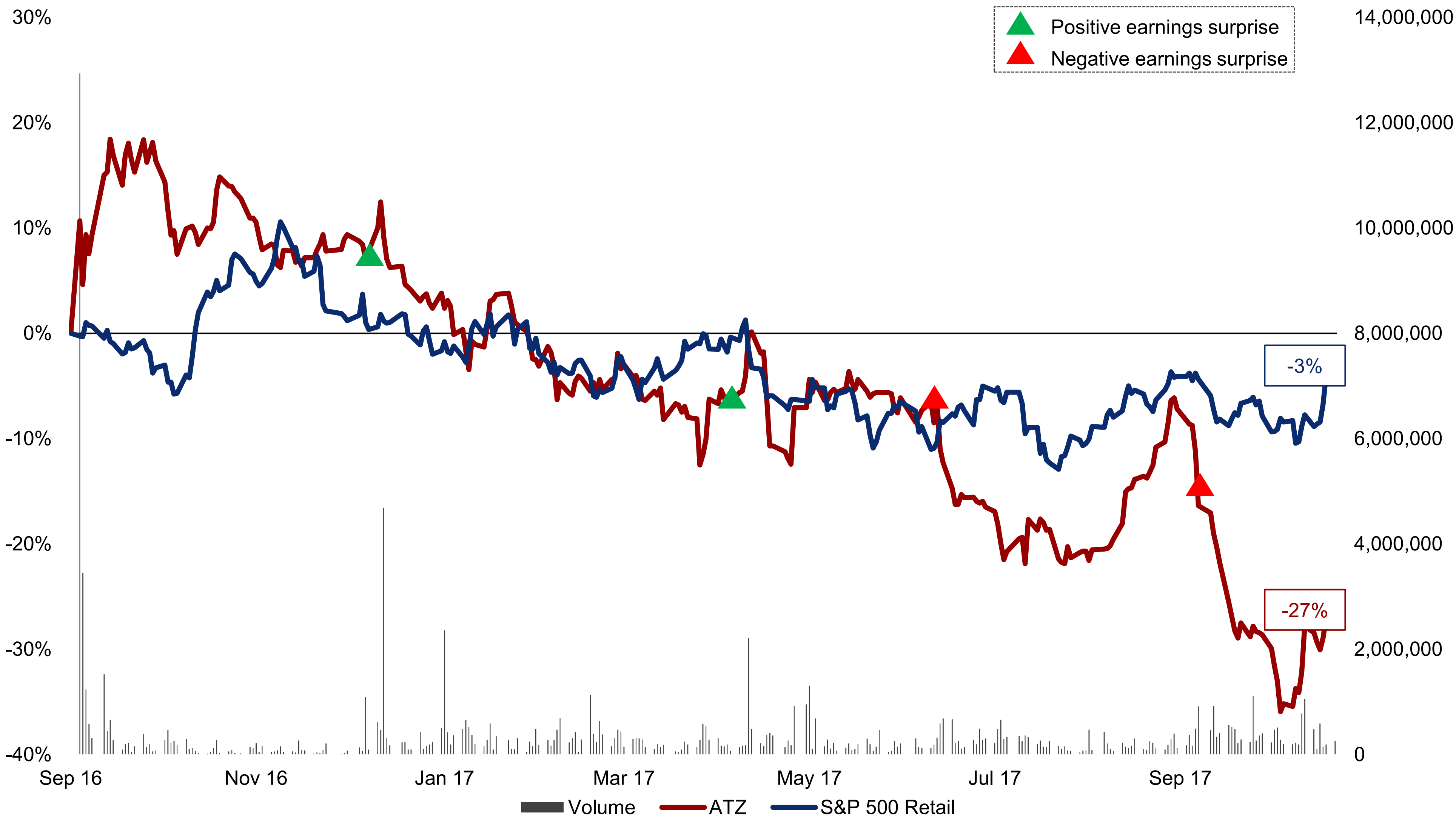
Seeing Double Digit Growth In Revenue In Past Years

Source: Capital IQ 11/17/2017, Company filings.

Trading Down Since IPO

Initial Decline Due to IPO Concerns & Further Decline After SEO

(in $ millions, unless noted)



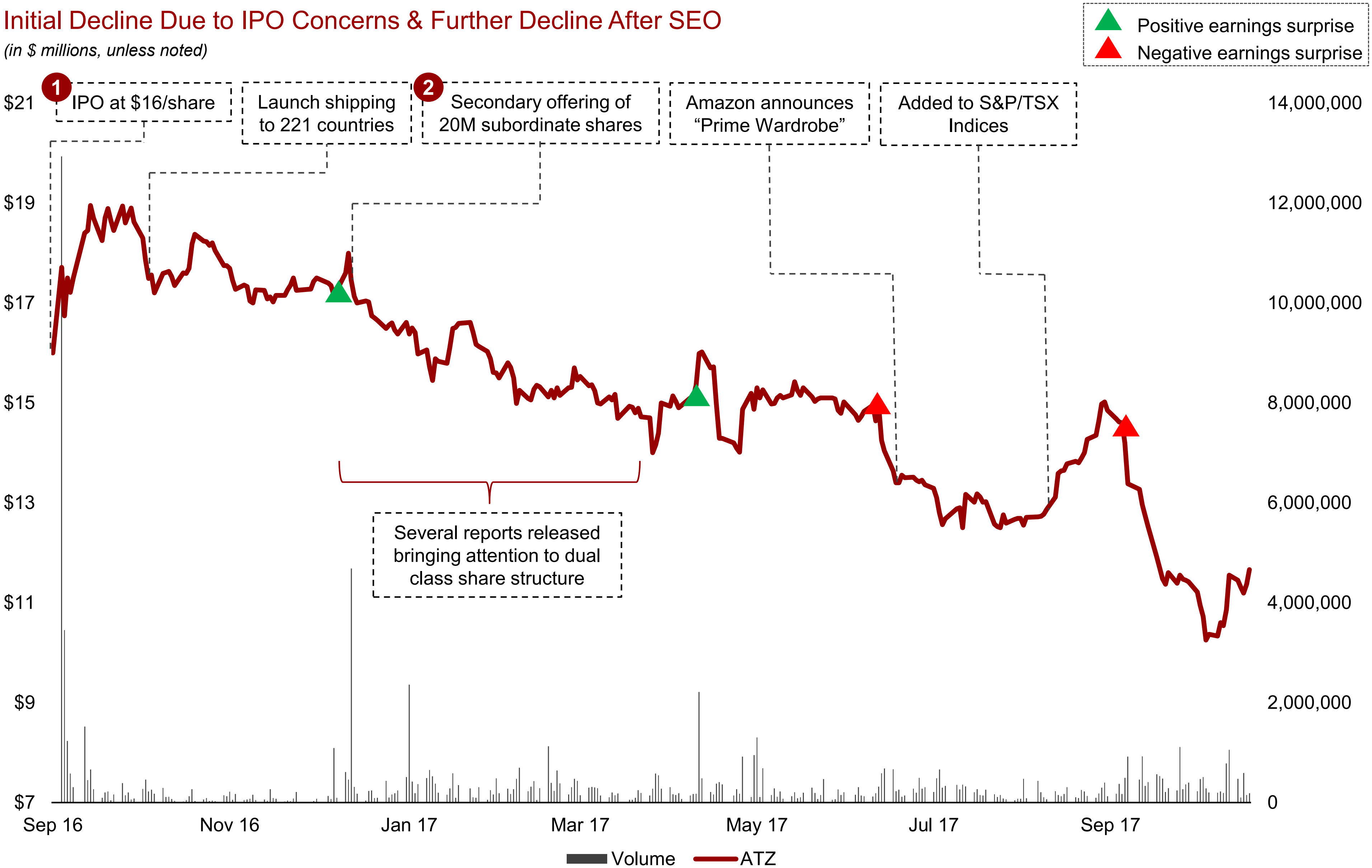
Underperforming S&P Retail Benchmark By 24%

Source: Bloomberg.

Trading Down Since IPO

Initial Decline Due to IPO Concerns & Further Decline After SEO

(in $ millions, unless noted)



IPO and Secondary Offering Brought Investors To Question Share Structure

Source: Bloomberg, Company filings.

Negative Sentiment Over IPO

Recent Increase in Dual Class Share Structure Listings Cause Concern

(in $ millions, unless noted)

Dual Class Share Structure From IPO Issuance

Kevin O'Leary
"A Canadian apparel-retailer with a dual class share structure? Are you kidding me?"

***Kai Li,* UBC Finance Professor**
"The dual-class share structures are quite negative for buyers. This is a red flag."

Subordinate Voting Shares (SVS)

- 25,000,000 Shares at **$400 million**

1 Share = 1 Voting Right

Multiple Voting Shares (MVS)

- All controlled directly or indirectly by Selling Shareholders

Berkshire Partners

1 Share = 10 Voting Rights

Recent Increase in Canada Dual Class Share Structure Listings Are Causing A Concern

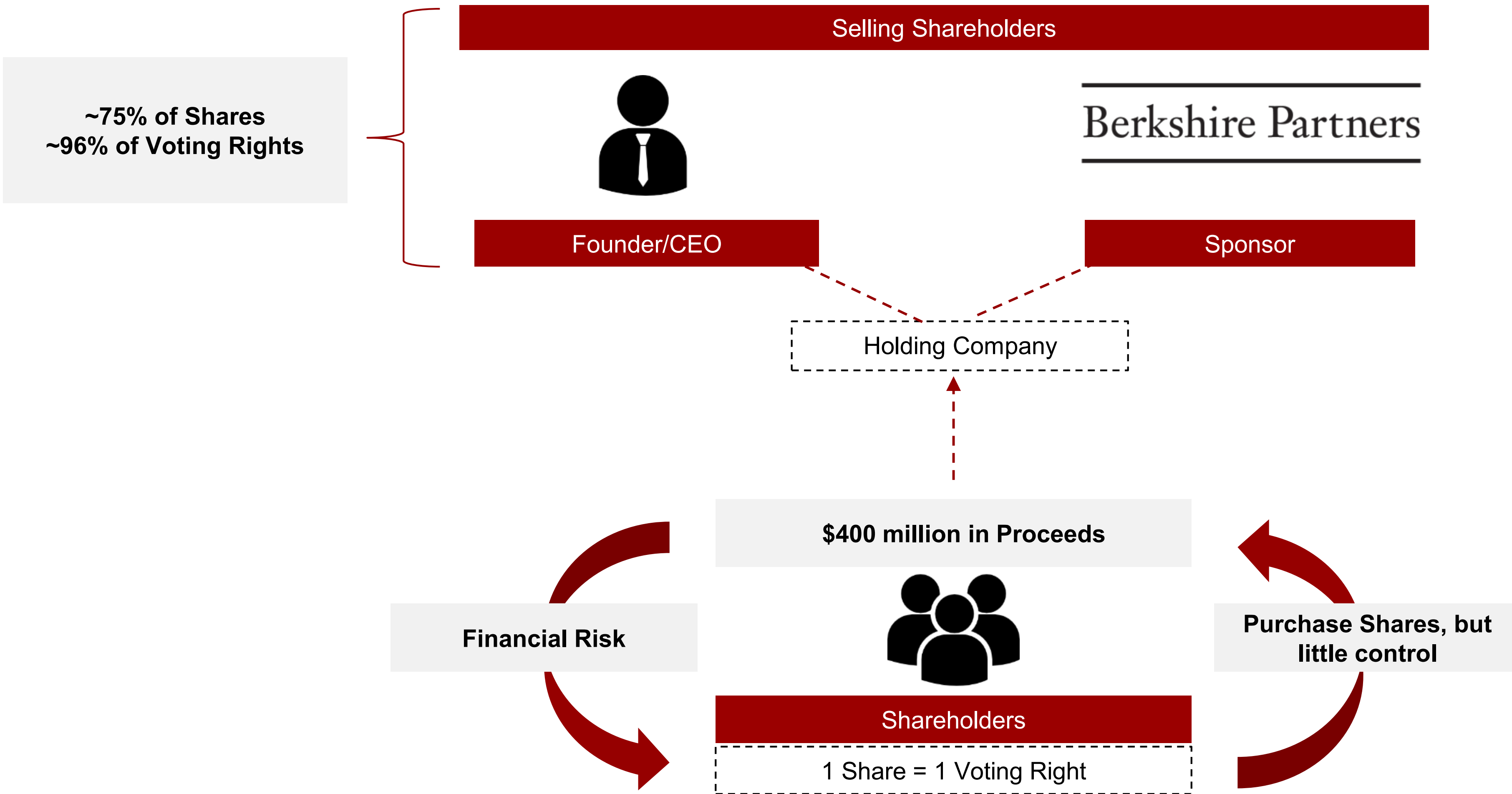
Source: The Globe & Mail, UBCNews, BBN, Company filings.

Negative Sentiment Over IPO

Selling Shareholders Have Total Control

(in $ millions, unless noted)

Dual Class Share Structure From IPO Issuance



Investors Didn't Like That Selling Shareholders were "Cashing Out"

Source: The Globe & Mail, Company filings.

Secondary Offering Too Soon

Secondary Offering Had Investors Question Intentions of Management

(in $ millions, unless noted)

Secondary Offering Sent Stock Down

IPO	Secondary Offering Announced (Bought Deal)	Secondary Offering Completed
Sep 26 2016	Jan 10 2017	Jan 26 2017

Reasons Shareholders Didn't Like This:

Large size of Transaction: $20.1M in SEO, and group of ATZ employees sell 1.79SVS

Relatively High Price: $17.45 a piece compared to $16 IPO price

"Locked-Up Arrangements": Directors/ selling shareholders agreed they wouldn't sell additional shares for 180 days "without prior consent of joint book-runners" but instead got the sale approved

Emphasized the issue of investor control over the company

Stock Down 30% Since Secondary Offering, Hasn't Been Able To Pick Back Up

Source: The Globe And Mail, Bloomberg, Company filings.

Will the Dual Class Structure Actually Affect The Share Price?

Several Cases Of Successful Dual Class Issues – But There Are Risks

(in $ millions, unless noted)

Intention Can Be Innocent

- "Innocent" reasons for Structure could Include:
  - Family business wants to maintain control
  - Management focus on long term objectives instead of satisfying short term investors
  - Protection against takeovers especially in era of increased shareholder activism

Risks

- Perceived as riskier due to possibility of:
  - Too much control given to irresponsible management
  - Lack of shareholder protection in the event of a takeover
  - *Caveat Emptor* argument
  - Economic risk relative to ability to influence corporation affairs
  - Proceeds Tunneling

Dual Class Structure Shouldn't Be a Concern Unless There Is A Serious Problem With Corporate Governance

Source: Deloitte, The Globe & Mail, Osler.

Will the Dual Class Structure Actually Affect The Share Price?

Dual Share Structure Can Go Both Ways

(in $ millions, unless noted)

What Are The Implications And Potential Risks Of Investing In Dual Class Shares?

According to Bloomberg Intelligence, companies with this structure posted annualized returns of 12% over past 10 years
Double the 7.1% of single-class peers

Implications & Risks

- Little to no voting power
- Less widely held (institutional investors usually avoid)
- Shareholders Push for Regulatory Reform

Could yield great results, but need to continuously monitor for changes paying special attention to:

1. Regulatory changes related to dual class share structures
2. Ensure management has ongoing interest in company

Dual Class Share Structures Safe, As Long As We Are Aware Of The Risks And Monitor Situation Closely

Source: Bloomberg, The Globe & Mail, Osler.

Berkshire's High Level Of Control Shouldn't Be A Problem

Good Track History With Previous Investments

(in $ millions, unless noted)

Voting Control Of Berkshire Shouldn't Be A Concern

- Make investments based on growth opportunities focusing on retail / consumers, comms, business services, industrials and healthcare
- Long term involvement, usually sits on the board
  - 2 Directors on the Aritzia board since 2005, there to push Aritzia's international expansion

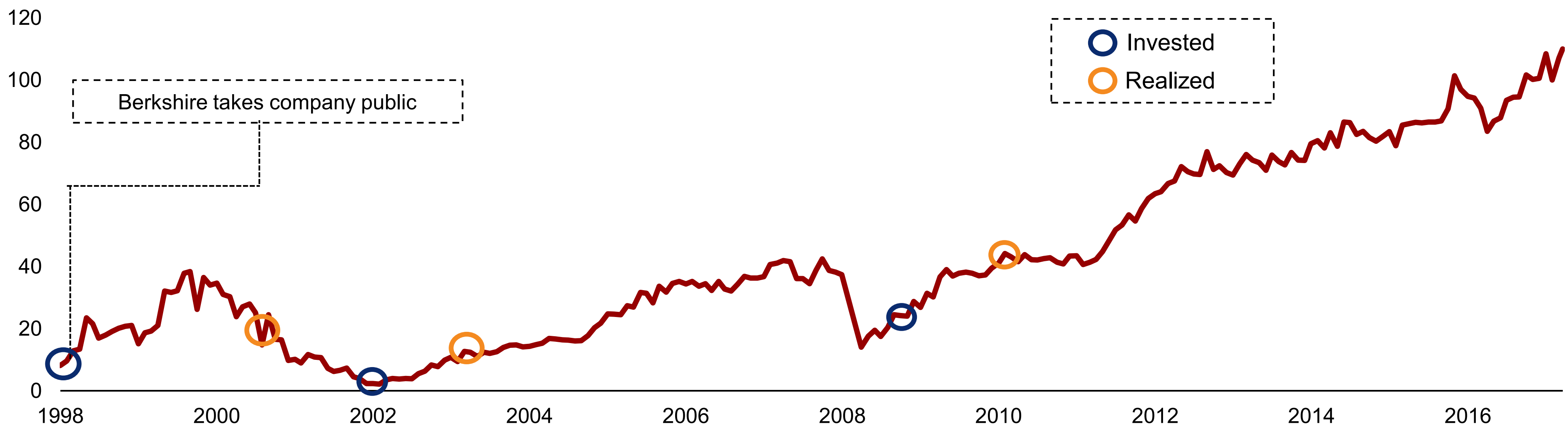
Success Stories Within Retail Sector

bareMinerals By BARE ESCENTUALS

carter's

Party City

Case Study: 20 Year Involvement With Crown Castle International



Berkshire's Previous Investment Decisions Have Done Well, Aritzia Should Be Safe In Their Hands

Source: Bloomberg, Forbes, Company filings.

Investment Theses

SECTION III

DESAUTELS Capital Management
Gestion de capitaux

Investment Thesis

Unwarranted Discount Due to Brick & Mortar Discount & IPO Had Investors Ignoring The Fundamentals

(in $ millions, unless noted)

1 Investors Unfairly Clumping Aritzia With Traditional Brick & Mortars, When They Are More Comparable To Modern Retailers Because of:

- **A** "Amazon proof" product mix driven by premium private label brands
- **B** Low-density store portfolio in premier high-traffic locations
- **C** High Financial Flexibility will prevent them from befalling same fate as retail peers

2 Investors Failing to Price in Growth Potential

- **A** Market underestimating U.S. store expansion opportunities
- **B** Only recently launched e-commerce platform to drive growth in future

Investment Criteria

Investment Opportunities in the Affordable Luxury Apparel Based On Investment Criteria

(in $ millions, unless noted)

	Thesis 1			Thesis 2	Thesis 3
	Exclusive, Unique Brands	Low Store Density	Financial Flexibility	Growth Opportunity	Attractive Price
	✓	✓	✓		✓
MICHAEL KORS	✓		✓		✓
	✓	✓		✓	
Aritzia	✓	✓	✓	✓	✓

Aritzia is the most attractive opportunity within affordable luxury based on previously identified investment criteria

Source: Company filings.

Investors Unfairly Clumping Aritzia With Traditional Brick & Mortars

(in $ millions, unless noted)

	Thesis 1			Thesis 2	Thesis 3
	A Exclusive, Unique Brands	B Low Store Density	C Financial Flexibility	Growth Opportunity	Attractive Price
	✓	✓	✓		✓
MICHAEL KORS	✓		✓		
	✓	✓		✓	✓
Aritzia	✓	✓	✓	✓	✓

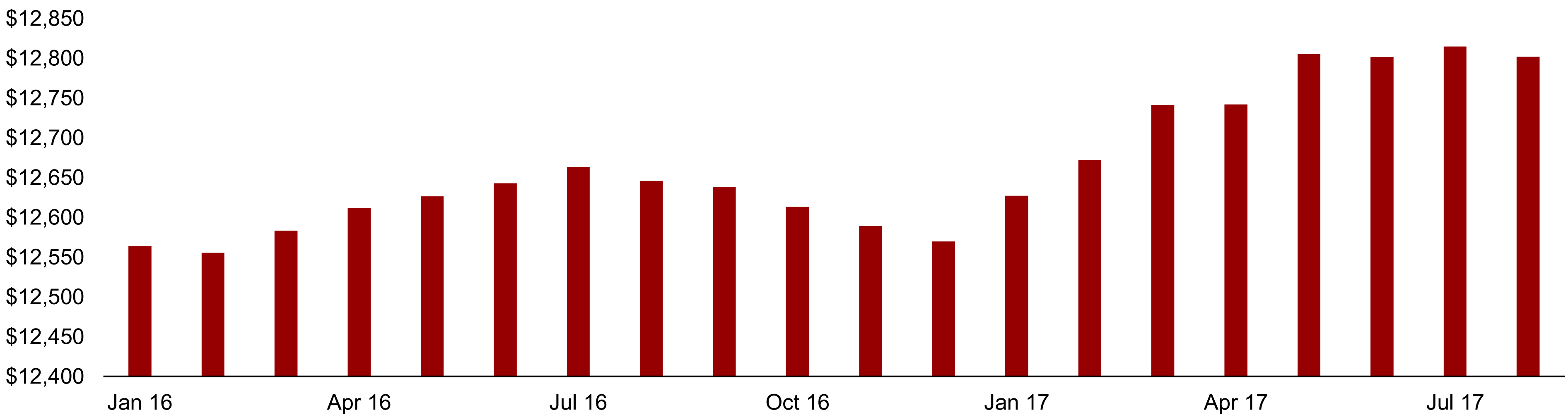
Source: Company filings.

Retail Should Be Booming

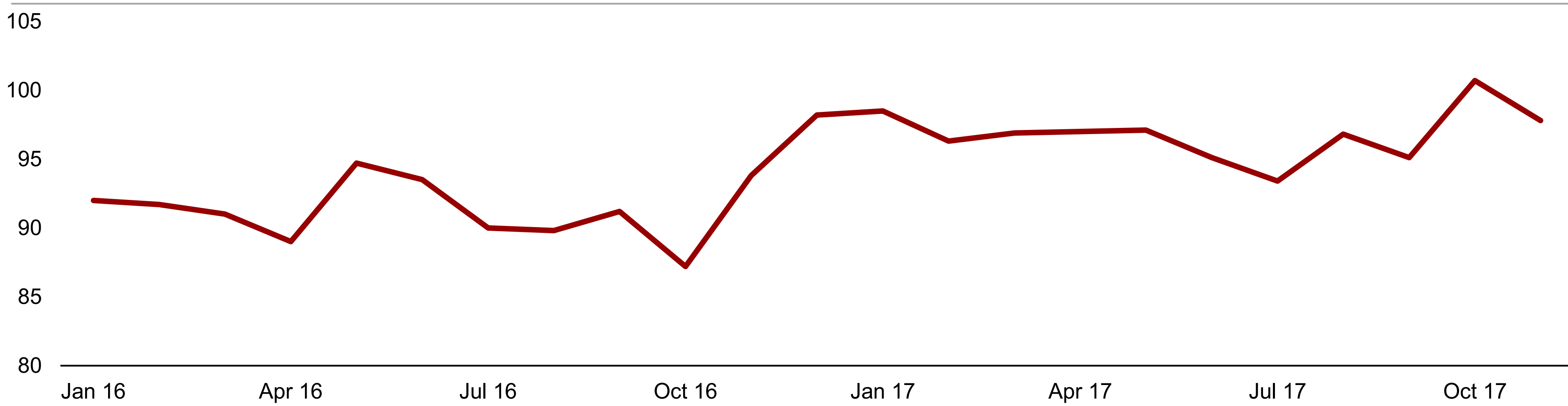
Macro Environment Is Positive, In Normal Environments Retail Sector Should Be Healthy

(in $ millions, unless noted)

Disposable Income at All Time Highs ($Bn)



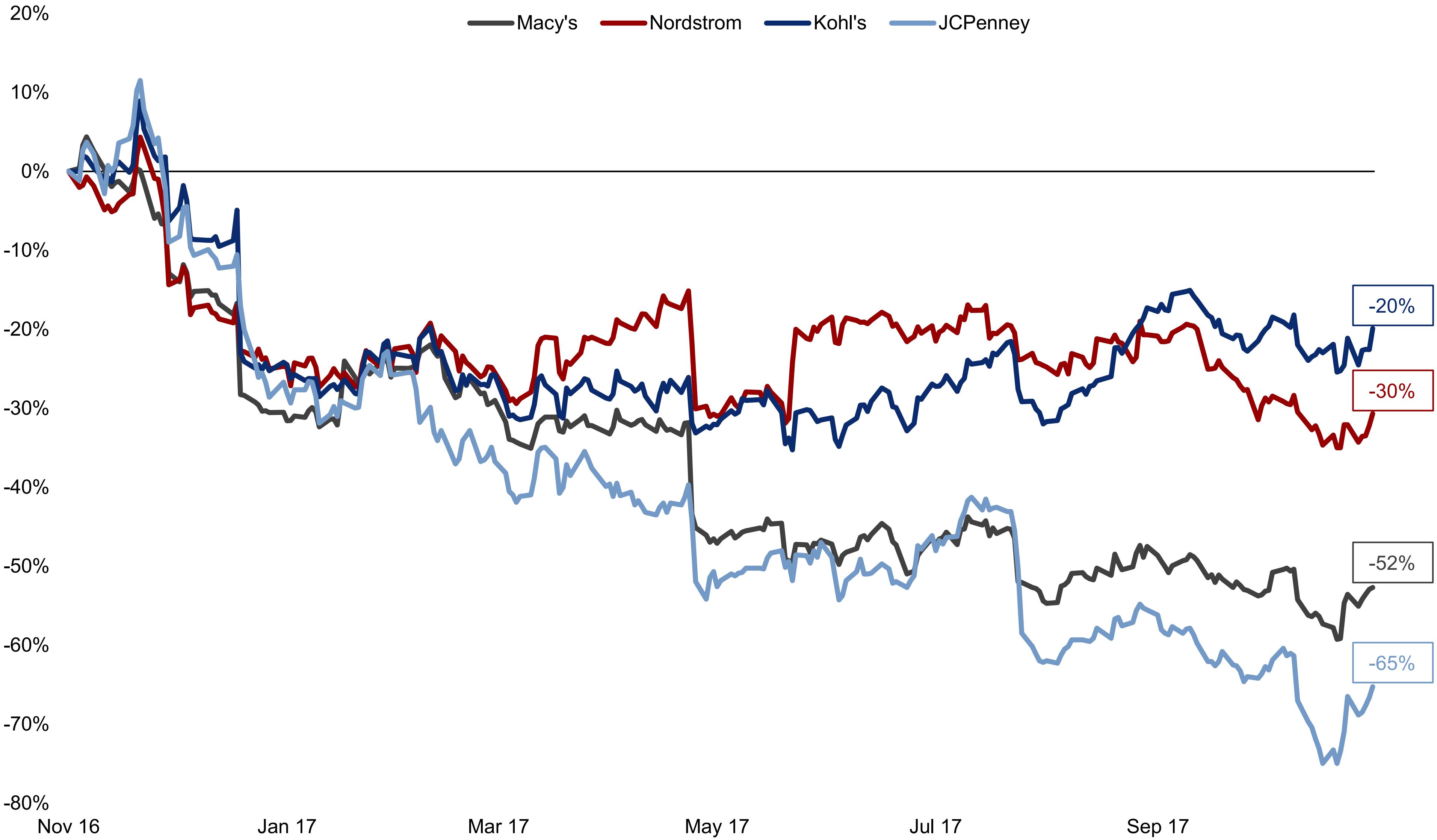
Consumer Sentiment Index – Consumers Feel Good About The Economy



Source: Bloomberg, Forbes, Company filings.

Current Environment

Retail "Apocalypse"



Is This An Overreaction?

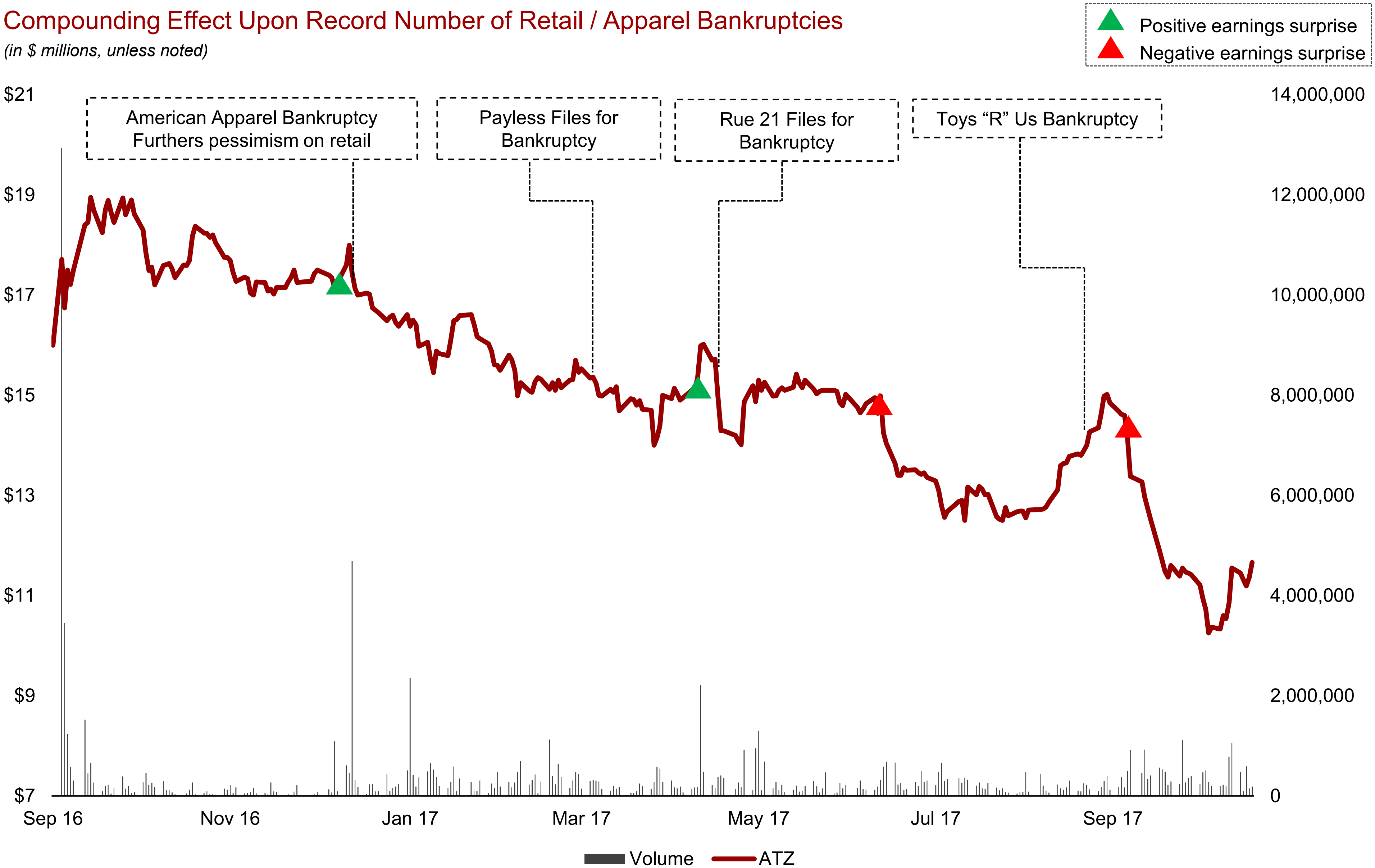
Source: Bloomberg.

1

Trading Down Since IPO

Compounding Effect Upon Record Number of Retail / Apparel Bankruptcies

(in $ millions, unless noted)



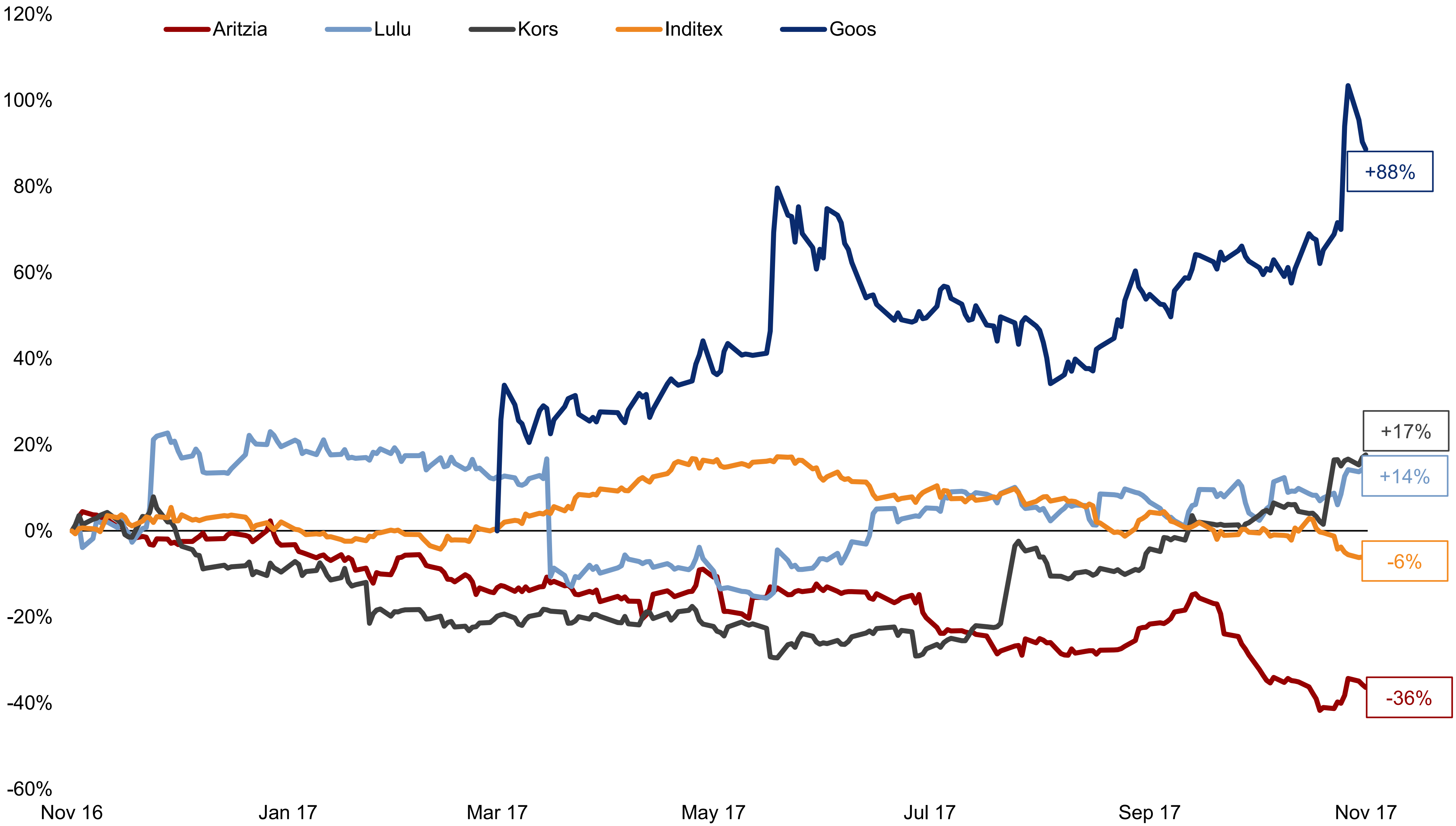
Stock Unable to Pick Up Due To Retail Sentiment

Source: Bloomberg, CNBC.

1

Current Environment

Not All Brick & Mortar Stores Being Hit



Retail Industry is Simply Undergoing a Transformation

Source: Bloomberg.

Aritzia Unfairly Discounted Due to Traditional Brick And Mortar

What Differentiates Traditional From Non-Traditional?

(in $ millions, unless noted)

Traditional

- Over-expanded in Retail Boom in 1970s
- Weaker Online Presence
- Frequent Sales / Markdowns

Non-Traditional

- Typically Have Lower Store Density
- Strong Online Presence
- Smaller Stores, Infrequent Markdowns

Aritzia's Business Model is Most Comparable To Non-Traditional Retailers

Source: Bloomberg, Forbes, Company filings.

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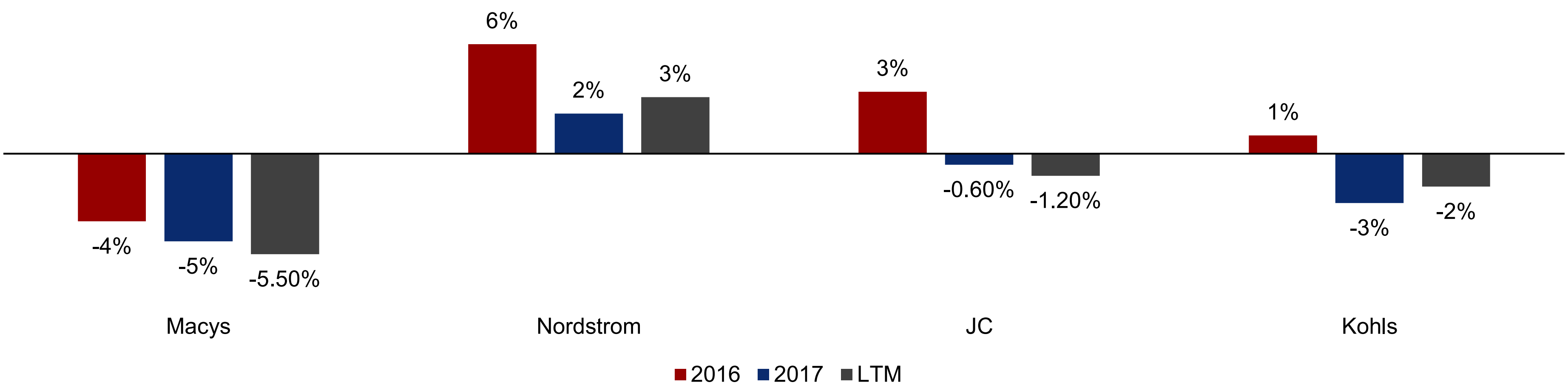
Aritzia Unfairly Discounted Due to Traditional Brick And Mortar

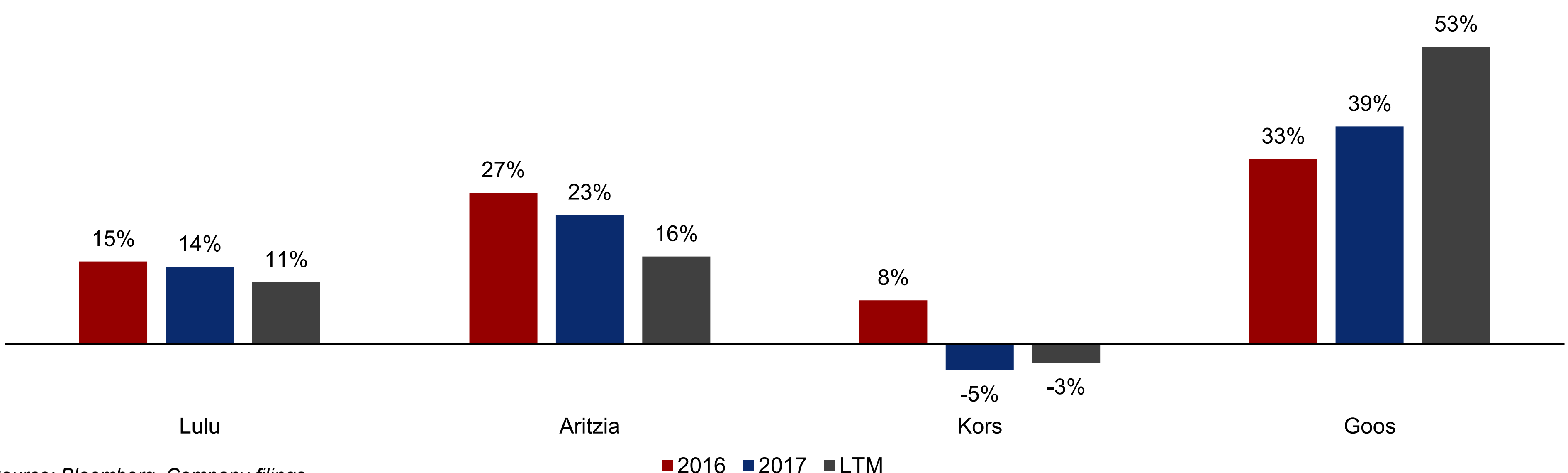
What Differentiates Traditional From Non-Traditional?

(in $ millions, unless noted)

Sales Growth (%) YoY For Traditional Stores



Sales Growth (%) YoY For Non-Traditional Stores



Source: Bloomberg, Company filings.

1

Aritzia Unfairly Discounted Due to Traditional Brick And Mortar

Aritzia Should Be Instead Compared To Non-Traditional Retailers

(in $ millions, unless noted)

Overview Of Comparables

Lululemon Athletica

Canadian athleisure retailer

Exclusive brands: lululemon, iviva

Moderate Store Count (421 stores)

- **Channels:** Company Stores, Franchise, e-commerce

Affordable Luxury Price Points

Canada Goose

Canadian-based Winter Coat retailer

Exclusive brands: Canada Goose

Small Store Count (4 stores)

Channels: Company stores, Third party distributors, e-commerce

Affordable Luxury Price Points

Michael Kors

Retails apparel, accessories and footwear

Exclusive brands: Michael Kors

Moderately High Store Count (843 stores)

Channels: Department stores, company stores, e-commerce

Affordable Luxury Price Points

Aritzia's Business Model is Most Comparable To Non-Traditional Retailers, & Should Trade In Line With These Peers

Source: Bloomberg, eMarketer, Company filings.

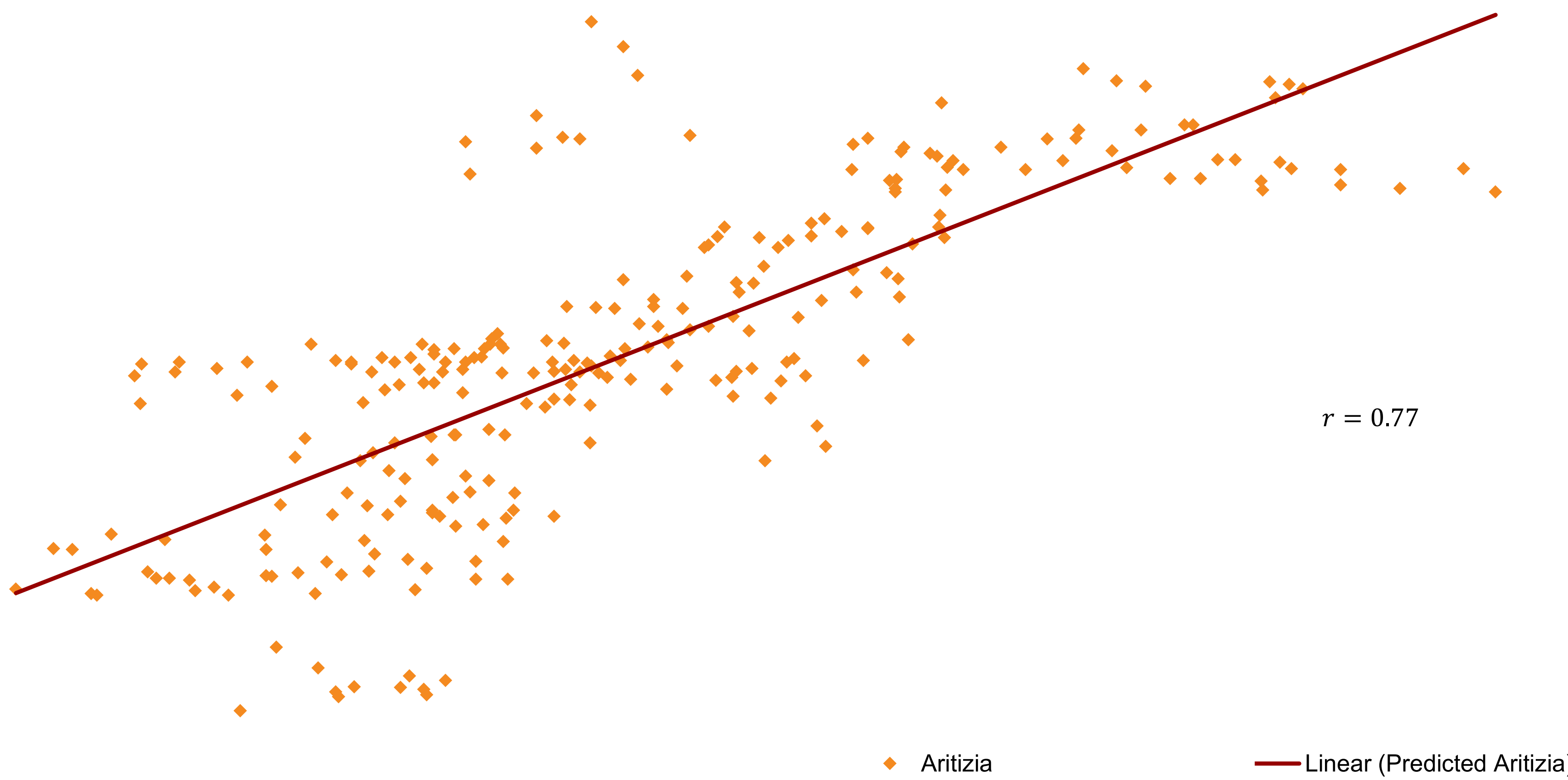
1

Aritzia Unfairly Discounted Due to Traditional Brick And Mortar

Surprise: Aritzia's Share Price Is Correlated To the Retail Index

(in $ millions, unless noted)

Regression of Aritzia Share Price And S&P 500 Retail Index



But What About Their Peers?

Source: Bloomberg.

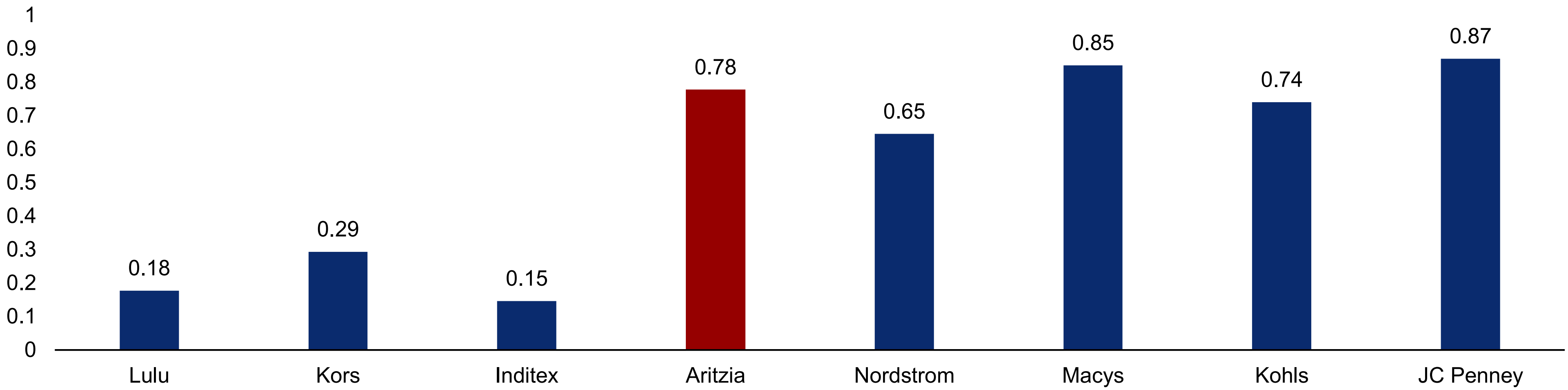
1

Aritzia Unfairly Discounted Due to Traditional Brick And Mortar

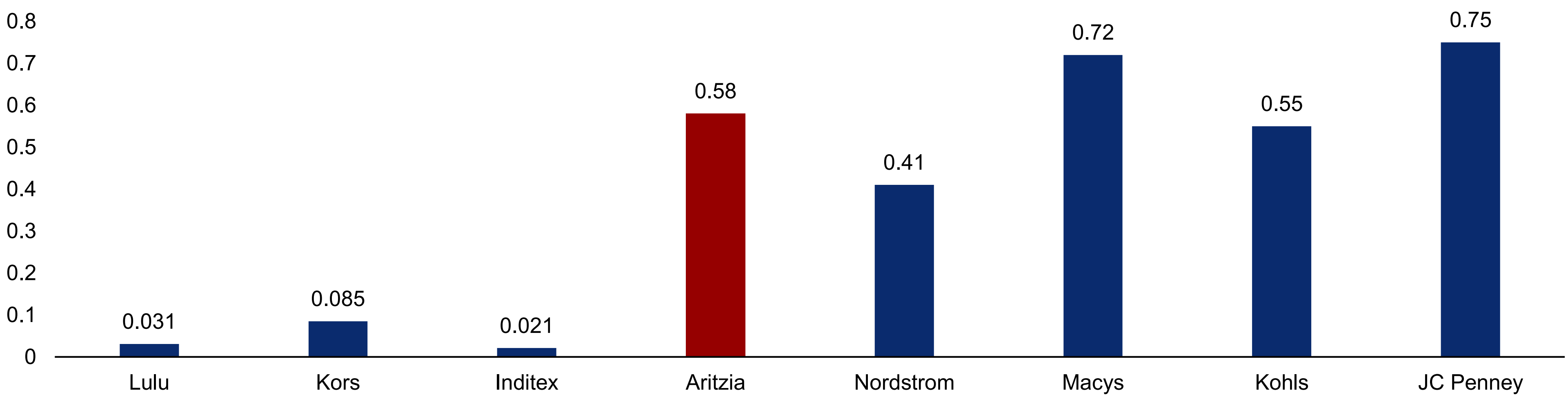
Regression of Aritzia Share Price Shows Its Quite Correlated To Retail S&P Index

(in $ millions, unless noted)

Correlation Coefficient of ATZ to S&P Retail Index Significantly Closer to Traditional Brick & Mortar Companies (r)



% Variance of Prices Explained By S&P Retail Index (r^2)



Market Clumping Aritzia With Traditional Retailers, As Opposed To True Peers

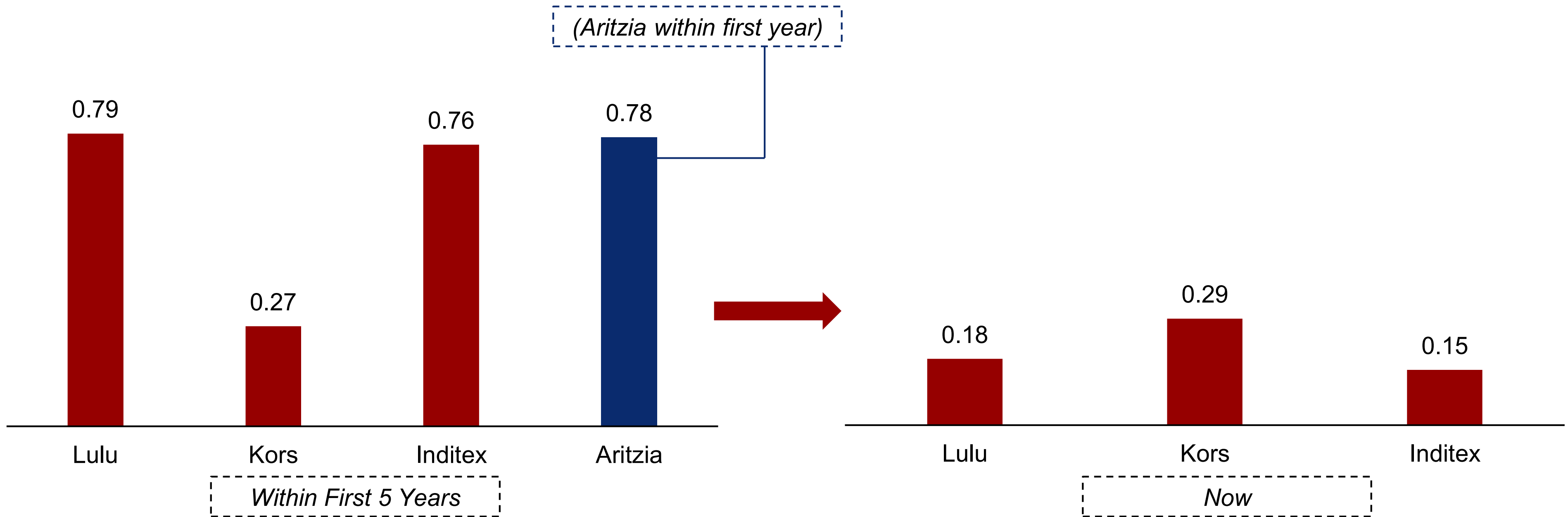
Source: Bloomberg, Company filings.

When Will The Market Realize This?

It's Just A Matter Of Time

(in $ millions, unless noted)

Stock Price Correlation With S&P 500 Retail (r) First 5 Years of Trading VS Now



Could Simply Just Take Time for Market To Realize This

We Believe The Market Still Doesn't Currently See The Difference Due To The Following:

- Aritzia's e-commerce platform is young (2013)
- Currently only has Strong Presence in CAN

Source: Bloomberg, Company filings.

1 Aritzia Unfairly Discounted Due to Traditional Brick And Mortar

Aritzia Should Be Trading Closer To Its True Peers

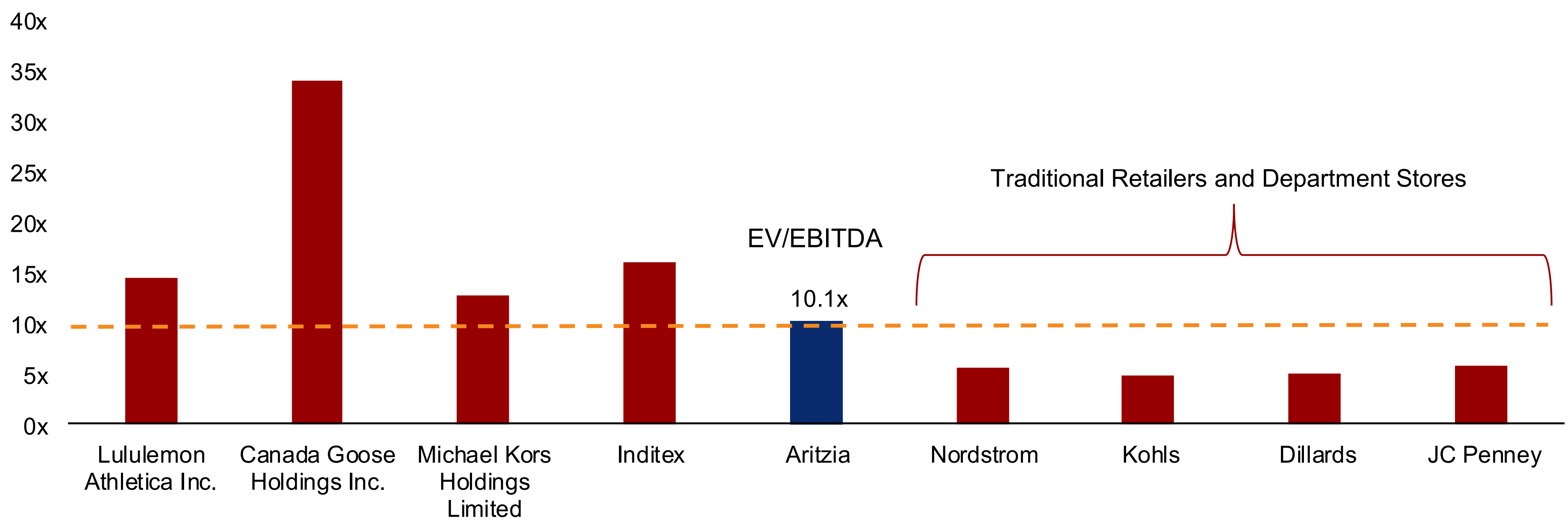
(in $ millions, unless noted)

Media Clumping Aritzia With Traditional Canadian Retailers

“America’s ‘retail apocalypse’ is really just beginning’” - Bloomberg

“Is Aritzia Going to be Buried in the Canadian Retail Graveyard?” - Yahoo Finance

Should Be Trading At Same Multiple As Non-Traditional Peers Given Its Business Model



Market Sees Aritzia More As A Traditional Brick & Mortar Rather Than Comparing To Its Peers

Source: Bloomberg, Forbes, Yahoo Finance, Company filings.

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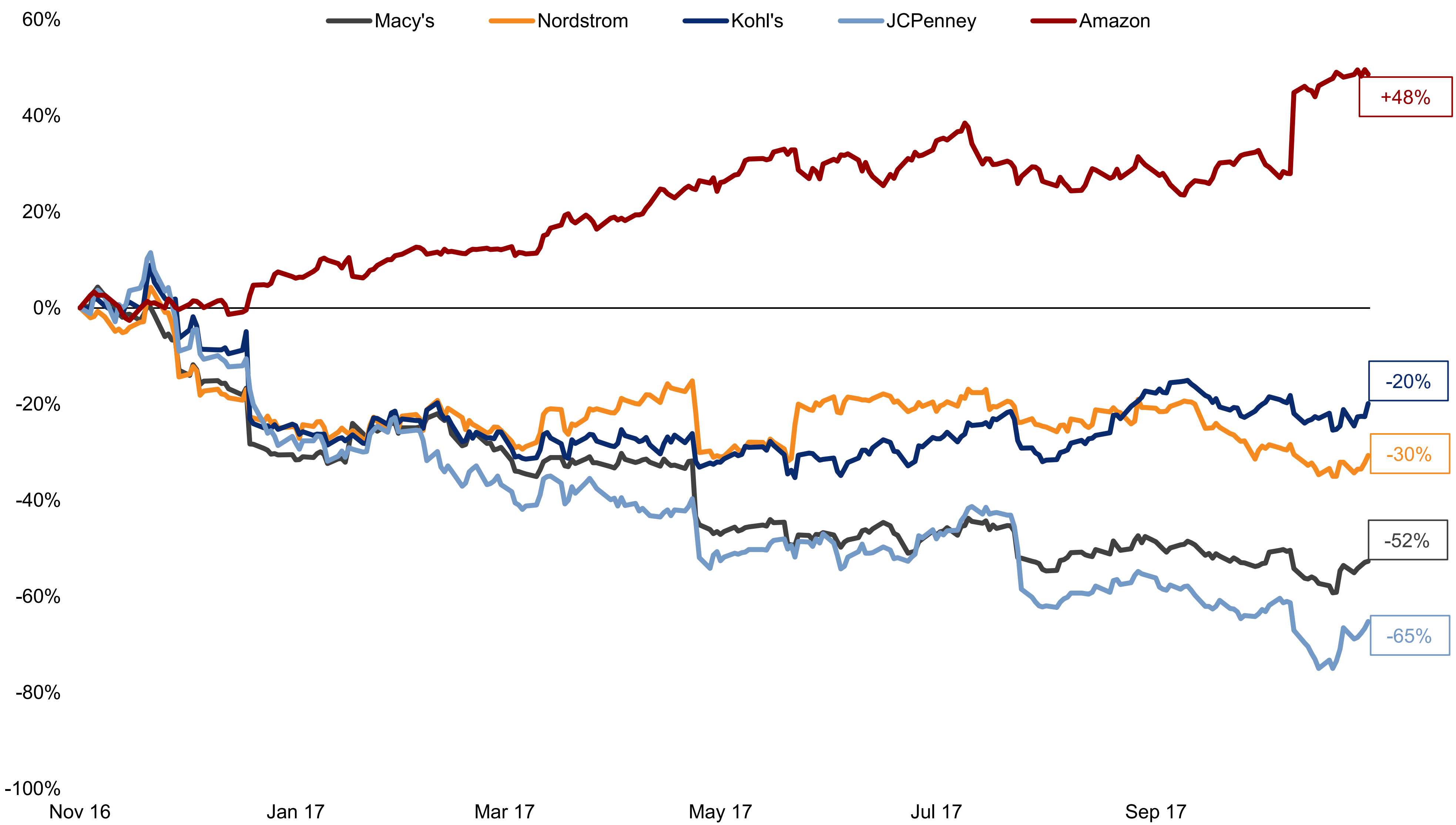
Aritzia Unfairly Discounted Due to Traditional Brick And Mortar

Traditional Retailers Suffering From The Rise Of Amazon & Transition To E-Commerce

(in $ millions, unless noted)



To Survive Retail Landscape, Business Model Needs To Be “Amazon Proof”

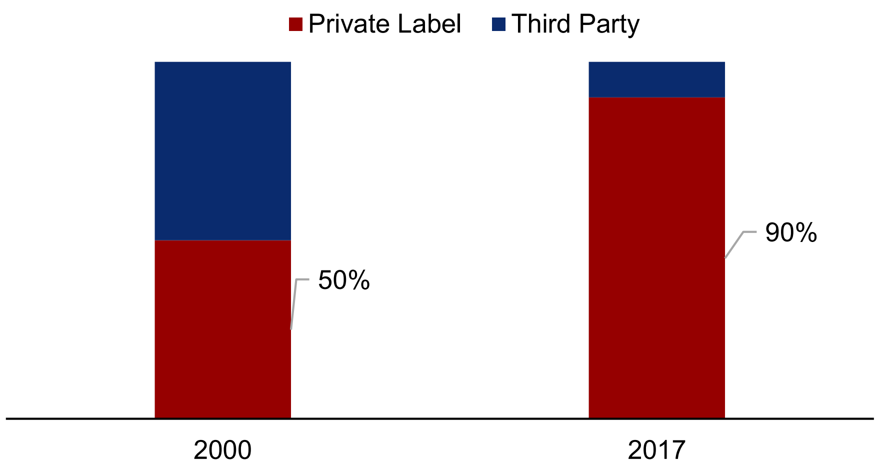
Source: Bloomberg.

"Amazon Proof" Product Mix

Aritzia's Private Label Brands Make It Resilient To Threats Like Amazon

(in $ millions, unless noted)

Aritzia's Product Mix

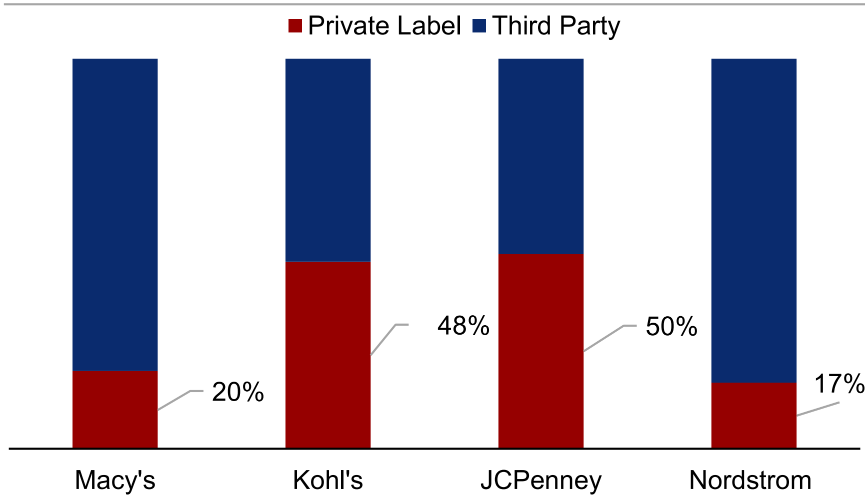


Control of Markdowns, Prices, Distribution

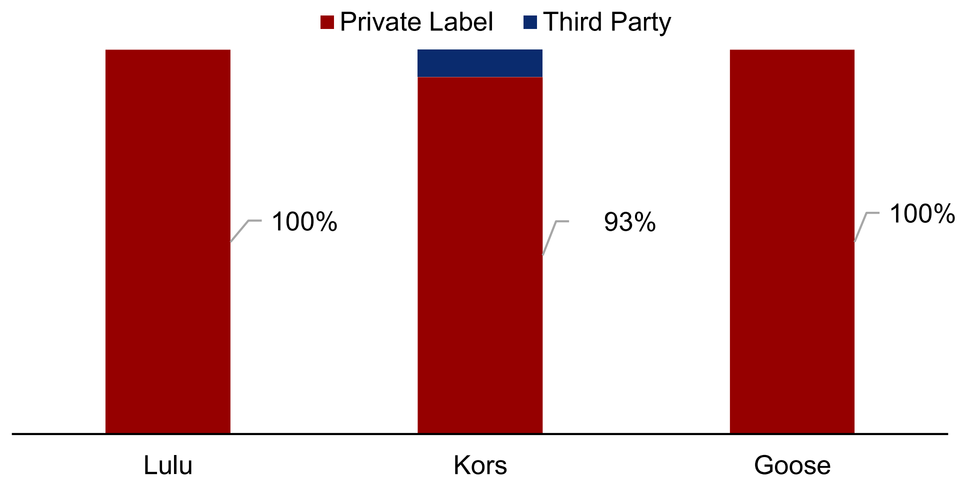
Private labels considered a "good hedge" against online due to exclusive distribution & limited channels

Enhances brand strength because of exclusivity

Traditional Brick And Mortar Offerings



Peers' Private Label Offerings



Traditional Brick And Mortar Rely Heavily On Third Party Labels Leading To Lack Of Control over Pricing And Distribution

Source: Bloomberg, Marketwatch, Company filings.

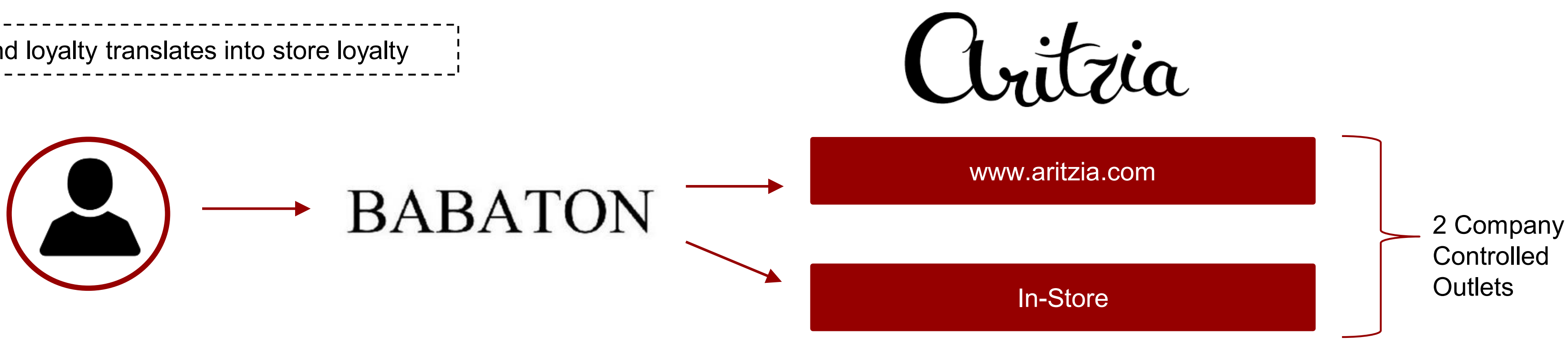
"Amazon Proof" Product Mix

Strong Control Over Brand Minimizes Risk of Amazon and Other Retailers From Taking Sales

(in $ millions, unless noted)

Company Controls All Outlets To Get Private Brand

Brand loyalty translates into store loyalty



Retailer Has No Control Over Third-Party Brands Outlets

Difficult to establish store loyalty when company does not control the brands

Aritzia's Exclusive Products Ensures Brand Strength & Control Over All Touchpoints

Source: Company filings.

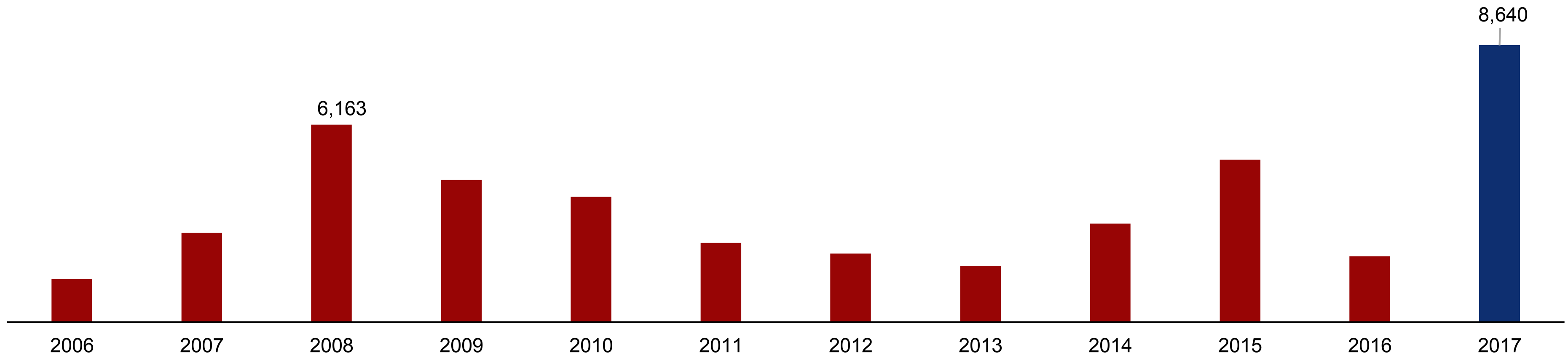
B

Premium & Modest Retail Portfolio

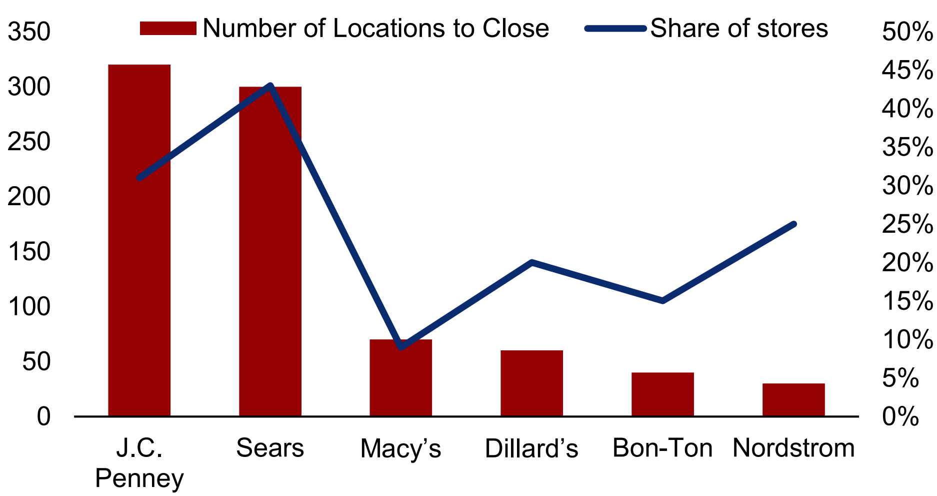
Despite Heavy Store Closures In Industry, Artizia & Peers Are Able To Expand Successfully

(in $ millions, unless noted)

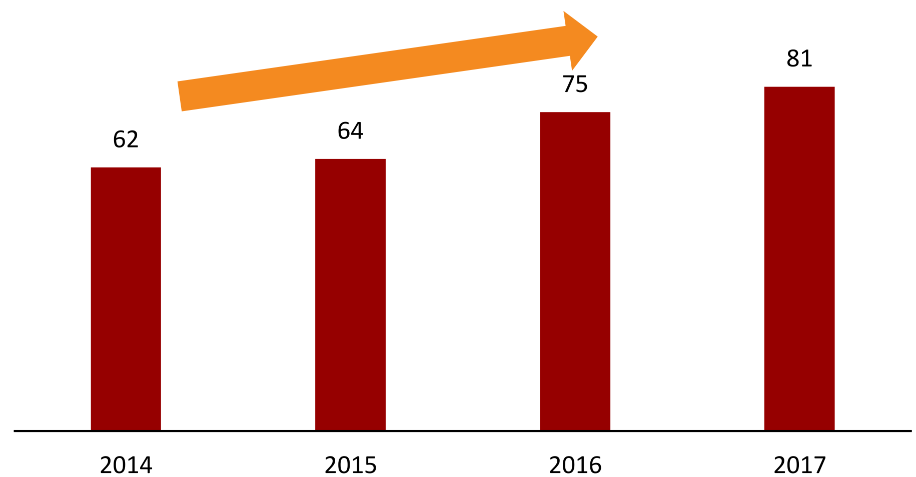
Store Closings At Record High, Apparel Leading the Way



Closures Needed to Return Stores to their 2006 Sales/Sq.Ft.



Aritzia Able to Maintain Steady Store Expansion Plan



Traditional Brick and Mortar Stores Suffering The Consequences Of Retail Boom Post WWII

Source: Credit Suisse, Company filings.

B Premium & Modest Retail Portfolio

Exposure in Class A+++ Malls Grants Them Heavy Store Traffic

(in $ millions, unless noted)

Real Estate Strategy

1) Located only in premier malls & high performing streets
2) Low Store Density Enhances Store Productivity & prevents self-cannibalization
3) Slow and steady store expansion
4) Extravagant flagships replace traditional marketing strategies
5) High Investment into store design and remodeling, with local accents at each
   - Aligns with need to create an "in-store experience"

Aritzia Yorkdale

Locations Exclusive to Premier Locations

Top 3 Performing Malls (CAN)	Sales / Sqft	No. Aritzia Stores
Yorkdale Centre	$1,650	3
Oakridge Centre	$1,537	2
CF Pacific Centre	$1,523	2

Willing To Wait For Prime Locations Rather Than Over-Building

Source: Retail Council of Canada, eMarketer, Company filings, Retail Insider.

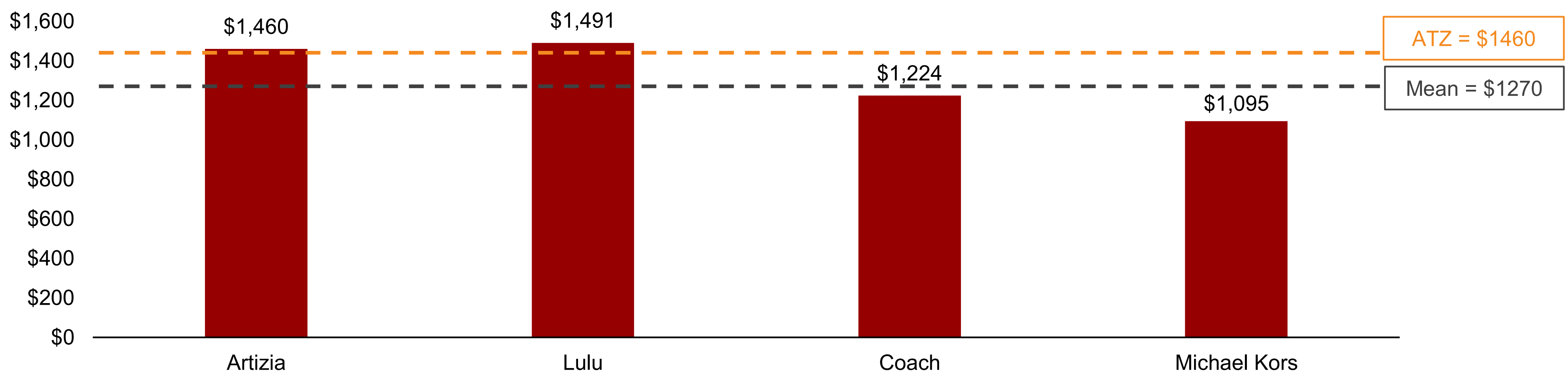
B

Premium & Modest Retail Portfolio

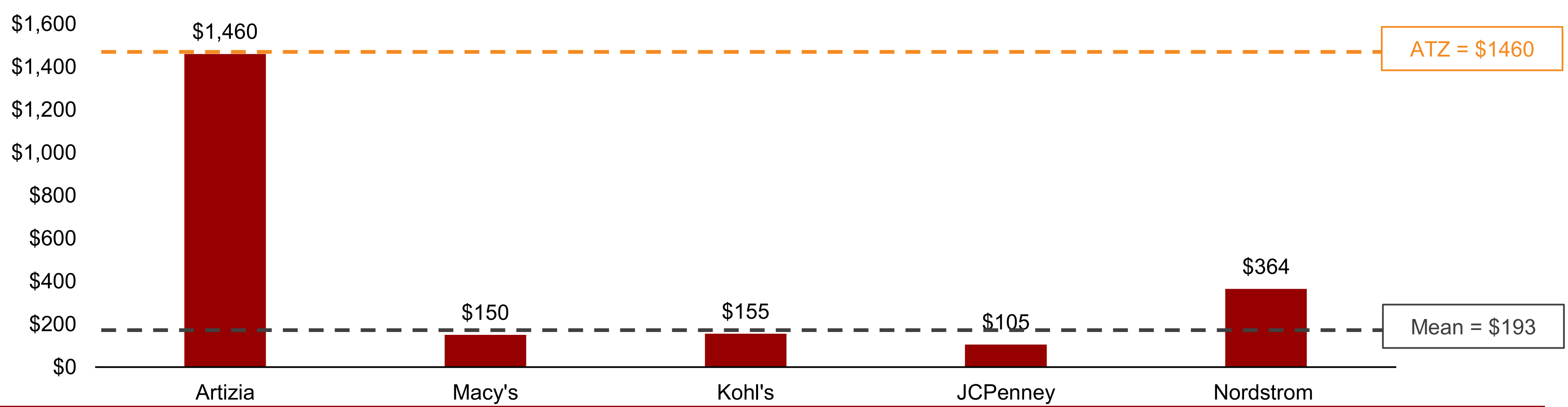
Retail Strategy Paying Off – Store Productivity Among The Highest In Apparel Retailers

(in $ millions, unless noted)

High Sales Per Square Foot Makes Them An Attractive Tenant



Traditional Brick & Mortar Stores Oversaturated & In Low-Traffic Locations Leads To Low Store Productivity



High Store Productivity Due to Low-Store Density In-Line With Modern Retailers

Source: Retail Council of Canada, eMarketer, Company filings.

C Financial Flexibility

Financial Flexibility Allows Aritzia To Undertake Store Remodels, Expansions, & Pursue Opportunities

(in $ millions, unless noted)

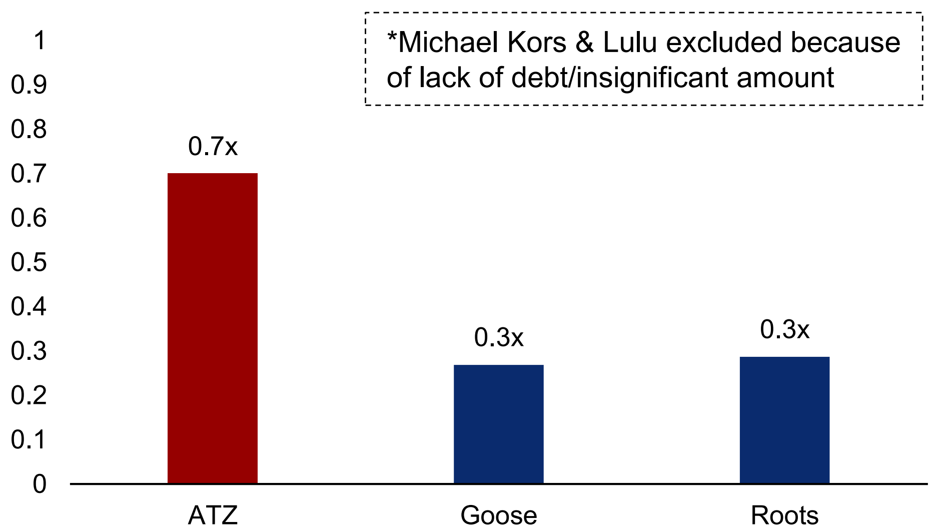
What is Financial Flexibility?

- Ability to survive sudden shocks
- Reasonable leverage and enough funds to pursue opportunities and invest in:

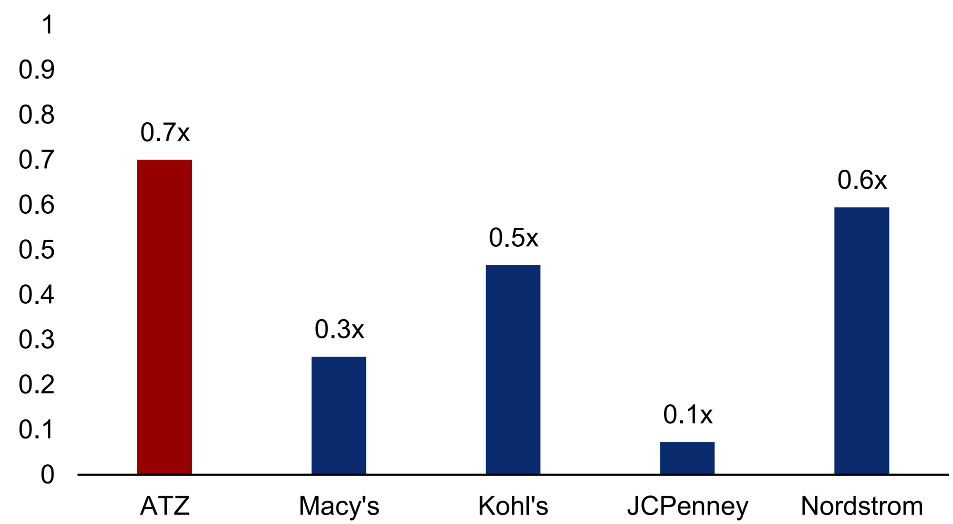
The Woes Of The Overbuilt Retailer

- High store densities typically led to lower financial flexibility
  - Toys R Us: over-levered and unable to service debt; capital tied up and couldn't invest in e-commerce
  - PSG: over-levered and couldn't survive financial shock
  - Macy's: capital tied up in stores, unable to invest in under-performing stores

Cash Flow To Debt Ratio For Higher Growth Peers



Cash Flow To Debt Ratio For Traditional Retailers



Aritzia's High Financial Flexibility Enables It To Survive Sudden Shocks, and To Invest In New Opportunities

Source: Bloomberg, CNBC, Company filings.

Financial Flexibility

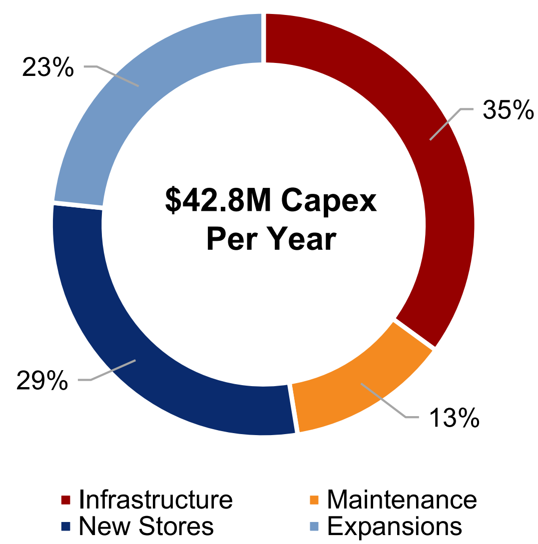
Financial Flexibility Allows Aritzia To Undertake Store Remodels, Expansions, & Pursue Opportunities

(in $ millions, unless noted)

The Root Of Growth & Advancement

5 Store Expansions per Year

Open minimum of 25-30 stores



E-commerce, Distribution Centres, POS System

Store Remodels & Maintenance

How does this Flow To The Bottom Line?

Each incremental expansion ~3,500 sqft
Each incremental sqft = ~$1,000 in sales

Each Store ~ 6000 sqft
Each sqft = $1000 in first year sales

Infrastructure initiatives streamline the process

Store Remodels increase sales by 50%

Continued Reinvestment Sets Aritzia Up for Growth

Source: Bloomberg, CNBC, Company filings.

Creative Destruction of the Retail Industry

What Doesn’t Kill You Makes You Stronger

(in $ millions, unless noted)

Amazon Spurring Another Large Transition

Industry is Undergoing Transition and Purging Underperformers, Aritzia poised to Survive

Source: Bloomberg, Forbes, Company filings.

Investment Criteria

Investment Opportunities in Affordable Luxury

(in $ millions, unless noted)

	Thesis 1			Thesis 2	Thesis 3
	Exclusive, Unique Brands	Low Store Density	Financial Flexibility	Growth Opportunity	Attractive Price
		✓			✓
MICHAEL KORS			✓		
	✓	✓		✓	✓
Aritzia	✓	✓	✓	✓	✓

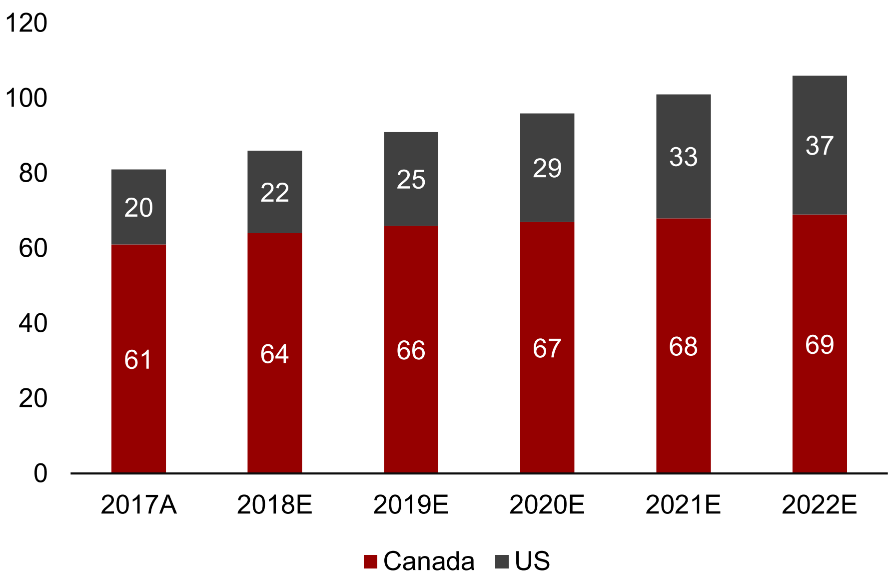
Aritzia is the most attractive opportunity within affordable luxury based on previously identified investment criteria

Source: Company filings.

Market underestimating U.S. Expansion opportunities

Plenty of White Space Opportunities

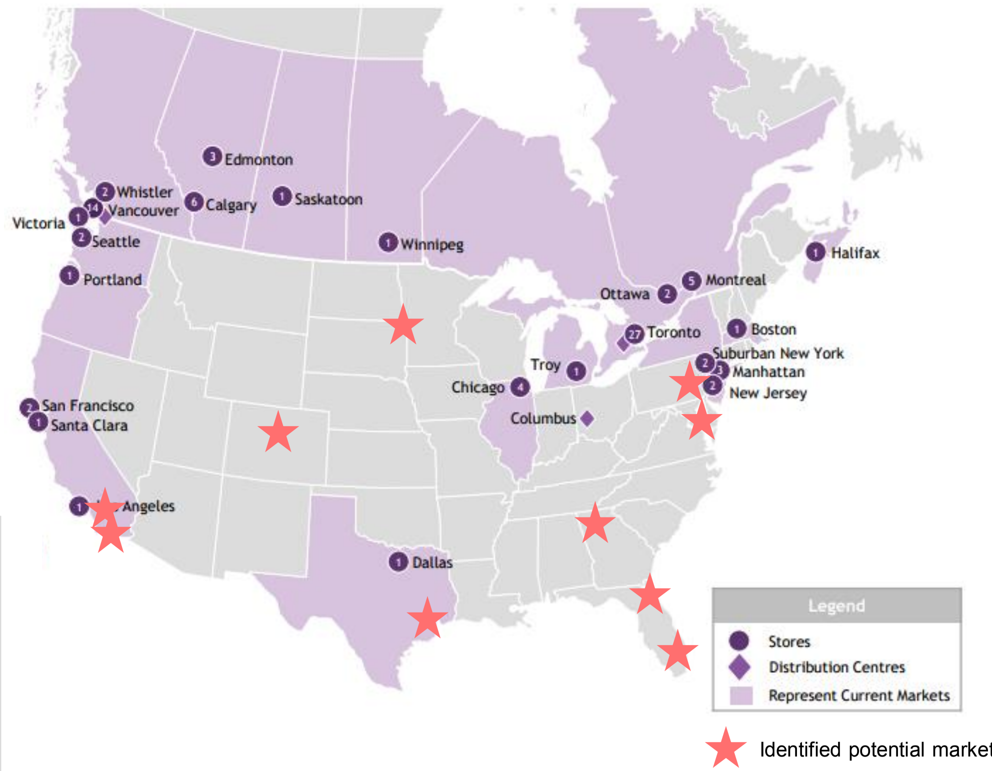
DCM Projected Store Mix



Management on Expanding Store Network (September 2016):

"By the end of Fiscal 2021, we believe there is an opportunity to open a minimum of 25 to 20 new stores across North America… We believe this is achievable in the context of our market opportunity based on a study we commissioned by a third party research firm, which identified 125 additional locations across North America. Our near-term growth plans reflect our disciplined and measured approach to expanding our network.

Current Store Map and Management Projections



Source: DCM Model, Company filings.

A

Market underestimating U.S. Expansion opportunities

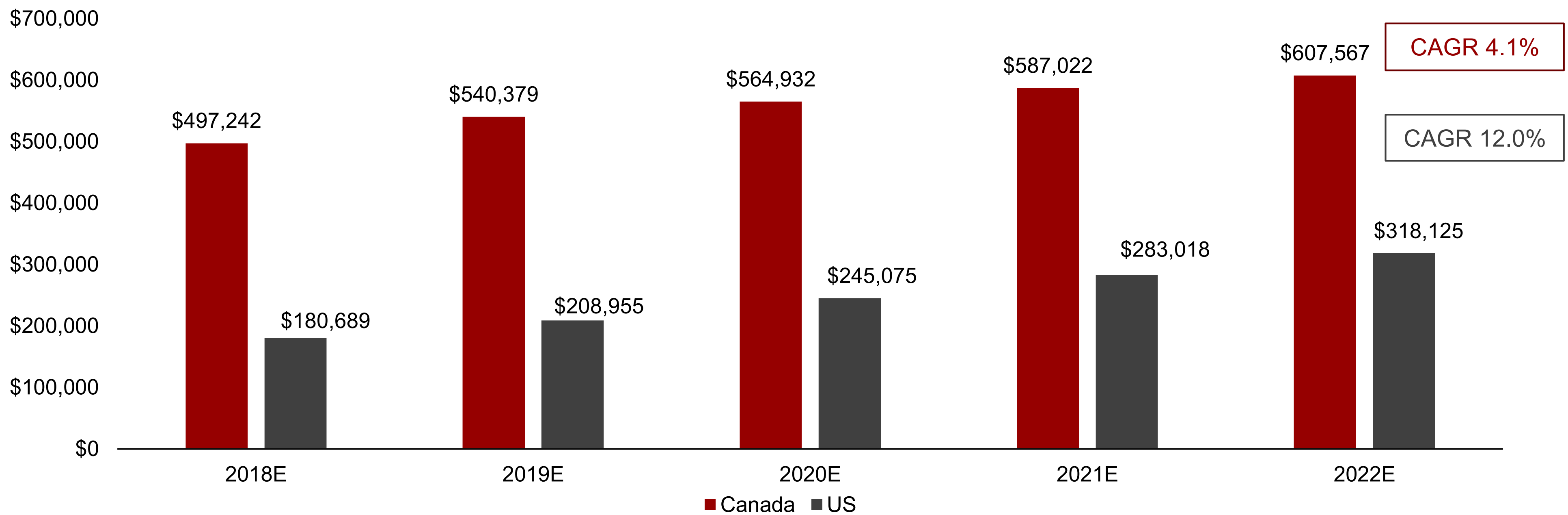
Disproportionate Increase in Revenue from U.S.

(in $ millions, unless noted)

U.S. Stores Drawing in Premium in Spending

	Revenue by Geography	Percent In-Store	Implied In-Store Revenue	Number of Stores	Implied Sales per Store
Canada	$496,292	89%	$441,204	61	$7,233
US	$170,889	89%	$151,920	20	$7,596
				US Premium	5.0%

Revenue Projections by Geography

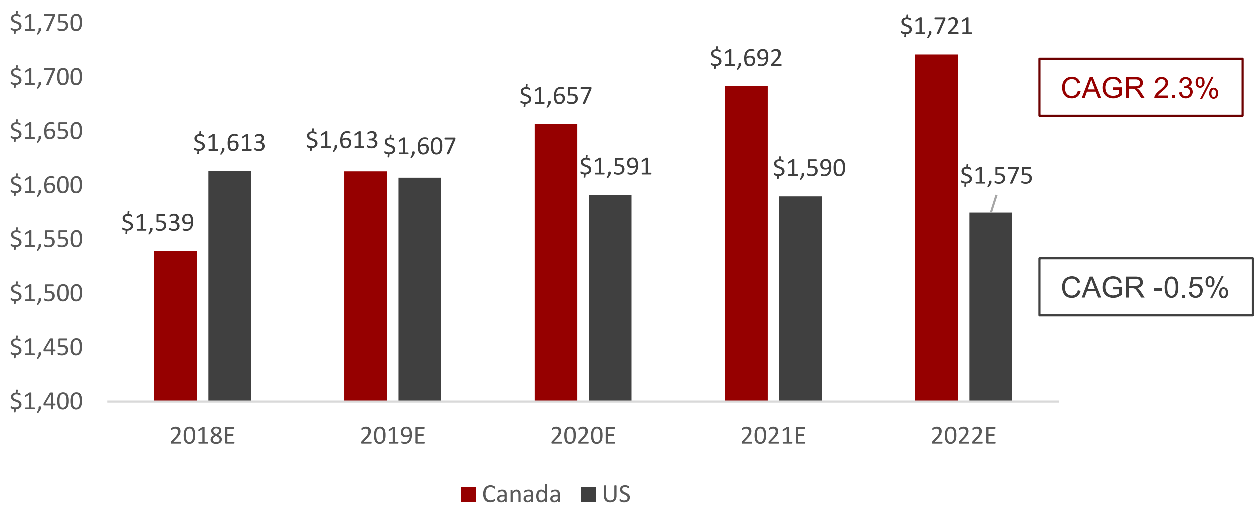


Source: Company filings, DCM Model

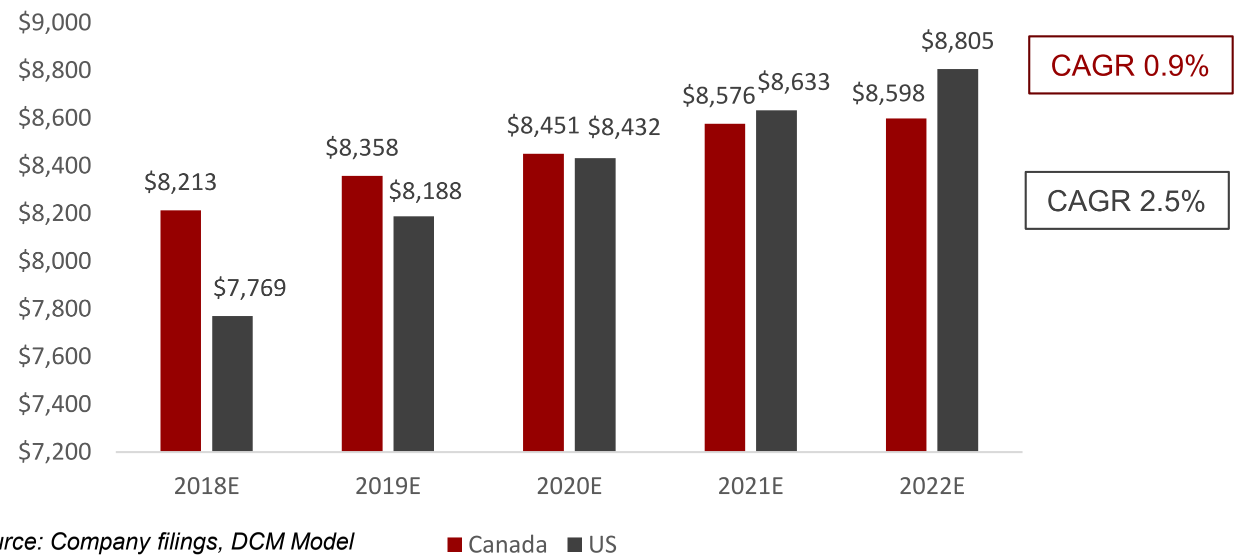
Market underestimating U.S. Expansion opportunities

Sales breakdown per store and square foot

Sales per Square Foot



Sales per Store (in $0000s)



Source: Company filings, DCM Model

Assumptions:
- Existing stores are 5,000 square feet
- New stores are 6,000 square feet
- New stores reach $1,000/square foot in their first year, and then reach the average by their second year
- Excluding the impact of ~5 store expansions per year, which add 3,500 square feet of retail space

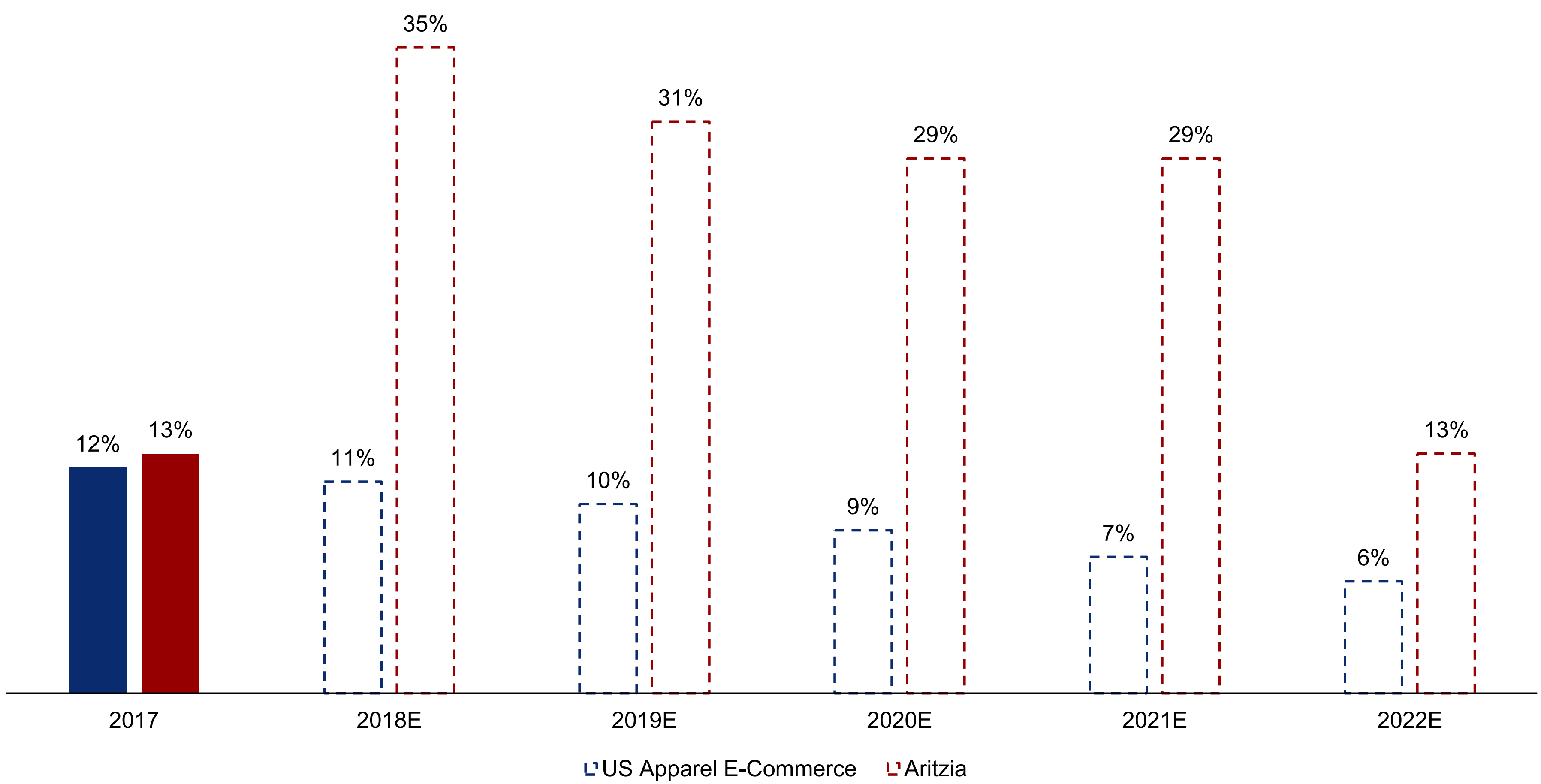
B

Market underestimating E-Commerce Segment

Potential To Grow E-Commerce Platform Faster Than Markets

(in $ millions, unless noted)

Difficult For The Market To Realize Since None Of the Revenue Is Segmented



Aritzia Outperforming Market At Growing E-Commerce Platform

Source: DCM Model, Statista, Company filings.

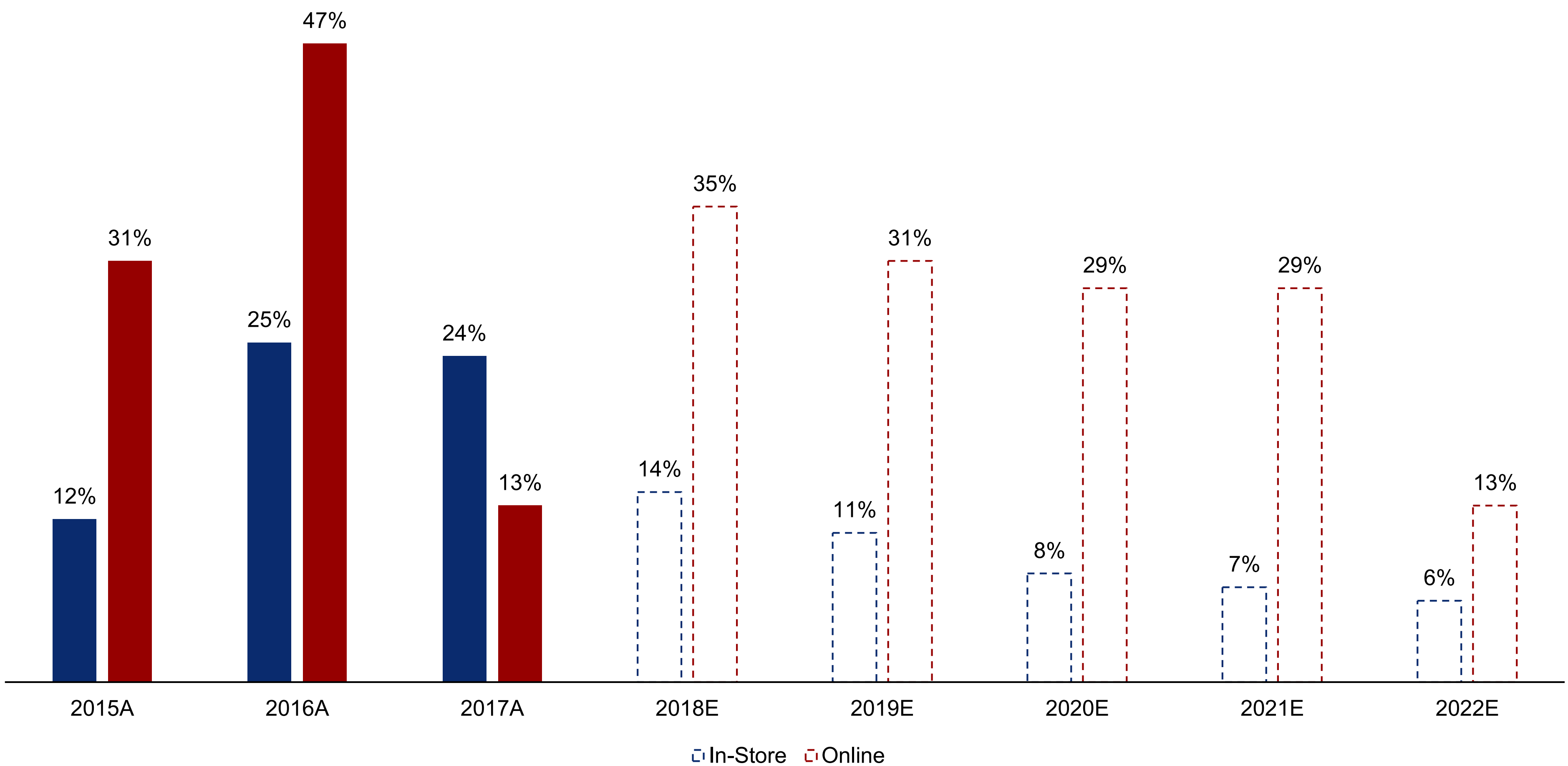
B

Market underestimating E-Commerce Segment

In-Store VS Online Growth

(in $ millions, unless noted)

Projected E-Commerce Growth Assuming Segment Hits 20% of Total Revenue By 2021



E-Commerce Growth Should Be Able To Sustain Double-Digit Growth For Projection Period

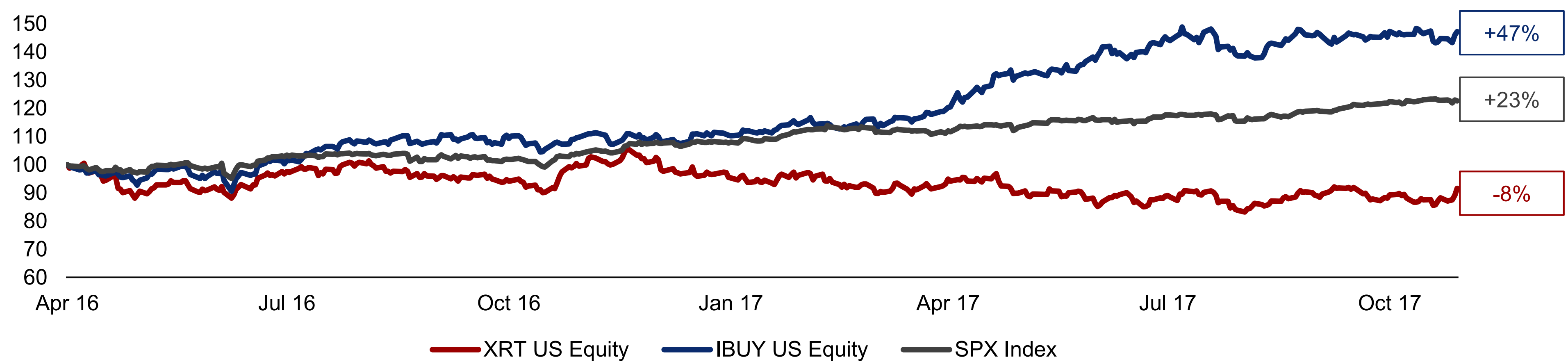
Source: DCM Model, Company filings.

Dominating E-Commerce

Retail's Unhealthy Discount Addiction Inline the Industry's Discount

(in $ millions, unless noted)

Online vs . Apparel



ETFs Betting Against Brick & Mortar

- Nov-17: The Solactive-ProShares Bricks and Mortar Retail Store Index created
- Proposed ETFs:

ProShares UltraShort Bricks and Mortar Retail fund &
ProShares UltraPro Short Bricks and Mortar Retail fund

- Leveraged -200% and -300% respectively on the SPBMRSI

ProShares Long Online Short Bricks & Mortar Retail ETF

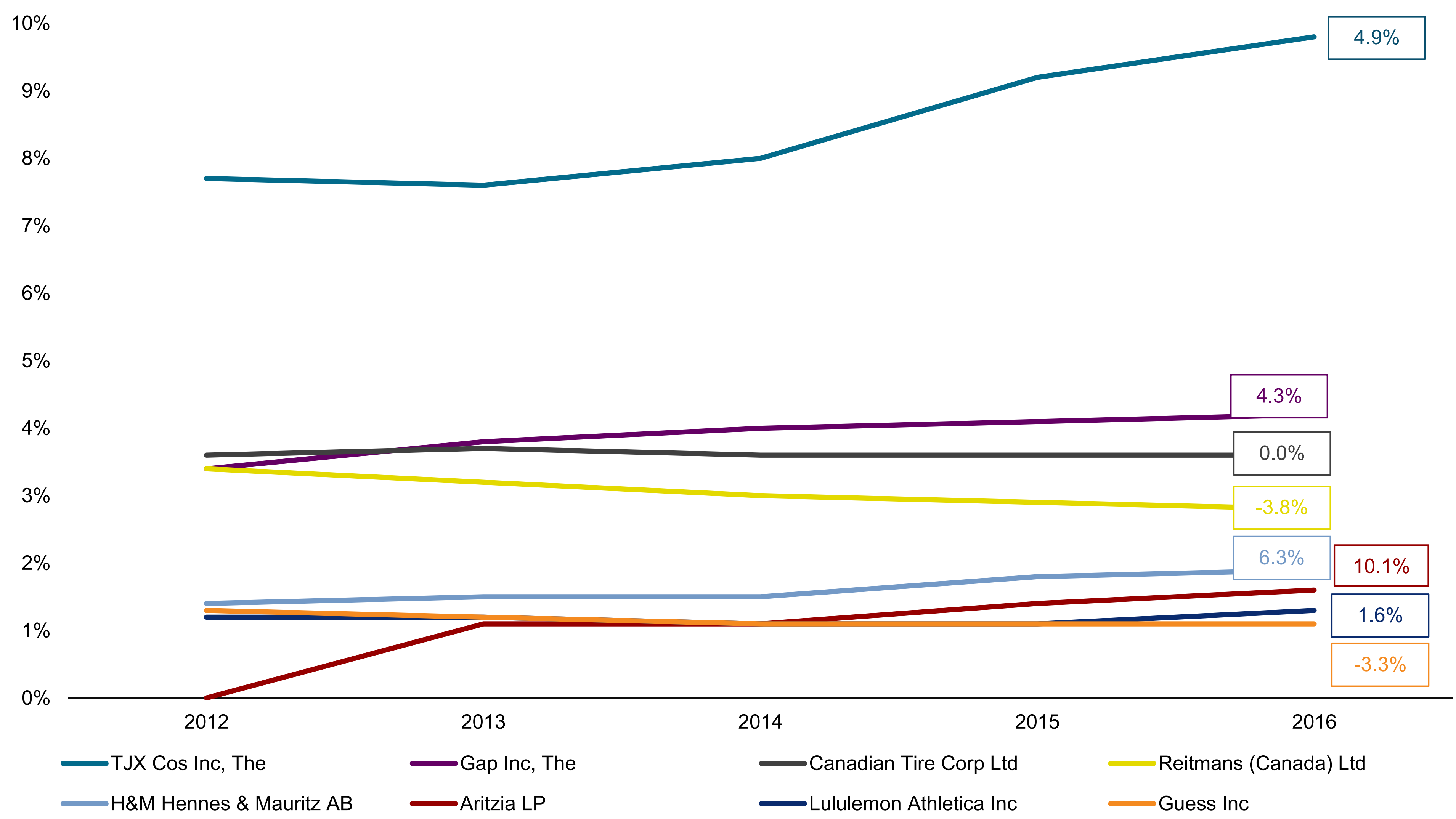
- Short traditional retailers
- Long ecommerce heavy retailers
- Underlying index:
  - Managed by ProShares
  - Equally-weighted benchmark
  - Includes US and overseas stocks
  - Evaluated based on data such as online sale revenue and the square footage of the physical stores

Source: Cowen and Company, IBISWorld

B

Dominating E-Commerce

Share of Total Canadian Online Apparel Market



Aritzia E-Commerce Growth Compared to Market

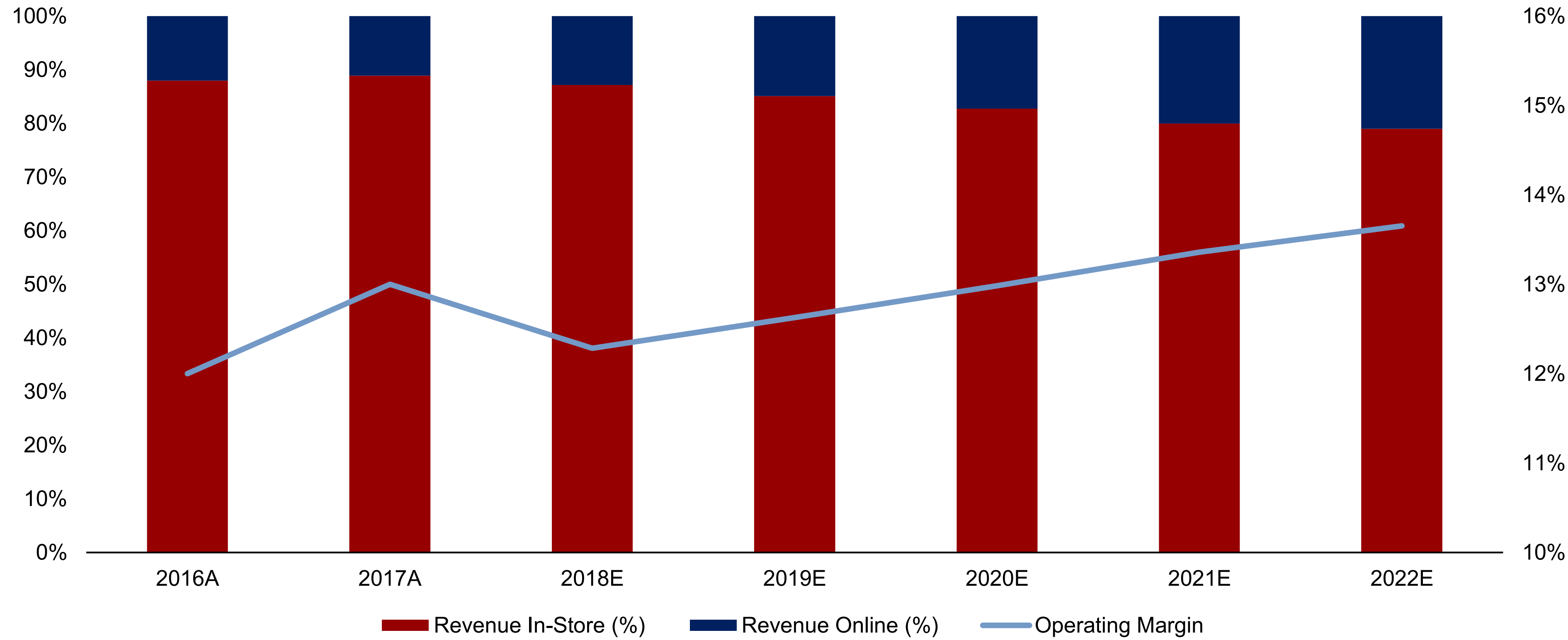
Source: IBIS World, Company filings.

Margin Expansion Opportunity With E-Commerce

Sensitivity to Exchange Rates Terminal Growth Rates

(in $ millions, unless noted)

Management Guidance for 5 Years:



	2010	2011	2012	2013	2014	2015	2016	2017	Weighted Average (LULU)	Weighted Average (ATZ)
In-Store Margin	30%	29%	42%	42%	42%	41%	41%	41%	**38%**	**11.45%**
Online Margin	29%	36%	36%	35%	30%	26%	23%	24%	**30%**	**16.00%**

Source: Bloomberg, Forbes, Company filings.

Aritzia

Investment Opportunities in Affordable Luxury

(in $ millions, unless noted)

	Thesis 1			Thesis 2	Thesis 3
	Exclusive, Unique Brands	Low Store Density	Financial Flexibility	Growth Opportunity	Attractive Price
	✓	✓	✓		✓
MICHAEL KORS	✓		✓		✓
	✓	✓		✓	
Aritzia	✓	✓	✓	✓	✓

Source: Company filings.

Even Conservative Assumptions Gives Us A Significant Upside

(in $ millions, unless noted)

Management Guidance for 5 Years:

- Open minimum of 25-30 stores
- Revenue to reach $1.1-1.2bn
- E-commerce to reach 25% of total sales
- 5 Store Expansions per Year

Our Assumptions:

- Open 5 stores / year
- E-commerce to reach 20% of total sales
- Assume US Grows Faster, but tapered off growth to industry by end of forecast period
- Exchange Rate Considerations

Source: Company filings.

Comparable Company Analysis

(in $ millions, unless noted)

Trading At a Discount Compared to Peers

		EV/Sales				EV/EBITDA			P/E			Debt/EBITDA	
Company	Debt	LTM	2017E	2018E	2019E	2017E	2018E	2019E	LTM	2018E	2019E	LTM	EBITDA Margin
Comps													
Lululemon Athletica Inc.	-	3.4x	3.5x	3.2x	2.9x	16.2x	14.7x	13.0x	26.7x	30.8x	27.7x	0.0x	21%
Canada Goose Holdings Inc.	198	8.4x	10.7x	7.7x	6.3x	nmf	36.6x	28.6x	50.5x	nmf	nmf	2.4x	22%
Michael Kors Holdings Limited	156	2.7x	2.8x	2.7x	2.5x	11.3x	12.9x	12.1x	14.2x	13.5x	14.2x	0.1x	24%
Mean	118	4.8x	5.7x	4.5x	3.9x	13.8x	21.4x	17.9x	30.5x	22.2x	20.9x	0.9x	22%
Median	156	3.4x	3.5x	3.2x	2.9x	13.8x	14.7x	13.0x	26.7x	22.2x	20.9x	0.1x	22%
Aritzia Inc.													
Aritzia Inc.	108	1.9x	2.1x	1.8x	1.5x	12.1x	10.3x	8.5x	13.4x	21.9x	18.1x	1.4x	14%

Trading At a Discount On An EV/EBITDA Basis

Source: Capital IQ 11/20/2017, Company filings.

Valuation: Sensitivity Analysis

Sensitivity to Exchange Rates Terminal Growth Rates

(in $ millions, unless noted)

		CAD/USD Exchange Rate				
		1.32	1.30	1.28	1.26	1.24
WACC	7.11%	13.74	15.49	17.23	18.97	20.71
	7.61%	12.56	14.17	15.79	17.40	19.02
	8.11%	11.57	13.07	14.58	16.09	17.59
	8.61%	10.72	12.13	13.55	14.96	16.38
	9.11%	9.99	11.32	12.66	14.00	15.33

		Terminal Growth Rate				
		1%	1.50%	2.0%	2.5%	3.0%
WACC	7.11%	15.01	16.02	17.24	18.72	20.56
	7.61%	13.94	14.79	15.80	17.00	18.46
	8.11%	13.03	13.75	14.59	15.58	16.76
	8.61%	12.23	12.84	13.56	14.38	15.36
	9.11%	11.52	12.06	12.67	13.37	14.18

	CAD/USD
2006	1.13
2007	1.07
2008	1.07
2009	1.14
2010	1.03
2011	0.99
2012	1.00
2013	1.03
2014	1.10
2015	1.28
2016	1.33
2017	1.30
Average	**1.12**

DCF Output

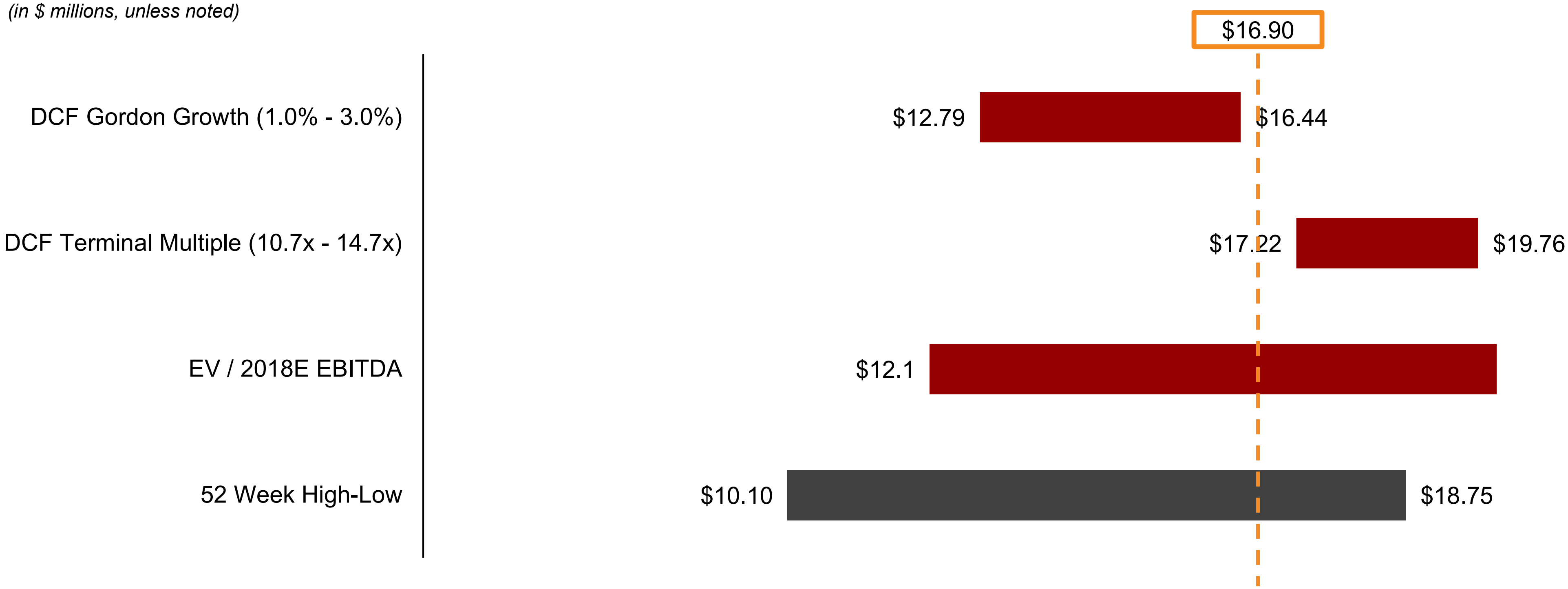
(in $ millions, unless noted)

Gordon Growth	
Implied Enterprise Value	**1,657**
Less: Debt	(135)
Less: Preferred Shares	-
Less: Minority Interests	-
Plus: Cash	56
Implied Equity Value	**1,579**
Shares Outstanding	110
Implied Share Price	**$14.30**
Implied Upside	21.9%

Multiples Method	
Implied Enterprise Value	**2,134**
Less: Debt	(135)
Less: Preferred Shares	-
Less: Minority Interests	-
Plus: Cash	56
Implied Equity Value	**2,056**
Shares Outstanding	110
Implied Share Price	**$18.62**
Implied Upside	58.8%

Football Field

(in $ millions, unless noted)



Fair Market Value (EV) - All dollar values in C$M	Low	Spread	High	Weight
52 Week High-Low	$10.10	$8.7	$18.75	0.0%
EV / 2018E EBITDA	$12.1	$11.0	$23.1	33.3%
DCF Terminal Multiple (10.7x - 14.7x)	$17.22	$2.5	$19.76	33.3%
DCF Gordon Growth (1.0% - 3.0%)	$12.79	$3.7	$16.44	33.3%
Weighted Fair Market Value	**$14.03**	**$5.7**	**$19.76**	**100.0%**
	$16.90			
Implied Upside	45%			

Risks & Catalysts

Factors To Continue Monitoring Going Forward

Risks	Catalysts
Fashion risk	Appreciating CAD against USD
Downturn in the Economy	Continued boom in economy
Management lowers guidance	Under-penetrated Market
Dual-class shares risk	Increased Awareness Among Fashion Influencers

Source: Company filings.

Environmental, Social, Governance (ESG)

ESG Analysis Shows Room for Improvement

(in $ millions, unless noted)

ESG Disclosure And Reporting

- Still the process of developing ESG reporting frameworks

Governance

- Could improve since % of independent directors is lower than peer average

Neutral

Social

Neutral

Environmental

- All materials responsibly sourced
  - Partnership with Canopy to protect endangered forests
  - Responsibly Sourced Down
  - Organic & Recycled Material
- Sustainable Apparel Coalition

Neutral

Still In Process Of Developing ESG Reporting Framework but No Major Issues Found

Source: Bloomberg, Ethical

Disclaimer