Aritzia Reports First Quarter Fiscal 2023 Financial Results

Q1 net revenue increased by 65.2% to $407.9 million
Q1 net income increased by 85.8% to $33.3 million
Q1 Adjusted EBITDA[1] increased by 70.3% to $69.6 million

VANCOUVER, July 7, 2022 – Aritzia Inc. (TSX: ATZ, "Aritzia" or the "Company"), a vertically integrated, innovative design house offering Everyday Luxury online and in its boutiques, today announced its financial results for first quarter fiscal 2023 ended May 29, 2022.

“Our outstanding performance continued through the first quarter of fiscal 2023, driven by the incredible reception to our spring and summer product,” said Jennifer Wong, Chief Executive Officer. “We saw strength across all geographies and channels, and we were particularly pleased with our ongoing momentum in the United States, where revenue grew 81%. New boutiques continued to outperform our expectations, further fueling our brand awareness and multi-channel business.”

“We are seeing this momentum extend into the second quarter, in spite of the challenging macro backdrop, as client demand remains strong. We continue to position ourselves for long-term success, as we advance our growth strategies and investment in infrastructure. I am deeply appreciative of our loyal clients and our people’s commitment to excellence as we continue delivering our Everyday Luxury experience,” concluded Ms. Wong.

First Quarter Highlights

– **Net revenue** increased 65.2% to $407.9 million from Q1 2022, achieving comparable sales growth[1] of 29.4% compared to Q1 2022
– **USA revenue** increased by 81.0% to $206.8 million from Q1 2022, comprising 50.7% of net revenue in Q1 2023
– **eCommerce revenue** increased by 15.5% to $120.1 million from Q1 2022, comprising 29.4% of net revenue in Q1 2023
– **Retail revenue** increased by 101.3% to $287.8 million from Q1 2022
– **Gross profit margin**[1] increased slightly to 44.3% from 44.2% in Q1 2022
– **Net income** increased by 85.8% to $33.3 million from Q1 2022
– **Adjusted EBITDA**[1] increased by 70.3% to $69.6 million from Q1 2022
– **Adjusted Net Income**[1] of $0.35 per diluted share, compared to $0.19 per diluted share in Q1 2022

(1) Unless otherwise indicated, all amounts are expressed in Canadian dollars. Certain metrics, including those expressed on an adjusted or comparable basis, are non-IFRS measures or supplementary measures. See "Non-IFRS Measures including Retail Industry Metrics" and "Selected Consolidated Financial Information".

First Quarter Results Compared to Q1 2022

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)		Q1 2023 13 weeks			Q1 2022 13 weeks		Variance	
							%	% pts
eCommerce revenue	$	120,086	29.4 %	$	103,964	42.1 %	15.5%	
Retail revenue		287,824	70.6 %		142,952	57.9 %	101.3%	
Net revenue		407,910	100.0 %		246,916	100.0 %	65.2%	
Gross profit		180,896	44.3 %		109,108	44.2 %	65.8%	0.1 %
SG&A		120,279	29.5 %		70,382	28.5 %	70.9%	1.0 %
Net income	$	33,261	8.2 %	$	17,903	7.3 %	85.8%	0.9 %
Net income per diluted share	$	0.29		$	0.16		81.3%	
Adjusted EBITDA(1)	$	69,646	17.1 %	$	40,902	16.6 %	70.3 %	0.5 %
Adjusted Net Income(1) **per diluted share**	$	0.35		$	0.19		84.2 %	

Net revenue increased by 65.2% to $407.9 million, compared to $246.9 million in Q1 2022. The Company continues to see an unprecedented acceleration of sales in the United States, where net revenues increased by 81.0% to C$206.8 million, compared to C$114.3 million in Q1 2022.

- **eCommerce revenue** increased by 15.5% to $120.1 million, compared to $104.0 million in Q1 2022. Overall eCommerce revenue growth was moderated by the channel shift to retail in Eastern Canada where 34 of our boutiques were closed for approximately two-thirds of Q1 2022.
- **Retail revenue** increased by 101.3% to $287.8 million, compared to $143.0 in Q1 2022. The increase in revenue was led by outstanding performance of our existing and new boutiques in the United States, strong double digit comparable sales growth in Canada, as well as boutique revenue from 34 of our boutiques which were closed for approximately two-thirds of Q1 2022. Boutique count at the end of Q1 totaled 109 compared to 102 boutiques at the end of Q1 2022.

Gross profit increased by 65.8% to $180.9 million, compared to $109.1 million in Q1 2022. Gross profit margin was 44.3%, compared to 44.2% in Q1 2022. The slight improvement in gross profit margin was primarily due to leverage on occupancy and warehousing costs, despite higher expedited freight costs as a result of ongoing global supply chain disruptions and inflationary pressure.

Selling, general and administrative ("SG&A") expenses increased by 70.9% to $120.3, compared to $70.4 million in Q1 2022. SG&A expenses were 29.5% of net revenue, compared to 28.5% in Q1 2022. The increase in SG&A expenses was primarily due to variable selling costs associated with the increase in revenue and continued investment in talent, technology, and marketing initiatives.

Net income was $33.3 million, an increase of 85.8% compared to $17.9 million in Q1 2022.

Net income per diluted share was $0.29, an increase of 81.3% compared to $0.16 in Q1 2022.

Adjusted EBITDA(1) was $69.6 million or 17.1% of net revenue, an increase of 70.3% compared to $40.9 million or 16.6% of net revenue in Q1 2022.

Adjusted Net Income(1) was $40.9 million, an increase of 88.8% compared to $21.7 million in Q1 2022.

Adjusted Net Income(1) **per diluted share** was $0.35, an increase of 84.2% compared to $0.19 in Q1 2022.

Cash and cash equivalents at the end of Q1 2023 totaled $179.4 million compared to $157.9 million at the end of Q1 2022. The Company currently has zero drawn on its revolving credit facility.

Inventory at the end of Q1 2023 was $298.6 million, compared to $165.0 million at the end of Q1 2022. The Company continues to strategically build its inventory to meet demand.

Capital cash expenditures (net of proceeds from lease incentives)(1) were $24.4 million in Q1 2023, compared to $6.5 million in Q1 2022.

Outlook

The Company's strong momentum continued into the second quarter of fiscal 2023. Aritzia is on-track to deliver net revenue in the range of $440 million to $460 million in Q2 2023, representing an increase of approximately 26% to 31% from last year. This reflects continued strength in the United States across both its retail and eCommerce channels, as well as, strong recovery of the Company's business in Canada. This revenue range for the second quarter reflects all boutiques opened with no COVID-19 related restrictions in place, compared to last year when 27 of the Company's boutiques in Canada were mandated to close for approximately one-third of the quarter.

For fiscal 2023, Aritzia currently expects the following:

- Net revenue in the range of $1.875 billion to $1.9 billion, representing an increase of approximately 25% to 27% from fiscal 2022, up from the Company's previous outlook of $1.8 billion. This is led by continued strength in the Company's business in the United States across both channels, as well as continued growth in Canada driven by its eCommerce business and recovery in its boutiques, and contribution from its retail expansion with:
    - Eight to ten new boutiques with all but one in the United States, including three boutiques in the United States and one in Canada already opened; and
    - Four to five boutique expansions or repositions, including three to four locations in Canada and one in the United States.
- Gross profit margin to decrease by approximately 100 bps to 150 bps compared to last year, reflecting ongoing impacts from global supply chain disruptions, inflationary pressure, and discontinued COVID relief subsidies;
- SG&A as a percent of net revenue to increase approximately 50 bps to 100 bps compared to last year, reflecting ongoing investments to fuel our future growth;
- Net capital expenditures in the range of $110 million to $120 million, comprised of:
    - Boutique network growth,
    - New distribution centre in the Greater Toronto area, and
    - Ongoing investments in technology, infrastructure to enhance the Company's eCommerce capabilities and omni-channel experience, and support office expansion.

The foregoing outlook is based on management's current strategies and may be considered forward-looking information under applicable securities laws. Such outlook is based on estimates and assumptions made by management regarding, among other things, general economic and geopolitical conditions and the competitive environment as well as further COVID-19 resurgences. Readers are cautioned that actual results may vary. See also the "Forward-Looking Information" section of this earnings release and "Risk Factors" section of our MD&A and AIF.

Normal Course Issuer Bid

On January 12, 2022, the Company announced the commencement of a normal course issuer bid (the “NCIB”) to repurchase and cancel up to 3,732,725 of its subordinate voting shares, representing approximately 5% of the public float of 74,654,507, over the 12-month period commencing January 17, 2022 and ending January 16, 2023.

On May 18, 2022, the Company entered into an automatic share purchase plan (the “ASPP”) with a designated broker for the purpose of permitting the Company to purchase its subordinate voting shares under the NCIB during self-imposed blackout periods.

Between January 17, 2022 and July 6, 2022, the Company repurchased a total of 1,460,380 subordinate voting shares for cancellation at an average price of $38.85 per subordinate voting share for total cash consideration of $56.7 million.

Conference Call Details

A conference call to discuss the Company’s first quarter results is scheduled for Thursday, July 7, 2022, at 1:30 p.m. PT / 4:30 p.m. ET. To participate, please dial 1-800-319-4610 (North America toll-free) or 1-416-915-3239 (Toronto and overseas long-distance). The call is also accessible via webcast at http://investors.aritzia.com/events-and-presentations/. A recording will be available shortly after the conclusion of the call. To access the replay, please dial 1-855-669-9658 and the access code 9137. An archive of the webcast will be available on Aritzia's website.

About Aritzia

Aritzia is a vertically integrated design house with an innovative global platform, home to an extensive portfolio of exclusive brands for every function and individual aesthetic. We’re about good design, quality materials and timeless style that endures and inspires — all with the well-being of our People and Planet in mind. We call this Everyday Luxury.

Founded in 1984, in Vancouver, Canada, we create and curate products that are both beautiful and beautifully made, cultivate aspirational environments, offer engaging service that delights, and connect through captivating communications. We pride ourselves on providing immersive, and highly personal shopping experiences at aritzia.com and in our 100+ boutiques throughout North America to everyone, everywhere.

Everyday Luxury. To Elevate Your World.™

Comparable Sales Growth

Comparable sales growth is a retail industry metric used to assess the performance of the Company’s business to explain our total combined revenue growth in eCommerce and established boutiques. Due to temporary boutique closures from COVID-19 in fiscal 2022 which resulted in boutiques being removed from our comparable store base, we believe total comparable sales growth was not representative of our business and therefore we have not reported figures on this metric for Q1 2022 in this press release.

Non-IFRS Measures including Retail Industry Metrics

This press release makes reference to certain non-IFRS measures including certain retail industry metrics. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including “EBITDA”, “Adjusted EBITDA”, “Adjusted Net Income”, “Adjusted Net Income per Diluted Share”, ”capital cash expenditures (net of proceeds from lease incentives)” and “free cash flow.” This press release also makes reference to “gross profit margin” as well as “comparable sales growth”, which are commonly used operating metrics in the retail industry but may be calculated differently compared to other retailers. Gross profit margin and comparable sales growth are considered supplementary measures under applicable securities laws. These non-IFRS measures including retail industry metrics are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We believe that securities analysts, investors and other interested parties frequently use non-IFRS measures including retail industry metrics in the evaluation of issuers. Our management also uses non-IFRS measures including retail industry metrics in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. Definitions and reconciliations of non-IFRS measures to the relevant reported measures can be found in our MD&A. Such reconciliations can also be found in this press release under the heading "Selected Consolidated Financial Information".

Forward-Looking Information

Certain statements made in this press release may constitute forward-looking information under applicable securities laws. Forward-looking statements are based on information currently available to management and on estimates and assumptions made by management regarding, among other things, general economic and geopolitical conditions and the competitive environment within the retail industry, in light of its experience and perceptions of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate and reasonable in the circumstances. These statements may relate to our future financial outlook, our plans relating to our distribution facilities and digital infrastructure, and anticipated events or results and include, our ability to sustain momentum in our business and advance our strategic growth drivers, continued focus on driving digital innovation and eCommerce and Omni capabilities, accelerating boutique growth and expanding our product assortment, acquiring new clients and investing in our infrastructure and growing team, the Company’s response to mitigate anticipated supply chain disruptions, geopolitical risks, inflationary pressures and labour shortages, repurchases under our NCIB, our outlook for: (i) net revenue in the second quarter of fiscal 2023, (ii) net revenue in fiscal 2023, (iii) gross profit margin in fiscal 2023, (iv) SG&A as a percent of net revenue in fiscal 2023, (v) net capital expenditure in fiscal 2023 and (vi) new boutiques and expansion or repositioning of existing boutiques in fiscal 2023. Particularly, information regarding our expectations of future results, targets, performance achievements, prospects or opportunities is forward-looking information. As the context requires, this may include certain targets as disclosed in the prospectus for our initial public offering, which are based on the factors and assumptions, and subject to the risks, as set out therein and herein. Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as “plans”, “targets”, “expects” or “does not expect”, “is expected”, “an opportunity exists”, “budget”, “scheduled”, “estimates”, “outlook”, “forecasts”, “projection”, “prospects”, “strategy”, “intends”, “anticipates”, “does not anticipate”, “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might”, “will”, “will be taken”, “occur” or “be achieved”. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent our expectations, estimates and projections regarding future events or circumstances.

Implicit in forward-looking statements in respect of the Company's expectations for: (i) net revenue in the range of $440 million to $460 million for the second quarter of fiscal 2023, representing an increase of approximately 26% to 31% from last year, (ii) net revenue in the range of $1.875 billion to $1.9 billion in fiscal 2023, representing an increase of approximately 25% to 27% from fiscal 2022, (iii) gross profit margin to decrease by approximately 100 bps to 150 bps compared to last year, (iv) SG&A as a percent of net revenue to increase approximately 50 bps to 100 bps compared to last year and (v) net capital expenditures in the range of $110 million to $120 million, are certain current assumptions including the continued strength in the United States across both its retail and eCommerce channels, and strong recovery of the Company's business in Canada including all boutiques opened with no COVID-19 related restriction in place. The Company’s forward-looking information is also based upon assumptions regarding the overall retail environment, the COVID-19 pandemic and related health and safety protocols and currency exchange rates for fiscal 2023. Specifically, we have assumed the following exchange rates for fiscal 2023: USD:CAD = 1:1.26.

Given this unprecedented period of uncertainty, there can be no assurances regarding: (a) the limitations or restrictions that may be placed on servicing our clients in reopened boutiques or potential re-closing of boutiques or the duration of any such limitations or restrictions; (b) the COVID-19-related impacts on Aritzia's business, operations, labour force, supply chain performance and growth strategies, (c) Aritzia's ability to mitigate such impacts, including ongoing measures to enhance short-term liquidity, contain costs and safeguard the business; (d) general economic conditions related to COVID-19 and impacts to consumer discretionary spending and shopping habits; (e) credit, market, currency, commodity market, inflation, interest rates, global supply chains, operational, and liquidity risks generally; (f) geopolitical events; and (g) other risks inherent to Aritzia's business and/or factors beyond its control which could have a material adverse effect on the Company.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the factors discussed in the "Risk Factors" section of the Company's annual information form dated May 5, 2022 for the fiscal year ended February 27, 2022 (the "AIF"). A copy of the AIF and the Company's other publicly filed documents can be accessed under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

The Company cautions that the list of risk factors and uncertainties described in the AIF is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information. The forward-looking information contained in this press release represents our expectations as of the date of this press release (or as the date they are otherwise stated to be made), and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

For more information

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Selected Consolidated Financial Information

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in thousands of Canadian dollars, unless otherwise noted)	Q1 2023 13 Weeks		Q1 2022 13 Weeks	
Net revenue	$ 407,910	100.0%	$ 246,916	100.0%
Cost of goods sold	227,014	55.7%	137,808	55.8%
Gross profit	180,896	44.3%	109,108	44.2%
Operating expenses				
Selling, general and administrative	120,279	29.5%	70,382	28.5%
Stock-based compensation expense	673	0.2%	3,035	1.2%
Income from operations	59,944	14.7%	35,691	14.5%
Finance expense	6,048	1.5%	6,434	2.6%
Other expense (income)	6,522	1.6%	3,856	1.6%
Income before income taxes	47,374	11.6%	25,401	10.3%
Income tax expense	14,113	3.5%	7,498	3.0%
Net income	$ 33,261	8.2%	$ 17,903	7.3%
Other Performance Measures:				
Year-over-year net revenue growth	65.2%		121.7%	
Comparable sales growth(i)(ii)	29.4%		n/a	
Capital cash expenditures (net of proceeds from lease incentives)(ii)	$ (24,355)		$ (6,522)	
Free cash flow(ii)	$ (54,246)		$ 11,933	
Number of boutiques, end of period	109		102	

Note:
(i) Please see the “Comparable Sales Growth” section above for more details.
(ii) Please see the "Non-IFRS Measures including Retail Industry Metrics" section above for more details.

NET REVENUE BY GEOGRAPHIC LOCATION

(in thousands of Canadian dollars)	**Q1 2023 13 Weeks**	**Q1 2022 13 Weeks**
Canada	$ 201,126	$ 132,665
United States	206,784	114,251
Net revenue	$ 407,910	$ 246,916

CONSOLIDATED CASH FLOWS

(in thousands of Canadian dollars)	**Q1 2023 13 Weeks**	**Q1 2022 13 Weeks**
Net cash (used in) generated from operating activities	$ (9,318)	$ 25,772
Net cash used in financing activities	(44,776)	(3,686)
Cash used in investing activities	(31,252)	(10,405)
Effect of exchange rate changes on cash and cash equivalents	(541)	(2,950)
Change in cash and cash equivalents	$ (85,887)	$ 8,731

RECONCILIATION OF NET INCOME TO EBITDA, ADJUSTED EBITDA AND ADJUSTED NET INCOME

(in thousands of Canadian dollars, unless otherwise noted)	**Q1 2023 13 Weeks**	**Q1 2022 13 Weeks**
Reconciliation of Net Income to EBITDA and Adjusted EBITDA:		
Net income	$ 33,261	$ 17,903
Depreciation and amortization	12,300	10,441
Depreciation on right-of-use assets	17,771	16,318
Finance expense	6,048	6,434
Income tax expense	14,113	7,498
EBITDA	83,493	58,594
Adjustments to EBITDA:		
Stock-based compensation	673	3,035
Rent impact from IFRS 16, Leases[i]	(23,047)	(21,945)
Unrealized loss on equity derivatives contracts	8,527	106
Acquisition costs of CYC	—	662
Secondary offering transaction costs	—	450
Adjusted EBITDA	$ 69,646	$ 40,902
Adjusted EBITDA as a percentage of net revenue	17.1%	16.6%
Reconciliation of Net Income to Adjusted Net Income:		
Net income	$ 33,261	$ 17,903
Adjustments to net income:		
Stock-based compensation	673	3,035
Unrealized loss on equity derivatives contracts	8,527	106
Acquisition costs of CYC	—	662
Secondary offering transaction costs	—	450
Related tax effects	(1,590)	(505)
Adjusted Net Income	$ 40,871	$ 21,651
Adjusted Net Income as a percentage of net revenue	10.0%	8.8%
Weighted average number of diluted shares outstanding (thousands)	116,080	114,711
Adjusted Net Income per diluted share	$ 0.35	$ 0.19

Note:

(i) Rent Impact from IFRS 16, Leases

(in thousands of Canadian dollars)	**Q1 2023 13 Weeks**	**Q1 2022 13 Weeks**
Depreciation of right-of-use assets, excluding fair value adjustments	$ (17,638)	$ (16,318)
Interest expense on lease liabilities	(5,409)	(5,627)
Rent impact from IFRS 16, Leases	$ (23,047)	$ (21,945)

CAPITAL CASH EXPENDITURES (NET OF PROCEEDS FROM LEASE INCENTIVES)

(Unaudited, in thousands of Canadian dollars)	**Q1 2023 13 Weeks**	**Q1 2022 13 Weeks**
Cash used in investing activities	$ (31,252)	$ (10,405)
Contingent consideration payout, net relating to the acquisition of CYC Design Corporation	5,625	—
Proceeds from lease incentives	1,272	3,883
Capital cash expenditures (net of proceeds from lease incentives)	$ (24,355)	$ (6,522)

FREE CASH FLOW

(Unaudited, in thousands of Canadian dollars)	**Q1 2023 13 Weeks**	**Q1 2022 13 Weeks**
Net cash (used in) generated from operating activities	$ (9,318)	$ 25,772
Interest paid on credit facilities	639	775
Proceeds from lease incentives	1,272	3,883
Repayments of principal on lease liabilities	(21,212)	(8,092)
Purchase of property, equipment and intangible assets	(25,627)	(10,405)
Free cash flow	$ (54,246)	$ 11,933

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(interim period unaudited, in thousands of Canadian dollars)	**As at May 29, 2022**	**As at February 27, 2022**	**As at May 30, 2021**
Assets			
Cash and cash equivalents	$ 179,358	$ 265,245	$ 157,878
Accounts receivable	9,081	8,147	5,454
Income taxes recoverable	10,660	6,455	2,899
Inventory	298,648	208,125	165,030
Prepaid expenses and other current assets	25,754	33,564	25,239
Total current assets	523,501	521,536	356,500
Property and equipment	234,968	223,190	187,790
Intangible assets	86,855	87,398	61,159
Goodwill	198,846	198,846	151,682
Right-of-use assets	354,743	362,887	359,140
Other assets	4,462	4,271	2,648
Deferred tax assets	17,159	26,458	15,887
Total assets	$ 1,420,534	$ 1,424,586	$ 1,134,806
Liabilities			
Accounts payable and accrued liabilities	$ 264,439	$ 179,344	$ 109,539
Income taxes payable	—	58,917	2,651
Current portion of contingent consideration	6,619	6,619	—
Current portion of lease liabilities	86,832	86,724	80,456
Current portion of long term debt	—	—	74,884
Deferred revenue	52,750	55,721	35,468
Total current liabilities	410,640	387,325	302,998
Lease liabilities	409,798	417,067	417,664
Other non-current liabilities	20,240	22,359	14,455
Contingent consideration	—	6,618	—
Non-controlling interest in exchangeable shares liability	35,500	35,500	—
Deferred tax liabilities	24,741	24,906	19,193
Total liabilities	900,919	893,775	754,310
Shareholders' equity			
Share capital	248,991	251,291	230,691
Contributed surplus	59,129	56,342	57,006
Retained earnings	212,443	223,553	93,119
Accumulated other comprehensive loss	(948)	(375)	(320)
Total shareholders' equity	519,615	530,811	380,496
Total liabilities and shareholders' equity	$ 1,420,534	$ 1,424,586	$ 1,134,806

BOUTIQUE COUNT SUMMARY

	Q1 2023 13 Weeks	Q1 2022 13 Weeks
Number of boutiques, beginning of period	106	101
New boutiques	3	1
Number of boutiques, end of period	109	102
Boutiques expanded or repositioned	—	—

Note:
(i) CYC had four boutiques as at May 29, 2022 which are excluded from the boutique count.