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Aritzia, Inc. (ATZ.CA)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: This is the conference operator. Welcome to Aritzia's Fourth Quarter and Full Year Fiscal 2021 Results and Earnings Conference Call. As a reminder, all participants are in a listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. [Operator Instructions]

I will now turn the conference over to Helen Kelly, Vice President of Investor Relations. Please go ahead.

Helen Kelly

Vice President-Investor Relations, Aritzia, Inc.

Thank you, Shariez, and thank you for joining us for Aritzia's fourth quarter and full year fiscal 2021 earnings conference call. On the call today, I'm joined by Brian Hill, our Founder, Chief Executive Officer and Chairman; Jennifer Wong, President and Chief Operating Officer; and Todd Ingledew, our Chief Financial Officer.

Following management's discussion, we'll host a question-and-answer period open to analysts and investors. Please note that the remarks on this conference call may include our expectations, future plans and intentions that may constitute forward-looking statements. The uncertain and dynamic nature of COVID-19 and its ongoing impact could continue to materially alter our performance. We will refer you to our most recently filed Management's Discussion & Analysis and our Annual Information Form, which include a summary of the material assumptions as well as risks and factors that can affect our future performance and our ability to deliver on these forward-looking statements. Our earnings release, the related financial statements and MD&A as well as our most recently AIF, are available on SEDAR, as well as the Investor Relations section of our website at aritzia.com.

I'll now turn the call over to Brian.

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

Thank you, Helen. Good afternoon, everybody, and thank you for joining us. Together with Jennifer and Todd, I'm pleased to report our Q4 and year-end results, while providing insight into the exciting year ahead. Q4 ended what was unquestionably the most challenging year in our history. I'm incredibly proud of how our team navigated the uncertainty with discipline, resilience and agility; and in light of this, the exceptional results we delivered.

It was a year we'll remember for not only what we accomplished, but how we accomplished it. And as we begin fiscal 2022, we're extremely well-positioned to capitalize on the many growth opportunities ahead with a focus on both our surging eCommerce and US businesses. While Todd will provide the financial details of both Q4 and fiscal 2021 shortly, I'll start by sharing the highlights of our sustained strong performance.

In the fourth quarter, our net revenue decreased by just 2.9% from the prior year with, ironically, the US actually being up 9.2%. This is in spite of ongoing occupancy restrictions, reduced operating hours and the re-closure of 57% or 39 of our boutiques in Canada for the majority of the quarter. Furthermore, our eCommerce business continued to surge, growing by impressive 81% from the fourth quarter last year.

Turning to the full year, our net revenue decreased by just 12.6% from the prior year despite the sustained impact of the pandemic. Importantly, we capitalized on the consumer shift to drive eCommerce growth 88%, ending up comprising approximately 50% of our net revenues for the year, more than double the penetration of 23% in fiscal 2020. Our results enabled us to generate free cash flow and improve our strong liquidity position, which allowed us to continue to invest during this turbulent year.

Given the 81% growth in eCommerce over Q4, sustaining what was already a consistently accelerating part of our business over the course of the year, we continued to invest in new digital features and functions. This included the expanding roll out of our client app, Fit Analytics, Afterpay and digital concierge, amongst others. Together, they significantly enhanced our online capabilities, mirroring the same everyday luxury experience our clients enjoy in our boutiques with further opportunities underway.

For Q4, in our boutiques, we saw the United States to begin to recover. However, it was disappointing that in Canada we began the quarter with 18 boutique re-closures, growing to 39 boutiques reclosed by Boxing Day, right at the start of our holiday sale period. Despite these ongoing pressures throughout the year, we continued our strategy to expand our boutique network thoughtfully with fastidious location selectivity, exceptional financial terms and a downside safeguards in place.

By early Q4, we successfully opened seven new boutiques and expanded three existing boutiques. In support of both our eCommerce and retail businesses, we advance the kick-off our omni capabilities initiative designed to grow our multichannel client relationship. We expect the launch of the various initiatives throughout the year.

Turning to product, we are extremely pleased with the performance of our fall/winter collection. However, we had a high class problem of chasing inventory throughout the period. On the backdrop of what was going on at the time, we thought having lower inventory was a wise position to take. Although in hindsight, we were too conservative.

Therefore, given our continued growth in eCommerce and accelerating business in the United States, we intentionally ended the quarter in a meaningfully higher inventory position in order to fuel the potential of these

channels. We are very pleased with this decision as we're already seeing positive results in our first quarter revenue.

At the end of Q4, we launched our spring/summer product assortment with expanded choices in almost every category. Our clients immediately responded with excitement for both the welcome change of seasons and the prospect of a gradual return to more normal activities with the rollout of the vaccination programs led by the United States.

We canceled our traditional spring sale and have pushed back the launch of our summer sale event in the United States by four weeks to align with the Canadian event. We're confident we will finish the season with a clean inventory position, as usual. Throughout [ph] Q4 (00:06:56), our marketing efforts continued to propel our Everyday Luxury offering with captivating communications, seamlessly spanning our eCommerce site, social media platforms and in our boutiques, from a holiday campaign to our spring/summer brand launches.

We also continued our paid media pilot, valuating our results and developing a go-forward strategy. I can say with confidence that in our history, our brand has never been stronger and our creative never more engaging, resonating with our existing clients online through our social channels and in our boutiques, while attracting new clients to Aritzia, particularly throughout the United States.

COVID-19's impact made it more important than ever that we uphold our commitments to our people and our planet. As Jennifer will speak to in greater detail, we've made encouraging progress this past year and in the most recent quarter to advance our strategic initiatives in support of Aritzia's communities cultivate diversity and enhance sustainability.

In summary, our fourth quarter and full year performance reflect the remarkable resilience of our team, our clients' affinity to our brand of Everyday Luxury, and the strength of our multichannel business, even under the most difficult circumstances. As we begin to, here in North America, hopefully, put the pandemic behind us, the insightful and bold decisions we made, together with our continued strategic investments, have already served us well as evidenced by incredibly successful start to fiscal 2022.

I'll now turn the call over to Jennifer to provide some perspective on our operations.

Jennifer Wong

President, Chief Operating Officer, Corporate Secretary & Director, Aritzia, Inc.

Thanks, Brian, and good afternoon, everyone. Echoing Brian's comments, I am so proud of what our team has achieved together this past year. Our fiscal 2021 results demonstrate our resiliency as we successfully adapted to the changing environment, while still driving Aritzia forward. Today, I touch on four areas of focus within operations. I'll reflect on the quarter, what we've accomplished in the past year as well as our path forward.

First, I'll provide some color on the continued agility demonstrated by our distribution and logistics team in the face of ongoing supply chain disruption; second, an update on the digital investments we're making to drive continued eCommerce growth; third, an update on our ongoing investments in talent; and finally, our progress on ESG.

Throughout the year, our DC and logistics teams have responded quickly to the global supply chain disruptions brought on by the pandemic, while maintaining efficient daily operations. The fourth quarter was no exception as we employed resourceful solutions to mitigate the interruptions caused by inbound logistics. For instance, in response to delays caused by limited vessels and sailings, we ramped up the use of airfreight, and this ensured delays to our reorders were minimized and sales maximized.

In response to the congestion at the Port of Los Angeles, our teams acted quickly to redirect freight to Canada, transferring our goods inbound directly to our DC in Ohio. These decisions reduced potential delays by 30% to 50%. And in response to the transformative growth in our eCommerce business this past year, we are analyzing our distribution network to inform our strategic investments going forward.

Included in our capital expenditures for fiscal 2022 is the expansion of our Vancouver DC. This will add 50% more usable space to further support our product expansion initiatives and eCommerce growth. We're also planning an expansion of our Toronto area DC, and I look forward to sharing more with you on this in the coming months.

Turning now to digital and reflecting on our performance in fiscal 2021, as Brian noted, we capitalized on meaningful increases in traffic and conversion, accelerating the shift online with impressive results, 88% revenue growth in our eCommerce channel. We made significant improvements to aritzia.com to make our clients' shopping experience more seamless, convenient and enjoyable. We launched over 400 site enhancements during the year with particular focus on navigation, size and fit evaluation and transactional ease, all while maintaining the website at a 99.96% uptime.

Specifically, during Q4, the eCommerce team supported various efforts related to our ongoing product expansion initiatives, including making it easier for our clients to shop by adding three searchable sustainability attributes. Clients can now search for product by their organic, recycled and responsible forestry content.

And lastly, enhancing omni-channel capabilities remains one of our top priorities. As I noted on our last earnings call, we plan to launch store inventory visibility this year and pilot buy online ship from store and buy online pickup in stores prior to fiscal 2023. We expect these initiatives to drive sales and conversion, ensuring our clients can shop precisely when, where and how they prefer, as we unlock the value of the inventory across our networks.

To fuel our growth and support the execution of our four strategic growth initiatives, we continue to invest in developing our people and recruiting top talent. In Q4, the Aritzia team grew across our product, eCommerce, US retail, marketing and technology divisions. To lead the build out of a centralized data and analytics function, we recruited a new Vice President. This department will be pivotal in driving our digital growth and personalization. And with the resurgence of our US business, we recently hired a President, Retail USA to support ongoing geographic expansion.

Finally, we fully recognize the responsibility we have to take care of our people and our planet. Aritzia is committed to driving responsible practices across every aspect of our operations and accelerating the positive impact we have on the wider value chain. We made encouraging progress on this commitment in the past year. And we have outlined a list of our ESG achievements in our annual disclosure. And here, I'd like to share some highlights of our sustainability efforts in fiscal 2021.

We've continued to uphold our positive impact on the supply chain through the annual audit of all of our Tier 1 suppliers. And as I noted earlier, we've adopted more sustainable fabrics across a full 40% of our spring/summer 2021 collection, including organic and recycled cotton and recycled polyester and nylon. And we became operationally carbon-neutral through renewable energy credits and certified offsets, covering both our Scope 1 and Scope 2 emissions.

And we're especially proud of the initiative to further our social commitments to our people and to our communities. We ensured income continuity for all of our people impacted by boutique closures paying CAD 25 million from our Aritzia Community Relief Fund. We conducted our inaugural DE&I employee survey and

committed CAD 1 million to develop our DE&I program. We continue to support women and girls in need by gifting Super Puffs through the YWCA, and donating the full proceeds from our first-ever International Women's Day capsule collection.

And last, but not least, through the Aritzia Community Care Program, we gifted 110,000 healthcare heroes with custom clothing packages. And tomorrow, we'll gift our final 10,000 packages to those who continue to work tirelessly on the COVID-19 front lines. And I here would just like to add my personal thanks to all of you working in healthcare out there.

In closing, our results are a testament to our values and the strength of our underlying operational foundation. Despite ongoing disruption and uncertainty, we continue to invest heavily in people, process and infrastructure to enable our growth. I am confident the initiatives we're undertaking will further strengthen our business and have a meaningful positive impact on our long-term success.

I'll now turn the call over to Todd to discuss our financial results.

Todd Ingledew

Chief Financial Officer, Aritzia, Inc.

Thanks, Jennifer, and good afternoon, everyone. The fourth quarter was not without its challenges; however, given the environment, we are extremely pleased with the performance of our business. We generated net revenue of CAD 268 million, a decrease of just 3% from last year. This was despite a CAD 57 million shortfall in revenue from the closure of 39 boutiques in Canada for the majority of the quarter as well as another CAD 18 million related to severe pressure from occupancy restrictions and reduced operating hours in our open boutiques.

Notably, our eCommerce business delivered an 81% or CAD 67 million increase in revenue, almost completely offsetting the shortfall from our retail boutiques. Lastly, our business in the United States had positive revenue growth of 9% or CAD 8.7 million over last year, signaling the start of the recovery.

Gross profit was CAD 103 million in the fourth quarter, flat on a dollar basis with last year. Gross profit margin was 38.5%, up 120 basis points from last year driven by a number of puts and takes. We had meaningfully lower markdowns, the result of stronger-than-expected sell-through during the regular fall/winter season, which left us with less sale product, and gross profit also benefited from CAD 3 million in rent abatements and government wage subsidies.

These improvements were partially offset by three factors: higher warehousing and distribution center costs resulting from the growth in our eCommerce business, deleverage from lower retail revenue, and continued investment in talent to support our product expansion strategy.

SG&A expenses were CAD 72 million, up CAD 8 million or 13% from last year. The increase was driven by continued investment in talent across eCommerce, US retail, marketing and IT to support the future growth of our business. SG&A also included CAD 3 million of expenses related to health and safety protocols. Overall, we generated CAD 35 million of adjusted EBITDA in the fourth quarter or 13% of net revenue compared to CAD 42 million last year.

Turning to the full year, as Brian mentioned, fiscal 2021 was, without a doubt, the most challenging year in Aritzia's history. Despite the difficulties created by the global pandemic, we're extremely pleased with the

performance of our business. Net revenue for the year was CAD 857 million, down only 13%, despite boutiques being effectively closed for 33% of the year and open boutiques being impacted by severe occupancy restrictions.

Importantly, we took swift action to drive our eCommerce business, which delivered revenue growth of 88% to comprise 50% of net revenues in fiscal 2021, more than double the 23% revenue penetration of last year. While gross profit margin for the year declined due to higher warehousing and distribution costs and pressure from the deleverage associated with lower retail revenue, the underlying product margins were flat for the year despite the promotional environment in the first and second quarter.

We also saw deleverage from SG&A in the year. However, this was driven by the decision to keep all of our people employed throughout the pandemic and our decision to continue investing in talent, processes and technology throughout the year to fuel our growth post-pandemic.

Adjusted EBITDA CAD 77 million, far higher than our expectations when the pandemic started. We ended the year with a cash balance of CAD 149 million, a 26% increase compared to CAD 118 million last year, reflecting the strength of our operating cash flow and the extension of our inventory payment terms. Including full access to the CAD 100 million under our revolving credit facility, we ended the year with CAD 249 million of liquidity. Importantly, we improved our strong liquidity position throughout the year, enabling us to continue investing in our strategic initiatives to capitalize on the opportunities ahead.

Inventory was CAD 172 million at the end of the fiscal year, up 83% from last year. As Brian commented, we are confident we have an optimal mix of product assortment and inventory levels for the remainder of the spring/summer season to capitalize on the momentum in our business and maximize sales.

Shifting now to our outlook for Q1 and the full fiscal year for 2022, we are extremely pleased with the acceleration in our business in the first quarter to-date, which reflects the enthusiastic client response to our spring/summer collections. We are on track to deliver first quarter net revenue growth of approximately 110% compared to fiscal 2021, implying a revenue target of approximately CAD 234 million for the quarter, fueled by the acceleration of sales in the United States and the continued growth in our eCommerce business across North America. These results are exceptional, especially given the fact that 50% or 34 of our boutiques in Canada were mandated to reclose starting on April 8 and are expected to remain closed for the remainder of the quarter.

I will now provide some perspective on our financial outlook for the full fiscal year. Fiscal 2022 outlook anticipates a continued recovery in the retail environment and assumes no further deterioration from COVID-19 and related shutdowns. Net revenue growth is expected to be 30% to 35% compared to fiscal 2021. This reflects acceleration of our sales in the United States and continued growth in our eCommerce business, the ongoing recovery of our retail performance in Canada as well as the contribution from our retail expansion, with six to eight new boutique openings in the United States; and six boutique repositions, four in Canada and two in the United States.

Gross profit margin is expected to be relatively flat compared to pre-COVID-19 levels in fiscal 2020, reflecting leverage on fixed costs and the strengthening of the Canadian dollar, offset by continued investment in talent to drive our ongoing product expansion strategy. SG&A as the percent of net revenue is expected to modestly increase relative to fiscal 2020, as accelerated investments in people, processes and technology more than offset the leverage on fixed costs. In addition, we expect to incur approximately CAD 10 million in operating expenses related to COVID-19 protocols weighted to the first half of the year.

Finally, we're planning net capital expenditures in the range of CAD 55 million to CAD 60 million. This amount is comprised of boutique build costs, net of tenant improvement allowances, and ongoing investments in technology and infrastructure.

Over the past year, our people have demonstrated remarkable resilience and our business has delivered better-than-anticipated results as we adapted to this difficult environment. The investments we continued to make throughout the pandemic have positioned us well to take full advantage of the post-pandemic environment. There is no doubt we are emerging from this period a stronger organization.

The exceptional acceleration of sales in the United States and continued growth in our eCommerce channel in the first quarter is evidence of the growing strength of our multichannel business. We are excited about all the opportunities ahead and are looking forward to the day, not too far from now, when we have all of our boutiques reopened.

With that, I'll now turn the call back to Brian.

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

Thank you, Todd. As Todd touched on his outlook for Q1 and fiscal 2022, we're excited by our strong start to the year and are energized by our bright future. While the uncertainty of the pandemic remains with the ongoing closure of 50% or 34 boutiques in Canada and economic conditions varying widely, we're well-positioned. Our eCommerce business is continuing to surge, our US business is flourishing and we're optimistic that with the vaccine rollout accelerating we'll see similar business recovery in Canada in due course.

As such we're expediting our investments in the four strategic levers that drove our pre-growth – our growth pre-pandemic, ensured our success mid-pandemic and will fuel our growth post-pandemic. First, digital innovation of eCommerce, retail and omni-channel capabilities. Capitalizing on our accelerated multichannel client relationship as discussed, we have a full team in place to launch later this year our omni capabilities project. We will continue to invest in new digital capabilities both online and in our boutiques, including ongoing personalizational developments, enhancements to our international site and the continued rollout of our digital selling tools.

Second, geographical retail expansion with a focus on the United States that will continue to grow our boutique network across North America, capitalizing on the availability of premier real estate locations. In fiscal 2022, we plan to open six to eight new boutiques in the United States, including the Grove in Los Angeles, Woodbury Commons in New York, and Topanga in California, which are slated to open late Q1 or early Q2. We're also planning six expansions this year with four in Canada and two in the United States.

Third, development through all product divisions. We will continue to expand our beautiful and multidimensional product lines this year. We'll launch new categories, including our swim line later this fall and our intimates line for summer 2022. Our clients will also enjoy extended depth, including color, length and more inclusive sizing range for our top-selling items, and breadth including warm and hot weather product as well as expanded denim assortment and the introduction of our Super [ph] World (00:28:00) collection, all this contributing to our on-track five-year plan to double our style count.

And fourth, brand awareness in both the United States and internationally. We have a comprehensive strategy in development to further capitalize on our exciting growth opportunities in the United States, complementing our boutique openings and expansion plans. In doing so, we expect to significantly increase our brand awareness, while also growing our bench strength in digital marketing in this flourishing market.

To support these four growth drivers, we'll continue to invest in infrastructure. This includes adding to our high-performance team, [ph] hire strategic targeted goals (00:28:41) at all levels, consistently enhancing the efficiency of our processes, enriching our technology suite and thoughtfully expanding our distribution center network to support our [ph] growth (00:28:54).

While the past year has been the most challenging in our history, through the hard work of our team and the resilience and adaptability of our operations, we're in an extremely exciting position. With our surging eCommerce and the United States businesses, we're investing strategically, capitalizing on the balanced opportunities ahead and elevating our clients' much-loved Everyday Luxury experience.

As we close out fiscal 2021, I would like to thank our investors and analysts on this call, and thank our almost 5,000 extraordinary team members. I'm humbled and privileged to continue to lead our dedicated team and Aritzia out of the pandemic and into our bright future ahead.

Thank you.

Helen Kelly

Vice President-Investor Relations, Aritzia, Inc.

With that, Shariez, can we open the line up for questions?

QUESTION AND ANSWER SECTION

Operator: Absolutely. We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Mark Altschwager with Baird. Please go ahead.

Mark R. Altschwager

Analyst, Robert W. Baird & Co., Inc.

Q

Good afternoon. Thanks for taking my questions. I guess, first, just with respect to the revenue guidance, can you talk about how you're thinking about the trajectory of the recovery through the year relative to the pre-COVID levels? If the guide seems to imply deceleration on the growth versus pre-COVID levels after Q1. Now, I know the US is benefiting from stimulus in Q1, but you're still dealing with some significant restrictions in Canadian stores. So, I guess I'm trying to understand how you're thinking about some of the puts and takes there as we move through the year?

Todd Ingledew

Chief Financial Officer, Aritzia, Inc.

A

Hi, Mark. The 110% that we're growing off of FY 2021, if you calculate the growth off of FY 2020, the growth is actually consistent – effectively consistent from Q1 through for the rest of the year. It's just because, in Q1, obviously, our revenue was much more depressed than the rest of the year last year, because all the stores were closed for the majority of the quarter. And so, therefore, we're going for 110% over FY 2021 compared to 30% to 35% over – for the full year. But if you compare against FY 2020, the ranges are relatively consistent.

Mark R. Altschwager

Analyst, Robert W. Baird & Co., Inc.

Q

Fair enough. That's helpful. And then, just maybe a bigger picture for Brian, now that we've kind of concluded the original sort of five-year plan, obviously the final year being a little bit different than we all were anticipating. But just any broad perspective on how you're thinking about the revenue and earnings growth algorithm over the next several years?

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

Yeah. I think it's really too bad, because we're on track with everything and we actually should be using this call to announce our next three or four, five-year plan whatever we decided to do. As far as algorithms go, I actually haven't thought a lot about algorithm statistics and calculus [ph] universally (00:32:35). So, can you just explain to me what you mean by the algorithm? You're talking about leverage, or what are you talking about here?

Mark R. Altschwager

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. I just mean how we should be thinking about kind of the top-line growth rates over the next few years and where you think the margin structure will go?

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

I don't see our margins changing too much, other than we're going to be doing more and more business in the US and our margins are better in the US. So, I think our gross margins will improve. Is that fair, Todd?

Todd Ingledew

Chief Financial Officer, Aritzia, Inc.

A

Yeah.

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

And that's just purely from a mix perspective. I don't see our margins expanding on a product perspective as far as – we have a pretty consistent margin. We know what our customers expect from a value proposition. And I'm not sure from a – and I think due to sustainability and things like that, we don't want to chase – we've never been one to chase the lowest producer and everything else for our products. So, we're comfortable with our supply chain. We're comfortable with the margins. We're pretty comfortable with everything that we have and the sustainability aspect of our product, although we're continuing trying to improve it, but we're pretty comfortable with all our suppliers. So, we're not out chasing different countries and different exchange rates and things.

So, I don't see our margin changing much, per se. I see from our costs of goods, I do see it from the mix, as I mentioned. But I do see our business accelerating in the US. I mean if Q1 is any – and I know business is, in general, pretty good right now in Q1, the retail business in the US. But Canada is harder to say. It's a little bit more challenging in Canada because we haven't really come out of it. I don't know if it's going to look like the same kind of recovery in Canada as it does in the United States and we're just three months behind. I don't know if it's slower. I don't know the economic situation in Canada. And we certainly don't have the growth runway we have – in Canada that we have in the US.

So, I see us growing in Canada more from just a product mix perspective and offering more product to people. I think, most people – there's not really a sense of discovery for us in Canada, but our US is where we're really banking and really seeing some great upticks in our business in the US, and biggest we've ever seen, quite

frankly. And we really think we're getting famous. And we're slowly opening new stores in new markets. And we have three stores in Texas now and we have store in Colorado and Pennsylvania now. And we have a whole bunch coming in various other states. And so, we just think that we're going to see expanded revenue growth. We have so much room in the United States – or runway in the United States. That's where we're going to get our [ph] sales (00:35:20) from. So, we're pretty excited about that.

Mark R. Altschwager

Analyst, Robert W. Baird & Co., Inc.

Q

It's really helpful. Thanks for all the detail and best of luck.

Operator: The next question comes from Irene Nattel with RBC Capital Markets. Please go ahead.

Irene Nattel

Analyst, RBC Capital Markets

Q

Thanks and good afternoon. Just following on those last comments, if we think about the very strong performance in Q1, can you talk about sort of the mix? What are people buying as things reopen? Presumably, you saw certain cadence and the geographic mix tied to what reopened when. And also wondering, given the sort of the profile in the US that's being raised, whether you're seeing your geographic mix of sales shift a little bit within the US?

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

I mean I'll talk to some and Todd can take some. He's kind of looking at me wondering what I'm going to let him take. But yeah, we are certainly seeing our geographic expand. I mean that's why we're opening in Florida and different places like that. We have a really great store in Florida, and it just happens to be eCommerce. And so, we're seeing some great expansion from an eCommerce perspective in the United States in states that – where we've had essentially zero business in three or four years ago. So, we're seeing that happen. And we're seeing, when we open the stores, that accelerates even more. So, we're pretty excited about that. What's the other part of the question, Irene?

Todd Ingledew

Chief Financial Officer, Aritzia, Inc.

A

The product mix of – are we seeing the same type of products that...?

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

It's interesting you're saying that, Irene, because we're – there's two – I mean let's face it, the US and Canada are in two different states right now. We're still locked – shut down. And so, we're still selling lots of at-home clothing. We have seen our US business, so the products have started to change in the US. They're going out a little bit more. Obviously, it's a summer collection, so it's a little bit different.

But we are seeing our dresses pick up and our going-out clothing pick up a lot more in the US. I mean it was interesting. We pivoted very quickly and the team did a remarkable job, but we had some incredible sort of professional and more dressy and going-out clothing, it was really driving our business for a few years leading up to the pandemic. So, it'll be interesting to see how much of that comes back and if there's been some permanent changes. Obviously, people aren't going to be going to the office as much, but we'd like to think people are going to be going out as much and requiring those clothing. And what's so great about our model is we do casual, we do

dressy, we do summer, we do winter, we do everything so well. So, the team, I'm really proud of them, and there's shifts and we've started to see the shift in the US. We have yet to see it in Canada, though.

Irene Nattel

Analyst, RBC Capital Markets

Q

Yes. We're all still woefully depressed in lockdown here. And then just one final question, if I may, is really going to sort of the brand and the brand reach and brand visibility. As you're generating this momentum, with the influencer strategy, with the key strategies, are you finding it easier now? Are you finding more people coming to you? How is that evolving?

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

Well, we're certainly seeing more people who work in the industry coming to us. Maybe not the influencers, but the people that hire and book the influencers and things like that. We've hired some pretty meaningful positions to pursue this. It's interesting to see what's going to happen with influencers. Obviously, there's been a major shift from Instagram to TikTok. And there's a whole different set of players there. I think some of the typical go-to imagery and things that was in Instagram that was, perhaps, driving sales pre-pandemic changed during the pandemic as people's lives changed, going to be interesting to see if they go back to that kind of imagery and lifestyle and if that resonates.

So, we saw a shift from pre-pandemic to during the pandemic. We saw a shift in the imagery and the influence that was going on out there. And I think it actually changed what influencers people were actually following and engaging with. And we think we're going to see another one here as well coupled with the move to TikTok and some of the other platforms. So, we're seeing different – we don't get influencers approaching us directly, although we do have a lot of celebrities wearing our clothing on a regular basis. But what we are seeing is people coming to us and saying, hey, we can help you and we'd like to come work for you and join the team. So, we're certainly capitalizing on that.

Irene Nattel

Analyst, RBC Capital Markets

Q

That's great. Thank you.

Operator: The next question comes from Mark Petrie with CIBC. Please go ahead.

Mark Petrie

Analyst, CIBC World Markets, Inc.

Q

Hey. Good afternoon. Could you just talk more about the drivers of the eCommerce growth? I'm sure it differs significantly in Canada versus the US, but the evolution you've seen in terms of new customers discovering the brands or sort of the substitutions from stores? And then also, just what you're seeing in terms of – on the actual site conversion rates over the course of the year and given all of your investments?

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

Yeah. We're still a work-in-progress on some of these – some of this data, because it's changed. Like the US has certainly changed with all the stores opening and our retail stores in the US doing so well. There's been a shift there. And so, we're seeing who is moved and who hasn't moved from there. In the US, we're seeing – initially,

when the pandemic started, we saw a shift from people that were shopping in retail, shopping online, but we also have had a huge influx – an increase in new customers, who hadn't previously shopped at Aritzia at all. We're ironically still seeing a lot of new customers come into our retail stores too on a very high rate right now.

And then, in Canada, it was mostly the shift. I mean, most young ladies shop with us in Canada already. So, it's mostly a shift from retail to our online channel. That'll be interesting to see on that shift and what goes back and what's not. I mean, we're trying to track – it takes a while to figure out if you've actually had lapsed a customer or you've lost a customer. And so, we're kind of working on a lot of that. A lot of people have measurements of a year, some people have measurements of two years. So, it'll be interesting to see what happens there.

Our strategy is to make sure, though, that the customers that were shopping retail that then came and started shopping online remain as omni customers. They go back to retail, but they continue to shop online, because they've proven to be the best customers that we have. And in the US, it's more of a acquisition play. Canada is more of a retention play, and making sure those customers are activated and retained; whereas in the US, it's a big activation play. And that's what our strategy is in the US still.

Mark Petrie

Analyst, CIBC World Markets, Inc.

Q

Yeah. Understood. Okay. And then, I just want to ask about the denim category. It's been a couple of years since the launch, we've seen you guys adapt and expand the offering. It's sort of topical. It seems like you're well-positioned in terms of the trends in that category. But could you tell us more about what you're seeing in the denim business? And maybe just in terms of context. How would you think that that would rank – that category would rank in the opportunities you see in your assortment for taking more share of wallet?

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

We've expanded our denim line to – we started off with Denim Forum and we ran with that for a few years, just more or less building our infrastructure and capabilities around that. We've now recently – are in the process. We haven't launched them all, but we're coming up with denim categories in our Babaton, Wilfred and TNA and Sunday Best and some of those brands. So, we're – kind of the target was to get our – we have three different sources of denim. We have external third-party brands. We have our Denim Forum brand and we have our brands – our existing clothing brands. And the target was to have a balance between the three of those.

We're obviously doing great job in the Denim Forum and the third-party brands. But now, our growth is focused on our brand – denim that are in our exclusive brands and building that out. And so, we're launching Babaton, I think, for fall, but it might be for spring, I'm not sure. Wilfred is launching and everything else. Those are more fashion focused, whereas Denim Forum is more basics focused. Surprisingly, we're actually seeing some really resonating with non-denim within our denim collection as well. So, that's actually been a pleasant surprise. So, we're on track. I think from an infrastructure perspective, we're moving into a second phase where we're doubling down on our infrastructure as far as production capabilities, sourcing capabilities QA capabilities.

Denim is a very hands-on business. So, we have certainly – it's been a little harder to operate with COVID and our inability to travel. Certainly, something that's far more hands-on, in the factories, in the mills and connecting with people. And so, it's actually being – our denim people travel more than our clothing people. And so, this is being a little bit difficult for them, but we're super-excited with where denim is and we're right on track to where we had planned several years ago when we launched it. And we're right on track with how we're processing, rolling out now into our other brands. And we're staying true to what the plan was and it seems to be working.

Mark Petrie

Analyst, CIBC World Markets, Inc.

Q

And can you give any context with regards to the magnitude of the opportunity versus some of the other sales driving initiatives you have in terms of SKU expansion and new categories?

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

Yeah. I mean I think – when I hired our head of denim, she came in and I said what percent do you think denim will make up of our sales? And she said, well, I hope it's 50%. And I said if you get to 10%, I'm going to be ecstatic. So, I think that it really depends – the problem with denim is denim is difficult. I mean, I've said all along and people heard me say it a thousand times here. Levi's created the 501 and they've spent 100 years coming trying to find an encore to the 501. They've built an incredible business, but nothing is still – I don't see beneath the covers there, but I think they still sold more 501s than any other denim they've had. So, it's not an easy category whereas some of the other low-hanging fruit in our product categories like adding length and adding color and things is so simple for us.

So, I actually like to think that, perhaps, maybe some of these other category expansions are actually going to be more important. And as we continue to open up in Southern California, in Florida, Hawaii and places like that, our warm weather offering's going to be meaningful for us, because it's fine for spring and summer. But come fall and winter, it's a challenge selling coats and parkas and things like that [ph] in these (00:47:19) areas, and it's going to make up more and more and more of our business. And as you can see, looking at the population map in the US, it's a lot of people live in the Southern United States, and our product's resonating, but it's resonating in spring and summer. So, we have to make sure it's also resonating in fall and winter.

So, there's a whole bunch of categories and I think really when I had a board meeting and I list them all out, the input that I got back was slow down a little, you can't do all these things at once. So, we have all sorts of opportunities on our product and we're just going to make sure we plan for them and strategically put them in order and phase them out properly. But certainly, some of them are easier than others. And I would say – denim, I wouldn't say, is the hardest, but it's in the sort of top third of the hardest to actually go out and expand and execute on, for sure, compared to some of the others.

Mark Petrie

Analyst, CIBC World Markets, Inc.

Q

That's very helpful. Thanks. I'll pass the line and all the best.

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

Thank you.

Operator: The next question comes from Stephen MacLeod with BMO Capital Markets. Please go ahead.

Stephen MacLeod

Analyst, BMO Capital Markets Corp. (Canada)

Q

Thank you. Good evening. Good afternoon. I just wanted to think about – if you look back over the last year, obviously, the resilience of the business has really shone through and the consumer response and engagement has been very strong in terms of eCommerce as well as in store. But I'm just curious, if you think back, is there

anything that you would identify or point to as potentially a consumer shopping behavior or consumer consumption behavior that might be more permanent as you begin to exit the pandemic?

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

I think from purely a product perspective, I think we had a whole bunch of core product and this is sort of go-to product in Canada, and in the US, the customer was not – our clients weren't coming to us for that. They weren't coming to us for our basic pants and fleece and things like that, and that's now changed. It's changed meaningfully. So, one of the things that – you can show all the fashion you want, but you make money in this business selling the meat and potatoes of the product. And we weren't selling – we weren't the place to go to. And in previous shocks in the United States, in previous accelerations and different trends, when things got a little tighter in the US, or this or that, it actually hurt our business more in the US than it did in Canada. And in this particular case, we're just finding a resilience of our brand. It's just obvious and looking what we're selling and looking we're a go-to place now and a go-to shop in the United States, where that be online or in our stores, and I don't think we were before.

So, we've been seeing and noticing that, I think – so, I guess, it's really – biggest thing we've seen is a category expansion into the US. The second thing we've noticed, back to our brand, is our new stores are opening up higher. When we were originally going public and we penciled out new stores in Canada and in the US, we had a far longer ramp in the United States than we're seeing now. Our new stores in places like Glendale and in Philadelphia and in places, we've noticed a huge recognition, and hitting the ground running way more than we were 3, 4, 5 years ago and, certainly, more than we were 10 years ago. And is that because of the pandemic? I don't know specifically it is. I know it's certainly hurt our competition. I think our inventory being clean and launching with new product rather than selling older products throughout the last year has been really helpful for us.

I think our decision to have a lot of inventory, a new inventory and fresh inventory this spring, I think, has helped us quite a bit. So, I don't know if there has any been too many specific small things, other than some big moving things that, I think, is changing. And I just think our place, particularly in the US – in the mindset of the consumer in the US, we're a player now. They know who we are. They're showing up. They're on our website. As I mentioned, we've seen our business in online in Florida and places like that expand. And quite frankly, that's why we're opening up stores in Nashville, in Charlotte and places like that. I mean we're doing good business in these places now, whereas five years ago, we weren't. And I was a lot more concerned about how we're going to make money in some of these secondary markets. Now, we're actually doing really well in secondary markets [indiscernible] (00:52:20) as you know with the size of the United States has opened up for [ph] a lot (00:52:23) of opportunities for us.

So, it's really been the brand recognition. It's been the clients coming to us everywhere now for the staples they need. It's repeat customers coming to us, and all that's very exciting.

Stephen MacLeod

Analyst, BMO Capital Markets Corp. (Canada)

Q

Yeah. That's great. And then thinking about that strong momentum in the US, you mentioned some DC investments in Vancouver and Toronto that's part of this year's CapEx. Are you going to be needing to make further DC investments in the US to meet this strong demand?

Jennifer Wong

President, Chief Operating Officer, Corporate Secretary & Director, Aritzia, Inc.

A

Well, if you recall – hi, Stephen, it's Jennifer. If you recall I did announce a couple of quarters ago that we did expand our Ohio DC. We expanded the space there that we felt would last us at least three to five years from that point forward. A lot of our fulfillment is out of Canada; hence, there's expansion in our two DCs in Canada. And so, right now, what we're doing, as I mentioned in my remarks, is that we're conducting a centroid analysis [ph] – centrally (00:53:32) a network analysis that will allow us to really plan out where we need our DC nodes. We are contemplating some form of expansion in the US, but right now, in the near and mid-term, it's primarily Canada.

Stephen MacLeod

Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. That's helpful. Thanks, Jennifer. And then, maybe one last one, if I could. On the last call, Brian, I think you mentioned that you found that your omni-channel customers were – typically spent I think it was 3 times more than someone who was in-store eCommerce only. Are you still seeing that kind of multiplier effect?

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

Yeah. I mean that hasn't changed in several years. And I haven't really looked at it since the last call. I suspect it hasn't changed, because it was very similar for years. And then, I think my team come tell me, hey, Brian, we got a 911 here, they're not spending as much, or come running into my office if they're spending more than [ph] 3:1, they'll probably come running into my office for 4:1 (00:54:33). But no, we haven't seen that change. The key thing here for us is making sure that these customers that weren't able to shop retail, they all moved – a lot of them that moved to online stay in both channels, and that is going to be super important for us. And so, we're really working on strategies around that.

Stephen MacLeod

Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. Okay. That's great. Thank you very much.

Operator: The next question comes from Dylan Carden with William Blair. Please go ahead.

Dylan Carden

Analyst, William Blair & Co. LLC

Q

Great. Thank you very much. You kind of set up my question perfectly there. I was just curious, the implied first quarter guidance growth in the United States seems pretty profound. And I'm just wondering if you can give any color around kind of the give and take between the two channels, online and retail, sort of embedded in that number. Kind of what you're seeing as the world opens back up as far as retaining, I guess, both new customers and some of the traffic in the online channel?

Todd Ingledew

Chief Financial Officer, Aritzia, Inc.

A

Hi, Dylan. Yeah, what I would say is that we are seeing continued acceleration of our eCommerce business and strength in our boutique traffic and business as well. So, it really is across both channels that we're seeing sort of a sustained momentum.

Dylan Carden

Analyst, William Blair & Co. LLC

Q

Okay. And then, I guess, you've touched on it a couple of times on this call, just sort of maybe the new geographies that you're thinking about from a retail perspective. Are these added to or incremental to your initial store targets in the country or is this sort of just following migration patterns in the United States more than anything?

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

It's really following a migration pattern, except for the fact that our targets are higher now. When we were sitting down looking at what – the team looking at our goals and planning of how much business these would do, whoever has been taking [ph] me (00:56:49) over has been winning these bets now. So, that's why we're getting more and more excited, is seeing how good our business in Houston is. It's 50% more than we thought it would be. Even presently our business in Austin is 50% better. Our business in Glendale is meaningfully better. Like, we have – we're opening these stores and we're doing meaningfully better than we thought we'd be doing, so super excited about that.

And we just think it bodes well for all the stores in the Southern United States. And we'll see what happens as we start opening the Southeast. Hopefully, we experience the same thing. But there's opportunities in Vegas, there's opportunities in Phoenix. There's opportunities all over the place in the United States, in the Southern United States, so a lot of people. It's not just [ph] Man (00:57:37), it's Orlando, it's Fort Lauderdale. It's all sorts of great place – people – great customers we have in the United States and there's some great shopping centers and, obviously, our eCom ships everywhere. So, this is what's so exciting, is just the fact that we seem to have unlocked the Southern United States a little bit too, more than we had in the past. So, that's what's super exciting. It just opens up a [ph] world of opportunities (00:58:04).

Dylan Carden

Analyst, William Blair & Co. LLC

Q

You know it's what it sounds like. Are you rethinking the box at all as far as size or location? And I get geographies a little different, but just location within these geographies.

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

A

It's funny you asked that, because there was some hesitancy a few years ago of taking on larger locations and that hesitancy has gone now. It doesn't matter whether we are in Canada, United States or Northern United States, Southeast, Southwest, we're after the same size box. In Austin, we have a really big store. We have an old Apple store that we took and it's doing extremely well and it's a big store. And so, we're looking [ph] in our store into (00:58:48) paying. I think it's over 10,000 feet, which our average that we're looking for is 8,000. So, we're super excited about the opportunities. We're getting great real estate. And there's not that many people opening new stores. There really isn't that many people opening sizable new stores.

So, the landlords – we're making great partnership with the landlords right now. They want us and we want the real estate. And so, it's been great. But no, we're not changing our footprint, doesn't matter where it is. I mean we need to show our product. And one of the things that we found is, particularly with our category expansion, we can't have our stores holding 5% or 8% of our product. They need to hold meaningfully more of our products. So, we need to make sure they're expanding and they're representing the brand properly and representing all customers. We have a wide range of customers, and so – both from an age perspective and an income

perspective, and everything else. So, it's important that we're able to showcase a good representation of all our product.

Dylan Carden

Analyst, William Blair & Co. LLC

Yeah. Awesome. Thank you very much. Nice work.

Brian Hill

Founder, Chief Executive Officer & Chairman, Aritzia, Inc.

Thank you.

Operator: The next question comes from Patricia Baker with Scotiabank. Please go ahead.

Patricia A. Baker

Analyst, Scotia Capital, Inc.

Good afternoon, everyone. Thank you very much for letting the call go after 5:30, so I could get my questions in. Jennifer, thanks so much for giving us the overview of your approach and strategy behind ESG and your accomplishments. And just with reference to something you mentioned about Q4 that [ph] relaunched (01:00:17) a search function so that your customers can filter looking for organic, recycled and responsible for [ph] forest (01:00:27) content products, probably too early for you to give us any details about that, but are you already seeing that that's something that your customer appreciates and wants to be able to do?

Jennifer Wong

President, Chief Operating Officer, Corporate Secretary & Director, Aritzia, Inc.

You're right, it is probably too early to have real empirical data. But I will say, anecdotally, it's a feature that internally we're very, very, very excited about, and externally, we've heard lots of great qualitative feedback that this is a direction that people want to see us go in. And we do believe that, first and foremost, it makes shopping – our goal is always to make the shopping online easier and more seamless, and easier to navigate, where to find specific products and specific attributes of our products. And with sustainability being so important as well as the content of our sustainability factors, whether it's recycled or organic, increasing in our product and, hopefully, increasing further even beyond this current season, we want to be able to showcase that. So, yeah, it's a huge feature. And we're feeling very positive about it. And we're getting just really great qualitative feedback on it. We'll share more as we learn more.

Patricia A. Baker

Analyst, Scotia Capital, Inc.

Okay. Super. And I'm not surprised you're getting great feedback on that. And then, just one last question. You talked about investing in talent and you've referenced that you've now hired a US President of Retail. Can you give us any details on the background of this hire? And I can understand why now, because you're growing so fast there. But just if you can give a little bit more detail on that specific hire.

Jennifer Wong

President, Chief Operating Officer, Corporate Secretary & Director, Aritzia, Inc.

Absolutely. I personally met her and interviewed her along with our Head of Retail. She's a seasoned professional and comes from luxury. She's obviously born and raised US citizen, and we feel that she knows the market and all of the regions in the US extremely well. And I would say, she spikes particularly highly in terms of the client

experience. And we felt we really connected in terms of the exceptional [ph] client experience (01:02:36) we want to offer to all of our clients, quite frankly. And while she's based on the West Coast, she travels into the stores and connects directly with our people and our clients face-to-face. Even though she's President and an Executive, she's very grassroots and loved connecting with people, both our own people as well as our clients externally facing.

And I think she's actually right now – as I said, she's in the West Coast, but she's actually – I think she's in New York. I think I talked to her. She was in New York yesterday when I talked to her. So, she has no problem traveling. And what I love about her is that she sets a real example in terms of how we want to exemplify our values internally as well as our brand externally. And I think I've said it a few times now. I think she's very client-centric and we've just been like super-impressed with her. She's only been with us a few months, so we've been super-impressed with her.

Patricia A. Baker

Analyst, Scotia Capital, Inc.



Okay. Tremendous. Thank you.

Operator: This concludes the question-and-answer session. I would like to turn the conference back over to Helen Kelly for any closing remarks.

Helen Kelly

Vice President-Investor Relations, Aritzia, Inc.

Thank you, Shariez, and thanks for everyone for joining us this very busy earnings afternoon. Sorry, our call ran a few minutes late. The team will be available after the call to answer any questions you may have. And in this environment, please continue to take care. We look forward to speaking with you again very soon. Thanks. Bye.

Operator: This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

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