ARITZIA

# Aritzia Inc.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**Fiscal Year Ended March 1, 2020**

**May 28, 2020**

*The following Management's Discussion and Analysis ("MD&A") dated May 28, 2020 is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Aritzia Inc. (together with its consolidated subsidiaries, referred to herein as "Aritzia", the "Company", "we", "us" or "our"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial results for the fourth quarter and fiscal year ended March 1, 2020. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes for Fiscal 2020 (as hereinafter defined).*

### Basis of Presentation

Our audited annual consolidated financial statements and unaudited condensed interim consolidated financial statements (together, the "consolidated financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), using the accounting policies described therein. They reflect the adoption of IFRS 16, Leases, on March 4, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period. Please see "Recent Events – Adoption of IFRS 16". All amounts are presented in thousands of Canadian dollars unless otherwise indicated. We manage our business on the basis of one operating and reportable segment.

All references in this MD&A to "Q4 2020" are to our 13-week period ended March 1, 2020, to "Q4 2019" are to our 14-week period ended March 3, 2019 and to "Q1 2021" are to our 13-week period ending May 31, 2020. All references in this MD&A to "Fiscal 2020" are to our 52-week period ended March 1, 2020, to "Fiscal 2019" are to our 53-week period ended March 3, 2019 and to "Fiscal 2021" are to our 52-week period ending February 28, 2021.

The audited annual consolidated financial statements and accompanying notes for Fiscal 2020 and this MD&A were authorized for issue by the Company's Board of Directors.

### Non-IFRS Measures Including Retail Industry Metrics

This MD&A 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 or 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", "free cash flow" and "gross profit margin". To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted EBITDA for Q4 2020 and Fiscal 2020 has been adjusted to exclude, in addition to other adjustments, the impact of IFRS 16. This MD&A also makes reference to "comparable sales growth", which is a commonly used operating metric in the retail industry but may be calculated differently compared to other retailers. Our comparable sales growth calculation excludes the impact of foreign currency fluctuations. 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. For definitions and reconciliations of these non-IFRS measures to the relevant reported measures, please see the “How We Assess the Performance of Our Business” and “Selected Consolidated Financial Information” sections of this MD&A.

**Forward-Looking Information**

Certain statements made in this MD&A may constitute forward-looking information under applicable securities laws. These statements may relate to our future financial outlook and anticipated events or results and include, but are not limited to, expectations regarding our ability to reopen the remainder of our boutiques and our support office and the results therefrom, our anticipated net revenue, Adjusted EBITDA, cash and cash equivalents and inventory and growth in eCommerce revenue for the first quarter of Fiscal 2021, the number of new and repositioned boutiques during the remainder of Fiscal 2021, our plans to right-size our infrastructure, our plans to amend our ASPP (as hereinafter defined), the expected results of our planned multi-year Customer Program initiative and product lifecycle management system, our ability to expand our talent pool. 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 “may”, “will”, “expect”, “believe”, “estimate”, “plan”, “could”, “should”, “would”, “outlook”, “forecast”, “anticipate”, “foresee”, “continue” or the negative of these terms or variations of them or similar terminology.

Given this unprecedented period of uncertainty, there can be no assurances regarding: (a) the timing of reopening boutiques in each province/state, the limitations or restrictions that may be placed on servicing our clients or potential re-closing of boutiques; (b) the COVID-19-related impacts on our business, operations, supply chain performance and growth strategies, (c) our ability to mitigate such impacts, including ongoing measures to enhance short-term liquidity, contain costs and safeguard the business; (d) our ability to open 5-6 boutiques and repositioning of 3-4 existing locations during the remainder of fiscal 2021; (e) general economic conditions related to COVID-19 and impacts to consumer discretionary spending and shopping habits; (f) credit, market, currency, interest rates, operational, and liquidity risks generally; and (g) other risks inherent to our 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 this MD&A and in the Company’s annual information form dated May 28, 2020 for Fiscal 2020 (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 MD&A represents our expectations as of the date of this MD&A (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.

**Overview**

Aritzia is an innovative design house and fashion boutique. We conceive, create, develop and retail fashion brands with a depth of design and quality that provides compelling value. Each of our exclusive brands has its own vision and distinct aesthetic point of view. As a group, they are united by an unwavering commitment to superior fabrics, meticulous construction and relevant, effortless design.

Founded in Vancouver in 1984, Aritzia now has more than 95 locations in select cities across North America, including Vancouver, Toronto, Montreal, New York, Los Angeles, San Francisco and Chicago. We pride ourselves on creating immersive, human and highly personal shopping experiences, both in our boutiques and on *aritzia.com* — with a focus on delivering Everyday Luxury.

We connect our clients to the energy of our culture through the products we sell and the environments we create. As of the date of this MD&A, we operate 68 boutiques in Canada and 29 boutiques in the United States, averaging approximately 6,000 square feet, all of which are in premier locations within top-tier shopping destinations. We sell our products through our boutiques and *aritzia.com*, giving us complete control of the presentation of our brand and the relationships with our clients. This strategy allows us to present our brand in a consistent manner, including pricing, marketing and product merchandising. We strive to offer our clients an aspirational omni-channel shopping experience and exceptional service at every interaction. Our culture is highly focused on the client, and our style advisors are trained to provide shopping experiences that are personalized to exceed our clients' wants and needs.

**Recent Events**

***Secondary Offering and Share Repurchase***

On March 8, 2019, we completed a secondary offering (the "March 2019 Secondary Offering") on a bought deal basis of our subordinate voting shares through a secondary sale of shares by certain shareholders. The March 2019 Secondary Offering of 19,505,000 subordinate voting shares raised gross proceeds of $329.6 million for the selling shareholders, at a price of $16.90 per subordinate voting share (the "March 2019 Offering Price"). We did not receive any proceeds from the March 2019 Secondary Offering. Underwriting fees were paid by the selling shareholders.

Concurrent with the completion of the March 2019 Secondary Offering, on March 8, 2019, we also completed a repurchase of 6,333,653 subordinate voting shares and multiple voting shares (the "Shares") for cancellation from certain shareholders, including an investment vehicle (the "Berkshire Shareholder") managed by Berkshire Partners LLC ("Berkshire") (the "Share Repurchase"). The purchase price per Share paid by us under the Share Repurchase was the same as the March 2019 Offering Price and resulted in an aggregate purchase price of $107.0 million paid to the selling shareholders. Total expenses related to the March 2019 Secondary Offering and Share Repurchase of $2.5 million were paid by us and were reimbursed by the selling shareholders participating in the Share Repurchase, including the Berkshire Shareholder.

Upon completion of the March 2019 Secondary Offering and Share Repurchase on March 8, 2019, the Berkshire Shareholder has no remaining equity interest in us.

***Normal Course Issuer Bid***

On July 11, 2019, we announced the commencement of a normal course issuer bid ("NCIB") to purchase and cancel up to 3,624,915 subordinate voting shares over the 12-month period commencing July 16, 2019 and ending July 15, 2020. All repurchases are made through the facilities of the Toronto Stock Exchange and are done at market prices. During Fiscal 2020, we repurchased 32,600 subordinate voting shares for cancellation at an average price of $15.97 per subordinate voting share, for total cash consideration of $0.5 million (during Fiscal 2019, we repurchased 549,880 subordinate voting shares for cancellation at an average price of $17.07 per subordinate voting share, for total cash consideration of $9.4 million).

On August 30, 2019, we entered into an automatic share purchase plan ("ASPP") with a designated broker for the purpose of permitting us to purchase our subordinate voting shares under the NCIB during self-imposed blackout periods. The volume of purchases is determined by the broker in its sole discretion based on purchase price and maximum volume parameters established by us under the ASPP. All purchases made under the ASPP will be included in computing the number of subordinate voting shares purchased under the NCIB. We record a liability for purchases that are estimated to occur during blackout periods based on the parameters of the NCIB and ASPP. At March 1, 2020, no such liability was recorded.

Subsequent to the year ended March 1, 2020, we repurchased 38,664 subordinate voting shares for cancellation at an average price of $13.51 per subordinate voting share, for total cash consideration of $0.5 million, under the terms of the ASPP.

On March 17, 2020, we amended the ASPP under the NCIB such that the then authorized trading window ended March 17, 2020. We are further amending the ASPP such that no additional trading windows will be authorized, which effectively terminates any further purchases under the ASPP. In connection with this amendment, effective as of the date hereof, we made a representation to our Canadian broker administering the plan that we do not possess knowledge of any material fact or material change about the Company, our subordinate voting shares or any of our other securities that has not been generally disclosed.

### *Adoption of IFRS 16*

We adopted IFRS 16, Leases (“IFRS 16”), replacing IAS 17, Leases (“IAS 17”) and related interpretations, using the modified retrospective approach, effective for the annual reporting period beginning on March 4, 2019. As a result, our results for Q4 2020 and Fiscal 2020 reflect lease accounting under IFRS 16. Comparative figures for Q4 2019 and Fiscal 2019 have not been restated and continue to be reported under IAS 17.

Our financial reporting is impacted by the adoption of IFRS 16. Certain lease-related expenses previously recorded as occupancy costs are now recorded as depreciation expense for right-of-use assets and as interest expense for related lease liabilities. The depreciation expense is recognized on a straight-line basis over the term of the lease, while the interest expense declines over the life of the lease, as the liability is paid off.

For analysis purposes only, this MD&A also shows, where applicable, amounts for the Q4 2020 and Fiscal 2020 as if we continued to report under IAS 17, and did not adopt IFRS 16.

| *(in thousands of Canadian dollars, unless otherwise noted)* | **Q4 2020 13 weeks As reported (IFRS 16)** | **Q4 2020 13 weeks Excluding IFRS 16[1]** | **Q4 2019 14 weeks As reported (IAS 17)** | **Change** |
|---|---|---|---|---|
| | (A) | (B) | (C) | (B) - (C) |
| Gross profit | $ 102,841 | $ 97,103 | $ 93,847 | $ 3,256 |
| *As a percentage of net revenue* | *37.3%* | *35.3%* | *36.2%* | *(0.9%)* |
| SG&A | $ 64,331 | $ 64,452 | $ 59,349 | $ 5,103 |
| *As a percentage of net revenue* | *23.4%* | *23.4%* | *22.9%* | *0.5%* |
| Adjusted EBITDA[2] | $ 42,375 | $ 42,375 | $ 42,568 | ($ 193) |
| *As a percentage of net revenue* | *15.4%* | *15.4%* | *16.4%* | *(1.0%)* |
| Adjusted Net Income | $ 23,428 | $ 23,433 | $ 25,072 | ($ 1,639) |
| *As a percentage of net revenue* | *8.5%* | *8.5%* | *9.7%* | *(1.2%)* |
| Adjusted Net Income per Diluted Share | $ 0.21 | $ 0.21 | $ 0.21 | - |

| *(in thousands of Canadian dollars, unless otherwise noted)* | **Fiscal 2020 52 weeks As reported (IFRS 16)** | **Fiscal 2020 52 weeks Excluding IFRS 16[1]** | **Fiscal 2019 53 weeks As reported (IAS 17)** | **Change** |
|---|---|---|---|---|
| | (A) | (B) | (C) | (B) - (C) |
| Gross profit | $ 403,424 | $ 380,390 | $ 342,913 | $ 37,477 |
| *As a percentage of net revenue* | *41.1%* | *38.8%* | *39.2%* | *(0.4%)* |
| SG&A | $ 243,362 | $ 243,778 | $ 215,297 | $ 28,481 |
| *As a percentage of net revenue* | *24.8%* | *24.9%* | *24.6%* | *0.3%* |
| Adjusted EBITDA[2] | $ 172,572 | $ 172,572 | $ 161,045 | $ 11,527 |
| *As a percentage of net revenue* | *17.6%* | *17.6%* | *18.4%* | *(0.8%)* |
| Adjusted Net Income | $ 97,388 | $ 97,614 | $ 94,543 | $ 3,071 |
| *As a percentage of net revenue* | *9.9%* | *10.0%* | *10.8%* | *(0.8%)* |
| Adjusted Net Income per Diluted Share | $ 0.87 | $ 0.87 | $ 0.81 | $ 0.06 |

Notes:
(1) Presented using IAS 17, as if IFRS 16 had not been adopted, for comparative purposes only.
(2) To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted EBITDA for Q4 2020 and Fiscal 2020 have been adjusted to exclude, in addition to other adjustments, the impact of IFRS 16.

## Financial Highlights

We refer the reader to the section entitled "How We Assess the Performance of Our Business" of this MD&A for the definition of the items discussed below and, when applicable, to the section entitled "Selected Consolidated Financial Information" for reconciliations of non-IFRS measures with the most directly comparable IFRS measure.

### *Q4 2020 Compared to Q4 2019*

Select financial highlights include the following:

- Comparable sales growth[3] was 8.9%, the 22nd consecutive quarter of positive growth.
- Net revenue increased by 6.3% to $275.4 million from $259.1 million in Q4 2019, with positive performance across all geographies and all channels. Excluding the 53rd week of Fiscal 2019, net revenue increased by 11.6%.
- Gross profit margin[3] was 37.3%. Excluding the impact of IFRS 16[4], gross profit margin was 35.3%, compared to 36.2% in Q4 2019.
- Adjusted EBITDA[3] remained effectively flat at $42.4 million.
- Net income increased by 16.0% to $21.7 million from $18.7 million in Q4 2019.
- Adjusted Net Income[3] decreased by 6.6% to $23.4 million from $25.1 million in Q4 2019.
- Adjusted Net Income per diluted share[3] remained flat at $0.21 compared to Q4 2019.
- Cash and cash equivalents at the end of Q4 2020 totaled $117.8 million, compared to $100.9 million at the end of Q4 2019.

### *Fiscal 2020 Compared to Fiscal 2019*

Select financial highlights include the following:

- Comparable sales growth[3] was 7.6%, following 9.8% comparable sales growth in Fiscal 2019.
- Net revenue increased by 12.2% to $980.6 million from $874.3 million in Fiscal 2019, with positive performance across all geographies and all channels. Excluding the 53rd week of Fiscal 2019, net revenue increased by 13.7%.
- Gross profit margin[3] was 41.1%. Excluding the impact of IFRS 16[4], gross profit margin was 38.8%, compared to 39.2% in Fiscal 2019.
- Adjusted EBITDA[3] increased by 7.2% to $172.6 million from $161.0 million in Fiscal 2019.
- Net income increased by 15.1% to $90.6 million from $78.7 million in Fiscal 2019.
- Adjusted Net Income[3] increased by 3.0% to $97.4 million from $94.5 million in Fiscal 2019.
- Adjusted Net Income per diluted share[3] increased by 7.4% to $0.87 from $0.81 in Fiscal 2019.

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Notes :

(3) See the sections below entitled "How We Assess the Performance of our Business" and "Selected Consolidated Financial Information" for further details concerning comparable sales growth, Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per diluted share and free cash flow for a reconciliation to the most comparable IFRS measure.

(4) See "Significant New Accounting Standards Recently Adopted" and "Selected Consolidated Financial Information" below for more information regarding the financial impact of IFRS 16 on Q4 2020 and Fiscal 2020 results.

***Strategic Accomplishments for Fiscal 2020***

- Delivered revenue growth in the United States of 29.4%, excluding the 53rd week last year, driven by double digit comparable sales growth and new boutique openings.

- Opened five boutiques in the United States and repositioned three existing boutiques in Canada.

- Achieved eCommerce penetration of 23% driven by strong growth in both traffic and transactions in Canada and the United States.

- Completed the implementation of the first three components of our Customer Program designed to enhance the client experience, including our Customer 360 data warehouse, Marketing Communication Platform and our new Concierge platform.

- Generated free cash flow(3) of $117.2 million.

**COVID-19 Update**

Since the outbreak of COVID-19, our priorities have been the well-being of our people, clients and supporting the community while safeguarding the long-term financial strength of our business. On March 16, 2020, we temporarily closed all of our 96 retail boutiques in Canada and the United States and immediately focused our efforts on driving revenue through *aritzia.com*. Concurrently, we took swift action to enhance our short-term liquidity and protect our cash position. These measures included:

- **Drawing down $100.0 million from our revolving credit facility ("Revolving Credit Facility")** to enhance our short-term liquidity;
- **Suspending share repurchases** under our NCIB;
- **Leveraging applicable government business support programs** for COVID-19;
- **Delaying capital expenditures** related to boutique construction;
- **Accelerating infrastructure investments** related to eCommerce and omni-channel projects;
- **Reducing and/or eliminating any outstanding Spring/Summer orders** to optimize inventory levels;
- **Driving cost reductions** by minimizing non-essential operating costs and ongoing negotiations with suppliers, vendors, and landlords for concessions;
- **Extending payment terms** where possible; and
- **Temporarily reducing compensation** for the senior leadership team by 25% and the forfeiture by the Board of Directors of the cash portion of their fees**.**

During the temporary boutique closure period, we saw favourable response to our beautifully designed Spring/Summer product and strategic sales events through our eCommerce channel. eCommerce revenue growth since our boutique closures has been in excess of 150% compared to last year. Operating under stringent health and safety protocols and the support of nearly 575 retail and support office employees, our Distribution Centres and Concierge teams effectively managed the surge in eCommerce volumes while maintaining delivery times to meet or exceed clients' expectations. To-date, we have not laid off or furloughed any of our employees due to COVID-19. We will, however, pursue a right-sizing of our infrastructure once clarity on a new normal emerges.

On May 7, 2020, we began the phased reopening of our retail boutiques. We have established a list of criteria to determine the timing of boutique reopenings, taking into consideration the guidance of local authorities, the reopening status of shopping centres, and our readiness. As part of the reopening plan, we have implemented extensive health and safety measures designed to protect our people and clients. We expect to have reopened approximately 30 of our 96 boutiques by May 31, 2020 and are actively preparing for the reopening of the remainder of our retail boutiques as conditions permit in the coming weeks. While initial results from the reopening process are encouraging in light of the current environment, we expect an extended ramp to a new normal.

We expect to reopen our support office in British Columbia under stringent health precautions on a voluntary basis starting June 1, 2020.

We suspended most of our marketing initiatives and instead launched the Aritzia Community™ Care Program in early May. The initiative, in collaboration with the medical community, gifts over 100,000 frontline healthcare workers with custom-designed clothing packages. The gift comprises an initial donation of $10 million in retail value.

**Summary of Factors Affecting Performance**

Since the outbreak of COVID-19 and the resulting emergency measures put in place by federal, provincial, state and local governments across North America, we have seen, and expect to continue to see, a direct, material adverse impact to many of the factors affecting our performance. The extent of the impact of such emergency measures, will depend on future developments, including the duration of COVID-19, which are uncertain and cannot be predicted.

We generally believe that our performance and future success depend on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below. See also the "Risk Factors" section of this MD&A and in our AIF.

***Our Brand***

We are a vertically integrated innovative design house of exclusive fashion brands that offers a strategic mix of exclusive brands that have been thoughtfully conceived, created and developed. Each of our exclusive brands has its own vision and distinct aesthetic point of view. As a group, they are united by an unwavering commitment to superior fabrics, meticulous construction and relevant, effortless design. Our portfolio of exclusive brands enables us to appeal to our clients across multiple aspects of their lifestyles and life stages, producing strong and enduring client loyalty.

***Product Innovation and Merchandise Planning Strategy***

We believe that our differentiated multi-brand strategy is a key driver of our continued year-over-year net revenue growth and comparable sales growth. Each of our exclusive brands is treated as an independent label and is supported by our own dedicated in-house design team focused on creating beautiful, quality products that align with the unique positioning, look and feel of each brand. In addition to creating new exclusive brands, we continue to innovate our products by broadening our assortment across categories and styles – some examples include the development of leather, denim, intimates and extended sizing opportunities. Our demand-driven merchandise planning, buying and inventory strategies have been developed and refined for more than three decades, and are designed to ensure that we have the right product, at the right time, at the right price, in the right quantity and in the right place. Currently our product costs have been pressured by higher raw material costs and the effect of new tariffs.

***Boutique Network Expansion and Enhancement***

We have developed our boutique network in a measured and disciplined manner. We have a portfolio of boutiques situated in premier real estate locations in high performing retail malls and high streets in North America. In addition to opening new Aritzia and exclusive brand boutiques (e.g. Wilfred, Babaton and TNA), we have generated attractive returns on capital by enhancing elements of our existing boutiques (including footprint, layout and assortment) through carefully considered boutique expansions and repositions. As a result of our disciplined real estate selection process and compelling boutique economics, we have never permanently closed an Aritzia boutique in our 35-year history.

We believe that we have a meaningful opportunity to continue to grow our boutique network, particularly in the United States. To maintain the overall look and feel of the Aritzia brand and support our compelling boutique economics, we are selective in evaluating boutique locations, with a focus on securing premier locations in high performing retail malls and high streets.

The following table summarizes the change in our boutique count for the periods indicated.

| | Q4 2020 | Q4 2019 | Fiscal 2020 | Fiscal 2019 |
|---|---|---|---|---|
| Number of boutiques, beginning of period | 94 | 92 | 91 | 85 |
| New boutiques | 2 | - | 5 | 7 |
| Boutique repositioned into a flagship boutique[5] | - | (1) | - | (1) |
| Number of boutiques, end of period | 96 | 91 | 96 | 91 |
| Boutiques expanded or repositioned | - | 1 | 3 | 4 |

[5] Q4 2019 and Fiscal 2019 includes the reposition of one of our banner locations into the flagship boutique located on the same street.

Subsequent to year end, we opened one new Aritzia boutique located in Greater Vancouver, British Columbia.

### *eCommerce Growth*

Our clients shop both online and in-boutiques, and we believe there are synergies between our boutique network and *aritzia.com*, with the success of each channel benefitting the other through increased brand awareness and affinity.

We believe the following strategies will support the net revenue growth objectives of *aritzia.com*:

- *Drive our omni-channel growth and capabilities* – Our clients shop both online and in our boutiques, and we believe there are synergies between our boutique network and *aritzia.com*, with the success of each channel benefiting the other through increased brand awareness and affinity. We are aiming to launch digital selling tools in our stores as well as new Aritzia Concierge capabilities that will enhance client interactions. We will seek to integrate these capabilities with the *aritzia.com* experience.

- *Capitalize on digital marketing channels to drive client acquisition and retention* – We are directing resources with a renewed focus on digital marketing, including programs centred on search engine optimization enhancements, refinement of our email marketing, and further leveraging our social media. We made numerous technical enhancements to improve our search engine optimization results, including navigation bread crumbs, improved product descriptions, and data driven category naming. We are pleased with the positive impact this has had on new client visits.

- *Deliver personalized experiences* - We are in the early phases of leveraging advanced business intelligence and behaviour analytics to further enhance our understanding of our clients. This includes optimizing our online operations to enhance personalization, which we believe will drive higher conversion and client loyalty. Our goal is to use personalization techniques to customize product and content recommendations to clients based on where they are and how they shop.

- *Improve the digital experience to enhance the shopping experience online* – We are focused on improving the digital experience across all devices (e.g. desktop, mobile, tablet) to work towards making shopping frictionless. In Fiscal 2019, we implemented a number of core optimizations including user reviews and fit guides, enhancing site search functionality, landing page templates, and numerous checkout improvements to reduce client friction. The core areas of our client's digital journey including content, evaluating, discovery, and purchase are continuously improved resulting in increased conversion rate and average order value.

- *Elevate the brand online* – We see our multi-brand strategy as an asset, and we want to leverage it to create emotional connections with our clients. We are mobilizing resources to focus on developing enhancements to our brand shops and building intuitive tools to allow our clients to easily shop collections of products. We believe this will help improve conversion rates and drive repeat purchases.

### *Sourcing and Production*

We contract and maintain direct relationships with a diversified base of independent suppliers and manufacturers for our exclusive brands, which provide us with the flexibility to source high quality materials and products at competitive costs. We source the majority of our raw materials directly from suppliers and manufacturers, located primarily in China, Japan, Italy, South Korea and France, which we believe to be best-in-class that uphold our standards for quality, lead time and cost. Our finished goods are sourced from manufacturers located primarily in China, Vietnam, India, Romania, Sri Lanka and Cambodia. Capacity planning with our manufacturers is done at the beginning of the season to ensure flexibility. We believe that our approach of sourcing a majority of our raw materials and working directly with suppliers and manufacturers enhances our ability to create beautiful and high-quality products in a timely manner. We engage third parties to inspect our manufacturers' factories to ensure quality control. We engage independent expert service providers to conduct factory audits for compliance with local laws and regulations and global standards.

***Infrastructure Investments***

We continue to strategically invest in infrastructure to safeguard and maximize our existing business, as well as support our growth.

In Fiscal 2018, we successfully completed the implementation of our new point-of-sale ("POS") system in all of our boutiques and our client care centre. This new POS system provides us with a robust platform on which to build and evolve the services and experience we offer to our clients. It has provided us with world class infrastructure, labour efficiencies, greater access to more reliable data and specifically, a foundation to evolve our omni-channel and clienteling capabilities. The new POS system provides near real-time visibility to inventory and sales data. This has already allowed us to respond more nimbly in managing our inventory to maximize sales, as well as begin providing true omni-channel capabilities to give clients even more flexibility in how they shop and receive Aritzia products. In Fiscal 2019, we implemented verified eCommerce returns and integrated payments, which allows us to further enhance our clients' experience.

In August 2018, we relocated and expanded our Greater Vancouver distribution centre from 83,000 square feet into a new 223,000 square foot facility with an upgraded warehouse-management system. The new distribution centre primarily services the west coast and serves as a hub for the rest of our network. During Q2 2020, we completed the expansion of both of our third-party distribution centres in Mississauga, Ontario and Columbus, Ohio. In total, we added 177,000 square feet of space, representing an approximately 80% increase in size for these facilities. These expansions support both our retail and eCommerce businesses with added capacity to handle higher levels of throughput.

Our digital marketing strategy contemplates our eCommerce business as an extension of our boutique experience. This allows us to not only communicate with our clients, but also to interact with and drive engagement.

As we look to further elevate our client experience, we are continuing to develop our Customer Program, which is a multi-year initiative comprised of four projects that are expected to be implemented in phases. The program is designed to build on our world class client experience by providing a seamless, consistent and personalized approach towards how we engage and service our clients. Through advanced business intelligence and behavior analytics, our goal is to be able to tailor unique shopping experiences both in our boutiques and online while driving revenue and client loyalty:

- *Customer 360* – Launched in Fiscal 2020, this tool enables us to store, view and edit client information from all of our front end systems. This gives us an enhanced, real-time view of our clients including their attributes, past purchases and preferences.
- *Marketing Communications Platform* – This platform builds on Customer 360's data repository, which is expected to allow us to personalize our communications by creating campaigns that cater to our clients' attributes and preferences. We expect that a more personalized approach to marketing communications will enhance our top-line growth. The first phase was completed in Fiscal 2020.
- *Concierge* – Launched in Fiscal 2020, this new, integrated solution is expected to not only allow us to enhance our client experience throughout the lifecycle of their purchase, it is also expected to represent a revenue generating opportunity as we personalize each client interaction through our client care centre.
- *Digital Selling Tools* – This project is expected to be implemented in multiple phases. In the form of a mobile app, the digital selling tool is designed to provide enriched client information and product data to improve the productivity of our style advisors.

Our Product Lifecycle Management ("PLM") system is another foundational technology we are in the process of implementing. The PLM system will manage all of the data to support all of the processes necessary to bring a product to market. The application is designed to provide visibility into our raw materials and enable us to focus on innovation, drive quality, reduce speed to market and optimize costs in our manufacturing processes.

We also continue to expand our talent pool across the organization. We are continuing to find key talent at all levels to support our business and our growth strategies.

Our focus on building our digital infrastructure impacts everything we do. In our view, digital is about more than just our technology and eCommerce business, it runs through the business all the way from design to the service we deliver in boutiques. These strategic investments in systems, infrastructure and people are expected to keep us on the forefront of providing the exceptional client service and an aspirational shopping experience for which we are well-known.

***Consumer Trends***

The women's apparel industry is subject to shifts in consumer trends, preferences and consumer spending and our revenue and operating results depend, in part, on our ability to respond to such changes in a timely manner. Our differentiated multi-brand strategy gives us control over our products and provides us with the flexibility to optimize our brand mix as needed to address changes in consumer demand and fashion preferences, which has been a critical driver of the consistency of our growth. Our diversified mix of exclusive brands satisfies a broad range of fashion needs, which allows us to attract a wide client base and increases our addressable market. Our revenue is also impacted by discretionary spending by consumers, which is affected by many factors that are beyond our control, including, but not limited to, general economic conditions, consumer disposable income levels, consumer confidence levels, consumer debt, the cost of basic necessities and other goods and the effects of weather or natural disasters. We believe that our track record demonstrates the success of our exclusive brand strategy at responding to changes in fashion demands through all stages of economic cycles.

***Seasonality***

Our business is seasonal, with a higher proportion of net revenue and operating cash flows generated during the second half of the fiscal year, which includes the back-to-school and holiday seasons. We also have higher working capital requirements in the periods preceding the launch of new seasons as we receive and pay for new inventory. We manage our working capital needs through cash flow from operations and our Revolving Credit Facility.

Average quarterly share of annual net revenue over the last three completed fiscal years is as follows:

| | |
|---|---|
| First fiscal quarter | 20% |
| Second fiscal quarter | 24% |
| Third fiscal quarter | 27% |
| Fourth fiscal quarter | 29% |
| Yearly total | 100% |

***Weather***

Extreme weather conditions in the areas in which our boutiques are located could adversely affect our business and financial results. For example, frequent or unusually heavy snowfall, ice storms, rainstorms or other extreme weather conditions over a prolonged period could make it difficult for our clients to travel to our boutiques and thereby reduce our revenue and profitability. This is potentially mitigated by our clients' ability to buy our products through *aritzia.com*. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions, which could adversely affect sales of these seasonal items.

***Competition***

We operate in the women's apparel industry, primarily within the North American market. We compete on the basis of several factors that include our strategic mix of exclusive brands, offering high quality products at an attainable price point, our proven and sophisticated merchandise planning strategy, our focus on providing exceptional client service, our premier real estate portfolio and our market positioning. We believe the industry is evolving to benefit players like us that have the scale needed to leverage their infrastructure and capabilities in areas such as brand equity creation, real estate selection, boutique design, supply chain and eCommerce.

### *Foreign Exchange*

The majority of our net revenue is derived in Canadian dollars while the vast majority of our cost of goods sold is denominated in U.S. dollars. Fluctuations in the exchange rate of the Canadian dollar versus the U.S. dollar could materially affect our gross profit margins and operating results. From time to time, we use foreign currency forward contracts to mitigate risks associated with forecasted U.S. dollar merchandise purchases sold in Canada, but there can be no assurances that such strategies will prove to be successful. See “Financial Instruments” and “Risk Factors” sections of this MD&A.

## How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of financial and operating measures that affect our operating results.

### *Net Revenue*

Net revenue reflects our sale of merchandise, less returns and discounts. Retail revenue at point-of-sale is measured at the fair value of the consideration received at the time the sale is made to the customer, net of discounts and estimated allowance for returns. For merchandise that is ordered and paid in a boutique and subsequently picked up by or delivered to the customer, revenue is deferred until control of the merchandise has been transferred to the customer. eCommerce revenue is recognized at the date control has been transferred to the customer, and measured at the fair value of consideration received, net of discounts and an estimated allowance for returns. Revenues are reported net of sales taxes collected for various governmental agencies.

### *Comparable Sales Growth*

Comparable sales growth is a retail industry metric used to compare the percentage change in sales derived from established boutiques of a certain period as compared to the sales from the same boutiques in the same period in the prior year. Comparable sales growth helps to explain our revenue growth in established boutiques and eCommerce. Comparable sales is calculated based on revenue (net of sales tax, returns and discounts) from boutiques that have been opened for at least 56 weeks including eCommerce revenue (net of sales tax, returns and discounts), and excludes boutiques that were expanded or repositioned, boutiques in centres where we opened a new additional boutique and boutiques significantly impacted by nearby construction and other similar disruptions during this period and week 53 net revenue, if applicable. Our comparable sales growth calculation excludes the impact of foreign currency fluctuations. We apply the prior year’s average quarterly exchange rate to both current year and prior year comparable sales to achieve a consistent basis for comparison (i.e. on a constant currency basis).

### *Gross Profit*

Gross profit reflects our net revenue less cost of goods sold. Cost of goods sold includes inventory and product-related costs, variable lease payments and other occupancy-related expenses, as well as depreciation expense for our boutique and distribution centre assets. Our cost of goods sold may include different costs compared to other retailers. Gross profit margin is impacted by the components of cost of goods sold, product mix and markdowns. We define gross profit margin as our gross profit divided by our net revenue.

### *Selling, General and Administrative (“SG&A”) Expenses*

Our SG&A expenses consist of selling expenses that are generally variable with net revenue and general and administrative operating expenses that are primarily fixed. Our SG&A expenses also include depreciation and amortization expenses for all support office assets and intangible assets. We expect our SG&A expenses to increase as we continue to open new boutiques, grow our eCommerce business, increase brand awareness and invest in our infrastructure and people.

SG&A expenses as a percentage of net revenue, excluding strategic investments in technology and infrastructure, are usually higher in the lower-volume first and second quarters, and lower in the higher-volume third and fourth quarters because a portion of these costs are relatively fixed. Our SG&A expenses may include different expenses compared to other retailers.

### *EBITDA*

We define EBITDA as consolidated net income before depreciation and amortization, finance expense and income tax expense.

### *Adjusted EBITDA*

We believe Adjusted EBITDA is a useful measure of operating performance, as it provides a more relevant picture of operating results in that it excludes the effects of financing and investing activities by removing the effects of interest, depreciation and amortization expenses that are not reflective of underlying business performance and other one-time or non-recurring expenses. We use Adjusted EBITDA to facilitate a comparison of our operating performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business. We define Adjusted EBITDA as consolidated net income before depreciation and amortization, finance expense and income tax expense, adjusted for the impact of certain items, including non-cash items such as stock-based compensation expense, unrealized gains or losses on equity derivatives and forward contracts and other items we consider non-recurring and not representative of our ongoing operating performance. Beginning Q1 2020, we adopted IFRS 16 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period. To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted EBITDA for Q4 2020 and Fiscal 2020 have been adjusted to exclude, in addition to other adjustments, the impact of IFRS 16 (for additional information relating to the adoption of IFRS 16, see “Significant New Accounting Standards Recently Adopted”). Because Adjusted EBITDA excludes certain non-cash items, we believe that it is less susceptible to variances in actual performance resulting from depreciation and amortization and other non-cash charges.

### *Adjusted Net Income (per diluted share)*

We believe Adjusted Net Income (per diluted share) is a useful measure of performance, as it provides a more relevant picture of results by excluding the effects of expenses that are not reflective of underlying business performance and other one-time or non-recurring expenses. We use Adjusted Net Income to facilitate a comparison of our performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business. We define Adjusted Net Income as consolidated net income, adjusted for the impact of certain items, including non-cash items such as stock-based compensation expense, unrealized gains or losses on equity derivatives and forward contracts and other items we consider non-recurring and not representative of our ongoing operating performance, net of related tax effects. We define Adjusted Net Income per diluted share by dividing Adjusted Net Income by the weighted average number of diluted shares outstanding.

### *Free Cash Flow*

Free cash flow is a non-GAAP measure we consider to be an important metric because it is an indicator of how much cash is available for debt repayment, share repurchases, re-investment in the Company and other financing activities. Our sustained ability to generate free cash flow is an indicator of the financial strength of our business, as we require regular capital expenditures to build and maintain boutiques and purchase new equipment to improve our business and infrastructure. We define free cash flow as net cash generated from operating activities excluding interest paid, less net cash used in investing activities and repayments of principal on lease liabilities.

## Selected Consolidated Financial Information

The following table summarizes our recent results of operations for the periods indicated. The selected consolidated financial information set out below has been derived from our audited annual consolidated financial statements and related notes. The selected consolidated financial information set out below for Q4 2020 and Q4 2019 is unaudited.

| (in thousands of Canadian dollars, unless otherwise noted) | **Q4 2020 13 weeks** | | | **Q4 2019 14 weeks** |
|---|---|---|---|---|
| | **As reported (IFRS 16)** | **IFRS 16 adoption impact** | **Excluding IFRS 16[6]** | **As reported (IAS 17)** |
| **Consolidated Statements of Operations:** | | | | |
| Net revenue | $ 275,430 | $ - | $ 275,430 | $ 259,050 |
| Cost of goods sold | 172,589 | 5,738 | 178,327 | 165,203 |
| Gross profit | 102,841 | (5,738) | 97,103 | 93,847 |
| Operating expenses | | | | |
| Selling, general and administrative | 64,331 | 121 | 64,452 | 59,349 |
| Stock-based compensation expense | 2,411 | - | 2,411 | 2,596 |
| Income from operations | 36,099 | (5,859) | 30,240 | 31,902 |
| Finance expense | 6,914 | (5,866) | 1,048 | 1,219 |
| Other (income) expenses | (1,354) | - | (1,354) | 4,416 |
| Income before income taxes | 30,539 | 7 | 30,546 | 26,267 |
| Income tax expense | 8,824 | 2 | 8,826 | 7,544 |
| Net income | $ 21,715 | $ 5 | $ 21,720 | $ 18,723 |
| **Percentage of Net Revenue:** | | | | |
| Net revenue | 100.0% | | 100.0% | 100.0% |
| Cost of goods sold | 62.7% | | 64.7% | 63.8% |
| Gross profit | 37.3% | | 35.3% | 36.2% |
| Operating expenses | | | | |
| Selling, general and administrative | 23.4% | | 23.4% | 22.9% |
| Stock-based compensation expense | 0.9% | | 0.9% | 1.0% |
| Income from operations | 13.1% | | 11.0% | 12.3% |
| Finance expense | 2.5% | | 0.4% | 0.5% |
| Other (income) expenses | (0.5%) | | (0.5%) | 1.7% |
| Income before income taxes | 11.1% | | 11.1% | 10.1% |
| Income tax expense | 3.2% | | 3.2% | 2.9% |
| Net income | 7.9% | | 7.9% | 7.2% |
| **Other Performance Measures:** | | | | |
| Year-over-year net revenue growth | 6.3% | | 6.3% | 17.9% |
| Comparable sales growth | 8.9% | | 8.9% | 5.5% |
| Free cash flow | $ 20,656 | | $ 20,656 | $ (20,876) |
| Capital cash expenditures (excluding proceeds from leasehold inducements) | $ 12,167 | | $ 12,167 | $ 14,677 |
| Number of boutiques, end of period | 96 | | 96 | 91 |
| New boutiques added | 2 | | 2 | - |
| Boutiques expanded or repositioned[7] | - | | - | - |

Note:

(6) Presented using IAS 17, as if IFRS 16 had not been adopted, for comparative purposes only.

(7) Q4 2019 includes the reposition of one of our banner locations into the flagship boutique located on the same street.

| (in thousands of Canadian dollars, unless otherwise noted) | Fiscal 2020 52 weeks | | | Fiscal 2019 53 weeks |
|---|---|---|---|---|
| | **As reported (IFRS 16)** | **IFRS 16 adoption impact** | **Excluding IFRS 16[8]** | **As reported (IAS 17)** |
| **Consolidated Statements of Operations:** | | | | |
| Net revenue | $ 980,589 | $ - | $ 980,589 | $ 874,296 |
| Cost of goods sold | 577,165 | 23,034 | 600,199 | 531,383 |
| Gross profit | 403,424 | (23,034) | 380,390 | 342,913 |
| Operating expenses | | | | |
| Selling, general and administrative | 243,362 | 416 | 243,778 | 215,297 |
| Stock-based compensation expense | 7,790 | - | 7,790 | 11,540 |
| Income from operations | 152,272 | (23,450) | 128,822 | 116,076 |
| Finance expense | 28,319 | (23,763) | 4,556 | 4,821 |
| Other income | (2,185) | - | (2,185) | (395) |
| Income before income taxes | 126,138 | 313 | 126,451 | 111,650 |
| Income tax expense | 35,544 | 87 | 35,631 | 32,922 |
| Net income | $ 90,594 | $ 226 | $ 90,820 | $ 78,728 |
| **Percentage of Net Revenue:** | | | | |
| Net revenue | 100.0% | | 100.0% | 100.0% |
| Cost of goods sold | 58.9% | | 61.2% | 60.8% |
| Gross profit | 41.1% | | 38.8% | 39.2% |
| Operating expenses | | | | |
| Selling, general and administrative | 24.8% | | 24.9% | 24.6% |
| Stock-based compensation expense | 0.8% | | 0.8% | 1.3% |
| Income from operations | 15.5% | | 13.1% | 13.3% |
| Finance expense | 2.9% | | 0.5% | 0.6% |
| Other income | (0.2%) | | (0.2%) | (0.0%) |
| Income before income taxes | 12.9% | | 12.9% | 12.8% |
| Income tax expense | 3.6% | | 3.6% | 3.8% |
| Net income | 9.2% | | 9.3% | 9.0% |
| **Other Performance Measures:** | | | | |
| Year-over-year net revenue growth | 12.2% | | 12.2% | 17.6% |
| Comparable sales growth | 7.6% | | 7.6% | 9.8% |
| Free cash flow | $ 117,246 | | $ 117,246 | $ 38,874 |
| Capital cash expenditures (excluding proceeds from leasehold inducements) | $ 47,790 | | $ 47,790 | $ 62,010 |
| Number of boutiques, end of period | 96 | | 96 | 91 |
| New boutiques added | 5 | | 5 | 7 |
| Boutiques expanded or repositioned[9] | 3 | | 3 | 3 |

Note:

[8] Presented using IAS 17, as if IFRS 16 had not been adopted, for comparative purposes only.

[9] Fiscal 2019 includes the reposition of one of our banner locations into the flagship boutique located on the same street.

The following table provides a reconciliation of net income to EBITDA, Adjusted EBITDA and Adjusted Net Income, Adjusted Net Income per diluted share and Comparable Sales to Net Revenue for the periods indicated.

| | Q4 2020 13 weeks | Q4 2019 14 weeks | Fiscal 2020 52 weeks | Fiscal 2019 53 weeks |
|---|---|---|---|---|
| | (in thousands of Canadian dollars, unless otherwise noted) | | | |
| **Reconciliation of Net Income to EBITDA and Adjusted EBITDA:** | | | | |
| Net income | $ 21,715 | $ 18,723 | $ 90,594 | $ 78,728 |
| Depreciation and amortization | 24,134 | 7,355 | 93,502 | 27,065 |
| Finance expense | 6,914 | 1,219 | 28,319 | 4,821 |
| Income tax expense | 8,824 | 7,544 | 35,544 | 32,922 |
| **EBITDA** | 61,587 | 34,841 | 247,959 | 143,536 |
| Adjustments to EBITDA: | | | | |
| Stock-based compensation expense | 2,411 | 2,596 | 7,790 | 11,540 |
| Rent impact from IFRS 16, Leases[10] | (20,973) | - | (82,527) | - |
| Unrealized (gain) loss on equity derivatives and forward contracts | (650) | - | (650) | 415 |
| Lease exit cost | - | 5,725 | - | 5,725 |
| Other non-recurring items[11] | - | (594) | - | (171) |
| **Adjusted EBITDA** | $ 42,375 | $ 42,568 | $ 172,572 | $ 161,045 |
| **Adjusted EBITDA as a Percentage of Net Revenue** | 15.4% | 16.4% | 17.6% | 18.4% |
| **Reconciliation of Net Income to Adjusted Net Income:** | | | | |
| Net income | $ 21,715 | $ 18,723 | $ 90,594 | $ 78,728 |
| Adjustments to net income: | | | | |
| Stock-based compensation expense | 2,411 | 2,596 | 7,790 | 11,540 |
| Unrealized (gain) loss on equity derivatives and forward contracts | (650) | - | (650) | 415 |
| Lease exit cost | - | 5,725 | - | 5,725 |
| Other non-recurring items [11] | - | (594) | - | (171) |
| Related tax effects | (48) | (1,378) | (346) | (1,694) |
| **Adjusted Net Income** | $ 23,428 | $ 25,072 | $ 97,388 | $ 94,543 |
| **Adjusted Net Income as a Percentage of Net Revenue** | 8.5% | 9.7% | 9.9% | 10.8% |
| **Weighted Average Number of Diluted Shares Outstanding (thousands)** | 113,120 | 117,488 | 112,128 | 117,358 |
| **Adjusted Net Income per Diluted Share** | $ 0.21 | $ 0.21 | $ 0.87 | $ 0.81 |

| **Note (10)**<br>**Rent Impact from IFRS 16, Leases** | **Q4 2020 13 weeks** | **Fiscal 2020 52 weeks** |
|---|---|---|
| Net income | $ 5 | $ 226 |
| Depreciation and amortization | (15,114) | (59,077) |
| Finance expense | (5,866) | (23,763) |
| Income tax expense | 2 | 87 |
| Rent impact from IFRS 16, Leases | $ (20,973) | $ (82,527) |

Notes:
[11] Other non-recurring items in Q4 2019 and Fiscal 2019 relate to transaction costs relating to our secondary offering of subordinate voting shares.

| | | Q4 2020<br>13 weeks | | Q4 2019<br>14 weeks | | Fiscal 2020<br>52 weeks | | Fiscal 2019<br>53 weeks |
|---|---|---|---|---|---|---|---|---|
| | | (in thousands of Canadian dollars, unless otherwise noted) | | | | | | |
| **Reconciliation of Comparable Sales to Net Revenue:** | | | | | | | | |
| Comparable sales[12] | $ | 245,636 | $ | 205,064 | $ | 850,108 | $ | 644,957 |
| Non-comparable sales | | 29,794 | | 53,986 | | 130,481 | | 229,339 |
| Net revenue | $ | 275,430 | $ | 259,050 | $ | 980,589 | $ | 874,296 |

The following table provides selected financial position data for the periods indicated.

| | | As at<br>March 1, 2020 | | As at<br>March 3, 2019 |
|---|---|---|---|---|
| **Selected Consolidated Financial Position Data:** | | | | |
| Total assets [13] | $ | 1,036,715 | $ | 629,374 |
| Total non-current liabilities [13] | | 550,807 | | 164,454 |

## Results of Operations

### Analysis of Results for Q4 2020 to Q4 2019

The following section provides an overview of our financial performance during Q4 2020 compared to Q4 2019.

#### *Net Revenue*

Net revenue increased by 6.3% to $275.4 million compared to $259.1 million in Q4 2019. Comparable sales growth[12] of 8.9% was driven by momentum in our eCommerce business as well as positive performance across our boutique network. Excluding the 53rd week of Fiscal 2019, net revenue increased by 11.6%. Net revenue growth also reflects the addition of five new boutiques and three expanded or repositioned boutiques since Q4 2019.

#### *Gross Profit*

Gross profit increased by 9.6% to $102.8 million. Excluding the impact of IFRS 16, gross profit increased by 3.5% to $97.1 million compared to $93.8 million in Q4 2019. Gross profit margin, excluding the impact of IFRS 16, decreased 90 basis points to 35.3% compared to 36.2% in Q4 2019. The decrease in gross profit margin was primarily due to ongoing higher raw materials costs and the impact from new tariffs, higher markdowns and higher warehousing and distribution centre costs. These factors were partially offset by an appreciation of the Canadian dollar.

Notes:

(12) The comparable sales for a given period represents revenue (net of sales tax, returns and discounts) from boutiques that have been opened for at least 56 weeks including eCommerce revenue (net of sales tax, returns and discounts) within that given period. This information is provided to give context for comparable sales in such given period as compared to net revenue reported in our financial statements. Our comparable sales growth calculation excludes the impact of foreign currency fluctuations. For more details, please see the “Comparable Sales Growth” subsection of the “How We Assess the Performance of Our Business” section of this MD&A.

(13) The impact of IFRS 16 on the Fiscal 2020 Consolidated Financial Position figures includes an increase to total assets of $380.4 million resulting from right-of-use assets recognized as well as an increase to non-current liabilities of $447.1 million resulting from lease liabilities recognized.

### *SG&A Expenses*

SG&A expenses increased by 8.4% to $64.3 million. Excluding the impact of IFRS 16, SG&A expenses were $64.5 million, an increase of 8.6% or 23.4% of net revenue compared to $59.3 million or 22.9% of net revenue in Q4 2019. The increase of 50 basis points is primarily due to $2.0 million in investments in our Customer Program.

### *Other (Income) Expenses*

Other income was ($1.4) million in Q4 2020, compared to other expenses of $4.4 million in Q4 2019.

Other income of ($1.4) million in Q4 2020 primarily relates to:

- unrealized gains on equity derivatives of ($0.7) million,
- interest income of ($0.5) million, and
- unrealized and realized operational foreign exchange gains of ($0.1) million.

Other expenses of $4.4 million in Q4 2019 primarily related to:

- a lease exit cost of $5.7 million, partially offset by
- offering transaction cost recoveries of ($0.6) million,
- interest income of ($0.6) million, and
- unrealized and realized operational foreign exchange gains of ($0.1) million.

The lease exit cost of $5.7 million in Q4 2019 related to the exit of a lease commitment for the planned repositioning of one of our flagship boutiques. The commitment was made due to the uncertainty of remaining in the existing location as a result of redevelopment plans which were subsequently abandoned. For brand and financial reasons, we exited the alternative lease commitment, resulting in the one-time expense.

### *Adjusted EBITDA*

Adjusted EBITDA was $42.4 million, or 15.4% of net revenue in Q4 2020, compared to $42.6 million, or 16.4% of net revenue in Q4 2019, primarily due to the factors discussed above. As previously noted, Adjusted EBITDA in Q4 2020 excludes the favorable impact of IFRS 16 of $21.0 million.

### *Stock-Based Compensation Expense*

Stock-based compensation expense was $2.4 million in Q4 2020, compared to $2.6 million in Q4 2019.

Included in Q4 2020 is $1.4 million in expenses primarily related to the accounting for options under our new option plan, $0.3 million in expenses related to the accounting for options under our legacy option plan and $0.7 million in expenses related to the accounting for our deferred and restricted share units.

Included in Q4 2019 is $2.1 million in expenses primarily related to the accounting for options under our new option plan and $0.5 million in expenses related to the accounting for options under our legacy option plan.

### *Finance Expense*

Finance expense increased by $5.7 million to $6.9 million in Q4 2020, compared to $1.2 million in Q4 2019. The increase was mainly attributable to $5.9 million of interest expense recognized on the lease liabilities under IFRS 16.

### *Income Tax Expense*

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rates for Q4 2020 and Q4 2019 were 26.8% and 26.9%, respectively.

Income tax expense was $8.8 million in Q4 2020, compared to $7.5 million in Q4 2019 and the effective tax rates for Q4 2020 and Q4 2019 were 28.9% and 28.7%, respectively.

### *Net Income*

Net income increased by 16.0% to $21.7 million in Q4 2020, compared to $18.7 million in Q4 2019. This increase is primarily the result of a 6.3% increase in net revenue, an increase in gross profit margin and other income, and a decrease in stock-based compensation expense, partially offset by higher SG&A and finance expense. IFRS 16 had no significant impact on net income.

### *Adjusted Net Income*

Adjusted Net Income decreased by 6.6% to $23.4 million compared to $25.1 million in Q4 2019, primarily due to the factors discussed above. IFRS 16 had no significant impact on Adjusted Net Income.

Adjusted Net Income per diluted share remained flat at $0.21 compared to Q4 2019.

### *Inventory*

Inventory at end of Q4 2020 was $94.0 million, compared to $112.2 million at the end of Q4 2019. The decrease reflects a lower initial buy for the spring/summer season and early receipt of inventory last year. Inventory at the end of the fourth quarter represented a decrease of 16.2% year over year.

## Analysis of Results for Fiscal 2020 to Fiscal 2019

The following section provides an overview of our financial performance during Fiscal 2020 compared to Fiscal 2019.

### *Net Revenue*

Net revenue increased by 12.2% to $980.6 million from $874.3 million in the prior year. Excluding the 53rd week of Fiscal 2019, net revenue increased by 13.7%. Comparable sales growth of 7.6% was driven by momentum in our eCommerce business as well as positive performance across our boutique network. The increase in net revenue was also driven by the revenue from new, expanded and repositioned boutiques.

### *Gross Profit*

Gross profit increased by 17.6% to $403.4 million. Excluding the impact of IFRS 16, gross profit increased by 10.9% to $380.4 million compared to $342.9 million in Fiscal 2019. Gross profit margin, excluding the impact of IFRS 16, decreased 40 basis points to 38.8% compared to 39.2% in Fiscal 2019. The decrease in gross profit margin was primarily due to higher markdowns, higher warehousing and distribution centre costs and the weakening of the Canadian dollar. These factors were partially offset by leverage from rent.

### *SG&A Expenses*

SG&A expenses increased by 13.0% to $243.4 million. Excluding the impact of IFRS 16, SG&A expenses increased by 13.2% to $243.8 million compared to $215.3 million in Fiscal 2019. Excluding the impact of IFRS 16, SG&A expenses in Fiscal 2020 were 24.9% of net revenue, compared to 24.6% of net revenue in Fiscal 2019. SG&A expenses this year includes $7.3 million primarily relating to investments in our Customer Program.

### *Other (Income)*

Other income was ($2.2) million in Fiscal 2020, compared to ($0.4) million in Fiscal 2019.

Other income of ($2.2) million in Fiscal 2020 primarily relates to:

- interest income of ($0.9) million,
- unrealized gains on equity derivative contracts of ($0.7) million, and
- unrealized and realized operational foreign exchange gains of ($0.3) million.

Other income of ($0.4) million in Fiscal 2019 primarily related to:

- realized foreign exchange gains on the settlement of U.S. dollar forward contracts of ($2.3) million,
- unrealized and realized operational foreign exchange gains of ($2.3) million,
- interest income of ($1.7) million, and

- offering transaction cost recoveries of ($0.2) million, partially offset by
- a lease exit cost of $5.7 million, and
- unrealized foreign exchange losses on U.S. dollar forward contracts of $0.4 million.

The lease exit cost of $5.7 million in Fiscal 2019 related to the exit of a lease commitment for the planned repositioning of one of our flagship boutiques. The commitment was made due to the uncertainty of remaining in the existing location as a result of redevelopment plans which were subsequently abandoned. For brand and financial reasons, we exited the alternative lease commitment, resulting in the one-time expense.

### *Adjusted EBITDA*

Adjusted EBITDA increased by 7.2% to $172.6 million, or 17.6% of net revenue in Fiscal 2020, compared to $161.0 million, or 18.4% of net revenue in Fiscal 2019, primarily due to the factors discussed above. Adjusted EBITDA was negatively impacted year over year by $4.8 million from the change in other (income) with ($1.5) million in Fiscal 2020, compared to ($6.4) million in other (income) in Fiscal 2019. As previously noted, Adjusted EBITDA for Fiscal 2020 excludes the favorable impact of IFRS 16 of $82.5 million.

### *Stock-Based Compensation Expense*

Stock-based compensation expense was $7.8 million in Fiscal 2020, compared to $11.5 million in Fiscal 2019.

Included in Fiscal 2020 is $4.8 million in expenses primarily related to the accounting for options under our new option plan, $1.1 million in expenses related to the accounting for options under our legacy option plan and $1.9 million in expenses related to the accounting for our deferred and restricted share units. Included in Fiscal 2019 is $8.6 million in expenses related to the accounting for options under our new option plan, $2.4 million in expenses related to the accounting for options under our legacy option plan and $0.5 million in expenses related to the accounting for our deferred share units.

### *Finance Expense*

Finance expense increased by $23.5 million to $28.3 million in Fiscal 2020, compared to $4.8 million in Fiscal 2019. The increase was primarily attributable to $23.8 million of interest expense recognized on the lease liabilities under IFRS 16.

### *Income Tax Expense*

Income tax expense is recognized based on management’s best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rates for Fiscal 2020 and Fiscal 2019 were 26.8% and 26.9%, respectively.

Income tax expense was $35.5 million in Fiscal 2020, compared to $32.9 million in Fiscal 2019 and the effective tax rates for Fiscal 2020 and Fiscal 2019 were 28.2% and 29.5%, respectively. The decrease in the effective tax rate compared to Fiscal 2019 is due to a decrease in the amount of stock-based compensation expense.

### *Net Income*

Net income increased by 15.1% to $90.6 million in Fiscal 2020, compared to $78.7 million in Fiscal 2019. This increase is primarily the result of a 12.2% increase in net revenue, an increase in gross profit margin and other income, and a decrease in stock-based compensation expense, partially offset by higher SG&A, finance expense and income tax expense. IFRS 16 had no significant impact on net income.

### *Adjusted Net Income*

Adjusted Net Income increased by 3.0% to $97.4 million compared to $94.5 million in Fiscal 2019, primarily due to the factors discussed above. Adjusted Net Income was negatively impacted year over year by $3.5 million from the after-tax change in other (income) with ($1.1) million in Fiscal 2020 compared to ($4.6) million in other (income) in Fiscal 2019. IFRS 16 had no significant impact on Adjusted Net Income.

Adjusted Net Income per diluted share increased by 7.4% to $0.87 from $0.81 in Fiscal 2019.

### Summary of Consolidated Quarterly Results and Certain Performance Measures

The following table summarizes the results of our operations for the last eight most recently completed quarters. This unaudited quarterly information, other than Adjusted EBITDA, Adjusted Net Income and comparable sales growth, has been prepared in accordance with IFRS. Due to seasonality, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year.

| | Fiscal 2020 | | | | Fiscal 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4<br>13 weeks | Q3<br>13 weeks | Q2<br>13 weeks | Q1<br>13 weeks | Q4<br>14 weeks | Q3<br>13 weeks | Q2<br>13 weeks | Q1<br>13 weeks |
| | (in thousands of Canadian dollars, unless otherwise noted) | | | | | | | |
| **Consolidated Statements of Operations:** | | | | | | | | |
| Net revenue | $ 275,430 | $ 267,282 | $ 241,178 | $ 196,699 | $ 259,050 | $ 242,876 | $ 205,359 | $ 167,011 |
| Gross profit | 102,841 | 119,595 | 95,427 | 85,561 | 93,847 | 104,789 | 76,734 | 67,543 |
| SG&A | 64,331 | 64,035 | 60,567 | 54,429 | 59,349 | 56,554 | 52,401 | 46,993 |
| Income from operations | 36,099 | 54,497 | 32,918 | 28,758 | 31,902 | 45,339 | 21,681 | 16,731 |
| Adjusted EBITDA (14) | 42,375 | 58,446 | 36,372 | 35,379 | 42,568 | 57,093 | 33,032 | 28,352 |
| Net income | 21,715 | 34,803 | 17,920 | 16,156 | 18,723 | 32,600 | 15,115 | 12,290 |
| Adjusted Net Income (14) | 23,428 | 35,719 | 19,757 | 18,484 | 25,072 | 35,933 | 18,295 | 15,243 |
| **Percentage of Net Revenue:** | | | | | | | | |
| Net revenue | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Gross profit | 37.3% | 44.7% | 39.6% | 43.5% | 36.2% | 43.1% | 37.4% | 40.4% |
| SG&A | 23.4% | 24.0% | 25.1% | 27.7% | 22.9% | 23.3% | 25.5% | 28.1% |
| Adjusted EBITDA (14) | 15.4% | 21.9% | 15.1% | 18.0% | 16.4% | 23.5% | 16.1% | 17.0% |
| Income from operations | 13.1% | 20.4% | 13.6% | 14.6% | 12.3% | 18.7% | 10.6% | 10.0% |
| Net income | 7.9% | 13.0% | 7.4% | 8.2% | 7.2% | 13.4% | 7.4% | 7.4% |
| Adjusted Net Income (14) | 8.5% | 13.4% | 8.2% | 9.4% | 9.7% | 14.8% | 8.9% | 9.1% |
| Weighted average number of diluted shares (in thousands) | 113,120 | 111,898 | 111,537 | 111,851 | 117,488 | 117,681 | 117,410 | 116,780 |
| Adjusted Net Income per Diluted Share | $ 0.21 | $ 0.32 | $ 0.18 | $ 0.17 | $ 0.21 | $ 0.31 | $ 0.16 | $ 0.13 |
| **Growth:** | | | | | | | | |
| Net revenue growth | 6.3% | 10.0% | 17.4% | 17.8% | 17.9% | 18.8% | 18.0% | 15.1% |
| Comparable Sales Growth(14) | 8.9% | 5.1% | 8.4% | 7.9% | 5.5% | 12.9% | 11.5% | 10.9% |
| **Boutiques:** | | | | | | | | |
| Number of boutiques, beginning of period | 94 | 93 | 92 | 91 | 92 | 90 | 87 | 85 |
| New boutiques added | 2 | 1 | 1 | 1 | - | 2 | 3 | 2 |
| Boutique repositioned into a flagship boutique(15) | - | - | - | - | (1) | - | - | - |
| **Number of boutiques, end of period** | 96 | 94 | 93 | 92 | 91 | 92 | 90 | 87 |
| **Boutiques expanded or repositioned** | - | 2 | - | 1 | 1 | - | 1 | 2 |

Note:

(14) See “How We Assess the Performance of Our Business” for definitions of Adjusted EBITDA, Adjusted Net Income and Comparable Sales Growth, which are non-IFRS measures including Retail Industry Metrics. See also “Non-IFRS Measures”.

(15) Q4 2019 includes the reposition of one of our banner locations into the flagship boutique located on the same street.

## Liquidity and Capital Resources

### *Overview*

Our principal uses of funds are for operating expenses, capital expenditures and debt service requirements. We believe that cash generated from operations, together with amounts available under our Credit Facilities (as hereinafter defined), are expected to be sufficient to meet our future operating expenses, capital expenditures and future debt service requirements. Our ability to fund operating expenses, capital expenditures and future debt service requirements will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See "Summary of Factors Affecting Performance" and "Risk Factors" of this MD&A for additional information. We review investment opportunities in the normal course of our business and may make select investments to implement our business strategy when suitable opportunities arise. Historically, the funding for any such investments has come from cash flows from operating activities and/or our Credit Facilities.

### *Credit Facilities*

We have a term loan ("Term Loan") and Revolving Credit Facility (collectively the "Credit Facilities") with our syndicate of lenders.

As at March 1, 2020, the aggregate amount outstanding under our Term Loan was $75.0 million. The Term Loan matures on May 22, 2022 and has no scheduled principal repayments prior to maturity. The Term Loan requires mandatory loan prepayments by us of principal and interest if certain events occur.

A $100.0 million Revolving Credit Facility is also available as part of the Credit Facilities. No amounts were drawn on the Revolving Credit Facility as at March 1, 2020. See "Contractual Obligations – Off-Balance Sheet Arrangements and Commitments" for letters of credit issued. See "COVID-19 Update" for more information.

In addition, we also have letters of credit facilities of $75.0 million, secured *pari passu* with the Credit Facilities. The interest rate for the letters of credit is between 1.00% and 2.50%.

The credit agreement contains restrictive covenants customary for credit facilities of this nature, including restrictions on us and each credit facility guarantor, subject to certain exceptions, to incur indebtedness, grant liens, merge, amalgamate or consolidate with other companies, transfer, lease or otherwise dispose of all or substantially all of its assets, liquidate or dissolve, engage in any material business other than the fashion retail business, make investments, acquisitions, loans, advances or guarantees, make any restricted payments, enter into transactions with affiliates, repay indebtedness, enter into restrictive agreements, enter into sale-leaseback transactions, ensure pension plan compliance, sell or discount receivables, enter into agreements with unconditional purchase obligations, issue shares, create or acquire a subsidiary or make any hostile acquisitions.

### *Cash Flows*

The following table presents cash flows for the periods indicated.

| | Q4 2020 13 weeks | Q4 2019 14 weeks | Fiscal 2020 52 weeks | Fiscal 2019 53 weeks |
|---|---|---|---|---|
| | (in thousands of Canadian dollars) | | | |
| Net cash generated from (used in) operating activities | $ 47,898 | $ (7,386) | $ 222,076 | $ 96,175 |
| Net cash used in financing activities | (13,614) | (56) | (157,402) | (46,193) |
| Net cash used in investing activities | (12,167) | (14,677) | (47,790) | (62,010) |
| Effect of exchange rate changes on cash and cash equivalents | (33) | (24) | (31) | 450 |
| Increase (decrease) in cash and cash equivalents | $ 22,084 | $ (22,143) | $ 16,853 | $ (11,578) |

## Analysis of Cash Flows for the Fourth Quarter and Fiscal 2020

### *Cash Flows Generated from Operating Activities*

For Q4 2020, cash flows generated from operating activities totaled $47.9 million. As a result of adopting IFRS 16 in Q1 2020, $16.0 million of lease payments, which were presented within cash flows generated by operating activities prior to the adoption of IFRS 16, are presented within cash flows used in financing activities.

Excluding the lease payment presentation impact of IFRS 16, Q4 2020 cash flows generated from operating activities would have been $31.9 million compared to cash flows of $7.4 million used in Q4 2019. This change was primarily attributable to lower use of working capital due to the timing of inventory purchases and lower income tax payments.

For Fiscal 2020, cash flows generated from operating activities totaled $222.1 million. As a result of adopting IFRS 16 in Q1 2020, $61.5 million of lease payments, which were presented within cash flows generated by operating activities prior to the adoption of IFRS 16, are presented within cash flows used in financing activities. Excluding the lease payment presentation impact of IFRS 16, Fiscal 2020 cash flows generated from operating activities would have been $160.6 million compared to cash flows of $96.2 million generated in Fiscal 2019. This change was primarily attributable to higher Adjusted EBITDA and lower use of working capital due to the timing of inventory purchases, partially offset by higher income tax payments and lower proceeds from lease incentives.

***Cash Flows Used in Financing Activities***

For Q4 2020, cash flows used in financing activities totaled $13.6 million. As a result of adopting IFRS 16 in Q1 2020, $16.0 million of lease payments, which were presented as cash flows generated by operating activities prior to the adoption of IFRS 16, are presented within cash flows used in financing activities. Excluding the lease payment presentation impact of IFRS 16, Q4 2020 cash flows generated by financing activities would have been $2.4 million, compared to cash flows of $0.1 million used in Q4 2019. This change was primarily due to a $1.6 million increase in proceeds received from options exercised and a decrease in repurchases of subordinate voting shares for cancellation of $0.8 million.

For Fiscal 2020, cash flows used in financing activities totaled $157.4 million. As a result of adopting IFRS 16 in Q1 2020, $61.5 million of lease payments, which were presented as cash flows generated by operating activities prior to the adoption of IFRS 16, are presented within cash flows used in financing activities. Excluding the lease payment presentation impact of IFRS 16, Fiscal 2020 cash flows used in financing activities would have been $95.9 million, compared to cash flows of $46.2 million used in Fiscal 2019. This change was primarily due to an increase in repurchases of subordinate voting shares for cancellation of $98.2 million due to the Share Repurchase, partially offset by a $43.7 million term loan repayment as a result of our debt refinancing in Fiscal 2019 and a $3.6 million increase in proceeds received from options exercised in Fiscal 2020.

***Cash Flows Used in Investing Activities***

For Q4 2020, cash flows used in investing activities totaled $12.1 million, compared to $14.7 million in Q4 2019. Investing activities in Q4 2020 relate to new boutiques and boutique expansions and repositions, as well as investments in our PLM system.

For Fiscal 2020, cash flows used in investing activities totaled $47.8 million, compared to $62.0 million in Fiscal 2019. Investing activities in Fiscal 2020 relate to new boutiques and boutique expansions and repositions, as well as investments in our PLM system.

***Free Cash Flow***

The following table reconciles net cash generated from operating activities to free cash flow for the periods indicated.

| | Q4 2020 13 weeks | Q4 2019 14 weeks | Fiscal 2020 52 weeks | Fiscal 2019 53 weeks |
|---|---|---|---|---|
| | (in thousands of Canadian dollars) | | | |
| Net cash generated from (used in) operating activities | $ 47,898 | $ (7,386) | $ 222,076 | $ 96,175 |
| Interest paid | 971 | 1,187 | 4,429 | 4,709 |
| Net cash used in investing activities | (12,167) | (14,677) | (47,790) | (62,010) |
| Repayments of lease liabilities[16] | (16,046) | - | (61,469) | - |
| Free cash flow | $ 20,656 | $ (20,876) | $ 117,246 | $ 38,874 |

Notes:

(16) As a result of adopting IFRS 16 in Q1 2020, repayments of lease liabilities, which were previously presented within net cash generated from operating activities, are now presented within cash used in financing activities. Our definition of free cash flow in Q4 2020 and Fiscal 2020 includes the impact of cash lease liability repayments, which normalizes for the impact of implementation of IFRS 16.

## Contractual Obligations

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as at March 1, 2020.

| | Less than 1 year | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| | (in thousands of Canadian dollars) | | | |
| Accounts payable and accrued liabilities | 57,715 | - | - | 57,715 |
| Assumed interest on Term Loan[17] | 2,562 | 3,154 | - | 5,716 |
| Term Loan[18] | - | 75,000 | - | 75,000 |
| Total contractual obligations | $ 60,277 | $ 78,154 | $ - | $ 138,431 |

Notes:

(17) Based on interest rate in effect as at March 1, 2020, and assuming no unscheduled principal payments are made prior to maturity.

(18) The Credit Facilities require mandatory loan prepayments by Aritzia of principal and interest if certain events occur. The Credit Facilities mature on May 22, 2022 and have no scheduled principal payments prior to maturity.

## Off-Balance Sheet Arrangements and Commitments

Our third party manufacturers purchase raw materials on our behalf to be used for future production. As at March 1, 2020, we had purchase obligations of $42.2 million, which represent commitments for fabric to be used during upcoming seasons, made in the normal course of business.

We enter into trade letters of credit to facilitate the international purchase of inventory. We also enter into standby letters of credit to secure certain of our obligations, including leases and duties related to import purchases. March 1, 2020, letters of credit totaling $28.5 million have been issued.

Other than those items disclosed here and elsewhere in this MD&A and our consolidated financial statements, we do not have any material off-balance sheet arrangements or commitments as at March 1, 2020.

## Financial Instruments

From time to time, we use foreign currency forward contracts to manage our exposure to fluctuations with respect to the U.S. dollar for U.S. dollar merchandise purchases sold in Canada. The fair value of the forward contracts is included in prepaid expenses and other current assets or in accounts payable and accrued liabilities, depending on whether they represent assets or liabilities to us. Changes in the fair value of foreign currency forward contracts are recorded in net income. As at March 1, 2020, we did not have any outstanding foreign currency forward contracts.

During the year ended March 1, 2020, we entered into equity derivative contracts to hedge the share price exposure on our cash-settled DSUs and RSUs. These contracts were not designated as hedging instruments for accounting purposes. Changes in the fair value of equity derivative contracts are recorded in net income. As at March 1, 2020, the equity derivative contracts had a positive fair value of $0.7 million.

### Related Party Transactions

Prior to our secondary offering in August 2018, we were ultimately controlled by Canada Retail Holdings, L.P., being our ultimate parent and the Berkshire Shareholder. Effective August 7, 2018, upon completion of the secondary offering in August 2018, neither Canada Retail Holdings, L.P. nor any other entity maintained ultimate control of us. Upon completion of the March 2019 Secondary Offering and Share Repurchase, on March 8, 2019, the Berkshire Shareholder sold its entire investment in us. As a result, effective March 8, 2019, we are ultimately controlled by AHI Holdings Inc., an entity controlled by a director and officer of the Company.

During the year ended March 1, 2020, we made payments of $4.0 million (March 3, 2019 - $4.1 million) for a lease of premises and management services and $0.6 million (March 3, 2019 - $0.9 million) for the use of an asset wholly or partially owned by companies that are owned by a director and officer of the Company. As at March 1, 2020, $0.2 million was included in accounts payable and accrued liabilities (March 3, 2019 - $0.1 million) and nil was included in prepaid expenses and other current assets (March 3, 2019 - $0.1 million).

Total reimbursements to Berkshire for travel, lodging and other costs for the year ended March 3, 2019 was $0.1 million. As at March 3, 2019, $2.5 million was included in accounts receivable relating to the March 2019 Secondary Offering and Share Repurchase and has since been received as of March 8, 2019. As of March 8, 2019, the Berkshire Shareholder has no remaining equity interest in us; as such, transactions with Berkshire subsequent to March 8, 2019 are not considered related party transactions.

### Transactions with Key Management

Key management includes our directors and executive team. Compensation awarded to key management includes:

| | Q4 2020<br>13 weeks | Q4 2019<br>14 weeks | Fiscal 2020<br>52 weeks | Fiscal 2019<br>53 weeks |
|---|---|---|---|---|
| | | (in thousands of Canadian dollars) | | |
| Salaries, directors' fees and short-term benefits | $ 802 | $ 980 | $ 3,981 | $ 3,478 |
| Stock-based compensation expense | 919 | 645 | 3,111 | 3,695 |
| | $ 1,721 | $ 1,625 | $ 7,092 | $ 7,173 |

### Critical Accounting Estimates and Judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are continuously evaluated and are based on management's best judgments and experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

The following discusses the most significant accounting judgments and estimates made by management in preparation of the consolidated financial statements:

#### *Valuation of Finished Goods Inventory*

Inventory, consisting of finished goods, is stated at the lower of cost and net realizable value. Cost is determined using weighted average costs. Cost of inventories includes the cost of merchandise and all costs incurred to deliver the inventory to our distribution centres including freight and duty.

We periodically review our inventories and make provisions as necessary to appropriately value obsolete or damaged goods. In addition, as part of inventory valuations, we accrue for inventory shrinkage for lost or stolen items based on historical trends from actual physical inventory counts.

***Impairment of Assets***

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The recoverable value is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

For the purposes of assessing impairment, assets are grouped at the lowest levels where there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets ("cash-generating unit"). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

***Leases***

We exercise judgment in determining the appropriate lease term on a lease by lease basis and consider all facts and circumstances that create an economic incentive to exercise a renewal or termination option. The periods covered by renewal options are included in the lease term only if we are reasonably certain we will exercise such renewal options.

We use the lessee's incremental borrowing rate when determining the carrying amount of right-of-use assets and lease liabilities, as the interest rates implicit in the lease agreements are not readily available. We determine the incremental borrowing rate of each leased asset as the rate of interest that we would have to pay to borrow, over a similar term with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

***Stock-Based Compensation Expense***

Stock-based compensation expense requires the use of estimates in the Black-Scholes option pricing model, including stock price volatility and the expected life of options.

***Gift Card Breakage***

Recognition of gift card breakage requires the use of judgment in defining our average gift card breakage rate, based on historical redemption rates. The resulting revenue from breakage is recognized in proportion to actual gift card redemptions.

***Return Allowances***

Recognizing provisions for sales return allowances requires judgement in determining the return rate of merchandise based on historical patterns of returns.

***Income Tax Expense***

Income tax expense requires judgment to determine when tax losses, credits and provisions are recognized based on tax rules in various jurisdictions.

**Significant New Accounting Standards Recently Adopted**

<u>IFRS 16 - Leases</u>

In January 2016, the IASB issued IFRS 16, which sets out a new model for lease accounting replacing IAS 17 and related interpretations. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. IFRS 16 became effective for annual periods beginning on or after January 1, 2019. We adopted the standard on March 4, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period.

Substantially all of our existing leases are real estate leases for our boutiques, distribution centres and support offices and all were classified as operating leases prior to adoption of IFRS 16. We recognized right-of-use assets and lease liabilities for leases previously classified as operating leases under IAS 17. The depreciation expense on the right-of-use assets and the finance charge on the lease liabilities substantially replaced the lease-related expenses recorded in costs of goods sold and selling, general and administrative expenses, previously recognized on a straight-line basis over the lease term under IAS 17. Variable lease payments and non-lease components are expensed as incurred.

The new standard does not change the amount of cash transferred between the lessor and lessee, but changes the presentation of the operating and financing cash flows presented on our consolidated statements of cash flows.

We have elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

i) recognition exemption of short term leases;

ii) recognition exemption of low-value leases;

iii) grandfather prior conclusions on contracts containing leases on transition;

iv) a single discount rate was applied to a portfolio of leases with similar characteristics on transition;

v) initial direct costs were excluded in the measurement of the right-of-use assets on transition; and

vi) hindsight was used in determining lease term at the date of transition.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at March 4, 2019. The right-of-use assets were measured as if the standard had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of initial application. The cumulative adjustment was recognized directly to retained earnings at March 4, 2019.

Upon adoption of IFRS 16, we updated our lease accounting policies as follows:

We assess whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future fixed payments and variable lease payments that depend on an index or rate over the lease term, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Lease terms applied are the contractual non-cancellable periods of the lease, plus periods covered by renewal or termination options, if we are reasonably certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determined those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis from the date the underlying asset is available for use over the lease term.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liabilities and are recognized in cost of goods sold and selling, general and administrative expenses as incurred.

### Outlook

Q1 2021 net revenues are anticipated to be in the range of $105 million to $110 million. This reflects two weeks of decelerating retail revenues in March prior to temporary boutique closures and strong eCommerce revenues for the quarter. While the eCommerce channel has not offset the revenue impact from our temporary boutique closures, Q1 2021 eCommerce revenue growth since our boutique closures has been in excess of 150% compared to last year.

We currently expect an Adjusted EBITDA loss in the range of ($24) million to ($28) million in Q1 2021. This reflects deleverage from occupancy costs and other fixed costs. In addition, the success of our online sales events resulted in higher markdowns and increased warehouse and distribution costs.

As of May 27, 2020, our net cash and cash equivalents totaled $102 million, excluding the $100 million fully-drawn from our Revolving Credit Facility. We are pleased with our current inventory position due to the strength of our eCommerce channel, the sell-through of marked down product throughout the first quarter, the volume from planned boutique reopenings, our ability to shift non-seasonal product into the Fall, as well as reductions to our Fall/Winter orders.

In addition to the opening of McArthur Glen in British Columbia on May 27, 2020, we currently expect to open five to six new boutiques and reposition three to four existing locations during the remainder of Fiscal 2021. However, we anticipate there could be delays subject to market conditions.

Prior to COVID-19, we were on-track to meet or exceed our Fiscal 2021 targets related to our five-year plan at the time of our initial public offering. Due to the dynamic nature of COVID-19 and its short- to medium-term effects on the consumer landscape, we are withdrawing our performance targets for Fiscal 2021 and will not be providing annual guidance at this time.

We have seen, and expect to continue to see, a direct, material adverse impact to revenue and operations as a result of COVID-19. The extent of the impact of our temporary boutique closures, including our ability to execute on our growth strategies and initiatives in the expected timeframe, will depend on future developments, including the duration of COVID-19, which are uncertain and cannot be predicted.

All figures reported above with respect to Q1 2021 are preliminary, have not been reviewed by our auditors, and are subject to change as our financial results are finalized. These preliminary results therefore constitute forward-looking statements within the meaning of applicable securities laws, are based on a number of assumptions and are subject to a number of risks and uncertainties. See “Forward-Looking Information” section of this MD&A for more information.

### Risk Factors

For a detailed description of risk factors associated with the Company, refer to the “Risk Factors” section of the Company’s AIF, which is available on SEDAR at *www.sedar.com*.

In addition, we are exposed to a variety of financial risks in the normal course of operations including foreign exchange, interest rate, credit, liquidity and equity price risk, as summarized below. Our overall risk management program and business practices seek to minimize any potential adverse effects on our consolidated financial performance.

Risk management is carried out under practices approved by our Audit Committee. This includes reviewing and making recommendations to the Board of Directors on the adequacy of our risk management policies and procedures with regard to identifying the Company’s principal risks and implementing appropriate systems and controls to manage these risks. Risk management covers many areas of risk including, but not limited to, foreign exchange risk, interest rate risk, credit risk, liquidity risk and equity price risk.

#### *Foreign Exchange Risk*

We source the majority of our raw materials and merchandise from various suppliers in Asia and Europe with the vast majority of purchases denominated in U.S. dollars. Our foreign exchange risk is primarily with respect to the U.S. dollar but we have limited exposure to other currencies as well. We may use foreign exchange forward contracts to mitigate risks associated with forecasted U.S. dollar merchandise purchases sold in Canada.

### *Interest Rate Risk*

We are exposed to changes in interest rates on our cash and cash equivalents, bank indebtedness and long-term debt. Debt issued at variable rates exposes us to cash flow interest rate risk. Debt issued at fixed rates exposes us to fair value interest rate risk. During the period, we had only variable interest rate debt.

### *Credit Risk*

Credit risk refers to the possibility that we can suffer financial losses due to the failure of our counterparties to meet their payment obligations. We are exposed to minimal credit risk. We do not extend credit to clients, but do have some receivable exposure in relation to tenant improvement allowances. To reduce this risk, we enter into leases with landlords with established credit history, and for certain leases, we may offset rent payments until accounts receivable are fully satisfied. We deposit our cash and cash equivalents with major financial institutions that have been assigned high credit ratings by internationally recognized credit rating agencies. We only enter into derivative contracts with major financial institutions, as described above, for the purchase of foreign currency forward contracts.

### *Liquidity Risk*

Liquidity risk is the risk that we cannot meet a demand for cash or fund our obligations as they come due. We manage liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of our revenue, income and working capital needs. The Revolving Credit Facility is used to maintain liquidity.

### *Equity Price Risk*

We are exposed to risk arising from the cash settlement of our deferred and restricted share units, as an appreciating subordinate voting share price increases the potential cash outflow. We record a liability for the potential future settlement of our deferred and restricted share units by reference to the fair value of the liability. We may use equity derivative contracts to offset our cash flow variability of the expected payment associated with our deferred and restricted share units.  We only enter into equity derivative contracts with major financial institutions.

## Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis, including the CEO and the CFO, so that they can make appropriate and timely decisions regarding public disclosure, including information contained in annual and interim filings, including the consolidated financial statements, MD&A, Annual Information Form, and other documents and external communications.

As required by CSA National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), an evaluation of the adequacy of the design (quarterly) and effective operation (annually) of the Company's disclosure controls and procedures was conducted under the supervision of management, including the CEO and CFO, as at March 1, 2020. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures were effective as at March 1, 2020.

Although the Company's disclosure controls and procedures were operating effectively as of March 1, 2020, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company's regulatory filings.

## Internal Control Over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS. The Company's internal controls over financial reporting include, but are not limited to, detailed policies and procedures relating to financial accounting and reporting, and controls over systems that process and summarize transactions. The Company's procedures for financial reporting also include the active involvement of qualified financial professionals, senior management and its Audit Committee.

As also required by NI 52-109, management, including the CEO and CFO, evaluated the adequacy of the design (quarterly) and the effective operation (annually) of the Company's internal control over financial reporting as defined in NI 52-109, as at March 1, 2020. In making this assessment, management, including the CEO and CFO, used the framework set forth in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the Company's internal controls over financial reporting, as defined by NI 52-109, were effective as at March 1, 2020.

In designing such controls, it should be recognized that due to inherent limitations, any control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgment in evaluating controls and procedures. Therefore, even when determined to be designed effectively, disclosure controls and internal control over financial reporting can provide only reasonable assurance with respect to disclosure, reporting and financial statement preparation.

### *Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter and year ended March 1, 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## Current Share Information

As of May 27, 2020, an aggregate of 84,810,562 subordinate voting shares, 24,537,349 multiple voting shares and no preferred shares are issued and outstanding. All of the issued and outstanding multiple voting shares are, directly or indirectly, held or controlled by the principal shareholders. As of May 27, 2020, an aggregate of 7,652,938 options to acquire subordinate voting shares are outstanding.

See “Secondary Offering” and “Normal Course Issuer Bid” sections of this MD&A for further details on current share information.

## Additional Information

Additional information relating to the Company, including the Company's AIF, is available on SEDAR at *www.sedar.com*. The Company's subordinate voting shares are listed for trading on the Toronto Stock Exchange (“TSX”) under the symbol “ATZ”.