Consumers Update

Presented by:

Helena Cherniak-Kennedy, Breanna Schollaardt, Akash Sekar, *Portfolio Managers*
Jack Morgan, Katie Tu, *Investment Analysts*

Aritzia

ARITZIA

It's the returns for me

Portfolio Managers: *Breanna Schollaardt & Helena Cherniak-Kennedy*

Investment Analysts: *Jack Morgan & Katie Tu*

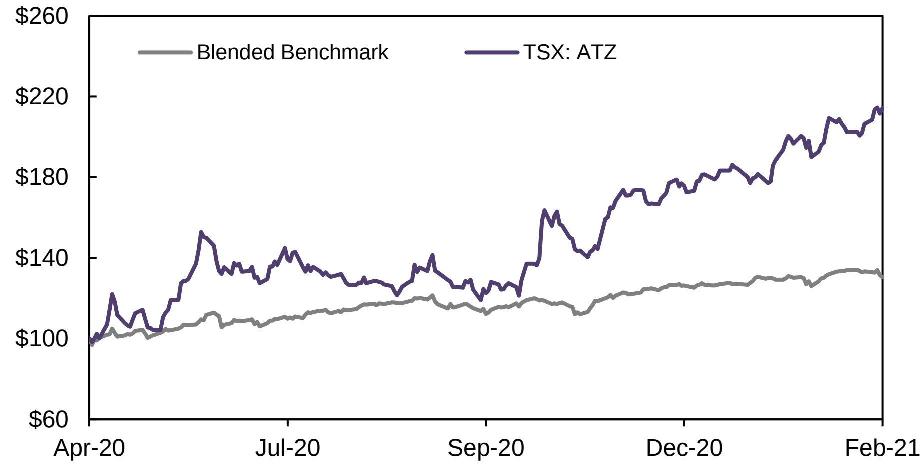
Company Overview

ARITZIA

Business Description

- Aritzia Inc. (TSX: ATZ) is a vertically integrated fashion house headquartered in Vancouver, Canada that designs and retails luxury apparel and accessories
- ATZ focuses on innovative, aspirational women's fashion, with a target demographic aged 15-45. The Company operates 96 boutiques across Canada and the U.S.
- ATZ was founded in 1984 by Brian Hill, who remains the current CEO and Chairman. The Company was majority owned and controlled by private equity firm Berkshire Partners from 2005-2016. In 2016, ATZ conducted an IPO to become a publicly traded company on the TSX
- ATZ is a leading luxury omni channel fashion retailer, selling its products through traditional selective brick and mortar boutiques, while also growing its e-commerce presence
- The Company has 12 proprietary brands, each with in house design teams. Together, these in house brands represent over 95% of net revenues

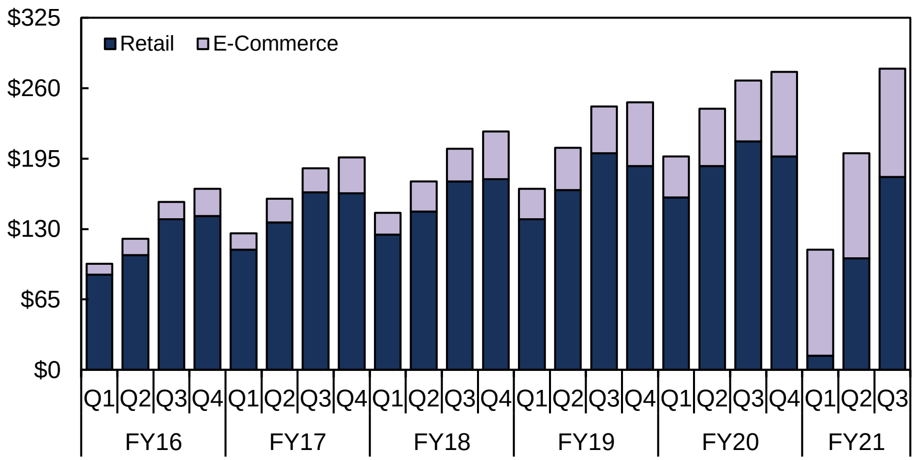
Trading Performance Since Purchase



Original Investment Thesis

- The CPMT re-entered into a position in ATZ in April 2020 after an assessment of previous concerns regarding the e-commerce disruption, ATZ's stringent real estate standards, and its exposure to macroeconomic risks
- **ATZ fit the CPMT investment mandate in the following ways:**
  - Resilient and flexible capital structure resulting from low leverage and asset light balance sheet
  - Consistently positive comparable sales growth, long growth runway for store openings, and e-commerce penetration allow for sustainable cash flow growth with relatively low capex
  - Niche positioning as an "everyday luxury" brand with in-house design teams, strong brand loyalty, and industry leading inventory management
  - Management has an established track record of execution on targets and compensation is highly aligned with shareholder returns
  - With the COVID-19 market sell-off and historical undervaluation compared to high-growth luxury apparel peers, ATZ was trading at a steep discount to intrinsic value

Segmented Revenue (C$mm)



Source: Company Filings, S&P Capital IQ, Street Research

Margins and Mandate Fit

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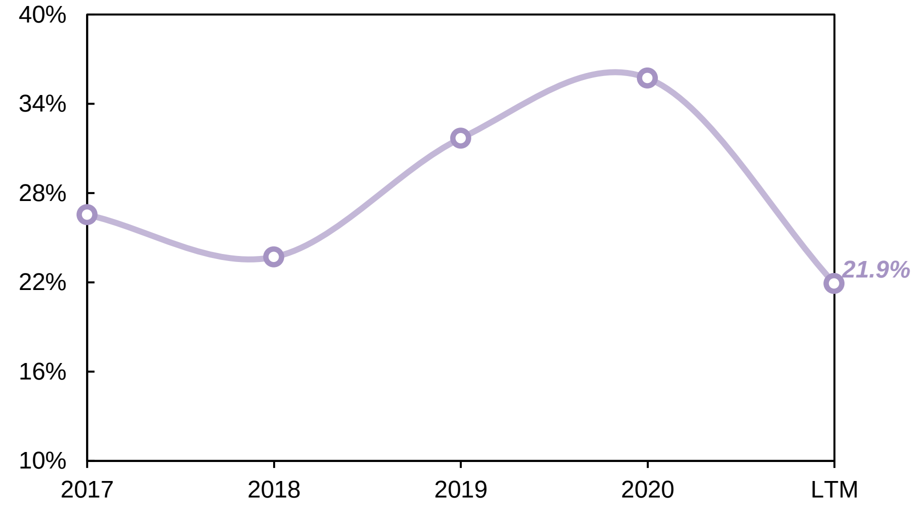
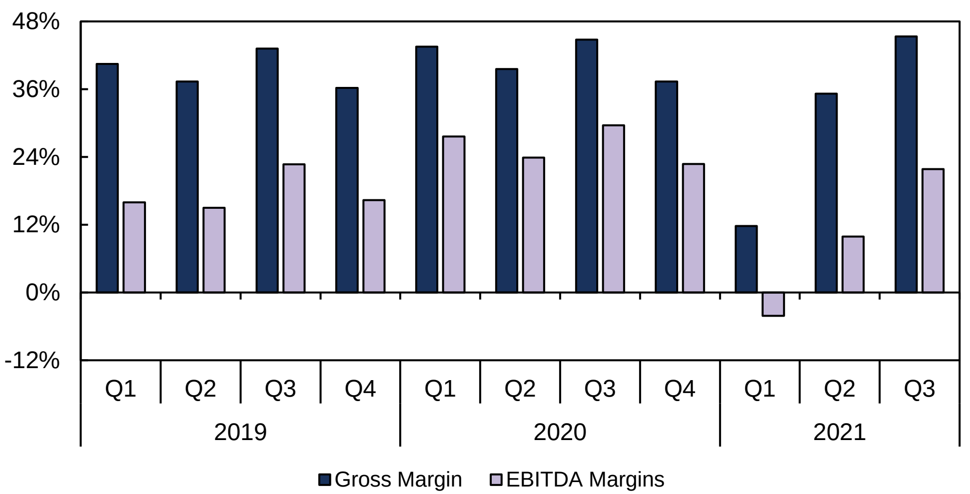
Mandate Fit

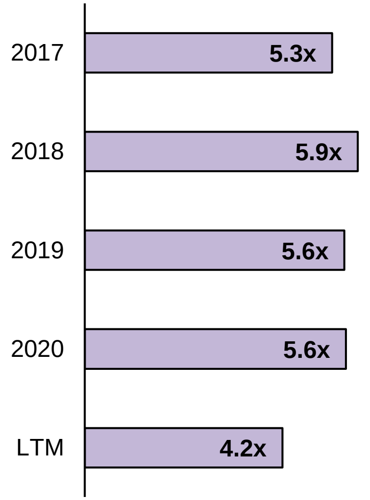
- ATZ drew $100mm from its revolving credit facility in Q1 2021; however, this has recently been repaid in Q3 2021
- Net Debt/LTM EBITDA has remained stable between (0.09x) and (0.77x) quarterly, YoY
  - This is not including lease liabilities, including lease liabilities Net Debt/EBITDA has been between 2.12x and 3.24x
- The Company's FCF's have remained fairly stable throughout the COVID pandemic, with an annual three-year FCF CAGR of 33%[1]
- All members of the senior leadership team, including NEO's, cut their base salaries by 25% due to the COVID pandemic
- Members of the Board also forfeit their fourth quarter cash retainer
- While ATZ did not report SSS growth over the past three quarters due to the pandemic, many other performance metrics are quickly recovering to pre-COVID levels

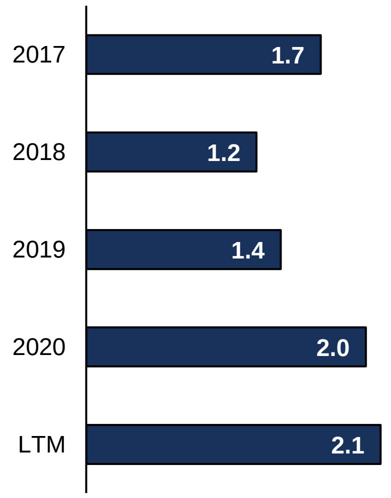
Historical ROIC & ROIC LTM



EBITDA Margin, Historical Inventory Turnover (LHS), DSO (RHS)







Source: Company Filings

(1) This is not including the most recent three quarters, it is using FY2020 FCF

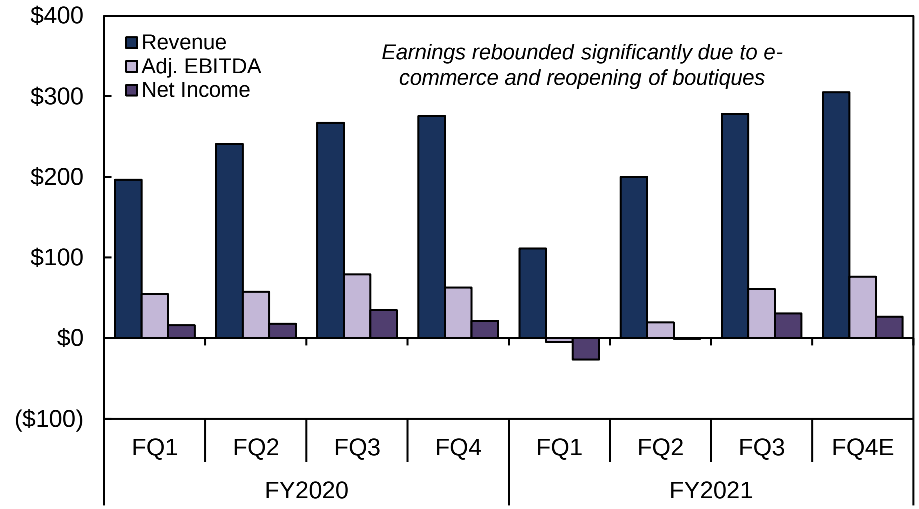
COVID Impacts and Performance

ARITZIA

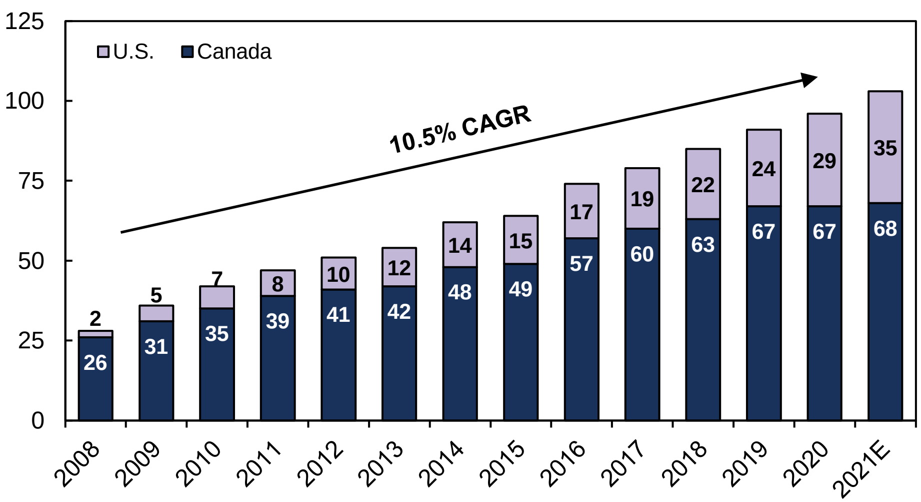
COVID Impact

- COVID Response:
  - On March 16, 2020, ATZ temporarily closed all boutiques in Canada and the U.S. following public health recommendations
  - ATZ's distribution centers remained open to facilitate e-commerce
  - Phased reopening of boutiques began on May 7, 2020, with 82% of boutiques reopened as of the end of FQ3 2021
  - Sales at reopened boutiques averaged 81% of last year's productivity
- E-commerce penetration reached 48% over FY2021, with e-commerce revenue growth of 79% YoY in FQ3
- ATZ's $100mm revolving credit facility was fully drawn down in May 2020 and fully repaid in August 2020. The Company retains strong liquidity with $174mm in cash and a 0.9x total debt to LTM adjusted EBITDA ratio

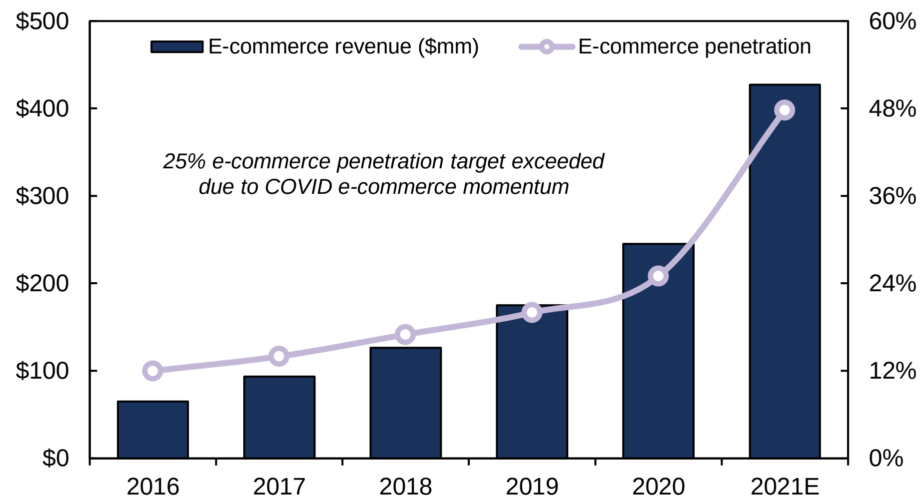
Revenue, EBITDA, and Net Income over COVID ($mm)[1]



Number of Boutiques



E-Commerce Performance



Source: Company Filings, CPMT Estimates, Street Research
(1) COVID impact starts in FQ1 2021, as FY2020 ended March 1, 2020

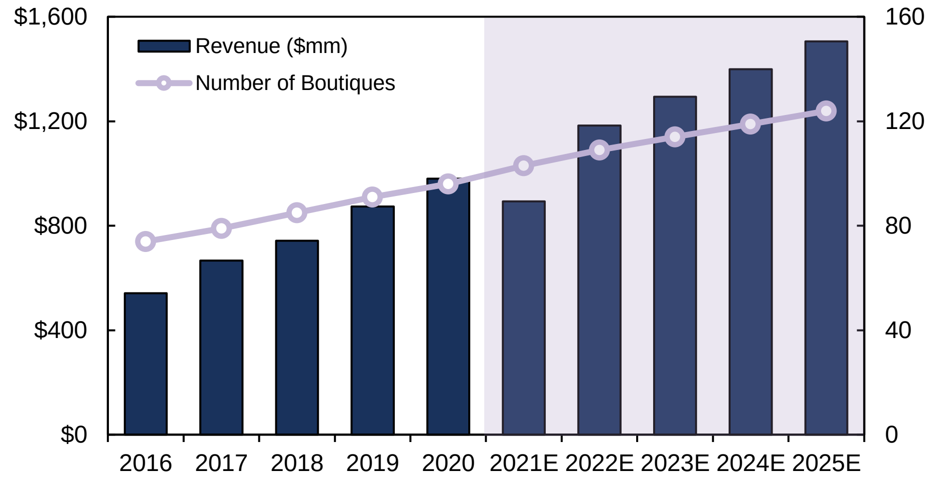
Revised Valuation and Thesis

ARITZIA

Revised Thesis

- **Our thesis around ATZ has shifted from ATZ being an undervalued retailer with sufficient liquidity to resiliently weather the pandemic…**
- **…to our view of ATZ being a company with a strong runway for growth, bolstered by peer-leading fundamentals and a track record of management execution**
- With only 33 U.S. stores, ATZ has significant potential to increase store network penetration, driving same-store sales and brand loyalty. ATZ is taking calculated real estate risks to secure boutique locations in preeminent retail locations
- COVID accelerated ATZ's ecommerce penetration, cementing its omnichannel strategy and increasing brand accessibility
- ATZ's balance sheet remains resilient, with ample cash flow over FY2021 despite the pandemic headwinds, leading to $174mm in cash and $175mm in excess liquidity. ATZ's single term loan of $75mm comes due in May 2022

Forecasted Growth



Investment Decision[1]

ACTION	HOLD
CONVICTION	2
CURRENT PRICE	$30.65
TARGET PRICE	$33.00
IMPLIED RETURN	8%

What to Watch

Catalysts

- Sustained e-Commerce momentum
- U.S. expansion
  - Targeting 5-6 boutiques/year
  - 100 prime real estate locations identified
- Continued focus on inventory management
- Brand awareness and loyalty
- Improved boutique productivity
- Product line expansions, including menswear

Risks

- COVID-19 pandemic leading to further mandated store closures and less in-person store traffic
- Heightened competition in "everyday luxury" retail apparel
- Maintaining relevance as a fashion brand
- Macroeconomic weakness and recessionary environment since ATZ is highly discretionary
- Preserving niche positioning and luxury boutique feel

Source: Company Filings, CPMT Estimates
(1) Market data as of March 1, 2021

Ross Stores

Have you ever been with a boss?

Portfolio Managers: *Akash Sekar & Breanna Schollaardt*

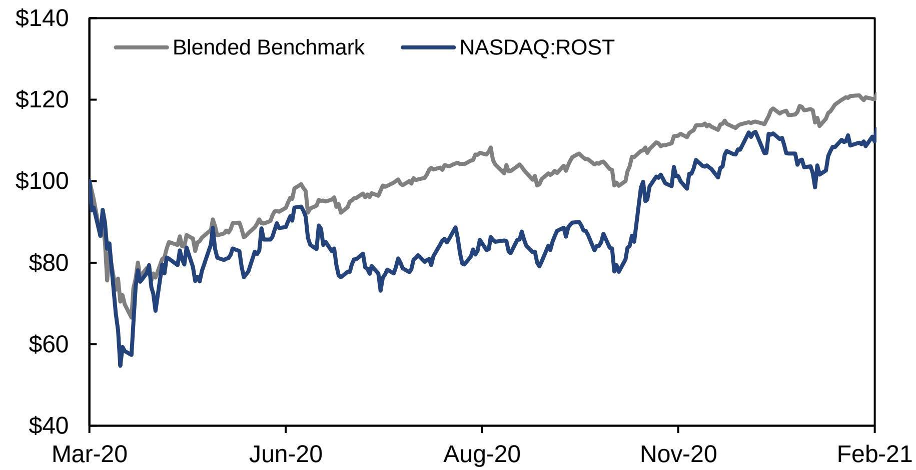
Investment Analysts: *Jack Morgan & Katie Tu*

Company Overview

Business Description

- Ross Stores, Inc. (NASDAQ: ROST) is headquartered in Dublin, California and operates the largest off-price apparel chain in the U.S.
- There are 1,594 Ross Dress for Less® locations in 40 states, the District of Columbia, and Guam
  - Offers first-quality, in-season, name brand and designer apparel, accessories, footwear, and home fashions at discounts of 20% to 60% off department and specialty store prices
- The Company also operates 275 dd's DISCOUNTS® in 21 states
  - Features a more moderately-priced selection at savings of 20% to 70% off moderate department and discount store prices
- ROST acquires its inventory through contracts with brands that allow them to purchase excess inventory and subsequently re-sell it to consumers at significant discounts

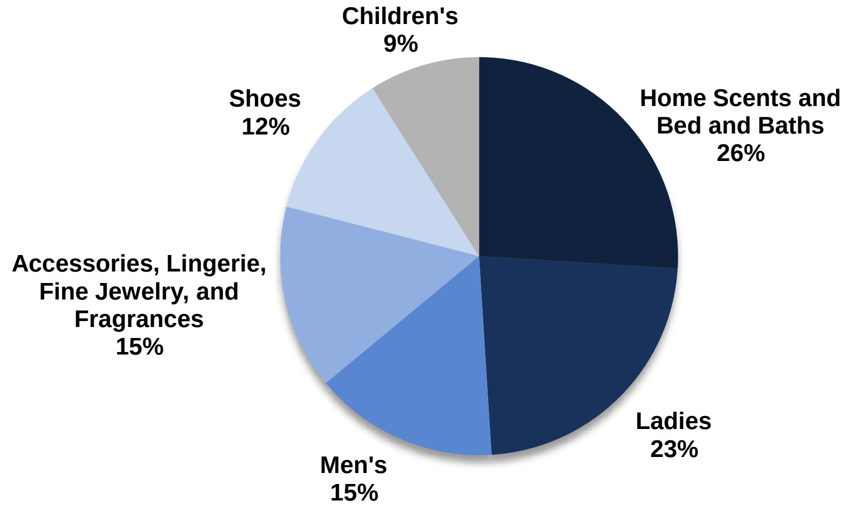
Holding Period Performance[1]



Original Investment Thesis

- The CPMT entered into a position in ROST in March 2020, with the expectation that it will continue to experience consistent SSS growth in the MSD, increased store traffic, expansion into white space opportunities, and market share gains from department and specialty stores
- **ROST fit the CPMT investment mandate in the following ways:**
  - Strong balance sheet and liquidity position with 0.75x Net Debt/EBITDA and 1.7x current ratio
  - Favourable management strategy that prioritizes shareholder returns through share buybacks and dividends
  - FCF CAGR of ~31% over the past 5 years and the Company has been able to maintain steady EBIT margin of ~14% while growing EBIT at a 7% CAGR
  - Competitive advantage stemming from store concentration in large purchasing markets, the ability cater to a variety of income levels, and strong inventory management with high pack-away % and inventory turnover
  - ROST traded at an EV/EBITDA that was relatively in line with peers, and its defensive nature warranted a premium over softline industry multiples

Sales Mix (Q3 2020)



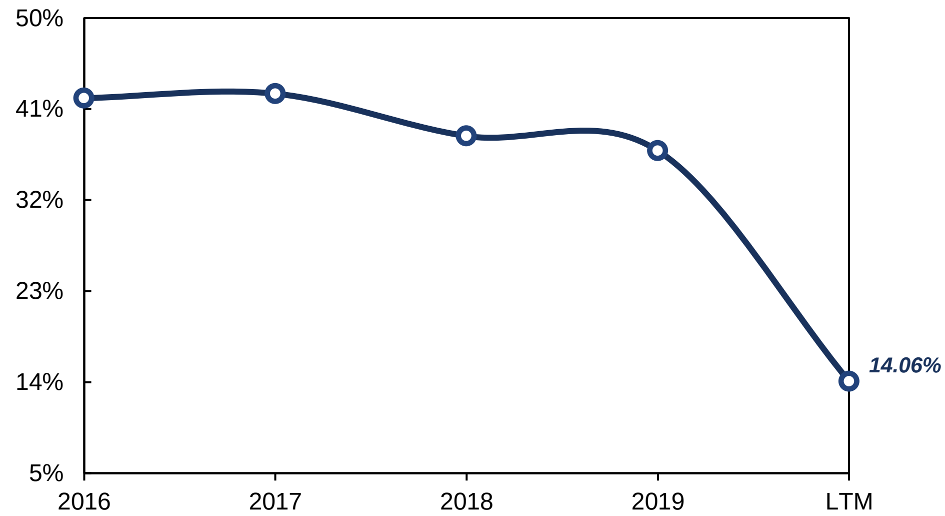
Source: Company Filings, S&P Capital IQ
(1) Indexed to $100

Margins and Mandate Fit

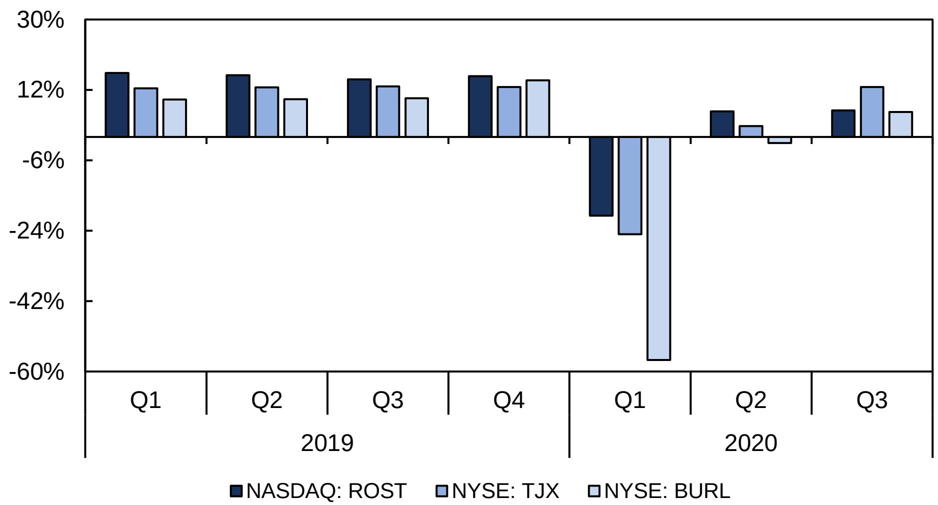
Mandate Fit

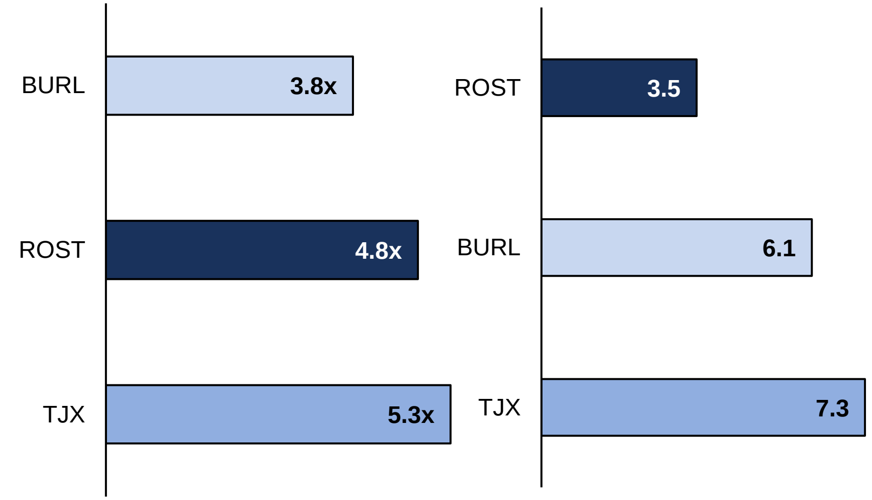
- ROST's management team has remained the same since the Fund's initial pitch
- All NEOs reduced their salaries in April 2020 while waiting for a minimum of 50% of ROST stores to re-open
- In Q4 2019, ROST borrowed US$800mm under its revolving credit facility; however, this amount has been paid in full as of Q3 2020
- Throughout the pandemic, ROST issued additional debt leaving its Net Debt/LTM EBITDA at (2.57x) (in comparison to (0.46x) during initial pitch)
  - This substantial difference is due to a much lower EBITDA, and a slightly higher negative net debt amount
- ROST's annual FCF has remained stable with a 3-year FCF CAGR of 9.6%[1]
- The Company did not report SSS growth for Q1 2020 but has reported decreased growth for Q2 2020 and Q3 2020 of (12%), and (3%), respectively
- ROST's margins and other metrics are beginning to recover and return to pre-pandemic levels

Historical ROIC & ROIC LTM



EBITDA Margins, Inventory Turnover (LTM, LHS), DSO (LTM, RHS)





Source: S&P Capital IQ, Company Filings

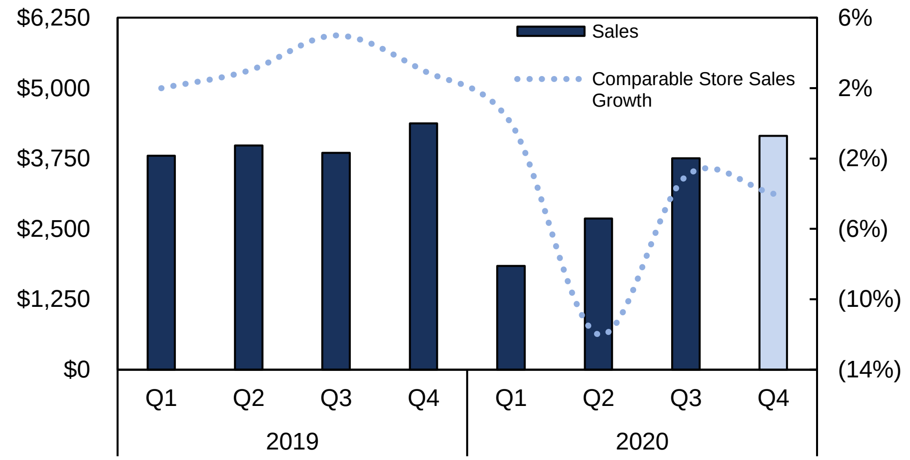
(1) This is not including the most recent three quarters, it is using FY2019 FCF

COVID Impact and Performance

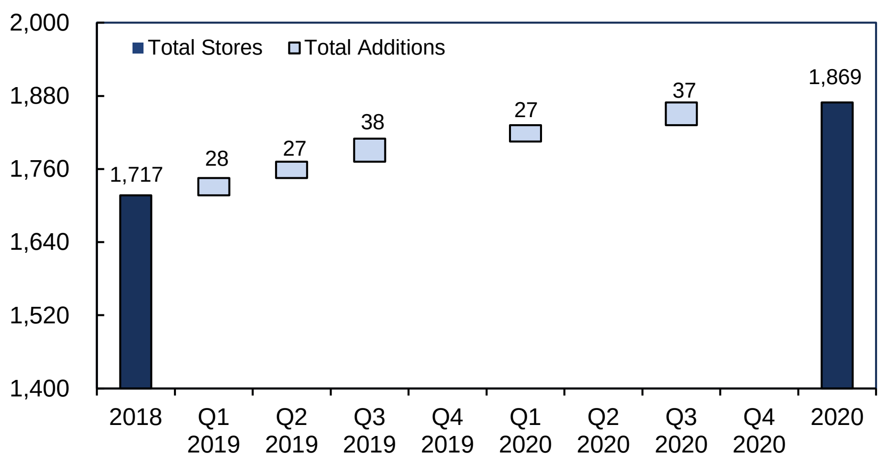
Notable Impacts of the Pandemic

- In March 2020, ROST was forced to shut down all of its stores due to the spread of COVID-19 across the United States, leading to ROST reporting its first operating loss in over 30 years
  - Drew down US$800mm of its existing credit facility and completed a completed a US$2B bond sale to bolster its liquidity
  - Suspended its stock repurchase and dividend programs
  - Aggressively cut costs across the Company to lower opex
  - Reduced the number of new store openings for 2020
  - Took advantage of a low rate environment and refinanced senior debt, providing a significant reduction in interest expenses over the life of debt
- In May 2020, ROST began a phased process to reopen its stores on a market by market basis
  - Comparable sales saw a slight decline due to depleted inventory levels, which was slightly offset by pent-up demand and aggressive markdowns of existing inventory

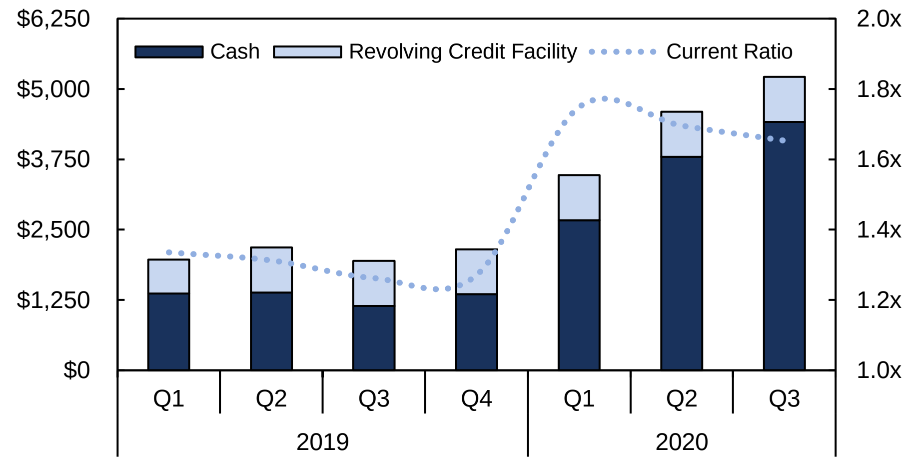
Net Sales & Comparable Store Sales (US$mm)



Net Store Additions



Liquidity (US$mm)



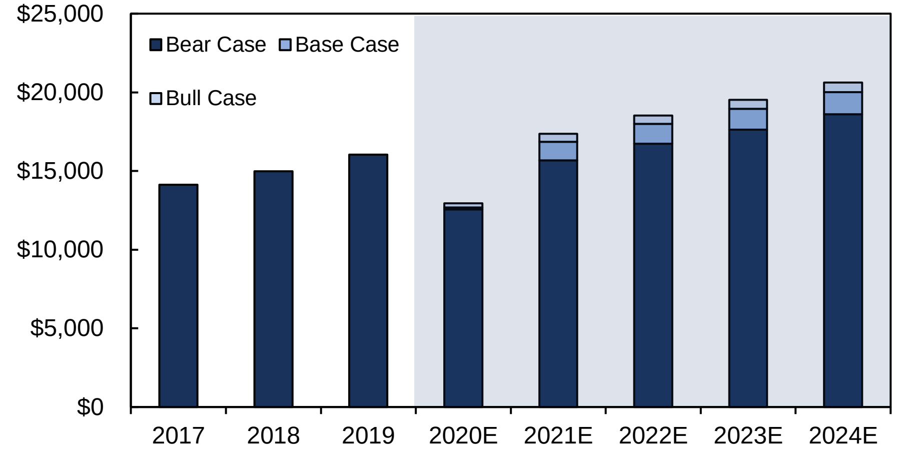
Source: Company Filings

Revised Valuation and Thesis

Revised Thesis

- **Original thesis was predicated on the notion ROST would be able to experience consistent SSS growth in the MSD, benefitting from increased store traffic and white-space opportunities…**
- While COVID-19 did put a strain on ROST's business model, the Company is currently well-positioned financially to maintain its position as a market leader in the off-price retailing industry
  - Increased department store closures and bankruptcies have enabled additional white-space opportunities for ROST, providing the ability to enhance its market share in the retailing industry in the long-term
- Increased focus on value post-COVID should provide a tailwind in the long-term, driving SSS growth in the MSD
- Peer leading margins are expected to continue through a post-COVID environment as ROST's strong value proposition becomes increasingly appealing to the low-mid income consumers

Revenue Forecast by Case (US$mm)



Catalysts to Monitor

1. *COVID-19 fears could continue to depress demand into 2021*
2. *In-store foot traffic should increase post-COVID leading to enhanced SSS in the MSD*
3. *Increased department store closures and bankruptcies should bode well for ROST to increase its market share in the long-term*
4. *Continued favorable buying environment into 2021 may lead to increased merchandise margin expansion*

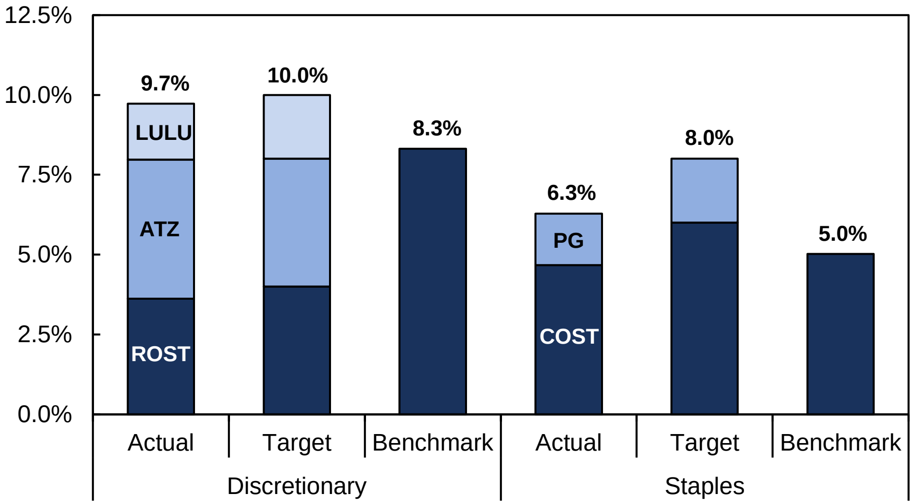
Investment Decision[1]

ACTION	HOLD
CONVICTION	2
CURRENT PRICE	$120.57
TARGET PRICE	$126.00
IMPLIED RETURN	5%

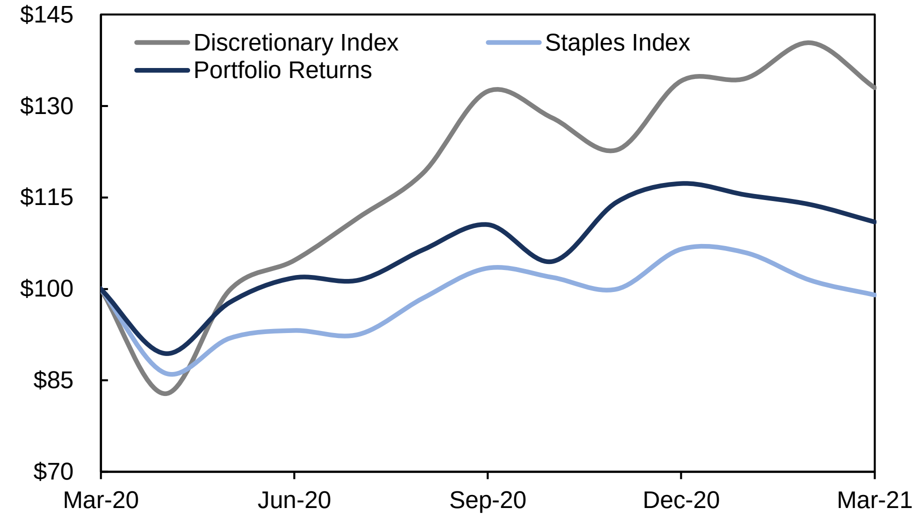
Source: Company Filings, S&P Capital IQ, Street Research
(1) As of March 1st, 2021

Consumers Holdings Overview

Sector AUM versus Blended Benchmark



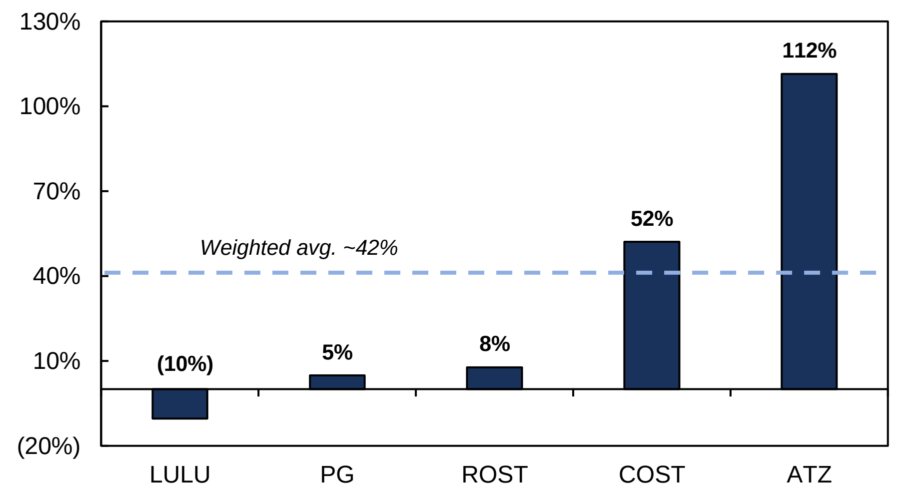
Portfolio Performance versus Consumers Index



Holdings Review & Outlook

- **Since the curtailment of the COVID-19 lockdowns, retail has rallied exceptionally well against the pandemic pitfalls as many outlets were able to pivot online to counter store closures**
- Retailers benefitted from e-commerce spikes during COVID-19 but lost foot traffic, something to be regained as restrictions lighten up.
- The portfolio has outperformed the Staples Index but was overtaken by the Discretionary Index. Initially consumer staples were in front as large essential retailers like Costco (NASDAQ: COST) were relied upon during the strictest lockdowns, but this was short-lived and discretionary retailers rapidly recovered
- The portfolio is currently overweight compared to the benchmark in both discretionary and staples; we are comfortable with this position as we believe our names have strong fundamentals and will build upon momentum heading into 2021, with tailwinds from vaccine distribution and stimulus packages in the U.S. and Canada

Consumers Holding Period Return



Source: CPMT Portfolio. S&P Capital IQ