FINAL TRANSCRIPT

Groupe Dynamite

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Groupe Dynamite Third Quarter 2024 Results Conference Call.

At this time, all lines are in a listen-only mode and the conference is being recorded. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star, zero for the Operator.

I would like to turn the conference over to Alex Limosani, Manager, Investor Relations and Corporate Finance at the Groupe Dynamite. Please go ahead, sir.

Alex Limosani — Manager, Investor Relations and Corporate Finance, Groupe Dynamite

Thank you and good morning, everyone.

Joining me on the call are Andrew Lutfy, Chief Executive Officer and Chair of the Board; Stacie Beaver, President and Chief Operating Officer; and JP Lachance, Chief Financial Officer.

This morning, Groupe Dynamite released its financial results for the 13- and 39-week periods ended November 2, 2024. The press release and related disclosure documents are available in the Investors section of our corporate website at groupedynamite.com and on SEDAR+.

We will begin the call with short remarks by Management, followed by a question-and-answer period with financial analysts. A replay of this webcast will be available shortly after the conclusion of the call.

Before we begin, I would like to refer you to Slide 2 of our Q3 2024 Investor Presentation, available in the Investors section of our website for our full statement on forward-looking information and to the presentation appendix for a reconciliation of non-IFRS to IFRS financial measures.

I will now turn the call over to Andrew.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Thank you, Alex.

Welcome everyone to Groupe Dynamite's first ever earnings conference call. This is an exciting new era for GDI and one I affectionately call GDI season three.

I am thrilled to be here today along with my colleagues Alex, Stacie and JP to discuss a record quarter for Groupe Dynamite. We experienced exceptional growth and achieved our best third quarter to date, all while being deep in the trenches of an IPO process. Furthermore, I am happy to report all my 'On a Deserted Island' metrics were green.

On November 21, we proudly began trading on the TSX under the ticker symbol GRGD. This marks the first IPO in Quebec in nearly three years and the first in Canada in over a year. I would like to take this opportunity to thank our lead underwriters Goldman Sachs, BMO, RBC and TD, and the rest of the syndicate who supported us through this IPO process.

I’m also incredibly proud of the hard work and dedication shown by our team who went above and beyond and made this achievement possible in such a short period of time. Following this highly successful and oversubscribed offering, we are now backed by a solid roster of institutional shareholders in both Canada and the U.S., who we are confident will serve as strong long-term partners in our growth journey.

As we look ahead, I couldn’t be more excited about what’s to come with our strong operating metrics, focus on innovation and disciplined execution, we’re ready to bring our ambitious growth plans to life. Our mission, Empowering You to Be You, One Outfit at a Time, continues to drive everything we do as a values-led and inclusive organization, inspiring confidence and self-expression. We have outlined six superpowers that serve as the foundation of growth. In a moment, Stacie will review how they played out in the quarter and helped us achieve record results.

One thing that makes GDI even more special is our Shared Success Program. Through this initiative, all 6,000 of our employees will have ownership exposure, reflecting our belief in the power of an ownership mindset. This alignment of interests not only brings us closer as a team but also sparks collaboration, innovation and long-term value creation for everyone involved. It’s a reminder, ownership is one of our top corporate values.

Now, let’s review the key financial and operational highlights of this record-breaking third quarter. We achieved total revenue growth of 17.5 percent, driven primarily by strong comparable store sales and new store openings.

Gross profit increased by 17.9 percent with gross margin expanding by 20 basis points compared to the third quarter of last year, reaching 63 percent of sales, mainly driven by a combination of a slight expansion in product margin and reduced markdowns, slightly offset by a higher occupancy cost.

Operating income grew 18.3 percent year-over-year, reaching $63.1 million, demonstrating strong operational leverage.

Further down the P&L, net earnings increased by 15.9 percent compared to the same period last year, while diluted earnings per share also rose by 15.9 percent. These strong results speak to the rising awareness and appeal of our brand, our premier store strategy and ecommerce platform, demonstrating the resiliency of our customer base.

At the heart of this strong performance is our ability to sell more than just product. We sell emotion. We create offerings that our customers truly desire, delivering new and fresh product that resonate with them. This focus enables us to sell the vast majority of our merchandise at full price, further reinforcing our strong brand equity. I believe that this demonstrates we have the right strategy in the right market segment.

Together with strong revenue growth, speed to market and flexibility, we have approximately 50 percent of our purchasing decisions made in season, best-in-class inventory management practices as evidenced by inventory turnover of more than six times in the quarter, up nearly half a turn year-over-year. Disciplined data-driven approach to marketing helped us deliver operational efficiencies. By combining best-in-class fashion industry processes with luxury-inspired operating model, we are delivering highly differentiated outcomes.

Before I turn the call over to Stacie, I'd like to provide some colour on the potential effect on our business of the proposed tariffs by the incoming U.S. president. Although we are still speculating here as we don't know what we're solving for, we are confident that we have the right strategies already available to us so that we can proactively mitigate the impact of these proposed tariffs. We have a diversified and agile supply chain with nimble sourcing capabilities. Our focus is and will remain on improving our operational efficiencies and implementing dynamic pricing strategies.

This would not be the first time that we've lived through a similar situation. Last time he was in power, and during that period, as you may recall, he did increase duties and tariffs which still remain to this day. Not only did our gross margin hold but in fact it expanded, and it is still holding.

I will now turn the call over to Stacie to walk you through the key operational metrics for the quarter.

Stacie Beaver — President and Chief Operating Officer, Groupe Dynamite

Thank you, Andrew, and good day everyone. It's a pleasure to be here today.

As I oversee the day-to-day operations at GDI, my primary objectives are to continue driving innovation and highly differentiated experiences for our customers while expanding our presence in the U.S. and eventually into international markets, namely the U.K.

By focusing our key differentiators, we were able to achieve strong retail and ecommerce performance in the third quarter. As Andrew mentioned, revenue growth was mainly driven by our brick-and-mortar segment and reflective of the success of our premier store locations, operating and marketing strategies. These initiatives translated into the following:

Comparable store sales growth of 10.1 percent, up from 9.8 percent in the third quarter of fiscal 2023, resulting in a two-year compounded growth rate of 20.9 percent. Retail sales per square foot reached $713 at the end of Q3 2024 compared to $581 at the end of Q3 2023, representing an annual increase of 22.7 percent. Our focus on securing high quality locations is driving our stores to become more productive and achieve sales growth at a rate significantly higher than inflation.

Store openings in the quarter included three in Canada and three in the U.S., with no closures, bringing our network size to 299 locations. As part of our strategic real estate playbook, we maintained our focus primarily on developing high-growth premier locations, mainly what we believe are Tier 1, Tier 2 and Tier 3 locations.

On the online front, ecommerce sales continue to accelerate in Q3, achieving 22.9 percent growth over the equivalent quarter of last year. This results from our increased focus on delivering an aspirational omnichannel shopping experience grounded in customer insights.

Ecommerce is an important part of our growth strategy. Since pivoting to an omnichannel strategy in 2019, our ecommerce business has grown to represent approximately 18 percent of total revenue for the 12-month period ending November 2, 2024. Our long-term ecommerce penetration level target is at 25 percent of total revenue.

This quarter, Garage's momentum remained strong, driven by our focus on unapologetic effortlessly styled (inaudible). We are particularly pleased by the strong performance of our knits, denim and fleece categories which hit the mark with Alex's day-to-day casual lifestyle. Additionally, skirts surpassed our expectations, further validating our ability to stay authentic while capturing the latest trends that resonate with her. Whether she is going to Pilates, hot girl walks, or private clubs, we remain deeply aligned with her ever evolving wants and aspirations.

On the Dynamite front, we're pleased with the solid performance of our core DNA categories, dresses and denim pants, which have been key contributors this quarter. Our focus on Rochelle, our magnetic muse has been central to this. We've crafted collections that reflect her dynamic lifestyle, always ready for whatever adventure comes her way, whether it's grabbing a pre-dinner martini, jumping into impromptu client meetings or enjoying a Sunday brunch. This approach has allowed us to create products that resonate with customers who share Rochelle's affinity (phon) for life, strengthening the connection between our brands and our customers.

Now, drilling down a little further into marketing campaigns and activations for each of our two brands. During the third quarter and as the fall season was approaching, we successfully launched jeans, off-duty and outerwear campaigns at Garage and Dynamite. Tailoring each campaign to capture the respective brand's lifestyle appeal, these campaigns effectively resonated with our audience and reinforced our position as the forefront of fashion trends by aligning with several shifts in customer preferences.

On the activation front, we built a lot of momentum in the U.S. for the Garage brand with a pop-up shop in New York City, piloted this brand's first-ever store employee ambassador program, rolled out our Dream Closet pop-up stores at over 250 universities across the U.S., and further capitalized on our influencer relationships. All these initiatives drove consumer acquisition and increased our brand's awareness within our target market.

I am also proud to say that our Dynamite brand received the prestigious award by leading influencer marketing platform LTK of Brand Builder of the Year, in recognition of our ability, skill and creativity in leveraging our platform, building a strong brand presence and reputation over the past year.

Finally, in September we unveiled our new Dynamite 3.0 shopping concept at the Royalmount Shopping Center in Montreal. Spanning approximately 8,000 square feet, the store features a refreshed design inspired by the charm and esthetic of Mykonos. The response has been positive with strong customer feedback and enthusiastic reactions on social media. This initiative has significantly enhanced our brand reach, driven noticeable growth in our social media fan base, and boosted influencer-affiliated revenue.

On the logistics front, we are close to finalizing agreement with the right partner for a 3PL in the U.S., aiming to be operational by the second half of 2025. With our continued growth in the U.S. establishing a distribution center there is a logical next step to reduce lead times to stores and lower freight cost, as well as keeping investments in CapEx on the light side given the 3PL nature of their agreement.

As we stand today, we are now more than six weeks into the fourth quarter, and we are already well positioned for a busy holiday season. Our design and purchasing teams are now gearing up for the following season, ensuring that we stay on top of trends. We are also working on further optimizing our store network, increasing our presence in top tier locations in the U.S., while consolidating some underperforming locations.

With this, I will turn the call over to JP for a review of our financial results.

Jean-Philippe Lachance —Chief Financial Officer, Groupe Dynamite

Thank you, Stacie, and good morning, everyone.

I am very proud to be here today to share with you our strongest third quarter financial results since the founding of our Company. I will now walk you through our financial results.

Total revenue for the third quarter of 2024 increased by $38.6 million, or 17.5 percent, to $258.8 million. For the first three quarters, total revenue increased by $126.2 million, or 22.5 percent, to $686.8 million compared to the same period last year. Most of the increase is attributable to retail revenue which grew by $30.4 million in Q3 or 16.5 percent over the equivalent quarter of last year, and grew by $108.9 million or 23.3 percent for the first three quarters versus the same period last year. This increase was driven by comparable store sales growth of 10.1 percent for the quarter or 13.4 percent for the first three quarters as well as contribution from new stores.

Online revenue grew by 22.9 percent, reaching $44.1 million for the quarter or 18.6 percent to reach $110.2 million for the first three quarters.

Gross profit for the third quarter of 2024 increased by $24.7 million or 17.9 percent, reaching $162.9 million. This improvement being attributable to higher average unit retail prices favourably impacted by lower markdowns and was partly offset by slightly higher occupancy costs, while gross profit for the first three quarters of 2024 increased by $95.7 million or 27.7 percent, reaching $441.3 million. This increase is attributable to the 22.5 percent revenue growth compared to the relatively lower increase in cost of sales of 14.2 percent year-to-date, which is due to controlled merchandise cost increases and lower markdowns. Speaking of markdowns, they are lower due to our improved flexibility and our ability to respond to trends in real-time, which improves inventory planning.

Selling, general and administrative expenses for the third quarter of 2024 increased by $13.4 million, or 20.1 percent, to $80 million compared to the third quarter of 2023. This increase primarily reflects an $8.1 million rise in wages, salaries and employee benefits driven by higher labour costs as our footprint grew, especially in the U.S. where labour tends to be more expensive. The $3.2 million of nonrecurring professional fees associated with the IPO process and the timing of certain marketing and administration expenses in the third quarter also weighed on SG&A.

For the first three quarters, SG&A increased by $28.1 million, or 14.2 percent, compared to the same period last year. This increase was mainly due to a $21.7 million rise in wages, salaries and employee benefits driven by higher labour costs as revenue grew and a larger proportion of stores were opened in the U.S. The first three quarters of this year were also negatively impacted by $5.1 million of professional fees related to the IPO recorded in admin costs.

Operating income increased by $9.8 million, or 18.3 percent, to reach $63.1 million in Q3 2024 compared to $53.3 million in Q3 2023.

Similarly, Adjusted EBITDA increased by $15.2 million, or 21 percent, to reach $87.2 million in Q3 2024 compared to $72 million in Q3 2023.

The Adjusted EBITDA margin improved to 33.7 percent in Q3 2024 compared to 32.7 percent in the same period last year. This growth of 100 basis points is attributed to a combination of higher gross margin and operating leverage.

Operating income for the first three quarters increased by $64.8 million, or 67 percent, to reach $161.5 million compared to $96.7 million for the same period last year.

Similarly, Adjusted EBITDA increased by $74.3 million, or 49.8 percent, to reach $223.8 million in the first three quarters compared to $149.5 million for the same period last year.

The Adjusted EBITDA margin improved to 32.6 percent in the first three quarters compared to 26.7 percent in the same period last year. This substantial increase is largely attributable to the combination of enhanced gross margin and an increase of 590 basis points of operating leverage.

Net earnings increased by $5.5 million, or 15.9 percent, compared to the same quarter last year. This growth is attributed to higher revenue, a 20 basis point improvement in gross margin, along with lower depreciation expense and net financing costs as a percentage of revenue. It was partially offset by higher SG&A expenses as a percentage of revenue, primarily due to $3.2 million in professional fees related to the IPO as well as an increase in the effective income tax rate.

Net earnings for the first three quarters increased by $47.5 million, or 83 percent, compared to the same period last year. This growth is attributed to higher revenue, a 260 basis point improvement in gross margin, along with lower SG&A expenses, depreciation and amortization expenses, and net financing costs as a percentage of revenue. It was partially offset by a higher effective income tax rate for the period.

Free cash flow generated for the quarter was $42.2 million, up from $39 million in Q3 2023 despite a $4.4 million increase in capital expenditures year-over-year.

For the first three quarters, the Company generated free cash flow of $108.4 million, an increase from $50.5 million in the same period last year. This increase was driven by an $84.1 million increase in cash flow from operations partially offset by a $26.2 million increase in capital expenditures.

For the last 12 months ending November 2, 2024, our return on capital employed ratio reached 43.3 percent, marking an improvement from 30.7 percent for the same period last year. This enhanced efficiency highlights the effectiveness of recent strategies and investments. The slower growth of average capital employed compared to adjusted operating income reflects strong capital utilization enabling the generation of operating income.

For the last 12 months ending November 2, 2024, our return on assets ratio ended at 23.8 percent versus 15.4 percent for the same period last year. This improvement indicates a significant boost in the Company’s ability to leverage its assets more effectively than in previous periods.

I would like to conclude by noting that we will provide annual guidance for fiscal 2025 alongside the release of our fourth quarter and full year 2024 results later in April of 2025. Please take note that the fourth quarter of 2024 will be a 13-week period, which is one week less than last year's fourth quarter which included a fourteenth week.

Andrew, back to you for your closing remarks.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Thank you, JP and Stacie.

The IPO marks a new era and record performance for Groupe Dynamite. Our strong year-to-date and third quarter results further demonstrate the enhanced efficiency of our business model and highlight our team's ability to execute our strategic plan. As we stand today, we are now almost half-way through the fourth quarter and we are satisfied with our top line results thus far, inclusive of Black Friday.

As we approach the end of a momentous year, I'm optimistic about what the future holds for Groupe Dynamite. We have everything on-hand to bring our ambitious growth objectives to life. By continuing to focus on innovation and maintaining our disciplined execution with the right strategy, we are fully equipped to continue delivering value to all our stakeholders and, most importantly, our customers and employees.

Finally, we have strong ambitions and by continuing to nurture both our brands, growing our presence in premium locations in the U.S. and eventually the U.K., we are confidently working towards our strategic goals.

This concludes our formal remarks. I'll pass it over to the Operator for the Q&A with financial analysts.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, should you have a question, please press star, followed by one on your touch-tone phone. You will then hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press star, followed by two. If you are using a speaker phone, you will need to lift the handset first before pressing any keys. Please go ahead and press star, one now if you have any questions.

First, we will hear from Brian Morrison at TD Cowen. Please go ahead.

Brian Morrison – Analyst, TD Cowen

Good morning. Thanks very much and congratulations on the IPO and strong start out of the gate. I guess my first question is for any one of the three of you, but Andrew, you did say you were satisfied with the Q4 performance to date. Can you maybe just go into a little bit more detail as to the state of the consumer, both in Canada and the U.S., and if you are able to quantify any of your early read out of Black Friday and if you see any impact from the shortened holiday period?

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Hey Brian, thank you. Thank you for the question and good morning, everyone. Super excited to be here. We all are, our first ever earnings call.

Listen, insofar as Black Friday is concerned, it was a nice—we can't really double-click on it too, too much, but we are pleased. We are satisfied with the results. We're half-way through the quarter. As you know, we still have Christmas ahead of us and a lot of business between actually Christmas and New Year's when everyone is off work and off school. Those are actually really productive selling periods for us. Listen, thus far, midpoint, satisfied and unfortunately, I just need to leave it at that. But it is really quite broad though, so it's not one particular or region than another. It is quite broad.

Brian Morrison – Analyst, TD Cowen

Would you say you're tracking to your own internal expectations then?

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

I'm sorry. Can you repeat one more time?

Brian Morrison – Analyst, TD Cowen

I'm just saying would you say you're tracking to your own internal expectations thus far?

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Yes. Yes, that'd be fair to say. Oh, for sure.

Brian Morrison – Analyst, TD Cowen

Okay. I appreciate it's a wide potential chasm of outcomes here, but in terms of tariffs I appreciate you addressed it on the call. Can you maybe just talk about your capability to shift production away from China, what your contingency strategy might be, and what is your exposure? Am I thinking it correctly that it's the U.S. market exposure to China? Is there also potential exposure Canada to the U.S.? Maybe just provide some details on that, please.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Sure, absolutely. I'm surprised that wasn't the first question.

Brian Morrison – Analyst, TD Cowen

One A and B, Andrew.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Yes, yes. Happy to take it. Happy to take it, of course. Look, first I'm going to lead with this, right, and this question really came up quite frequently through the Q&A sessions pre IPO. We don't know what we are solving for, right? It is important to appreciate that we don't know what we're solving for. Is Vietnam impacted? Is Vietnam not impacted? To what extent will Canada or Canada not be impacted, or China for that matter, to what extent, right? We know something is going to happen, but we don't exactly know what we're solving for. That's number one.

Number two is I'm going to point back to one of our superpowers, which is our super, super agile supply chain, right? We covered that I think in depth. We've actually made improvements in that agility on a year-over-year basis and through the third quarter. You know, agility always wins, right? We are one of the few that are as agile as we are. Right? I will go to that.

Number three, I'm going to speak to our suppliers. Even as we speak about our Chinese suppliers specifically, most specifically, they themselves, right, are incredibly agile. That's why they work with us, because they are agile. They are comfortable working an agile environment, and they themselves have had to manage risk over the years, right? This is not the first time China has come under the magnifying glass, so to speak. They, for the most part, all have offshore redundancy. When I say offshore, that would be non-China redundancy. You could include a Cambodia or Bangladesh or so on and so forth.

You know, I'm not going to start speculating, but one can imagine, I don't know if China themselves—it is a Communist government, right? They themselves have tools to counter. They can support their manufacturing community if that's what they ultimately want to do. They can also play with their currency if that's what they want to do to help them remain competitive. You can't really dismiss what China themselves; the government of China may actually do.

Again, this is not an easy question, so I do apologize for the long answer, but I think it deserves a reflective, I guess, answer. I will also remind everyone that approximately half our receipts are into Canada, half the business is in U.S., and Canada at this point is not impacted by any trade tariffs that may be applied to Canada. One can also imagine that with supply pulling out of China, Chinese suppliers are going to be I think pretty hungry for business, and we've actually seen that over the years, and there could be a benefit there as well, certainly into Canada, but we're not 100 percent exposed by way of the USA.

Even knowing that there's going to be a transition in the first quarter of the year, we've already taken steps. I won't get into the percentage, but we've already taken steps to move more production out of China.

Finally, I'm going to say—not finally because you did ask about Canada. Insofar as Canada and U.S., even if they do apply a suggested 25 percent tariff, there really is no impact to us because we don't actually manufacture anything in Canada. There is a negligible and nominal impact to maybe some of our supplies, maybe some of the CapEx dollars when building a store, but I'd say it's negligible and nominal. Really for all intents and purposes there is no impact to us. I will remind you nonetheless we will have our 3PL up and running in F25, so just in terms of political risk I think, you know, it probably makes sense having distribution on U.S. soil.

Finally, again, a long answer to a short question, is I think the past is a pretty good precursor to the future. It's not the last time that Trump was in power, and this administration has been in power, and duties and tariffs are actually to this day higher than they were before he was elected. Through that period of time, we actually not only passed along the cost to the consumer, but we actually increased our IMU. This goes back to the value proposition of the brand as evidenced by the low markdowns and desirability of our product.

I do apologize once again for a long answer, but it is not (inaudible) that simple. We have lots of tools available to us and we are agile and focused on our brands.

Brian Morrison – Analyst, TD Cowen

All right. I appreciate the thorough response, and I wish you all a safe and happy holiday season.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Thank you. Thank you, Brian.

Stacie Beaver – President and Chief Operating Officer, Groupe Dynamite

Thanks, Brian.

Jean-Philippe — Chief Financial Officer, Groupe Dynamite

Thank you.

Operator

Thank you. Ladies and gentlemen, out of respect and courtesy to other callers on the line today, we would ask that you please limit yourself to one question. Thank you.

Next, we will hear from Irene Nattel at RBC. Please go ahead.

Irene Nattel – Analyst, RBC Capital Markets

Thanks, and good morning, everyone. I'll add my congratulations to the list. Well done. Just because even though your answer was really long and really comprehensive, there was something that you said, Andrew, in your opening remarks that caught my ear. You mentioned something about dynamic pricing. Could you just spend a minute talking or elaborating on that, please, and whether you would ever consider that outside of the environment of the tariff situation? Thank you.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Yes. Sorry, Irene, sorry. Can you repeat that one question regarding the dynamic pricing?

Irene Nattel – Analyst, RBC Capital Markets

Yes. You mentioned dynamic pricing. Yes, I was trying to get a better understanding of what exactly you're thinking about right now with respect to dynamic pricing and how you might implement that.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Listen, there's no—I guess it's—maybe it's a really delicate and polite way of talking about inflation and our ability to basically—there's no world where we absorb the cost, so that I think goes without saying. But I'm going to say broadly speaking there's no world where any retailer or any brand is going to absorb costs, you know? At the end of the day there might be a short-term adjustment, but ultimately, unfortunately, these costs end up getting passed on to the consumer to the extent that they actually create any notion of inflation, right, on the input cost side.

Listen, our brands are valuable. Our brands are desirable. We have increased our selling price faster than the rate of inflation over the last five or six years. We've done so consistently. We do believe that we have a bit of tailwind, if you will, in terms of opportunity, in terms of pricing, call it passing on of cost to the extent that those actually materialize. That's because the brands are, you know, coveted.

They’re valued and the consumer just really wants it. We do believe we have that tailwind as we have had in the past.

Irene Nattel – Analyst, RBC Capital Markets

That’s great. Thank you and happy holidays to all.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Thank you. All the best. Thank you.

Stacie Beaver – President and Chief Operating Officer, Groupe Dynamite

Thank you.

Operator

Next question will be from Martin Landry at Stifel. Please go ahead.

Martin Landry – Analyst, Stifel

Hi. Good morning, guys. I would like to dig in a little bit in your same store sales growth of 10.1 percent. Wondering if you can give us some colour on the pricing impact versus volume on that growth. Any colour that you could share on the momentum of your two brands; have you seen any changes? We know that Garage is growing a little faster than Dynamite. Any colour you can give us on how the two brands performed during the quarter, that would be super appreciated.

Stacie Beaver – President and Chief Operating Officer, Groupe Dynamite

Good morning, Martin, and thank you for the question. Yes, we're very pleased with our comps, and to give you some more colour, most of the growth is attributable to a combination of both AOV, or basket, along with the positive transaction growth.

We're working on the value proposition, as Andrew just spoke to. While we look at inflation and what we can charge for something, we're not always focused on the pricing or the competitive positioning on that pricing but really the double-down on creating exciting new product that our customer is going to resonate with. We say a lot that we're selling emotion, so at any price, if she loves what she's buying she'll purchase it; at no price will she buy something that she doesn't like. We really, with our speed to market spend a lot of time working on the assortment, making sure that they're the optimal assortment for the time of what's going on culturally, and we're delivering as close and as possible to meet her demands. That's kind of how we're looking at the pricing mix, and that keeps the product coming in fresh. As you guys have seen, we turn our inventory almost eight times. Then, also, our real estate strategy is also helping that pricing, being in more luxurious or lifestyle malls with high traffic inherently into the location is helping us turn our product. Again, opening up those open to buy dollars to read and react back into newness.

We won't specifically comment on banner information, but I'll just share in order of magnitude. Yes, Garage U.S. is having a very successful business at the moment, followed by Garage Canada, and then Dynamite. I will just reference that both sides of the border are seeing growth at the moment.

Martin Landry – Analyst, Stifel

Perfect. Thank you. That’s super helpful. Best of luck.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Thank you.

Stacie Beaver – President and Chief Operating Officer, Groupe Dynamite

Thanks so much.

Operator

Next question will be from Stephen Macleod at BMO Capital Markets. Please go ahead.

Stephen Macleod – Analyst, BMO Capital Markets

Thank you. Good morning, everyone and thanks for all the great colour so far. Most of my questions have been answered. I just wanted to circle around on one thing that JP mentioned with respect to the extra week. Can you quantify what the impact of that would be on your fiscal Q4?

Jean-Philippe – Chief Financial Officer, Groupe Dynamite

Good morning. Thank you very much for the question. Unfortunately, no. We’re not at liberty of disclosing exactly the value of that fourteenth week last year. However, given the fact that this week was at the very end of the quarter, I think it would be well known in the retail space that these weeks are less productive than the Black Friday or Christmas time weeks. If you were to take a high fraction of one-fourteenth would represent, I think you would be in the right ballpark. Definitely not our most productive week, but still make an impact. Hopefully that is helpful. That's as far as I can go.

Stephen Macleod – Analyst, BMO Capital Markets

That's helpful, JP, and thanks for your colour so far, Stacie and Andrew. Appreciate it.

Operator

Thank you. Next question will be from Luke Hannan at Canaccord Genuity. Please go ahead.

Luke Hannan – Analyst, Canaccord Genuity

Thanks, and good morning, everyone. Stacie, I wanted to follow-up on something you touched on in your prepared remarks. You talked about some of the pop-ups that you're doing in universities. I guess I wanted to ask, as far as new customer acquisition, specifically in the U.S., what so far has been your best source, either as far as growing LPVs or converting some of those customers into omnichannel customers? Has it been the new premier stores that you have, or has it been those pop-ups? Or maybe some of the online campaigns that you've done so far?

Stacie Beaver – President and Chief Operating Officer, Groupe Dynamite

Good morning, Luke, and thanks for the question. We're looking at all ways to optimize that new customer acquisition. I would say at the moment, yes, you're correct; the new stores in those premier locations is probably our most lucrative at the moment, followed by influencers and affiliates. Then coming in third would be our brand moments and brand activations which most of you know those take a longer time to kick on a ROAS or a return right away. But we like the brand moments being where the customer is at and trying to connect with her at all touchpoints.

Luke Hannan – Analyst, Canaccord Genuity

Okay. Great. Thank you very much.

Operator

Thank you. Next question will be from Brooke Roach at Goldman Sachs. Please go ahead.

Brooke Roach – Analyst, Goldman Sachs

Good morning and thank you for taking our question. I was hoping you could elaborate on the changes or shifts in strategy that you're implementing this holiday season and into 2025 to continue the strong ecommerce momentum that you've been recently realizing. Are there any changes or shifts that we should be keeping on our radar? Thank you.

Stacie Beaver – President and Chief Operating Officer, Groupe Dynamite

Good morning, Brooke. Again, thanks for the question. Ecomm is a significant channel for our growth. As you know, our penetration right now sits around 18 percent, and our aspiration is to get it closer to 25 percent.

I would say, or reflect on 2024 and say we really fixed the plumbing as far as our ecommerce network, improving our speed, offering new payment options online, integrating a new mobile partner, and for 2025 we really want to bring in some more customer experiential newness to the site.

Brooke Roach – Analyst, Goldman Sachs

Thank you so much.

Operator

Thank you. Next question will be from John Zamparo at Scotiabank. Please go ahead.

John Zamparo – Analyst, Scotiabank

Thank you very much. Good morning. I wanted to come back to Black Friday and I wonder if you could add some more colour on what you're seeing from customers. Not so much on numbers you're producing—I understand you're not going to share those, but I wonder about the demand environment that you saw. We've seen lots of value-seeking behaviour from consumers. I wonder how you'd characterize that this year versus the past few quarters or versus a year ago.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Hi. Good morning. Yes, certainly we're not seeing any notable difference on a year-over-year basis. There's no question the American customer seems to be, you know, a little happier, a little more excited, if you will. It kind of showed up in the order of magnitude comments that we had made. But ultimately, we're not really seeing it. We're seeing happy customers across the board; we're not really seeing any pessimism. We're not seeing any pressure on anything unexpected in terms of markdowns or in terms of consumer behaviour. Generally speaking, we're optimistic. Our consumer seems to be happy. Of course, we sell emotion so I'm guessing we've done that, we've done a good job of making her happy, so we feel her joy and satisfaction.

I guess that's the benefit of being in our business. I would imagine if maybe we were selling big ticket items or furniture or anything that needed financing or that needed you to maybe indebt yourself, maybe it might be a different—you know, we would have a different reaction. But no, we're happy that we have happy customers.

John Zamparo – Analyst, Scotiabank

Okay. Thanks for that colour. Happy holidays.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Thank you.

Operator

Next question will be from Vishal Shreedhar at National Bank Financial. Please go ahead.

Vishal Shreedhar – Analyst, National Bank Financial

Hi. Thanks for taking my question. With respect to Dynamite and the order of magnitude comments that you provided, it being the last in terms of performance, where are you in terms of reinvigorating that brand? I'm talking to getting the leadership at that brand as required, and rolling out that new 3.0 concept sufficiently such that you feel it has critical mass in it to close the gap a little bit with Garage?

Stacie Beaver – President and Chief Operating Officer, Groupe Dynamite

Again, we're currently pleased with the Dynamite performance. We are still leaderless, so if anyone on the call wants to send any contacts over, we're still recruiting for a VP of Merchandising for Dynamite, so well appreciated in advance.

But we do think, as we've said before, the ecosystem or the engine that runs Garage is the same engine that runs Dynamite. When we get the leadership, we'll map out a growth strategy. We're currently very pleased with the 3.0 positioning, what it's done for the brand, the product offering and the customer acquisition in our unique opening at Royalmount here in Montreal. We do have two additional 3.0 locations planned for 2025. Again, the difference in that 3.0 concept—that is how we refer to it internally—is taking an average 4,200 square foot store and expanding it to be about 8,000 square foot. We are just as optimistic about Dynamite's growth as we are for Garage.

Vishal Shreedhar – Analyst, National Bank Financial

Thank you.

Operator

Thank you. Next question will be from Mark Petrie at CIBC. Please go ahead.

Mark Petrie – Analyst, CIBC World Markets

Yes, good morning and I'll echo my congratulations on the IPO and the strong start. I want to ask about the real estate environment and if you could contrast the dynamics as well as the terms and incentives that you're seeing in Canada and then the U.S. Any context you can provide in terms of how those dynamics have shifted, especially in the U.S. as the brand awareness has been building.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Thanks for the question. Great question. We're definitely seeing the continuation of what we often call the flight to quality. Many people have appreciated that these T1, T2 and T3 shopping centers and assets on the High Street are really coveted. Yes, there's a lot of eyes on it and there's a lot of competition for space. Vacancy has gone down; occupancy has gone up in those assets.

What's interesting is we're still able to work out deal terms that make a tremendous amount of sense for us and it's a combination of a couple of things. One is, I would say probably the most important thing is we perform. These landlords and developers are always looking to change the asset mix in their respective shopping centers/assets. They want to reshuffle the deck in a certain way where they're basically removing bottom quartile performers and putting in what they believe to be top quartile. We fit into that category of top quartile performer and as much as they may not hit the ball out of the park financially on our deal terms, we certainly do elevate the asset and the productivity of that asset which ultimately bodes well for long-term NOI appreciation, right?

In conclusion, yes, it's a competitive and a tough market. Thanks to our success and our performance we're able to secure amazing real estate and there's always opportunities. We're very fortunate that we are successful in all markets throughout the U.S., so we're not pigeon-holed into a particular geography of the U.S. It is still a big canvas, and we're satisfied with these deal terms and the economics and the pipeline.

Mark Petrie – Analyst, CIBC World Markets

All right. Appreciate the comments and all the best. Happy holidays.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Thank you. All the best to you.

Operator

Ladies and gentlemen, a reminder to please press star, one should you have any questions.

Next is Adrienne Yih at Barclays. Please go ahead.

Adrienne Yih – Analyst, Barclays

Good morning. Let me add my congratulations. Nice to see you in the public markets. Andrew, I guess my first question to you is, can you talk about how you view—and maybe for JP as well. For the margin mix impact of the penetration of ecommerce, as you expand, you know, and accelerate into that ecommerce, you're sort of below average from like a typical apparel retailer in the U.S. What can you do to accelerate that? We saw from Black Friday the strength of ecommerce significantly outpace traffic. Is the 3PL facility going to give you a leg-up, like a step function up in ability to service ecommerce? Thank you.

Jean-Philippe — Chief Financial Officer, Groupe Dynamite

Good morning. That's a very good question. Let me take that one. On the first one, on the ecomm, what's actually really interesting in the way we run our ecomm business is that we're not promotional in nature. Therefore, the profitability of our ecomm segment is actually very high and very, very close to the profitability of our brick-and-mortar segment. Said another way, as the penetration of ecomm increases over time, it should not be seen as dilutive to the overall margin profile of Groupe Dynamite. We are very disciplined in the way we run our ecomm and it definitely shows to the bottom line. Hopefully that answers well the first part of your question.

Now, on the second part of your question, for the U.S. DC, look, we're incredibly excited about that opportunity for many different reasons. First and foremost, today we have only one distribution center which is owned and operated here in Montreal. Obviously, there are risks associated with the fact that we only have one DC servicing both Canada and, in the U.S., and, therefore, for risk management purposes we love the idea of having a second DC.

Also, for economical reasons, it really does make sense for us to have a DC in the Midwest U.S. simply because that will reduce freight costs as the distances to travel will be smaller and we'll also be able to get the goods to the stores and to our customers for ecomm orders faster. That faster pace combined with lower freight, we certainly believe that that will be accretive to our gross margin percent profile next year and that will allow us to fulfill some of the orders from U.S. customers directly from that 3PL.

Finally, from a financial perspective, because this is a 3PL, the CapEx involved to set this up will be incredibly minimal and mostly limited to IT CapEx, if you will, and therefore it's definitely accretive to our bottom line and won't consume too much CapEx.

Maybe just a clarification on the Montreal DC. We actually lease the DC from our CEO, so it's not owned and operated, but it's definitely within the family, as disclosed in our financials.

Adrienne Yih – Analyst, Barclays

Fantastic.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

May I just add to that, JP, please? You mentioned accretive to margin and so on and so forth. I would also add it is beneficial from a customer—as you think about your ecomm or your omni customer, it's beneficial from a customer lifetime value proposition. If you can regularly get that Western customer her package in three fewer days, there is a—that does translate into improved customer lifetime value. Even if you think about our stores, our California stores, our Western stores or even Midwest stores, if you can get the shipments to them three days sooner, sometimes it's the difference between missing the weekend versus getting it in advance of the weekend. It is accretive as well in terms of top line revenue, not only margin.

Adrienne Yih – Analyst, Barclays

Absolutely. Great job and best of luck for the rest of holiday.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

Thank you.

Jean-Philippe — Chief Financial Officer, Groupe Dynamite

Thank you.

Operator

Thank you. At this time, we have no other questions registered. Please proceed.

Andrew Lutfy — Chief Executive Officer and Chair of the Board of Directors, Groupe Dynamite

That was fun. Thanks for being kind on our first investor call.

Listen, I wish everyone health, happiness. I often say to those around me, who will actually listen to me at this time of year, pick up the phone and call those friends and call those relatives that you wouldn't normally have time to and just tell them you're thinking of them. It is the season of giving, so anyways. I thank you for having given us your time and your attention. From all of us, we do wish you happy holidays and we'll be speaking soon.

Stacie Beaver – President and Chief Operating Officer, Groupe Dynamite

Thank you.

Jean-Philippe — Chief Financial Officer, Groupe Dynamite

Thank you.

Operator

Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. At this time, we do ask that you please disconnect your lines.