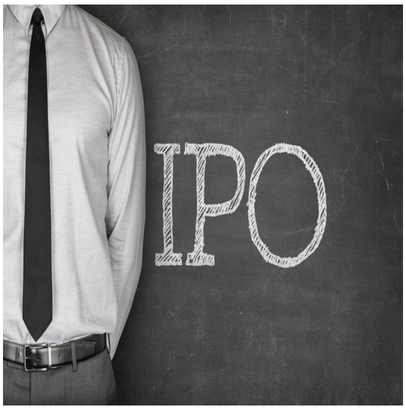

Should You Give Canada Goose Holdings Inc. a Gander?

Description

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS) is the latest IPO on the TSX that's available for Canadian investors to scoop up today. The stock soared a whopping 25.82% in its first trading session, but don't get too excited just yet. Usually, IPOs soar in the first day or two before plummeting back to reality in the trading days following the IPO.

Canada Goose is a Canadian manufacturer of luxury winter clothing including jackets, parkas, vests, hats, gloves, and other apparel.

Many of its products sell for north of $900, so it's not a product for the average consumer with a modest income. The stock is breaking out of the gate at a very expensive 36 times earnings, which is quite unattractive, but it's important to note that the company's revenue has been growing at a CAGR (compound annual growth rate) of 38.3% over the previous three years. That's definitely a lot of growth, and we could see the growth rate increase further as the company continues to strengthen its brand.

Canada Goose CEO Dani Reiss believes that the high valuation multiple is completely warranted, and that he "…spend[s] every waking moment of my life trying to earn everything we've already accomplished" and that he wants to "…build an enduring legacy that will last for many, many decades, if not centuries and beyond." He's ambitious and extremely optimistic, like any CEO coming off an IPO, but is Canada Goose worthy of your investment dollars?

There's no question that the company is firing on all cylinders. The IPO prospectus showed some very promising growth prospects, but I don't think Canada Goose is worth the premium valuation it has right now. The IPO game is not for the faint of heart. You could lose your shirt in a hurry due to the volatility that happens in the first few months of trading. If you're dying to buy shares of Canada Goose, then it might be a good idea to sit on the sidelines and wait for a better entry point.

Canada Goose is in an extremely risky industry. Luxury retail is as incredibly cyclical, and you couldget seriously hurt during an economic downturn. How many people do you know are buying $900parkas during a recession?

But since everyone, including bearish investor Prem Watsa, is bullish, we’re likely to see cyclical names like Canada Goose fly higher over the medium term. The brand is the most important part of a luxury business, so if you like the brand and think it can do well over the long term, then you may be able to get into a long-term outperformer in the very early stages of its life on the public market.

The brand has received some heat over concerns about the use of coyote fur in its parkas. PETA members have gathered outside the New York Stock Exchange to protest during its IPO, and it’s very likely that the company will face even more controversy going forward. This could keep a ton of morally conscious investors on the sidelines, and that’s never a good formula for a rising stock price.

Canada Goose has some promising growth potential, but it’s overvalued, and I don’t think there’s a good reason to pay such a premium at this point. The company is also operating in a niche, and there’s a lack of a moat, so any competitor could just jump in and steal the company’s market share.

Buying the stock right now would be extremely risky, so I’d recommend staying away for now. Sure, the company is growing fast, but personally, the luxury retail industry is too unpredictable for my liking.

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