Taking a Bet on the Golden Goose

Description

A walk down Yonge Street will certainly feature a Maple Leaf's jersey, a Herschel backpack, and a gaggle of Canada Goose jackets. **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS), the apparel manufacturer and a recent Toronto Stock Exchange IPO, is the maker of the popular coat—a sure hit for those with a fat wallet and a smart fashion sense. With the stock now trading just above its issue price, should the savvy investor follow the fashion trend or flock south?

If we take another stroll, this time down memory lane, we are reminded of the retail hits that quickly lost their IPO lustre. **BRP Inc.** (TSX:DOO), the ski-doo provider, skidded off its course six months after its first trading day. **Lululemon Athletica Inc**. (NASDAQ:LULU) followed a similar fate, losing its qi just weeks into its session on the TSE (timing was not on its side). Certainly, that's a common path for plenty of IPOs; however, Canada Goose may prove to be an exception to the rule if it can follow its current strategy.

Per the Canada Goose IPO prospectus, management identified a key to success as their ability to convert on the direct to consumer (DTC) channel. In fact, "a jacket sold direct [to consumer}] accounts for two-to-four times greater contribution to their segment operating income per jacket [compared to wholesale]." To date, this has been primarily executed online—a far less expensive alternative to the brick and mortar bear-trap that has caught the leg of Lululemon and **Under Armour** (among others). The result for Canada Goose is an impressive 26.2% EBITDA margin with 42% year-over-year sales growth. Both figures are well above their industry comps.

These are all encouraging signs, yet one must consider management's note on risk. The growth strategy clearly states an anticipation of 15-20 more retail locations—enough to ruffle the feathers of any investor. With an estimated 6-8% impact on the bottom line, the notable margin expansion may become vulnerable, especially given the high-priced real estate that comes along with the brand.

Lastly, with an implied price-to-earnings ratio of 45 (given a consistent bottom-line growth rate), the stock may already be priced to perfection. The retail strategy will remain a question mark, but it is too difficult to argue with the explosive growth and operational efficiency. Purchasing an IPO after a large initial rally poses a risk for a correction, but the mid-term prospects for Canada Goose appear promising. The near-term buyers should be prepared for a little turbulence, but when all is said and done, one can expect to be kept warm with this golden goose.

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Date
2025/09/30
Date Created
2017/03/23
Author
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