2 Things Canada Goose Holdings Inc. Is Doing Right

Description

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS) has been a public company for less than a month, yet its stock is already up almost 30%, providing buyers of its IPO shares a tidy profit.

Clearly, post-IPO investors feel it's doing something right because shares are trading hands at 65 times earnings — an amazing multiple to pay for a company with just $353 million in revenue through the first nine months of fiscal 2017 and 41.8% higher than in the same period a year earlier.

Don't get me wrong, Canada Goose is a ray of sunshine in a retail sector that's getting knocked about like a cheap rag doll where bankruptcies are seemingly an everyday occurrence both here in Canada and in the U.S.

To successfully swim against the current, Canada Goose will have to continue to operate with excellence as it plots and carries out its growth strategy. Yet to deliver a quarterly earnings report — it should come in late May or early June — investors are left to speculate on how well Canada Goose executed its plan in the final quarter of the year.

I'm not a fan of Canada Goose's stock because of valuation concerns, but if you do own GOOS stock, you can take comfort in the fact it's doing these two things very well.

Export business

If you want to be a player on the global stage, you have to sell your product outside Canada, preferably generating revenues in external markets that dwarf those here in Canada.

Canada Goose had U.S. revenues in fiscal 2016 of $103.4 million — 35.6% of its overall revenue and higher than its Canadian sales. Two years earlier, U.S. revenue wasn't even half the $72.5 million generated in Canada. In fiscal 2017, I expect that its revenues in the rest of the world will also lap those in Canada.

If investors want GOOS stock to keep going higher, its U.S. and rest of the world business will have to continue to generate double-digit sales growth. While there's nothing to suggest it won't do this, the Q4

2017 report will shine additional light on its geographic expansion.

Direct to consumer

The toughest thing for retailers and apparel brands these days is getting the balance right between bricks-and-mortar retail and e-commerce. You don’t want to cannibalize one area of the business to prop up another. A successful brand does omnichannel exceptionally well using both channels to provide a seamless customer experience.

Canada Goose had e-commerce revenue in fiscal 2016 of $33 million, or 11.4% of its total for the year. That doesn’t include revenue from online stores it’s opened in the U.K. and France to go along with existing websites in Canada and the U.S.; nor does it include revenue from two retail stores it opened last fall — one in Toronto (Yorkdale) and one in New York City — so that number is going to be moving higher in each subsequent quarter.

In fiscal 2018, which runs from March 2017 through March 2018, Canada Goose plans to open between four and six e-commerce stores to add to the four existing ones (Canada, U.S., U.K., France) along with three retail stores in cities other than Toronto and New York City.

Long term, it plans to have 15-20 e-commerce and 15-20 retail stores open and doing business to go along with a wholesale business that’s currently in 36 countries around the world.

Canada Goose’s wholesale business currently accounts for about 77.7% of its overall revenue; I’d expect that number to drop closer to 50% in the next five years as it builds its direct-to-consumer business.

If so, it should be generating a higher operating margin in five years than it does now.

Bottom line

With the exception of its PETA troubles (self-inflicted), Canada Goose has a very solid business that should continue to grow. I don’t know about 65 times earnings, but it definitely deserves some form of a premium given all that it’s doing right.

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