



## How High Can Canada Goose Holdings Inc. Fly?

### Description

Of all the Canadian IPOs of late, **Canada Goose Holdings Inc.** ([TSX:GOOS](#))([NYSE:GOOS](#)) struck me as probably the most intriguing of the bunch. Canada Goose is an aspirational consumer goods brand with solid market penetration domestically and strong global potential outside Canada's borders. I think it's an interesting growth play moving forward, similar to that of **Lululemon Athletica Inc.** before the company's successful global expansion into new markets, specifically the U.S.

Whether Canada Goose can, in fact, replicate some of the international success of Canadian retail darling Lululemon remains to be seen; however, the fundamentals of both businesses are quite similar, and many analysts have drawn the parallel between the two.

### Interesting business model

I like businesses with strong brands and strong margins; in the retail or fashion space, I believe the most important thing is to be something to someone. Having an overly generalized customer base, as with **Aritzia Inc.**, is likely to cause problems for investors long term; however, the customer base of Canada Goose is an affluent one, focused on buying Canada Goose products for the quality of the brand and the status that accompanies such a purchase. Why else would someone spend \$1,000 on a parka? (The difference in the average ticket price from that of Aritzia is one of many fundamentals I like about Canada Goose's business model).

Strong margins allow for rapid and sustainable growth among brands, and margins have actually been improving for Canada Goose over time. With a gross margin now above 51% (from 41% just a year earlier), and the operating margin creeping above 15% (from 12% a year earlier), it appears that the business is well positioned for an expansion into the U.S. market.

The company has a sustainable debt load with interest coverage of more than six times (which has improved over time), and positive free cash flow which can be reinvested in its expansion moving forward.

That said, Canada Goose is trading at a valuation which many consider to be rich with a forward price-to-earnings multiple of 51 and a price-to-book ratio of 36. This is a growth company; however, it

appears that a significant percentage of the growth potential has already been priced into this stock. Therefore, investors concerned about the valuation of the business may want to wait for a more attractive entry point (should one present itself) over time.

### **Bottom line**

Canada Goose is a growth stock with solid forward momentum and relatively solid results following its IPO in March. I will keep this company on my watch list moving forward, as it will be interesting to see how its growth plans play out in the near future.

Stay Foolish, my friends.

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