Canada Goose Holdings Inc.: What to Expect in This Week’s Earnings Report

Description

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS) is scheduled to report the company’s first-quarter earnings for the period ended June 30 today, prior to market open.

Canada Goose is coming off a Q4 that saw revenue increase 21.9%, which marked the second consecutive quarter of +20% growth since the company’s IPO in March this year.

Having been involved in apparel manufacturing for over 60 years, the company is now embarking on an aggressive strategy to bring the much-beloved Canadian brand to international markets using a two-tiered plan of wholesale distribution and direct-to-consumer marketing.

Through its wholesale distribution network, Canada Goose has partnerships with select luxury retail partners in over 37 countries, including the U.S. and much of western Europe.

With its direct-to-consumer strategy, Canada Goose sells online to consumers in four countries — Canada, U.S., U.K., and France — plus two wholly owned retail outlets located in Toronto and New York.

To date, the direct-to-consumer (D2C) business has been the driving force behind the company in terms of customer engagement as Canada Goose naturally has more control over the customer experience from start to finish.

But while the D2C experience has been successful in driving brand loyalty, it’s also been successful in driving better margins for the company.

In Q4, the company’s gross profit margin increased by an impressive 950 basis points, or 9.5% on the back of the D2C business, which saw its gross profit increase from $9.1 million in the year ago period to $27.6 million.

What to expect

Heading into Q1, much of the attention will likely be on whether or not the company can manage to continue the trend of higher margins in light of its expansion plans.

This is especially important given that the pace of sales growth slowed in Q4.

While sales were up by 38.8% for the full year ended March 31, they were up by much less than that in Q4 (21.2%).

The market for growth stocks like Canada Goose can be pretty forgiving, provided the company is delivering above-trend sales growth. But if and when that growth slows, investors are going to start putting more pressure on management to deliver results on the bottom line.

During Q1, the company reaffirmed plans to expand its manufacturing facilities, including its first in Quebec, and a new raw material and cutting distribution centre in Ontario.

The plant in Quebec has already added 125 new jobs since it was opened with plans to add more than 325 more before the end of 2018.

The expansion plans are a confident step that will help the company meet oncoming demand from international markets.

Yet the reality is that the new plants will not be fully paid back for several years, and thus there is likely to be short-term pain along the way.

Unless Canada Goose can re-ignite the +30% levels of growth investors have come to expect from this company, it's going to be very interesting to see how patient investors are willing to be on this one.

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