Canada Goose Holdings Inc.: Should You Buy the Post-Earnings Dip?

Description

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS) stock rose 4.41% on February 12. Shares have dipped 10.5% week over week after a third-quarter earnings report spooked investors.

Canada Goose emerged as one of the most successful initial public offerings in 2017, which was made all the more impressive considering the difficult year for retailers. The company has managed to trump its competitors with its strong e-commerce business and its stellar brand development. So, did Q3 earnings strengthen its case going forward? If so, should investors be stoked to buy the recent dip or exercise caution in 2018?

Third-quarter earnings impressed, with one caveat

Canada Goose released its third-quarter results on February 8. Total revenue reached $265.8 million in the quarter, which represented a 27.5% increase from the prior year. Wholesale revenue actually dropped year over year to $134.2 million from $137 million in fiscal Q3 2017. However, this was more than made up for in direct-to-consumer revenue.

Canada Goose posted direct-to-consumer revenue of $131.6 million compared to $72 million in the previous year. The company has opened seven new e-commerce sites so far in fiscal 2018. Canada Goose can make up to four times more on the sale of a parka on its online platform than at a wholesaler, which has prompted leadership to take its e-commerce focus very seriously. This past holiday season also saw monster sales through e-commerce platforms on Black Friday, Cyber Monday, and over the holiday shopping season in December.

Gross profit at Canada Goose climbed to $169 million from $120.3 million in Q3 2017. Net income rose to $62.9 million, or $0.56 per diluted share, compared to $39.1 million, or $0.38 per share, in the prior year. All things considered, third-quarter earnings were stellar and reflected impressive growth through Canada Goose business.

However, anxiety remained after comments by CEO Dani Reiss indicated that Canada Goose was in no rush to flood the market with its product. This was after reports showed that in its online stores, many parkas were sold out or had very few sizes available. In a recent interview, Reiss talked about "the mentality that a lot of brands or retailers have to try to sell as much as possible, that often ends in being detrimental to the brand."

Reiss denied that Canada Goose is feeling additional pressure with the popularity of its brand skyrocketing. The company also announced the hire of Jonathan Sinclair as CFO, who was previously CFO at Jimmy Choo Ltd., a luxury brand and subsidiary of **Michael Kors Holdings Ltd.**

Should you buy this pullback?

Canada Goose is now entering its slow season with a number of challenges. The stock has climbed over 135% from its IPO price listing of $17. Canada Goose should get a boost in the short term after a post-earnings plunge that appears unwarranted, but investors should look elsewhere for value, as we look ahead to the spring and summer months.

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