Canada Goose Holdings Inc. Is Sacrificing Sales to Increase Brand's Popularity

Description

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS) shares have been beaten up last Thursday after posting strong third-quarter results that topped estimates. The company didn't update its forecast for 2018 and appointed a new CFO, which, according to some analysts, may have dragged down the shares.

Strong revenue and profit growth

The company's net income was $62.9 million, or $0.56 per share in the third quarter — up 61% and 47%, respectively, compared to the same quarter a year ago.

Profit excluding some items rose to $0.58 per share in the quarter ended December 31, thereby beating average analyst estimates of $0.48.

Total revenue jumped 27% to $265.8 million. Direct-to-consumer revenue almost doubled to $131.6 million as the luxury parka maker added seven e-commerce channels and five stores to its network, including London and Chicago.

Opening new stores is central to the retailer's strategy. Canada Goose says it can make 100% to 300% more by selling direct to consumers, either in its stores or online, than by going through other retailers.

Direct sales are expected to grow four times as fast this fiscal year than those through other retailers, potentially accounting for more than half of operating income. Gross profit margins from direct to customers sales were 76.4%, compared to 51% from its wholesale channel.

Growth is strong in every part of the world. Even in Canada, a more mature market, sales are up 23%. Sales growth amounts to 27% in the United States and 35% internationally.

Canada Goose still has many growth opportunities internationally and has undertaken a pilot project of expansion in China. Selling directly to consumers via Internet has also great potential.

Company not worried about sold-out items

Canada Goose CEO Dani Reiss has a long-term outlook for the company. He wants to expand the business gradually and methodically, and is in no rush to increase sales quickly.

Analyst Camilo Lyon from **Canaccord Genuity** said that more than 50% of online parka styles were either sold out or had only one size left.

The company is comfortable having sold-out models and didn't restock shelves to meet customers' demand. By creating product scarcity, it increases demand, so it helps to maintain the brand's attractiveness. Investors, on the other hand, would like the company to seek fast and aggressive sales growth.

Bottom line

While investors are hungry for higher and faster sales growth, given that the retail sector is struggling, I think Canada Goose's performance is very good. Its top-line and bottom-line growth are both very strong.

You may find it difficult to understand why consumers are willing to pay up to $1,500 for a winter parka and wait in line outside stores in cold temperatures to get their hands on one. Canada Goose's success is not only based on the quality of its products, but also based on its brand, which is becoming an iconic brand similar to **Apple Inc.'s** iPhone. People don't just buy a parka or a phone: they are buying a brand, a name. There's a certain cachet and prestige associated with it that appeals to some people.

Canada Goose's stock is pricey, with a forward P/E of 50. However, its P/E relative to growth (PEG) for the next five years is only 1.7, considering an average annualized earnings growth rate of 36.3%. Thus, I think the shares are fairly priced. If you're looking for a solid growth stock, I think it's time to buy some shares of Canada Goose before its price rises even more.

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