



Why This Retailer Could Shoot Down Canada Goose Holdings Inc.

Description

There's no question that **Canada Goose Holdings Inc.** ([TSX:GOOS](#))([NYSE:GOOS](#)) has been one of the biggest winners of the IPO class of 2017. With a high growth ceiling, and the opportunity to further penetrate new international markets, there are many reasons to believe that the earnings-growth momentum will continue over the long haul, as the brand continues to pick up traction without the need for excessive spending on marketing initiatives. Before you back up the truck on shares though, you should know that there are hunters out there that could shoot Canada Goose down as it flies to new highs.

Canada Goose's luxury outerwear products are renowned for their high quality and their use of down as an insulator. Down, the soft layer underneath goose feathers, is a remarkable insulator for winter coats because of its low weight and high heat-containment properties. This has made down a preferred choice of insulator among consumers of premium outerwear, and I believe the use in Canada Goose jackets has built a pretty wide moat around its brand.

Unfortunately for Canada Goose, goose down isn't patented!

Any competitor may use down as an insulator for their jackets. Over the next few years, I believe more outerwear firms will go after Canada Goose's market share in the niche market of luxury outerwear based on down fillers.

While there's no question that the Canada Goose brand serves as a major building block to the company's moat, I do believe the main reason for the recent hype is because of down-based jackets themselves and not the shoulder crest of the company's iconic "arctic program" logo, which has allowed the company to enjoy handsome margins.

Sure, some consumers of conspicuous goods may only wish to display their Canada Goose jackets as a status symbol, especially those who wear the parkas built for arctic expeditions in the spring months in Vancouver, British Columbia, but that's beside the point.

The point is that down jackets are all the rage, and there's really nothing stopping a competitor from jumping into the space head first to create a quality competing brand of their own.

As you may have heard, **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)) recently acquired Norwegian outerwear apparel maker Helly Hansen in a deal worth nearly \$1 billion.

Many analysts were quick to dismiss the deal as ridiculously expensive; however, I believe the deal provides Canadian Tire with a remarkable international growth outlet and a foundation that could allow it to compete with Canada Goose for market share in the red-hot premium winter outerwear scene.

After the deal, Canadian Tire will have a considerable amount of debt on its balance sheet, but in the grander scheme of things, I believe Canadian Tire will have the ability to scale up and build on its newfound brand at a quicker rate than Canada Goose thanks to its management's willingness to spend more on marketing campaigns.

Moreover, through Canadian Tire's FGL Sports retail outlets, the Helly Hansen brand will immediately have a deep penetration throughout the entire Canadian market. And this is just the Canadian side to an international growth story!

As a Canadian, you may not be familiar with Helly Hansen brand or its down-based outerwear offerings, but over the next few years, it's likely that Canadian Tire will put its foot to the gas to increase brand awareness across the nation. Helly Hansen offers quality down-based jackets among other pieces of outerwear at significantly lower prices than Canada Goose, and with improving brand awareness at the international level under Canadian Tire, I think shareholders of Canada Goose have something to be worried about.

At 37.1 times book and 10.5 times sales, it's time to [let Canada Goose loose](#) and instead pick up [Canadian Tire](#), the new owner of Helly Hansen, at just 2.5 times book and 0.8 times sales.

Who knows? Canada Goose could just be a fashion fad. Today, Canada Goose down jackets are all the rage, but next winter, Helly Hansen's more affordable down parkas could be "what's in," potentially stamping \$1,100 Canada Goose parkas with a "that's so 2017!" label.

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Author

joefrenette

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