Should Canada Goose Holdings Inc. Fear Helly Hansen?

Description

Canadian Tire Corporation Limited (TSX:CTC.A) announced May 10 that it was paying $985 million to acquire Helly Hansen, a Norwegian maker of outdoor clothing. The deal, which is bigger than its transformational acquisition of Forzani Group in 2011 for $770 million, looks to take the iconic retail outside its comfy Canadian confines.

Some, such as Fool contributor Joey Frenette, believe the acquisition could be a shot across the bow of **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS).

"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," Frenette wrote May 17.

The first part of Frenette's statement makes absolute sense. Canadian Tire has been acquiring consumer brands such as Paderno and Helly Hansen for a while now. By providing better products for its customers while fattening its margins, shareholders win.

The acquisition of Helly Hansen gives it one more brand to sell that isn't a private label. That will take it beyond the four walls of Canadian Tire, Sport Chek, and Mark's into sporting good and department store retailers around the world.

Long-time Canadian Tire shareholders might remember the company's disastrous foray into the U.S. when it bought White Stores in 1982 for US$144 million only to lose $300 million over the next four years before selling the 30 or so stores that remained open for US$45 million.

Shareholders do not need a repeat, so the fact it's choosing to invest in a brand rather than a physical group of stores is encouraging.

Canada Goose's market share

Helly Hansen is definitely going to grow in Canada with Canadian Tire putting it in all of its stores —

although, to a certain extent, it already is — which means it will take market share, but not from Canada Goose.

Canada Goose is what I call a triple threat — it does wholesale, online, and brick and mortar all generally well — and it's arguably one of the top retailers in this country.

In the company's third quarter, it increased its direct-to-consumer revenue by 83% year over year to $131.6 million with gross margins of 76.4%. Interestingly, the two outdoor clothing brands have similar revenues around $500 million, although Canada Goose is growing six times as fast and makes more money from each dollar of revenue.

Helly Hansen might add a couple hundred basis points to Canadian Tire's gross margin, but it's not going to be nearly enough to match Canada Goose's healthy margins.

The only thing Canada Goose shareholders should be worried about is whether its direct-to-consumer sales continue to grow by double digits.

Helly Hansen is a good move for Canadian Tire, but let's not confuse a smart acquisition with a formidable foe. Canadian Tire's gain is not Canada Goose's loss — not by a long shot.

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