



Why Canada Goose Holdings Inc. (TSX:GOOS) Stock Doubled in the 1st Half of 2018

Description

While the TSX had a negative return of -0.20% in the first half of 2018, **Canada Goose Holdings Inc. (TSX:GOOS)**([NYSE:GOOS](#)) almost doubled in value, soaring 95%.

What explains Canada Goose's outperformance? There are many reasons, but let's look at the main ones.

Canada Goose always beats expectations

In its fiscal 2018 third and fourth quarters, Canada Goose's revenue and profit beat analysts' estimates. In the third quarter, the retailer posted adjusted EPS of \$0.58, while analysts' estimate was \$0.48. In the fourth quarter, Canada Goose posted an adjusted profit of \$0.09 per share, beating the estimate of a loss of \$0.07 per share.

Since going public in March 2017, the luxury parka maker has beaten expectations on both the top and bottom lines each quarter, and by a wide margin most of the time.

Strong growth in sales and profit

Canada Goose keeps having strong growth in sales and profit. In fiscal 2018, its total revenue increased by 46.4% to \$591.2 million. The company saw a big increase in direct-to-consumer revenue, which soared 121.3% to \$255 million and represented 43.1% of total revenue in 2018 compared to 28.5% in 2017.

This increase was driven by the strong performance of [e-commerce](#) sites and existing retail stores, including a full year of operations for Toronto and New York City stores. The retailer also earned incremental revenue from four new flagship stores and eight national e-commerce sites opened during the fiscal year.

Net income was more than four times higher in fiscal 2018 than in fiscal 2017, reaching \$96.1 million, or \$0.86 per diluted share. Adjusted EBITDA increased by 84.1% to \$149.2 million, and adjusted

EBITDA margin improved by 5.17% to 25.2%. Adjusted net income almost doubled to \$0.84 per diluted share.

High growth is still expected for the next three fiscal years, as shown by the following numbers:

- Average annual revenue growth of at least 20%
- Annual adjusted EBITDA margin of at least 26% in fiscal 2021
- Average annual growth in adjusted net income per diluted share of at least 25%

Geographical expansion and product diversification

Opening new stores is a key element of Canada Goose's growth strategy. The maker of \$1,000 parkas is able to have wider margins by selling directly to consumers than by selling through other retailers.

Canada Goose currently owns retail stores in seven cities, including London, Toronto, New York, Boston, Chicago, Calgary, and Tokyo, which is operated by its distribution partner. These stores complement the retailer's e-commerce business, which has expanded to 12 countries since 2014.

Canada Goose will continue its retail expansion by opening three new stores in North America this fall (in Vancouver, in Short Hills, and in Montreal). The luxury parka maker also has plans to expand in China this fall, including opening stores in Beijing and in Hong Kong, launching an e-commerce platform via **Alibaba Group's** Tmall, and establishing a regional head office in Shanghai.

The outerwear company wants to have up to 20 stores opened worldwide by 2020.

In addition to expanding geographically, Canada Goose is diversifying its products to increase sales and attract new customers. While its winter parkas are still very popular, the company now offers over 2,000 products, including jackets, winter accessories, outerwear for spring and fall, and, most recently, knitwear.

Canada Goose intentionally keeps its stocks low because [product scarcity](#) increases demand.

"We would rather be sold out than have too much product," said CEO Dani Reiss. "I feel that it's important that we make enough products but not too much product. It's a proven model. It's worked for us for years."

Indeed, by looking at the numbers, it is obvious that this scarcity strategy is working well. Canada Goose's success is not only based on the quality of its products, but also on its brand. There is a prestige associated with Canada Goose's brand. That explains why customers are willing to wait to get their hands on a Canada Goose's parka.

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Date

2025/08/24

Date Created

2018/07/30

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