



Does Canada Goose Holdings Inc. (TSX:GOOS) Have Farther to Fly?

Description

There's no question that **Canada Goose Holdings Inc.** ([TSX:GOOS](#))([NYSE:GOOS](#)) has been one of the biggest Canadian growth stories to emerge over the past two years.

Canada Goose stock has more than tripled from its early-2017 IPO price, and after shocking everybody with blowout Q4 fiscal 2018 results in a supposed quarter of seasonal weakness, even U.S. investors have begun to take notice of the fast-rising star. Even *Mad Money* host Jim Cramer is an apparent fan of the Goose and its promising long-term growth prospects under the excellent stewardship of Dani Reiss, who's starting to make a name for himself.

A ridiculous multiple for a clothing stock? But why?

Shares of Canada Goose have never been considered "cheap," and they likely never will be unless the broader market takes a nosedive.

Although I've never been a huge fan of "clothing stocks" due to the ridiculously uncertain nature of the fashion trends, I think Canada Goose is an entirely different beast that the likes of more generic retailers like **Aritzia Inc.** ([TSX:ATZ](#)) or **Roots Corp.**

High-end fashion retailers, especially Aritzia, are subject to an extreme level of seasonality and unpredictable fashion trends.

It's tough to judge which design will be "hot" in retrospect. Thus, inventory management could end up becoming a disaster if management deems a "hot" new design will be a hit among target audiences when it ends up paling in comparison to original expectations. This ultimately leads to excessive discounting of products, a blow to gross margins, and a slight erosion of brand prestige.

The reverse is also true, however. An article of clothing with modest expectations will be in short supply should the item be unexpectedly "hot" as in the case of the articles of Aritzia clothing that the Duchess of Sussex, Meghan Markle, dawned in the public eye.

Thus, what sets Canada Goose apart from a more volatile retailer like Aritzia?

The outerwear that Canada Goose provides is even more seasonal than Aritzia or even Roots. Canada Goose parkas are timeless and are less subject to sudden changes in fashion trends, however. So, there's a higher degree of predictability in spite of the increased seasonality.

When the cold season rolls in, you're going to need a big puffy jacket to keep warm. And typically, it's hard to look good in such a fat, bulky winter coat.

That is, unless you slap a Canada Goose logo on it! You'll not only look good, but the Canada Goose Arctic Program is iconic enough to start conversations.

Simply put, Canada Goose is a luxury product (or a Veblen good) that's able to expand upon its gross margin without experiencing a substantial drop in demand. Heck, demand will probably rise along with brand prestige if management were to hike prices on its priciest of parkas.

Moreover, while Canada Goose is perceived as a highly seasonal retailer, I think that over time the company will be able to lessen the magnitude of its cyclicalities, both through its international expansion efforts (it's always cold somewhere in the world!) and the expansion of its product line that will build upon revenues raked in during the spring and autumn months.

Foolish takeaway

While Canada Goose may be seen as a pure retailer of winter wear, investors ought to consider the global growth opportunity and the potential to leverage its [powerful luxury brand](#) to become more than just a retailer that'll post results in the winter months.

Moreover, Canada Goose has a level of brand prestige that money can't buy. Unlike most other companies selling a highly differentiated product, management hasn't funnelled cash into promos to bring about brand awareness. Instead, they've pulled the right levers and is now the unofficial winter coat of Hollywood productions.

With James Bond sporting Canada Goose jackets in films, prospective consumers at the international level now know about the Canada Goose brand, which I think sets the stage for a [profoundly successful international expansion](#).

Canada Goose is a buy here and now. Though if shares pullback further, I'd treat it as an opportunity to build a more sizable position.

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