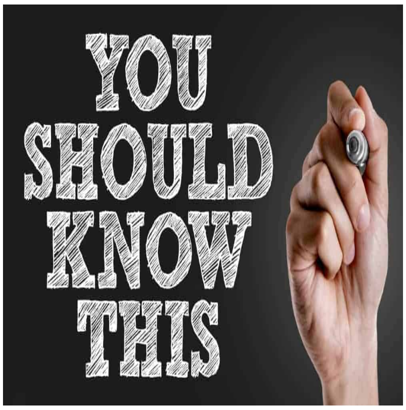

3 Takeaways From Canada Goose Holdings Inc.’s (TSX:GOOS) Impressive Q2 Results

Description

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) released its Q2 results earlier this week, which gave the stock a big boost. The company continued to beat expectations with yet another quarter of strong sales growth.

Revenue came in at $230 million and was up by more than 33% year over year. A strong top line has become par for the course for Canada Goose. However, there were three other things that stood out in the company’s financials.

Strong gross margin helped produce higher profits

Last year, the company’s gross margin was a little over 50%, while during this past quarter it had reached over 55%. A big reason for the improvement was that Canada Goose saw more sales from its Direct-to-Consumer (DTC) segment.

That’s also what could make these numbers go even higher, as DTC sales will eliminate many costs and enable the company to bank a higher profit on those items.

The improvement in both sales and gross margin enabled Canada Goose to overcome higher selling, general and administrative (SG&A) costs, which were up more than 60% year over year. Despite the increase in costs, the company’s operating income came in at 28.2% of sales compared to 28.0% last year.

Similarly, its profit margin also saw a modest uptick as well, with net income coming in at a shade under $50 million compared to $37 million a year ago.

Cash burn has increased

Although Canada Goose recorded a strong profit, in terms of cash, it used up a lot more in Q2 and had to draw on funds from its revolving line of credit.

Operating activities drained $18 million worth of cash in the quarter, an increase from $13 million a year ago. Canada Goose also spent double what it did in 2017 on investing-related activities, using up more than $12 million in Q2.

With more than $30 million in cash burned through before financing activities, Canada Goose had to use its revolving facility to ensure that it didn't run out of money.

However, despite the increase in liabilities, the company didn't see a big increase in its interest payments and its debt load appears to remain manageable.

Guidance revised

A big reason why the stock was up on earnings day was that Canada Goose upgraded its forecast for the year, now expecting even more growth than previously announced.

The company expects sales growth for the year to come in at 30%, as a stronger mix of DTC-related revenue have been very encouraging, and Canada Goose expects that strong performance will continue in future quarters.

Is the stock a buy on these results?

Prior to its earnings release, I wasn't sold on the idea of buying Canada Goose, and I'm still not today. While you could have made a good profit betting on the earnings beat, I still expect the stock to settle at under $80.

Short-term trading can provide quick results, but it's also risky and could lead to big losses as well. Over the long term, Canada Goose is an attractive buy, but its high price-to-earnings multiple makes me inclined to believe that it will come down in price sooner or later, especially with the markets struggling recently.

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djagielski