



Could Canada Goose Holdings Inc.'s (TSX:GOOS) Latest Stock Offering Cause Near Term Price Weakness?

Description

Canada Goose Holdings Inc. ([TSX:GOOS](#))([NYSE:GOOS](#)) stock traded 5.6% lower on Tuesday after the company announced a secondary offering of 10 million subordinated voting shares on behalf of certain of its shareholders who include corporate insiders. Could the stock experience further weakness as a result of this latest increase its free float?

Canada Goose is a fast growing premium apparel manufacturer that is closely held and under the full control of two main controlling investors, namely Bain Capital Entity and Dani Reiss, the company's president and CEO who jointly hold 92.61% voting control in the company.

The company will not receive any money from this secondary offering, as all proceeds will go to the selling shareholders.

Who are the sellers?

The two controlling shareholders (who also represent some affiliates) hold nearly 61 million multiple voting shares in the company, and will hold just over 51 million of the same shares after the latest selling exercise, allowing them to retain 89.69% voting power in the company. Unlike subordinated voting shares which have one vote each, multiple voting shares have 10 votes per each share.

Bain Capital, a private investment firm that specialises in private equity and venture capital investments, among others, is the major investor in Canada Goose, holding multiple voting shares with 59.77% voting control. The investor is selling 8,490,000 shares and will retain 54.29% voting power.

Company President and CEO Dani Reiss, who is also the grandson of Canada Goose's founder, beneficially controls 32.84% voting power in the firm and is selling just 1,500,000 shares, but will enjoy increased control to 35.40% voting power after the offering, as Bain Capital is selling more than he is.

The third seller is Jean-Marc Hu?t, a director in the company who is disposing 10,000 subordinated voting shares.

Should investors read much from this insider equity sale?

It seems that Bain Capital is implementing a staggered portfolio exit strategy with this latest stock sale. Private equity investment firms usually don't hold their positions forever, as their silent partners usually have short- to medium-term investment horizons. A stock initial public offering (IPO) is one of the preferred exit strategies, as happened with Canada Goose last year (verify) and I believe the investor is now liquidating their position in Canada Goose after a very successful run.

The sale is being conducted soon [after a very strong quarter](#) and a 113% share price rally this year, presenting Bain Capital portfolio managers with a hard-to-miss profit taking window.

The CEO's family is getting even more voting control as Bain Capital makes a staggered exit from the family business, so the "small" divestment could be for any other family or strategic reasons and nothing to do with any fear of future business weakness.

That said, the secondary stock offering could cause some near term price weakness on the shares.

Beware the increased float

The addition of 10 million more subordinated voting shares into public hands will increase the amount of shares available on to trade on the open market (the free float) by 20.6%, unless the fresh shares are bought by institutional investors who usually open long-term positions.

The increase in the free float, while good for market depth and trading attributes of the stock, could also dampen volatility and share price growth on the ticker. New investors who place market orders on Canada Goose shares will find more shares available to buy, so relatively speaking, the rallies will not be as rapid as they might have been previously.

Having a very high concentration of a company's stock in the hands of just a few, non-market-active investors may not be so desirable on any stock. One such example is **Tilray Inc.** stock, which has seen massive unusual price swings due to a severely limited available float as Privateer Holdings, the major shareholder with an 82% stake in the cannabis stock still a lock-up period to observe.

Investor takeaway

A recent revenue and earnings beat as well as better management guidance significantly lifted Canada Goose's share price, and there could be no better timing for a private equity fund to take profit while winding down a successful investment position. The recently announced secondary offering is seemingly a normal staggered exit strategy for Bain Capital after reaching its investment horizon targets but there could be some short term price weakness on the ticker as a new share supply hits the market.

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