Is Canada Goose (TSX:GOOS) Expanding at the Right Pace?

Description

The opening of **Canada Goose's** (TSX:GOOS)(NYSE:GOOS) second store in China finally happened December 28 after several weeks of delays. It seems that even efficient places like China have construction delays like the ones here in North America.

It didn't help that the store was opening in the midst of an international trade dispute that put Canada smack dab between our neighbours to the south and the Chinese.

No matter. The Chinese buyers lined up in the cold to buy the company's expensive winter jackets. Perhaps some of them were lucky enough to try one on while waiting in line.

As the Fool's David Jagielski commented December 31, the strong response at the store opening despite the potential of a Chinese boycott did a world of good for a stock price that had struggled mightily heading into the end of the year.

As far as stocks go in the **S&P/TSX Composite Index**, Canada Goose is my pick to be the index's top performer in 2019.

My rationale is simple: it has a trifecta of growth (wholesale, online, and brick-and-mortar) that will continue to deliver double-digit revenue and net income growth this year and for many years to come.

A possible concern

Other than a global recession hitting in 2019, which is unlikely, the question mark some investors might have is whether the company is expanding its retail network at a fast enough pace.

Consider that Canada Goose opened its first retail store in October 2016 at Yorkdale Mall in Toronto. It opened its first U.S. store three weeks later in New York City. It finished 2016 with two retail stores in two of North America's largest cities.

Since then, Canada Goose has added 10 flagship stores in Calgary, Vancouver, Montreal, Boston, Chicago, New Jersey, London, Hong Kong, Beijing, and Tokyo.

With the average store about 4,000 square feet, Canada Goose has added 40,000 square feet of retail space over the past two years; by comparison, **Lululemon** opened 22 net new stores between February and October of last year.

With the average LULU store approximately 3,100 square feet, the athleisure champion added 91,000 square feet on an annualized basis, more than double what Canada Goose did in 24 months.

To be fair to Canada Goose, Lululemon didn't start out selling most of its product wholesale as GOOS did; LULU's original business model included some wholesale, some franchised retail locations, but company-operated stores were always the growth driver, and that's especially true today.

It's not easy to switch horses from wholesale to retail, two entirely different beasts, so CEO Dani Reiss and his management team have elected to open fewer stores in major cities around the world, using them as advertising vehicles for online and wholesale sales.

It's a bright idea

It's a contrarian move to be sure, but it severely reduces the amount of money the company has to spend on store openings — with a cost in the millions, they're not cheap — leaving lots of its cash flow for further product development and technology innovation across the entire Canada Goose network.

"What's important to us is that we don't open too many stores," Reiss said last May. "It's important to us that they are all strategic, that they are all in the right place, and they are all well positioned to be profitable."

By 2020, Canada Goose will have 20 flagship stores to tell the Canada Goose story.

Is it expanding at the right pace?

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