Is Canada Goose (TSX:GOOS) a Buy After Crashing 31% Yesterday?

Description

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) had a dreadful day on Wednesday when its share price hit a new 52-week low. By the close of the day, Canada Goose fell as much as 31%.

What happened?

The company released its year-end results on Wednesday, which obviously didn't impress investors. Sales of $156 million for the quarter were up 25% year over year. And while that'a strong number, it's nowhere near the 50% growth that the company achieved back in Q3 when sales came close to hitting $400 million.

This was also the first time since going public that Canada Goose has missed on revenues that analysts were expecting for the company.

The story of its impressive, high growth has hit a big roadblock. The reality of it is that the company was never going to be able to keep going at the pace that it was, constantly beating expectations. It was due for a miss, and on Wednesday it finally happened.

Trading at high multiples of both earnings and book value, Canada Goose has been attractive to investors primarily for the strong growth that it has achieved and that it continues to expect. And so when there's a big decline in growth rate, that's definitely going to attract some negative attention.

Whether it is an overreaction by investors or a sign of a much larger correction that's to take place is something we'll find out in the weeks and months to come.

Canada Goose didn't do too well further down the income statement either

It wasn't just sales that were a disappointment, but the company's pre-tax profits were also down around 28%. Despite a stronger gross margin of 66% this quarter compared to 63% a year ago, it wasn't enough to offset the increase in selling, general, and administrative costs, which rose by 40% year over year.

And with the company looking to expand its retail operations, these expenses might climb at a higher rate in future quarters. While its growing direct-to-consumer segment has a lot of potential for growing sales and generating high margins, that can be negated by costly retail operations with significant overhead.

That's one of the reasons I'd still be concerned about the company's prospects in future quarters, as costs could become more burdensome and if sales aren't strong enough to offset the increase in expenses, it could make for a problematic bottom line.

Should investors buy the stock after this fall?

Any time a stock take such a deep drop in price, it becomes attractive to bargain hunters that think it will bounce back after the sell-off. And while that's certainly possible, there's also the possibility that it will lead to a much bigger correction.

Canada Goose's stock has been very expensive for a long time, and the revenue miss and soft growth number might be the reality check that has investors adjust the multiples they're willing to pay for the stock. What will be telling is the company's next-quarter results. A strong quarter could suggest this was an anomaly, while another weak one could confirm investors' fears that the days of astronomical sales growth may be behind the company.

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