Why Canada Goose (TSX:GOOS) Stock Is Down 5% Today

Description

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) released its quarterly results this morning, and investors weren't impressed, sending the stock down 5% in trading this morning.

Sales of $71.1 million were up 59% year over year, which is a big improvement from Q4 when the company showed much more modest growth in its top line.

However, the company did post a bigger loss during this past quarter, coming in at $29.4 million compared to $18.7 million in the prior year.

Higher costs overshadow strong sales numbers

One of the reasons that Canada Goose had a weaker bottom line this quarter was that the company's gross margin of 58% was noticeably smaller than the 64% it was able to achieve a year ago.

Although Canada Goose still was able to grow its gross profit, it meant that less of the incremental sales flowed through to cover its operating expenses.

And operating expenses, unfortunately, continued to climb at a very high rate.

Selling, general and administrative expenses of $57.5 million were up more than 27% year over year, which is something we can expect to continue to see from the company as it looks to expand its retail footprint. Depreciation and amortization costs were also up $7.5 million from the year before.

In total, operating expense rose by $19.9 million and more than offset the $12.3 million increase in gross profit. To make matters worse, the company's operating loss of $27.4 million soared to a $39.7 million pretax loss as interest and finance costs drove Canada Goose even deeper into the red.

The $12.2 million expense was nearly quadruple last year's tally of just $3.1 million. Had it not been for a large income tax recovery of $10.3 million this quarter, Canada Goose's loss could have been much bigger.

Despite the loss, however, what seems to have analysts more concerned was that Canada Goose seemed conservative and didn't raise its guidance despite the strong quarterly sales numbers.

No change in guidance a cause for concern?

One of the reasons analysts are concerned is that the company is only forecasting sales growth of 20%, which given this quarter's numbers, certainly looks conservative.

However, CEO Dani Reiss was dismissive of the idea, pointing out that the quarter is normally the company's weakest over the course of the year.

Nonetheless, that still had analysts worried as one of the challenges with being a growth stock is always continuing to grow and by not raising its outlook, especially from a modest target for the year, signalled concerns for investors.

Bottom line

The markets as a whole have been struggling as of late and with the company being conservative in its outlook coupled with trade concerns involving China, investors may be concerned about what the future may hold for Canada Goose.

After all, last year we saw how quickly the stock plummeted when China-related issues that had nothing to do with the company had a big impact on its share price.

Overall, Canada Goose is still one of the top growth stocks on the TSX, but with it still trading at some high multiples to earnings, I would need to see it fall further in price before considering it a good buy.

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