Why Canada Goose Stock (TSX:GOOS) Fell 19.7% in August

Description

For **Canada Goose Holdings Inc**. (TSX:GOOS)(NYSE:GOOS) stock and stockholders, August was a month to forget. The consumer discretionary sector in general was flat during the month as economic uncertainties continued to weigh on the stocks, but it was even worse than that for Canada Goose, which plunged 19.7%.

Let's take a look at the stock's performance in August, what drove this performance, and the implications for the future.

Disappointing results take Canada Goose down

During the month of August, we saw the company report first quarter fiscal 2020 results that were quite disappointing in terms of gross margins — and ultimately bottom line results. Let's take a look at these results and see what they mean for the company and for the stock.

First off, the top line was once again super impressive. Revenue growth of 59% was underscored by strong international gains and an almost doubling of non-parka revenue. Non-parka revenues is a key component of the company's long-term strategic direction, as this diversification will work to increase the likelihood of future success and sustainability. (We'll talk more about this later.)

Moving down from the revenue line, we come to gross profit and gross margins. Canada Goose reported a gross margin of 57.5% compared to expectations of north of 61%. This miss can be attributed to the fact that Canada Goose remains a growth story, with new products and categories making the company vulnerable to start-up inefficiencies. Management has assured investors that long-term gross margins should be close to long-term historical levels.

The company reported a net loss per share of $0.21, which was also worse than expected and worse than the same period last year. Recall that the seasonality of the company's results show that Q1 is its worse quarter.

Evidence suggests and estimates are calling for continued strength for Canada Goose, almost 30%

growth in earnings for this year and almost 25% growth for next year.

While the stock was taken down in August, this is not a reflection of problems at the company, but a lofty valuation that was really bound to come down. So this at least has left Canada Goose stock a little more attractively valued for investors considering taking a position in this high flyer.

Canada Goose stock valuation taken down

Currently trading at 30 times this fiscal year's expected earnings, Canada Goose is certainly more attractively priced than in the past when it was trading at north of 40 times earnings. But keep in mind, a 30 times multiple on a highly cyclical retail stock remains high, putting Canada Goose stock in a high risk category.

As we have seen, any disappointment will take the stock sharply lower, and investors who invest in it should be able and willing to withstand these price swings.

The business remains strong

Despite the issues with the gross margin in the latest quarter, Canada Goose's business remains strong and the long-term future looks bright. The company's product offering continues to expand, with the outerwear category bringing in new styles.

Introducing outerwear with new uses for various climates (fall and spring). Rain wear, wind wear and knit wear are natural expansions to the company's product line, and this is a key area of growth.

Beyond this, the company is contemplating entering the footwear space, and expanding its product offering with mittens and hats, among others. A successful direct-to-consumer, e-commerce strategy has enabled the company to achieve strong global reach. Europe and China remain underpenetrated and represent strong growth areas.

Foolish bottom line

The month of August has certainly provided Canada Goose shareholders with much stress, but for those investors who have been eying the stock and waiting for a pullback, things are looking better today.

The stock's valuation is more attractive, its business continues to perform exceptionally well, and the future looks bright as geographic and product diversification continue.

The easy money may have been made, but Canada Goose stock can still be expected to be a long-term outperformer.

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