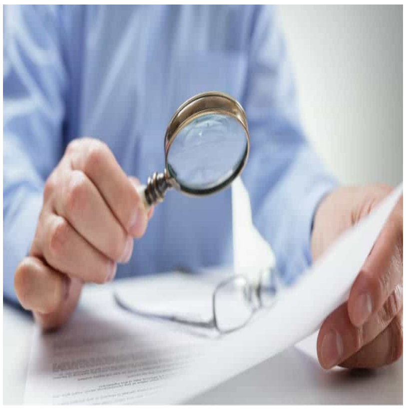

Why Canada Goose (TSX:GOOS) Stock Slumped Yesterday

Description

Shares of Canada-based luxury retail brand **Canada Goose** (TSX:GOOS)(NYSE:GOOS) fell close to 11% yesterday. Canada Goose announced its fiscal second quarter of 2020 (year ending in March) results on November 13 and reported sales of $294 million with earnings of $0.57.

In the prior-year period, Canada Goose reported sales of $230.3 million and EPS of $0.46. Analysts estimated the firm to report sales of $267.32 million and EPS of $0.43 in the September quarter.

Canada Goose also reiterated its fiscal 2020 outlook. The company forecasts earnings growth of at least 25% and sales growth of at least 20% in fiscal 2020. So, why did the stock lose market value, despite beating consensus estimates and providing solid guidance?

Expansion in Asian markets

Canada Goose attributed the strong revenue growth to its exceptional performance in Asia and the United States. While sales in Asia rose from $26.6 million to $48.9 million, sales in the U.S. rose 38.5% on a constant-currency basis for Canada Goose.

Company CEO and president Dani Reiss stated, “Our performance in the first half reflects the strength of our brand and power of our unique business model. Through global brand equity, selective distribution and operational flexibility, we delivered another set of strong results despite continuing external uncertainties. Alongside continued growth at home, we are making great strides internationally, and we believe we are well positioned going into our peak selling season.”

Direct-to-consumer sales were up 47% to $74.2 million driven by incremental sales from new retail stores. Wholesale revenue grew 22% to $219.8 million due to an increase in order value from existing customers.

While sales rose 27.7%, gross profit was up by 24.8% year over year in the September quarter. Operating profit was up 16% year over year and rose to $75.4 million. Canada Goose claimed that operating profit was impacted by costs associated with larger store openings in the September quarter.

Pre-opening store costs were $3.6 million in the fiscal second quarter of 2020.

Canada Goose's gross profit margin fell from 55.8% in the second quarter of 2019 to 54.6% in the second quarter of 2020. Its operating margin fell from 28.2% to 25.6% in the same period.

Is the pullback an opportunity for investors?

Canada Goose stock was driven lower after the company beat consensus estimates in the first quarter of fiscal 2020. Despite a revenue beat in the last two quarters, Canada Goose has not increased its 2020 forecast.

Though the company is erring on the side of caution, investors might be worried that a tepid holiday quarter might result in lower-than-expected revenue. Further, a slowing Chinese economy might severely impact the company's ability to drive sales in the fiscal third quarter, especially in Asia, which is its fastest-growing market.

While analysts expected the company's aggressive expansion efforts to result in lower profit margins, the company still managed to beat consensus estimates in the September quarter.

It might seem like investors are more concerned over Canada Goose's ability to end FY 2019 on a high rather than a fall in profit margins. Several companies sacrifice margins for robust sales, and Canada Goose is no exception.

Canada Goose stock is trading at $46.13, which is 50% below its 52-week high. Despite the massive pullback in the last year, the stock has more than doubled since it went public in March 2017.

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