Is Top Growth Stock Canada Goose a Buy Today?

Description

The retail sector has been under major pressure the last few years as growth in online shopping — an already competitive industry — has caused a lot of companies' businesses to be impacted.

This naturally caused a major selloff throughout the industry as investors fled the sector in light of the catastrophe that lay ahead.

Although a fair number of companies have survived and remained robust, adapting to the new environment, an equal number have gone bust.

Some companies, such as **Aritzia** have thrived, however, so how has **Canada Goose Holdings Inc** (TSX:GOOS)(NYSE:GOOS) been able to fare?

Canada Goose, although its business is slightly different from that of Aritzia, is still facing the same industry challenges that Aritzia and all other fashion retailers are facing.

Heavy competition from other retailers in addition to the competition from online shopping is making these companies work extremely hard to ensure their success, and thus far, Canada Goose has been up to the challenge.

Its business is divided into two main segments: direct-to-consumer and wholesale selling of its apparel. Its products are sold in 49 countries worldwide and the company has more than 2,225 wholesale distribution locations.

This has been key in Canada Goose getting its product to markets on a global scale in order to sell its high-end products to many countries demanding high-quality winter apparel.

Each segment of Canada Goose's business is paramount to the success of the company long term, as its fiscal 2019 revenue, which was $831 million, was dividend almost completely evenly among each segment.

The direct-to-consumer business accounted for 52% of its sales and wholesale accounted for the other

48%. Notably, its revenue is fairly evenly distributed globally as well, with 35% of revenue coming from Canada; 30% coming from the United States; and the other 35% from the rest of the world.

The company's ability to compete online with its direct-to-consumer segment growing rapidly and contributing to most of Canada Goose's growth has been crucial to maintaining its long-term survival in the industry.

From fiscal 2017 to fiscal 2019, direct-to-consumer sales grew from $115 million to $431 million, a 275% increase or a 93.6% compounded annual growth rate (CAGR). Compare that to its wholesale segment that grew from $289 million to $399 million in the same period — growth of 38% or a CAGR of 17.5%.

The growth in both its segments, but specifically its direct-to-consumer segment, propelled Canada Goose's total sales from $404 million in 2017 to $831 million in 2019, growth of 106% or a CAGR of 43.4%.

Although it's extremely impressive to see these growth rates, what I find most impressive is that in just two years, Canada Goose was able to grow its direct-to-consumer share of revenue from just 28% in 2017 to roughly 52% as of fiscal 2019.

This shows that Canada Goose has been strong enough to weather the storm when it comes to online shopping, and in fact is actually using this new trend to help grow its business.

In many ways, this is similar to Aritzia and one of the reasons why that company has been so successful.

In addition, as the company has grown its sales, it's also grown its margins. This is very promising to see for investors, and shows that Canada Goose will only continue to become more profitable with scale.

From a valuation standpoint, the stock is still a little expensive, trading at more than 5.1 times sales and more than 30 times earnings, but if Canada Goose can continue that rapid growth, its current price could actually be undervaluing the company in no time.

While I wouldn't buy a stock like Canada Goose just yet, I'm going to be watching it very carefully. If there's any pullback in the stock offering a major discount or strong new earnings, the stock could become a buy very soon — and reward investors for years to come.

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