Why Canada Goose (TSX:GOOS) Stock Tanked 6.7% Yesterday

Description

Shares of high-end retailer **Canada Goose** (TSX:GOOS)(NYSE:GOOS) fell over 6.5% on August 14, 2019. Canada Goose reported its fiscal first quarter of 2020 (ended in June) results on August 14, 2019.

It reported sales of $71.1 million in the first quarter, a rise of 59% year-over-year. Adjusted earnings per share (EPS) was -$0.21. In the first quarter of 2019, Canada Goose reported sales of $44.7 million and EPS of -$0.16.

Analysts expected Canada Goose to report sales of $54.38 million and earnings of -$0.24 in the first quarter. So, why did the stock fall despite crushing revenue estimates and beating earnings forecast?

Though Canada Goose managed to grow revenue significantly in the first quarter, the company maintained its revenue guidance for 2020.

Does this mean that Canada Goose expects lower than estimated sales in the upcoming quarters or is it just a conservative approach from the management?

This conservative outlook was not well received by investors sending Canada Goose's stock lower. Apparently, investors were also unimpressed with Canada Goose's widening loss.

The company posted a net loss of $29.4 million in the first quarter, compared to a net loss of $18.7 million in the prior-year period.

What drove Canada Goose's sales in the first quarter?

Canada Goose achieved revenue growth across geographies. Sales rose 40.4% in Canada and 15.8% in the United States.

However, international markets experienced robust growth as overseas sales rose by 79.7% in the first quarter. International growth was driven by Asia as sales more than tripled to $18.1 million.

Asia accounted for 25.5% of total sales in the first quarter, way above 13.6% of total sales in the prior-year period.

Company CEO and President Dani Reiss stated, “Fiscal 2020 is off to a great start with a strong performance in our first quarter, which delivered growth in every geography.

As we continue to invest in capacity, we are well positioned to capitalize on the strong demand we see across our business.

The affinity and desire we have seen for our seasonally relevant lightweight offerings tells us our product expansion is working, and combined with the volume of highly engaged consumers looking to get ahead of the upcoming fall/winter season, we believe our business has never been stronger as we report our smallest fiscal quarter.”

Lower profit margins impacted the bottom line

Canada Goose ended the first quarter with a gross margin of 57.5% which was significantly lower than the gross margin of 64% in the prior-year period.

So, while sales growth of 59% increased total gross profits, it could not offset the increase in operating expenses due to higher manufacturing costs.

The company is increasing operating expenses as it continues to expand into international markets. This increased selling, general and administrative expenses by 27% year over year for Canada Goose. Canada Goose’s operating expense rose by $19.9 million and was more than the $12.3 million increase in gross profits, widening the overall loss for the firm.

While first-quarter loss for Canada Goose widened, analysts expect the company to improve bottom-line by 25% in 2020 and 2021.

Its sales are also estimated to grow at a solid rate (over 20%) going forward. Canada Goose remains a decent bet given that the stock is trading 44% below its 52-week high.

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araghunath