

11/17/18

## Canada Goose: (GOOS)

Sam Gerardi

Sector: Consumer Discretionary

Industry: Apparel

Current Price: 70.05

Target Price:

Canada Goose Holdings Inc. operates as a holding company. The Company, through its subsidiaries, designs, manufactures, distributes, and retails outerwear for men, women, and children. Canada Goose Holdings serves customers worldwide.

### BUY

Current Price: \$92.18  
Target Price: \$106.17  
Market Cap: \$10.1B  
Net income Margin: 16.5%  
Default rating: bb+  
SI ratio: 4.03  
Trade volume: 3.18M



**Thesis:** Canada Goose is creates some of the best winter outerwear in the world. GOOS is a brand with rich heritage and places an emphasis on sustainable, humane sourcing of its materials. This paired with a strong vision on where the company is going in the future as allowed this company to grow at an impressive rate and shows no sign of slowing down.

### Catalysts:

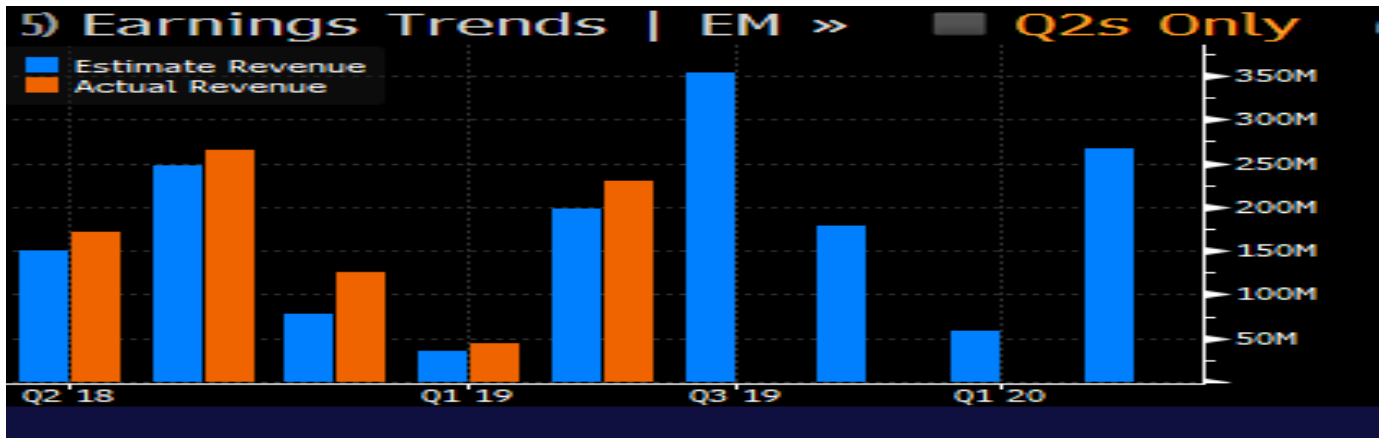
- Successfully incorporate the Baffin acquisition to create a footwear line
- Opening a new stores in China and Hong Kong
- Push more sales through their DTC channels to help reduce operational costs.

### Earnings Performance:

GOOS financials speak for themselves. With a simple average for year over year growth of 40.7% since 2016, GOOS has been expanding very rapidly and moving into new markets such as Hong Kong and China, which has proven very successful. Their revenue has gone from \$152.1 million in 2017 to \$179.9 million for their wholesale channel. Their total revenue has gone up 33.7% since the last quarter to \$230.3 million. Their direct to customer (DTC) revenue has also increased to 50.4 million from 20.2 million a year prior. This is significant because this represents 21.9% of their total revenue compared to 11.7% a year prior. GOOS gross margin has gone up to 55.8% from 50.6% last year. This was primarily due to the higher

proportion of DTC revenue as well as underlying gross margin expansion in each respective channel. GOOS also saw gross margin expansion in their wholesale channel to 50.4% from 47.5%. This was driven by production efficiencies from manufacturing and reduction of duties on goods sold due to the CETA Trade Agreement between Canada and the EU. The gross margin for their DTC channel has increased as well. It went from 73.8% last year to 75.2%. GOOS operating income was \$80.1 million and operating margin of 45% this year, which is a sizable increase from the 60.1 million or 39.5% a year prior. GOOS DTC operations has seen the most significant increase in the past year. In 2017, DTC operating income was 6.6 million with an operating margin of 32.4%. Compare this to the 22.7 million and 45% margin, their DTC channel has now become a crucial portion of their business. A review of the firm's most recent quarterly results indicates that GOOS is seeing strong growth in its DTC revenue and continued and significant gross margin increase, which it attributed to its DTC growth. DTC allows the firm to avoid markdowns necessary to sell through distributors or retailers. Lastly, their EBITDA saw a material increase from 73.9 million in 2017 to 153.9 million in 2018, which is a 26% increase year over year.

11) Adj Highlights		12) GAAP Highlights		13) Earnings	14) Enterprise Value	15) Multiples	16) Per Share	17) Stock Value	
In Millions of CAD		2015 Y		2016 Y	2017 Y	2018 Y	Current/LTM	2019 Y Est	2020 Y Est
12 Months Ending		03/31/2015	03/31/2016	03/31/2017	03/31/2018	09/30/2018	03/31/2019	03/31/2020	
	Market Capitalization	-	-	2,256.7	4,672.8	10,109.9			
	- Cash & Equivalents	5.9	7.2	9.7	95.3	32.2			
	+ Preferred & Other	54.9	56.9	0.0	0.0	0.0			
	+ Total Debt	111.4	139.5	146.1	137.1	262.8			
	Enterprise Value	-	-	2,393.1	4,714.5	10,340.5			
	Revenue, Adj	218.4	290.8	403.8	591.2	665.6	800.3	997.3	
	Growth %, YoY	-	33.2	38.8	46.4	44.5	35.4	24.6	
	Gross Profit, Adj	88.6	145.6	212.1	347.6	404.4	504.2	648.5	
	Margin %	40.6	50.1	52.5	58.8	60.7	63.0	65.0	
	EBITDA, Adj	36.0	52.7	73.9	153.9	168.1	220.1	281.8	
	Margin %	16.5	18.1	18.3	26.0	25.2	27.5	28.3	
	Net Income, Adj	18.9	27.3	41.4	97.8	103.2	139.7	181.1	
	Margin %	8.6	9.4	10.3	16.5	15.5	17.5	18.2	
	EPS, Adj	0.18	0.27	0.40	0.88	0.92	1.23	1.58	
	Growth %, YoY	-	45.9	50.7	116.6	86.3	40.4	28.2	
	Cash from Operations	5.0	-6.4	39.3	126.2	47.0			
	Capital Expenditures	-3.8	-15.1	-15.8	-26.1	-26.1	-59.3	-58.1	
	Free Cash Flow	1.1	-21.5	23.5	100.1	20.9	96.3	138.8	
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## Competitive advantage

Canada Goose creates some of the best winter clothing in the world. Their legacy has been decades in the making. From their humble beginnings in 1957 where the company was initially created under the name Metro Sportswear to 1982 when Metro Sportswear created a custom parka for Laurie Skreslet that allowed him to be the first Canadian to summit Mt. Everest, this company has been predicated on performance and function. This is what sets GOOS apart from the rest of the crowd. GOOS specializes in creating the best cold weather gear in the world and their dedication to their craft and passion for creating the highest quality product possible has allowed this company to grow and prosper while others have fallen short. GOOS has managed to create a timeless product while still innovating and pushing the limits of what is possible for a clothing company. The one chink in GOOS's armor was that it only sold one type of product. This changed with the acquisition of Baffin. Baffin designs and manufactures performance outdoor and industrial footwear. GOOS is making a sensible play to significantly expand its offerings with the logical addition of Baffin's high-quality outdoor footwear. This acquisition will allow GOOS to branch out of its typical product mix of just outerwear and bring their passion and expertise to the footwear industry. With the lucrative deal of this acquisition for 24.77 million, this creates the perfect point of entry into this market. This along with Baffin's emphasis on quality and performance, this was a great strategic move to not only diversify their product mix, but now have the potential to make waves in the footwear industry.

## Threats

GOOS has to find a fine balance between expanding into new markets to capture more market share while also maintaining product scarcity which is the main factor in the price point of these products. If there is a negative sentiment for the brand or any negative publicity that could detract from the brand could be a major cause of concern. This is due to the fact that the products GOOS produces are premium and scarce. If there is, for example, counterfeit products in the market, this would detract from their quality standard and cause the market to see these products as untrustworthy, thus not allowing GOOS to sell their products at the price points that has allowed them to grow and expand so rapidly.

Addressing the issues stated before, GOOS is highly concentrated in one area of sales, premium outerwear. GOOS is not currently diversified and consists primarily of designing, manufacturing and distributing premium outerwear and accessories. In fiscal 2017, their main product category across all seasons, our jackets, was made up of over 100 styles and comprised the majority of their sales. Consumer preferences often change rapidly. Therefore, GOOS's business is substantially dependent on our ability to attract customers who are willing to pay a premium for their products. Any future shifts in consumer preferences away from retail spending for premium outerwear and accessories would also have a material adverse effect on their results of operations.

Another cause for concern is since GOOS's products are sold at premium prices, any down turn in the economy that would limit discretionary spending could have a material impact on the company's continued growth and profitability.

Lastly, a major hurdle for GOOS is their own success. Canada Goose has had an explosion in growth since 2013. If GOOS's operations continue to grow, they will be required to continue to expand their sales and marketing, product development, manufacturing and distribution functions, to upgrade our management information systems and other processes, and to obtain more space for our expanding administrative support and other personnel. If any of these steps are mismanaged, this could have a material effect on their sales and brand image.

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## Ownership:

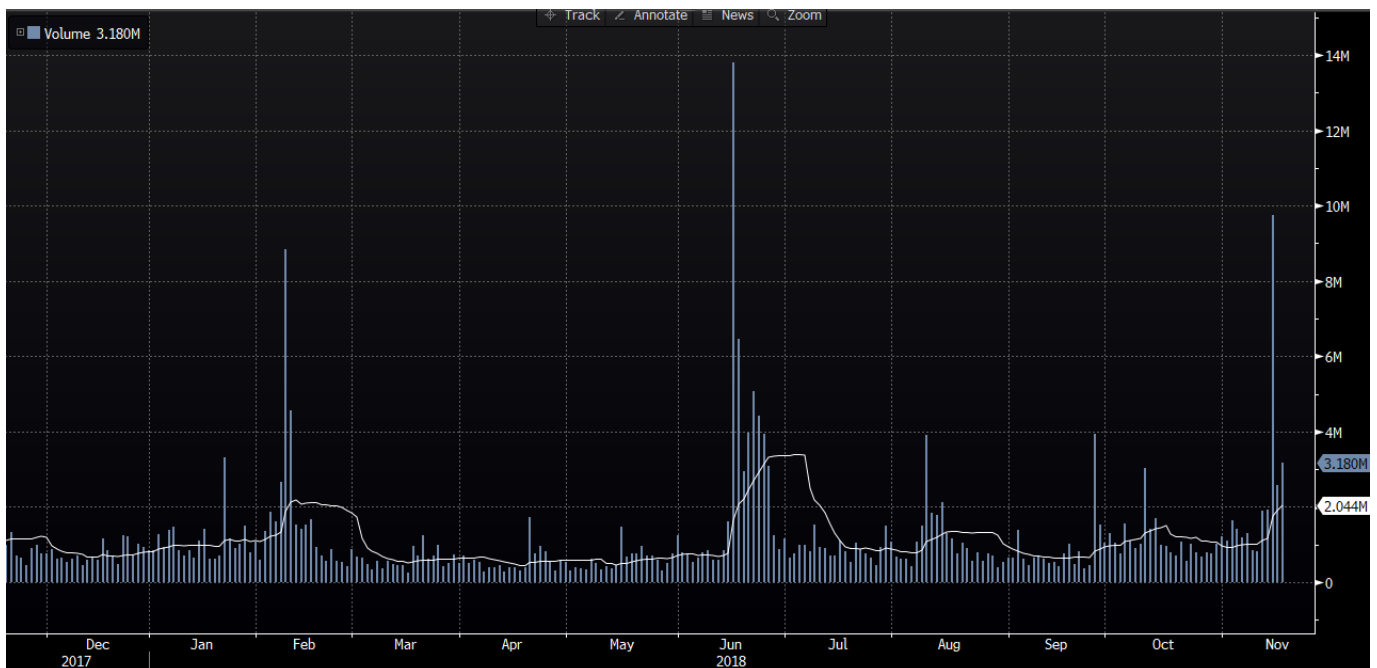
The ownership of GOOS is primarily in the U.S and Canada with 68.48% and 11.38% respectively. Coming in at a close third is Bermuda at 11.3%, This consists of just Fidelity International, which I assume is using Bermuda for tax purposes.

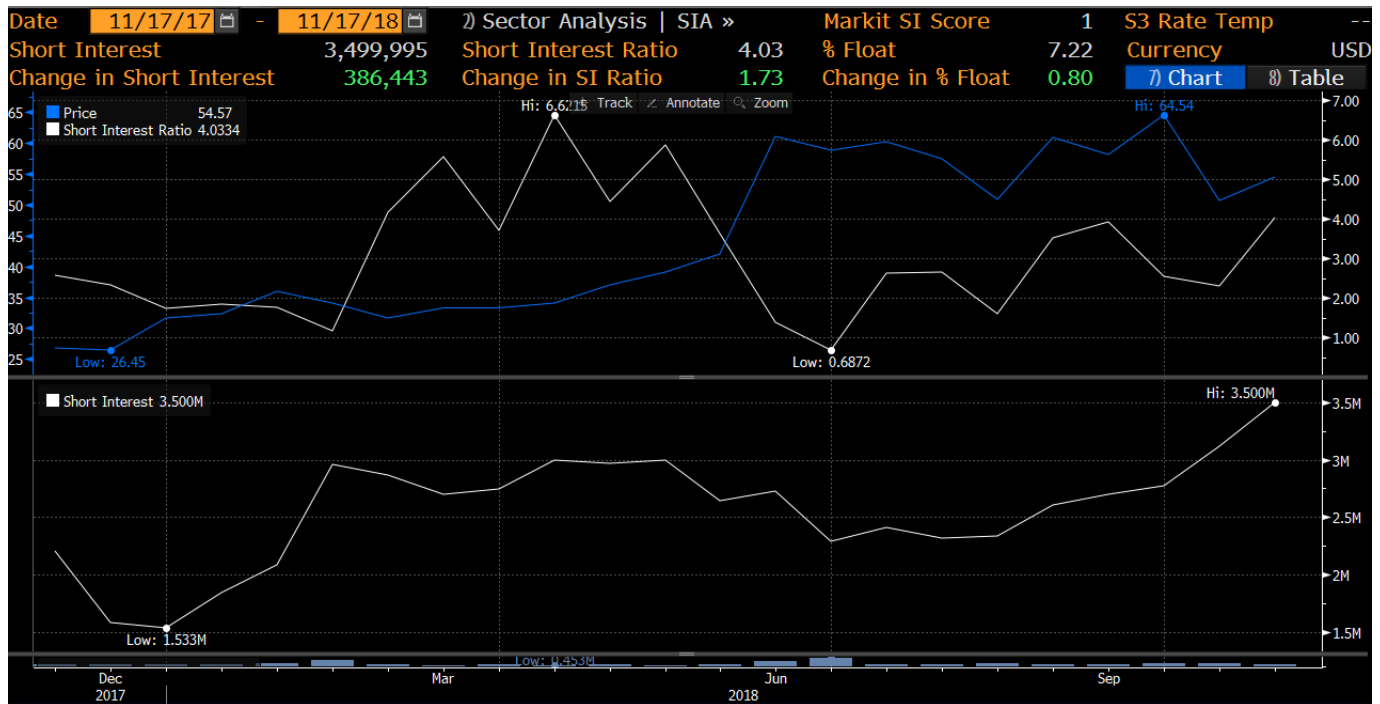
One area that raised some eyebrows is the 7.89% decrease in hedge fund manager position. I do see this as a negative because the timing of the selloff. After the Q2 earnings call, the price jumped from 57.09 to over 70 dollars a share. I believe the hedge funds wanted to capitalize on the capital gains from that 19% jump in price. So although concerning at first, this is not a reaction to an issue with GOOS, just the hedge funds realizing some capital gains.

The average trade volume for GOOS is around 3.2 million shares a day, which is about 6.25% of the float. This makes GOOS a fairly liquid security. Trade volume tends to spike around earnings calls, which means that if there is a missed projection, it could have a major negative impact on the company's value. For the past 2 years, GOOS has beat most of their projections, which is why the price has appreciated so rapidly.

Lastly, the short interest is a thing of note. Currently 7.22% of the shares in the float are short with a short interest ratio of 4.03. This has been trending up marginally since August. I believe that this is because of how fast this company is growing, that supply of the materials needs can be strained in order to meet the demand for their products. With this rapid expansion, only time can tell if GOOS manages this growth responsibility.

51) Institutional				52) Insider			
	11/11/18	Curr	Change		11/11/18	Curr	Change
11) % of Shares Held	97.15	100.36	+3.21%	21) % of Shares Held	0.29	0.29	0.00%
12) % of Float Held	97.43	100.64	+3.21%	22) % Chg Insider Positions	+0.00	+0.00	0.00%
13) # of Institutions	272	263	-3.31%	23) # of Insiders	3	3	0.00%
14) # of Buyers	81	83	+2.47%	24) # of Buyers Opn Mkt	0	0	
15) # of Sellers	74	80	+8.11%	25) # of Sellers Opn Mkt	0	0	
16) # of New Buyers	76	64	-15.79%	26) # of Shrs Bought Opn Mkt	0	0	
17) # of Selloffs	30	50	+66.67%	27) # of Shrs Sold Opn Mkt	0	0	
18) % Chg in Inst Positions	+31.22	+6.60	-24.62%	28) Avg Opn Mkt Buy Price	0	0	0.00%
				29) Avg Opn Mkt Sell Price	0	0	0.00%
Top Geographic Ownership (%)				Top Ownership Type (%)			
53) Geographic	11/11/18	Curr	Change	54) Ownership Type	11/11/18	Curr	Change
31) UNITED STATES	67.48	68.34	+0.86%	41) Investment Advisor	78.36	86.35	+7.99%
32) CANADA	11.38	12.91	+1.53%	42) Hedge Fund Manager	12.49	4.6	-7.89%
33) BERMUDA	11.3	10.93	-0.37%	43) Other	2.74	2.65	-0.09%
34) Unknown	3.02	2.92	-0.10%	44) Sovereign Wealth Fund	1.95	2.42	+0.47%
35) NORWAY	1.92	1.86	-0.06%	45) Pension Fund	1.35	1.36	+0.01%
36) UNITED KINGDOM	2.27	1.24	-1.03%	46) Bank	1.28	1.24	-0.04%
37) GERMANY	0.77	0.54	-0.23%	47) Government	0.35	0.43	+0.08%
38) LUXEMBOURG	0.41	0.4	-0.01%	48) Brokerage	0.65	0.41	-0.24%
39) SWITZERLAND	0.96	0.39	-0.57%	49) Individual	0.29	0.28	-0.01%





## Base/ Bear/ Bull

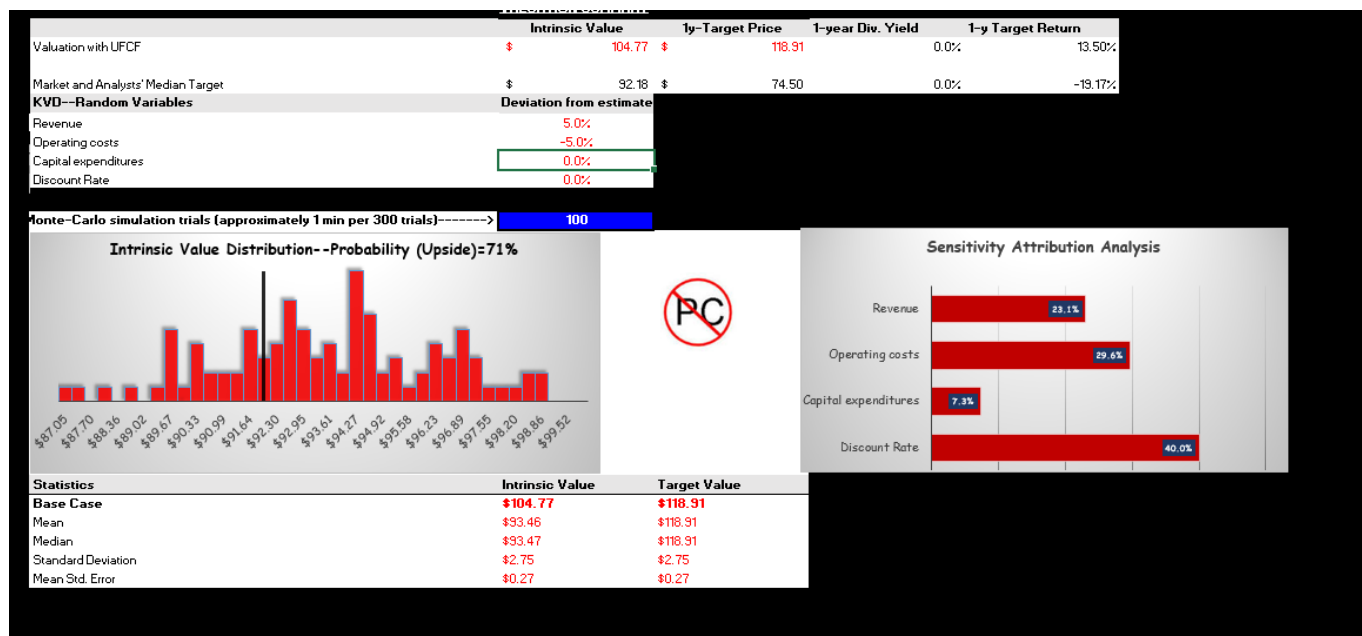
Base case:



With the Base case, we assume that the GOOS continues its' path of sustained growth and manages its expanding business efficiently.

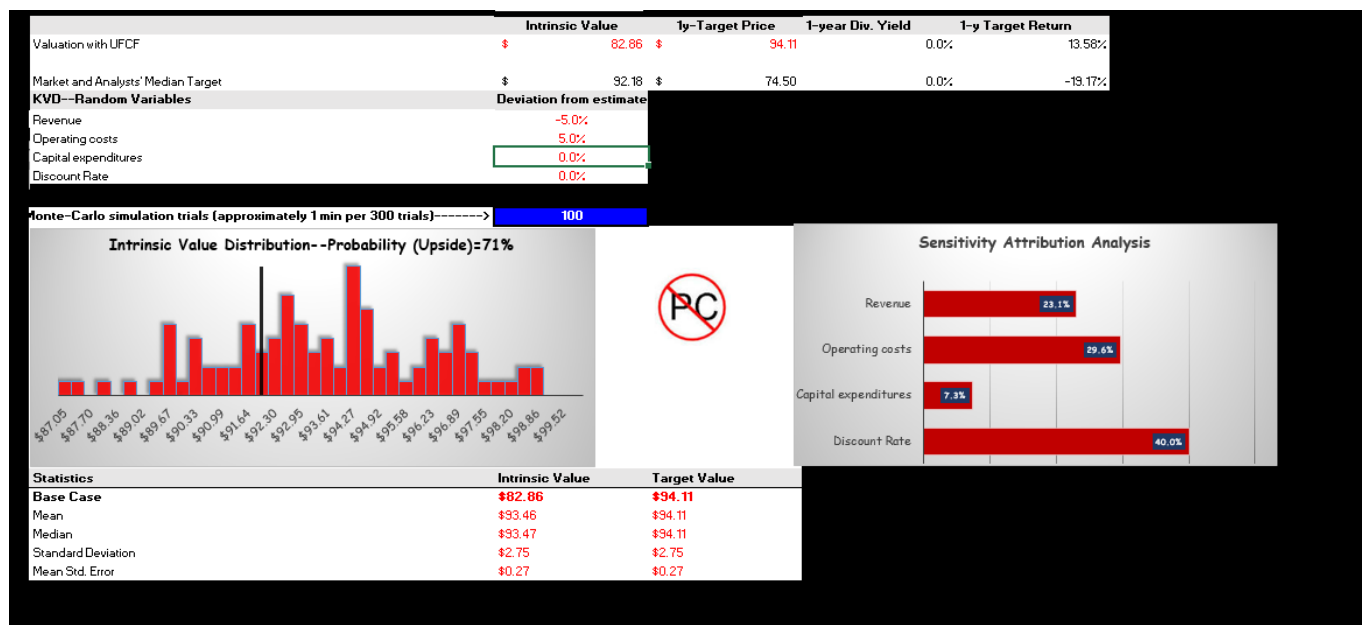


## Bull Case:



With the Bull case, I assumed that the brand would continue to expand, adding 5% to revenue, while utilizing their DTC channels more, driving operating costs down 5%.

## Bear Case:



With my Bear case, I assumed that the company's growth was slowing down, pushing revenue down 5% and the cost to source and manufacture their product goes up, driving up operational costs 5%.

## **Conclusion:**

Canada Goose is a company proud of its heritage and has a strong brand message that resonates with its customers. This paired with a strong vision of where the company hopes the drive the brand has allowed GOOS to become a functional fashion statement that is world renowned for its quality and performance. The acquisition of Baffin shows that GOOS recognizes its weaknesses and is filling in the holes in its product mix. With its upcoming shoe line, GOOS is going to continue to marry fashion and function in a way that only GOOS knows how. This is why GOOS should be a buy.



# Canada Goose Holdings Inc. (GOOS)

## CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Al Capone  
11/17/2018

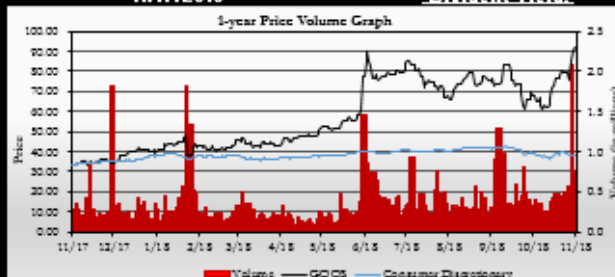
Current Price:  
Dividend Yield:

\$92.18  
0.0%

Intrinsic Value  
Target Price:

\$93.04  
\$106.17

Target 1 year Return: 15.18%  
Probability of Price Increase: 74.33%



Description	
Canada Goose Holding Inc. designs, manufactures, and retails premium outdoor apparel for men, women, youth, children, and babies.	
General Information	
Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	May 8, 2018
Next earnings date	February 13, 2019
Market Assumptions	
Estimated Equity Risk Premium	5.40%
Effective Tax rate	28%

Market Data	
Market Capitalization	\$10,109.88
Daily volume (mil)	0.76
Shares outstanding (mil)	109.68
Diluted shares outstanding (mil)	112.06
% shares held by institutions	0%
% shares held by investment managers	38%
% shares held by hedge funds	2%
% shares held by insiders	19.92%
Short interest	0.00%
Days to cover short interest	0.00
52-week high	\$95.58
52-week low	\$32.48
Volatility	0.00%

Quarter ending	
9/30/2017	15.25%
12/31/2017	8.77%
3/31/2018	60.03%
6/30/2018	31.88%
9/30/2018	18.04%
Mean	26.79%
Standard error	1.3%

Part Earnings Surprise	
Revenue	EBITDA
9/30/2017	89.38%
12/31/2017	28.34%
3/31/2018	-221.58%
6/30/2018	-18.90%
9/30/2018	108.50%
Mean	-2.85%
Standard error	4.7%

Market and Credit Scores	
Recommendation (STARS) Value--0	
Recommendation (STARS) Description--0	
Quality Ranking Value--NR	
Quality Ranking Description--Not Ranked	
Short Score--1	
Market Signal Probability of Default % (Non-Rating)--0.37%	
Credit Model Score (Non-Rating)--bb+	

Management	
Reitz, Dani	Chairman, President & CEO
Turlington, Leo	Chief Product Officer
Cameron, Scott	President of Greater China
MacKillop, Kara	Executive Vice President of People & Culture
Sinclair, Jonathan	CFO & Executive VP
Pat, Jacob	Chief Information Officer

Partitions	
Revenue	EBITDA
9/30/2017	89.38%
12/31/2017	28.34%
3/31/2018	-221.58%
6/30/2018	-18.90%
9/30/2018	108.50%
Mean	-2.85%
Standard error	4.7%

Industry and Segment Information	
LTM Revenue by Geographic Segment	LTM Revenue by Business Segments
Canada--11%	Wholesale--57%
United States--67%	Direct-To-Consumer (DTC)--43%
Rest of World--21%	--
--	--
--	--

Profitability	
Return on Capital (GAAP)	25.6%
Operating Margin	18%
Revenue/Capital (GAAP)	1.39
ROE (GAAP)	44.8%
Net margin	14.9%
Revenue/Book Value (GAAP)	3.016021891

GOOS (LTM)	
Return on Capital (GAAP)	25.6%
Operating Margin	18%
Revenue/Capital (GAAP)	1.39
ROE (GAAP)	44.8%
Net margin	14.9%
Revenue/Book Value (GAAP)	3.016021891

GOOS Historical	
Return on Capital (GAAP)	8.86%
Operating Margin	11.65%
Revenue/Capital (GAAP)	0.76
ROE (GAAP)	17.9%
Net margin	7.5%
Revenue/Book Value (GAAP)	2.38

Inverted Funds	
Carh/Capital	13.8%
HW/Capital	29.4%
Operating Assets/Capital	48.0%
Goodwill/Capital	8.8%

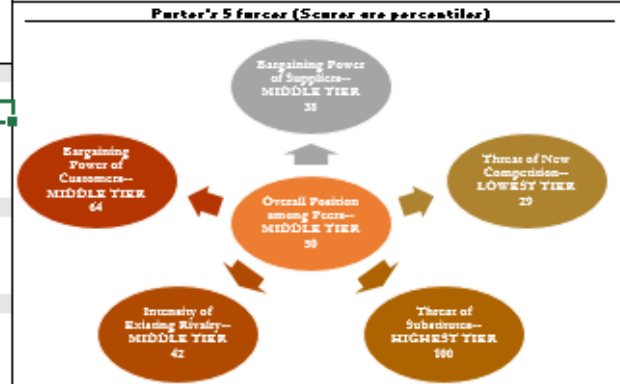
GOOS (LTM)	
Carh/Capital	13.8%
HW/Capital	29.4%
Operating Assets/Capital	48.0%
Goodwill/Capital	8.8%

GOOS Historical	
Carh/Capital	2.7%
HW/Capital	23.0%
Operating Assets/Capital	52.6%
Goodwill/Capital	11.7%

Capital Structure	
Total Debt/Market Capitalization	0.67
Cost of Debt	5.2%
CGFS Rating (F+care, 2+care, and default Probability)	AA
WACC	13.2%

GOOS (LTM)	
Total Debt/Market Capitalization	0.67
Cost of Debt	5.2%
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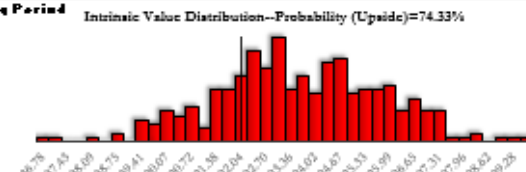
GOOS Historical	
Total Debt/Market Capitalization	0.52
Cost of Debt	5.6%
CGFS Rating (F+care, 2+care, and default Probability)	AA
WACC	12.9%



Forecast Assumptions	
Revenue Growth CAGR	36%
Average Operating Margin	13%
Average Net Margin	9%
Growth in Capital CAGR	27%
Growth in Claims CAGR	2%
Average Return on Capital	24%
Average Return on Equity	28%
Average Cost of Capital	13%
Average Cost of Equity	13%

Explicit Period (11 years)	
Revenue Growth CAGR	36%
Average Operating Margin	13%
Average Net Margin	9%
Growth in Capital CAGR	27%
Growth in Claims CAGR	2%
Average Return on Capital	24%
Average Return on Equity	28%
Average Cost of Capital	13%
Average Cost of Equity	13%

Continuing Period	
Revenue Growth CAGR	36%
Average Operating Margin	13%
Average Net Margin	9%
Growth in Capital CAGR	27%
Growth in Claims CAGR	2%
Average Return on Capital	24%
Average Return on Equity	28%
Average Cost of Capital	13%
Average Cost of Equity	13%



Sensitivity Attribution Analysis

