

# 7th Annual Undergraduate Stock Pitch Challenge

Omni Parker House, Boston

SEPTEMBER 14-15, 2017



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SC Johnson College of Business

PARKER CENTER FOR INVESTMENT RESEARCH

**STOCK:** CANADA GOOSE (NYSE: GOOS)

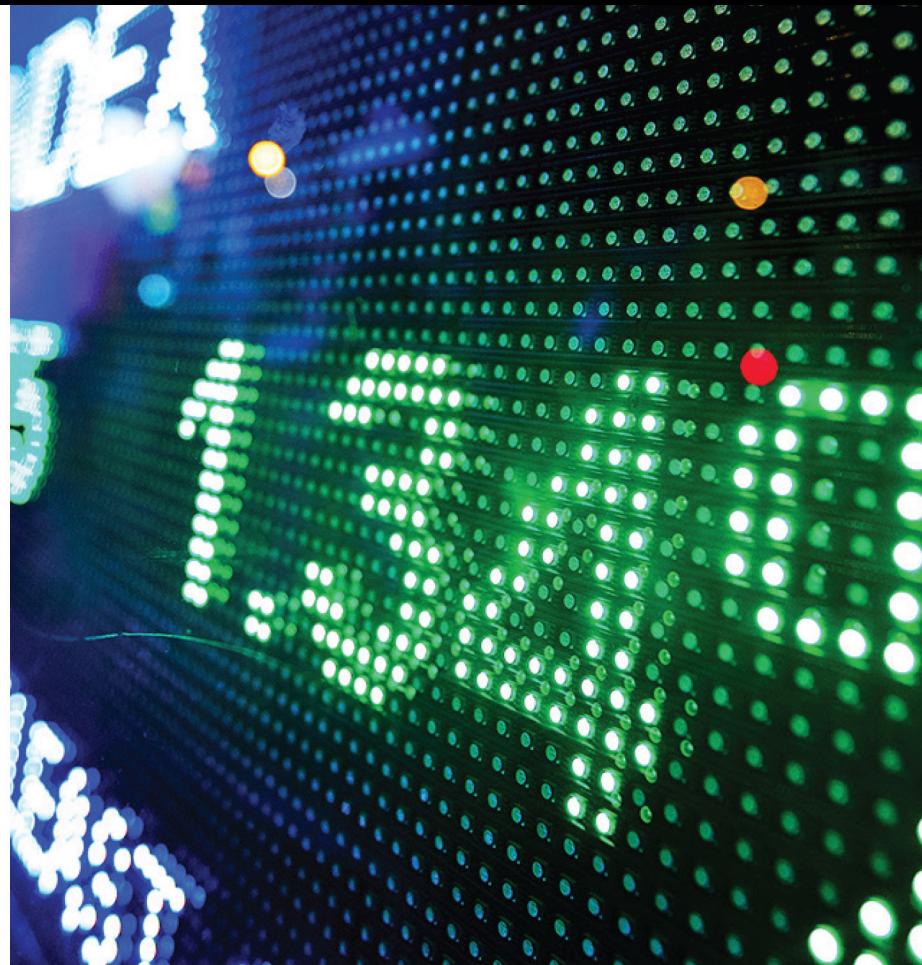
**RECOMMENDATION:** NEUTRAL

**TEAM:** AMHERST COLLEGE

SIQING (ALEX) LIU

XINYUN (SOPHIE) PU

AMOS (ZEUS) TUWEI



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## Thesis

1. **Revenue Growth:** Canada Goose sales can grow **at 19% CAGR up to 2023** with expansion across multiple vectors
2. **Gross Margin & Operating Margin Expansion:** Pricing power and revenue mix should propel **gross margin to 64% (1100 bps increase)** and **operating margin to 23% (300 bps increase)**
3. **Positive Free Cash Flow:** Rapidly increasing FCF generation **(positive in FY2016)** should lead to balance sheet deleveraging
4. **Valuation:** Sept '18 PT of \$22.1 with 8% upside based on maturity analysis to 2023

**Key Takeaway:** We believe that investors believe Canada Goose will become the next Moncler, with a red-hot IPO and a 48x NTM P/E. Although Canada Goose is a strong business, even with optimistic assumptions in our 2023 maturity analysis, we see only an 8% upside. Given the uncertainty around Canada Goose's execution and future growth, investors should demand a greater margin of safety and find a lower entry point.



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## Thesis 1: Revenue Growth



### Canada Goose(GOOS)

Canadian outwear manufacturer,  
known for premium winter  
jackets and parkas

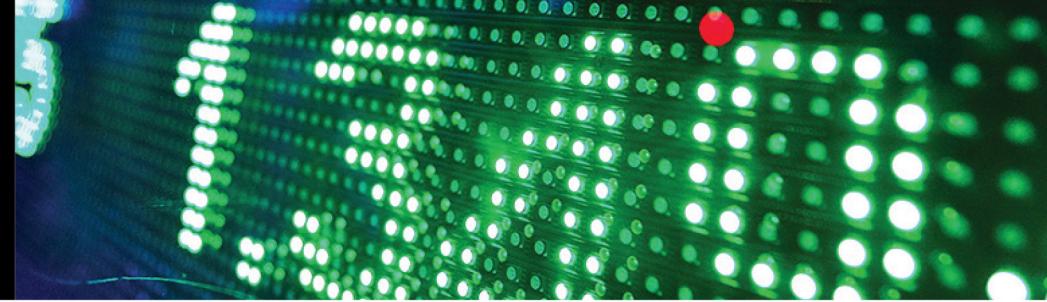


### Moncler (MONC)

Italian apparel manufacturer,  
known for luxury down jackets  
and sportswear

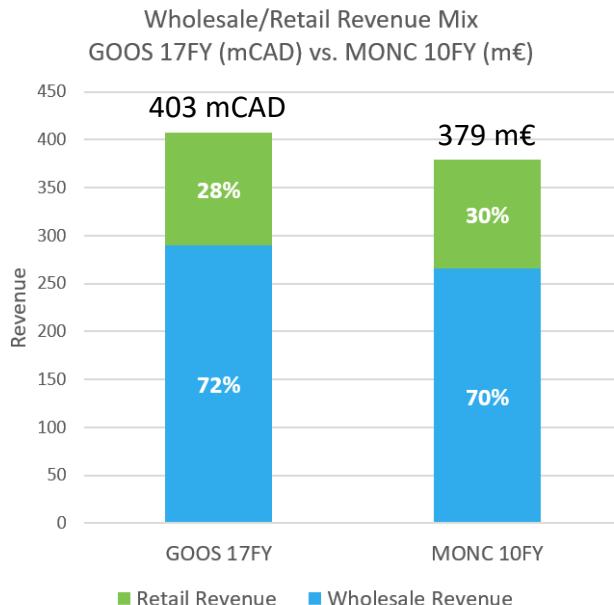


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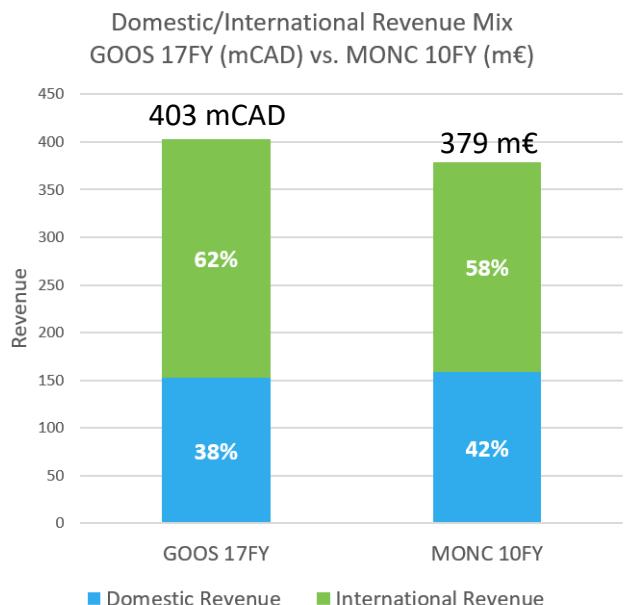


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## Thesis 1: Revenue Growth



Store Number	GOOS 17FY	MONC 10FY
Wholesale Points	2500	2172
Retail Stores	2	39
E-Commerce	4	0

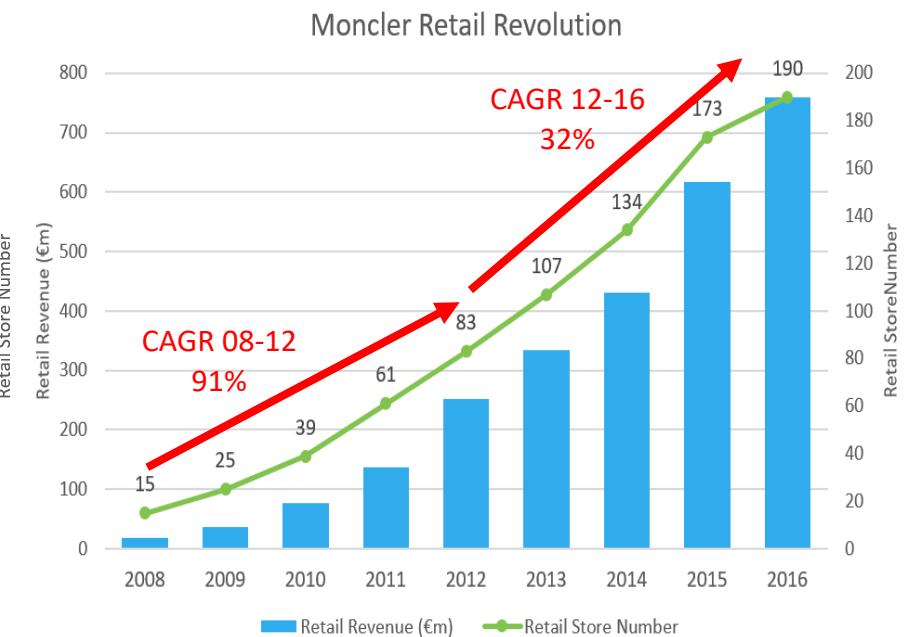
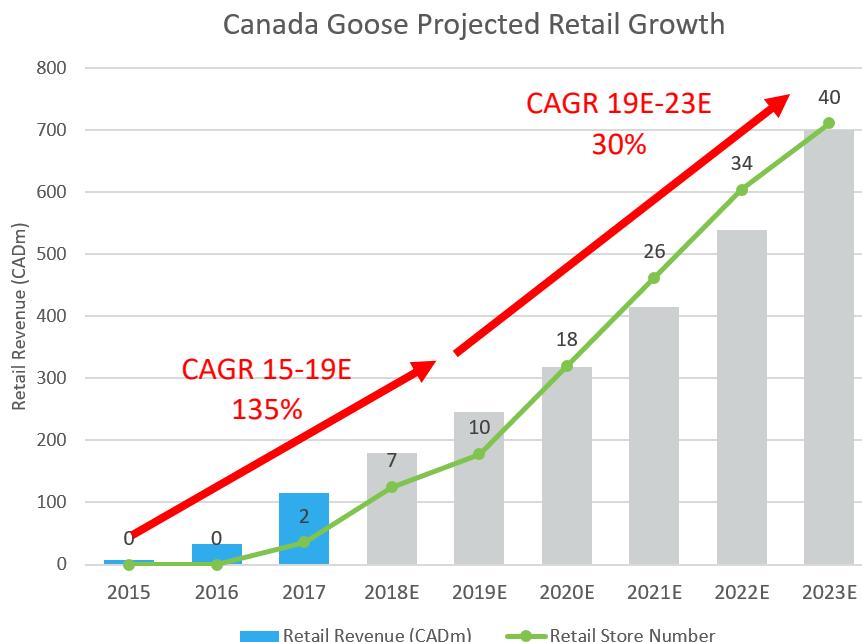


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## Thesis 1: Revenue Growth

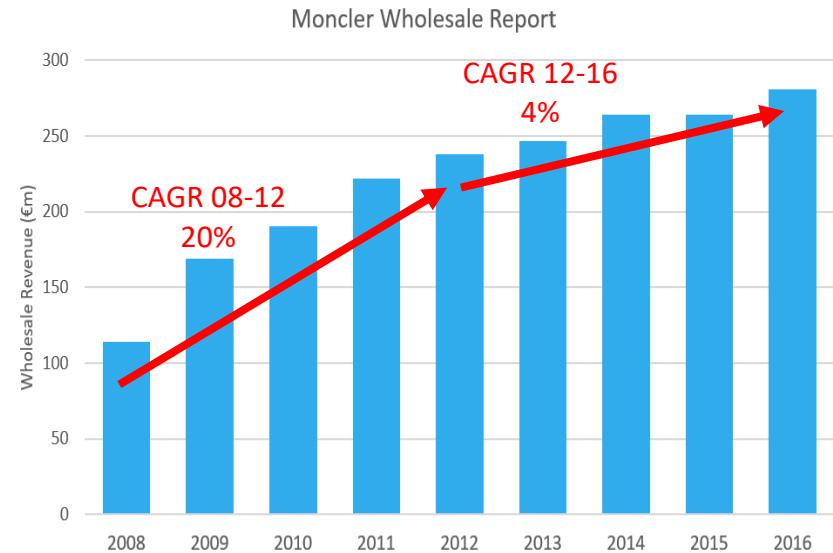
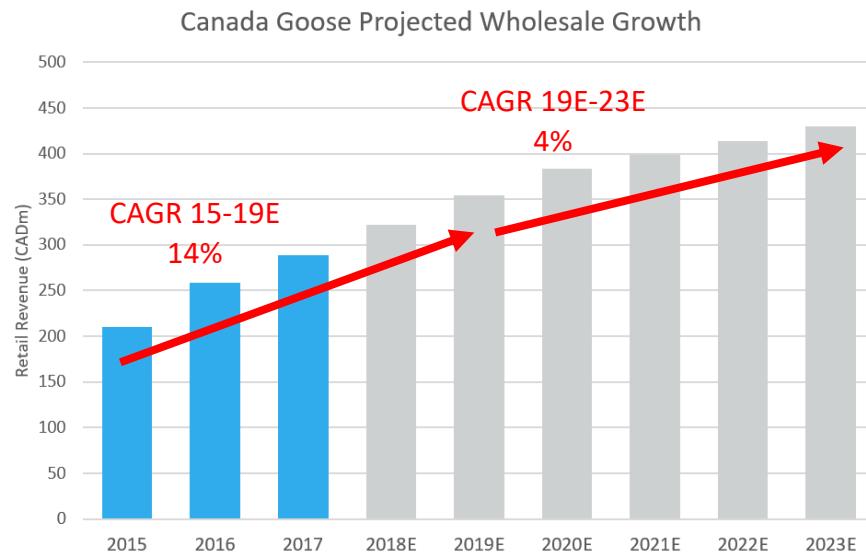


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## Thesis 1: Revenue Growth



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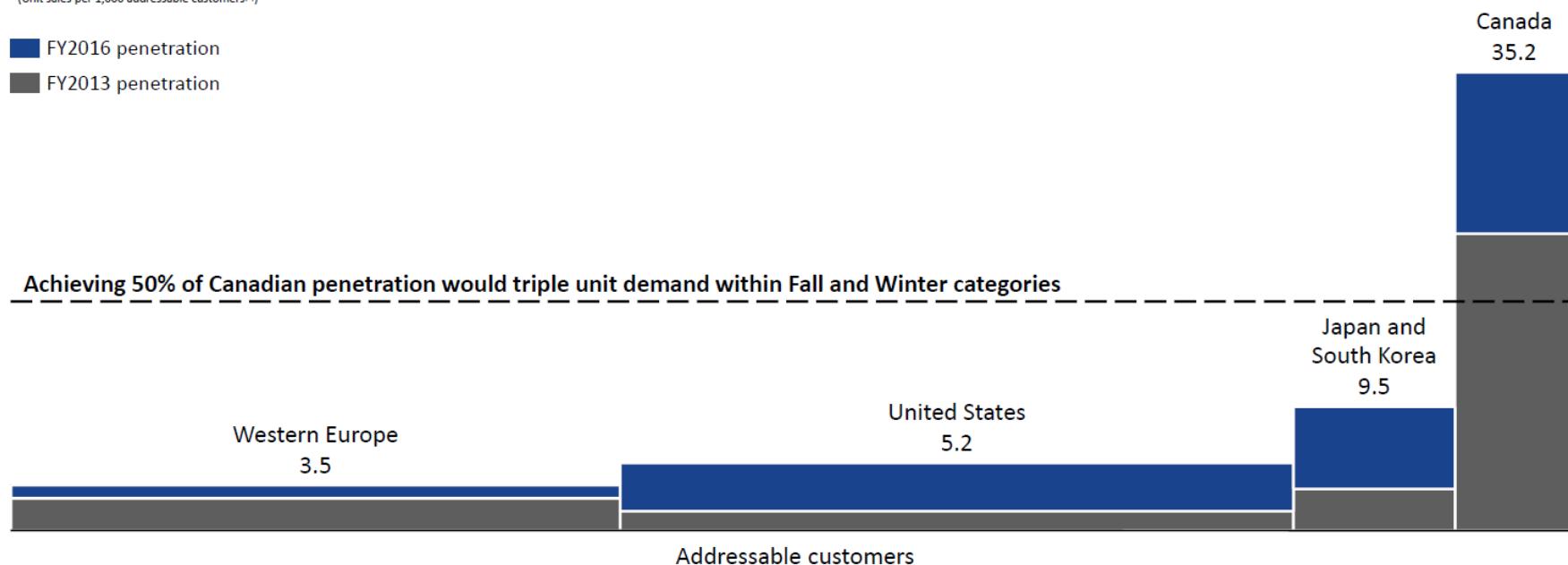
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## Thesis 1: Revenue Growth

Select examples of market penetration by country for Fall / Winter products

(Unit sales per 1,000 addressable customers<sup>[4]</sup>)

- █ FY2016 penetration
- █ FY2013 penetration



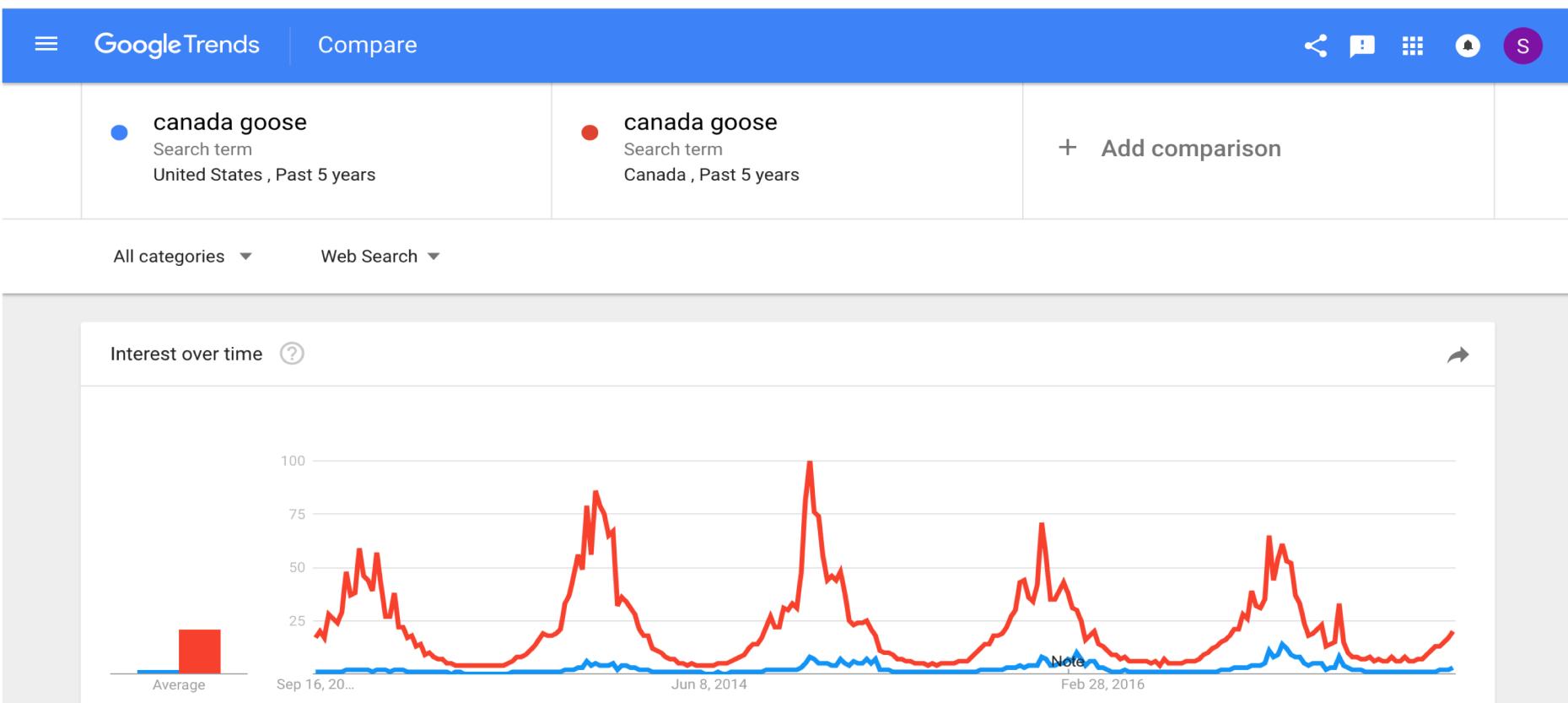
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## Thesis 1: Revenue Growth



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## Thesis 2: Gross Margin & Operating Margin Expansion



Date Range

 1m  3m  6m  1y  All

Price Type

 Amazon  3rd Party New  3rd Party Used

Chart Options

 Close-up View  Remove Extreme Values

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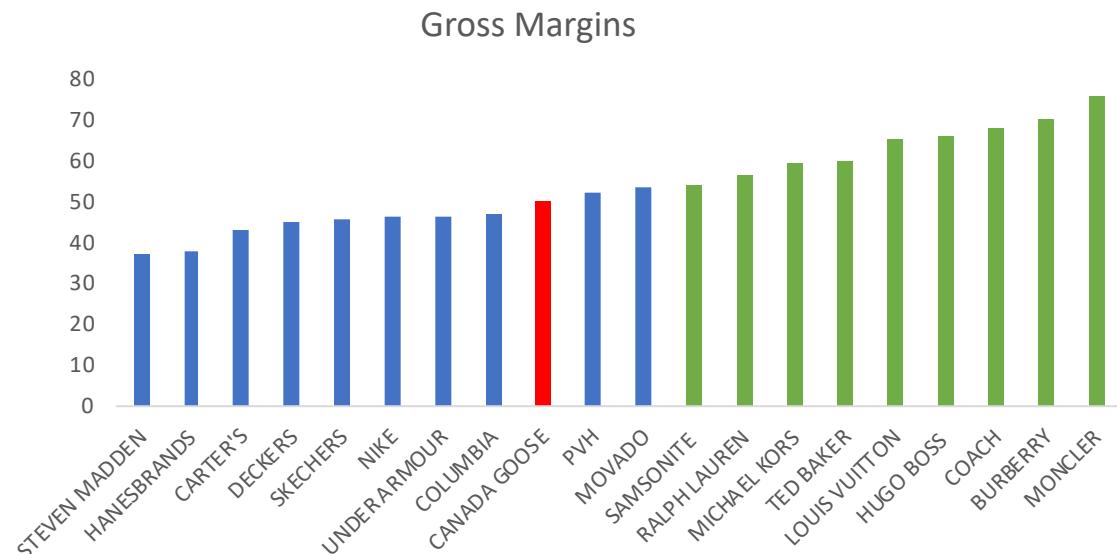
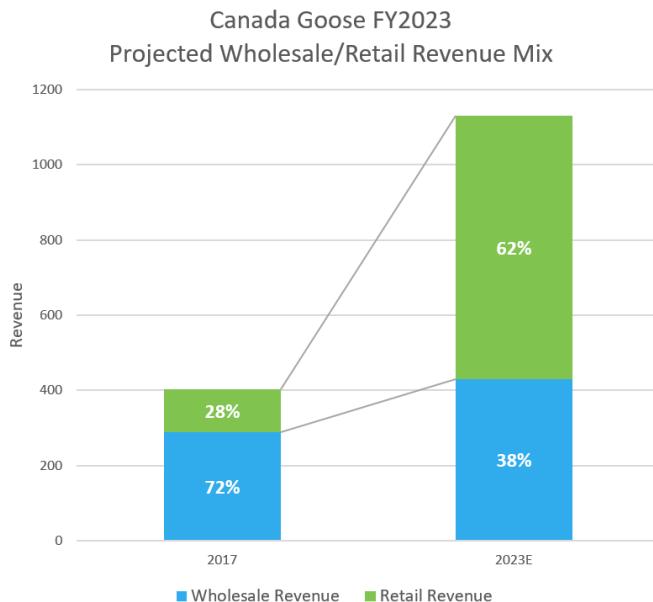
## Thesis 2: Gross Margin & Operating Margin Expansion



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Forecast: GOOS can increase Gross Margins by 1100bps to 64%.

Concern: GOOS can't attain Moncler's 75% Gross Margins (best in class).



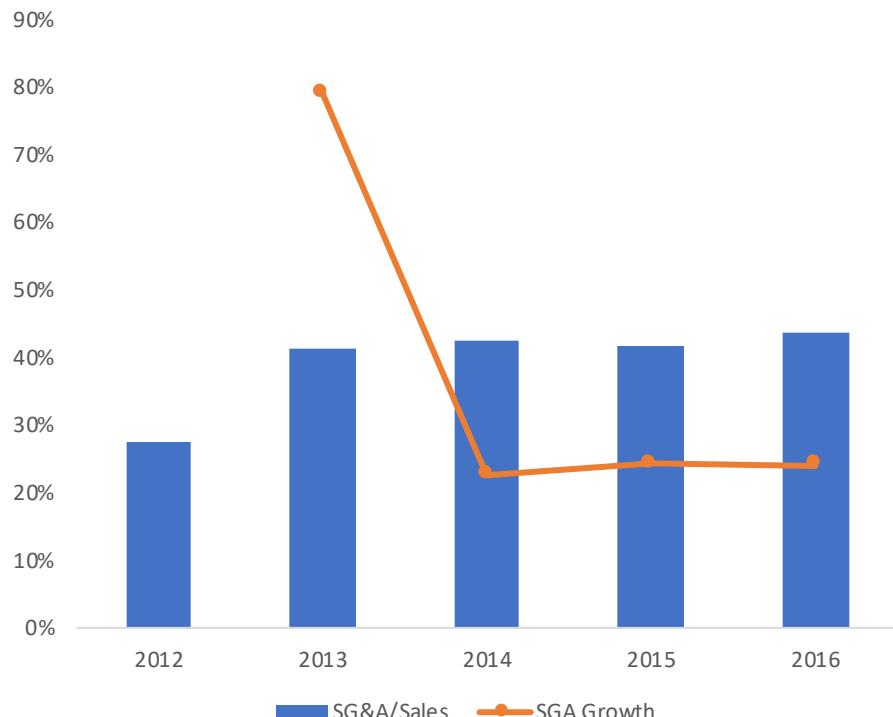
# 7th Annual Undergraduate Stock Pitch Challenge



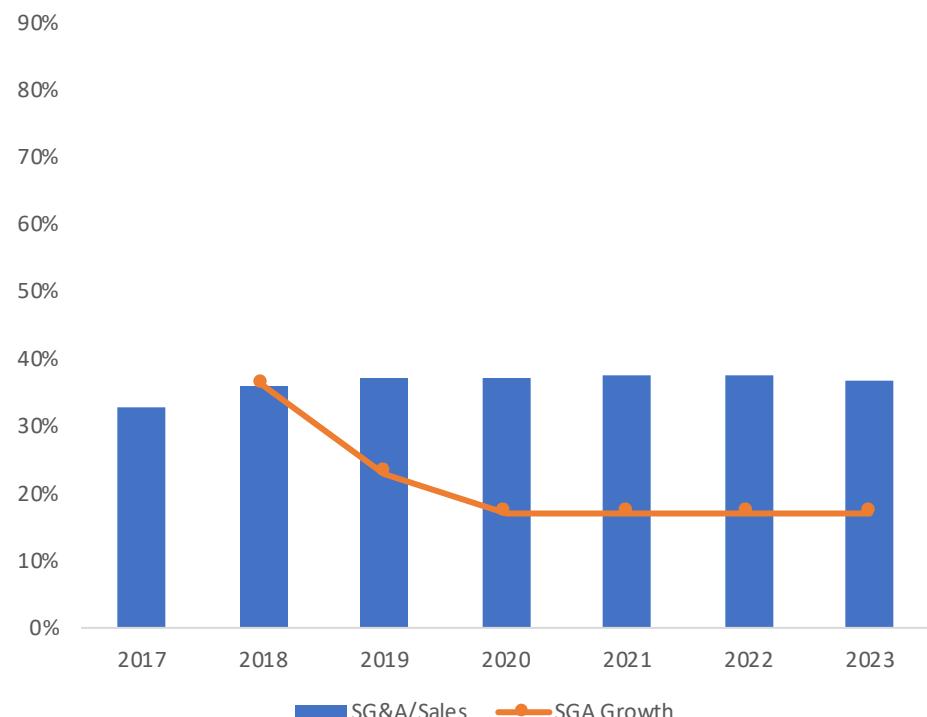
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## Thesis 2: Gross Margin & Operating Margin Expansion

Moncler SG&A



Canada Goose SG&A



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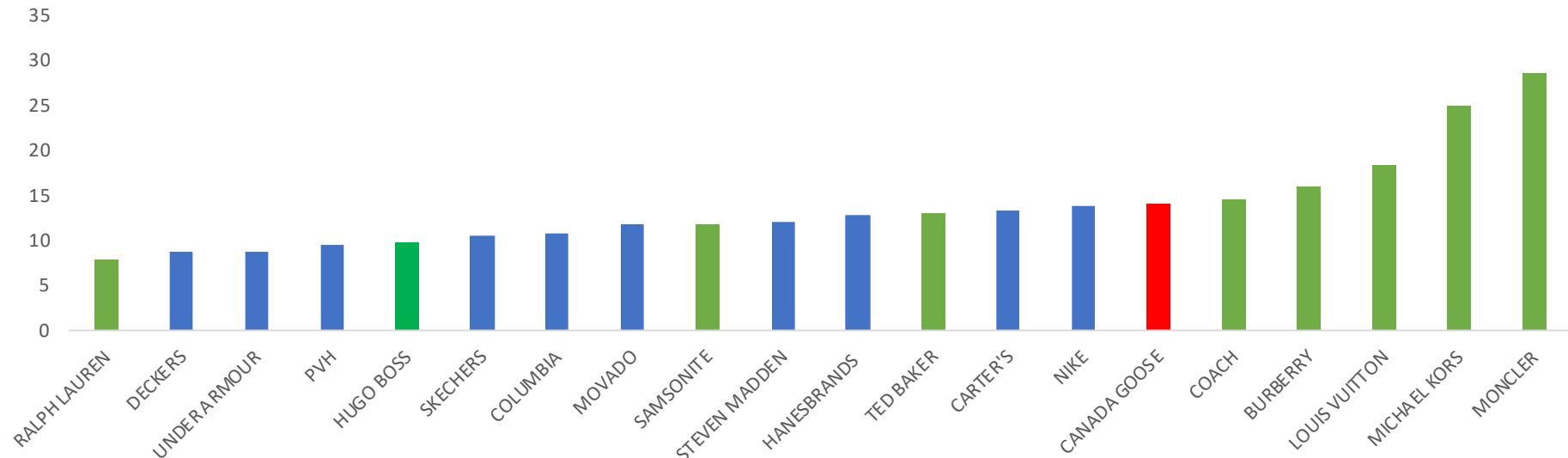


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## Thesis 2: Gross Margin & Operating Margin Expansion

Luxury and Sportswear Peer Comparison:

EBIT Margins



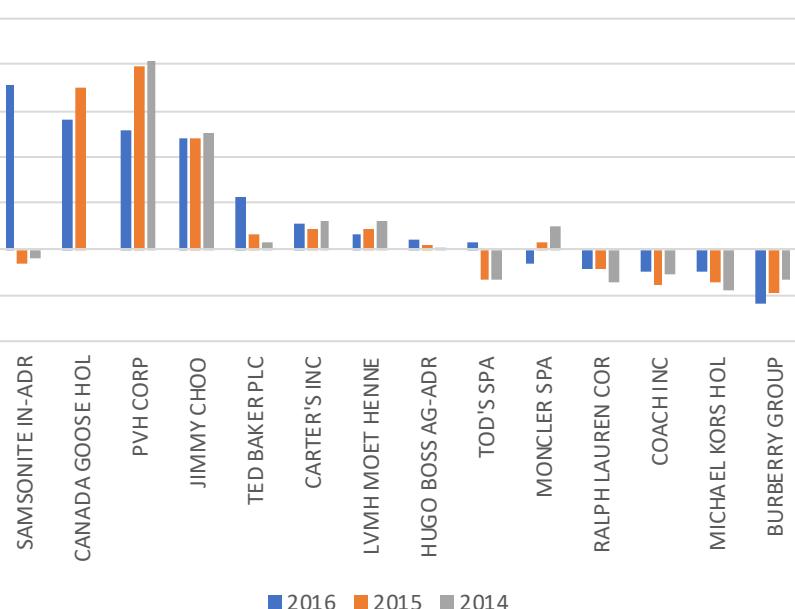
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## Thesis 3: Leverage and Cash Flow

Luxury Peers Net Debt to EBITDA, 2014 - 2016



## Positive Free Cash Flow Generation

	2015	2016	2017
Cash From Operations	5.0	-6.4	39.4
Cash From Investing	(7.3)	(21.8)	(27.0)
<b>Free-Cash Flow</b>	<b>(2.3)</b>	<b>(28.3)</b>	<b>12.4</b>
EBITDA	30.1	46.9	48.4
<b>FCF Conversion</b>	<b>(7.7%)</b>	<b>(60.3%)</b>	<b>25.6%</b>



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## Thesis 4: Valuation (Maturity Analysis to 2023)



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	FY2017	FY2023	Base
Wholesale sales	289	430	7% CAGR
Retail sales	115	701	35% CAGR
<b>Total sales</b>	<b>404</b>	<b>1131</b>	<b>19% CAGR</b>
Gross Margin	53%	64%	<i>1100 bps improvement</i>
EBIT Margin	20%	23%	<i>300 bps improvement</i>
EBIT	79	261	
Tax Rate	25%	28%	
Net Income	44	188	
S.O.	102	110	
EPS	0.4	1.7	
Current Price	20.5		
P/E Multiple	47	23	
EPS	0.4	1.7	
Implied Price in 2023		39.2	
Implied Price in 2017		22.1	<i>Discounted at 10% a year</i>
Upside (Downside)		8%	



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## Risks

### Downside:

1. Concentration of revenue in marquee product combined with ever-changing clothing trends
2. Increasing difficulty of securing high-quality retail space
3. Voting power dominated by Bain Capital (60%) and Dani Reiss (30%)

### Upside:

Flawless execution on all fronts by experienced management team and Bain Capital's assistance



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## Summary:

**STOCK:** CANADA GOOSE (NYSE: GOOS)

**RECOMMENDATION:** NEUTRAL

## Rationale:

- In reviewing growth, margins, leverage, and cash flow, as well as creating a valuation based on maturity analysis to 2023, we believe that there is a better entrance point to buying the company, which will result in higher returns.
- The hot IPO and current NTM PE demonstrate that the market considers GOOS the next Moncler. Our thesis, however, proves that GOOS currently does not have Moncler's market share or growth abilities.



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Questions?



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## Appendix: Scenario Analysis



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	FY2017	Base FY2023	Bear FY2023	Bull FY2023
Wholesale sales	289	430 <i>7% CAGR</i>	365 <i>4% CAGR</i>	511 <i>10% CAGR</i>
Retail sales	115	701 <i>35% CAGR</i>	440 <i>25% CAGR</i>	868 <i>40% CAGR</i>
<b>Total sales</b>	<b>404</b>	<b>1131 <i>19% CAGR</i></b>	<b>805 <i>12% CAGR</i></b>	<b>1379 <i>23% CAGR</i></b>
Gross Margin	53%	64% <i>1100 bps improvement</i>	58% <i>500 bps improvement</i>	64% <i>1100 bps improvement</i>
EBIT Margin	20%	23% <i>300 bps improvement</i>	19% <i>100 bps decrease</i>	26% <i>600 bps improvement</i>
EBIT	79	261	153	359
Tax Rate	25%	28%	28%	28%
Net Income	44	188	110	258
S.O.	102	110	110	110
EPS	0.4	1.7	1.0	2.3
Current Price	20.5		Current Price	
P/E Multiple	47	23	20	25
EPS	0.4	1.7	1.0	2.3
Implied Price in 2023		39.2	20.0	58.7
Implied Price in 2017		<i>22.1 Discounted at 10% a year</i>	11.3	33.1
Upside (Downside)		8%	(45%)	62%



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## Appendix: Income Statement Part 1



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Annual Data										Growth							
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
<b>Net Sales</b>																	
Wholesale sales	210	258	289	322	354	383	398	414	430	23%	12%	12%	10%	8%	4%	4%	4%
Retail sales	8	33	115	180	245	319	415	539	701	313%	249%	56%	36%	30%	30%	30%	30%
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Total sales	218	291	404	502	600	702	812	953	1,131	33%	39%	24%	19%	17%	16%	17%	19%
<b>Consolidated Income Statement</b>																	
Stores	0	0	2	7	10	18	26	34	40	--	--	250%	43%	80%	44%	31%	18%
Net Sales	218	291	404	502	600	702	812	953	1,131	33%	39%	24%	19%	17%	16%	17%	19%
COGS	-130	-145	-192	-224	-258	-291	-326	-366	-410	12%	32%	17%	15%	13%	12%	12%	12%
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Gross Profit	89	146	212	278	342	410	486	587	722	64%	46%	31%	23%	20%	19%	21%	23%
SG&A	-52	-93	-133	-181	-222	-267	-320	-384	-461	78%	43%	36%	23%	20%	20%	20%	20%
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Operating Income	37	53	79	97	119	143	166	203	261	40%	48%	20%	27%	21%	24%	26%	26%
Net Interest & Other Financing	-2	-2	-16	-14	-16	-15	-14	-13	-13	nm	nm	nm	nm	nm	nm	nm	nm
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Pre-tax Income	34	51	63	84	104	128	152	190	247	43%	22%	29%	30%	25%	28%	29%	29%
Tax Expense	-8	-14	-19	-23	-29	-36	-42	-53	-69	65%	30%	23%	24%	23%	18%	25%	30%
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Net Income	26	37	44	60	75	92	109	137	178	35%	29%	30%	27%	28%	28%	29%	29%
Diluted Shares	101	102	102	110	110	110	110	110	110	0%	0%	7%	1%	0%	0%	0%	0%
Adjusted EPS	0.25	0.36	0.43	0.55	0.68	0.84	0.99	1.24	1.62	34%	29%	22%	26%	28%	28%	29%	29%



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## Appendix: Income Statement Part 2



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Canada Goose	Annual Data										Growth						
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
<b>Memo:</b>																	
Tax Rate	25%	28%	30%	28%	28%	28%	28%	28%	28%	4.0pt	-4.1pt	-0.9pt	1.6pt	-1.7pt	0.0pt	0.0pt	0.0pt
D&A	-0.4	-2.4	-4.4	-7.6	-13.2	-15.6	-18.6	-22.3	-22.3	207%	66%	73%	66%	17%	18%	19%	19%
Adjusted EBITDA	37	55	84	105	133	159	184	225	283	45%	49%	24%	31%	21%	23%	25%	25%
<b>Margin Analysis</b>																	
<i>Consolidated</i>																	
Net Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	0.0pt	0.0pt	0.0pt	0.0pt	0.0pt	0.0pt	0.0pt	0.0pt
COGS	-59%	-50%	-47%	-45%	-43%	-42%	-40%	-38%	-36%	9.5pt	2.5pt	2.8pt	1.5pt	1.0pt	1.0pt	1.0pt	1.0pt
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Gross Profit	41%	50%	53%	55%	57%	58%	60%	62%	64%	9.5pt	2.5pt	2.8pt	1.5pt	1.0pt	1.0pt	1.0pt	1.0pt
SG&A	-24%	-32%	-33%	-36%	-37%	-38%	-39%	-40%	-41%	-8.1pt	-1.0pt	-3.1pt	0.4pt	-0.3pt	0.0pt	0.3pt	0.3pt
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Adjusted EBIT	17%	18%	20%	19%	20%	20%	20%	21%	23.0%	0.8pt	1.1pt	-0.7pt	1.2pt	0.7pt	1.0pt	1.3pt	1.3pt
Adjusted EBITDA	17%	19%	21%	21%	22%	23%	23%	24%	25%	1.5pt	1.4pt	-0.1pt	2.0pt	0.7pt	1.0pt	1.3pt	1.3pt



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## Appendix: Cash Flow Statement



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	Annual Data								
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
<b>Statement of Cash Flows</b>									
Net Income	26	37	44	60	75	92	109	137	178
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D&A	--	2	9	8	13	16	19	22	22
Share Based Comp	--	1	3	3	5	7	7	7	7
Working Capital	--	-38	20	-28	-25	-25	-25	-25	-25
Other	--	-11	-33	14	0	0	0	0	1
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Cash From Operations	3	-9	43	57	68	89	109	140	183
Capex	0	-15	-16	-26	-29	-31	-33	-35	-37
<b>Free-Cash Flow</b>	<b>3</b>	<b>-24</b>	<b>28</b>	<b>31</b>	<b>39</b>	<b>58</b>	<b>76</b>	<b>105</b>	<b>146</b>
Debt	--	28	-107	-22	-11	0	0	0	0
Equity	--	2	98	0	0	0	0	0	1
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Cash From Financing	5	30	-10	-22	-11	0	0	0	1
<b>Change in Cash</b>	<b>8</b>	<b>20</b>	<b>34</b>	<b>35</b>	<b>57</b>	<b>89</b>	<b>109</b>	<b>140</b>	<b>184</b>
Cash, Beginning of Period	153	6	26	60	95	152	241	351	491
Cash, End of Period	6	26	60	95	152	241	351	491	675

