CANADA GOOSE HOLDINGS INC (NYSE: GOOS)

Recommendation: Long

Date: 1/13/24
Current Price: $11.78
Base-Case Target Price: $20.75

Time Horizon: 6m - 3y
Implied Upside: 76.15%
Equity IRR: 20.8%

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HARVARD

Company Overview

Canada Goose Holdings Inc (NYSE: GOOS): A heritage brand with a future-focused vision

Business Overview

- Founded in 1957 in Toronto, Canada, Goose Holdings Inc is a leading designer, manufacturer and marketer of performance luxury apparel internationally, **specializing in winter clothing**
- Canada Goose operates in three business segments- performance apparel, footwear and accessories, and branding and collaborations
- The company owns 8 production facilities, 51 permanent stores and operates in 40 nations through retail, e-commerce and wholesale
- The company aims to **expand to new markets** through new product lines and direct-to-consumer strategies

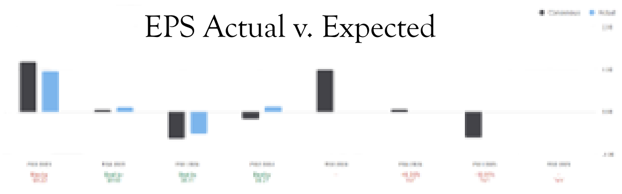
Recent Price Action Drivers

- 2023 return of 34.14%
- 56.00% correction from year-high
- Management cut net income forecast from \$1.1 billion to \$1.04 billion

- Disappointing earnings on 11/1/23 in part due to one-time investments
- **Sales momentum slowed in September and October**---weakening sales due to warm winter and continued effects from COVID-19 pandemic

GOOS has dominated its unique corner of luxury outerwear, remaining a **luxury, high-value brand** while pricing more affordably than counterparts. This niche accounts for 6% of the outerwear market, allowing Canada Goose to generate almost \$1 billion in revenue annually. We see a company that has fall out of favor due to external cyclic events (economic downturn, weather) and reduced earnings. To us, **the street has overreacted to these temporary pressures.** More optimistically, **GOOS is eager to leverage their powerful brand** in global markets and non-winter clothing, a growth strategy that has proven success. Additionally, **margins will likely improve by an impressive 10%** as GOOS sidesteps retailers. We model \$479.19 million **EBIT by 2028**, valuing GOOS at \$23.48 with 99.32% upside.

Summary Market Projection + Statistics



Gross Profit Margin (TTM): 68.1%
EBIT Margin (TTM): 10.1%
EBITDA Margin (TTM): 13.57%
ROE (TTM): 15.46%
CAPEX / Sales (TTM): 5.35%

Market Cap: \$1.085 billion
Enterprise Value: \$1.80 billion
Implied EV / EBITDA: 8.61x
P/E: 29.7

2022-2023 Revenue: \$920 million
Q4 Revenue: \$282.1 million
5Y CAGR (sales growth): 24.47%
P/ B: 4.15

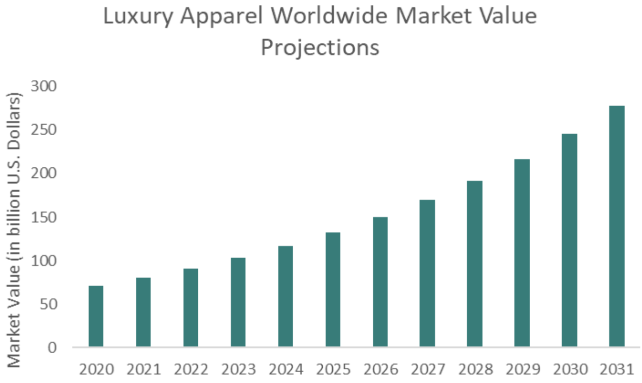
Industry Overview

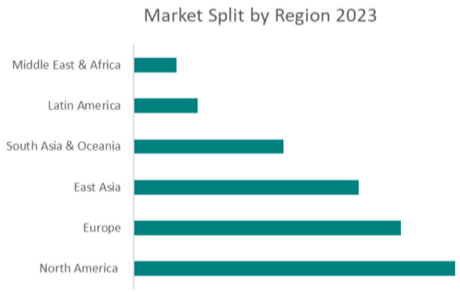
Premium outerwear, a battle of maintaining brand equity

Industry Overview

- Premium outerwear is an $16.7 billion dollar market with a 6.72% CAGR from 2023-2033.
- The luxury goods market is highly correlated with macroeconomic booms and busts. Consumers purchase during good times.
- The importance of brand recognition and trust forms a high barrier to entry
- The industry is striated across budget: accessible (i.e. Patagonia, exclusive (i.e. Moncler), and a niche middleground (i.e. Canada Goose)
- Purchasing decisions are generally driven by these budget levels firstly, and brand name prestige and reputation secondarily

Industry Statistics





Market Competition

- __Columbia Sportswear (NASDAQ: COLM, Revenue: $3.46 Billion):__ Columbia Sportswear occupies a more moderate price point and incorporates thermal and waterproof technologies into their products to access a larger customer base.
- __North Face (NYSE: VFC, Revenue: $1.128 Billion):__ North Face is a company with a diverse product line, targeting a broader audience through emphasis on technical performance and versatility.
- __Patagonia (Revenue: $1.5 Billion):__ Patagonia is a private company that markets their products through the lens of sustainability; advertising their products as environmentally sustainable and ethnically sourced.
- __Moncler (OTCMKTS: MONRY, Revenue: $2.832 Billion):__ Moncler is a fashion-forward brand with a focus on style, who value luxury and trendiness, targeting a similar market to Canada Goose.
- __Arc'teryx (Revenue: $292 Million):__ Arc'teryx is a company with specialization in technical outdoor gear, whose products are designed for high performance in specific activities.

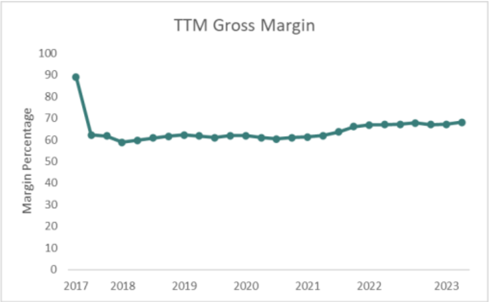
Thesis 1: Brand Power Moat

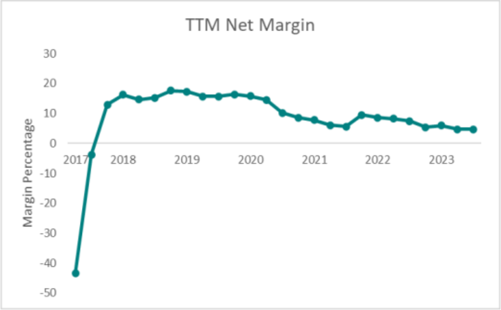
Brand power to drive higher margins and to ward off competition

Brand Overview

- **Authenticity and Heritage:** Canada Goose capitalizes on its Canadian heritage, emphasizing the "Made in Canada" aspect. This commitment to local craftsmanship resonates with consumers, creating a lasting sense of trust in the brand's quality and origin
- **Premium and Luxury Image:** Canada Goose has successfully positioned itself as a luxury brand in the outerwear market. The use of goose down and fur trims further contribute to the perception of craftsmanship and exclusivity.
- **Celebrity Endorsements:** The brand has gained visibility through endorsements and sightings of celebrities wearing Canada Goose products which enhances the brand's image and desirability.

Profit Margins





Gross and net margins plotted over time. Note that gross margin over time has increased, indicating a strong brand influence and direct-to-consumer model.

Covid-19 Inflation & Chain Disruption

- COVID-19 disrupted global supply chains, leading to material shortages, production delays and increased transportation costs.
- Economic uncertainty and job losses during the pandemic have affected consumer spending patterns, impacting the demand for luxury goods.
- Lockdowns, restrictions and changes in consumer behavior have impacted the traditional retail landscape and in turn, the wholesale revenue.
- Inflationary pressures can impact production costs and geopolitical tensions impact international business.
- Accelerated digital transformation during the Covid era requires companies to invest in digital technology and online platforms.

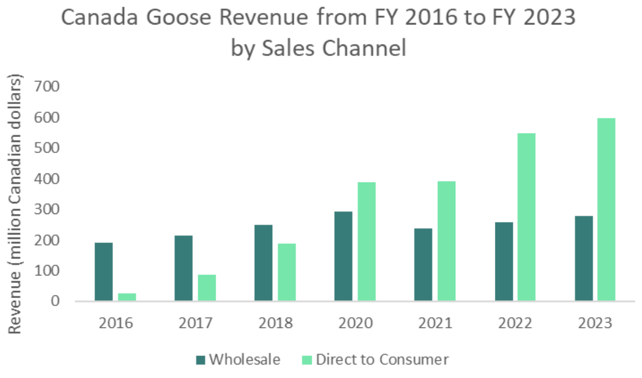
Turmoil Resilience

- Canada Goose's high pricing for products allow for greater flexibility in countering inflation, with the brand name satisfying the expectation of price.
- As Canada Goose owns its production facilities, this provides the company with greater flexibility in its supply chain, helping mitigate hidden risks such as supply issues due to inflation or restrictions.
- Canada Goose's heavy focus on direct-to-consumer channels provide safety against disruptions in physical retail, helping the company mitigate losses due to wholesale.

Thesis 2: Direct-to-consumer (DTC) expansion strategy to propel profits (1/5)

DTC increases margins significantly, and brick-and-mortar stores offer brand prominence and experience

DTC Sale Channel Overview



- Largest driver of operational and financial growth since first DTC venue in 2014
- Accounts for 66.3% of 2023 annual revenue

- Disintermediation stabilizes revenue--reliance on retailer's current inventory for wholesale orders decreases.
- It also improves margins and allows footholds in new locations
- Brick-and-mortar expansion plan requires significant one-time investments, as well as increased SG&A and D&A

Consumer Experience

- Canada Goose emphasizes its Canadian heritage, positioning itself as the only Canadian luxury apparel brand. With decorations such as Inuit art, Canada Goose aims to create an atmosphere of uniqueness to advocate its products.
- All products are handcrafted, and many permanent stores contain the Cold Room feature: allowing consumers to try parkas in a cold environment, building trust in the company's performance.

Key Strategies

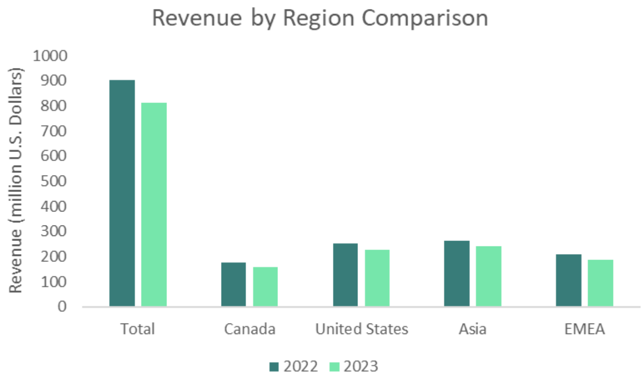
- **Experiential Retail**: Canada Goose invests heavily in experiential retail, creating immersive in-store experiences for customers such as the Cold Room feature. This allows consumers to test parkas in cold conditions, reinforcing the functionality of the products.
- **Expansion of Physical Stores**: The company intends to implement an aggressive expansion plan for its physical stores in order to triple its store count globally by 2028. This physical retail expansion helps enhance the brand's presence and offers a tangible, in-person experience to customers.
- **Global Expansion**: Canada Goose's DTC expansion is not limited to specific regions, with the company recently opening storefronts in Australia and developing locations in China. This allows the brand to tap into diverse markets and consumer segments.
- **Omnichannel Approach**: Canada Goose recognizes the value of its physical stores beyond providing an experiential touchpoint. Approximately 70% of the company's revenue come from its 55 existing locations, indicating the importance of a strong omnichannel presence. This involves integrating online and offline channels seamlessly to enhance the overall customer experience.
- **Resale Platform (Generations)**: The introduction of a resale platform called Generations serves a dual purpose. From a consumer standpoint, it demonstrates the brand's commitment to sustainability- a response to past criticisms- and from a financial perspective, it creates a new revenue stream and recaptures consumers through a resale platform.

Thesis 2: Direct-to-consumer (DTC) expansion strategy to propel profits (2/5)

DTC offers the unique position to expand into untapped global markets.

Current Sale Distribution

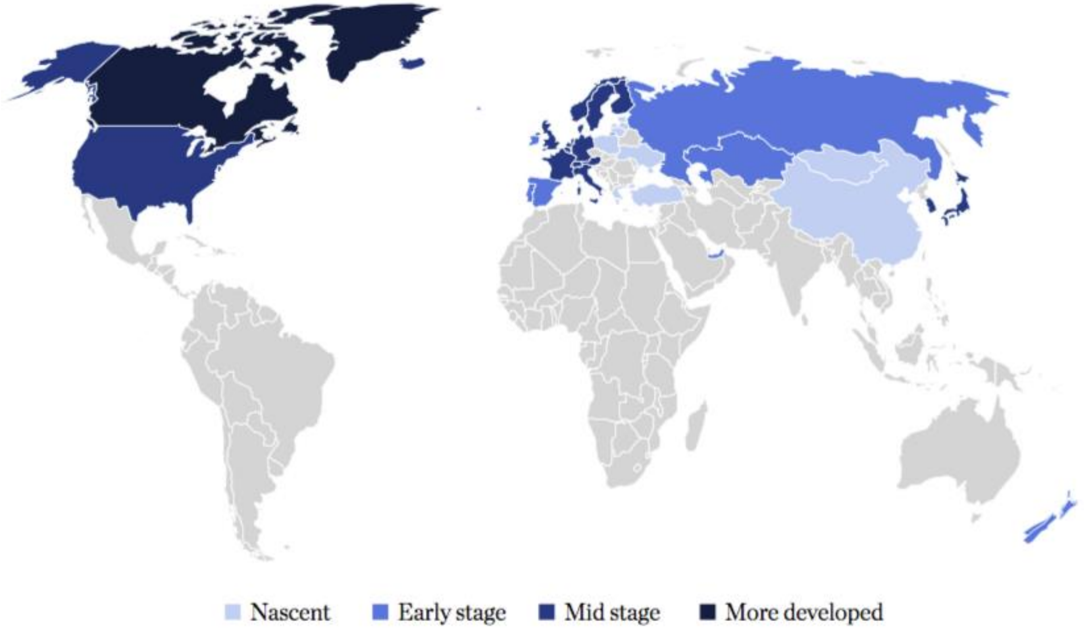
- Diverse and evenly-dispersed international consumer base
- Sales led by Asian demand for luxury goods
- Slowest revenue growth in Canada, the most established market



Expansion Plan

- Canada Goose intends to triple its permanent storefront status, with goals of reaching $3 billion in revenue by 2028, with growth expected to be predominantly driven by DTC channels and product category expansion. DTC is expected to account for 80% of its future revenue, a moderate increase from the 67% right now.
- These new storefronts will be located across the globe, with development primarily focused on the United States, China and Australia regions.
- However, as Canada Goose is a performance apparel company, it does not plan to operate in warmer regions across the globe although it is continuing development in core, nonseasonal products such as rainwear, shoes and luggage.

Undeveloped Global Markets

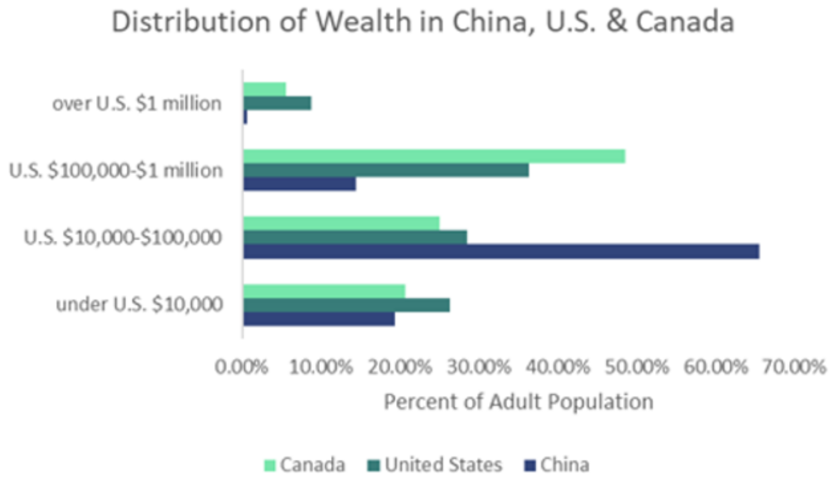


- Early advertising to underdeveloped market has been promising
- Canada Goose expanded to US and China rapidly---other countries are quick to adopt
- Canada Goose can leverage its deep pockets and access to capital to expand their brand

Thesis 2: Direct-to-consumer (DTC) expansion strategy to propel profits (3/5)

The numbers: potential expansion by country

Customer Base Profile



US Expansion Profit Projections

- The luxury apparel is a $20.12 billion industry, with 3.17% CAGR 2023-2028.
- Although the United States is already a major market for Canada Goose products, the luxury apparel industry still provides huge gaps for development as Canada Goose develops different product lines other than their prized parkas.
- Given the current rate of economic recovery (faster than prior recessions), the current market access to these products is approximately 40% of the American population.
- As a measure of recession drawbacks, market access and the previous market already present, this would conservatively place further development at $201 million.

Australia Profit Projections

- Luxury fashion in Australia is a $2.92 billion industry, with 3.69% CAGR 2023-2027
- Expert opinion: "Canada Goose will have strong appeal in the Australian market even during a period where many shoppers are curbing their spending."
- Luxury goods industry has skyrocketed in Australian in recent years, and Canada Goose is set to capitalize on this, leveraging partnership with Brand Collective
- 1.71 million people live in South Australia to buy heavy jackets, and 25.69 million total. Given comparable market capture of other expansion efforts and market size, this conservatively places the Australian project at $126 million.

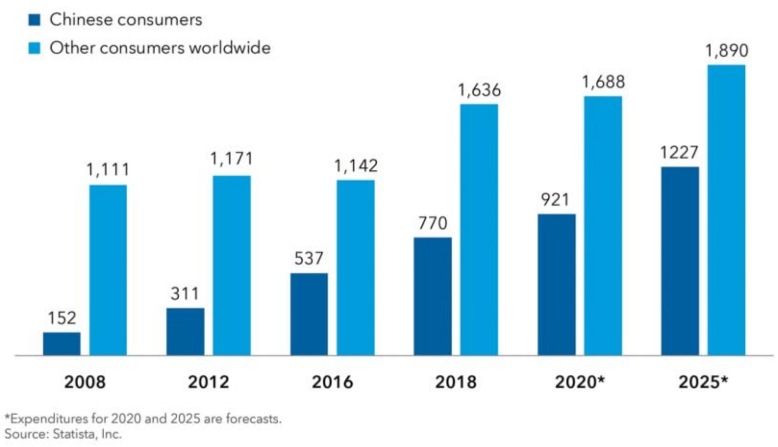
China Profit Projections

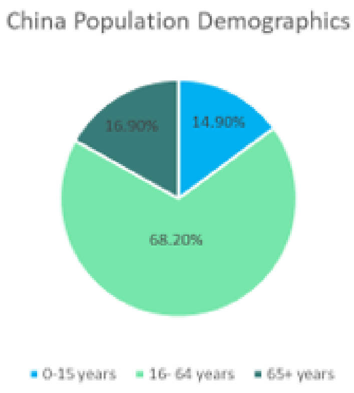
- Luxury fashion in China is a $10.54 billion industry, with a 4.76% CAGR 2023-2027
- Luxury products are on high demand in Chinese market after Covid restricted huge portions of market access.
- Approximately 14.5% of China's 1.4 billion population can afford the cost of Canada Goose. Given the current market capture of other renowned companies, the market size, and the current speed of development in the Chinese market, this conservatively places the Chinese project development at $316 million.

Thesis 2: Direct-to-consumer (DTC) expansion strategy to propel profits (4/5)

Canada Goose's largest potential customer base, China, and drawbacks

China Demographics



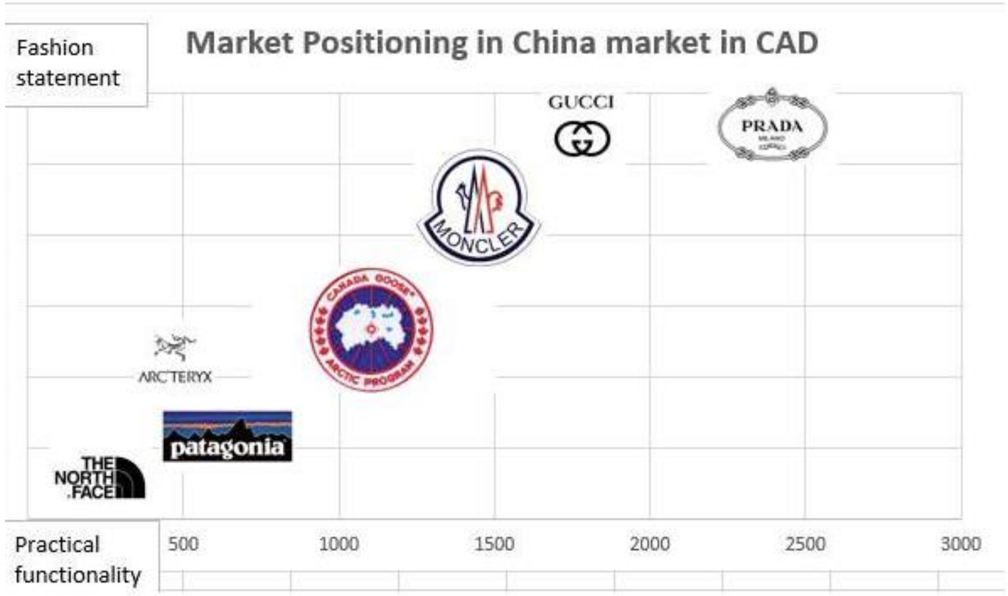


Expansion Plan

- Canada Goose Company operates 18 retail stores in China (the most in any nation) and intends to open three more stores in China within this coming year in the cities Tian, Qingdao and Chengdu, respectively.
- As Canda Goose intends to triple its number of DTC storefronts within the next five years, there is likely to be an upwards of twenty-five stores to be opened within this timespan, giving the luxury company a solid foundation in the China luxury industry.
- As a result of the market potential, Canada Goose has developed its footwear category, launching the initiative in China prior to any other nation.

Potential Profit

- China's luxury market has been experiencing significant growth, driven by the expanding middle class, increasing disposable income, and a growing appetite for premium and high-end products. Canada Goose, positioned as a luxury brand, can tap this trend.
- Canada Goose is also a well-established brand known for quality craftsmanship and association with extreme-cold weather performance. Chinese consumers often value international brands with a strong reputation, and Canada Goose's iconic status can contribute to high brand recognition and aspiration.



Thesis 2: Direct-to-consumer (DTC) expansion strategy to propel profits (5/5)

DTC's yields significant margin benefits over wholesale.

Current Gross Margin Breakdowns

- Overall, 60-68% margin indicates strong branding over competitors
- Large disparity between sale channel: 76.3% margin for DTC, 50% margin for wholesale
- As Canada Goose increasingly disintermediates, weighted margin then increases over street estimation

DTC Margin Forecast vs. Street Forecast

- The street worries about SG&A and D&A costs associated with DTC, projecting lower or stable margins
  - However, Canada Goose considers initial brick-and-mortar investment into SG&A, which **temporary** eats into margins
  - Canada Goose's retail store costs are mostly fixed
  - D&A costs will increase, but are counterbalanced by the 25%+ margin increase
- Even with increased fixed and investment cost, projected margins increase, after weighting for DTC revenue:
- The numbers: 100 projected new stores by 2028, Average DTC Margin: 76.3%, Investment Cost: roughly $200,000 since stores are leased
- This analysis is bolstered by "commensurate revenue growth"

DTC Revenue Growth Strategies to Sustain High Margins

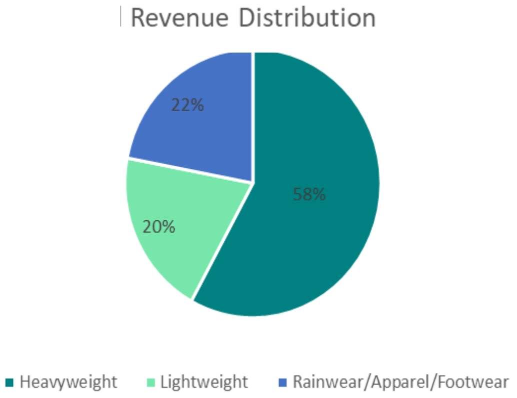
- **International Pricing Power:** Prices are generally higher outside of Canada. As Canada's consumer base becomes less important, we expect greater pricing power overall.
- **Economics of Scale:** As Canada Goose experiences revenue growth, it can benefit from economies of scale. Larger production volumes often lead to lower average production costs per unit, contributing to higher profit margins.
- **Operating Leverages:** Increased revenue allows Canada Goose to leverage its fixed costs more efficiently. When fixed costs are spread across a larger revenue base, the contribution margin (revenue - variable costs) increases, positively impacting overall margins.
- **Global Expansion and Market Penetration:** Revenue growth driven by global expansion and market penetration reinforces Canada Goose's position as a globally recognized brand. Diversifying into new markets and reaching a broader customer base contributes to sustained demand and premium pricing.

Thesis 3: Profit and stability through product expansion (1/2)

New product lines ensure a consistent, resilient, and large revenue stream, especially in non-winter months.

Strategy Overview: Brand Power Extension

- Canada Goose has been expanding into non-winter apparel to broaden their brand and revenue
- "Function-first" brand: "we seek to drive higher penetration and expand our geographic appeal." We intend to deliver year-round relevance consistent with Canada Goose's position as a performance luxury lifestyle brand.
- Acquired footwear company Baffin for $24 million



Early Expansion Success

- In 2011, Canada Goose released light down jackets for warm weather
  - After a relatively-slow launch, light down jackets now account for 20%+ of Canada Goose's revenue. The dream is to replicate such a success with other products
- Footwear: Canada Goose continues to release novel products with strong potential as footwear profits expand
- Rainwear and Apparel:
  - Canada Goose Rainwear and apparel items have been driving revenue growth as the fastest and second-fastest growing categories
  - As a result, heavyweight coats have decreased from 65% of revenue to roughly 58% of revenue

Product Launches

- Canada Goose has created product lines around rainwear, apparel, footwear, eyewear, luggage, home

Strategy Case Study: Category Dominance to General Dominance

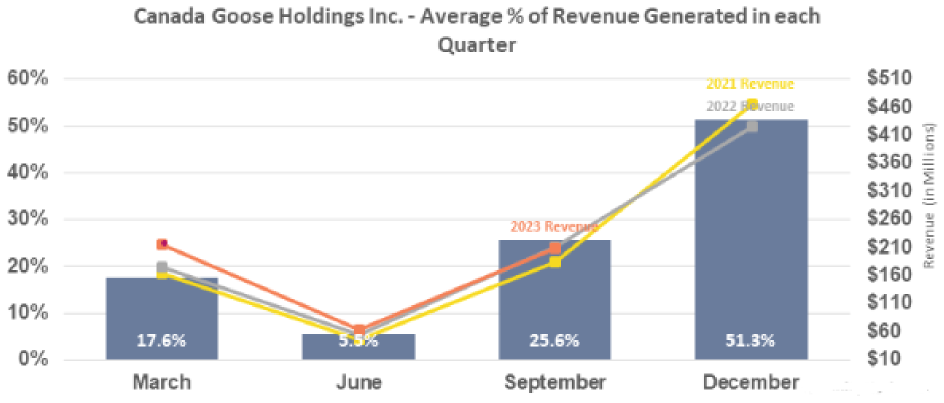
- In the fashion industry, brand name prestige carries across clothing type, even if the brand launched with only one main item
- Columbia Sportswear originated as a hat company before expanding into other clothing items and apparel
- Supreme began as a skateboard shop before selling a broad array of paraphernalia, including fashion items
- Luxury is ultimately more about name recognition than product; Canada Goose is thus set up for success in other product markets

Thesis 3: Profit and stability through product expansion (2/2)

New product lines ensure a consistent, resilient, and large revenue stream, especially in non-winter months.

Profitability in Non-Winter Months

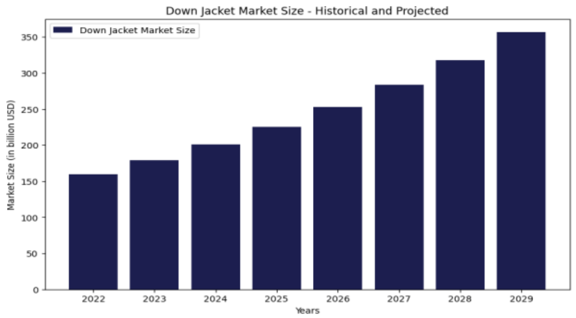
- Canada Goose typically has negative net income in Q2 and Q3, the non-winter months
- As DTC fixed costs remain, it remains increasingly important to sell product during non-winter months

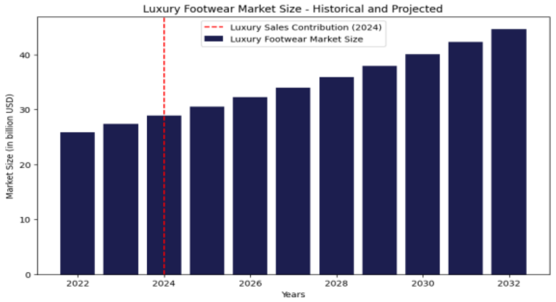


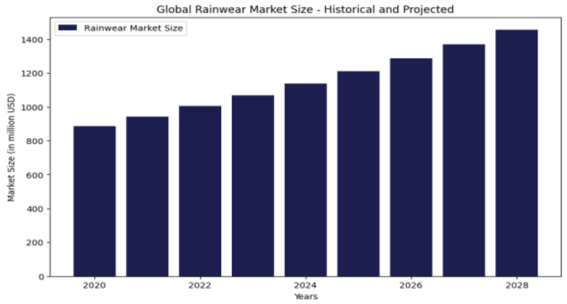
Increased Brand Awareness due to Geographical Possibilities

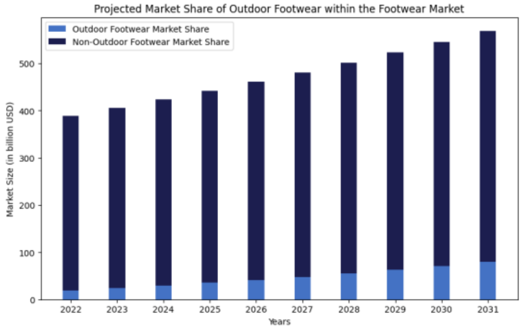
- Entering new geopolitical markets exposes Canada Goose to diverse consumer bases globally.
- Entry into different regions allow Canada Goose to tailor its market strategies and product offerings to match the cultural preferences of each market.
- Through local collaboration and localized marketing, luxury name brands can establish a strong foothold to further develop brand image.

Clothing Market Sizes









Other Comps

Levi's ← Category dominance in jeans converts to new products

BALENCIAGA

GUCCI

Thesis 4: The cyclical nature of high fashion, winter clothing (1/2)

Temporary troughs in both weather cycle leads to false devaluation of GOOS.

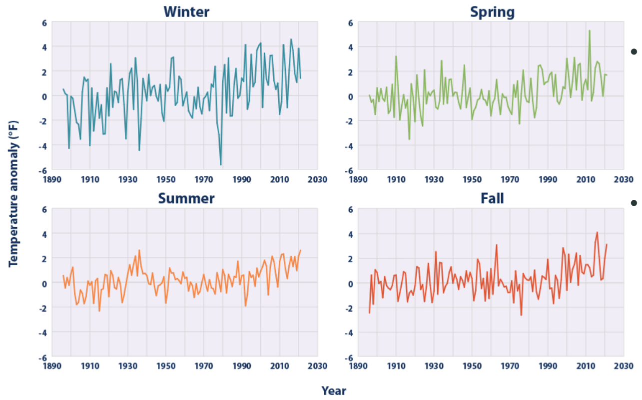
Weather–Revenue Relationship Overview

- GOOS has always had close ties to cold weather, which drives purchases in heavy winter coats
- The cold, three-year La Niña weather pattern has ended, and 2023 has brought warmer weather
- The street prices in short-term weather conditions into GOOS, contributing to significant decrease in stock price
- As Canada goose diversifies away from winter clothing, exposure to this correlation decreases

Near-Term Revenue Estimate

- Black Friday is by-far the most profitable day for Canada Goose
- Relatively-warm weather has delayed purchases of Canada Goose items
- However, Black Friday brought a cold spell across many parts of North America (i.e. coldest Black Friday temp. high since 2014, and 7th coldest of all time in hotspot regions)
- This drove many to purchase Canada Goose products on Black Friday, which is not yet reflected in earnings reports
- As those who waited for cold begin to purchase, expect higher-than-normal winter quarter earnings, reflective of weaker September earnings

Conservative Weather Prediction



- Minimally, we can expect a temperature drop within the next five years
- La Niña patterns may arise as soon as early 2024, which would boost GOOS revenue and stock

Contrarian Perspective from the street

- The street has overpriced global warming concerns and the impact of short-term weather on GOOS
  - Weather isn't constant throughout the globe. In several crucial areas of expansion, such as Australia, temperatures have dropped dramatically. This will soon be reflected in revenue figure.
  - Since Australia will drive revenue growth, the street has failed to take into account all weather implications
- The street is likely correct about some negative weather implications, as Canada Goose management reveals that warm weather stifled sales in Q3

Thesis 4: The cyclical nature of high fashion, winter clothing (2/2)

Temporary macroeconomic turmoil, starting with COVID-19, hurting Goos' bottom-line.

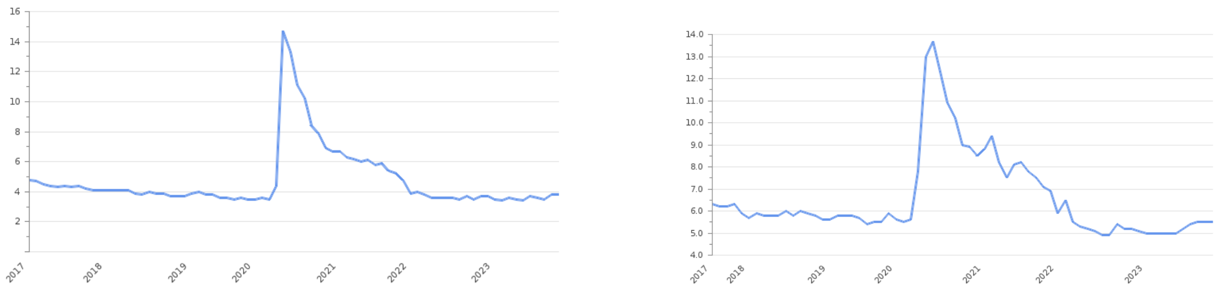
The Street's Two Main Views on Canada Goose and the economy (Bearish)

View 1

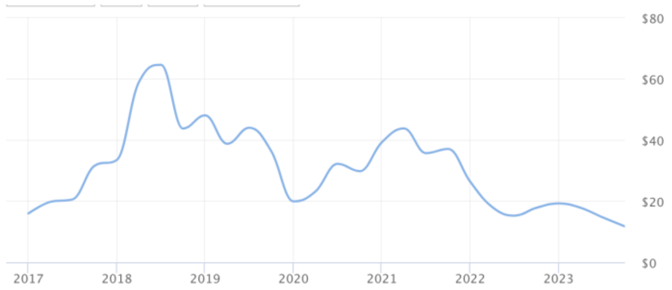
- The Luxury Industry has partly decoupled with macroeconomic cycles during the Covid-19 pandemic; thus, **Canada Goose's recent poor earnings must reflect inherent brand weakening or other inherent problems**
  - Even if consumer demand is no longer driven by large-scale booms, due to wealthy consumers, retailers still must offload inventory from pre Covid-19
  - In 2023, we saw a weakening of wholesale orders, even while consumer demand increased, to compensate for inventory buildup during COVID-19
  - We expect to see increased wholesale orders in upcoming months, since winter 2021-2022 has passed
  - Finally, even while demand remains high during economic downturns, demand will increase during upswings

View 2

- Canada Goose itself is correlated with macroeconomic cycles, **which presents an external risk,** given extended downturn
  - Relying on its strong brand, Canada Goose has proven its ability to weather detrimental macro events
    - Inflation and economic turmoil during Covid-19 did not impact Canada Goose for a significant amount of time
  - As economies rebound, Canada Goose will once again experience an increase in demand and revenue
  - Even as economies are cyclical, there remains a proven upper-class international consumer base that historically constitutes a stable and ever-growing revenue stream
  - We take this optimistic stance, implying greater revenue projections over the street.



US and Canada Unemployment over 2017-2023, respectively



GOOS stock price over 2017-2023

Thesis Risks

Potential Hazards and Risk Alleviation Strategies

Brand-Risk

- Canada Goose's entire business is its brand, which could be damaged if:
  - Difficult-to-catch quality control issues gain media attention
  - Consumer spending habits and sentiment shift
  - Creative designs from competitors gain traction
- **Alleviation Strategy: Strict quality control, fast IT and support for online orders, marketing campaigns that emphasize luxury, keep prices high**

Continued US-China Tension and Geopolitical Risk

- China constitutes a large market for Canada Goose, as well as a main driver of future growth
- If the United States and China compete economically, GOOS might be particularly harmed by tariffs or reduced market size
- **Alleviation Strategy: As a multinational corporation, fly under the radar. Acknowledge that clothing is not a critical industry and will not likely be targeted in tensions.**

DTC Legal Implications and Complications

- Expensive IT Infrastructure necessary to maintain steady order flow
- Organization and marketing of eCommerce strictly regulated
- Costly and complex operational challenges, harming margins
- **Alleviation Strategy: Tackle the short-term problem until operational frameworks are learned and predictable, slowly expand into new countries**

Continued Macroeconomic Risk

- Decreased consumer purchasing power may continue to reduce demand for luxury items
- Canada Goose will weather the storm with a loyal group of demand-inelastic consumers globally
- Nonetheless, FCF in upcoming years may be hampered, which impacts stock valuation
- **Alleviation Strategy: Price effectively to preserve margins, as with the successful Covid-19 strategy**

Contrarian Position, Near-term Catalysts, and Comps Analysis

The Realization of our theses

KPI	Street Consensus	Our Estimation	Explanation	Impact
Gross Margin	60%	70%	DTC strategy and brand power	Gross Margin > Consensus
Near-Term Revenue	$1,019m	$1,200m	Weather evaluation, DTC	Revenue > Consensus
Long-Term Revenue	$1,270m	$1,700m	Global markets, DTC, New products	Revenue > Consensus

CCA Analysis

- GOOS trades at 9.58 forward P/E and 8.61 EV/EBIDTA
- Columbia Sportswear (COLM) trades at 17.86 forward P/E and 9.49 EV/EBITDA.
- VFC trades at 9.22 forward P/E and 13.91 EV/EBITDA
- Moncler trades at 23.04 forward P/E and 13.59 EV/EBITDA.
- GOOS' closest comp is Moncler, and we believe that they should trade roughly on par. Relative to all other comps, GOOS is trading significantly below value. Conservatively, we expect an EBITDA enterprise multiple of 13.00 within one year, which implies a share price greater than $25. (We use our DCF valuation implied share price, as it is lower.)

Catalysts

12/28/23 **Expansion News:** successful par tnership, expansion, purchase in another country

2/1/24 **Q1 Earnings Report:** no large one-time purchases, preliminary test of winter sales

5/15/24 **Q2 and Q3 Earnings**: a test of new product lines

6/1/25 Expansion plan impacts palpably impacts revenue, new product lines constitute substantial portion of revenue, final test of solvency

Discounted Cash Flow Model and Valuation

Outlook spurred on future price movement

	Projected				
Fiscal Year	2024	2025	2026	2027	2028
Revenue Wholesale	558	600	660	696	720
Revenue DTC	1188	1320	1440	1560	1680
Other	0	0	0	0	0
DTC Proportion of Revenue	*0.68*	*0.69*	*0.69*	*0.69*	*0.70*
Total Revenue	1746	1920	2100	2256	2400
Cost of Goods Sold (Direct Costs)	555.21	603.6	657.6	699	729.6
Gross Margin Wholesale (Cons.	50%	50%	50%	50%	50%
Gross Margin DTC (Cons.)	76.75%	77.00%	77.25%	77.50%	78.00%
Gross Margin Other	0%	0%	0%	0%	0%
Gross Margin	*68.20%*	*68.56%*	*68.69%*	*69.02%*	*69.60%*
SG&A	739.32	791.20	828.80	875.28	919.60
% SG&A of Revenue Wholesale	18%	18%	18%	18%	18%
% SG&A of Revenue DTC	26%	26%	25%	25%	25%
Weighted % SG&A of Revenue \	23.44%	23.50%	22.80%	22.84%	22.90%
Other	330	340	350	360	370
D&A	99	101	103	105	107
DTC	82	84	86	88	90
Wholesale	4	4	4	4	4
Other	13	13	13	13	13
Total Operating Profit	352.47	424.20	510.60	576.72	643.80
Operating Margin	*20.19%*	*22.09%*	*24.31%*	*25.56%*	*26.83%*
EBIT(1-t)	260.8278	313.908	377.844	426.7728	476.412
Assumed Tax Rate	26%	26%	26%	26%	26%
(+) D&A	99	101	103	105	107
(-) Change in NWC	80	80	80	80	80
(-) CapEx	70	60	60	60	60
UFCF	209.8278	274.908	340.844	391.7728	443.412
Discount Rate	12.51%	12.51%	12.51%	12.51%	12.51%
Compounded Discount Rate	26.59%	42.44%	60.26%	80.32%	102.88%
PV of UFCF	165.75	193.00	212.68	217.27	218.55

Financial Commentary and Assumptions (in $CADm)

- Financial assumptions conservatively chosen against thesis
- We adopted a lower estimate than corporate revenue projections for year 1, which aligns with our market analysis. We continue to project relatively pessimistic revenues.
- Canadian accounting loops D&A with cost of sales. We assumed this to be initially 99 and increasing to account for DTC stores.
- SG&A increases due to increase of 16 DTC stores
- Effective tax rate is 26%, down from the typical Canadian 38%
- Conservatively, we did not analyze the Japanese or South Korean markets and did not include in revenue projections
- We project five years per our time horizon, but we expect the market to converge with our theses after several benchmarks within three years

Target Price Implications

- Using Gordon Growth method with a conservative perpetuity growth rate of 3% and conservative WACC of 12.51%.
- We get an implied equity value $2,116 million (USD)
- Given 102,468,461 outstanding shares, this gives us an implied share price of $20.75 (USD).

CANADA GOOSE HOLDINGS INC (NYSE: GOOS)

Recommendation: Long

Date: 1/13/24
Current Price: $11.78
Base-Case Target Price: $20.75

Time Horizon: 6m - 3y
Implied Upside: 76.15%
Equity IRR: 20.8%

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HARVARD

Appendix A-Financial Statements

*Based upon evaluation of financial statements and the street belief, the concern with GOOS most likely stems from its recent poor EBIT performance. However, the EBIT holds much higher odds pf tracking to strong positive regions based on gross margin improvement, increase in scale of revenue and supply chain efficiency.

*On inventories, compared to the previous quarter, 1Q24 saw a sequential increase in inventory growth of 3.4%. If the company continues to drive increased flexibility and control over inventory, this should lead to improvement in inventory management which should further improve gross margin quality, thus reducing risk to volatility. This was clearly demonstrated by the quarter's decision to merge two of the Montreal factories into a single facility to increase overhead production and manufacture a larger share of the company's products in-house.

GOOS	(millions)
Enterprise Value	1,800
(+) Cash & Short Term Investments	38
(+) Investments & Other	0
(-) Debt	887
(-) Other Liabilities	4
(0) Preferred Stock	0
(-) Other Liabilities	0
Value of Common Equity	1,517
(/) Shares Outstanding	100.9
Implied Stock Price	15.03
FX Conversion Rate to Trading Currency	1.35
Implied Stock Price	11.1
Trading Currency	USD
FX Rate to Reporting Currency	1.35

GOOS	millions
Latest Fiscal Year	Apr-23
LTM Period	Oct-23
EBITDA	
LTM Prior EBITDA	194
LTM EBITDA	168
FY EBITDA	180
Next Fiscal Year EBITDA	276
Fiscal Year After Next EBITDA	313

GOOS	LOW	MID	HIGH
Benchmark EV/LTM EBITDA	(-)51.2x	15.7x	41.2x
Historical EV/LTM EBITDA	14.0x	19.4x	52.3x
Selected EV/LTM EBITDA	16.9x	17.8x	18.7x
(x) LTM EBITDA	168	168	168
(=) Implied Enterprise Value	2,841	2,991	3,141
(-) Non-shareholder Claims	853	853	853
(=) Equity Value	1,988	2,138	2,287
(/) Shares Outstanding	100.9	100.9	100.9
Implied Value Range	20	21	23
FX Rate: CAD/USD	1.35	1.35	1.35
Implied Value Range	15	16	17
Upside/Downside)	31.10%	41.00%	50.80%

Historical EBITDA Growth	
5 Y CAGR	3.40%
3Y CAGR	-9.60%
Latest Twelve Months	-13.40%
Historical EBITDA Profit Margin	
5 year Average Margin	18.50%
Prior Fiscal Year	18.50%
Latest Fiscal Year	14.80%
Latest Twelve Months	13.60%
Current Trading Multiples	
EV/LTM Revenue	1.98x
EV/LTM EBITDA	14.6x
EV/LTM EBIT	19.6x

Projected EBITDA Growth	
5 Year Forward CAGR	42.40%
10 Year Forward CAGR	37.90%
Next Fiscal Year	53.40%
Fiscal Year After Next	13.00%
Projected EBITDA Profit Margin	
5 Year Forward Average	30.40%
10 Year Forward Average	38.30%
Next Fiscal Year	21.70%
Two Fiscal Years Forward	21.80%
Three Fiscal Years Forward	22.10%
EV/Fwd Revenue	1.86x
EV/Fwd EBITDA, FY+1	8.6x
EV/Fwd EBITDA, FY+2	7.6x
EV/Fwd EBITDA, FY+3	7.0x

Appendix B: Thesis Overview

A heritage brand with a future-focused vision // COVID-19 Late-Stage Rebound

- **Canada Goose's branding moat in a brand-driven industry**
  - Margins in the 70s, a margin rarely seen in comparable companies
  - Allowed Canada Goose to fight inflation and easily weather COVID-19
  - Startups lack brand name to compete in the luxury name cheaper-price market
- **Direct-to-consumer (DTC) stores drives expansion and profit**
  - Establishes global footholds in untapped markets, with estimated value $1.4 B
  - Improves consumer experience and relations through trusted venues and luxury experience
  - Disintermediation improves margins by 10%
  - Revenue streams stabilized, reduced dependence on retailers
- **Production Expansion Powers revenue diversification and prospects**
  - Leveraging brand name to other high-fashion industries
  - Reduces seasonal cyclicity and location-dependence.
  - Allows for greater US penetration (LA, Seattle, Las Vegas, Australia, etc.)
  - "Columbia sportswear"-esque growth. Slow and strategic product expansion
- **Macroeconomic and Weather Cycles will rebound**
  - Canada Goose's business model is extremely cyclic by nature.
  - All key driving cycles are in a trough.
  - Stores offload inventory of Canada Goose post Covid-19, temporarily lowering retail orders, appearing as weakened sales on income statement
  - Warm winter lowers last-quarter sales

Key Debates

•Brand equity, especially with regards to new, non-winter apparel and US sales

•US-China Relations, and China as a market

•International brand power

•Direct-to-consumer business model effectiveness

Differing Street View

- Delayed cold weather impacts revenue
- Receding brand influence slows sales growth
- Macroeconomic downturn negatively impacts luxury brands
- Management slashes projections---shows weakening growth and profit potential
- Souring US-China relations (smaller China market)
- Canada Goose has decoupled from macroeconomic cycles---weakened sales and projections are inherent

Appendix C

Addressing Recent Price Movement

GOOS Price Increase

- In the past month, GOOS has increased 10% in value, bringing its market capitalization to $1.19 billion
- Catalysts include:
  - the realization of the partnership in Australia and the launch of the first brick-and-mortar store in Australia
  - Optimism regarding Black Friday and upcoming winter sales
  - Purchase of a European manufacturing center, streamlining supply chain
- Out theses have not yet been fully realized, but this recent price action demonstrates the fast reaction the street will have to improved earnings

Appendix D

Acquisition Potential

Acquisition is not impossible

- The devalued Canada Goose is a decent target for acquisition
- This is an EV play: the chances of acquisition is small, but the windfall is substantial
- Expert opinion agrees that this is possible due to undervaluation relative to peers, strong sales growth
- Potential Acquirers include LVMH, Hermes, Tapestry

Appendix E

Management

Dani Reiss, CEO

- Grandson of Founder
- Grown small company into an internationally recognized brand
- Strong visionary for the future

Jonathan Sinclair, CFO

- Many years of operational experience
- Led JimmyChoo through acquisition
- Background in direct-to-consumer

Penny Brook, Marketing

- Marketing experience in fashion and electronics
- Creative marketing focus

John Moran, COO

- Extensive experience in apparel industry
- Focus on maximize profits with quality
- Former strategic planner at Robert Talbott Inc.

Carrie Baker, President

- Responsible for global growth
- Oversees company engagement
- Led company through IPO

Appendix F

Canadian Accounting

Complex Accounting System

- We believe that part of the misevaluation of GOOS stock is due to relatively opaque and complex Canadian accounting practices
- Clear and granular data is more difficult to access---more reliance on corporate statements and interviews and less reliance on financial statements is required
- Canadian standards are also slightly different than American---this difficulty accounts for a misunderstanding of financial statements and corporate activities