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Canada Goose Holdings Inc. (TSX: GOOS)

Consumer Discretionary (Apparel / Luxury Goods)

Conviction: **HOLD**

Valuation

Shareprice	$34.00
2022E Fair Value	$41 - $45
Expected HPR	21% - 32%
PE range	25x - 29x
TV/EBIT range	28x - 33x
Conviction	HOLD

Market profile ($mlns)

52 week range	$27.02 - $53.64
Market cap	$3,322
Net debt	$455.1
Enterprise value	$3,777
Beta (5 year)	1.39

Metrics (000s)	2022E	2023E	2024E
DTC ($)	$617	$755	$874
Wholesale ($)	$269	$279	$278
EBITDA ($)	$292	$388	$418
EBIT ($)	$203	$274	$285
EPS ($)	$1.33	$1.85	$2.14
P/E (X)	27.0x	25.9x	22.8x
EBIT (X)	30.0x	27.0x	23.0x

A company overview- Canada Goose Holdings Inc.(TSX: GOOS) is a designer and manufacturer of premium outerwear that sells through its Wholesale and Direct-to-Consumer (DTC) channels throughout North America, EMEA, and APAC. GOOS operates in 51 national e-commerce markets and in 38 directly operated retail stores globally. The company was founded in 1957 and is head quartered in Toronto, Canada. GOOS has been led by CEO, Dani Reiss, since 2001.

Investment Thesis- GOOS has shown strength navigating the pandemic, retaining its product and price discipline while simultaneously investing in the future of the company most recently with: **(1)** their push into China (one of the worlds largest consumers of luxury goods); **(2)** creating new product lines (releasing a shoe line in 3Q21); **(3)** growing e-commerce sales (+34% y/y as of 2Q21); and **(4)** shifting sales towards its DTC channels. GOOS made healthy progress in its most recent quarter. However, they have still not returned to pre-pandemic productivity. Doing so hinges on (among other things) a return to international travel and the reopening of economies both of which may not materialize for a while. GOOS has an attractive growth story, but I wonder how much growth has already been priced in when considering their trading multiples. With that said, I am recommending a **HOLD** rating.

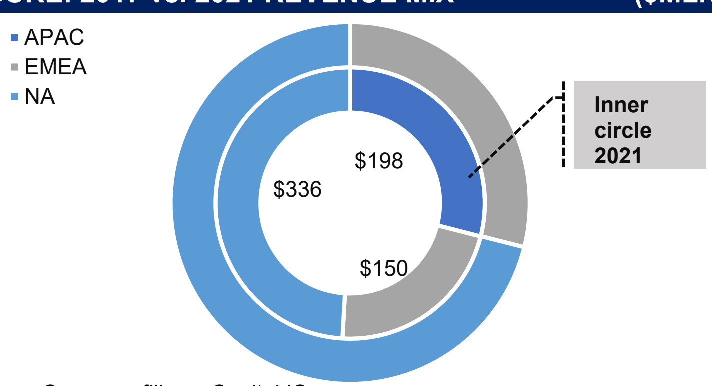
Catalyst 1: Revenue diversity and pandemic strength- GOOS has an attractive georevenue mix that's split (roughly) equally between North America, APAC, and (cont'd)

(cont'd) EMEA and has proved to help the company during uncertain times, potentially offsetting larger losses. Notably, more georevenue exposure means more seasonality in sales. However, the benefits of georevenue seem greater despite some potential seasonality headwinds, as displayed in their 2Q21 earnings. The company ended the period with strong sales (+19.6% y/y, vs. street est.: -4%) mainly on the back of strength in its DTC segment (+80.1% y/y) coupled with robust APAC and US sales (+41% and +57.1% y/y respectively). Gains were offset by lagging Canadian revenue (-24.4%) on the back of reduced overall tourism in major retail centers.

Catalyst 2: Continuing to recover DTC sales- DTC sales are essential to the growth story of GOOS given the segment's lofty margins (2Q21: 79% vs. 44% wholesale). 3Q21 will offer more color, but GOOS set an encouraging trajectory in 2Q21, showing signs of online and in person sales on track to reach pre-pandemic levels. As economies show promising signs of re-opening, a recovery in margin and sales could come to fruition by 2H22. Moreover, the company will likely exceed its 10 anticipated store openings, with mainland China now reaching 15 locations.

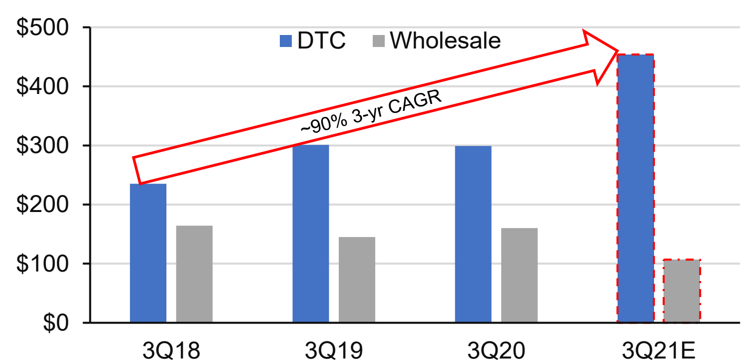
Catalyst 3: Pent of demand for consuming- Over 2H21, consumers showed a willingness to spend as seen in the Bureau of Economic Analysis' most recent report, which explained how the US trade deficit was up +27% y/y; highlighting the consumer spending frenzy as a primary driver. Other luxury brands which have been reporting mentioned robust demand in North America and APAC in particular. Topline sales are expected to be around up $550 mln (+16% y/y) driven by strength in e-commerce. All of these realities paint a nice picture of near term growth for the company.

FIGURE: 2017 vs. 2021 REVENUE MIX ($MLNS)



Source: Company filings; Capital IQ

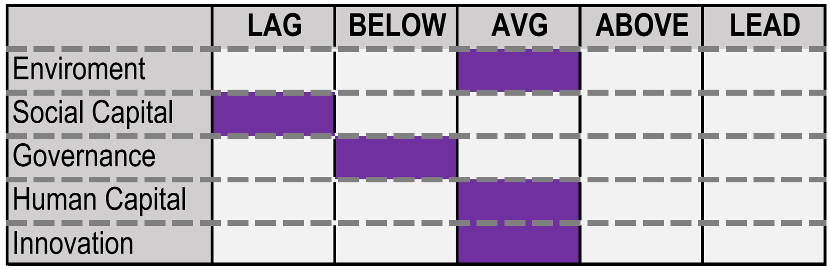
FIGURE: 3Q EARNINGS HISTORY ($MLNS)



Source: Company filings; Capital IQ

Concern 1: GOOS ranks average at best in terms of ESG- GOOS is certainly not a leader in ESG ratings, ranking below average in fields such as Social Capital and Governance. Considering the current state of the labor market, my eyes are set on watching the unionization efforts unfold from GOOS' 1,200 Canadian garment workers which had an overwhelming 90% agreement to unionize according to CBC in December 2021. Efforts to unionize indirectly speak to how management has treated workers, which doesn't appear to be good. More to come from this, but 1,200 workers is about 1/3 of their total workforce and is not immaterial to their operations.

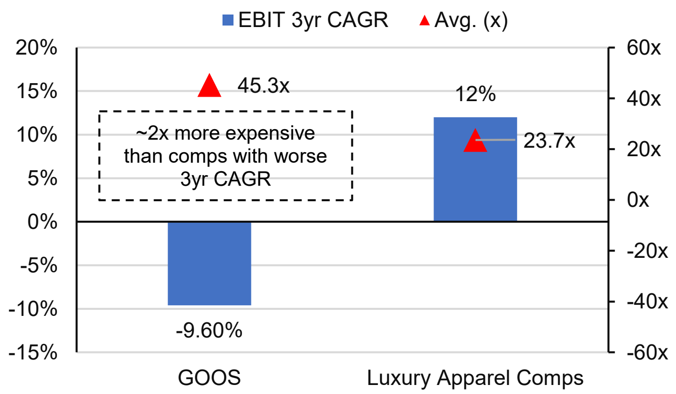
FIGURE: OVERALL ESG RANKINGS



Source: Truvalue Labs; FactSet

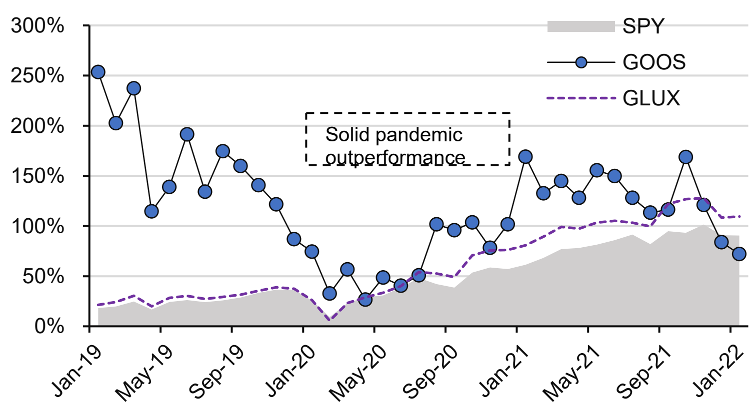
Concern 2: Setting the bar higher and higher- GOOS has years of future growth priced into it at a time of relative fragility/volatility in markets with looming COVID-19 lockdowns coupled with a congested supply chain, implying that one bad quarter could send the company spiralling. When comparing EV/EBITDA, EV/EBIT and PE, GOOS trades at a premium without necessarily producing premium growth rates vs. its peers per se (seen below). Offsetting concerns is the (potential) growth to come after recent news about G20 economies starting to open back up.

FIGURE: LTM EBIT vs. GROWTH RATES ($MLNS/X)



Source: Company filings; Capital IQ; Bloomberg

FIGURE: TRADING HISTORY[1] ($)



[1] GLUX = Amundi Global Luxury ETF

Valuation: Blue Sky scenario- contemplates a strong recovery in economies that would ideally reflect in GOOS earnings. With that said, an EPS of +15% and EBIT of +20% above their respective forecasts would achieve this scenario.

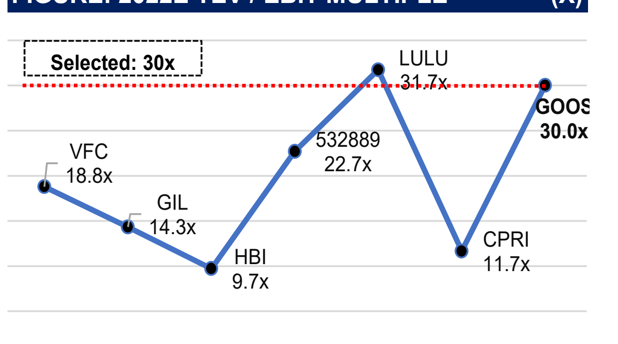
Valuation: Grey Sky Scenario- Is based on economies not opening at the expected rate and travelling not picking back up, resutling in an EPS and EBIT miss by -10%, placing the company in overvalued territory.

PE exit- The overall luxury fashion space has an average multiple of about 33x,I chose to exit GOOS with a selected 2022E PE multiple of 27x coupled with my EPS target of $1.60, I was left with a 2022E target price of $43.

EBIT/EV exit- Currently, the peer average is 21.8x and GOOS trades at ~44.1x, which appears quite expensive. Factoring in the growth trajectory set in 2Q21, I selected a multiple of 30x, leaving a target price of $44.9.

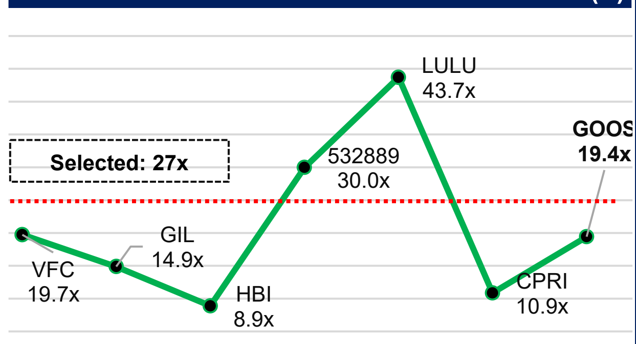
Conclusion- As mentioned in the beginning, I am recommending a **HOLD** rating despite some near-term earnings catalysts. Compared to street estimates, my selected multiples are conservative, resulting in a price range of $40-45, implying a ~30% ROI. Though this doesn't seem like a bad return, interest rates are rising, COVID is looming, and GEO political tensions are high, making the risk-reward unattractive.

FIGURE: 2022E TEV / EBIT MULTIPLE (X)



Source: Company filings; Capital IQ

FIGURE: 2022E PE MULTIPLE (X)



Source: Company filings; Capital IQ

Graphs on 2Q earnings + 2E 1/4s

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