

# CANADA GOOSE



## Canada Goose Holdings Inc. (TSE: GOOS)

September 15<sup>th</sup>, 2019

**Tyler Chiu**  
Sr. Portfolio Manager

**Kyle Johnston**  
Portfolio Manager

**Isabella Farag**  
Portfolio Manager

**Dean Ponce**  
Analyst

# Agenda

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## CANADA GOOSE

**1** Company Overview

**2** Industry Outlook

**3** Investment Thesis

**4** Valuation

**5** Recommendation

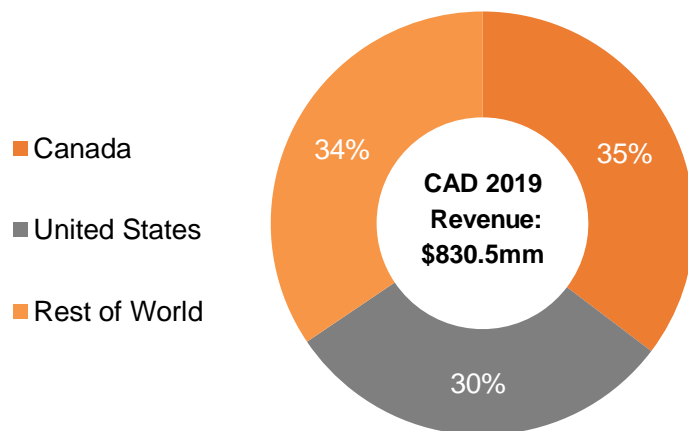
**6** Catalysts and Risks

# Canada Goose Holdings Inc. (TSE: GOOS)

## Business Description

- Canada Goose Holdings Inc. (TSE: GOOS) designs, manufactures, and sells premium outdoor apparel for men, women, and children
- The company is geographically diversified, operating stores in 11 countries and selling items through their e-commerce platform in 12 countries
- Canada Goose adopts both a wholesale and a direct-to-consumer business model
- The firm was founded in 1957, with its headquarters in Toronto

## 2019 Segmented Revenue

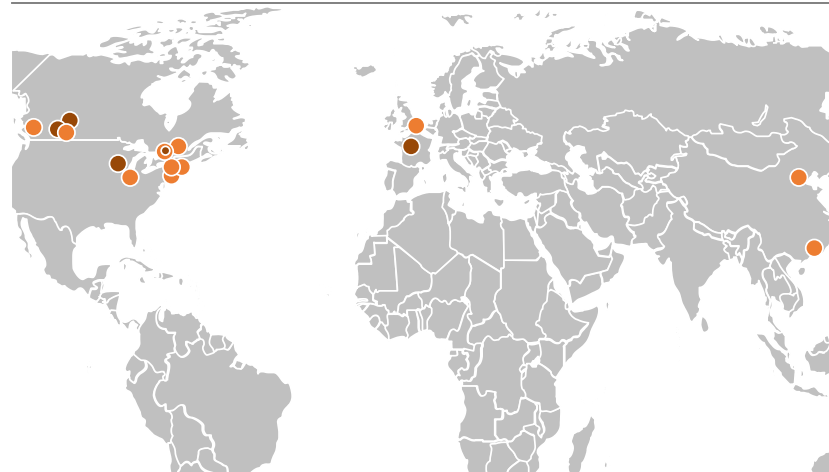


## Management Team



Name	Dani Reiss	Jonathan Sinclair	Jacob Pat	David M. Forrest
Position	Chairman & CEO	CFO & Executive VP	CIO	General Counsel
Years Exp.	22	25+	11	13
Background	Previously Director at Canada Goose	Previously CFO of Speedo International and COO of Jimmy Choo	Previously VP Information Technology	Previously General Counsel of Thomas Cook North America

## Store Locations<sup>1</sup>



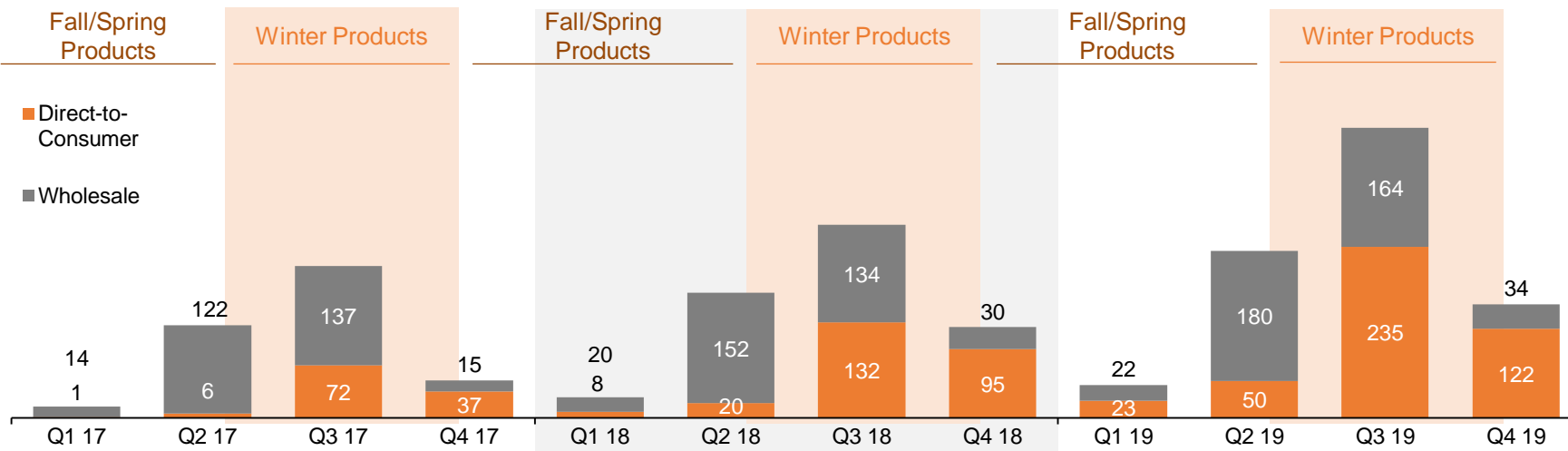
# Business Model and Trends

## Product Diversification Throughout Company History



## Revenue Seasonality and Growth in Direct-to-Consumer Sales

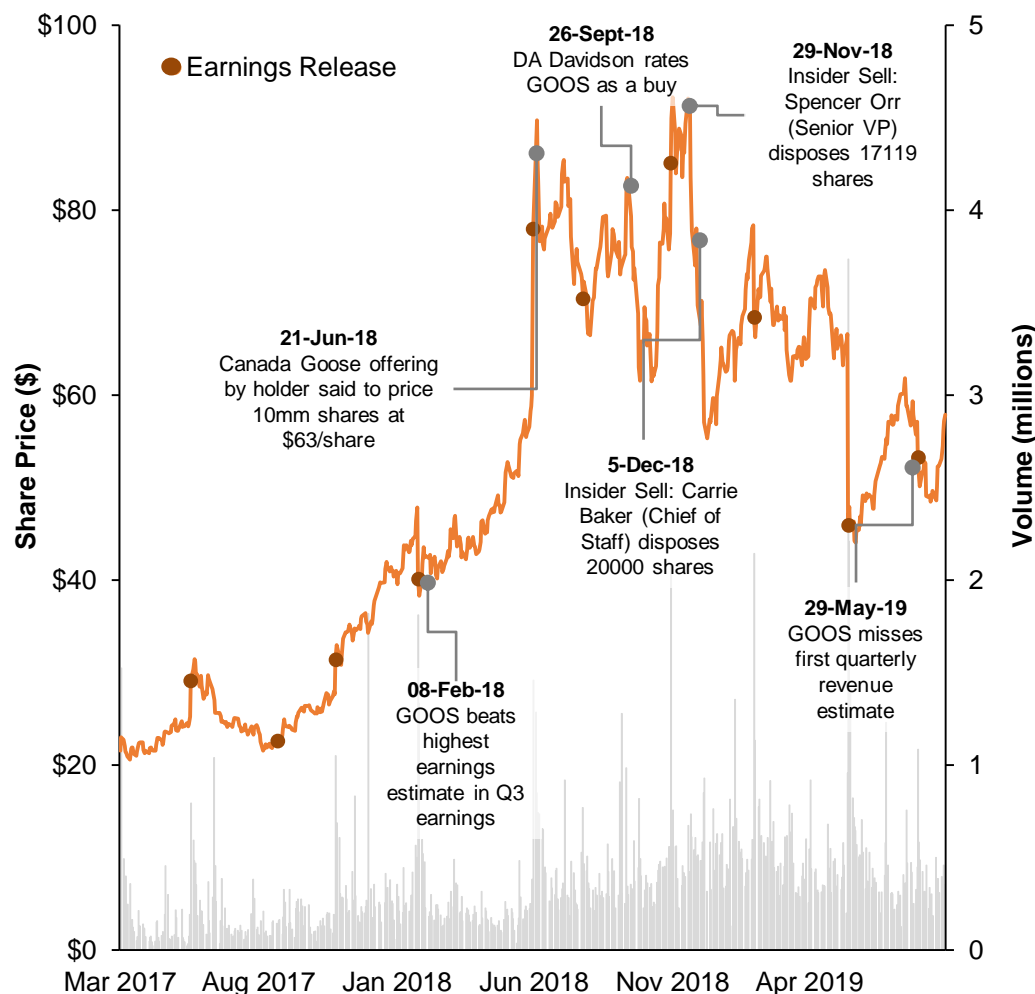
(in CAD\$ millions)



Source: Company Filings, S&P Capital IQ, Company Website

# PV Chart and Capitalization Table

## Price-Volume Analysis



## Market Data

(in CAD\$ millions)

### Capitalization

Share Price (06-Oct-2019)	(C\$)	\$54.52
Basic Shares Outstanding	(mm)	109.5
Diluted Securities	(mm)	1.2
<b>Market Capitalization</b>	<b>(C\$ mm)</b>	<b>6,036</b>
(-) Cash & Equivalents	(C\$ mm)	(25)
(+) Short-Term Debt	(C\$ mm)	28
(+) Long-Term Debt	(C\$ mm)	488
(+) Minority Interest	(C\$ mm)	-
<b>Enterprise Value</b>	<b>(C\$ mm)</b>	<b>6,527</b>

### Trading Multiples

EV / 2018A EBITDA	-	22.9x
EV / 2019A EBITDA	-	17.7x
EV / 2020E EBITDA	-	14.4x
P / 2018A EPS	-	34.4x
P / 2019A EPS	-	26.8x
P / 2020E EPS	-	21.6x

### Market Data

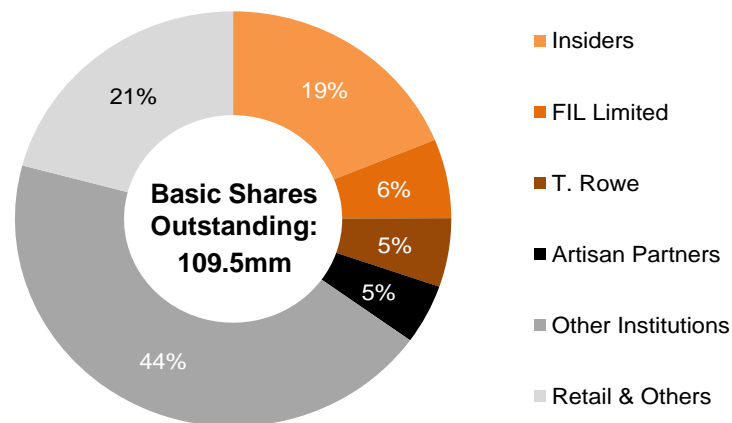
52-Week High	(C\$)	\$95.58
% of 52-Week High	(%)	57.0%
52-Week Low	(C\$)	\$42.38
Levered Beta	-	1.00

# Shareholder Overview

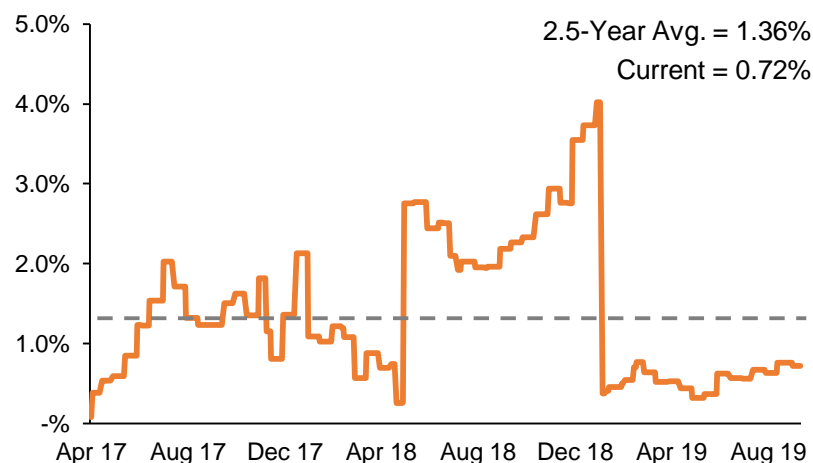
## Shareholder Summary

<i>(in millions)</i>	<u># of Shares Held</u>	<u>% of Shares Outstanding</u>
<b>Insiders</b>		
Dani Reiss	20.1	18.4%
John Black	0.1	0.1%
Pat Sherlock	0.1	0.1%
Stephen K. Gunn	0.1	0.0%
Other Insiders	0.2	0.1%
<b>Total Insiders</b>	<b>20.6</b>	<b>18.8%</b>
<b>Institutions</b>		
FIL Limited	6.7	6.2%
T. Rowe Price Group, Inc.	5.9	5.3%
Artisan Partners Limited Partnership	5.1	4.6%
Columbia Management Investment Advisers	4.0	3.6%
FMR LLC	3.2	3.0%
Fred Alger Management, Inc.	3.2	2.9%
American Century Investment Management	3.2	2.9%
Lord, Abnett & Co. LLC	3.2	2.9%
Capital Research and Management	2.5	2.2%
Eagle Asset Management, Inc.	2.2	2.0%
Carillon Tower Advisers, Inc.	1.7	1.6%
The Vanguard Group, Inc.	1.5	1.4%
Other Institutions	23.7	21.6%
<b>Total Institutions</b>	<b>66.1</b>	<b>60.4%</b>
Retail & Other Investors	22.8	20.9%
Public Float	88.9	81.2%
<b>Total Basic Shares Outstanding</b>	<b>109.5</b>	<b>100.0%</b>

## Ownership Structure



## Short Interest



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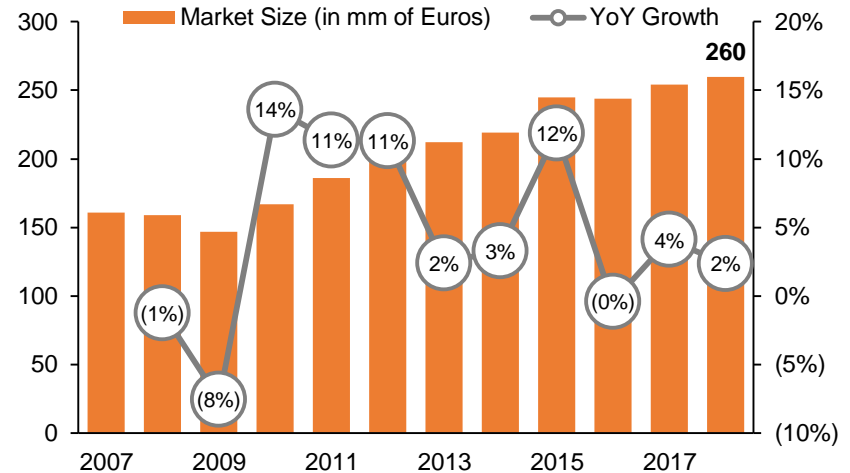
**6** Catalysts and Risks

# Global Luxury Industry

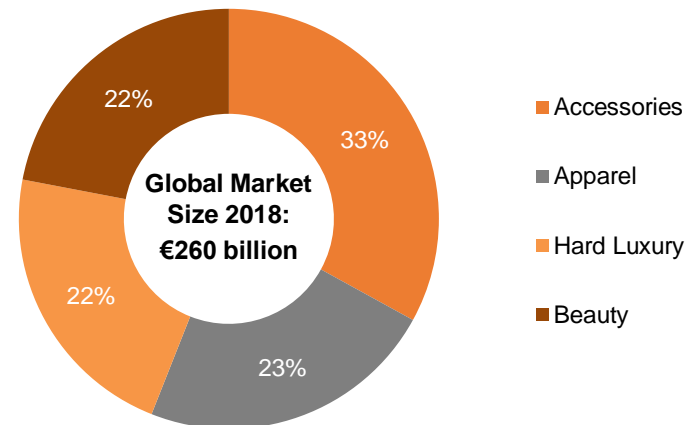
## The Global Luxury Industry

- The luxury goods and services industry encompasses a wide variety of subsectors spanning personal luxury goods, cars, hospitality, food and wine, and more
- The industry grew 5% in 2018, totalling a €1.2 trillion market (CAD\$1.8 trillion)<sup>1</sup>
  - The subsector of personal luxury goods outpaced industry growth, growing at 6% annually for a total size of €260 billion (CAD\$390 billion)<sup>1</sup>
- Industry growth can be attributed to
  - the emergence of new geographic markets;
  - a rise in demand from younger demographics and;
  - an increase in disposable incomes in developed, saturated markets
- Industry structure is evolving from a wholesale-based model to a retail-based experience
  - In 2018, the retail segment grew 4% while the wholesale segment grew 1%

## Personal Luxury Sector<sup>2</sup>



## Personal Luxury Sector Breakdown

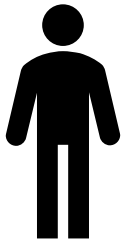




# Trends Contribute to Attractive Luxury Retail Landscape

## The Emergence of a New Customer: HENRY<sup>1</sup>

- HENRYs represent the emerging consumer profile - those who are **high-earners-not-rich-yet**:

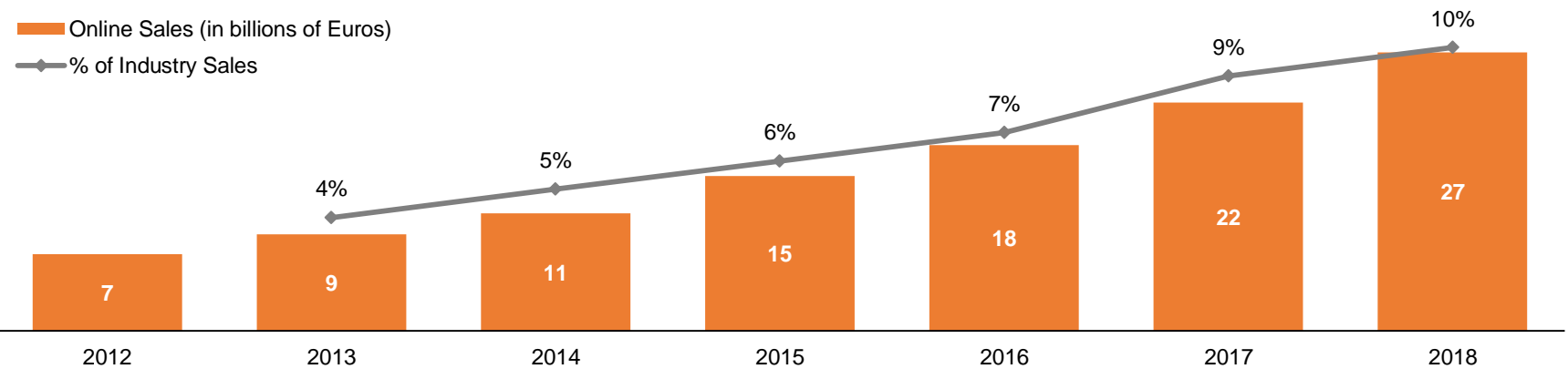


- Generation Y & Z consumers expected to total 55% of the market by 2025
- Multicultural consumers as developing countries grow their middle class and underserved cultural markets are catered to
- Individualistic consumer that demands personalized products and services

## Mergers & Acquisitions

- The Fashion & Luxury industry saw 265 M&A deals in 2018, 28% of which were in the Apparel & Accessories sector
- European companies experienced a high growth in M&A activity – the sector saw 41 more deals compared to 2017
- The majority of European Fashion & Luxury M&A deals were completed by strategic investors as European players attempted to consolidate and position their brands to penetrate Asian markets

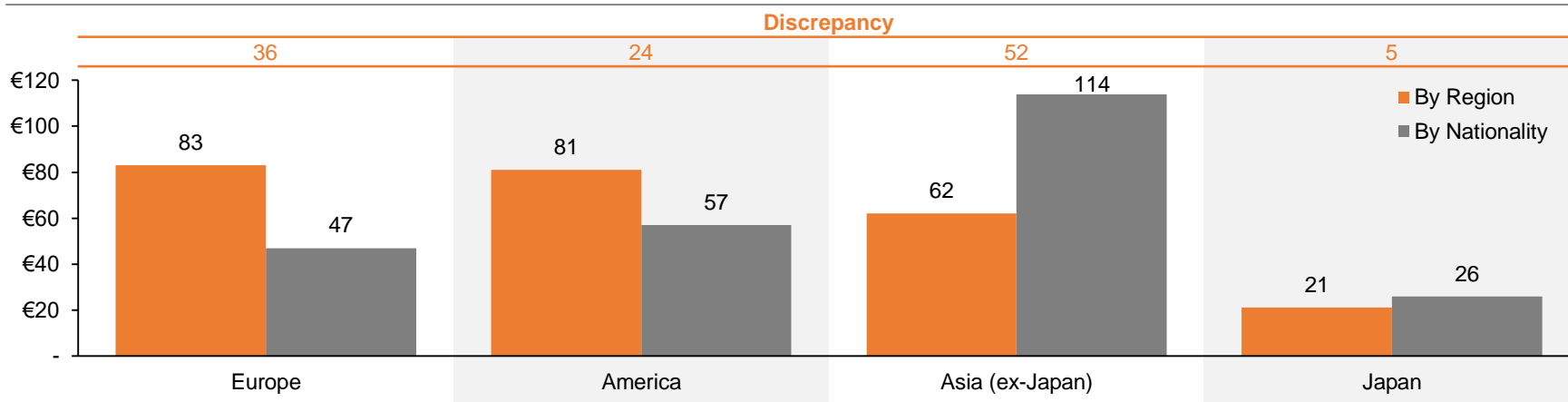
## Maturity of Online Shopping Channels<sup>2</sup>



Research claims the e-commerce market will mature at ~10% of the total market

# Sizing Up: Regional Analysis

## Consumers by Region vs. Nationality<sup>1</sup>



Asian consumers display a significant affinity towards luxury goods, and tend to purchase them abroad

## Regional vs. Nationality Analysis

- Europe and the Americas saw the highest nominal sales in the personal luxury market, and are both expected to grow at a modest pace
  - The two regions contributed 32% (€83 billion) and 31% (€81 billion) respectively to industry sales
- Despite the majority of sales coming from the European and American regions (€83 + €81 billion), the majority of personal luxury goods spending was done by consumers of Asian nationality (€114 billion)
- The largest discrepancies of regional vs. nationality sales occurs in both the Asian and European markets
  - Historically, consumers of Asian nationality have purchased luxury goods in European and American markets due to favourable exchange rates and the availability and popularity of luxury brands
- For future projections, the Asian market by region and nationality is expected to grow at the fastest rate

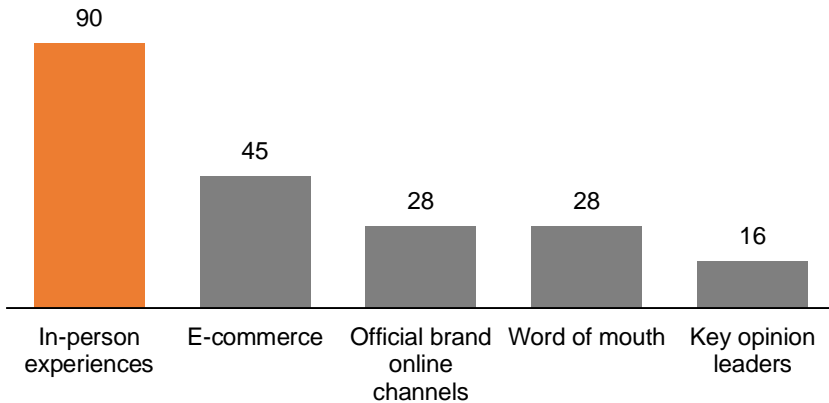
# Chinese Luxury Market

## Market Overview

- China's recent economic development has allowed its citizens to realize higher per capita incomes
  - 350mm making \$2.6K - \$3.9K by 2025, representing a 28% CAGR from 2018
- Young Chinese consumers use luxury products as a form of social capital to demonstrate individualism amongst the most populous urban landscape
  - This has supported luxury consumption through foreign brands, which are harder to find in the Asian economy
- Brands of European and American heritage are expanding into Asian markets, driving higher domestic consumption amongst luxury buyers in China
  - By 2025, Chinese consumers will purchase 50% of their luxury goods in China, up from 24% in 2017

## Primary Purchase Drivers in China

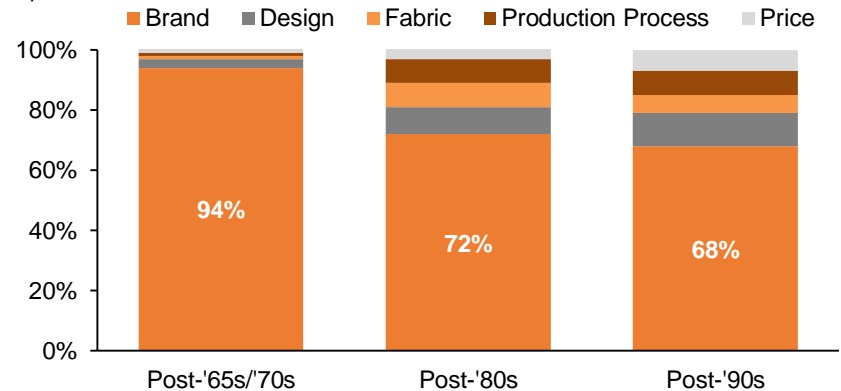
% of survey respondents



Chinese consumers value in-store experiences, which supports GOOS' DTC-centric expansion strategy within China

## Buyer Preferences Support GOOS

% of respondents who selected reason as no. 1 contributing factor behind purchase



Younger consumers prefer quality and design in tandem with brand, two characteristics emphasized in GOOS's products

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# Proof of Secular 'Veblen' Effect

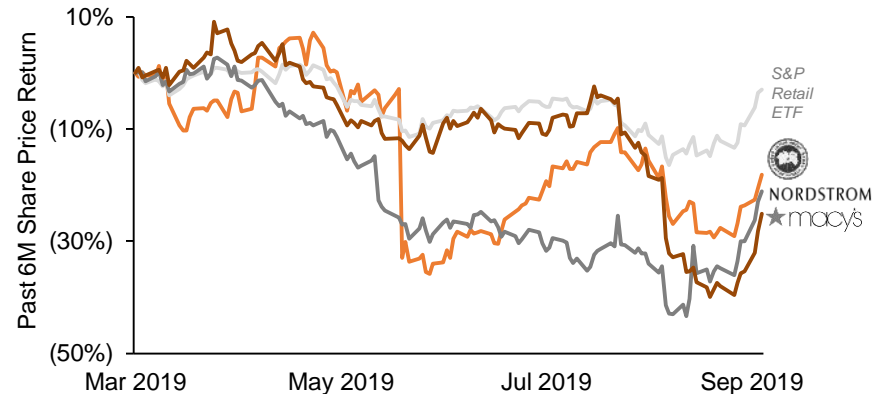
## LTM: Verification of GOOS' Brand Equity Strength

- LTM has been verification of GOOS' status as 'Veblen'
  - Previous question marks regarding pricing power outside of traditional parka offering
    - Revenues from non-parka products has 2x to ~1/3 of DTC segment in Q1 2020
  - Notion is further justified by strong out of season demand for fall/winter products
- The Canada Goose label is now in itself an economic moat for brands attempting to sell similar products



## Market Incorrectly Bundling GOOS With Peers

Despite PoD over peers with brand and significant fundamental differences, market has still traded all retail names similarly



## Resultingly, Several Tangible Levers to Translate Brand Equity into Shareholder Value

### Acquisition of Baffin

- GOOS purchased Baffin, a Canadian footwear manufacturer, for \$32.5M in late 2018
- Inorganic acquisition serves as gateway into premium footwear
- Management has yet to provide analysts with guidance on release timing – Limestone estimates mid to late-2020 for branded footwear release given management tone

### Non-Parka Product Offering

- Non-parka offering is integral driver to meeting 20% revenue and 25% NI YoY management objectives – already 2x revenue YoY in Q1 2020
- Ability to level-off revenue seasonality and establish consistency of sales year-round
- Ability to gain greater share of wallet of existing parka customers, further driving future top-line growth

### Expansion of DTC Channel in Un/Under-Penetrated Markets

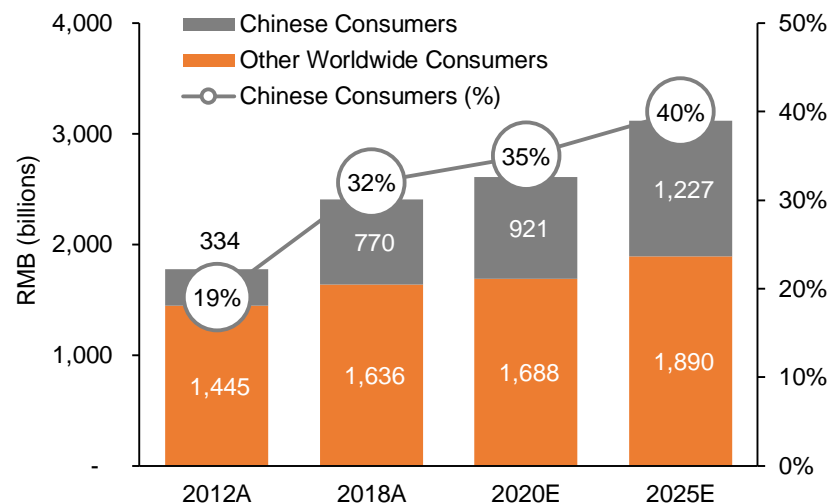
- DTC margins substantially larger than wholesale margins (DTC @ ~75%) – current strategy to shift more sales towards DTC channel
- Defined pathway of growth (Asia 3x top-line in Q1 2020 with China DTC being a primary driver)
- Verification of brand strength enables feasibility of expansion via company-branded locations

# Vast Underestimation of International Demand

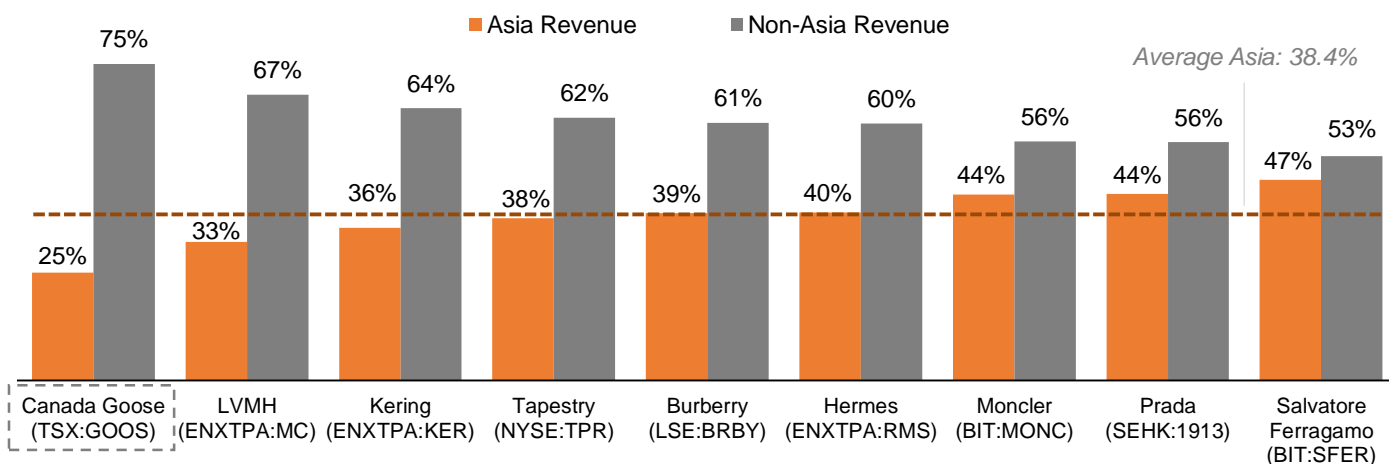
## Market Underestimating Powerful Growth Lever

- GOOS's Asian DTC and wholesale channels are un/under-developed compared to North American ones
- Asian demand for GOOS products has been extremely robust thus far during expansion ramp up:
  - New store in Shenyang (one of coldest areas in China) was well-received and is proof of concept
  - Management has acknowledged priority of Asian strategy, given vast LT opportunities vs. Canada
- LC believes that the market is currently overly-guarded with regards to future APAC demand and is pricing in risk excessively compared to the probability of GOOS realizing the sizeable upside from expansion strategy

## Evolution of Global Luxury Goods Consumption



## GOOS' Under-Developed Asia Segment vs. Luxury Peers



Implication	
Avg. Asia	38%
GOOS Asia	25%
<b>Delta</b>	<b>13%</b>

Given comp average of Asia revenues as % of total, GOOS is pursuing a strategy that has already been proven by mature luxury peers and will inevitably be fruitful

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# Comparables Analysis

## Comparable Companies: Peer Universe<sup>1</sup>

(In CAD millions)	Market Cap.	EV	P/E			EV/EBITDA			EV/Revenue			Revenue Growth		EBITDA Margin		ROIC	FCF Yield
			2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E	2020E	2021E	2020E	2021E	LTM	LTM
<b>High-End Luxury Apparel</b>																	
Moncler S.p.A.	\$12,935	\$13,179	24.1x	22.5x	20.2x	15.8x	13.9x	12.5x	5.5x	4.9x	4.4x	12.9%	11.0%	35.1%	35.3%	20.6%	3.9%
Burberry Group plc	\$14,571	\$13,218	25.3x	23.1x	20.6x	14.0x	12.7x	11.6x	2.9x	2.7x	2.6x	5.3%	5.9%	21.6%	22.4%	18.9%	2.9%
Prada S.p.A.	\$10,755	\$11,249	NM	NM	NM	NM	NM	NM	20.8x	19.8x	18.8x	5.0%	5.3%	32.6%	33.0%	NM	NM
Capri Holdings Limited	\$6,274	\$12,095	6.9x	6.0x	5.5x	8.2x	7.7x	7.2x	1.6x	1.5x	1.5x	5.6%	4.1%	19.8%	20.2%	10.6%	5.6%
Tapestry, Inc.	\$9,517	\$10,003	10.6x	9.5x	8.9x	6.3x	6.1x	6.0x	1.2x	1.2x	1.2x	2.8%	3.6%	19.8%	19.7%	11.4%	6.2%
Hermès International Société	\$96,152	\$92,660	43.9x	39.8x	36.2x	25.4x	23.2x	21.2x	9.5x	8.8x	8.1x	8.1%	8.1%	37.7%	38.2%	23.8%	2.3%
Salvatore Ferragamo S.p.A.	\$4,513	\$5,325	30.6x	26.3x	23.2x	10.6x	9.8x	9.0x	2.6x	2.5x	2.4x	4.7%	4.7%	25.6%	26.6%	8.8%	5.3%
LVMH Moët Hennessy	\$275,907	\$308,621	26.2x	23.6x	21.8x	15.1x	13.9x	13.0x	4.0x	3.7x	3.5x	7.3%	6.3%	26.9%	27.0%	12.6%	2.8%
Kering SA	\$84,716	\$93,664	18.5x	16.3x	15.4x	11.7x	10.8x	10.2x	4.1x	3.8x	3.6x	8.1%	6.2%	35.3%	35.1%	17.3%	6.8%
<b>Median</b>			<b>24.7x</b>	<b>22.8x</b>	<b>20.4x</b>	<b>12.8x</b>	<b>11.7x</b>	<b>10.9x</b>	<b>4.0x</b>	<b>3.7x</b>	<b>3.5x</b>	<b>5.6%</b>	<b>5.9%</b>	<b>26.9%</b>	<b>27.0%</b>	<b>15.0%</b>	<b>4.6%</b>
<b>Mid-High-End Outerwear</b>																	
Lululemon Athletica Inc.	\$33,187	\$33,286	41.6x	34.9x	29.4x	25.9x	22.1x	19.1x	6.6x	5.7x	5.0x	15.1%	14.3%	26.0%	26.2%	26.2%	1.1%
NIKE, Inc.	\$179,340	\$177,779	31.9x	27.3x	23.4x	22.8x	20.0x	17.6x	3.3x	3.1x	2.8x	7.9%	7.8%	15.3%	16.1%	22.8%	2.2%
adidas AG	\$76,875	\$80,497	27.5x	24.4x	21.7x	15.8x	14.6x	13.2x	2.4x	2.2x	2.1x	7.1%	7.2%	15.1%	15.6%	16.5%	3.3%
<b>Median</b>			<b>31.9x</b>	<b>27.3x</b>	<b>23.4x</b>	<b>22.8x</b>	<b>20.0x</b>	<b>17.6x</b>	<b>3.3x</b>	<b>3.1x</b>	<b>2.8x</b>	<b>7.9%</b>	<b>7.8%</b>	<b>15.3%</b>	<b>16.1%</b>	<b>22.8%</b>	<b>2.2%</b>
<b>Overall Median</b>			<b>28.3x</b>	<b>25.0x</b>	<b>21.9x</b>	<b>17.8x</b>	<b>15.9x</b>	<b>14.3x</b>	<b>3.7x</b>	<b>3.4x</b>	<b>3.2x</b>	<b>6.8%</b>	<b>6.9%</b>	<b>21.1%</b>	<b>21.5%</b>	<b>17.3%</b>	<b>3.3%</b>
Canada Goose Holdings Inc.	\$6,036	\$6,527	34.4x	26.8x	21.6x	22.9x	17.7x	14.4x	6.6x	5.3x	4.6x	23.0%	16.2%	30.0%	31.8%	18.6%	(0.7%)

## Comparable Companies: Analysis Commentary

- At first glance, it appears that GOOS trades at a premium to both High-End Luxury Apparel and Mid-High-End Outerwear on a P/E, EV/EBITDA and EV/Revenue basis
  - However, compared to the majority if not all of its peers, Canada Goose is in an incipient stage with regards to pushing its luxury offering to the masses, whereas most if not all peers are in mature states
  - Additionally, aggressive marketing expenditures to support global expansion strategy has weighed down on EBITDA and net income, exaggerating the multiples the name currently trades at
- GOOS sports similar margins to high-end luxury apparel – GOOS will likely reap even more superior margins as business model shifts towards global DTC, as opposed to previous focus on regional wholesale
- GOOS yields a similar ROIC to peers, but trails on a LFCF Yield basis due to elevated CAPEX expenditures



# Comparables Analysis

## Comparables Output Table: GOOS Trades at Relative Premium to Both Peer Sets

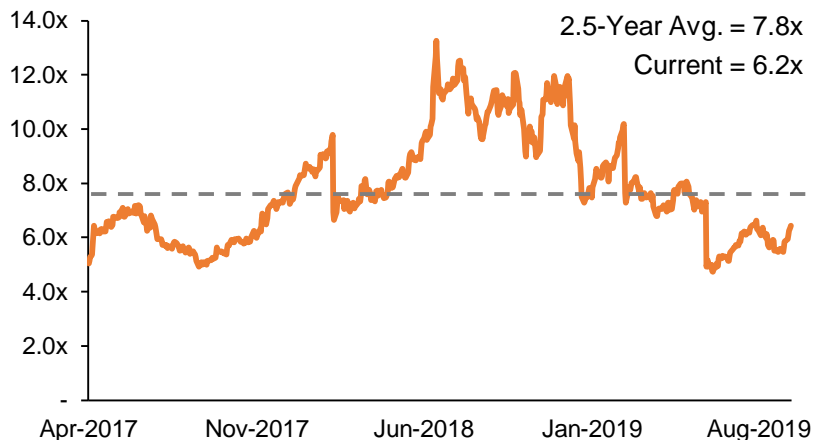
Metric	Multiple			Implied Share Price			Implied Return		
	Lower Limit	Median	Upper Limit	Lower Limit	Median	Upper Limit	Lower Limit	Median	Upper Limit
P / 2019A EPS	22.9x	28.3x	33.7x	\$36.30	\$44.88	\$53.45	(33.4%)	(17.7%)	(2.0%)
P / 2020E EPS	20.3x	25.0x	29.8x	\$41.43	\$51.00	\$60.58	(24.0%)	(6.4%)	11.1%
P / 2021E EPS	17.8x	21.9x	26.0x	\$44.97	\$55.27	\$65.56	(17.5%)	1.4%	20.3%
EV / 2019A EBITDA	14.7x	17.8x	20.9x	\$33.28	\$41.38	\$49.47	(39.0%)	(24.1%)	(9.3%)
EV / 2020E EBITDA	13.2x	15.9x	18.5x	\$39.35	\$48.28	\$57.21	(27.8%)	(11.4%)	4.9%
EV / 2021E EBITDA	11.9x	14.3x	16.6x	\$44.42	\$53.88	\$63.34	(18.5%)	(1.2%)	16.2%

## Conclusion

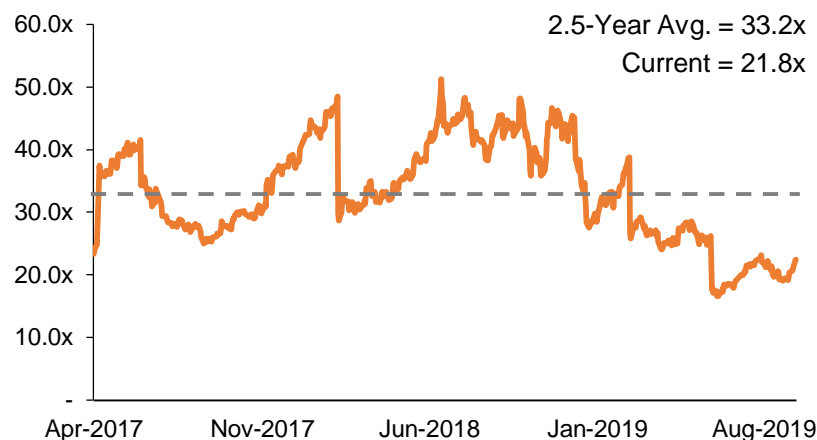
- The peer group is imperfect considering the lack of peers that demonstrate both a similar growth profile and attainment of 'Veblen' brand status concurrently
- GOOS should command a premium multiple based on 1) far superior growth prospects that are driven by under-penetration of Asian markets, 2) rising gross and adj. EBITDA margins that have already eclipsed peers, and 3) multiple pathways to achieving superior operational success (e.g. non-parka offering and shift to DTC channels)
- Following a broader global sell-off that has markedly affected most retail names, GOOS has traded down in spite of no material changes to the fundamental business transpiring
- Peer trading multiples serve as a benchmark of where GOOS may trade when it has reached a more mature state with diminished growth prospects
- Considering the points above, the comparables analysis ultimately receives **zero weight** in the overall valuation

# Historical Trading Multiples Analysis

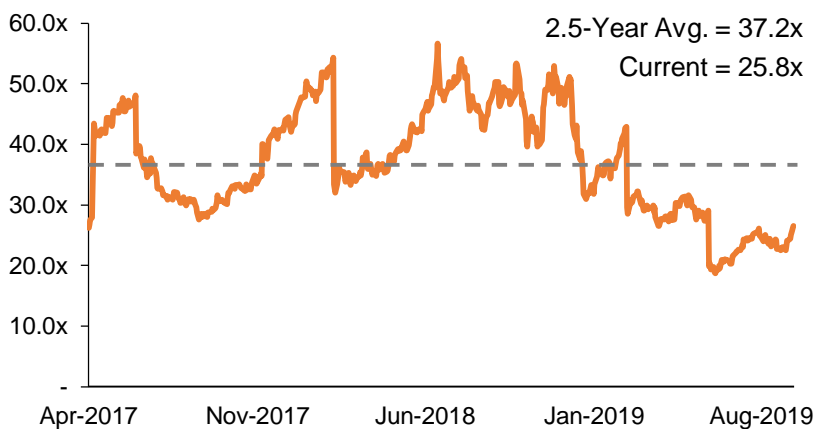
**EV/NTM Revenue**



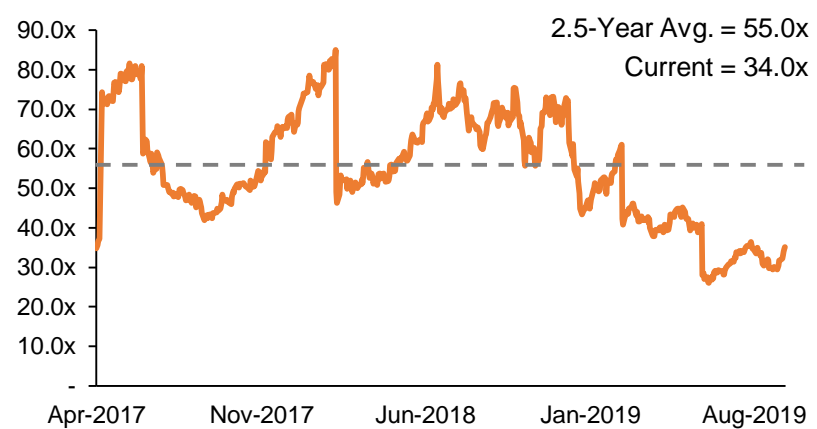
**EV/NTM EBITDA**



**EV/NTM EBIT**



**P/NTM EPS**



# Historical Trading Multiples Analysis

## Historical Trading Output Table: GOOS Trades at a Discount

Metric	Multiple	Value	Implied EV	Net Debt	S/O	Implied Share Price	Implied Return
P / 2019A EPS	56.0x	\$1.31	na	na	na	\$73.36	34.6%
EV / 2019A EBIT	37.2x	\$200	\$7,429	\$491	110	\$63.36	16.2%
EV / 2019A EBITDA	33.2x	\$216	\$7,155	\$491	110	\$60.85	11.6%
EV / 2019A Revenue	7.8x	\$831	\$6,482	\$491	110	\$54.71	0.3%
<b>Median</b>			<b>\$7,155</b>			<b>\$62.11</b>	<b>13.9%</b>

### Valuation Takeaways

- As GOOS commands a premium multiple relative to its peers, analyzing its historical multiple performance becomes important to draw insight on pricing
- When compared to 2.5-year historical average multiples, GOOS' current metrics trade at a discount on a P / EPS, EV / EBIT, EV / EBITDA, and EV / Revenue basis
- This sell-off is unjustified given that GOOS has not experienced any adverse changes to its business model
- In fact, Canada Goose is poised to benefit from robust revenue growth and margin expansion
  - Driven by focus on increasing direct-to-consumer (DTC) channels and enhancing presence in Asian markets
- Ultimately, it has been concluded that GOOS is undervalued when observing historical trading patterns and accounting for the fact that GOOS' current growth prospects are similar in potential upside to those GOOS has faced previously throughout its life as a public company

# Discounted Cash Flows

## DCF Valuation Assumptions

- Revenue growth is based on sales within the following geographic segments: Canada, United States, and Rest of World
  - Rest of World sales experience robust growth due to store expansion into highly lucrative Asian markets at the beginning of the forecast period
  - Management expects aggregate revenues to grow at a 20%+ CAGR for the years 2020E – 2022E
- EBITDA margin expansion is driven from shifted focus on Direct-to-Consumer stores

WACC: **6.8%**Perp. Growth Rate: **2.0%**FDSO: **110.7 million**Statutory Tax Rate: **26.5%**

## DCF Unlevered Cash Flow Summary

(CAD millions)	Forecast Period													Terminal
	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	
<b>Revenue</b>	<b>404</b>	<b>591</b>	<b>831</b>	<b>1,098</b>	<b>1,336</b>	<b>1,562</b>	<b>1,778</b>	<b>1,963</b>	<b>2,130</b>	<b>2,273</b>	<b>2,388</b>	<b>2,479</b>	<b>2,558</b>	<b>2,609</b>
% Growth	-	46.4%	40.5%	32.2%	21.7%	16.9%	13.9%	10.4%	8.5%	6.7%	5.1%	3.8%	3.1%	2.0%
<b>Adjusted EBITDA</b>	<b>49</b>	<b>150</b>	<b>216</b>	<b>307</b>	<b>386</b>	<b>464</b>	<b>529</b>	<b>585</b>	<b>635</b>	<b>679</b>	<b>714</b>	<b>742</b>	<b>767</b>	<b>783</b>
% Margin	12.1%	25.3%	25.9%	28.0%	28.9%	29.7%	29.7%	29.8%	29.8%	29.9%	29.9%	29.9%	30.0%	30.0%
(-) Depreciation & Amortization	(9)	(29)	(39)	(27)	(33)	(40)	(46)	(51)	(55)	(58)	(61)	(62)	(63)	(64)
% of CapEx	56.3%	111.5%	128.4%	61.0%	65.1%	69.3%	73.4%	77.5%	81.6%	85.7%	89.8%	93.9%	98.0%	98.0%
<b>Adjusted EBIT</b>	<b>40</b>	<b>121</b>	<b>177</b>	<b>281</b>	<b>353</b>	<b>424</b>	<b>483</b>	<b>534</b>	<b>580</b>	<b>620</b>	<b>653</b>	<b>680</b>	<b>705</b>	<b>719</b>
% Margin	9.9%	20.4%	21.3%	25.6%	26.4%	27.2%	27.2%	27.2%	27.2%	27.3%	27.3%	27.4%	27.6%	27.6%
% Growth		200.7%	46.4%	58.9%	25.8%	20.2%	13.9%	10.5%	8.7%	6.9%	5.3%	4.1%	3.6%	2.0%
(-) Cash Taxes	(9)	(29)	(39)	(74)	(94)	(112)	(128)	(141)	(154)	(164)	(173)	(180)	(187)	(190)
Tax rate (%)	22.2%	24.1%	22.0%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%
<b>NOPAT</b>	<b>31</b>	<b>92</b>	<b>138</b>	<b>206</b>	<b>259</b>	<b>312</b>	<b>355</b>	<b>392</b>	<b>426</b>	<b>456</b>	<b>480</b>	<b>500</b>	<b>518</b>	<b>528</b>
(+) Depreciation & Amortization	9	29	39	27	33	40	46	51	55	58	61	62	63	64
(-) CapEx	(16)	(26)	(30)	(44)	(51)	(57)	(62)	(65)	(67)	(68)	(68)	(66)	(64)	(65)
% of Revenue	3.9%	4.4%	3.6%	4.0%	3.8%	3.7%	3.5%	3.3%	3.2%	3.0%	2.8%	2.7%	2.5%	2.5%
(-) Change in Net Working Capital	20	(2)	(101)	(9)	(7)	(6)	(6)	(5)	(4)	(3)	(2)	(2)	(1)	(0)
% of Change in Revenue		1.2%	42.1%	3.2%	3.0%	2.8%	2.6%	2.4%	2.3%	2.1%	1.9%	1.7%	1.5%	0.5%
<b>Unlevered Free Cash Flows</b>	<b>44</b>	<b>92</b>	<b>46</b>	<b>181</b>	<b>234</b>	<b>288</b>	<b>333</b>	<b>373</b>	<b>410</b>	<b>443</b>	<b>471</b>	<b>494</b>	<b>515</b>	<b>527</b>

Source: Equity Research, Capital IQ, Company Filings

# Discounted Cash Flows

## Valuation Summary

<b>Cumulative PV of Free Cash Flow</b>	<b>2,590</b>
<i>% of Enterprise Value</i>	29.9%
<b>Terminal Value</b>	
Terminal Year EBITDA	783
Terminal Year UFCF	527
Perpetuity Growth Rate	2.0%
<b>Terminal Value</b>	<b>10,987</b>
Terminal Value for EBITDA Multiple	11,354
Implied EV / EBITDA Multiple	14.5x
Implied EV / UFCF Multiple	21.6x
<b>PV of Terminal Value</b>	<b>6,062</b>
<i>% of Enterprise Value</i>	70.1%
<b>Enterprise Value</b>	<b>8,652</b>
(-) Short Term Debt	(28)
(-) Long Term Debt	(488)
(-) Minority Interest	-
(+) Cash	25
(+) Investments in Associates	-
<b>Equity Value</b>	<b>8,161</b>
Basic Shares	109
(+) Diluted Securities	1
<b>Fully Diluted Shares Outstanding</b>	<b>111</b>
<b>Implied Share Price</b>	<b>\$73.72</b>
Current Share Price	\$54.52
<b>Premium to Current Share Price</b>	<b>35.2%</b>

## Discount Rate Analysis

WACC		
10-Year Canadian Treasury		1.6%
Market Risk Premium		5.5%
Beta		1.00
<b>Cost of Equity</b>		<b>7.1%</b>
Cost of Debt		4.6%
Tax Rate		26.5%
<b>After-Tax Cost of Debt</b>		<b>3.4%</b>
Target Debt/Capitalization		8.0%
<b>WACC</b>		<b>6.8%</b>
Debt Tranches		
	Face Value	Effective Interest Rate
(CAD millions)		
Revolving Facility	160	3.38%
Term Loan	148	5.94%
<b>Weighted Average</b>		<b>4.61%</b>

## Valuation Takeaways

- The DCF yields an implied price of \$73.72 (+35.2%), with a range of \$66.61 (+22.2%) to \$83.84 (+53.8%)
- The base case uses a 6.8% WACC with a 2.0% perpetuity growth rate
- Implied EV / EBITDA multiple represents realistic market pricing at maturity

# Discounted Cash Flows

## Sensitivity Analysis

		Equity Value Per Share				
		Terminal growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
Discount rate	5.8%	\$79.16	\$86.35	\$95.45	\$107.30	\$123.39
	6.3%	\$70.77	\$76.38	\$83.31	\$92.06	\$103.47
	6.8%	\$63.84	\$68.31	\$73.72	\$80.39	\$88.82
	7.3%	\$58.02	\$61.64	\$65.95	\$71.16	\$77.59
	7.8%	\$53.07	\$56.05	\$59.54	\$63.69	\$68.71

		Implied Return				
		Terminal growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
Discount rate	5.8%	45.2%	58.4%	75.1%	96.8%	126.3%
	6.3%	29.8%	40.1%	52.8%	68.9%	89.8%
	6.8%	17.1%	25.3%	35.2%	47.4%	62.9%
	7.3%	6.4%	13.1%	21.0%	30.5%	42.3%
	7.8%	(2.7%)	2.8%	9.2%	16.8%	26.0%

		Equity Value Per Share				
		Revenue Growth Sensitivity				
		(4.0%)	(2.0%)	0.0%	2.0%	4.0%
Margin Sensitivity	(2.0%)	\$47.11	\$56.64	\$67.93	\$81.27	\$97.02
	(1.0%)	\$49.17	\$59.08	\$70.82	\$84.70	\$101.07
	0.0%	\$51.24	\$61.53	\$73.72	\$88.13	\$105.13
	1.0%	\$53.31	\$63.98	\$76.62	\$91.56	\$109.18
	2.0%	\$55.38	\$66.43	\$79.51	\$94.98	\$113.23

		Implied Return				
		Revenue Growth Sensitivity				
		(4.0%)	(2.0%)	0.0%	2.0%	4.0%
Margin Sensitivity	(2.0%)	(13.6%)	3.9%	24.6%	49.1%	78.0%
	(1.0%)	(9.8%)	8.4%	29.9%	55.4%	85.4%
	0.0%	(6.0%)	12.9%	35.2%	61.6%	92.8%
	1.0%	(2.2%)	17.3%	40.5%	67.9%	100.3%
	2.0%	1.6%	21.8%	45.8%	74.2%	107.7%

# Agenda

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## CANADA GOOSE

**1** Company Overview

**2** Industry Outlook

**3** Investment Thesis

**4** Valuation

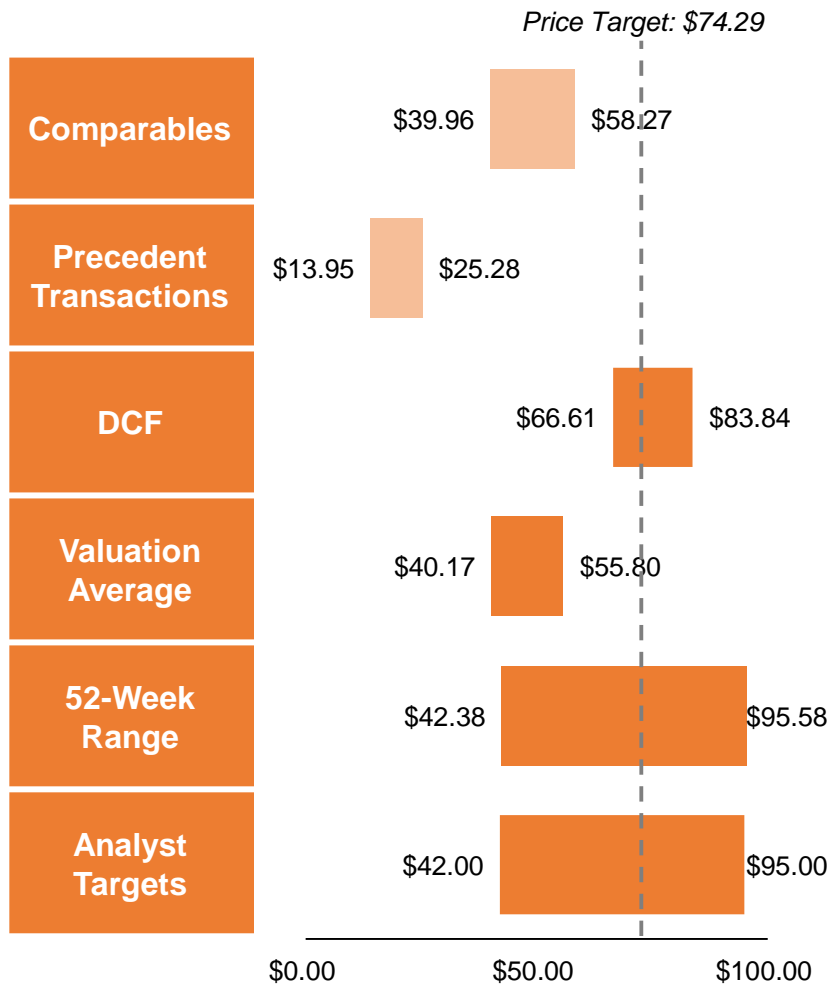
**5** Recommendation

**6** Catalysts and Risks

RECOMMENDATION

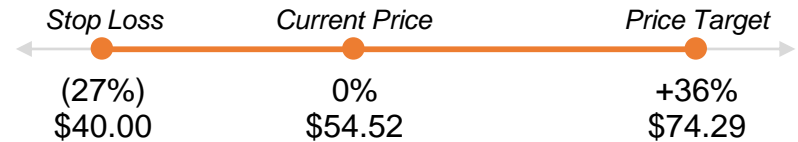
# Buy With a Price Target of ~\$74 (+36%)

## Indicative Valuation Range



## Price Target

Valuation Summary		
Analysis	Price	Weight
Comparables	\$49.12	0%
Discounted CF	\$73.72	75%
Street Consensus	\$76.00	25%
<b>Average</b>	<b>\$74.29</b>	<b>100%</b>



## Selected Broker Summary





# Agenda

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## CANADA GOOSE

**1** Company Overview

**2** Industry Outlook

**3** Investment Thesis

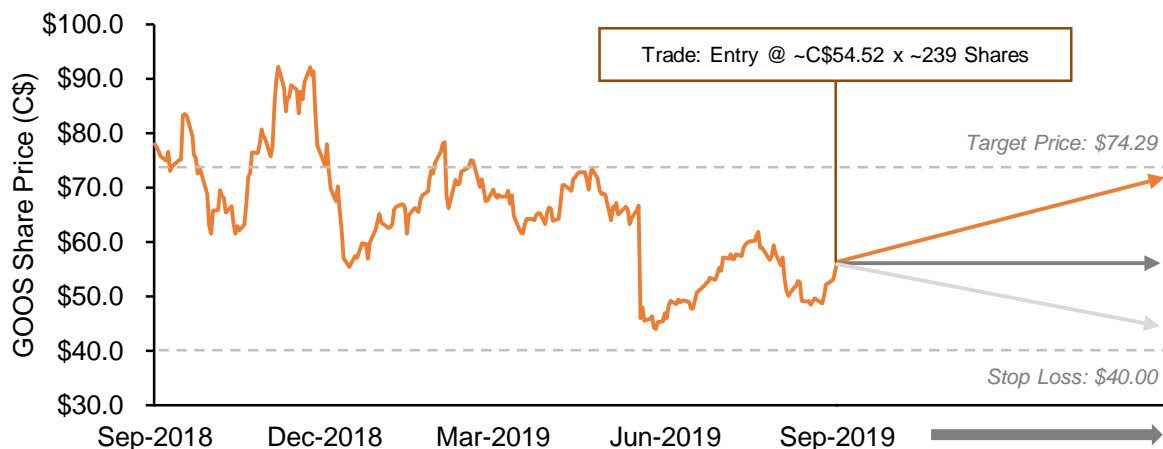
**4** Valuation

**5** Recommendation

**6** Catalysts and Risks

# Short-Term Upside with Limited Risk Profile

## Buy GOOS: Position Details



Limestone Trade Details	
Price @ 9/11/2019	C\$54.52
52-Week High/Low	\$95.58/\$42.38
% of 52-Week High	57.0%
<b>Proposed Sizing (Long)</b>	<b>~C\$13,000</b>
Implied Shares	~239 shares
Stop Loss Order	C\$40.00
<b>Next Re-Visit: 9/25/19</b>	<b>Wells Fargo Consumer Conference</b>

## Short-Term Catalysts

- **Beating Management Guidance @ Q2 – GOOS'** management has historically put forth extremely conservative guidance; its most recent guidance, @ 20% YoY Revenue Growth and 25%YoY NI Growth, will more than likely be beat (Q2 2020 results)
- **Potential M&A Activity (Target)**– Given current interest rate environment and historic acquisition track record of major luxury conglomerates, announcement of public interest by a strategic buyer or GOOS initializing a strategic alternatives process from an unsolicited bid is probable

## Internal & External Risks

### Internal Risks

- Brand Mismanagement – Non-Parka Expansion (IR1)
- Inventory Mismanagement (IR2)
- Cost Overruns/Sourcing Issues (Few Suppliers) (IR3)

### External Risks

- Canada – China Relations (Meng Wanzhou) (ER1)
- Lack of Trade War Resolution (Invest. Sentiment) (ER2)
- GOOS Remains Bundled w/ Other Retail Names (ER3)

# APPENDIX A

## WACC Analysis

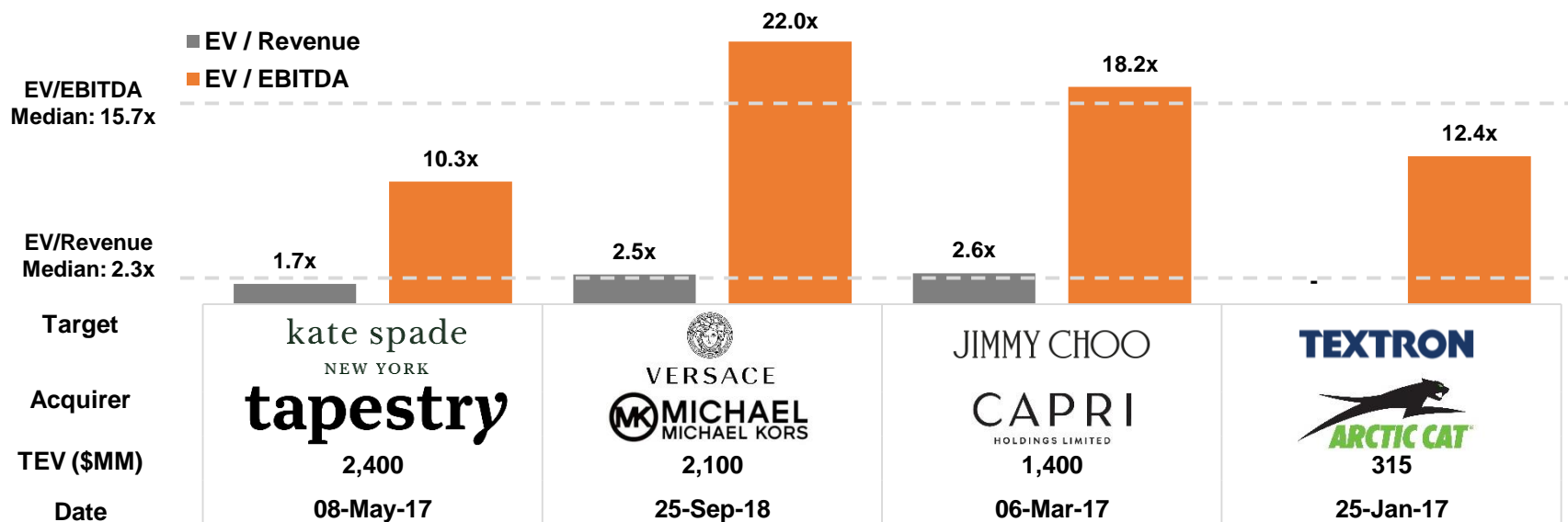
(In CAD millions)	Equity Value	Ent. Value	Levered Beta		D/E	Tax Rate	Unlevered Beta	
			Raw	Adjusted			Raw	Adjusted
<b>High-End Luxury Apparel</b>								
Moncler S.p.A.	\$12,935	\$13,179	1.221	1.147	0.074	19%	1.152	1.101
Burberry Group plc	\$14,571	\$13,218	0.630	0.753	0.004	23%	0.628	0.752
Prada S.p.A.	\$10,755	\$11,249	1.250	1.167	0.051	19%	1.201	1.134
Capri Holdings Limited	\$6,274	\$12,095	1.001	1.001	0.960	14%	0.549	0.699
Tapestry, Inc.	\$9,517	\$10,003	0.936	0.957	0.222	16%	0.789	0.859
Hermès International Société en commai	\$96,152	\$92,660	0.779	0.853	0.017	33%	0.770	0.847
Salvatore Ferragamo S.p.A.	\$4,513	\$5,325	1.119	1.079	0.230	32%	0.968	0.979
LVMH Moët Hennessy - Louis Vuitton, S	\$275,907	\$308,621	1.222	1.148	0.135	27%	1.112	1.074
Kering SA	\$84,716	\$93,664	1.202	1.134	0.145	48%	1.118	1.079
<b>Median</b>					<b>0.135</b>		<b>0.968</b>	<b>0.979</b>
<b>Mid-High-End Outerwear</b>								
Lululemon Athletica Inc.	\$33,187	\$33,286	1.180	1.120	0.028	31%	1.158	1.105
NIKE, Inc.	\$179,340	\$177,779	0.843	0.895	0.026	16%	0.825	0.883
adidas AG	\$76,875	\$80,497	0.759	0.839	0.099	27%	0.708	0.805
<b>Median</b>					<b>0.028</b>		<b>0.825</b>	<b>0.883</b>
<b>Overall Median</b>					<b>0.086</b>		<b>0.897</b>	<b>0.931</b>

Unlevered Adjusted Avg. Beta	0.931
Target Gearing	0.085
Tax Rate	19.8%
<b>Relevered Beta</b>	<b>0.995</b>
<i>Actual Adjusted Beta</i>	<i>2.051</i>



# Precedent Transactions Analysis

## Acquisition Multiples Summary



### Valuation Takeaways

- On an EBITDA basis, the valuation yields an EV of \$3289.2mm, representing a share price of \$25.28, significantly lower than the current share price of \$54.52
- On a revenue basis, the valuation yields an EV of \$1910.2mm, representing a share price of \$13.95. However, this is not useful due to GOOS's superior margin profile and upwards trajectory

### Valuation Conclusion

- Precedent transactions valuation receive a **zero-weighting** due to GOOS's brand equity, as well substantially higher revenue growth and margin expansion prospects

# Revenue Model

## Projected Growth Attributable to Geographic Expansion

	Forecast Period												
	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
<b>Canadian Sales</b>													
<b>Revenue</b>													
Base Case	\$155	\$229	\$293	\$337	\$383	\$430	\$476	\$522	\$565	\$605	\$639	\$668	\$688
Bear Case	155	229	293	336	381	427	473	519	564	605	643	675	692
Bull Case	155	229	293	339	387	438	490	543	595	645	691	732	758
<b>Growth %</b>													
Base Case		47.5%	28.2%	15.0%	13.5%	12.2%	10.9%	9.6%	8.3%	7.0%	5.7%	4.4%	3.1%
Bear Case		47.5%	28.2%	14.5%	13.3%	12.1%	10.9%	9.7%	8.6%	7.4%	6.2%	5.0%	2.6%
Bull Case		47.5%	28.2%	15.5%	14.3%	13.1%	11.9%	10.7%	9.6%	8.4%	7.2%	6.0%	3.6%
<b>U.S. Sales</b>													
<b>Revenue</b>													
Base Case	\$132	\$184	\$251	\$303	\$358	\$418	\$480	\$538	\$589	\$634	\$668	\$693	\$712
Bear Case	132	184	251	301	355	413	472	526	574	615	645	666	680
Bull Case	132	184	251	304	361	423	489	549	605	654	692	722	744
<b>Growth %</b>													
Base Case		39.7%	36.3%	20.5%	18.5%	16.6%	14.9%	12.0%	9.6%	7.7%	5.4%	3.7%	2.6%
Bear Case		39.7%	36.3%	20.0%	18.0%	16.1%	14.4%	11.5%	9.1%	7.2%	4.9%	3.2%	2.1%
Bull Case		39.7%	36.3%	21.0%	19.0%	17.1%	15.4%	12.5%	10.1%	8.2%	5.9%	4.2%	3.1%
<b>Rest of the World Sales (Primarily Asian Markets)</b>													
<b>Revenue</b>													
Base Case	\$117	\$178	\$286	\$458	\$595	\$714	\$821	\$903	\$976	\$1,034	\$1,081	\$1,119	\$1,158
Bear Case	117	178	286	452	579	683	772	833	883	919	942	956	970
Bull Case	117	178	286	463	612	746	873	978	1,076	1,162	1,237	1,306	1,377
<b>Growth %</b>													
Base Case		52.6%	60.5%	60.0%	30.0%	20.0%	15.0%	10.0%	8.0%	6.0%	4.5%	3.5%	3.5%
Bear Case		52.6%	60.5%	58.0%	28.0%	18.0%	13.0%	8.0%	6.0%	4.0%	2.5%	1.5%	1.5%
Bull Case		52.6%	60.5%	62.0%	32.0%	22.0%	17.0%	12.0%	10.0%	8.0%	6.5%	5.5%	5.5%

Source: Capital IQ, Company Filings, Equity Research

# Revenue Model

## Projected Growth Attributable to Geographic Expansion Cont'd

	Forecast Period												
	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
<b>Consolidated Revenues</b>													
<b>Revenue</b>													
Base Case	\$404	\$591	\$831	\$1,098	\$1,336	\$1,562	\$1,778	\$1,963	\$2,130	\$2,273	\$2,388	\$2,479	\$2,558
Bear Case	404	591	831	1,089	1,315	1,522	1,717	1,879	2,021	2,139	2,229	2,296	2,342
Bull Case	404	591	831	1,106	1,360	1,608	1,852	2,070	2,275	2,461	2,621	2,759	2,880
<b>Growth %</b>													
Base Case		46.4%	40.5%	32.2%	21.7%	16.9%	13.9%	10.4%	8.5%	6.7%	5.1%	3.8%	3.1%
Bear Case		46.4%	40.5%	31.1%	20.7%	15.8%	12.8%	9.4%	7.6%	5.8%	4.2%	3.0%	2.0%
Bull Case		46.4%	40.5%	33.2%	23.0%	18.2%	15.2%	11.8%	9.9%	8.1%	6.5%	5.3%	4.4%

## Increased Revenue Exposure to High-Growth European and Asian Markets

	Forecast Period												
	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
<b>Segment % Contributions</b>													
<b>Base Case</b>													
Canada	38.4%	38.7%	35.3%	30.7%	28.6%	27.5%	26.8%	26.6%	26.5%	26.6%	26.8%	26.9%	26.9%
U.S.	32.7%	31.2%	30.2%	27.6%	26.8%	26.8%	27.0%	27.4%	27.7%	27.9%	28.0%	28.0%	27.8%
Rest of World	28.9%	30.1%	34.4%	41.7%	44.5%	45.7%	46.2%	46.0%	45.8%	45.5%	45.2%	45.1%	45.3%
<b>Bear Case</b>													
Canada	38.4%	38.7%	35.3%	30.8%	28.9%	28.0%	27.6%	27.6%	27.9%	28.3%	28.8%	29.4%	29.6%
U.S.	32.7%	31.2%	30.2%	27.7%	27.0%	27.1%	27.5%	28.0%	28.4%	28.8%	28.9%	29.0%	29.0%
Rest of World	28.9%	30.1%	34.4%	41.5%	44.0%	44.9%	44.9%	44.3%	43.7%	42.9%	42.2%	41.6%	41.4%
<b>Bull Case</b>													
Canada	38.4%	38.7%	35.3%	30.6%	28.5%	27.2%	26.5%	26.2%	26.1%	26.2%	26.4%	26.5%	26.3%
U.S.	32.7%	31.2%	30.2%	27.5%	26.6%	26.3%	26.4%	26.5%	26.6%	26.6%	26.4%	26.2%	25.8%
Rest of World	28.9%	30.1%	34.4%	41.9%	45.0%	46.4%	47.1%	47.2%	47.3%	47.2%	47.2%	47.3%	47.8%

Source: Capital IQ, Company Filings, Equity Research