MOI GLOBAL

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BEST IDEAS 2020

Canada Goose

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The Goose is Loose.

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History of Canada Goose

Over 60 Years in the Making

Sam Tick immigrates to Canada bringing a strong entrepreneurial spirit. In 1957, he founds Metro Sportswear, specializing in wool vests, raincoats and snowmobile suits.

David Reiss, Sam Tick's son-in-law, joins the company and launches a new era with the invention of a volume-based down filling machine. David also establishes the label Snow Goose, which later becomes Canada Goose.

The Expedition Parka is developed to meet the needs of scientists at Antartica's McMurdo Station. It becomes standard issue and gains the nickname "Big Red".

Laurie Skreslet makes history as the first Canadian to summit Mt. Everest, wearing a custom parka designed and manufactured by Metro Sportswear. In 2011, this iconic "Big Mountain" jacket is re-released as the Skreslet Parka.

Dani Reiss, son of David Reiss and grandson of Sam Tick, joins in 1997 and becomes CEO in 2001. Dani ignites growth and pledges to remain "Made in Canada." Under his leadership, Canada Goose transforms from a small manufacturer into global performance luxury outerwear brand.

Timeline

Over 60 Years in the Making

2011: Canada Goose continues to innovate by launching lighter-weight products for a wider range of climates and activities. The Hybridge® Lite wins "Best Backcountry Jacket" in the prestigious Gear of Year awards from Outside Magazine.

2014: The DTC journey begins with the launch of e-commerce in Canada, expanding to an additional 11 national markets over the next five years. The channel is a game changer for building direct and unfiltered relationships with Canada Goose fans around the world.

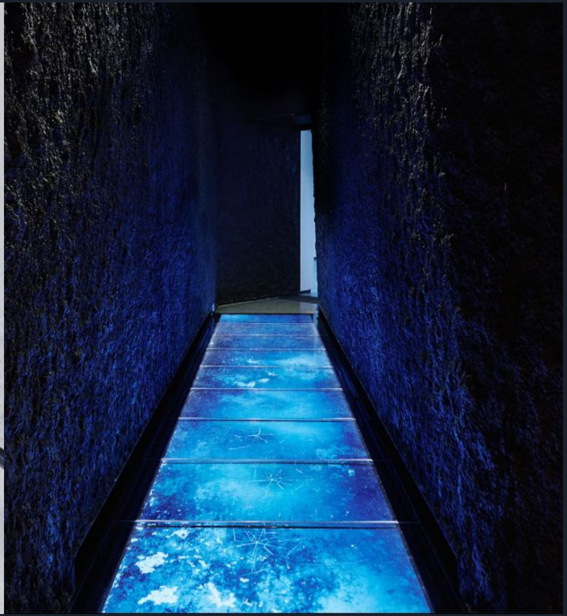
2016: The first two stores were opened in Toronto and New York City, immediately becoming world class luxury retail destinations. With unique physical experiences in an exceptional service environment, retail has become an integral part of the broader DTC strategy.

2017: Canada Goose breaks new ground with the launch of Knitwear, its first non-outerwear category. The line pairs purpose-driven design and prowess in crafting function-first apparel to luxurious Merino wool garments.

2019: The eighth Canadian manufacturing facility is opened in Montreal. With two decades of rapid growth, Canada Goose stays true to its Made-in-Canada pledge for core down-filled product, aggressively scaling and rebuilding domestic apparel manufacturing.

A Unique Customer Engagement Experience

Taking Customer Engagement and Experiences to the next level



Consensus View

- Canada Goose is a saturated brand that is starting to experience brand fatigue.
- North America is essentially fully penetrated by Canada Goose, with limited growth opportunities outside of the traditional cold weather markets.
- A parka retailer like Canada Goose sells a commodity product that is exposed to malls and physical store based traffic trends.
- The high multiple more than reflects any future growth and/or margin expansion priced into the stock.
- This is another recent IPO that is overpriced and overhyped.
- China geopolitical issues and the never ending trade war will directly impact Canada Goose.
- Concerns around demand and product/sales being pulled forward from distributors.
- 27.4% short interest

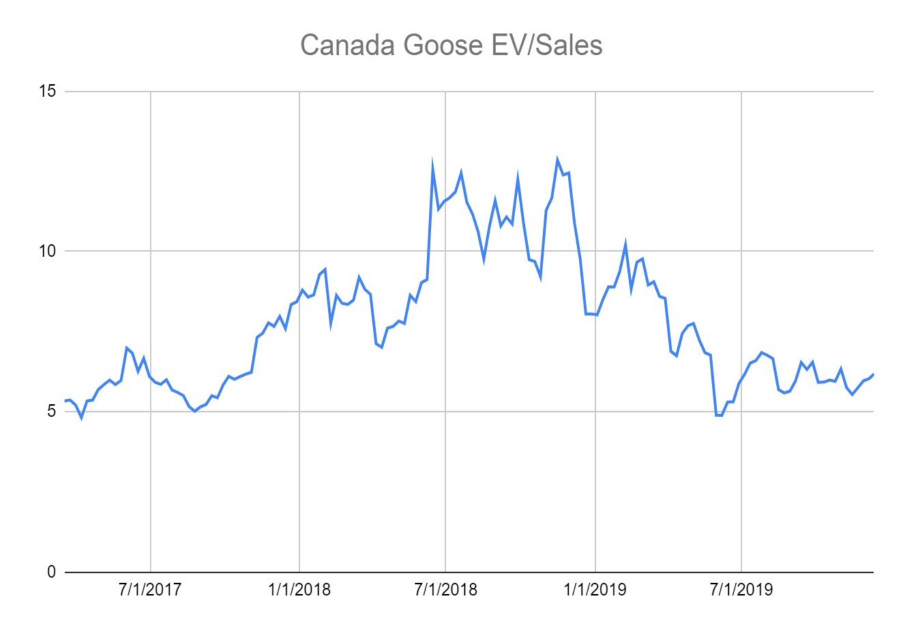
Variant View

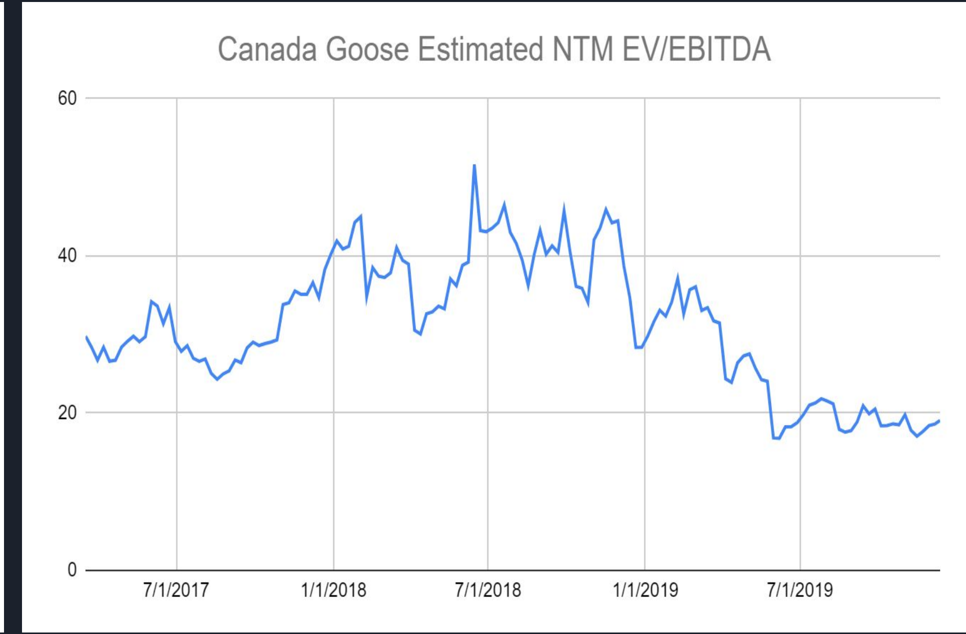
- Canada Goose is the original innovator in winter apparel fashion and functionality and has significant pricing power.
- Transition to a direct-to-consumer focus from wholesale will continue to help margins expand going forward.
- The direct-to-consumer transition from wholesale has rapidly accelerated fixed cost leverage with gross margins expanding ~ 2,200 basis point in 5 years.
- The consensus growth profile for Canada Goose is highly conservative given Asia/China expansion, brand extensions, and coming footwear line (Baffin acquisition).
- Canada Goose is one of the few global luxury brands in its infancy that has had consistent top-line growth along with consistent margin expansion.

Opportunity Created by Short-term Headwinds

- China Boycott, the Global Times mentioned on social media that Chinese citizens should boycott all Canada Goose products after the arrest of Huawei's CEO Meng Wanzhou.
- Extended valuation, was trading at over 12x EV/sales, and almost 70x LTM EV/EBITDA
- Concerns on the most recent conference call regarding Hong Kong and the protests impacting sales and store traffic at its 2 flagship locations within greater Hong Kong.
- Labor cost headwinds with minimum wage increases throughout Canada.
- Stock is approximately 45% off its late 2018 peak.

Cheapest Multiple Since Going Public





Large Early Investments in Manufacturing and Distribution Paying Off

- The distribution network has been built out over the past few years as its direct-to-consumer stores and the targeted e-commerce expansion.
- Over the past 2.5 years the team has built four manufacturing facilities (8 total facilities).
- The acquisition of Baffin (shoe manufacturer) in November of 2018 was a natural brand expansion into a new category that we think is relevant to Canada Goose customers.
- Capital spending has been extremely high given all the recent fixed cost investments to keep up with top-line growth which has doubled approximately every 2 years.
- Capital spending in FY 2019 as a percentage of sales was 8.2% (versus peers ~4%), and given the planned C$75mn (7.5% of sales) investment in FY 2020 capital spending should start normalizing further.

Limiting Supply in the DTC and Wholesale channel

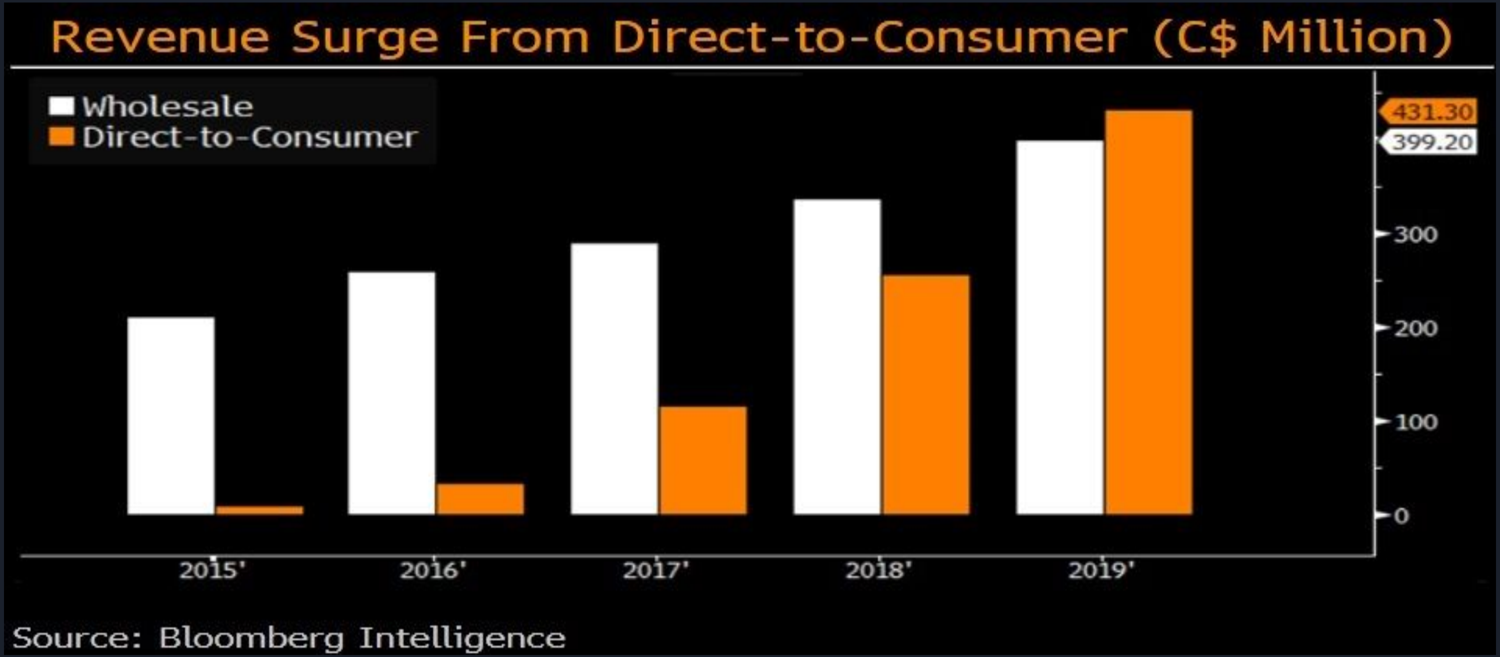
Management has a mid-term target of throttling wholesale distribution to a growth rate of no more than high-single-digits.

“We plan our direct-to-consumer and wholesale business well, and we are not afraid to be sold out” Dani Reiss- CNBC

“If somebody can’t find the product they want in a certain year they’ll come back for it next year, our products are special, they are not commodities” Dani Reiss- CNBC

“The allocation model privileges our in-stores first and then e-commerce. And then we consider the replenishment of wholesale orders, only when it makes sense to do so.” Johnathan Sinclair Q2 2020 CC

2019 a Key Inflection Period for Direct-to-Consumer Vs. Wholesale



Abundant White Space

- Tremendous white space opportunities for a sixty year old family-run business that has a globally recognized brand in luxury performance apparel in its infancy.
- Canada Goose derives the majority of its sales from Canada (> 35%).
- Although the majority of Canada Goose's sales are from Canada, it is disproportionately tied to the Canadian luxury market, which only makes up 2% of the global luxury market.
- Only 20 flagship brick-and-mortar stores globally.
- Penetration rates in the U.S. (5 stores) and Europe (only 2 stores; 1 additional planned in Paris) remains immature.
- Canada Goose has marketability in not just cold weather climates, but also more moderate-climate countries with lightweight jackets, apparel, and an upcoming shoe line.
- Sales outside North America contributed three quarters of the company's growth during fiscal Q4.
- Growth plans: 5 international stores planned with 3 being in China in 2020.

China a Key Untapped Growth Market

Luxury Goods' Spending by Nationality, in Region

	Spend by Nationality	YoY Change	Spend in Region
Chinese	32%	+2%	8%
American	22%	-1%	32%
European	18%	-1%	33%
Japanese	10%	-1%	8%
Other Asian	11%	+1%	14%
Rest of World	7%	0%	5%

Source: Bain & Company, Altagamma, Kering Annual Report 2017

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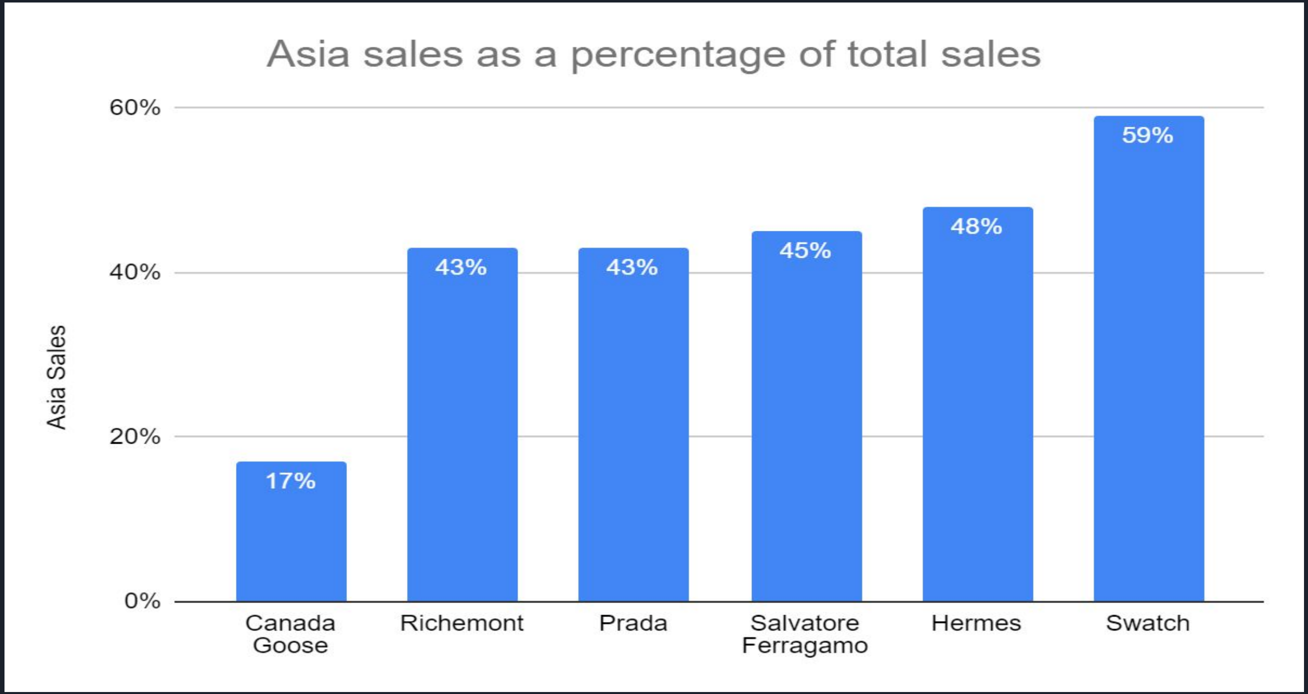
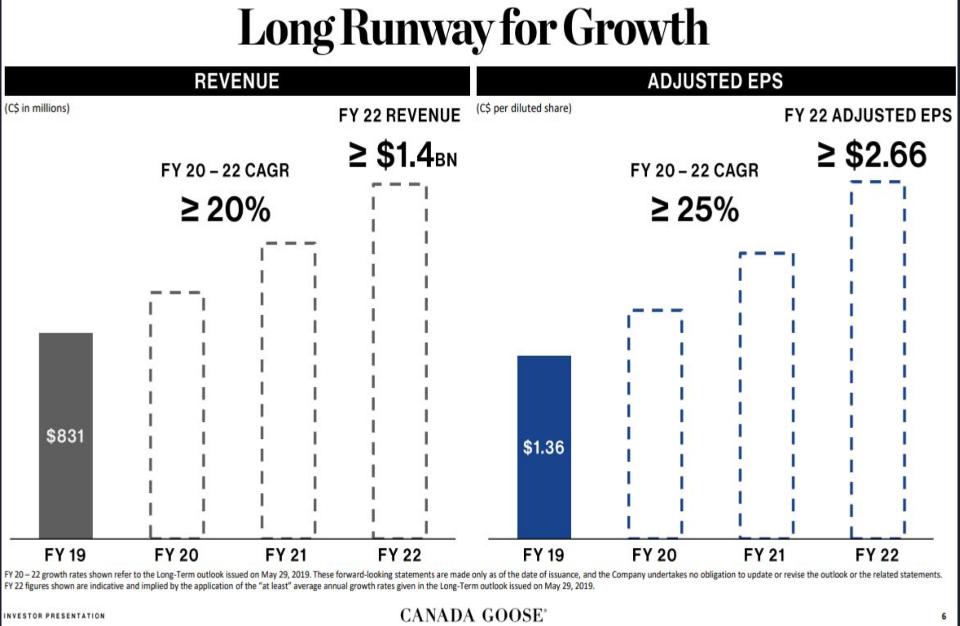
Under penetrated Asia Market Opportunity



Pent Up Demand

Beijing Flagship Store

Long-term forecast overly conservative?

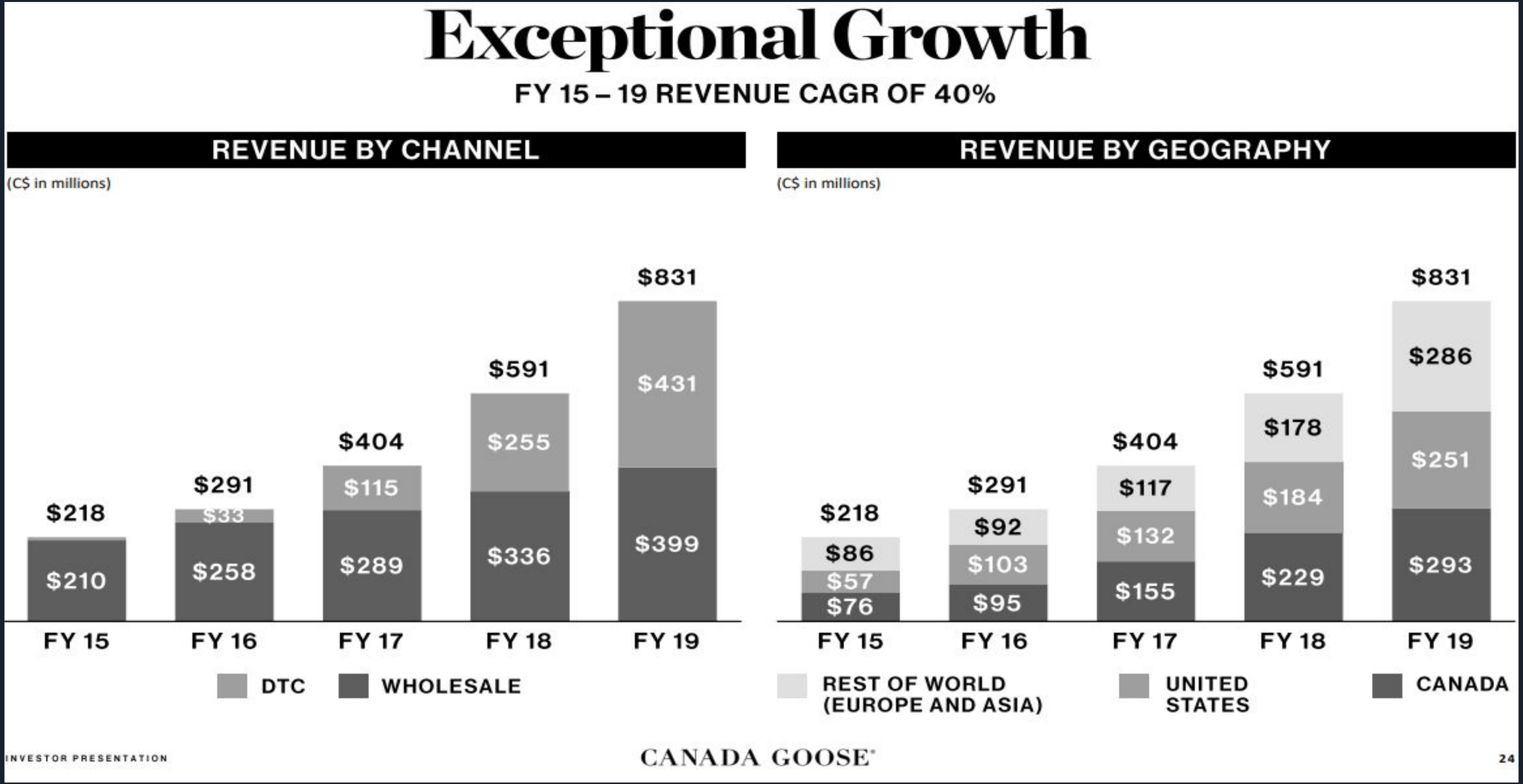


"I believe in FY20 will be achieved and probably superseded. I think they are very reasonable to almost conservative, to be honest. I know that the mindset around management is to be realistic, and they've always tried to be realistic and not optimistic, even though I think privately there is that level of optimism."

"To me, the revenue growth ability is, I have to say, it's certainly limitless in the near term, meaning whatever that means, 3-5 years, or in the foreseeable future, and with that said, and with the forecast that I believe that management have provided that I believe are reasonable and realistic, as opposed to optimistic, the limits might be around logistics and literally supplying the right product at the right time."

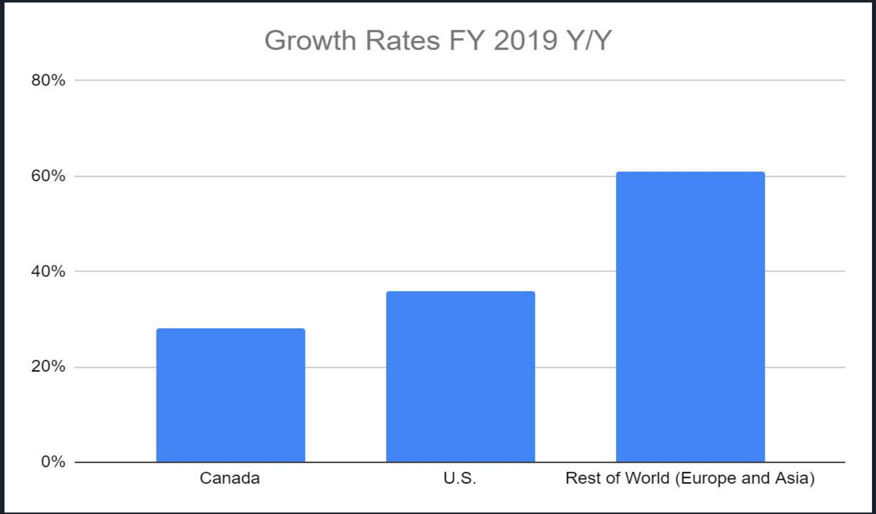
-Paul Silvertown, former GM and VP of Global Sales at Canada Goose Holdings. (ThirdBridge interview)

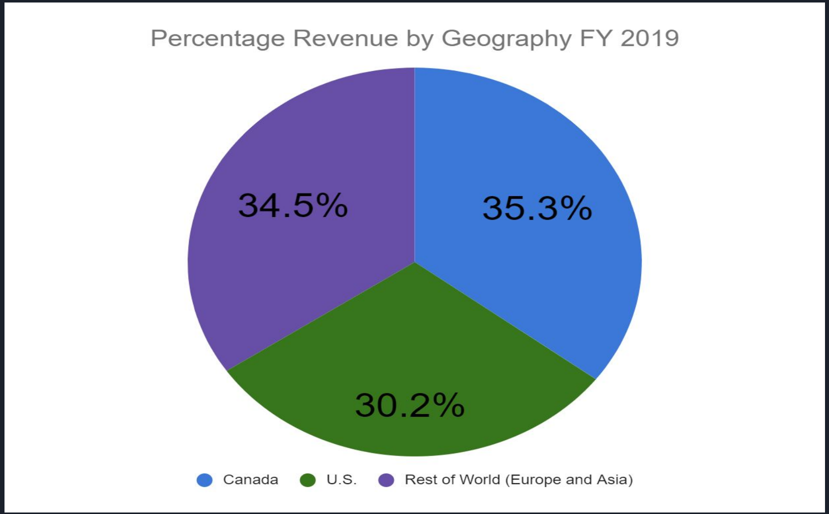
Recent Growth Trends by Geography



Triangulating the Growth Trajectory

- A 61% in y/y inventory build implies significantly higher sales growth than 20%.
- Even the most saturated market Canadian market in FY '19 was growing at 28% Y/Y.





Competition

- Moncler has a much larger direct-to-consumer retail presence (205 DTC retail stores) than Canada Goose (20 DTC retail stores).
- Moncler on average has a higher price point in relation to Canada Goose products.
- Moncler takes on more fashion risk by altering styles significantly almost every season.
- Potential inventory risk...“With core products, the degree of risk around obsolescence or non-saleability is minimised as opposed to a company, and I’ll have to use the word Moncler, that makes new products almost every season, where you are risking the consumer not liking what you do, and how do you get rid of it, and so on and so forth. To me, the whole word around inventory and inventory management is critical.” -Paul Silvertown
- Moncler has about 10% of sales through its online channel vs. Canada Goose at ~ 20%.
- Moncler products are mostly manufactured in eastern Europe, whereas Canada Goose down jackets are manufactured in Canada, and knitwear and apparel is manufactured in Italy.

Canada Goose Vs. Moncler

Canada Goose, Moncler Metrics Comparison

	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
Canada Goose						
Revenue (Million, US $)	$633	$461	$308	$222	$192	$145
Gross Margin	62%	59%	53%	50%	41%	37%
EBIT Margin	24%	23%	10%	14%	12%	3%
EBITDA Margin	26%	25%	12%	16%	14%	4%
Own-Retail % of Group Sales	52%	43%	29%	11%	4%	
	Dec-18	**Dec-17**	**Dec-16**	**Dec-15**	**Dec-14**	**Dec-13**
Moncler						
Revenue (Million, US $)	$1,677	$1,349	$1,152	$977	$922	$771
Gross Margin	77%	77%	76%	74%	72%	71%
EBIT Margin	29%	29%	29%	29%	29%	29%
EBITDA Margin	33%	33%	33%	33%	33%	32%
Own-Retail % of Group Sales	77%	75%	74%	70%	62%	58%

Source: Company filings, Bloomberg Intelligence

Note: Canada Goose IPOed in March 2017.
Moncler IPOed at the end of 2013.

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Relative Valuation Versus Luxury Peers

Name	EV/EBITDA FY2	P/E FY1	P/E FY2	EV/Sales	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Return on Equity
Median	15.0	28.6	25.6	3.67	12.3	19.5	25.3	22.5
CANADA GOOSE HOLDINGS INC	16.2	30.0	24.3	5.2	38.3	48.3	27.1	44.2
NIKE INC -CL B	21.3	32.5	28.0	3.49	6.9	7.5	14.6	47.3
BURBERRY GROUP PLC	12.9	23.7	21.5	3.05	3.4	0.2	21.1	28.6
CHRISTIAN DIOR SE	8.1	26.7	24.3	2.08	12.3	21.8	28.4	19.9
CIE FINANCIERE RICHEMONT-REG	12.0	23.0	20.8	2.61	19.5	17.5	20.0	0.6
HERMES INTERNATIONAL	23.2	45.7	41.0	9.18	12.4	15.5	42.3	28.4
KERING	12.5	21.9	19.0	4.4	22.2	35.2	35.2	23.8
KWEICHOW MOUTAI CO LTD-A	18.6	33.8	28.3	12.93	19.8	N/A	N/A	35.9
LAURENT-PERRIER GROUP	14.7	20.0	18.8	3.07	0.9	5.5	19.4	5.6
LVMH MOET HENNESSY LOUIS VUI	14.3	27.3	24.5	3.92	12.3	21.5	28.3	21.1
MONCLER SPA	16.6	28.9	27.1	6.02	17.0	31.3	36.2	36.3
PRADA S.P.A.	15.3	34.9	36.9	3.6	4.6	7.7	17.1	9.2
SALVATORE FERRAGAMO SPA	14.1	34.6	29.7	3.42	0.7	35.4	23.6	11.8
TAPESTRY INC	8.2	10.2	9.4	2.55	0.5	-1.6	21.8	22.5
TIFFANY & CO	16.3	28.2	26.7	1.66	-1.5	15.2	27.6	17.7
LULULEMON ATHLETICA INC	26.1	48.6	40.8	6.87	22.6	38.0	27.6	39.6

Peer Gross Margin Comparisons

Luxury Peers' Gross Margin (%)

Name	2018	2017	2016	2015	2014	2013
Gross Margin (%)	62.0	61.0	61.0	59.6	60.6	61.0
Moncler SpA	77.4	76.9	75.7	74.4	72.3	71.3
Kering SA	74.6	73.2	62.9	61.1	62.7	62.6
Pandora A/S	74.3	74.5	75.1	72.9	70.5	66.6
PRADA SpA	72.0	73.5	71.9	72.4	71.8	73.8
Hermes International	70.0	70.1	67.7	66.1	66.8	68.8
Burberry Group PLC	68.4	69.4	69.9	70.1	70.0	71.2
LVMH Moet Hennessy Louis Vuitton SE	66.6	65.3	65.3	64.8	64.7	65.5
HUGO BOSS AG	65.2	66.2	66.0	66.0	66.1	64.9
Salvatore Ferragamo SpA	64.0	64.5	67.1	66.3	63.7	63.5
Tiffany & Co	63.3	62.5	62.2	60.7	59.7	58.1
Remy Cointreau SA	63.1	67.5	66.7	63.4	64.0	59.9
Canada Goose Holdings Inc	62.2	58.8	52.5	50.1	40.6	
Cie Financiere Richemont SA	61.8	65.2	63.9	64.3	66.1	64.8
Ralph Lauren Corp	61.6	60.7	54.9	56.5	57.5	57.9
Capri Holdings Ltd	60.7	60.6	59.2	59.4	60.6	60.9

Source: Bloomberg Intelligence

Ownership and Voting Structure

Number of Shares, Voting Rights

	Votes/Share	# Of Shares	Total Rights	% of Total
Voting Rights (At March 31, 2019)				
Bain Capital	10	30,873,742	308,737,420	54%
Dani Reiss	10	20,130,334	201,303,340	35%
All Others	1	59,106,998	59,106,998	10%
		Total Votes	569,147,758	
Bain Divestiture Scenario				
Bain Capital	-	-	-	0%
Dani Reiss	10	20,130,334	201,303,340	69%
All Others	1	89,980,740	89,980,740	31%
		Total Votes	291,284,080	

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Source: Company Filings

Summary

- A 60-year old family run business that is fully aligned with shareholders (Dani Reiss owns ~ 18% of the S/O).
- The leading functional luxury outerwear maker globally.
- A decade plus of 20%+ top-line growth as the brand continues to expand globally while utilizing adjacent categories in apparel, knitwear, and footwear to increase the brands reach.
- Trades at a large discount to peers when taking into account top-line growth and category leading ROEs.
- One of the few global luxury brands that has large white space opportunities for growth in vastly underpenetrated markets.

Risks

- Concerns around the sourcing of animal (PETA) furs for the hoods of Canada Goose's signature parkas, based on conversations it appears likely that Canada Goose eventually eliminates coyote fur from the hoods.
- A high end discretionary product can be susceptible to economic cycles, the brand grew rapidly throughout the '08/'09 GFC, but given its global footprint no assurances can be made that Canada Goose will be able to keep its growth trajectory.
- Continued geo-political issues and a renewed interest in a Chinese boycott of Canada Goose products.
- Continued Counterfeits that degrade the brand over time.