



Safehouse Capital

Canada Goose

Long Thesis

February 2020



Legal disclaimer

This document has been prepared by Safehouse SPC ("**Safehouse**"). The information set out herein (the "**Information**") is not directed at (nor intended for distribution to or use by) any person in any jurisdiction where it is illegal or unlawful to access (or be distributed) and/or use such information. Without limiting the generality of the foregoing, this document is not directed at retail clients. The Information does not constitute, and should not be construed as, an offer to sell (nor a solicitation of an offer to buy, nor a recommendation to buy, sell or otherwise participate in) any investment, security or commodity or to engage in any other transaction. The Information does not constitute investment, legal, tax or accounting advice and is provided for information purposes only. Recipients and/or prospective investors should inform themselves as to the legal requirements and tax consequences within the countries of their citizenship, residence, domicile and place of business with respect to receipt of this presentation and/or the acquisition, holding or disposal of interests in the fund described herein (the "**Fund**"). Recipients should further consult with an appropriate professional for advice rendered on the basis of their particular situation. Neither the Fund nor its shares (the "**Shares**") have been approved by any regulatory authority, nor has any such authority passed upon the accuracy or adequacy of this presentation. Investment in products such as the Shares carries substantial risk and may not be suitable for all investors. The value of the Shares may go up or down and investors may not get back the amount they have invested. Past performance is not indicative of future results and nothing contained in this presentation should be deemed a prediction, projection, representation or warranty of future outcomes. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the Information or any opinions expressed herein. The information set out herein is qualified in its entirety by reference to the full text of the documents constituting and/or governing the Fund (the "**Governing Documents**"). Potential investors cannot subscribe for nor purchase any Shares except on the basis of the Governing Documents, which are available on request. This presentation contains information that is confidential and/or commercially sensitive. By receiving this document, the recipient undertakes to maintain the confidentiality of the same and not to duplicate, distribute, share or otherwise disclose the content hereof except with the prior written consent of Safehouse.



Prologue

Safehouse is long Canada Goose. We believe the current price offers an attractive entry point for long term investors like ourselves.

We believe the company is in the midst of a transformation that will lead to sustained topline growth, margin expansion and multiple expansion as the brand becomes a true global luxury icon.

In the next few slides, we try to articulate the key points which led us to take a position. We have spared you the nitty gritty details and instead are focusing on the key high-level elements.



What is Canada Goose?



What is Canada Goose?



- Canada Goose was founded as Metro Sportswear in 1957- by a Polish immigrant, Sam Tick.
- Today, in its **third-generation** of family ownership, the company has transformed into a **global luxury brand** known for its iconic parkas.
- Throughout its transformation, the company never lost its core **Canadian heritage**, still sourcing and manufacturing in Canada.

What is Canada Goose?



Family Business



Vertically Integrated



Performance Brand

What is Canada Goose becoming?



What is Canada Goose becoming?

Global

The company is expanding internationally

Direct to Consumer

The company is transforming from wholesale to DTC

Luxury

The brand has proven it is hot and in-demand

Multifaceted

The brand will have new lines other than parkas



Goose going global

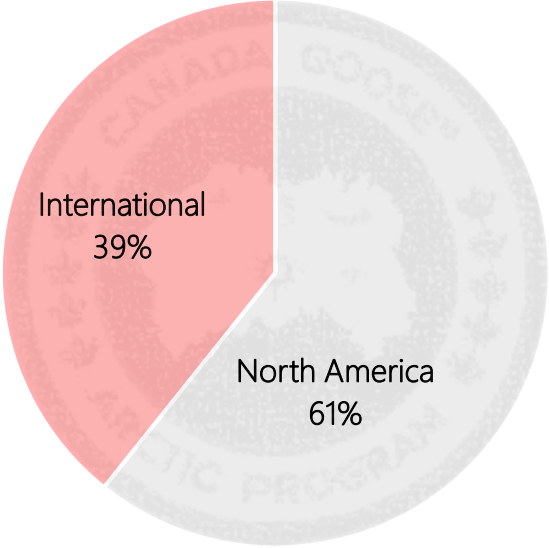


Goose going global (1)

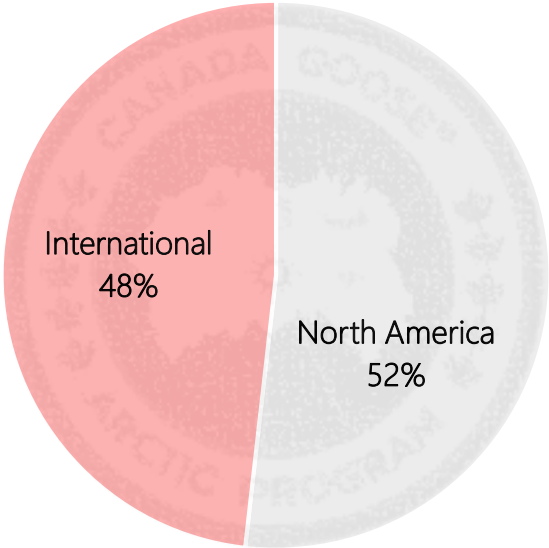
Toronto	New York City	Hong Kong	Paris
Edmonton	Boston	Beijing	London
Vancouver	Chicago	Shenyang	Milan
Montreal	Short Hills	Shanghai	Tokyo
Calgary	Minneapolis		
Banff			



2015 Revenue by Geography



2022e Revenue by Geography



Source: Company Website, Safehouse Research



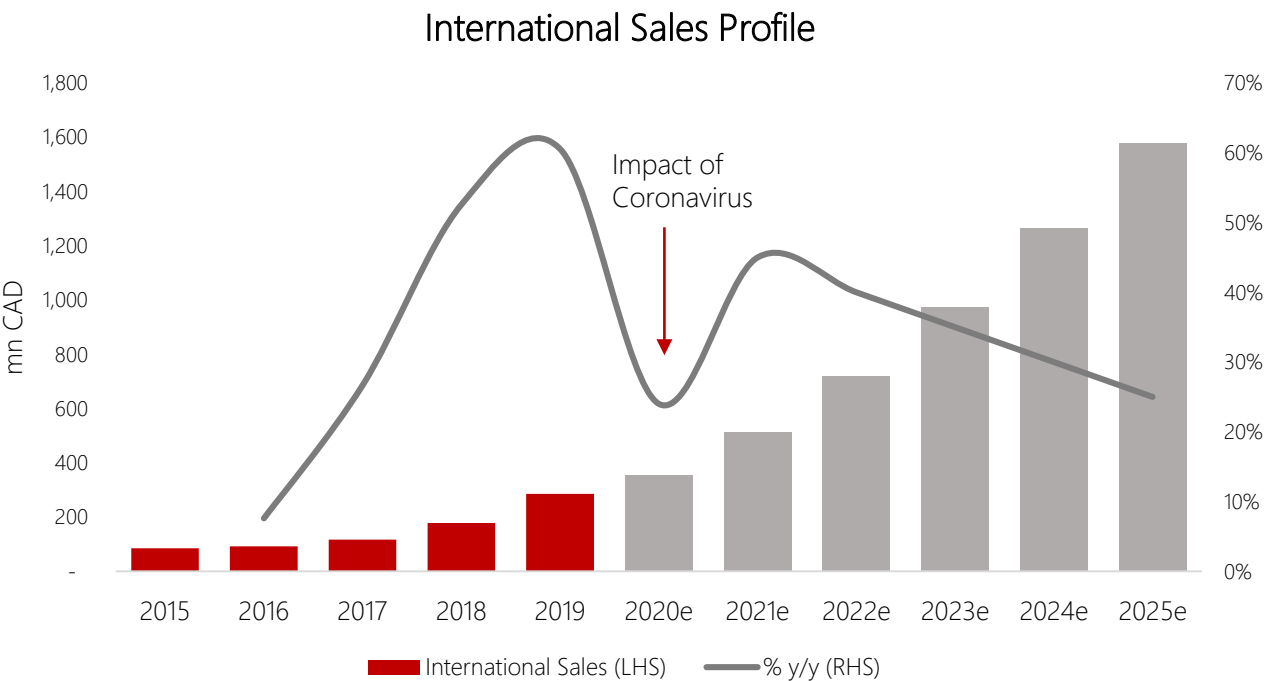
Goose going global (2)



Queue outside a Canada Goose store in Beijing, China.

International is off to a great start...

Source: Company Financials, Safehouse Research

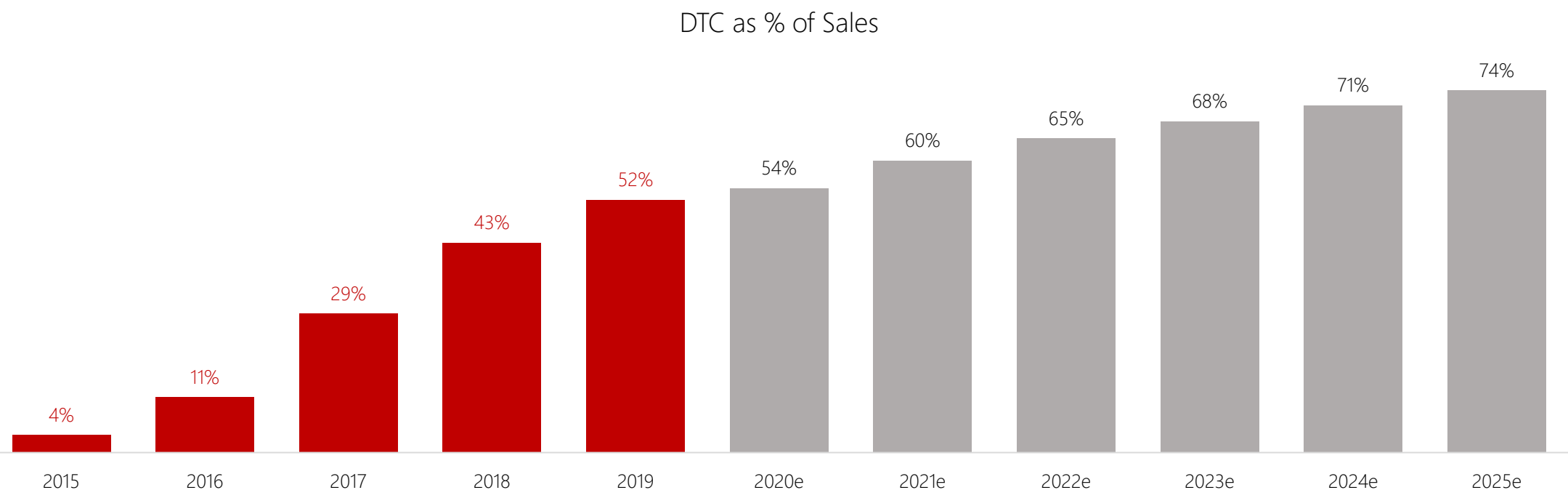


International will sustain high double-digit growth for the next 5 years...

Goose going direct to consumer



Goose going direct to consumer (1)



The company is focusing on growing through the higher margin direct to consumer channel.

DTC = Retail + E-commerce

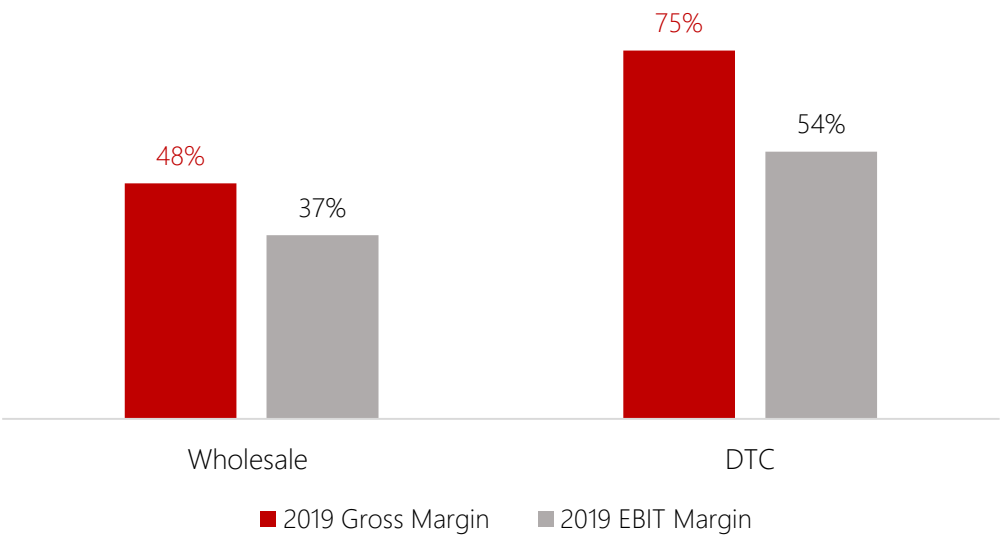
Source: Company Financials, Safehouse Research



Goose going direct to consumer (2)

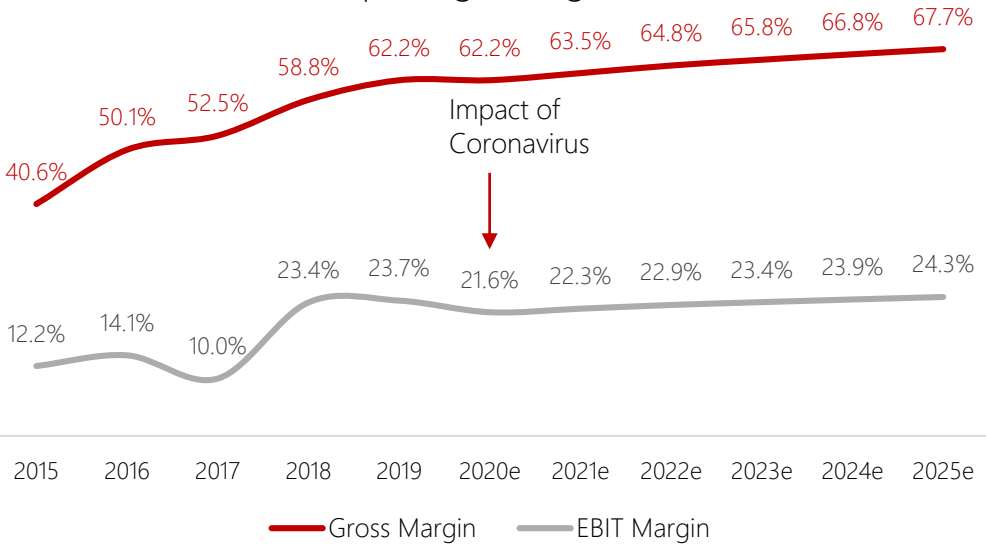


Wholesale vs. Direct to Consumer



DTC is significantly more profitable and allows the company to better manage inventory.

Group Margin Progression



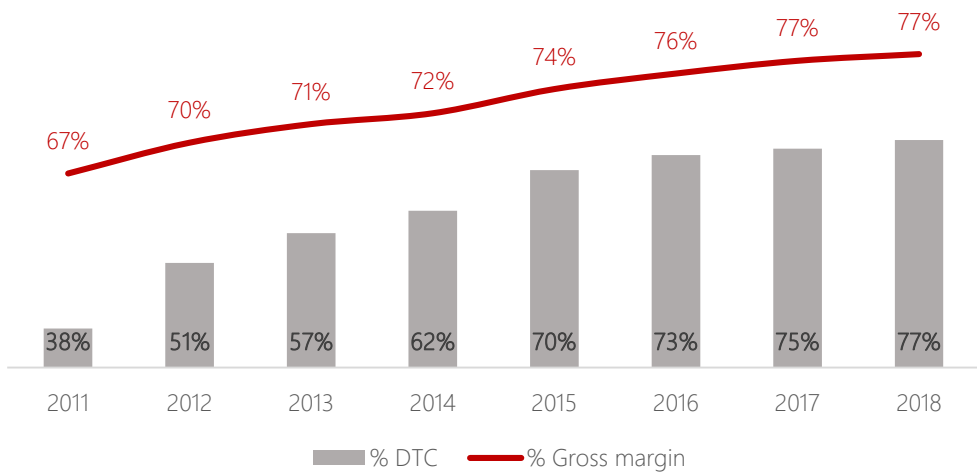
This will drive sustained margin expansion for the group, boosting earnings.

Goose going direct to consumer (3)

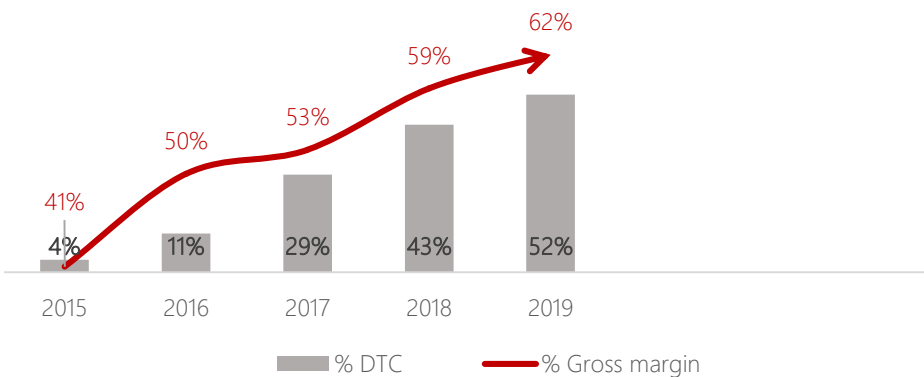
Looks familiar?



Moncler DTC



Canada Goose DTC



Moncler is up ~400% since its IPO in 2013

Is Canada Goose the next Moncler? We think so...

Today, Moncler has c. 205 stores while Canada Goose has only recently approached 20 stores globally. **We believe there is potential to at least double the store count.**

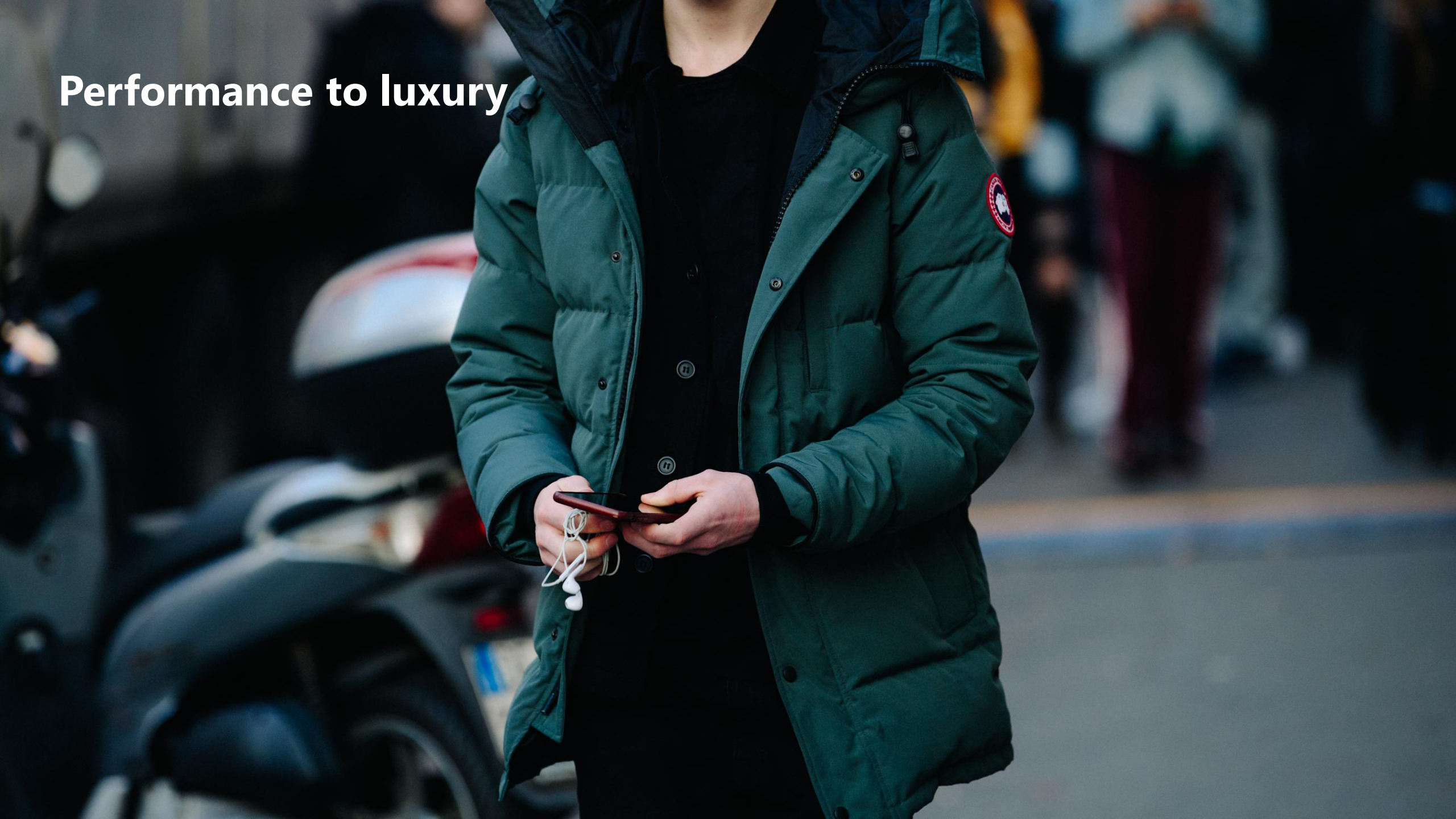
Goose going direct to consumer (4)

Moncler has 15% higher gross margins than Canada Goose →

Company	2018	2017	2016	2015	2014
Moncler	77%	77%	76%	74%	72%
Kering	75%	73%	63%	61%	63%
Pandora	74%	75%	75%	73%	71%
Prada	72%	74%	72%	72%	72%
Hermes	70%	70%	68%	66%	67%
Burberry	68%	69%	70%	70%	70%
LVMH	67%	65%	65%	65%	65%
Hugo Boss	65%	66%	66%	66%	66%
Ferragamo	64%	65%	67%	66%	64%
Tiffany & Co	63%	63%	62%	61%	60%
Remy Cointreau	63%	68%	67%	63%	64%
Canada Goose	62%	59%	53%	50%	41%
Richemont	62%	65%	64%	64%	66%
Ralph Lauren	62%	61%	55%	57%	58%
Capri Holdings	61%	61%	59%	59%	61%
Average	67%	67%	65%	65%	64%

Canada Goose has one of the lowest gross margins in the global luxury space. We believe there is potential for further margin expansion.

Performance to luxury

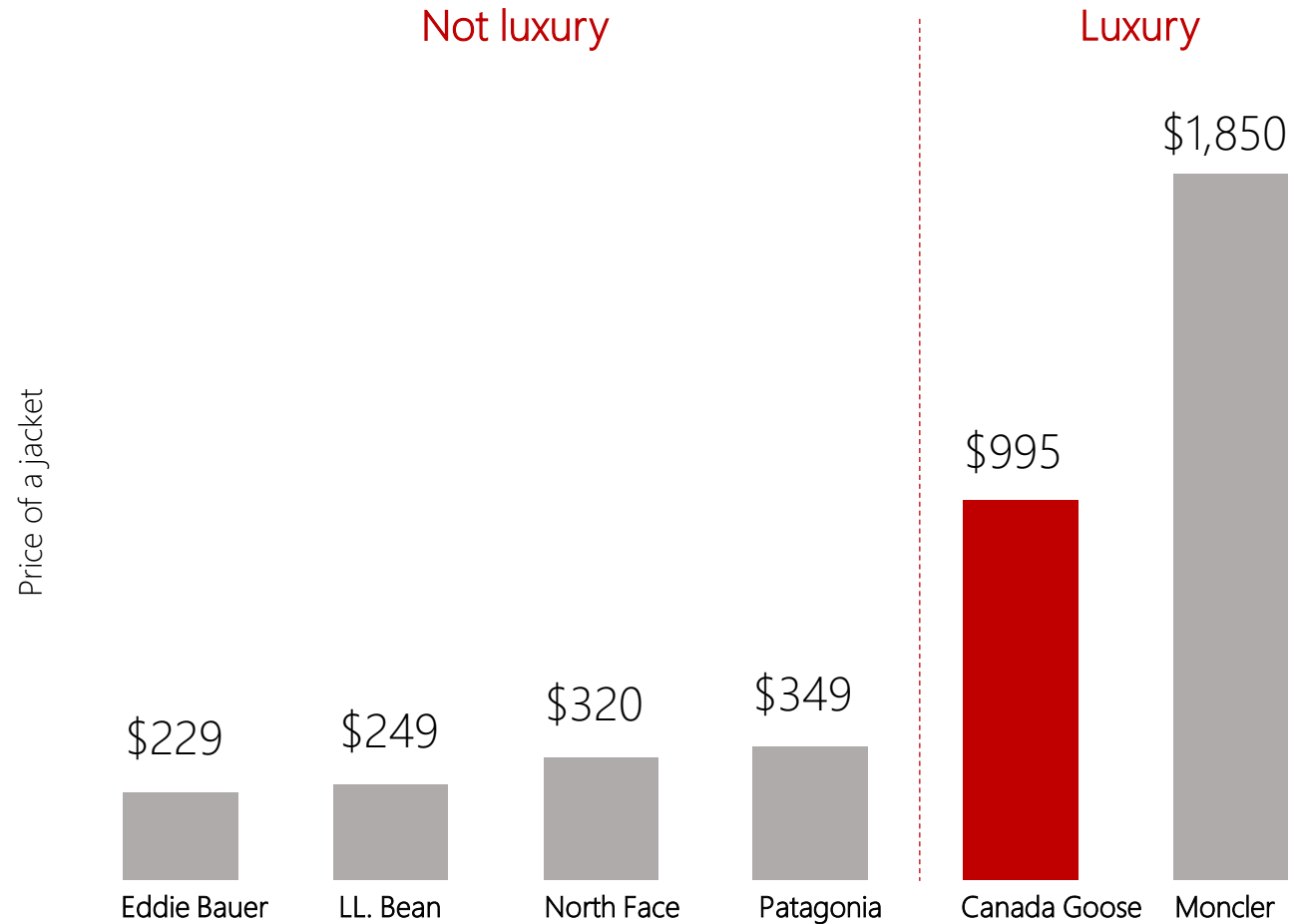


Performance to luxury



Celebrity following makes the brand sought after and aspirational.

Source: Forbes, Safehouse Research



The brand is well priced and lies within the luxury segment.

Safehouse SPC Ltd.



Becoming a fashion label



The company is offering new products outside of the parka category.

The company acquired outdoor shoe manufacturer Baffin to understand the business.

"It's a really exciting part of our footwear journey and it's a really important part of our long-term growth strategy"

"Baffin is the gold standard when it comes to cold-weather footwear. And I have seen many apparel companies try and get into footwear and fail, and we wanted to find, for us, the best formula for winning,"

- Dani Reiss on Baffin acquisition

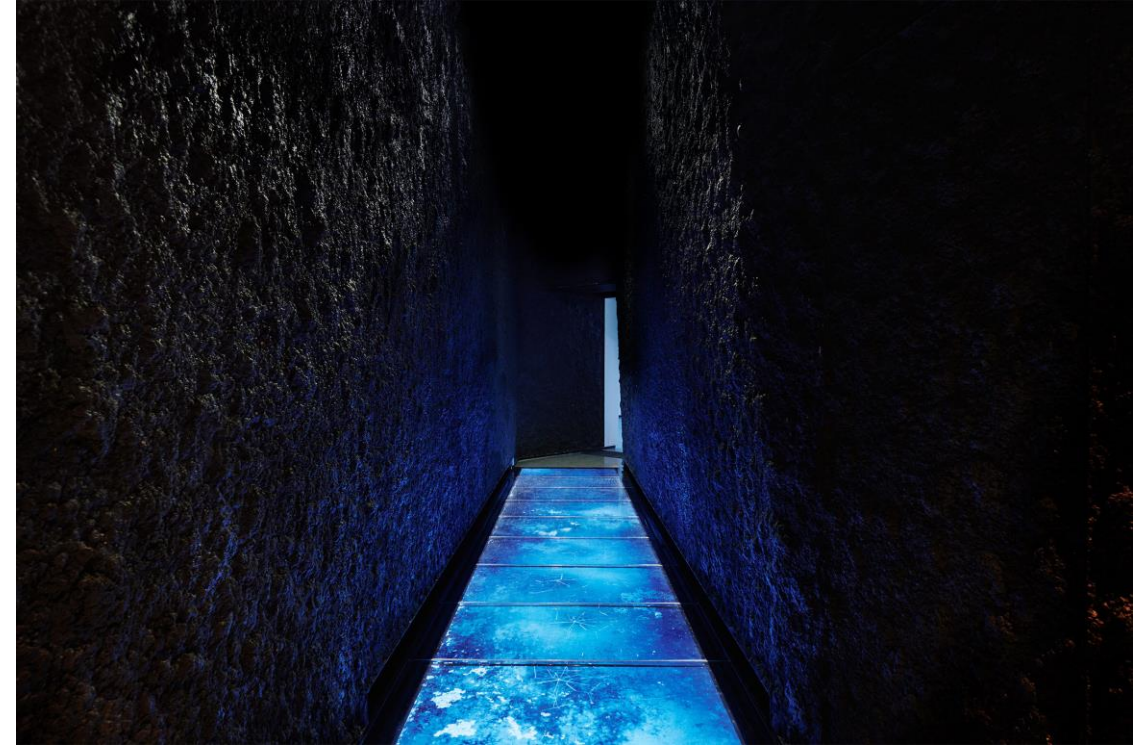
We expect the company to launch products in the footwear category soon.

New lines and products will further de-risk the brand...

Transforming the retail experience



Transforming the retail experience



The company's latest concept store has no inventory and allows visitors to try products in artificially extreme weather conditions.

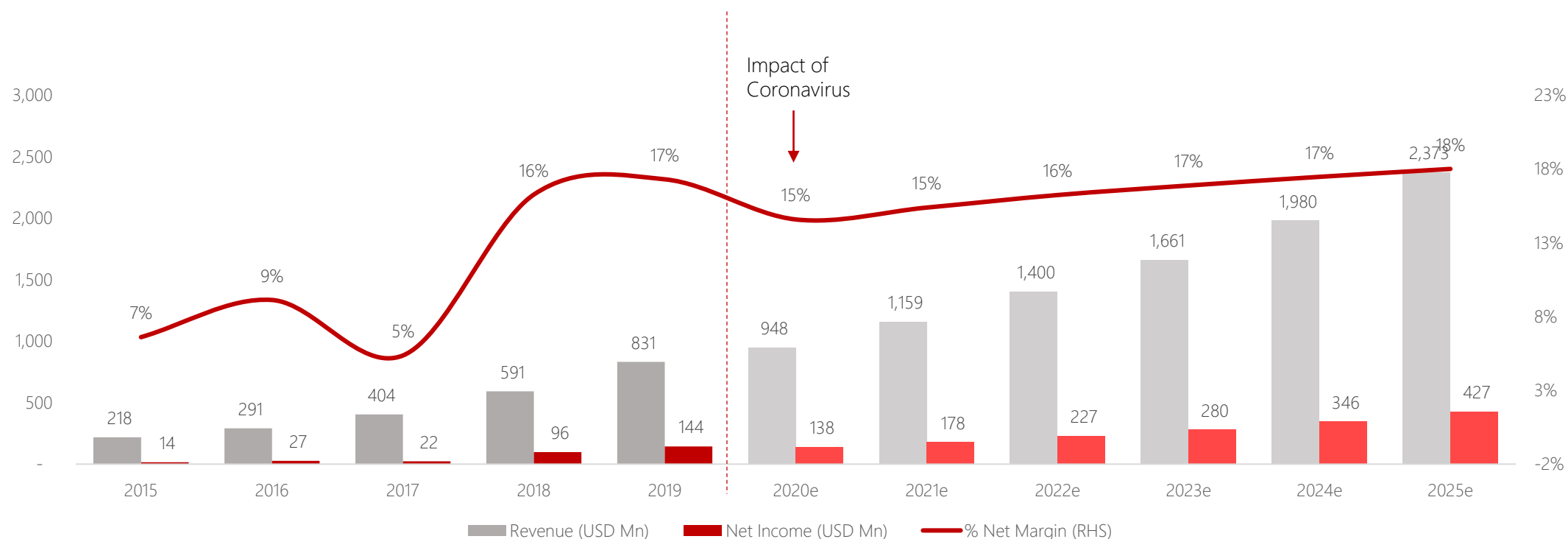
CEO Dani Reiss understands the single largest trend in retail is **innovation**, which drives store traffic.

Many retailers have been slow in innovating. **Canada Goose is ahead of the pack...**

Expected growth profile



Expected growth profile



In our base case, we expect the company to grow revenue at a CAGR of 20% between FY20-25, while improving its net margin by c. 340 basis points in the same period, leading to an earnings CAGR of a 25%.

Valuation



Valuation

Base-case scenario

Forward Price to Earnings		2021e	2022e	2023e
Forward EPS (CAD/share)		1.61	2.05	2.53
Share Price Target At Forward P/E of	28X	45	57	71
Share Price Target (USD/share)		35	44	54
Upside*		9%	39%	71%
CAGR		8%	17%	19%

Forward EV/EBITDA		2021e	2022e	2023e
Forward EBITDA		312	389	473
EV At Target At Fwd. EV / EBITDA of	16X	5,039	6,291	7,646
Net Debt		(232)	(430)	(680)
Equity Value		5,272	6,720	8,326
Shares Outstanding		111	111	111
Share Price Target At Forward EV / EBITDA Multiple	CAD	48	61	75
Share Price Target At Forward EV / EBITDA Multiple	USD	37	47	58
Upside*		15%	47%	82%
CAGR		13%	20%	21%

Blue-sky scenario

The company sustains 30% revenue growth till F23 and trades at 33x P/E

Forward Price to Earnings		2021e	2022e	2023e
Forward EPS (CAD/share)		1.95	2.66	3.58
Share Price Target At Forward P/E of	33X	64	88	118
Share Price Target (USD/share)		50	68	91
Upside*		56%	112%	186%
CAGR		48%	42%	40%

*Upside calculated from the price of USD 31.8 /Share

Source: Company Financials, Safehouse Research

Base case scenario points to ~71% upside over the next 3 years.

If management executes, we think this is likely conservative.



An attractive entry point



Source: Hedgeye Risk Management, Safehouse Research



Take out potential



Take out potential

Consolidation has become a key value driver for large cash rich luxury fashion houses like LVMH and Kering, as evidenced by LVMH's USD 16.6bn acquisition of US luxury jeweler Tiffany & Co, representing a premium of ~37%.

Canada Goose trades at an attractive multiples within the global luxury sector, has a rich heritage and appeals to the younger generation of customers which makes the brand an ideal takeover target for a large multi brand luxury player. **Typical take out multiples in the luxury space are >20x EV/EBITDA.**



(Amounts in LCL mn)	CANADA GOOSE	MONCLER	BURBERRY GROUP	HERMES	TOD'S	FERRAGAMO	LVMH	KERING	LULULEMON	NIKE INC	Weighted Avg.
Sales LTM	973	1,497	2,781	6,397	918	1,369	53,670	14,872	3,749	40,781	
EBIT LTM	221	431	467	2,223	31	153	11,245	4,200	804	5,238	
% Margin	22.7%	28.8%	16.8%	34.8%	3.4%	11.2%	21.0%	28.2%	21.4%	12.8%	21.4%
Net Income LTM	158	341	358	1,453	8	84	7,171	1,935	566	4,572	
% Margin	16.3%	22.8%	12.9%	22.7%	0.8%	6.2%	13.4%	13.0%	15.1%	11.2%	14.4%
ROE	35%	36%	36%	28%	1%	11%	21%	21%	37%	51%	29.4%
ROIC	25%	26%	-	24%	1%	9%	13%	12%	30%	30%	20%
Net Debt	57	-454	-	-2,313	75	-169	19,583	2,207	-881	-1,184	
Net Debt/ EBITDA	1.1x	0.3x	-	-0.9x	4.0x	1.7x	1.2x	1.2x	0.1x	0.5x	0.8x
LTM P/E	27.7x	28.7x	22.9x	49.7x	152.9x	33.1x	29.0x	34.6x	55.0x	35.0x	35.4x
FWD P/E	27.8x	27.3x	23.1x	47.4x	605.7x	28.0x	25.4x	22.8x	50.8x	33.2x	31.5x
LTM EV/ EBITDA	20.9x	17.8x	-	24.4x	14.8x	11.1x	14.1x	14.3x	23.3x	22.9x	19.3x
FWD EV/EBITDA	16.4x	16.6x	11.3x	25.8x	12.6x	10.4x	13.5x	13.4x	30.4x	25.1x	19.8x
Div. Yield	0.0%	1.0%	2.1%	0.7%	2.8%	2.1%	1.6%	1.9%	-	1.0%	2.0%
FCF Yield	0.9%	4.4%	4.9%	2.2%	4.9%	6.6%	4.2%	4.1%	0.7%	2.1%	3.2%
Market Cap (mn LCL)	4,470	10,092	8,071	73,096	1,203	2,793	208,425	71,095	32,305	156,018	

Short thesis & risks



Short thesis & risks

What the bears are thinking...

- The transformation of the business model at scale entails massive execution risk and management may not be prepared to undertake such a challenge.
- Recent results have revealed high levels of inventory build-up.
- The company's core product is a long life jacket with low purchase frequency. In order to grow revenues the company will have to constantly innovate with new product lines.
- New product lines may bring on "fashion risk" and price promotion which will affect gross margins.
- Animal rights activists have targeted Canada Goose for its use of coyote fur and goose down. As consumer concerns increase, negative sentiment towards the brand may increase.

...What we think

- We understand that the transformation will require strong leadership and a very competent management team. CEO Dani Reiss is long term oriented and has always favored innovation and brand building over short-term profits.
- The company is in the very early stages of its growth/penetration, thus inventory buildup at this stage should not be a concern.
- We have been impressed with the new product lines and believe winter boots and knitwear will resonate well with consumers.
- The management understands that in order to solidify its luxury image the company needs to do more than just product placements, thus its new innovative concept store discussed earlier is a step in the right direction.
- The company has been very transparent about its ethical sourcing and responsible use of animal products. The company ensures that its materials are a by-product of the poultry industry and its fur is never sourced from endangered species.



Consequences of the Coronavirus

As of February 10th, 2020, the Coronavirus has caused c. 900 deaths with c. 40,000 known cases. We believe that the outbreak is going to materially impact mainland Chinese spending, also affecting Chinese tourist sales abroad as Chinese travel less.

Canada Goose cut their guidance last quarter (Q3 2020), specifically citing slower international sales and lower tourist sales in North America. The company cut its full year guidance from 20% revenue growth to c. 15% due to the impact of the Coronavirus.

While it is difficult to predict the duration and lasting impact of the outbreak, we believe this does not pose any structural risks to the business but could impact 2021 earnings by 5% to 20%.

Asia & China Exposure

Company	China	Asia-Pacific
Richemont	11%	46%
Tiffany	17%	43%
LVMH	19%	37%
Tapestry	10%	32%
Canada Goose	10%	30%
Capri	6%	19%

While this is a significant short-term headwind which may take a few quarters to clear out, the long-term thesis for Canada Goose remains unchanged and we believe this has provided investors with an attractive entry point.

