SAMPLE QUALITATIVE REVIEW - CANADA GOOSE HOLDINGS (GOOS)

Please note, we made the following qualitative rating updates for Canada Goose Holdings Inc. (GOOS).

Receivable Rating:

Quantitative rating: 1 Qualitative rating: 2 Qualitative difference: +1

No Material Concerns About Trade Receivables Relative To Wholesale Revenue
OBSERVATION RECORDED:02/03/20

In its quarterly 6-K filings, the Company discloses trade receivables (excluding credit card receivables) and wholesale revenue. Given the Company does not have trade receivables for its direct-to-consumer business, we believe the most appropriate receivable level analysis is trade receivables relative to wholesale revenue.

In Q2 20, trade receivables (excluding credit card receivables) relative to wholesale revenue increased 2.0% to 0.639 from a base period that declined 4.1%. Accordingly, we believe trade receivables relative to wholesale revenue were relatively in-line with historical seasonal levels. While receivable levels increased slightly, we have no material concerns about receivable levels. Accordingly, our receivable risk rating is moderately low, slightly higher than the quantitative risk rating (the quantitative analysis did not disaggregate trade receivables and wholesale revenue).

Inventory Rating:

Quantitative rating: 5 Qualitative rating: 5 Qualitative difference: 0

Manufacturing Utilization Levels May Have Driven Inventory Build & An Unsustainable Margin Benefit

OBSERVATION RECORDED:02/03/20

On its Q2 20 Conference Call on 11/13/19, the Company attributed the inventory build to a buffer stock build. The Company indicated it built buffer stock to support staging needs of its international DTC expansion and maximize the efficiency of its new in-house manufacturing capacity. The Company guided for inventory levels to normalize as it rationalized third-party manufacturing relationships. Specifically, the Company guided for inventory relative to revenue to decline next fiscal year.

While we acknowledge the Company may have built buffer stock, we are concerned the Company may have run its new manufacturing facility at full utilization despite continued production from third-parties. In our view, (1) the Company may have overbuilt inventory and (2) margins may have benefited from full utilization of the new facility. As such, we believe the Company may be compelled to (1) reduce production and/or (2) increase discounting (although the Company maintained its commitment to selling products at full price) to normalize inventory levels. In either scenario (a production utilization slowdown may be more likely), we believe margins may be pressured.

In addition, the inventory obsolescence provision as a percentage of gross inventory declined 220 basis points year-over-year to 4.1%. We are concerned depressed inventory obsolescence provision levels may have provided an unsustainable margin benefit (i.e. the Company may be compelled to increase the provision and margins may be pressured).

We believe inventory levels may remain elevated throughout FY 20 (based on guidance for normalization in the next fiscal year). Therefore, the Company may be able to maintain production levels (i.e. a potentially unsustainable benefit) in the near-term. However, we believe the materially elevated inventory levels highlight elevated margin sustainability risk and our qualitative risk rating is in-line with the quantitative risk rating.

> *I want to provide an update on inventory, which we discussed last quarter. We have continued to build an inventory buffer ahead of growth to maximize production efficiency and long-term commercial flexibility...I continue to feel very good about the size and the current composition of our inventory position. We continue to operate commercially with a disciplined and selective allocation model, both at wholesale and in our own DTC channels and always at full price. Going into next year, once the rationalization and transition are complete, we intend to improve inventory efficiency relative to sales and expect that our inventory levels relative to revenue will trend lower over time. (CEO Mr. Dani Reiss, Q2 20 Conference Call, 11/13/19)*

Finished Goods Rating (i.e. Inventory Composition):

Quantitative rating: 5 Qualitative rating: 5 Qualitative difference: 0

Elevated Finished Goods Levels Highlight Overbuilt Inventory Levels And Potential Margin Pressure
OBSERVATION RECORDED:02/03/20

On its Q1 20 Conference Call on 08/14/19, the Company highlighted there were two distinct elements to its inventory position: finished goods for delivery and manufacturing. The Company indicated the two elements did not have the same cadence and should be looked at separately.

On its Q2 20 Conference Call on 11/13/19, the Company acknowledged it had certain excess inventory due to a buffer stock build and transition away from third party manufacturers to in-house manufacturing (see inventory risk qualitative discussion for more details). Further, the Company highlighted there was "no excess inventory risk" and the inventory would be sold at full price. In our view, the multi-year seasonally elevated finished goods levels highlights potentially overproduced inventory. We are concerned the Company may be compelled to reduce manufacturing utilization in order to normalize inventory levels by FY 21 (per its guidance) and margins may be pressured (i.e. manufacturing overhead costs spread over a smaller number of units). As such, our inventory composition qualitative risk rating is high, in-line with the qualitative rating.

> *Some of that has resulted in having a little bit more inventory because we obviously, in our view, it's better to have more good inventory than not enough good inventory. And the thing about inventory that's important for you to know about our company is that we're different than many in that approximately 2/3 or 75% of inventory is carryover inventory, and that's the stuff that we're making. So there's no excess inventory risk here. It's not risky inventory. It's inventory that will be sold at full price, and its inventory that will be available and has been available for many years. (CEO Mr. Dani Reiss, Q2 20 Conference Call, 11/13/19)*

Non-GAAP/IFRS Rating:

Quantitative rating: 1 Qualitative rating: 1 Qualitative difference: 0

No Material Concerns About Non-IFRS Earnings Divergence

OBSERVATION RECORDED:02/03/20

In its Q2 20 Earnings Release, the Company disclosed it primarily excluded acquisition related costs, foreign exchange gains, share-based compensation, and pre-store opening costs (costs incurred during pre-opening periods of new stores) from non-IFRS results. We have no material concerns about the non-IFRS exclusions given they are relatively immaterial, there were no inappropriate additional exclusions in recent periods, and the exclusions are one-time in nature/reasonably excluded as non-business related expenses. Given non-IFRS results did not diverge materially from IFRS results and we have no material concerns about aggressive non-IFRS exclusions, our qualitative risk rating is low, in-line with the quantitative risk rating.

Cash Flow Rating:

Quantitative rating: 5 Qualitative rating: 5 Qualitative difference: 0

Receivable And Inventory Cash Consumption Highlight Elevated Earnings Sustainability Risk

OBSERVATION RECORDED:02/03/20

In the twelve-months ended Q2 20, changes in non-cash operating assets cash consumption increased 49.4% year-over-year to CA$121.0 million. Specifically, receivables (inventory) consumed CA$22.8 million (CA$124.6 million) of cash during the period. Accordingly, the majority of the non-operating asset cash consumption was driven by receivables and inventory (somewhat offset by cash provided by accounts payable and accrued liability). Given material working capital cash consumption, our qualitative cash flow risk rating is high, in-line with the quantitative risk rating.