



Amid IPO Flops, How Will Roots Canada Fare?

Description

Looking at recent Initial Public Offerings (IPOs) of Canadian fashion retailers and iconic brands such as **Canada Goose Holdings Inc.** ([TSX:GOOS](#))([NYSE:GOOS](#)) and **Aritzia Inc.** ([TSX:ATZ](#)), investors may remain cautious of yet another IPO in this space, this time for iconic Canadian brand Roots.

The Canadian clothing company is reportedly in talks with **Toronto-Dominion Bank**, **Bank of Montreal**, and **Credit Suisse** to raise approximately \$200 million from an IPO later this year, which would provide liquidity with which the company could continue to expand and allow investors to cash out, although it is unknown how management expects to use funds from the capital raise.

It appears Roots's financial situation may be improving, and private equity firm Searchlight Capital Partners will be looking to cash out of their majority stake in the Canadian clothing company after providing capital in 2015 and leading a growth/turnaround effort at the firm with the implied intention of bringing the company public at some point.

One of the questions many investors have with this potential IPO is with respect to what the share structure of the firm will be upon going public. Many (it seems like the majority) IPOs on the Canadian exchange these days are listed as dual-class share structures.

Here's how a dual-class share structure works: essentially the majority of voting rights are held by a few shareholders (typically the majority shareholder at the time of the IPO) due to the fact that the associated senior common shares have multiple votes compared to a common share, which would have only one vote. A typical scenario would see a company issue two classes of shares (let's call them A-class and B-class common shares); the A-class shares might have 10 votes or 100 votes, while the common shares would only have one vote. This would ensure that the majority shareholders would be able to retain control of the firm, despite owning a small minority stake, essentially relinquishing control from outside shareholders wishing to buy into the firm.

The details of any proposed IPO have not been released yet, and the firm is only in initial talks; however, this will certainly be one of the key considerations investors will have when thinking about how Roots might fit into their investment mix.

Bottom line

Roots's status as one of the most recognizable Canadian brands is likely to inspire Canadian pension funds and institutional investors forced to buy Canadian equities to take a look. Of course, it all comes down to the numbers, but at some point, certain brands just have a way of tugging at your heartstrings. Let's see if investors follow suit with their cheque books.

Stay Foolish, my friends.

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Date

2025/07/30

Date Created

2017/08/30

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