



## Will a Roots Canada Ltd. IPO Yield the Same Success as Canada Goose Holdings Inc.?

### Description

Canadian clothing retailer Roots Canada Ltd. is seeking to raise about \$200 million by working with banks like **Toronto-Dominion Bank** and **Bank of Montreal** to prepare for an initial public offering (IPO). Roots operates over 200 stores in Canada, the United States, and Asia.

Canadian retailer and clothing manufacturer **Canada Goose Holdings Inc.** ([TSX:GOOS](#))([NYSE:GOOS](#)) made a big splash as it debuted its IPO in March. The stock has since increased 6.2%, but it has declined and largely been flat since reaching a high of \$32.80 in June. The company has posted two straight earnings beats, but skepticism remains about the long-term popularity of the brand and its ability to branch out of its winter offerings.

Will the Roots IPO mirror the success of Canada Goose, or will clothing retailers continue to attract pessimism from investors?

### Clothing retailers are still getting hammered

Recent years have seen clothing retailers facing an increasingly difficult environment. Mexx Canada, the “smart-casual” fashion retailer, filed for bankruptcy late in 2015. Danier Leather managed to avoid dissolution due to insolvency as it was resurrected by investors, but it was stripped down to a few locations and a much-reduced catalogue. Sears Canada closed 59 stores and laid off almost 3,000 workers this year, as the company was forced to undergo major restructuring.

**Hudson’s Bay Co.** (TSX:HBC), one of the oldest retailers in Canada, has been locked in a major shareholder dispute as retail numbers continue to show weakness. An activist shareholder has launched a campaign that would see the company leverage its high-end real estate holdings to become a real estate investment trust.

### Roots has more in common with Canada Goose

Like the Canada Goose brand, Roots prides itself on being a Canadian manufacturing of a different flavour of luxury goods. The Canada Goose brand boasts top-line utilitarian products that are also

highly fashionable, whereas Roots was built on the co-founders called “rustic luxury” goods.

As retail chains have fallen to online shopping, a collection of luxury brands are now fighting over clientele in an intensely competitive high-end industry. Luxury goods sales are expected to rise in the latter half of 2017, and a strong Canadian economy should give a big boost to high-end retailers.

Roots has not confirmed any recent sales estimates, but upon ceding majority control to investment firm Searchlight Capital Partners LP, co-founders Michael Budman and Don Green said that the company enjoyed a record year in 2015. This had been driven by expansion into Asia and e-commerce wholesale revenue growth.

The fiscal first-quarter 2018 earnings for Canada Goose released on August 10 showed 38.2% growth in its wholesale business revenue and even bigger direct-to-consumer sales revenue, which includes its online platform.

Roots is a long-standing brand that has established itself as a Canadian staple. As 2017 winds down, there is no doubt that potential buyers will be watching Canada Goose closely to gauge the long-term viability of another Canadian clothing brand.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. NYSE:GOOS (Canada Goose)
2. TSX:GOOS (Canada Goose)

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1. Investing

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aocallaghan

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