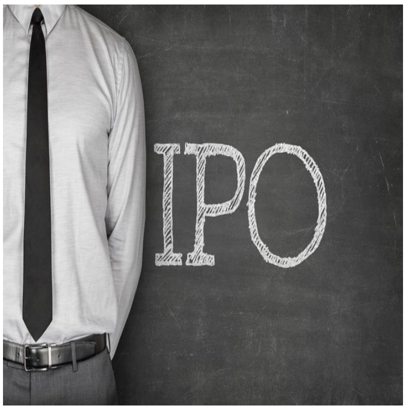

Roots Corporation’s IPO: What You Need to Know

Description

Roots Corporation has recently applied to be listed on the TSX, where it is expected to trade under the symbol ROOT. The clothing company follows the path of **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS), which started trading earlier this year, as well as **Aritzia Inc.** (TSX:ATZ), which has been listed on the TSX for almost a year.

I am going to take a look at the company’s prospectus to see how the company has performed, its plans for the future, and if it could be a good buy when its shares become available.

Recent financial performance

In 2016, the company saw sales growth of 10%, and it achieved an increase of 18% in the prior year as well. Roots continues to post strong revenue growth this year with year-to-date sales being up 16%, while the bottom line is seeing improvements as well.

Roots expects to continue to see sales grow between 13% and 17% per year

The company forecasts that if it can maintain its strong growth rate, then it should be able to see sales hit between $410 and $450 million by its 2019 fiscal year, while netting between $35 and $40 million of that in profit.

In order to meet these targets, Roots expects to open as many as 10 new stores in Canada and 14 stores in the United States as well as continue its expansion into new international markets. Roots also plans to renovate up to 33 existing stores, and the company expects a payback period of under three years for both its renovations and its new store openings.

The company is also launching a new online storefront later this year, which it expects will also help to grow sales. Roots currently has an online store, but it plans to improve the customer experience, which will include more personalization for its users.

Roots has a strong presence outside Canada that it plans to grow

In its latest fiscal year, the company had sold its products in 54 different countries, and 29% of its sales came from outside Canada. Through one of its partners, Roots was able to reach $107 million in sales last year in China and Taiwan. The company plans to build on its Asian operations, as it looks to expand into Singapore and Malaysia as well.

The company will offer more products in leather and footwear, which will drive margins up

By focusing on product development in footwear and leather, which made up just 16% of total sales last year, the company will be able to grow its average transaction size and overall margins through the higher price points that can be achieved with these types of products. The company was able to achieve a gross margin of 52% in its last fiscal year.

Is the stock a good buy?

How the company's stock will do will largely depend on how the shares are priced. In Aritzia's case, the price was a bit aggressive, and, as a result, the stock has been on a persistent decline this year, losing over 22% of its value. Canada Goose, however, has seen an improvement of over 13% in its share price since being listed in March of this year.

Roots has some good growth prospects, and in the long term, I see the company doing better than both Canada Goose and Aritzia because its products have a wider appeal, while also being more competitively priced.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:ATZ (Aritzia Inc.)
3. TSX:GOOS (Canada Goose)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/07/19
Date Created
2017/09/20
Author
djagielski