



## Is it Time to Revisit Clothing Retail Stocks After the Sears Canada Inc. Collapse?

### Description

On October 10, Sears Canada Inc. announced that it would shut down its business. Liquidation will begin on October 19 and stretch for up to 14 weeks. Executive chairman Brandon Stranzl worked to summon up the financial backing to save the company, but ultimately he came up empty. The collapse of Sears will result in job loss for over 12,000 employees.

The collapse at Sears is the next in a long line of retail closures and bankruptcies that have plagued the industry this decade. The arrival of e-commerce powerhouse **Amazon.com, Inc.** has forced companies to adapt, and, in many cases, mid-tier outlets with a large brick-and-mortar footprint have been most severely punished.

**Hudson's Bay Co.** (TSX:HBC) has been engaged in a tenuous fight with an activist shareholder over the future of its retail business. The stock has declined 7.5% in 2017 as of close on October 12, and is down 27% year over year. The company released its second-quarter results on September 5. Retail sales were up 1.2% to \$3.3 billion with digital sales seeing a healthy 12.7% increase year over year. Still, in spite of some bright spots, HBC still recorded a net loss of \$201 million.

CEO Gerald Storch spoke at a conference on October 9 and was adamant that store closures often lead to deeper problems. The company has assured its shareholders that it is doing all it can to get the most out of its real estate holdings, but the pressure to completely reorient remains high.

**Canada Goose Holdings Inc.** ([TSX:GOOS](#))([NYSE:GOOS](#)) has climbed 9.1% month over month as of close on October 12. The company has rebounded nicely after a summer slump and is progressing well after two straight earnings reports that beat analyst expectations. Canada Goose is in the unique position of being able to build its e-commerce platform, while also maintaining a few flagship stores. This is advantageous considering the precariousness of brick-and-mortar retail and also the improved profitability of items sold through the online platform.

In its most recent fiscal first-quarter results, Canada Goose saw sales from its online store surge to \$8.3 million and sales from wholesale business up 38%. Shares of Canada Goose have increased 21% since its initial public offering (IPO) on March 16.

Canadian staple Roots Canada is also seeking an IPO, reportedly with a \$700 million valuation. Roots has existed since 1973 and owns and operates 120 stores in North America. The company is seeking to expand and appears confident that it will meet with success similar to Canada Goose.

### **Should investors be looking to reduce exposure to clothing retail?**

This holiday season should provide an interesting barometre for clothing retail. The Canadian economy has overperformed, and jobs and wage growth has surpassed expectations. Hudson's Bay stock could see a big move if leadership chooses to pivot to real estate, although that does not appear to be imminent.

Although I am not high on the potential Roots IPO, I still like Canada Goose moving forward. It is aggressively branching out to other seasonal wear, and its e-commerce success bodes well for a rapidly evolving industry.

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### **Date**

2025/07/30

### **Date Created**

2017/10/16

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