



## Roots Corp. Nosedives 16.67% On 1st Day: Buy the Dip or Wait it Out?

### Description

It was not a terrific first day for **Roots Corp.** ([TSX:ROOT](#)), as shares plunged nearly 17% in the session down to \$10 per share. The retail industry is notoriously difficult to thrive in for a traditional retailer like Roots, so I suspect the stock will continue to lag, similar to how **Aritzia Inc.** ([TSX:ATZ](#)), another Canadian retailer with ambitious expansion plans and whose IPO flopped, fared in its first few months as a publicly traded company.

In a previous piece, I urged investors to avoid the Roots IPO because there were major long-term headwinds that the company would need to deal with from the get-go. Although Roots is a well-respected Canadian brand, I do not believe brand power will be enough to offset industry-wide headwinds, especially since e-commerce giants have begun to find success in the clothing space.

### Will Roots stock be like Aritzia or Canada Goose?

Unlike **Canada Goose Holdings Inc.** ([TSX:GOOS](#))([NYSE:GOOS](#)), a luxury outerwear maker, Roots isn't necessarily known for being a luxury brand, so extremely high margins are out of the question. You typically wouldn't find consumers buying \$200 scarves or \$1,200 parkas at Roots, although you may run into a \$500 special edition leather jacket on occasion.

Canada Goose is able to command such high prices, because it has excelled within its niche and hasn't wasted too much effort by venturing outside its circle of competence. Roots, however, sells a wider range of fashionable products at a much lower price point, so I'd argue that Roots is actually more like Aritzia than Canada Goose, and that's definitely not a good thing.

However, unlike Aritzia, Roots caters to a wider range of consumers, including men, women, and children of all ages. And, more importantly, the products that Roots sells typically don't go out of fashion as quickly as items on Aritzia's shelves. Sweatpants, plaid shirts, toques, and leather wallets typically aren't as volatile as the fashionable skirts, tops, and dresses that Aritzia sells.

After all, sweatpants and plaid shirts are always in fashion, right?

## Bottom line

Roots's items are more like commodities that will always have fairly stable demand throughout the years, unlike Aritzia, which may see demand for a single product drop suddenly because of changes in fashion sense, resulting in discounting to eliminate excess inventory of an unpopular product.

Roots, like other Canadian retailers that recently had their IPOs, has ambitious expansion plans; however, I'd take management's projections with a grain of salt — at least until the management team can prove they can deliver for investors on a consistent basis over the next few years.

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