Why Investors Should Be Cautious With IPOs

Description

After a number of very profitable Initial Public Offerings (IPOs) over the past few years, many Canadian investors have recently gotten the short end of the stick with the IPO of **Roots Corp.** (TSX:ROOT), as the company recently came to market in a bearish-style IPO.

The company, which was planning to IPO at a price in the $14-16 range, finally placed shares in the hands of investors at $12, only to see shares sink further and finally close at $10 after the first day of trading. Although the brand is very well known by many consumers and now investors alike, the truth is that the brick-and-mortar retail industry is not one which is expanding at a very rapid pace. Although a few brands will stand tall above the others, the cold, hard truth is that the Roots brand is not as powerful or as well known to Canadians as the company had hoped.

When we look back at some of Canada's best IPOs of the past few years, investors have very little to complain about. Shares of **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) are still up by more than ~175% since their curtain call in May 2015. Investors wanting to replicate these returns would be unwise not to want a piece of the action.

Investors need not look too far outside the apparel industry to find **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS), which, over approximately seven months, has increased by more than 20%. The company is internationally recognized for the best winter jackets in the country and maybe the world. It is clearly focused on a very specific part of the market, which may have allowed it to differentiate itself from competition.

Let's return our focus to Roots. Investors did not need very long to figure out that there was very little that is unique to the company. Although revenues have trended upwards over the past several fiscal years, this investment was nothing for retail investors to get excited about. Advisors, however, were still compensated the same amount of money for this IPO as they would be for any other.

Although many IPOs have been extremely profitable for all parties involved, it is not the case every time. Just as buying in the secondary market, investors need to be doing their own due diligencebefore buying.

Does the primary or secondary market have more risk?

Although many believe that the primary market would carry less risk, the truth is that companies are only required to supply a limited amount of financial data for recent years when coming to market. At the same time, the “window dressing” has never been better done. After the euphoria dies down and the secondary market begins, investors will gradually have access to better information over a greater period of time.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

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2. NYSE:SHOP (Shopify Inc.)
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4. TSX:SHOP (Shopify Inc.)

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Author
ryangoldsman