Roots Corp.: Is it Time to Buy Shares of This Iconic Canadian Retailer Before Earnings?

Description

Roots Corp. (TSX:ROOT) is an iconic Canadian retailer that's trading ~17% lower than its IPO price of $12 at the time of writing. I'd urged investors to avoid the IPO, especially since the initial proceeds were going into the pockets of Roots's selling shareholders. That's a hype killer for what could have been a more successful IPO, even in spite of recent industry-wide headwinds.

In a previous piece, I'd mentioned that retailers with exclusive brands will be the ones that will avoid the **Amazon.com, Inc.** effect. Roots is a strong brand with staying power, and I do not believe the company will end up in the retail graveyard as the disruption from digital retailers picks up over the next few years.

Like many retailers that have recently gone public, Roots has incredibly ambitious growth plans. The company is expecting to open new stores across Canada, while renovating older stores to drive traffic to its brick-and-mortar locations.

In addition to its Canadian expansion, Roots is looking to expand into international markets, including the U.S. and China — markets where the brand isn't well known. As the company expands its leather goods and footwear offerings, the U.S. market could provide a meaningful runway for growth if management can successfully promote brand awareness like **Canada Goose Holdings Inc.** has.

Roots has also been investing a great deal in its e-commerce platform, which should be a meaningful driver of sales, as the retail industry moves further into the digital age. Although it makes sense to try on articles of clothing in person before making a purchase, many consumers, millennials in particular, are opting to buy their articles of clothing online with the option to return should the actual item not live up to their expectations.

Is the stock a buy before fiscal Q3 2017 earnings?

Roots is making all the right moves to drive same-store sales growth, so I suspect the upcoming quarter may see some of its efforts pay off. Over the next three years, I suspect there will be a lot of room to grow same-store sales; however, the success of Roots's international expansion efforts remains a big question mark right now.

The company has firm roots in Canada, so branching into foreign markets will likely require substantially more spending on marketing initiatives to promote a brand that isn't a household name. Even after this effort, the success of the international expansion will really be hit or miss. Canada Goose has enjoyed success from its international expansion, so there are many reasons to be optimistic about Roots's plans to grow outside Canada.

I believe the stock of Roots will look similar to that of Canada Goose, and not like **Aritzia Inc.** — a stock that has continued to drop following its IPO.

If you're a believer in the power of the Roots brand, I'd recommend buying half a position before earnings with the intention of buying the other half should earnings come short of expectations. If earnings are a beat, then you may want to wait for a pullback before buying the second half of your position. Since the recent IPO is expected to continue to be volatile, you'll likely be rewarded with a better entry point down the road if you're patient.

Keep in mind that there's still a cloud of uncertainty following Roots; however, the management team will likely shed some more light on its plans in the conference call following its earnings release.

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