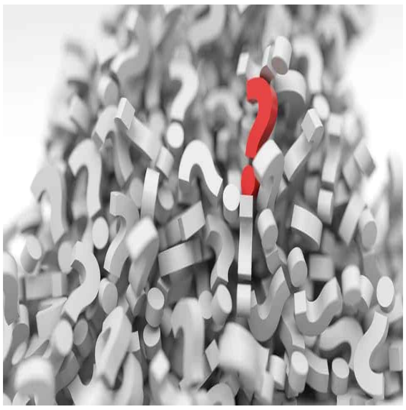

Should You Buy the Dip at Roots Corp. or Freshii Inc.?

Description

Last year produced a mixed bag of results for initial public offerings on the Toronto Stock Exchange. Today, we are going to look at two companies that will look to build on what was a disappointing debut in 2017. Which should investors buy as we look beyond January?

Roots Corp. (TSX:ROOT)

Roots is a Canadian clothing retailer. The stock made its TSX debut in October 2017 with skepticism emerging early. Roots came into its IPO with lower annual growth than other newcomers, like **Canada Goose Holdings Inc.** and **Aritzia Inc.** Shares fell on its opening trading day. The stock has dropped 4% from its IPO price of $12 as of close on January 22.

Roots has started 2018 well; its stock has risen 2.3% so far. The company released its 2017 third-quarter results on December 5, 2017. Total sales were up 13% compared to Q3 2016, and adjusted EBITDA climbed 20.5% to $16.3 million. Roots reported that it had renovated or expanded five corporate retail stores in the past year and expanded its Yorkdale store. The company has made a concerted effort to expand its e-commerce business, which shipped to 54 countries from Q3 2016 to Q3 2017.

Roots leadership expects to post sales between $410 million and $450 million in 2017, representing a compound annual growth rate of up to 17% from 2016 to 2019. The company could also see a boost from an impressive holiday sales season in North American in 2017.

Freshii Inc. (TSX:FRII)

Freshii is a Toronto-based quick-serve restaurant franchise. The stock made its TSX debut in January 2017. Freshii ran into trouble early in 2017 after missing on its expansion ambitions in the United States and United Kingdom. The restaurant industry can be as tricky as clothing retail, but demographics are on the side of Freshii going forward.

Freshii hopes to open between 730 and 760 stores by the end of fiscal 2019. Demographics favour its quick-serve model, as do broader consumer trends. The Canada Food Price Report, compiled by

Dalhousie University and the University of Guelph, projects that the average Canadian family will spend over $200 more on eating out in 2018. Freshii has also established a footprint with rising meal-ordering and -delivery platforms like UberEATS and SkipTheDishes, which are well catered to its quick-serve and affordable model.

On January 17, Freshii penned a cheeky open letter to Subway. This is not entirely unusual; in 2015, CEO Matthew Corrin also penned an open letter to **McDonald's Corporation**. In the most recent letter to Subway, Freshii suggested that the company seek to convert some of the 900 stores set to be closed into Freshii stores as part of a partnership.

Which should you buy?

Clothing retail is just too volatile for me to recommend Roots when there are better options, especially one that also debuted in 2017: Canada Goose. Freshii has shown solid growth in successive earnings, and it is a good bet to bounce back from its expansion setback, which is a common occurrence for young companies.

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