This 2017 IPO Dud Has a Fresh Slate: Time to Buy?

Description

Freshii Inc. (TSX:FRII) is a prime example of an IPO gone horribly wrong and why new investors should opt to avoid the IPO game altogether.

Last year, Freshii stock crashed over 60% from peak to trough following a massive sales growth downgrade from $365 million to between $275-285 million for the end of fiscal 2019. That's a massive 25% cut to the original guidance just months after an IPO that many investors bit on with overly-ambitious forward-looking projections given by management.

There's no question that Freshii CEO Matthew Corrin has lost credibility with the general public after the sudden fallout. It's notoriously difficult to form an accurate forward-looking projection for a rapidly-growing small-cap firm that's still in its infancy, so perhaps Corrin should have taken a page out of Warren Buffett's book by saying no to earnings guidance instead of paving the way for a boom and bust resulting in more investor casualties than was necessary.

IPOs are notorious for overly ambitious commentaries that are to be taken with a grain of salt. It's a part of the hype-driving IPO game, however, so investors ought to keep the "boom and bust" nature of new issues in mind before pulling the trigger with a half-baked thesis. Management teams have the incentive to overpromise in the days leading up to an IPO, only to under deliver come the first round of quarterly results.

Now that the dust has had the opportunity to settle, is Freshii a safe growth stock to own?

Now that the bust phase of the IPO cycle is over with, investors have an opportunity to jump into the intriguing millennial-centric growth opportunity less the hype premium that comes with a recent IPO. At these levels, the bar has been set low, so a correction to the upside shouldn't be ruled out as the company navigates around last year's unfortunate setbacks.

With partnerships with UberEATS and SkipTheDishes delivery services, Freshii is one of the few firms that appear to be a direct play on the rise of the millennial generation as they approach peak consumer spending. Millennials value health-conscious food options almost as much as they value the convenience of home delivery as the stay-at-home trend continues to take off.

Quinoa bowls with avocado and edamame beans at your doorstep? For most millennials, that's nothing short of bliss.

If you're an aggressive growth investor, I have no issue recommending the stock at current levels. For everyone else, I'd recommend sitting on the sidelines until the company can clock in at least three full years worth of quarterly results.

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