
# Is This Iconic Canadian Apparel Company a Bargain at Current Prices?

## Description

Followings its initial public offering (IPO) shares in iconic Canadian apparel company **Roots Corp.** ( TSX:ROOT) took off, gaining close to 20% over the next six months.



Following a disappointing first quarter earnings report, however, shares have given back most, if not all of those gains and can now be had for roughly what they were available last October when the company first came to market.

IPO's can be notoriously difficult for the average investor to gain access to, so when a newly issued company becomes available at the same price that was held exclusively for advantaged investors, it's usually worth revisiting the idea to see if there's still good value to be had.

In the case of Roots, it appears that the recent pullback has created an attractive opportunity to pick up a company with a defensive brand, thereby improving profitability and achieving an impressive growth profile at a sizeable discount.

Despite the market's reaction, there was actually a lot of good news to come out of the Toronto-based retailers first-quarter results.

Total sales at the company increased by 5.8% in the first quarter compared to the first quarter of 2017, including comparable same-store sales growth of 6.4%.

In addition, the company added a total of 10 new stores on a net basis during the quarter, bringing the total number of branded locations to 120 in North America along with another 30 based in China and another 112 stores in Taiwan.

Meanwhile, Roots direct-to-consumer, or e-commerce channel displayed similarly impressive growth.

Sales through direct-to-consumer channels increased 9.0% in the first quarter compared to the first quarter of 2017, while it also managed to improve the gross margin of its direct-to-consumer channel by 271 basis points from 56.4% a year ago to 59.1% in the most recent quarter.

The fact that growth at the company's direct-to-consumer platform is outpacing growth of its more established physical footprint is without question an encouraging sign in light of evolving consumer spending patterns and the emerging preference to shop for apparel online versus in-store.

Hoping to build on its recent success, Roots is planning to move its retail store distribution and third-party e-commerce fulfillment into a new, larger and more technologically enhanced facility by sometime in mid-2019.

Roots expects that the project will cost approximately $16 million in capital expenditures, which will serve as a drag on the company's cash flows in the meantime, but once the new facility is up and running, Roots is expecting cost savings by as much as 20% or more annually by 2020.

**But that's not even the best part**

In announcing its quarterly results, Roots management also reaffirmed the company's guidance for adjusted net income of between $35 and $40 million in fiscal 2019, or approximately between $0.83 and $0.95 per share.

At a current share price of $9.27 heading into Friday's trading, that would imply that Roots stock is trading at a forward price-to-earnings multiple of 10.3 times, which appears to be a bargain for a company that has consistently proven the ability to grow its top line by mid-single digits.



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