

Aggressive Contrarian Investors: Should You Buy This "Fresh" Stock After its "Rotten" Quarter?

Description

Freshii (TSX:FRII) was arguably one of the biggest duds of the Canadian IPO class of 2017.

The company serves as a prime example of why I don't play the IPO game and why many other long-term thinkers should take a rain check on investing in a newly public company in spite of the initial hype that they draw.

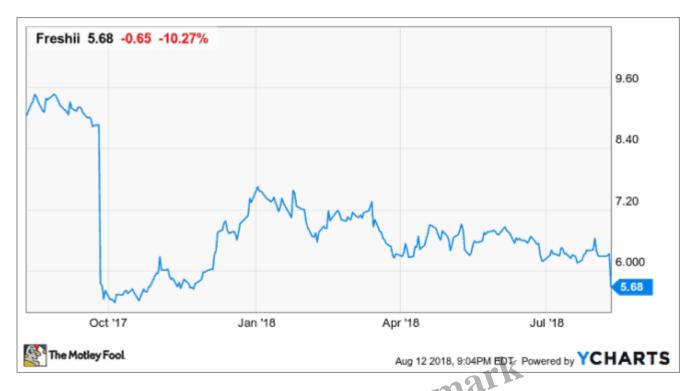
Companies go public because they want to raise a larger amount of capital — typically, to fuel extremely ambitious growth plans that may not have been possible otherwise. Although the initial commentaries from a relatively unknown management are chalk-full of hype, a lot of the time, this build-up ends up being smoke in mirrors, and after the dust has a chance to settle, it's the retail investor who may end up holding the bag if there are any bumps in the growth trajectory.

Sure, you can research a management team and their historical track record, which is noted on initial issue documents, but there's a massive difference between being a steward of a private versus a public one. Just ask Elon Musk.

There are very few exceptions where I'd be willing to participate in the IPO game, but Freshii certainly wasn't one of them. Management was quick to reset expectations to the downside just months after going public, causing the stock to plunge, as the credibility of management became severely tarnished.

Fresh stock, rotten quarter

More recently, Freshii clocked in its Q2 2018 numbers, which caused the stock to fall another +10% in a single trading session to new all-time lows. Net income was clocked in at \$0.03 per share, just missing analyst expectations of \$0.04 per share.



Yikes ... a double-digit percentage decline in response to missing the bottom-line consensus by a penny? That just shows how much confidence the public has in management after they let down a tonne of IPO investors.

Moving forward, Freshii expects sales to jump to \$285 million over the next year, give or take a few months. Given management's abysmal guidance to date, I'd take these numbers with a fine grain of salt.

On the surface, Freshii sounds like a wonderful way to <u>play the rise of millennials</u>, but I'm not a fan of the company's stewardship, and I don't think driving sales will be as simple as opening more chains if same-store sales growth (SSSG) numbers can't take off. For a company as small as Freshii is (market cap of \$148 million), a 0.9% is SSSG is simply not acceptable.

Foolish takeaway

The Freshii concept sounds like it could hold some promise, but growth looks weak when compared to the expectations set forth around its IPO. Unless Freshii can shake-up its model and drive SSSG somehow, I'd advise <u>looking elsewhere for opportunities</u> within the restaurant space.

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Date 2025/07/04 Date Created 2018/08/13 Author joefrenette



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