Is it Time to Give Up on These 2017 IPOs?

Description

When it comes to IPOs, investors are usually exposed to the positive stories. We can point to the fantastic performance of **Shopify**, which made its TSX debut back in May 2015. **Canada Goose** debuted in March 2017 and shares have surged over 400% since its IPO price of $17.

Of course, there have also been IPOs that have underperformed and continue to do so into the fall of this year. The two that we will cover today are stocks that have recently launched but have bitten newcomers hard. Is there still hope for a bounce back in 2018 and beyond? Let's dive in.

Freshii (TSX:FRII)

Freshii is a Toronto-based quick-serve restaurant franchisor. The bulk of its locations are located in Canada and the United States, but it has its sights set on overseas expansion as well. Shares have plunged 39.9% in 2018 as of close on September 20. Freshii stock spiked immediately following its IPO in early 2017 but quickly encountered challenges in the months following the launch.

Back in January, I'd picked Freshii over the next stock we will look at today. Freshii had seen its growth strategy stutter in mid to late 2017, but this is not an uncommon occurrence for new companies. Its second-quarter earnings release on August 9 did not inspire confidence for investors.

Total revenue rose 29% year over year to $10.4 million, but adjusted net income per share fell short of expectations at $0.03. Freshii also posted system-wide sales growth of 34% and net new store growth of 27%. The company maintained its outlook for the remainder of fiscal 2019 and projects up to 760 total stores compared to the current count, which sits between 400 and 500 locations.

It is hard not to like Freshii's new-age model, especially considering the rising popularity of quick-serve restaurants among younger demographics. The push for expansion will boost growth in the near term, but investors may want to stay on the sidelines until more consistency is seen in its earnings.

Roots (TSX:ROOT)

Roots stock has plunged 41.3% in 2018 so far. The stock managed to gather momentum in the early spring but has suffered a steady drop since early May. Roots stock was slow out of the gate in October 2017, as experts and analysts were initially skeptical over its growth prospects.

Roots released its second-quarter results on September 12. The company posted a $4 million net loss in the quarter, which was up from an $8 million net loss in the prior year. Total sales were up 3.6% year over year to $60.2 million and direct-to-consumer sales rose 3.5% to $48.3 million. Like other clothing retailers, Roots has made a push to ramp up its e-commerce offerings.

A positive holiday season performance powered Roots's earnings in early 2018, so the company will be hoping for a repeat showing this time around. In the meantime, those who want exposure to the clothing sector should look to superior options like Canada Goose and **Aritzia** as we come into the busy season.

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Date
2025/06/29
Date Created
2018/09/21
Author
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