

# Value Investors, Here's 1 Cheap Gem That'll Have You Asking: "Why Buy a Stock Anywhere Else?"

## Description

If you're like me, you're probably sick to your stomach with that famous **Sleep Country Canada Holdings** ([TSX:ZZZ](#)) jingle that's so catchy and overplayed on the radio and television.

Thanks to the successful advertising campaigns, Sleep Country remains a household name in Canada, and although most are familiar with the company, some may not be aware of the stock, which funnily enough trades under the ticker symbol ZZZ.

It's been a while since I've covered Sleep Country, as I've stated in previous pieces that the stock had gone to sleep and investors should [hit the snooze button at the stock](#) and wait for a better entry point. Interestingly, Sleep Country stock plunged nearly 50% from peak to trough after my bearish pieces on the company were published.

My bear thesis was simple.

Sleep Country was entering a period of seasonal weakness and the company, which had essentially enjoyed a monopoly over the Canadian mattress market in the past, was due to come under [pressure from digital direct-to-consumer \(DTC\) disruptors](#) that ship mattress-in-a-box (MIB) products directly to the doors of customers, cutting out the middleman, Sleep Country, entirely.

The MIB model seemed absurd when I first covered the rising trend, which included new players in the space including Casper, Endy, Douglas, and Lessa, among many other ambitious MIB startups. But now that the millennial-friendly model has shown tremendous promise, it's not a mystery as to why Sleep Country stock has been pulling back so violently of late.

### If you can't beat 'em, join 'em!

More recently, Sleep Country announced that it had acquired mattress-in-a-box competitor Endy in a deal worth \$89 million. This move makes complete sense and is a great way for Sleep Country to hedge itself from disruption.

But unless Sleep Country plans on scooping up every MIB startup that comes to be, I don't believe that the Endy acquisition will allow Sleep Country to regain its prior "monopoly" status in the Canadian sleep market that it commanded in the past. Sleep Country's moat has partially eroded due to the technological revolution that's subtly changed how business is conducted in the sleep market.

While Sleep Country already has its own line of MIB offering in Bloom, it hadn't nearly had the magnitude of success as Casper, the MIB king.

Moreover, there have been reviewers who've shed light on a potential design flaw in select Bloom mattresses involving the cracking of foam within the mattress. To add even more salt to Sleep

Country's MIB offering, Douglas, another MIB competitor, slammed Bloom as being "Made in China" as part of its "Made in Canada" advertising campaign.

For now, Sleep Country's management team plans to have Endy as a complement to Bloom, and not a substitute. Personally, if I were in the market for an Endy mattress, I'd be tempted to go into a Sleep Country to try one out before having one shipped to my house.

As I've suggested in a prior piece, it's in Sleep Country's best interest to partner up (or acquire) its competitors so it can further build upon their brands and expertise. Sleep technology is growing pretty quickly. It's not just about tightly-packed foam in boxes anymore.

Pocket coils are now able to be fit into those compact boxes and as the MIB tech continues to improve, we'll see a profound acceleration in the advancement of sleep technology as startup players pressure the incumbents in the space that have reaped incredible pricing power from an industry whose monopoly-like status is about to be bumped down to "monopolistically competitive," a few notches below a monopoly.

### **The Foolish takeaway on Sleep Country**

Sleep Country has suffered a tough slowdown due to those pesky MIB startups. I do believe the company can overcome the competition thanks to its deep pockets and sound financial footing, however. As time goes on, I wouldn't at all be surprised to see Sleep Country spend more on R&D so it's able to command a higher multiple for its exclusive line of sleep products.

I like to think that Sleep Country is transforming into a tech company that sells mattresses because like it or not, the company's going to be forced to innovate and build upon its e-commerce platform to remain competitive.

At the time of writing, ZZZ stock trading at just 12.4 times forward earnings, which is really cheap. I think investors have the opportunity to grab the low-risk turnaround play at a discount to its intrinsic value right here. The 3.1% dividend yield is also fat — the highest it's ever been.

If value's what you want, then why buy a stock anywhere else?

Stay hungry. Stay Foolish.

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