Why Roots Corp (TSX:ROOT) Has Crashed 60% in the Past Year

Description

Roots Corp (TSX:ROOT) had high hopes when it listed on the TSX back in 2017. However, it's been a bumpy ride since then as the stock has come crashing down after hitting a peak in May of 2018. Over the past 12 months, the stock has lost more than 60% of its value and is now trading below book value.

What's behind the decline?

Early investors may have seen the spike in May as a good opportunity to cash out with an easy profit. However, in September, the stock would go on to take an even bigger drop in price after its quarterly results were a big disappointment. The results saw the company incur a net loss of more than $4 million dollars. Even an improved performance the following quarter, which saw Roots posted a profit was not enough to start any kind of rally.

In two of the past three quarters, Roots has finished in the red, and the poor results have clearly weighed on investors. Sales growth has also been an issue; in its most recent quarter Roots saw its top line decline by 3%.

It also doesn't help that investors will likely compare the company's success to what **Canada Goose** has been able achieve, which has been nothing short of amazing thus far. While Roots is by no means an unpopular brand, the company has failed to generate the same sort of excitement and growth around the world that Canada Goose has.

Why all hope may not be lost

As bad as things may look for Roots today, there may still be light at the end of the tunnel.

For one thing, its income statement hasn't been in that bad a shape. Roots has achieved strong gross margins, averaging 57% over the past four quarters. And so if the company can find a way to generate some positive sales growth, that increase in the top line will quickly help its bottom line as well.

The problem is that the company will have to figure things out sooner rather than later. Roots is burning through the limited cash it has and its debt levels have been increasing in recent quarters. With the company in the midst of its peak season, all eyes will be on next quarter to see if it is able to make up for the last three.

Bottom line

Roots is at a critical stage and right now it looks to be a very risky investment to make. With little cash on its books, growing debt and negative cash flow from its operations during the past three quarters, the company is banking on one very important quarter. And that’s too much pressure to put on to one season going well enough for investors to ignore the others.

Even if Roots comes out with a very strong earnings, it’s going to have to prove that it’s more than a one-quarter performer to prove it’s a good investment.

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