Should You Buy Roots (TSX:ROOT) After Its Latest Earnings Report?

Description

It's been a rough couple of quarters for **Roots Corporation** (TSX:ROOT). In fact, it's been a rough go since pretty much the company's Initial Public Offering (IPO) in 2017.

The company started on an upward trend, starting at $10 per share and reaching about $13.50 by May 2018. But since then, the stock has plummeted to where it currently sits at about $4.50 at the time of writing this article.

Its latest earnings report didn't help the company's situation, so let's take a look at what's going on with Roots.

Fickle finances

At first look, it seemed as though Roots had a decent quarter. The company earned a profit of $18.3 million, and expects sales between $358 million and $375 million for its 2019 financial year. Adjusted income would be between $20 and $24 million.

For the 2018 year, Roots reported profit of $11.4 million, which came out to $0.27 per diluted share. And that's where things go south. This was compared to $17.5 million from last year, and $0.41 per diluted share.

Sales were up mildly for the company to $130.8 million from $130 million in the same quarter of 2017, or 3.1%. So with small profits, and limited sales growth, investors just haven't been excited by this stock.

Plans?

You'd think Roots would at least make some announcements to get investors excited to invest again, but no. While Roots remain a popular brand in Canada, it just doesn’t have the buzz that a **Canada Goose** has, for example, which is expanding around the globe.

And it doesn’t look like Roots has any plans to expand even south of the border. Unfortunately, few know of Roots outside of Canada. That would make it extremely hard for the brand to set itself up against the competition of a **Nike** or **Adidas** that create similar clothing.

The small profits are causing the company to burn through its cash supply, with debt increasing over recent quarters. And there doesn’t seem to be an end in sight.

Future

But wait a minute, surely Roots isn’t going under? It’s a Canadian icon!

No, I don’t think we’re there, but I also don’t see this stock continuing as an example of market success. At $4.50 a share, I *still* wouldn’t touch this stock with a 10-foot pole. There just isn’t any proof the company is doing anything to grow. And then there’s another problem: millennials.

If the new generation decides that it’s uninterested in Roots as a brand name, this generation could sink this iconic brand. Millennials would need to both buy the brand and invest in the stock to make it great again, and the company really isn’t doing much to help out.

So while the stock remains undervalued, I’m still not convinced it’ a buy. Unless the company starts considering expansion beyond the Canadian border and comes up with a clear path to success, I don’t think it has a future on the TSX.

In the meantime, management should take a hard look at companies like Canada Goose and start marketing themselves in a relatable way. Unfortunately, it’s really only Canadians that can connect to a beaver.

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