Investing in IPOs Can Make You Broke

Description

Initial public offerings (IPOs) are opportunities for investors to win big in the stock market. However, not all IPOs are successful. Some can make you flat broke. So, beware before taking on a position. Here are some of the market debutantes that went bust during and after the IPO.

Out of fashion

Vancouver clothing brand **Aritzia** (TSX:ATZ) debuted on the TSX on October 3, 2016. The IPO price was set at $16 and closed at $17.71 on the first day. The company was able to raise total gross proceeds of $400 million. Aritzia's IPO was Canada's largest in 2016 and happened during a lean IPO period.

From an investor standpoint, the IPO wasn't exactly a success. If you were to look at the current price of $17.64, you can conclude the stock hasn't really taken flight. The highest the price could go was $19.79, and not once was the $20 mark reached. Had I invested $1,000 on Aritzia's IPO, my money would be worth $996.04 today.

Market observers raised some red flags prior to Aritzia's IPO. Besides being oversubscribed, the dual-class structure was a risk factor. They said new shareholders would have no voting power to elect directors, auditors, and participate in succession planning. The power rests with the company's founder and existing shareholders only.

No staying power

Investors had high hopes for Ontario-based **Real Matters** (TSX:REAL). The company is the leading player in the network management services platform sector for the mortgage and insurance industries. About 90% of the business is in the U.S. retail estate market, which is perhaps the biggest asset class in the world.

The real estate software company priced the shares at $13 but finished at $12.89 on May 11, 2017, which is the opening day. Real Matters's CEO Jason Smith boasted that it was the largest technology IPO on the TSX in 10 years. Smith was correct as the company was able to raise a total of $157 million.

But the unexpected occurred in 2018. On December 31, 2018, the stock closed at $3.30. As of July 26, 2019, the price has climbed to $7.99. However, it's still 38.5% worse than the IPO price.

Roots did not grow

On October 25, 2017, **Roots** (TSX:ROOT) went public and started trading on the TSX. The Canadian apparel company debuted at a time when competition in the retail market was very stiff. The IPO price was set at $12 but opened lower at $11.50. It was just the beginning of a nightmare.

Roots closed the first day of trading at $10, or 16.67% lower than the IPO price. Even if the company has the advantage of owning a brand, it wasn't enough to generate investor interest. The total amount raised was $200 million.

Roots's IPO was a disaster and was unceremoniously tagged as the second-worst first-day performance of 10 IPOs over $100 million in 2017. At present, the price is down to $3.44, which is 65.6% lower than the closing price on market debut. You can picture the extreme disappointment of those who invested in Roots — an IPO that had no chance of growing.

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TICKERS GLOBAL

1. TSX:ATZ (Aritzia Inc.)
2. TSX:REAL (Real Matters Inc.)
3. TSX:ROOT (Roots Corporation)

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