



Warren Buffett Would Approve of This 1 Stock

Description

Warren Buffett is one of the most practical investors in the world. He is well known for only investing in companies he understands hence his investments in **Coca-Cola** and **Kraft Heinz**.

The reason for this is because Buffett likes to understand the business model of a company, as he sees an investment as one in the underlying company, not the stock itself.

Based on this prudent investment strategy, **Sleep Country** ([TSX:ZZZ](#)) is one of the companies that would fit this profile. With its acquisition of Endy in 2018 and its growing net income, Sleep Country is poised to make significant returns for its investors

Acquisition of Endy

Endy is an online mattress retailer that specializes in the viral mattress-in-a-box. For the folks that are less tech inclined, there have been countless unboxing videos on YouTube for mattresses that are packaged in a box and essentially self-inflate when opened.

Endy is one of the companies competing for market share in this industry. The company was started in 2015 by two Canadians, and it boasts its Canadian identity by advertising its made-in-Canada and founded-in-Canada features. The company also has a 100-night money-back guarantee whereby customers can return the mattress for a full refund within 100 nights of purchasing.

Sleep Country acquired all of the assets of Endy for \$88.7 million, which consists of \$63.7 million in cash and up to \$25 million in cash in early 2021 based on certain conditions.

The company has achieved significant growth since 2015 with a 150% gain in revenues from FY 2017 to FY 2018 while remaining profitable.

As an investor, this should excite you, as it is very rare for start-ups to be profitable in such a short time. By investing in Sleep Country, investors can [take advantage of this growing industry](#).

Increasing net incomes

Net income [has increased significantly](#) from -\$28 million in FY 2014 to \$60 million in FY 2018, which has resulted in accumulated net income of \$90 million.

The company's net losses in FY 2014 and FY 2015 were due to one-time non-operating interest expense charges of \$61 million and \$112 million, respectively.

Assuming an interest expense of \$4 million for each of those years, adjusted net income would be \$29 million in FY 2014 and \$61 million in FY 2015, which results in accumulated net income of \$259 million.

Net income is a key driver in the share price which means an increasing net income will attract investors, which leads to an increase in the share price.

Bottom line

There is nothing complex about a company that sells mattresses. As an investor, this should delight you, as Sleep Country has a very simple business model whereby it generates revenues by selling mattresses.

Based on Warren Buffett's time-tested investing strategy, a business such as Sleep Country would definitely be on his radar.

Through its acquisition of Endy, Sleep Country has strengthened its e-commerce presence, which allows it to target millennials. This is beneficial for the company, as the nature of shopping is changing drastically, and this acquisition allows it to keep up with the times.

Further to this, its increasing net income means that investors will be generously rewarded in the future.

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