Goodfood or WELL Health: Which Small-Cap Is the Better Buy?

Description

Small-cap stocks are often regarded as stocks with the greatest growth potential. Because of this, growth investors tend to focus on small caps in hopes of generating massive returns in their portfolios. However, these stocks can be difficult to assess, because they often don't have a long history that investors can use for research purposes. In this article, I pit two of the most popular **TSX** small-cap stocks against each other and try to help investors determine which small-cap stock is worth buying today.

Background on the two businesses

Goodfood Market (TSX:FOOD) is an online grocery and meal kit company. It's estimated that the company holds a 40-45% share of the Canadian meal kit industry. Goodfood estimates that it has a $30 billion market opportunity today. This comes from an estimated total addressable market of $142 billion and a 5-8% penetration rate of the online grocery industry. It believes that the drivers required for Goodfood to grow into a company that can serve a market of that size include express deliveries, a diversified product offering, and attractive pricing.

WELL Health Technologies (TSX:WELL) is a telehealth company. It operates 73 primary health clinics across Canada and the United States. WELL Health also supports more than 2,800 clinics on its EMR network and 36 apps on its online marketplace. WELL Health's goal is to improve patient experiences and health outcomes.

Which company is outgrowing the other?

In 2016, Goodfood's total revenue was reported to be $3 million. Last year, Goodfood recorded $379 million in revenue. That represents a CAGR of 163%. In addition, Goodfood's 2021 revenue represented a 133% year-over-year increase. Regardless of whether you choose to look at the company's performance over the long or short term, it's clear that Goodfood is growing at a very fast rate. Goodfood has also reported a CAGR of 151% in its total subscribers from 2016 to 2021.

WELL Health reported nearly 693,000 omni-channel patient visits in Q4 2021. That represents a 121% increase over the same period in 2020. What's interesting about WELL Health is much of its revenues and patient figures come from acquisitions. This means that the company relies on artificial growth as opposed to seeing its revenue streams growing organically.

For some, this may be an issue, as it could make it very hard for WELL Health to continue growing if the company were to make one or two poor acquisitions. So far, that isn't the case. WELL Health's CEO is also very experienced in the realm of mergers and acquisitions, as his previous company was acquired by **PayPal** for a tidy sum of $304 million.

Foolish takeaway

Goodfood Market and WELL Health are two very interesting small-cap stocks. These two companies operate in very different areas, but it's safe to say that both industries are very important ones to lead. At this moment, it seems as though Goodfood's growth is much more impressive than WELL Health's for two reasons. First, its growth rates are more impressive. But more importantly, Goodfood's growth appears to be organic, whereas WELL Health relies on mergers and acquisitions. Although I like both companies, I would choose Goodfood over WELL Health today.

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jedlloren