



Buy This Lesser-Known Stock to Make You Rich

Description

So far, we have seen the market crash and slowly curve upwards. High volatility [provides opportunities to buy stocks at a discount](#) to what they were previously priced. That being said, I believe this pick will recover and do well in the future.

A business that isn't going anywhere

Sleep Country Canada Holdings ([TSX:ZZZ](#)) was founded in 1994 with three locations in Vancouver. By 1996, Sleep Country expanded to Toronto with 19 stores, and the trend continued; it later opened 72 stores in six regional markets. By 2001, the company had a 40% market share in regions it operated in. The company was firing on all cylinders in 2006 by expanding into Quebec by acquiring Dormez-Vous Sleep Centers and expanding in the United States by acquiring Sleep America Inc.

Sleep Country had a mission of dominating market share in an already fragmented market. With this goal in mind, it is clear Sleep Country hasn't been sleeping on executing business plans.

Financials

Sales have steadily increased over the past nine years. From 2012 to 2019, Sleep Country has grown sales from \$332.6 million to \$712 million. With the sales increase, Sleep Country has increased EBITDA from \$38.4 million to \$151 million. This growth has been driven by same-store sales increases, new store openings, and e-commerce expansions.

The most important metric, though, is the mattress and foundation sales. I was quite shocked to see a consistent amount of growth within a competitive market. From 2015 to 2018, Sleep Country has posted a CAGR of 12% for market share. In 2018, Sleep Country had a market share of 31%, which could be attributed to the company acquiring ENDY.

Taking in the new way of shopping

Traditional mattress shopping has been slowing due to the rise of online e-commerce mattress trends. To fix this, Sleep Country acquired ENDY to branch out to the millennial market. It is hard to argue with the proposition as a consumer. Having a mattress delivered directly to your house minimizes the main hassle of purchasing a bed. That Sleep Country offers mattresses at very reasonable prices bodes well for millennials, and ENDY is able to generate very strong profit margins.

Since ENDY is an e-commerce business that outsources production to third parties, staff costs are considerably low. Most of the costs come from social media marketing campaigns, focusing specifically on gaining millennial market share. While this mode of marketing is considerably cheaper compared to traditional avenues, it still comes with high costs if in direct competition.

I believe Sleep Country took a gamble, and it has paid off. ENDY has shown profitability and has been posting revenue growth year over year of over 100%. The strongest difficulty, though, is maintaining market share. From what I can see, it is difficult to differentiate between actual products. This then leads to a competition of brands, fighting to gain consumer favour. Off the top of my head, I could list three other brands that offer the exact same type of product. Sleep Country will have to continue to be hyper-focused to ensure ENDY stays trendy.

Foolish takeaway

[COVID-19 has directly impacted sales](#) and will do so for the next few quarters. As a retailer at heart, it is no surprise that shares are still 35% below what they were before the crisis. This, I believe, creates an opportunity to buy low and wait for the virus to pass. Businesses will re-open, and people will always need to sleep! Sleep Country as of writing pays a dividend yield of 5.77% yearly. With a P/E of 9.5, I think this is a no-brainer investment with limited downside. Buy before it recovers!

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:ZZZ (Sleep Country Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Date

2025/08/15

Date Created

2020/05/26

Author

andrewgudgeon

default watermark

default watermark