



## Why Dorel Industries Shares Dropped

### Description

*Although we don't believe in timing the market or panicking over market movements, we do like to keep an eye on big changes — just in case they're material to our investing thesis.*

**What:** Shares of bicycle and baby gear maker **Dorel Industries** ([TSX: DII-B](#)) plunged 10% today after its quarterly results came in well below Bay Street expectations.

**So what:** The stock has slumped in recent months on concerns that cool weather would hurt business, and today's Q2 results — earnings fell 51% on a revenue decline of 5% — only reinforce that worry. In fact, gross margins during the quarter shrank 220 basis points on heavy discounting, suggesting that the competitive environment is also intensifying as global demand wanes.

**Now what:** Management is optimistic that business will bounce back in pretty short order. "With our strong product portfolio and superior brands, along with the restructuring actions that we have taken, we expect to recover accordingly," CEO Martin Schwartz [reassured investors](#). "As we head into the fall, we are confident that in the fourth quarter, we will return to improved profitability versus the prior year and for the second half we expect Recreational/Leisure earnings will increase over last year." More important, with the stock now off more than 25% from its 52-week highs and trading at a forward P/E of 8, Mr. Market might be offering a great chance to *bet* on that turnaround talk.

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Fool contributor Brian Pacampara does not own shares in any company mentioned at this time. The Motley Fool doesn't own shares in any of the companies mentioned.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:DII.B (Dorel Industries Inc.)

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