



Spin Master Corp.: It's Time to Buy the Dip

Description

Spin Master Corp. ([TSX:TOY](#)) has pulled back a whopping 17.2% from its November high due to concerns over its hottest toy, Hatchimals, which is facing a huge amount of backlash from customers due to a defect that prevents the toy from hatching. The company also failed to meet the high demand of its customers during the holiday season; the toy flew off shelves as early as November. Parents are extremely angry because they either got a dud for the holidays or they couldn't obtain one because of the huge lack of supply across all stores.

The company had a class-action lawsuit filed against it by some very frustrated parents that own Hatchimals that wouldn't hatch. The lawsuit claims that Spin Master pulled a "bait and switch scheme" and intentionally ruined the holidays for millions of kids. It also claims that the malfunctions were due to a lack of "appropriate, responsible, or adequate technological development or functionality."

In response to news of the lawsuit, the stock tanked by a whopping 4.56% on Thursday. Are the lawsuit claims legitimate, or is this dip a buying opportunity for long-term investors?

Was Spin Master pulling a "bait and switch scheme"?

A bait and switch scheme is defined as a dishonest marketing tactic in which a marketer advertises an attractive price that is really a teaser meant to attract customers.

In the case of Hatchimals, the parents are claiming the company intentionally sold defective units on store shelves. I don't believe it makes any sense for Spin Master to do this. A defective unit costs Spin Master a ton of effort on the customer-service side of the business, which has been completely swamped lately. They will also be required to either fix the product or provide a replacement due to most local consumer protection laws.

It is a lose-lose situation, and I don't believe the company would have any interest in such a scheme as it would provide no long-term benefits for the company.

Does the lawsuit have a chance of winning?

I don't think so. I believe Spin Master was just unprepared for the huge amount of hype for its Hatchimals toy. To say demand was higher than expected would be a vast understatement. Manufacturing was rushed and, unfortunately, malfunctions happen. Spin Master is no Grinch, and it didn't intentionally try to ruin the holidays for children. It's understandable that parents are extremely angry, but the lawsuit doesn't make any sense in my mind. It was an honest mistake due to a lack of experience by the management team.

Case closed.

In one of my previous articles on Spin Master, I claimed that Spin Master had huge problems in its manufacturing division. The research and development team has a terrific vision, but the poor manufacturing practices will drag the company down until the problems are fixed. The last holiday season will just be a lesson for the company, and I'm optimistic the management team will be able to turn things around.

Unfortunately, malfunctions are just a part of the manufacturing business. Spin Master will have to spend more to make things right for customers who purchased defective Hatchimals units. This will affect short-term earnings, but I believe the long-term prospects are still fantastic. The recent dip in the stock price is nothing more than a gigantic buying opportunity for investors who want huge growth for the long term.

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