



Long-Term Investors: Take This Stock for a Spin

Description

Spin Master Corp. ([TSX:TOY](#)) is a small Canadian toy manufacturer and leading global children's entertainment provider, which just reported its first-quarter earnings on Thursday. The company posted strong earnings results, supporting the recently achieved \$1 billion market capitalization, and furthering the upside momentum that has driven this stock more than 130% higher since it began trading on the TSX in the summer of 2015.

I'll be taking a look at some of the key earnings numbers for investors interested in how this company may fit into their portfolios as a long-term play.

Earnings results

Spin Master reported seasonally strong results, given the fact that the first quarter of the year tends to be the slowest due to reduced spending following the fourth quarter/Christmas season.

Top-line numbers exploded year over year, increasing 40.8% from \$161.7 million last year to \$227.7 million this year. Gross product sales increased on the order of 32% with Europe seeing the strongest sales growth at just above 39%, followed by North America at 33%, and 14% for the rest of the world. Key revenue drivers for Spin Master were its PAW Patrol and Hatchimals lines, which more than offset declines in Air Hogs and Kinetic Sand.

Gross profit also increased by 32.7% year over year, with gross margins declining slightly due to recent acquisitions and adjustments made to the fair value of inventory and amortization. The company's net income rose 2% to \$10.1 million this past quarter as well.

What is particularly encouraging about these results is the fact that the company's "other income" category, which includes licensing royalties and television distribution income, more than tripled from \$6 million last year to \$20.5 million this year.

Make no mistake about it: Spin Master is in the marketing and branding business just as much as the manufacturing and distribution business. The strong growth in licensing and royalties represented in the "other income" category is an indicator to long-term investors that the company is building brands

that will last and can be profitable over an extended period of time.

Spin Master has the talent on board to continue to bring new products to the market as well as acquire brands that can fit into the company's portfolio and integrate these brands well.

Bottom line

By all accounts, Spin Master has done a very good job of driving revenue and earnings in an otherwise typically "boring" quarter for the toy company.

The seasonality aspect of children's toys and entertainment is such that a company like Spin Master will continue to be nimble and quick to adjust to changing market trends, providing its tiny consumers with new and exciting product offerings each year. Its Hatchimals, PAW Patrol, Air Hogs, and other brands have delivered continued strong results with brand recognition and brand equity reflected in these recent earnings results.

What will be interesting, however, is seeing how the company prepares for its third and fourth quarters in terms of organic growth initiatives as well as acquisition activity.

Stay Foolish, my friends.

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