



Higher Risk and Higher Reward With Spin Master Corp.

Description

Investors looking for growth plays with explosive capital-appreciation potential often look to higher-risk industries in Canada, such as the “budding” cannabis industry or technology/biotechnology stocks. These industries are levered to finding the “perfect” strain of cannabis or the best-selling pharmaceutical drug on the market. Toy makers are similar in the sense that these businesses are highly cyclical, focused on having the “Toy of the Year” or beating out competition for shelf space — something that is hard to do and requires high levels of R&D, marketing, and a strong and devoted sales team.

Spin Master Corp. ([TSX:TOY](#)) has done well in this regard, promoting its best-selling “Toy of the Year” products to little ones all over the world, featuring best-selling products such as Hatchimals, PAW Patrol, Air Hogs, and other amazing toys. New toys are launched each year to capture the imaginations of children everywhere. The key to capturing the imagination of a child is a difficult science, but it’s something Spin Master has been able to do since its initial public offering. Since its debut on the TSX in fall of 2015, the company’s stock price has doubled, and growth investors have done very well placing their money and their faith in this up-and-coming toy maker.

The real upside for Spin Master, in my opinion, is the potential for the company to leverage brands that work well in North America or Europe globally to emerging markets and areas not currently covered by distribution agreements. The toy business is a difficult one logistically; demand forecasts and regional marketing plans are difficult to develop and costly to implement. That said, if Spin Master is able to leverage its current product portfolio further in addition to continuing to launch more best-selling products in the future, investors could be paying what is ultimately a very cheap price for this growth at today’s levels.

Bottom line

Spin Master's current valuation is in line with its growth prospects, in my opinion. While significant upside may remain should the company stretch its current product offering further or launch a few more award-winning toys, the toy manufacturer will need to work hard to continue to outperform its competition to deserve its valuation.

This company has the following characteristics in my book: it is (1) an interesting growth play, (2) with lots of long-term upside potential, (3) with added risks due to the cyclical nature of the business, seasonality, and competition that may or may not manifest in volatility over time.

Stay Foolish, my friends.

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