

This Incredible Growth Superstar Beat the Street Consensus by 44%!

Description

Spin Master Corp. ([TSX:TOY](#)) is my favourite long-term growth opportunity on the market today. The company recently knocked one out of the ballpark in its Q2 2017 earnings release, which saw gigantic improvements across the board. The company reported an adjusted EBITDA which increased an astounding 72% year over year, which beat the Street's consensus forecast by a whopping 44%!

Talk about a grand slam!

Shares of Spin Master surged ~26% in the two days following the earnings beat, but investors quickly forgot about the record quarter as shares pulled back over 10% from its post-earnings peak due to a combination of insider selling and market-wide fears over escalating North Korean tensions. Although shares have enjoyed an amazing run, here's why I think it's a smart move to buy as TOY continues to slip.

Upgraded annual guidance: something to get excited about

The management team upped its guidance and now expects to see annual organic gross product sales to have year-over-year growth (including recent Swimways acquisition) in the low 30% range compared to the initial guidance, which expected year-over-year growth in the low teens. Annual adjusted EBITDA margins (including Toca Boca and Swimways) is now expected to see a ~100-basis-point increase on a year-over-year basis compared to margins that were consistent with last year.

That's a huge guidance upgrade, and I believe the company's forecast may still be modest. Not even the management team could predict the astounding success of its products, so they set the bar low and raised it later — underpromise and overdeliver: that's a great formula for a surging stock price!

International expansion: the next growth frontier

It doesn't matter where a kid comes from; kids want to play with the hottest innovative toys out there. As of Q2 2017, approximately ~69% of Spin Master's revenues come from North America, which leaves a gigantic window of opportunity open for international expansion. The management team is aiming to achieve an international penetration between 35% and 40% of gross product sales over the next few years.

The company is beefing up its international distribution network to make this international expansion possible, and I believe the amount of growth from this initiative could easily cause shares of TOY to triple or quadruple over the next five years. China is the second-largest toy market in the world, and Spin Master has barely scratched the surface. I believe this is an explosive growth opportunity that investors should be pouncing on today.

Hatchimals's continued success to be exacerbated by the holiday season

The Hatchimals and Hatchimals COLIEGGtibles toy were major reasons why Spin Master's remote

control and interactive characters segment saw 311% year-over-year growth in the second quarter. There's no denying the success of Hatchimals. It's one of the biggest hits in the toy market, and I believe it's here to stay for many years. Sure, it's just one toy, and one toy doesn't make a company, but I believe Hatchimals is an incredible brand with staying power. Take COLLEGGtibles as an example; it's a completely different type of toy than the physical-digital (phyigital) original Hatchimal, but it's another hit.

Why?

It's the brand. It's extremely powerful, and I believe investors may be underestimating it.

The holidays are coming, and, unlike last year, Spin Master will be ready to meet what I believe is another season of astronomical demand for hot toys like Hatchimals.

Bottom line

Shares currently trade at a 29.98 price-to-earnings multiple, which is expensive, even for a growth stock. But I believe Spin Master is a different breed of growth stock which can offer astronomical returns over the long term. I think the general public is underestimating the true potential of Spin Master. Right now, you can buy into an incredible company in what I believe are the very early stages of its growth cycle.

Stay smart. Stay hungry. Stay Foolish.

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