



This Toy Company's Growth Is Driven by Acquisitions and Innovation

Description

Spin Master Corp. ([TSX:TOY](#)) reported its fourth-quarter and full-year 2017 results on March 7. In the fourth quarter, its revenue and profit soared, boosted by strong growth in international sales.

A strong Q4 that ended a strong year

In Q4 2017, Spin Master's revenue increased more than 30% from the final quarter of 2016, reaching US\$440.9 million.

The toy and entertainment company reported net income of US\$20 million, or US\$0.21 per share in its latest quarter — a rise of 641% compared to the same quarter in 2016.

Adjusted net income was US\$25.5 million, or US\$0.25 per share — up 174% and 178%, respectively, compared to a year ago. Analysts had expected adjusted EPS of US\$0.21.

According to Ben Gadbois, Spin Master's president, this excellent performance is due to the company's efforts to increase sales in existing and new markets with products that have global appeal, such as Luvabella, Soggy Doggy, and Hatchimals Surprise.

For full year 2017, Spin Master's revenue increased by 34.4% to US\$1.55 billion. In contrast, U.S. toymakers **Hasbro, Inc.** ([NASDAQ:HAS](#)) and **Mattel, Inc.** ([NASDAQ:MAT](#)) had annual revenue growth of 3.8% and -10.5%, respectively.

Spin Master's net income was US\$161.1 million, or US\$1.58 per share, an increase of 62% compared to 2016.

Adjusted net income was US\$173 million, or US\$1.70 per share, an increase of 44% from a year earlier.

Growth through acquisitions and innovation

Spin Master acquired the Perplexus toy brand for roughly US\$9 million in the fourth quarter. Perplexus

toys are considered some of the world's most innovative toys. The children's entertainment company has distributed the Perplexus brand since 2013, and with this transaction, Spin Master now owns the global rights of this brand.

On March 5, Spin Master signed a deal to buy stuffed-toy brand Gund for US\$79.1 million. The 120-year-old Gund brand will help diversify its product line and bring opportunities for broader distribution, given the popularity of stuffed toys.

The Gund acquisition is the ninth acquisition Spin Master has made since its IPO in 2015. Spin Master is making [strategic acquisitions that generate long-term value](#) for shareholders, as shown by its high ROE of 39%.

What is also driving growth is the ability of Spin Master to keep being innovative and using [advanced technology](#) to improve its products and differentiate them from competition. Those efforts are being rewarded, as the toy company is winning many awards every year.

Indeed, Spin Master won three Toy of the Year Awards at the 2018 North American International Toy Fair, which took place in February in New York City. Spin Master also won four coveted U.K. Toy and Supplier of the Year Awards at this year's U.K. Toy Industry Awards in January.

Is this stock a buy?

If you are looking for growth, I think Spin Master is a great stock, since double-digit earnings growth is expected for this year and next year. But the valuation is a little hefty, given the stock's P/E of 28. So, I would suggest waiting for the stock to become cheaper before initiating a position or buying more shares.

This opportunity could come soon, as Spin Master's share price dropped 4% on Friday following news that Toys "R" Us is prepping to liquidate its bankrupt U.S. operations. This could cause some disruption this year, but it will not shrink the market, as consumers will continue to buy toys elsewhere. I still think Spin Master is a great stock to hold over the long term for its growth potential.

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