Here's a Buy-the-Dip Growth Stock to Load Up on Today!

Description

Spin Master Corp. (TSX:TOY) nosedived ~4% in a day following strong Q4 2017 numbers, which apparently didn't impress analysts at BMO Capital. Fellow Fool contributor David Jagielski also isn't convinced that Spin Master can continue its impressive run, citing the company has "too many products," which adds "unnecessary cost to the financials."

Jagielski doesn't appear to be a huge fan of Spin Master's recent acquisition of Gund, noting that the move "will add to Spin Master's collection of inventory, which could add inefficiency and redundancy to the company's financials."

Gund is Spin Master's ninth acquisition since its 2015 IPO, and while some may think the company is just making deals for the sake of making deals, potentially adding complexity into the process, I think management's proven ability to efficiently integrate new brands has been a major reason for the company's success over the past few years as a publicly traded company.

Jagielski is right in saying that the Gund deal stands to add complexities, but like with any deal, there are potential integration risks, as a lot of time and effort are required to get things operating in a smooth and efficient manner. Over the long term, however, I believe Gund will serve as a foundation for stability, dampening the cyclical effects that come with the seasonal toy industry.

When taking the company's solid global distribution platform into account, the upside from an acquisition such as Gund is more apparent when you consider the global appeal for plushies. Add the potential for the company to put its own unique spin (pun intended) on the Gund brand, and I think you've got a deal that'll be a driver of long-term value.

Typically, toy companies have a tonne of brands under their portfolio. They need to cater to each age group and gender, after all. And the fact that Spin Master owns the IP behind most of its brands is a reason why I favour it over competitors that are too reliant on licensing deals or only have a few "timeless" brands that have been fading through the decades (think **Mattel Inc.**).

Innovation is alive and well at Spin Master, but just because it's scooping up "legacy" brands from across the board doesn't mean things will eventually spin out of control, as the brands become too much to handle. Unlike a fast-food restaurant, you can't simply cut out menu items to enforce simplicity and eliminate complexity to drive earnings growth.

Why more brands are better

One could argue that such "complexity" is a form of much-needed diversification in the toy industry.

If management can properly deal with such added complexities, I believe there's a great deal of upside to be had, especially when you consider Spin Master's impressive organic and inorganic growth profiles. Spin Master is really putting its foot on the pedal in the growth department, and while it's true a more focused approach would lead to higher efficiencies, it wouldn't necessarily offer investors with the next-level long-term growth they'd come to expect from an up-and-coming disruptor.

There's no hard evidence that suggests previous acquisitions have significantly driven up complexity such that efficiencies have suffered. With a remarkably high ~39% ROE, Spin Master is still one of the most efficient names in its industry.

In the most recent quarter, Spin Master's activities, games & puzzles, fun furniture segment sales grew 20% in Q4 2017 on a year-over-year basis. This segment has been driven in part by recent acquisitions like Cardinal and Etch-a-Sketch. They're legacy brands that add "complexity," but they're still experiencing meaningful amounts of sales growth, which I believe is an important diversification away from organic physical-digital toys coming out of Spin Master's R&D pipeline, which accounted for a whopping ~41.1% of gross product sales for Q4 2017.

Bottom line

There's no question that Spin Master has been one of the TSX's biggest winners over the past year, but just because the stock keeps blasting past 52-week highs doesn't mean you should dump shares to the curb. Spin Master has the ability to grow its earnings in the high double digits over the next few years. In the end, it will be this growth in earnings that will dictate the trajectory of the stock.

At 22.7 times forward earnings, you're really not paying up a huge premium for an incredibly efficient company that's raking it in hand over fist. The stock appears to be a huge bargain, and growth investors should use the recent dip as an opportunity to scale in to a long-term position.

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