

Time to Back Up the Truck on This Unfairly Beaten-Up Growth Stock on the Dip

Description

Every once in while, a major development occurs from out of nowhere. Such events may negatively impact an entire industry, and though the fallout could have dire consequences for some players in the space, the endless negative media coverage often causes investors to become overly fearful, prompting them to make rash decisions like selling immediately and asking questions later.

In reality, the implications of such a development may not be as insidious as everyone makes them out to be. As a result, the event-triggered dip may present an opportunity of a lifetime for those willing to look beyond the negative development and truly understand how it fits into one's long-term investment thesis.

As you may have guessed, I'm talking about the state of the toy industry following the [Toys "R" Us bankruptcy](#). All toy stocks have taken a major hit to the chin, including innovative up-and-comer **Spin Master Corp.** ([TSX:TOY](#)), whose shares are down +20% peak-to-trough despite being one of the most [promising growth stories](#) on the entire TSX.

Even in a world without Toys "R" Us, Spin Master is arguably the best able to adapt thanks to the innovative new toys that the company consistently produces from its R&D pipeline. Think about the Hatchimals' craze during the 2016 holiday season; inventories were cleared out in what seemed like an instant because the toy was one of the hottest since Tickle Me Elmo or the Cabbage Patch Kids.

If brick-and-mortar players weren't around, do you think the Hatchimals' craze would have still happened?

Some pundits argue that the exit of Toys "R" Us would leave a huge void in the toy industry. However, I believe toy buyers will simply move their business to another brick-and-mortar retailer or opt for a digital one. And toy manufacturers like Spin Master would not be as severely impacted as many would expect. The demand for toys, I believe, will be minimally impacted by the shutdown of the U.S.-based Toys "R" Us locations.

If their child gets an "A" on his or her report card, a parent isn't likely to withhold a promised toy just because Toys "R" Us is no longer available in the U.S. They'll simply ask the child what they want and order it up online or at the local **Walmart Inc.**

Moreover, many physical retailers that weren't traditionally a toy seller will jump in to fill the void. Sure, there isn't as much shelf space at such generic brick-and-mortar stores, so toy makers will be battling it out for limited shelf real estate.

What kind of toys will be displayed in the limited space available? The top sellers! The hot new toys that kids are going bananas over!

Spin Master's innovative toys like Hatchimals and Luvabella will be featured in the limited space

available. Thus, one could argue that innovative high-growth players like Spin Master will have the physical edge and the opportunity to catch up to its bigger brothers in the toy space.

Initially, all toy players will be negatively impacted, of course, but less so for Spin Master because of its remarkable ability to create blockbuster hits that evolve into brands with staying power.

Moreover, Spin Master has the ability to reach kids through entertainment platforms to draw more attention to its brands. Spin Master is firing on all cylinders with its evergreen global entertainment properties. Think televised shows like PAW Patrol and, most recently, Rusty Rivets. Who knows? Maybe a Hatchimals' show is coming next!

In addition, Spin Master has a remarkable portfolio of mobile apps for kids (like Toca Boca) that could draw even more attention to the company's exclusive IPs.

Simply put, Spin Master will have no problem in an era without Toys "R" Us, but I can't say the same about its larger competitors!

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