



1 TSX Stock With Tremendous Upside

Description

It's been a rough year for **Spin Master** ([TSX:TOY](#)), but the latest earnings release in July finally gave investors something to cheer about. The stock jumped as much as 14% the day after the earnings were announced.

Good news

Over the past year, Spin Master emerged from two challenges: the aftermath of the Toys “R” Us bankruptcy and the rapid decrease in the popularity of the Hatchimals line of toys. The Hatchimals exploded in popularity in 2017 to become one of the most successful product launches in the company's history. However, sales of the product declined significantly in 2019 after two years of robust sales.

With a strong history of innovative toys, Spin Master maintains a 36-month brand innovation pipeline. One of the company's latest ventures is a Global Master Toy license agreement with DreamWorks Animation for a new animated pre-school series, Gabby's Dollhouse. The series will premiere on **Netflix** in 2020.

Spin Master is on track to reach its goal of sales outside of North America to make up at least 40% of total sales. During the first half of 2019, these sales totaled 38% of gross product sales, up from 32% last year. This uptick is due to the recently opened distribution centers in Hungary and Moscow which help ensure efficient and economical distribution of products outside of North America.

New strategy for toy lines

Traditionally toy companies introduce a new toy line and if successful, the line may branch into entertainment, such as animated TV. However, Spin Master is changing this model and embracing a digital-first strategy by introducing a new toy brand via media and then introducing a toy line to accompany it shortly thereafter. This fall, the company will debut Zo Zo Zombie exclusively on YouTube and **Amazon** via Prime Direct video. It will launch Dragymon in the same manner and then

debut an integrated toy line on Amazon Prime.

The financials

Gross profit for the quarter increased to \$164 million from \$153 million last year. The gross profit represents 51.2% of revenue. The rise in profit was mostly driven by higher volume and a favorable shift in product mix towards higher margin brands.

Gross product sales grew 6.9% compared to last year. Adjusted EBITDA of \$55 million grew 21% primarily as a result of higher gross profit. The company maintains cash holdings of \$77 million with no debt.

Transformation of the company

Spin Master has done a fantastic job over the last two decades transforming itself from a single-product toy company into [an internationally recognized entertainment powerhouse](#). The company's most recognizable brand, Paw Patrol, shows no sign of waning in popularity. The company is planning a first-ever theatrical animated Paw Patrol film scheduled for release in late 2021.

The company has also made notable acquisitions including Etch A Sketch, Gund – the oldest plush toy manufacturer in the U.S. – and Meccano, which produces the Erector line of engineering and robotic toys. The company's successful brand Bakugan was relaunched last year through new toys and an animated series coming to Netflix this fall.

With the Toys "R" Us debacle behind the company and new brands being launched to replace the fading Hatchimals, investors should expect Spin Master to build on its positive results and look for upside in the coming years.

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