This Growth Stock Can See a Big Boost by Year-End!

Description

For those of you who are shareholders and were awake this morning, **Spin Master** (TSX:TOY) might have given you a belated Halloween scare, as the stock dropped nearly 10% this morning after reporting its third-quarter results yesterday subsequent to the closing of the financial markets.

As of writing, the stock has more than recovered to about $39. Think of it as the growth stock's way of playing with you.

Spin Master is a persistent winner

Spin Master is synonymous with play and fun. Since 2000, it has received 103 Toy Industry Association Toy of The Year nominations with 30 wins across a range of product categories, including 13 Toy of The Year nominations for Innovative Toy of the Year. Some of its best-known award-winning brands include Air Hogs, Bakugan, Hatchimals, and Zoomer.

This year marks Spin Master's 25th anniversary. Other than being a success in developing innovative toys that receive much love from children, it has also produced nine entertainment series, including the award-winning *PAW Patrol*, which is now in its sixth season, airing in 160 countries, and remains as one of the favourite shows among preschoolers.

Q3 results

In the third quarter, Spin Master's revenue dropped 11.6% to US$548 million compared to the same quarter a year ago. In constant currency terms, revenue still fell by 10.8%. So, the volatility in foreign exchange wasn't the key issue here.

You can imagine that it wasn't pretty when the top line trickled down to the bottom line. Diluted earnings per share fell 16% to US$0.89, while it fell 21.7% to US$1.15 on an adjusted basis.

Coupled with the adjusted EBITDA margin compressing by 160 basis points to 27.4%, the adjusted

EBITDA fell 16.5% to US$150 million. Free cash flow fell 14.2% to US$129 million.

Management admitted that Q3 was negatively impacted by several challenges, including shifting away from direct import orders and moving towards domestic orders, bringing in inventory earlier to mitigate U.S. tariffs, and dealing with the disruption caused by its warehouse consolidation in the U.S. east coast. However, it expects to deliver revenue growth for the full year.

The results from a bigger picture

The top line during the first nine months was a bit better. However, the bottom line was still pretty bad compared to the same period a year ago. Spin Master's revenue dropped 9% to US$1.1 billion year over year. In constant currency terms, revenue fell 7.8%. Adjusted diluted earnings per share fell 36% to US$0.98.

Coupled with the adjusted EBITDA margin compressing by 290 basis points to 19.2%, the adjusted EBITDA fell 20.9% to US$212 million. Free cash flow fell 23.9% to US$107 million.

Going forward

Spin Master is sticking with its long-term strategy that focuses on its four pillars of growth: innovate, develop evergreen global entertainment properties, increase international sales, and make strategic acquisitions.

Despite the recovery of the stock, it's still trading at decent levels for long-term growth. Moreover, the holiday shopping season can give the growth stock a big boost for the months ahead!

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Date
2025/07/04
Date Created

2019/11/06
Author
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