



Sell Alert: I Just Ditched This Stock From My TFSA

Description

Spin Master ([TSX:TOY](#)) stock could be at risk of falling into yet another tailspin, with shares getting pummelled following management's decision to cut its sales forecast amid continued weakness in the toy market. Along with the downgraded guidance for the year, co-founder and co-CEO Ronnen Harary delivered a personal apology to investors for a costly mistake relating to its new east-coast distribution centre, which served to exacerbate the negative move in Spin stock.

Spin tried to consolidate four of its distribution centres in the third quarter, right before entering what was supposed to be a period of seasonal strength. In essence, management tried to do too much, too soon, and at the worst possible time.

"This was a major error in judgement," said Harary. "I think we had a bit of hubris. We were gunning for consolidation, cost savings, integration, all these things in the midst of all these macro factors,"

The new distribution centre was overwhelmed by peak season volumes. It resulted in upped distribution costs, among other expenses that will take a toll on earnings for 2019 and could have the potential to act as a dampener in the first quarter of 2020.

This isn't the first time management made "an error in judgement."

Back in late 2016, Spin [missed out on a tonne of sales](#) by not being properly prepared to meet the high demand for Hatchimals going into the holiday season. Moreover, the company found itself in hot water when many disgruntled parents who managed to pick up the toy for the holidays took to the media to shed light on a large number of defective units that ruined Christmas for many kids.

"Demand for Hatchimals last Christmas was off the charts. The demand surge caught the company completely off guard, and because of this, the company couldn't produce enough units in time for Christmas." I'd said in a prior piece. "The management team will learn from their mistakes, and it's unlikely we'll see the same issues happening during the next holiday season."

Unfortunately, management has fumbled the ball once again heading into peak season, with its complex plan to consolidate its distribution centres in Q3.

It seems as though Spin lacks operational leadership. Logistics has its complexities, and although the co-founders are excellent innovators, their operating track record leaves a lot to be desired, and I think it could prevent them from taking Spin to [the next level](#). Having the best toy of the holiday season doesn't mean much if there's not enough supply to meet the demand.

As much as I wanted to hold onto my investment in Spin, I couldn't justify doing so heading into what was expected to be a soft holiday season for the toymakers. Add the distribution centre hiccup into the equation, and I think Spin could find itself stuck in a rut for yet another year.

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Date

2025/08/10

Date Created

2020/01/26

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