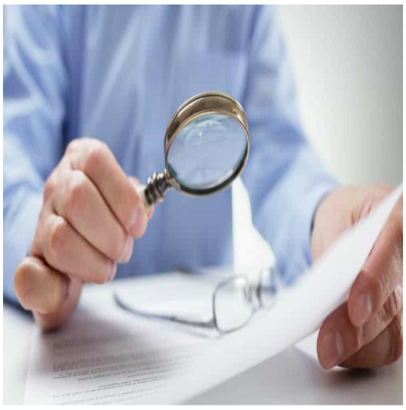

What it Means to Be a Stockholder

Description

When you invest in a common stock, you become a shareholder or part-owner of the stock. You share the profits *and* risks of the business.

When the business is performing well (and you paid a good valuation for the stock), you should be rewarded with a higher stock price. For dividend stocks, you may be rewarded with dividend increases.

And vice versa, when the business performs badly, the stock price will get hit. Dividend stocks may even have to cut or even eliminate their dividends.

Let's use **Spin Master** (TSX:TOY) stock as an example.

Spin Master's past glory

Spin Master was a darling growth stock for about three years since its initial public offering (IPO) in 2015. Investors couldn't get enough of it. Albeit with ups and downs, the stock was in an uptrend and was a three-bagger from its IPO price of $18 to $58 per share in 2018.

Investors were rewarded by a rising stock price, because the company had generated strong returns via innovation and making strategic acquisitions. Spin Master's returns on assets were about 15-19% between 2016 and 2018, while its returns on invested capital were about 26-33%.

Has Spin Master lost its shine?!

However, this year, Spin Master investors will be in for a rough ride.

The company just reported its fourth-quarter and full-year 2019 results yesterday. And it wasn't pretty. Even management admitted that the "overall performance … was disappointing."

In 2019, Spin Master reported a gross product sales decline of 1%, which led to a revenue decline of 3% to US$1.58 billion, an adjusted EBITDA decline of 28% to US$219 million, an adjusted net income decline of 43% to US$93 million, and a free cash flow decline of 35% to US$85 million.

Ronnen Harary, Spin Master's Chair and Co-CEO stated, "[W]e were unable to fully offset the year over year decline in Hatchimals sales. Furthermore, we did not execute at the level needed to meet our profitability targets."

Hatchimals was such a huge success that it was hard to beat. However, management can also do better.

What's worse is that Spin Master expects another year of gross product sales decline in 2020, which will be a direct drag on its bottom line. COVID-19 is going to add more weight to that.

All in all, the company expects a decline in its "gross product sales toward the higher end of the mid-single digit range." Though, it counts on the adjusted EBITDA margin to stay in line with 2019's 13.8%. As a result of near-term disappointments, the stock dropped more than 30%.

The business

Spin Master is a children's entertainment company. Though, most of its revenue and earnings come from the toys it makes, it's also involved in other areas that contribute to making its toys a success.

Spin Master has won many awards. Since 2000, it has received 110 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, Erector, Hatchimals, PAW Patrol, and Zoomer.

Other than being an innovative toy maker, Spin Master also has 12 years of experience developing global entertainment franchises, including Bakugan, Paw Patrol, and more. So far, it has produced nine series and has broadcasted its content to 160 countries.

Additionally, its subsidiaries of Sago Mini and Toca Boca (acquired in 2016) make apps that target ages two to five and six plus, respectively. Although these contribute to a small fraction of total revenue, they have growth potential with a subscription model or in-app purchases.

Investor takeaway

When you buy a common stock, you share its risks and profits, as we saw very clearly with Spin Master stock.

Spin Master is a diversified business that can pull through. At about $20 per share at writing, it's trading at close to its IPO price and would be a lucrative three- to five-year investment when the company turns around.

Here are more cheap stocks to diversify your value investing strategy.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:TOY (Spin Master)

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