



Why Dorel Industries (TSX:DII.B) Doubled Overnight!

Description

Dorel Industries ([TSX:DII.B](#)) doubled in early morning trading on the **TSX** today due to a major [announcement](#). The company will be selling Dorel sports, its bicycle segment, to Dutch mobility group Pon Holdings for US\$810 million.

What happened?

The cash deal, which will be worth about \$1 billion, will be used to pay down debt, for corporate purposes, and to return capital to shareholders, according to the statement. The deal should close before the first quarter of 2022

Dorel Sports has been a part of Dorel Industries since 2004, and management has seen great success, according to the statement. But the time came this year to create value, and that meant parting ways with this segment to create more value for shareholders.

“Acting on feedback from our shareholders, Dorel Industries embarked on a thorough review of strategic alternatives earlier this year. Our objective has consistently been to create value for our shareholders. The divestiture of Dorel Sports represents a unique opportunity to unlock value by capitalizing on strong demand for scaled assets in the bicycle segment,” said Martin Schwartz, Dorel president and CEO.

So what?

Bike sales were doing quite well during the pandemic, with Dorel Industries bringing in US\$1.2 billion in annual sales. Yet shares hit a high back in July 2021 but have been in free fall since — until today, that is.

The sale provided a significant opportunity for Pon Holdings. When combined with the US\$1.2 billion, the annual sales expected for the company will more than double to US\$2.5 billion. And bike sales don't look to be slowing down. In fact, with supply chain issues and major backlogs, prices are set to

continue rising for the next few years.

So, clearly this is of benefit to Pon Holdings, but what are Motley Fool investors so excited about the deal for Dorel Industries?

Now what?

A *billion* dollars is a lot of money for a small-cap stock like Dorel Industries. The move strengthens the company's [balance sheet](#), and now it can generate profits from its other businesses. This includes its Home and Juvenile businesses through both organic and acquisition growth. The company also believes it's a great time to look at overall cost structure to improve cash flow.

This comes as Dorel Industries continues to see a rise in costs due to supply chain demands and COVID-19. This caused the company to reduce its outlook from its Aug. 6th release. However, with this new influx of cash, when results are announced Nov. 5, hopefully, there is a more detailed outline of what investors can expect in the future. As of the last quarter, sales doubled. So, it's likely we'll continue to see good news from this company moving forward.

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