

Spin Master Reports Second Quarter Financial Results

Company records strong momentum as it completes IPO

Revenue increases 19.9% and Adjusted EBITDA more than doubles

TORONTO, Aug. 11, 2015 /CNW/ - Spin Master Corp. ("Spin Master" or the "Company") (TSX: TOY), a leading global children's entertainment company, today announced its financial results for the second quarter and six months ended June 30, 2015. Subsequent to the end of the second quarter, on July 30, 2015, the Company completed its initial public offering of approximately 12.2 million subordinate voting shares for total gross proceeds of approximately C\$220 million (excluding potential proceeds from any exercise of the underwriter's outstanding over-allotment option). Comparative financial results presented in this news release reflect Spin Master's results as a private company, prepared to conform to the Company's go-forward financial reporting standards under International Financial Reporting Standards ("IFRS") as a public company.

Q2 2015 Financial Highlights

- Revenue of US\$127.7 million increased 19.9% from US\$106.5 million in Q2 2014.
- In constant currency terms revenue increased by 22.9% in Q2 2015 relative to the comparable period in 2014.
- Revenue growth was driven by strong contributions from the *PAW Patrol* and *Zoomer* product lines, as well as *Chubby Puppies*, *Little Charmers* and *Kinetic Sand*, offset in part by declines in sales of products associated with the 2014 *Teenage Mutant Ninja Turtles* and *How to Train Your Dragon* movies
- Revenue increased in all geographic markets with Europe providing the most significant increase
- Total gross profit was US\$65.4 million, representing 51.2% of revenue, compared with US\$52.4 million, or 49.2% of revenue in Q2 2014. The improvement in gross margin was partially a result of increased sales of products under owned brands and productivity initiatives
- Selling, general and administrative expenses for the quarter were 43.1% of revenue compared to 45.0% in Q2 2014 reflecting continued operating leverage and cost discipline
- Net income of US\$7.6 million represented a substantial increase from US\$2.1 million in the same period the previous year
- Adjusted EBITDA (see "Non-IFRS Measures" below) more than doubled to US\$17.9 million in Q2 2015 compared with US\$8.4 million in Q2 2014
- Adjusted EBITDA Margins (see "Non-IFRS Measures" below) increased to 14.1% in Q2 2015 from 7.9% in Q2 2014
- Adjusted Net Income (see "Non-IFRS Measures" below) of US\$8.1 million represented a substantial increase from US\$2.8 million in the same period the previous year
- Free Cash Flow (see "Non-IFRS Measures" below) was US\$5.7 million compared to US\$1 million for the same period in 2014

"We are very pleased with the Company's financial results in the second quarter of 2015," said Anton Rabie, Co-CEO and Chairman of Spin Master. "We experienced particularly strong results from the Pre-School and Girls segment, reflecting the tremendous success of our *PAW Patrol* brand, and reflecting both pent-up demand for toys and international launches of the TV show. Looking ahead to the balance of the year, we're excited about our strong slate of new product launches including *Meccanoid*, a four-foot talking robot, in addition to licensed products associated with the new *Star Wars* movie."

"These results reflect strong performance across our diverse product portfolio," said Ronnen Harary, Co-CEO of the Company. "As a newly public company, we have strong operating momentum and financial strength, positioning Spin Master for continued growth."

"Our strategies for growth are the same ones we have successfully executed to date," said Ben Gadbois, President of Spin Master. "Specifically, we intend to continue to innovate across our portfolio of brands and product lines, develop evergreen global entertainment properties, significantly grow our international sales and further leverage our global platform through strategic acquisitions."

Q2 Gross Product Sales by Business Segment (US\$ millions)

	Q2 2015	Q2 2014	% Change
Activities, Games & Puzzles And Fun Furniture	\$28.3	\$28.7	(1.4%)
Remote Control And Interactive Characters	\$28.0	\$23.4	19.7%
Boys Action And High-tech Construction	\$23.9	\$42.6	(43.9%)
Pre-school And Girls	\$58.9	\$24.1	144.4%
Gross Product Sales¹	\$139.1	\$118.8	17.1%
Other Revenue	\$3.0	\$0.6	400%
Sales Allowances ¹	(\$14.4)	(\$12.9)	11.6%
Revenue	\$127.7	\$106.5	19.9%

(1) See "Non-IFRS Measures" below.

June 30, 2015 Year to Date ("YTD") Results

For the six months ended June 30, 2015, Spin Master generated revenue of US\$234.2 million, an increase of 27.1% from US\$184.2 million for the six months ended June 30, 2014. In constant currency terms revenue increased by 30.7% for the six months ended June 30, 2015 relative to the comparable period in 2014. Gross profit in the first six months of 2015 increased to US\$122.1 million, or 52.1% of revenue, compared with US\$90.3 million, or 49.0% of revenue in the first six months of 2014. Selling, general and administrative expenses for the six months ended June 30, 2015 were US\$107.5 million or 45.9% of revenue compared to US\$88.4 million or 48.0% of revenue for the same period in 2014. Net income for the six months ended June 30, 2015 was US\$9.2 million, up significantly from US\$1.4 million in the first six months of the previous year. Adjusted Net Income for the six months ended June 30, 2015 was US\$11.5 million, up significantly from US\$0.7 million in the first six months of 2014. Adjusted EBITDA in the six months ended June 30, 2015 increased to US\$28.1 million, up substantially from US\$9.7 million for the same period in the previous year, while Adjusted EBITDA Margins increased to 12.0% from 5.2% in the first half of 2014 reflecting continued operating leverage. Free Cash Flow for the six months ended June 30, 2015 was US\$(2.4) million compared to US\$(9.2) million for the same period in 2014.

Q2 YTD Gross Product Sales by Business Segment (US\$ millions)

	Q2 YTD 2015	Q2 YTD 2014	% Change
Activities, Games & Puzzles and Fun Furniture	\$ 56.6	\$ 46.0	23.0%
Remote Control and Interactive Characters	\$ 45.5	\$ 41.4	9.8%
Boys Action and High-Tech Construction	\$ 50.7	\$ 78.9	(35.7%)
Pre-School and Girls	\$102.9	\$ 39.0	163.8%
Gross Product Sales	\$255.7	\$205.3	24.5%
Other Revenue	\$6.6	\$2.1	214%
Sales Allowances	(\$28.1)	(\$23.2)	21.1%
Revenue	\$234.2	\$184.2	27.1%

Q2 2015 and Q2 YTD Business Segment Gross Product Sales

Second quarter 2015 Gross Product Sales in the Activities, Games & Puzzles and Fun Furniture segment were slightly below 2014 levels, but on a YTD basis Gross Product Sales were 23.0% ahead of 2014. Increases were attributable to *Kinetic Sand*, *Sew Cool* and *Marshmallow* Fun Furniture offset by a decline in *The Chill Factory*. In the Remote Control and Interactive Characters segment, Gross Product Sales increased by 19.7% for the quarter, as compared to Q2 2014, and by 9.8% on a YTD basis, as compared to the first six months of 2014. Results in this segment were primarily due to strong performances from the *Zoomer* and *DigiBirds* product lines. In the Boys Action and High-Tech Construction segment, for Q2 2015 and on a YTD basis, Gross Product Sales declined as expected, as compared to the same periods in 2014, due to strong sales of licensed products including *Teenage Mutant Ninja Turtles* and *How To Train Your Dragon* in 2014. The recent launches of *Meccanoid*, *Ionix PAW Patrol*, and *Star Wars* licensed products are expected to drive renewed growth in this segment in the second half of 2015. In the Pre-School and Girls segment, *PAW Patrol* drove a substantial sales increase, with the introduction of *Little Charmers* and *Chubby Puppies* also driving growth, offset by a decline in *Flutterbye Fairy* sales.

The Company's unaudited interim consolidated financial statements for the three months and six months ended June 30, 2015 are available under the Company's profile on SEDAR at www.sedar.com.

Outlook

Historically, the first 6 months of each year typically represents approximately 25%-30% of annual Gross Product Sales, with the second 6 months of each year representing approximately 70%-75% of annual Gross Product Sales.

The Company expects organic Gross Product Sales in the second half of 2015 to grow by 8% to 12% over the comparable period in the prior year, resulting in full year 2015 organic Gross Product Sales growth of 12% to 15% over full year 2014. The Company expects second half Adjusted EBITDA Margins to be in line with, or slightly higher than the same period in the prior year, resulting in continued improvement in annual profitability.

Related Communications

Ronnen Harary, Co-Chief Executive Officer, Ben Gadbois, President & Chief Operating Officer and Mark Segal, Chief Financial Officer will hold an investor conference call to discuss 2015 second quarter results at 11:00 am Eastern Time on Wednesday August 12th. Investors and the public may participate in the conference call as per below:

The call-in numbers for participants are (647) 427-7450 or (888) 231-8191. A live webcast of the call will be accessible via Spin Master's website at: <http://www.spinmaster.com/events-presentations.php>. A replay of the call will be available until Wednesday, August 26, 2015. To access the replay, dial (416) 849-0833 or (855) 859-2056 (Passcode: 7086218). A transcript of the

webcast will be archived on Spin Master's website.

About Spin Master

Spin Master is a leading global children's entertainment company that creates, designs, manufactures and markets a diversified portfolio of innovative toys, games, products and entertainment properties. Spin Master is best known for award-winning brands including *Bakugan Battle Brawlers*™, *Air Hogs*®, *Spin Master Games*™ and the 2015 Toy of the Year, *Zoomer*™ *Dino*. Since 2005, Spin Master has received 58 TIA Toy of the Year ("TOTY") nominations with 14 wins across a variety of product categories. Spin Master has been recognized with 11 TOTY nominations for Innovative Toy of the Year, more than any of its competitors. Spin Master is among a limited number of companies that not only develop and produce global entertainment properties, characters and content, but also monetize that content through the creation, sale and licensing of products. To date, Spin Master has produced five television series, including 2007 hit series *Bakugan Battle Brawlers*™ and its current hit *PAW Patrol*, which is broadcast in over 160 countries and territories globally. Spin Master employs over 850 people globally with offices in Canada, United States, France, Italy, United Kingdom, Slovakia, Germany, the Netherlands, Mexico, China, Hong Kong and Japan.

Non-IFRS Measures

In addition to using financial measures prescribed under IFRS, references are made in this press release to "Adjusted EBITDA", "Free Cash Flow" and "Gross Product Sales", which are non-IFRS financial measures. Non-IFRS financial measure do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

Adjusted EBITDA is calculated as EBITDA (i.e., net earnings before borrowing costs, taxes and depreciation and amortization) excluding one time or other non-recurring items that do not necessarily reflect the Company's underlying financial performance, including foreign exchange gains or losses, restructuring costs, public offering costs and write downs, among other items.

Adjusted EBITDA is used internally as the key benchmark for incentive compensation and by management as a measure of the Company's profitability and its ability to fund working capital requirements, investment in property, plant and equipment, and make debt repayments.

Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by revenue. Management uses Adjusted EBITDA Margin to evaluate the Company's performance compared to internal targets and to benchmark its performance against key competitors.

Adjusted Net Income is calculated as net income excluding one time or other items that do not necessarily reflect the Company's underlying financial performance including foreign exchange gains or losses, restructuring costs, IPO costs, the accounting effect of the phantom equity expense and write downs, among other items and the corresponding impact these items have on income tax expense. Management uses Adjusted Net Income to understand the underlying financial performance of the business on a consistent basis over time.

Free Cash Flow is calculated as cash from operations before changes in working capital less capital expenditures plus any cash used in brand or business acquisitions. Capital expenditures include expenditures on assets such as property, plant, equipment (primarily expenditures of tooling) and the production of television properties. Management uses the Free Cash Flow metric to analyze the cash flow being generated by the Company's business.

Gross Product Sales represent sales of the Company's products to customers, excluding the impact of marketing, incentive and Sales Allowance adjustments. Changes in Gross Product Sales are discussed because, while Spin Master records the details of such Sales Allowances (in its financial accounting systems at the time of sale in order to calculate revenue, such Sales Allowances are generally not associated with individual products, making revenue less meaningful when comparing its segments and geographical results to highlight trends in Spin Master's business.

Sales Allowances represent marketing and sales credits requested by customers relating to factors such as co-operative advertising, contractual discounts, negotiated discounts, customer audits, volume rebates, defective products, and costs incurred by customers to sell the Company's products and are booked as a reduction to Gross Product Sales. Management uses Sales Allowances to identify and compare the cost of doing business with individual retailers, different geographic markets and amongst various distribution channels.

Management believes that Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Free Cash Flow and Gross Product Sales are important supplemental measures of operating performance and highlight trends in the core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management believes that Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Free Cash Flow, Gross Product Sales and Sales Allowances allow for assessment of the Company's operating performance and financial condition on a basis that is more consistent and comparable between reporting periods. The Company believes that lenders, securities analysts, investors and other interested parties frequently use these non-IFRS measures in the evaluation of issuers.

The following table reconciles the foregoing non-IFRS measures to their most directly comparable measures calculated in accordance with IFRS (where a comparable IFRS measure exists).

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US\$ millions	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net Income (loss)	7.6	2.1	9.2	1.4
Income tax expense (recovery)	2.6	1.0	3.3	0.5
Finance costs	0.2	0.7	0.5	1.3
Depreciation and Amortization	6.7	3.6	11.8	7.3
Amortization of debt costs	0.2	-	0.2	-
EBITDA	17.3	7.4	25.0	10.5
Normalization adjustments:				
Restructuring costs	0.5	0.4	0.9	0.6
Foreign exchange loss/(gain)	(0.1)	0.6	1.6	(1.4)
IPO costs	0.2	-	0.6	-
Adjusted EBITDA	17.9	8.4	28.1	9.7
EBITDA Margin	14.1%	7.9%	12.0%	5.2%
Income tax expense (recovery)	2.6	1.0	3.3	0.5
Finance costs	0.2	0.7	0.5	1.3
Depreciation and Amortization	6.7	3.6	11.8	7.3
Amortization of debt costs	0.2	-	0.2	-
Tax Effect of Normalization Adjustments	0.2	0.3	0.8	(0.2)
Adjusted Net Income	8.0	2.8	11.5	0.7
Cash from (used in) operations	0.4	(18.4)	(63.2)	(25.2)
Plus:				
Changes in working capital	13.8	22.3	76.9	28.0
Cash from (used in) operations before working capital changes	14.1	4.0	13.7	2.8
Less:				
Cash from (used in) Investing	(8.4)	(4.1)	(16.1)	(13.1)
Plus:				
Cash used in brand & business acquisitions	-	1.1	-	1.1
Free Cash Flow	5.7	1.0	(2.4)	(9.2)

Reconciliations of Gross Product Sales to revenue for the three and six month periods ended June 30, 2015 and June 30, 2014 are provided earlier in this press release.

Forward-Looking Statements

Certain statements, other than statements of historical fact, contained in this press release constitute "forward-looking information" within the meaning of certain securities laws, including the *Securities Act* (Ontario), and are based on expectations, estimates and projections as of the date on which the statements are made in this press release. The words "plans", "expects", "projected", "estimated", "forecasts", "anticipates", "indicative", "intend", "guidance", "outlook", "potential", "prospects", "seek", "strategy", "targets" or "believes", or variations of such words and phrases or statements that certain future conditions, actions, events or results "will", "may", "could", "would", "should", "might" or "can", or negative versions thereof, "be taken", "occur", "continue" or "be achieved", and other similar expressions, identify statements containing forward-looking information. Statements of forward-looking information in this press release include, without limitation, statements with respect to: the launching of new products, brands and entertainment properties; the Company's operating momentum, financial position, cash flows and financial performance; the Company's future growth, drivers for such growth, and the successful execution of its strategies for growth; and the seasonality of Gross Product Sales and forecasted organic Gross Product Sales and Adjusted EBITDA Margins.

Forward-looking statements are necessarily based upon management's perceptions of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by management as of the date on which the statements are made in this press release, are inherently subject to significant business, economic and competitive uncertainties and contingencies which could result in the forward-looking statements ultimately being incorrect. In addition to any factors and assumptions set forth above in this press release, the material factors and assumptions used to develop the forward-looking information include, but are not limited to: the ability of the Company to maintain its distribution capabilities; the Company's ability to continue to build and maintain strong, collaborative relationships; the Company's status as a preferred collaborator; the culture and business structure of the Company will support its growth; the ability to expand the Company's portfolio of owned branded intellectual property and successfully license it to third parties; the expanded use of advanced technology and robotics in the Company's products; the increased access of entertainment content on mobile platforms; fragmentation of the market creates acquisition opportunities; maintenance of the Company's relationships

with its employees; and the continued involvement of the Company's founders and that the risk factors noted below, collectively, do not have a material impact on the Company.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond the control of the Company, could cause actual results to differ materially from the forward-looking information in this press release. Such risks and uncertainties include, without limitation, the factors discussed under "Risk Factors" in the Company's supplemented PREP prospectus dated July 22, 2015. These risk factors are not intended to represent a complete list of the factors that could affect the Company and investors are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law.

SOURCE Spin Master Corp.

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<https://spinmaster.mediaroom.com/2015-08-11-Spin-Master-Reports-Second-Quarter-Financial-Results>