

Spin Master Reports Robust Q4 and Full Year 2016 Financial Results

Q4 2016 Revenue Increases 31%, Drives 68% Growth in Adjusted EBITDA¹

TORONTO, March 13, 2017 /CNW/ - Spin Master Corp. ("Spin Master" or the "Company") (TSX: TOY, www.spinmaster.com), a leading global children's entertainment company, today announced strong financial results for the fourth quarter and year ended December 31, 2016. The Company's full Management's Discussion and Analysis and Audited Consolidated Financial Statements for the three and twelve month periods ended December 31, 2016 will be filed by March 31, 2017 on SEDAR (www.sedar.com) and posted on the Company's web site at www.spinmaster.com/financial-info.php. The Company completed its Initial Public Offering ("IPO") on July 30, 2015. Accordingly, comparative 2015 financial results presented in this news release reflect Spin Master's results as a private company until July 30, 2015, prepared to conform to the Company's financial reporting standards under International Financial Reporting Standards as a public company.

"An excellent performance in the fourth quarter of 2016 wrapped up another year of very strong growth for Spin Master," said Anton Rabie, Chairman and Co-Chief Executive Officer of Spin Master. "The Company posted a 31% increase in Q4 Gross Product Sales¹, which in turn drove increases of 68% in Adjusted EBITDA¹ and 40% in Adjusted Net Income¹. The quarter was also highlighted by an agreement to increase and amend Spin Master's Credit Agreement with total borrowing capacity of up to US\$510 million under the new committed facility. We have significantly enhanced our financing capacity and flexibility, which together with our internally generated Free Cash Flow¹, is expected to continue to support our growth."

Q4 2016 Financial Highlights²

- Revenue of US\$338.4 million increased 30.9% from US\$258.4 million in Q4 2015. Excluding revenue from Swimways Corporation (www.swimways.com) ("Swimways"), which was acquired in Q3 2016, Q4 revenue grew 26.1%
- In Constant Currency¹ terms, revenue increased by 33.9% relative to Q4 2015
- Gross Product Sales¹ increased 30.9% to US\$376.2 million, compared to US\$287.5 million in Q4 2015, driven by sales of *PAW Patrol* and *Hatchimals*, which more than offset declines in *Meccano*, *Kinetic Sand* and *Air Hogs Star Wars* products. Excluding Swimways (which was acquired in Q3 2016), Gross Product Sales¹ grew 26.3%
- On a geographic basis, Gross Product Sales¹ increased 21.9% in North America, 59.4% in Europe and 34.8% in the Rest of World. International sales on a combined basis, represented 34.8% of Q4 2016 Gross Product Sales¹ compared with 30.0% in Q4 2015
- Other Revenue, which primarily reflects merchandising royalty and television distribution income from products marketed by third parties using Spin Master's owned intellectual property, as well as App revenue from Toca Boca and Sago Mini (acquired in Q2 2016), increased 53.8% to US\$12.3 million from US\$8.0 million in Q4 2015
- Gross profit in Q4 2016 increased 30.7% to US\$172.0 million, representing 50.8% of revenue, compared with US\$131.6 million, or 50.9% of revenue in the comparable period last year, reflecting higher sales volume
- Selling, general and administrative expenses ("SG&A"), excluding share-based compensation expenses, represented 46.6% of revenue compared to 50.1% in Q4 2015. Marketing expenses, which are included in SG&A, were up 7.8% year-over-year, and represented 18.3% of revenue in Q4 2016 compared with 22.2% in Q4 2015
- Net income was US\$2.7 million, equivalent to US\$0.03 per share, compared with a loss of US\$(13.3) million, or US\$(0.13) per share, in Q4 2015
- Adjusted Net Income¹ was US\$9.3 million, or US\$0.09 per share, compared to US\$6.7 million, or US\$0.07 per share, in Q4 2015
- Adjusted EBITDA¹ was US\$22.9 million in Q4 2016 compared with US\$13.6 million in Q4 2015; Adjusted EBITDA Margins¹ increased to 6.8% in Q4 2016 compared to 5.3% in Q4 2015, reflecting the increase in gross profit and lower SG&A expenses
- Free Cash Flow¹ was US\$(3.9) million compared to US\$(6.3) million in Q4 2015
- On October 7, 2016, the Company conducted its innovative "*Hatchimals Day*" event, formally introducing consumers to the highly-anticipated *Hatchimals*. *Hatchimals* was subsequently awarded the "Innovative Toy of the Year" award at the Toy Industry Association's New York Toy Fair in February 2017
- On December 21, 2016, the Company entered into an agreement with a syndicate of lenders to increase, amend and extend its credit agreement, under which Spin Master's two credit facilities were restructured into a single committed five-year revolving facility, and the total capital available was increased from US\$280 million to US\$510 million; the new maturity date of the facility is December 2021

"Spin Master continues to generate strong financial results," said Ben Gadbois, President and COO of Spin Master.

"Operationally, our rolling 36-month brand innovation pipeline continues to generate innovation that we intend to build on to drive future growth. The integration of Cardinal, Swimways and Toca Boca is going very smoothly. Our international sales, marketing and distribution network and overall international market presence is stronger today than it was a year ago. Q4 Gross

Product Sales¹ growth of nearly 60% in Europe and 35% in the Rest of World exceeded our expectations. We still see significant opportunities in Europe, Asia, Australia and other international markets, and we look forward to capitalizing on them as we move toward our goal of deriving 40% of our sales from international customers in the next few years."

"We are very pleased with our performance in 2016. The successful launch of *Hatchimals* was a testament to our ability to innovate and highlighted the integration of our internal global R&D network with our external inventors" said Ronnen Harary, Spin Master's Co-Chief Executive Officer. "Our brands are continuing to resonate with children worldwide. Together with Cardinal and our recent acquisitions of Swimways and Toca Boca, we have strong momentum building across our business going into 2017."

Q4 Gross Product Sales¹ by Business Segment (US\$ millions)

	<u>Q4 2016</u>	<u>Q4 2015</u>	<u>% Change</u>
Activities, Games & Puzzles and Fun Furniture	\$109.5	\$100.3	9.2%
Remote Control and Interactive Characters	\$92.6	\$50.0	85.2%
Boys Action and High-Tech Construction	\$34.8	\$48.1	(27.7%)
Pre-School and Girls	\$125.1	\$89.1	40.4%
Outdoor	\$14.2	-	n/a
Gross Product Sales¹	\$376.2	\$287.5	30.8%
Other Revenue	\$12.3	\$8.0	52.6%
Sales Allowances ¹	(\$50.1)	(\$37.1)	35.0%
Revenue	\$338.4	\$258.4	30.9%

2016 Full Year Results

For the year ended December 31, 2016, Spin Master generated revenue of US\$1,154.5 million, an increase of 31.3% compared to US\$879.4 million for the year ended December 31, 2015. The Company benefitted from strong contributions from *Cardinal*, *Bunchems*, *Hatchimals* and *PAW Patrol*, offsetting declines in *Meccano*, *Star Wars* licensed product and *Flutterbye Fairy*. In Constant Currency¹ terms, revenue increased by 32.9% relative to 2015. Excluding Swimways, revenue grew 29.4% from 2015. Gross Product Sales¹ increased 27.7% to US\$1,254.7 million, compared to US\$982.7 million in 2015, Excluding Swimways (which was acquired in Q3 2016), Gross Product Sales¹ grew 25.8%. On a geographic basis, 2016 Gross Product Sales¹ increased 22.4% in North America, 47.5% in Europe and 27.6% in the Rest of World. International sales represented 32.5% of 2016 Gross Product Sales¹ compared with 29.6% in 2015.

Spin Master generated a 149.5% increase in other revenue to US\$47.9 million from \$19.2 million in 2015. Full year 2016 gross profit increased to US\$596.7 million, or 51.7% of revenue, compared with US\$458.9 million, or 52.2% of revenue in 2015.

SG&A, excluding share-based compensation expenses associated with equity participation agreements and the grants of restricted share units to employees on the IPO, represented 36.7% of 2016 revenue compared to 37.4% in 2015. Net income for 2016 was US\$99.5 million, or US\$0.99 per share, an increase of 111.3% from US\$47.1 million, or US\$0.48 per share, for 2015. Adjusted Net Income¹ for 2016 was US\$120.1 million, or US\$1.19 per share fully diluted, up 21.8% compared to US\$98.6 million, or US\$1.04 per share, in 2015.

Adjusted EBITDA¹ in 2016 increased to US\$205.5 million, up 28.1% from US\$160.4 million in 2015, driven by increased sales volume and increased licensing and merchandising royalty income from sales of products under owned brands. Adjusted EBITDA Margins¹ in 2016 were 17.8% compared to 18.2% for 2015, primarily reflecting lower gross margins due to recent acquisitions and foreign exchange, partially offset by product mix, lower Sales Allowances¹, increased licensing and merchandising royalty income, operating leverage and productivity initiatives.

Free Cash Flow¹ for the year ended December 31, 2016 increased 76.6% to US\$118.7 million, or 67.0% of EBITDA, compared to US\$67.2 million, or 61.6% of EBITDA, in 2015. At the end of 2016, cash on hand was just under \$100 million and Spin Master had just over \$350 million of capital available under its committed credit facility.

2016 Full Year Gross Product Sales¹ by Business Segment (US\$ millions)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Activities, Games & Puzzles and Fun Furniture	\$337.8	\$231.4	46.0%
Remote Control and Interactive Characters	\$282.8	\$233.3	21.2%
Boys Action and High-Tech Construction	\$154.4	\$192.3	(19.7%)

Pre-School and Girls	\$460.5	\$325.7	41.4%
Outdoor	\$19.1	-	n/a
Gross Product Sales¹	\$1,254.6	\$982.7	27.7%
Other Revenue	\$47.9	\$19.2	149.5%
Sales Allowances ¹	(\$148.0)	(\$122.5)	20.8%
Revenue	\$1,154.5	\$879.4	31.3%

Q4 2016 and Full Year 2016 Business Segment Gross Product Sales¹ as Compared to the Same Periods in 2015

Gross Product Sales¹ in the Activities, Games & Puzzles and Fun Furniture segment increased 9.2% and 46.0% for the Q4 and full year periods respectively, primarily driven by *Cardinal* and *Bunchems* products. Gross Product Sales¹ in the Remote Control and Interactive Characters segment increased 85.2% and 21.2% in the Q4 and full year periods respectively, primarily due to sales of *Hatchimals*, which offset declines in *Zoomer* and *Air Hogs*. Gross Product Sales¹ in the Boys Action and High-Tech Construction segment decreased 27.7% and 19.7% in the Q4 and full year periods respectively, due to declines in *Meccano*, *Star Wars* and *How to Train your Dragon* products, partially offset by sales of *Secret Life of Pets* and *Angry Birds* licensed product. Gross Product Sales¹ in the Pre-School and Girls segment increased 40.4% and 41.4% in the Q4 and full year periods respectively, driven by sales of *PAW Patrol*, offset by declines in *Flutterbye Fairy*. Gross Product Sales¹ in the Outdoor segment relate to the acquisition of *Swimways* in Q3 2016.

Outlook

For 2017, excluding *Swimways*, Spin Master expects organic Gross Product Sales¹ growth to be at the upper end of the Company's mid to high single digit long term organic Gross Product Sales¹ growth target range. Including *Swimways*, Spin Master expects Gross Product Sales¹ growth in the low teens compared to 2016. From a seasonality perspective, excluding *Swimways*, Spin Master expects Gross Product Sales¹ in the first half of 2017, to be in line with the Company's historical seasonality of approximately 30% in the first half of the year and 70% in the second half of the year. Including *Swimways*, Gross Product Sales¹ is expected to be in the 31%-33% range in the first half of 2017 due to the seasonality of *Swimways*' Gross Product Sales profile. Adjusted EBITDA Margins¹ for 2017, excluding *Swimways* and *Toca Boca*, are expected to be slightly higher than 2016. Including *Swimways* and *Toca Boca*, Adjusted EBITDA Margins¹ are expected to be consistent with 2016.

¹Non-IFRS financials measures. See "Non-IFRS Financial Measures" below.

The financial highlights in this release are presented in US\$ millions, whereas the financial information in the MD&A (Management's Discussion and Analysis) is presented in US\$ thousands. This may result in immaterial differences in the calculated percentages reflected between the two documents.

Conference call

Ronnen Harary, Co-Chief Executive Officer, Ben Gadbois, President & Chief Operating Officer and Mark Segal, Executive Vice President and Chief Financial Officer will hold an investor conference call to discuss Q4 2016 and full year 2016 results at 9:30 a.m. ET on Tuesday, March 14, 2017.

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 Tuesday, March 28, 2017. To access the replay, dial (416) 849-0833 or (855) 859-2056 (Passcode: 54482718). A transcript of the webcast will be archived on Spin Master's website.

About Spin Master

Spin Master (TSX:TOY; www.spinmaster.com) is a leading global children's entertainment company that creates, designs, manufactures, licenses and markets a diversified portfolio of innovative toys, games, products and entertainment properties. Spin Master is best known for award-winning brands including *Zoomer*TM, *Bakugan*TM, *Meccano*TM, and 2017 Toys of the Year, *Hatchimals*TM, *Air Hogs*TM and *PAW Patrol*TM. Since 2005, Spin Master has received 82 TIA Toy of The Year (TOTY) nominations with 21 wins across a variety of product categories, including 13 TOTY nominations for Innovative Toy of the Year, more than any of its competitors. To date, Spin Master has produced six television series, including 2007 success *Bakugan Battle Brawlers* and current hit *PAW Patrol*, which is broadcast in over 160 countries and territories globally. Spin Master employs over 1,000 people globally with offices in Canada, United States, Mexico, France, Italy, United Kingdom, Slovakia, Poland, Germany, Sweden, the Netherlands, China, Hong Kong, Japan and Australia.

Non-IFRS Financial Measures

In addition to using financial measures prescribed under IFRS, references are made in this press release to "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Net Income", "Free Cash Flow", "Gross Product Sales", "Constant Currency" and "Sales Allowances", 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, share based compensation expenses, 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.

Constant Currency represents Revenue and Gross Product Sales results that are presented excluding the impact from changes in foreign currency exchange rates. The current period and prior period results for entities reporting in currencies other than the US dollar are translated using consistent exchange rates, rather than using the actual exchange rate in effect during the respective periods. The difference between the current period and prior period results using the consistent exchange rates reflects the changes in the underlying performance results, excluding the impact from fluctuations in foreign currency exchange rates.

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 financial measures in the evaluation of issuers.

The following tables present the Company's consolidated interim statements of financial position as at December 31, 2016 and 2015, condensed consolidated interim statement of operations for the three and twelve month periods ended December 31, 2016 and 2015, and a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted Net Income, and Cash from (used in) Operations to Free Cash Flow for the three and twelve month periods ended December 31, 2016 and 2015. All references to \$ refer to US\$:

Spin Master Corp.

Condensed consolidated interim statements of financial position

as at December 31, 2016 and December 31, 2015

(Expressed in thousands of United States dollars)

	2016	2015
Assets		
Current assets		
Cash	99,416	45,713
Trade and other receivables	272,904	134,618
Inventories	79,924	49,140
Prepaid expenses	21,398	16,330
	473,642	245,801
Non-current assets		
Advances on royalties	11,695	1,523
Property, plant and equipment	26,996	16,096
Intangible assets	130,390	62,370
Goodwill	91,707	36,130
Deferred tax assets	19,002	26,363
	279,790	142,482
	753,432	388,283
Liabilities		
Current liabilities		
Trade payables and other liabilities	206,771	134,717
Loans and borrowings	158,107	3,436
Deferred revenue	5,500	6,765
Provisions	26,454	10,115
Interest payable	6	3,026
Income tax payable	12,331	17,156
	409,169	175,215
Non-current liabilities		
Loans and borrowings	38	46,874
Provisions	12,025	8,458
Other long-term liabilities	110	225
Deferred tax liabilities	6,411	1,192
	18,584	56,749
	427,753	231,964
Shareholders' equity		
Issued capital	670,115	589,263
Accumulated deficit	(408,406)	(507,921)
Contributed surplus	21,436	31,580
Cumulative translation account	42,534	43,397
	325,679	156,319
Total shareholders' equity	325,679	156,319
	753,432	388,283

Spin Master Corp.

Condensed consolidated interim statement of operations

Three and twelve month periods ended December 31, 2016 and 2015

(Expressed in thousands of United States dollars, except per share amounts)

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
Revenue	338,377	258,408	1,154,454	879,406
Cost of sales	166,373	126,781	557,712	420,486
Gross profit	172,004	131,627	596,742	458,920
Expenses				
Selling, marketing, distribution and product development	104,551	88,232	243,689	183,791
Administrative expenses	55,417	48,476	201,008	195,909
Other (income) expenses	(223)	(118)	35	(13,429)
Foreign exchange (gain) loss	6,634	529	5,530	6,477
Finance costs	2,414	4,925	8,601	6,539
Income before income tax expense	3,211	(10,417)	137,879	79,633
Income tax expense	484	2,843	38,364	32,559
Net income	2,727	(13,260)	99,515	47,074
Net income attributable to:				
Owners of the Company	2,727	(13,260)	99,515	43,213
Non-controlling interests	-	-	-	3,861
	2,727	(13,260)	99,515	47,074
Earnings per share attributable to owners of the Company				
Basic and Diluted	0.03	(0.13)	0.99	0.48

(All amounts in US\$ 000's)

Three Months Ended December 31

	2016	2015	\$ Change	% Change
Net Income	\$2,727	\$(13,260)	\$15,987	-120.6%
Finance Costs	\$2,414	\$4,925	\$(2,511)	-51.0%
Depreciation and Amortization	\$8,173	\$5,887	\$2,285	38.8%
Income Tax	\$484	\$2,843	\$(2,360)	-83.0%
EBITDA ⁽¹⁾	\$13,798	\$395	\$13,403	3397.1%
Normalization Adjustments				
Restructuring ⁽²⁾	\$65	\$891	\$(826)	-92.7%
Recovery of contingent liability ⁽³⁾	\$(222)	\$(457)	\$235	-51.5%
Foreign exchange loss /(gain) ⁽⁴⁾	\$6,634	\$529	\$6,104	1152.9%
Offering Costs ⁽⁵⁾	\$-	\$257	\$(257)	-100.0%
Share Based Compensation ⁽⁶⁾	\$2,146	\$7,145	\$(4,999)	-70.0%
One time income from Transfer of Non Business Related Assets ⁽⁷⁾	\$-	\$(73)	\$73	-100.0%
One time Service Fee income ⁽⁸⁾	\$-	\$-	\$-	
Impairment of Intangible Asset ⁽⁹⁾	\$-	\$659	\$(659)	-100.0%
One time Legal Expense ⁽¹⁰⁾	\$-	\$3,325	\$(3,325)	-100.0%
Fair Market Value adjustments ⁽¹¹⁾	\$-	\$975	\$(975)	-100.0%
Executive Compensation related to Acquisition ⁽¹²⁾	\$467	\$-	\$467	
Adjusted EBITDA ⁽¹⁾	\$22,888	\$13,647	\$9,240	67.7%
Adjusted EBITDA ⁽¹⁾	\$22,888	\$13,647	\$9,240	67.7%
Finance Costs	\$2,414	\$4,925	\$(2,511)	-51.0%
Depreciation and Amortization	\$8,173	\$5,887	\$2,285	38.8%
Income Tax	\$484	\$(6,643)	\$7,127	-107.3%
Tax Effect of Normalization Adjustments ⁽¹³⁾	\$2,470	\$2,786	\$(316)	-11.3%
Adjusted Net Income ⁽¹⁾	\$9,347	\$6,692	\$2,654	39.7%
Free Cash Flow				
Net cash flows generated by (used in) operating activities	\$62,310	\$65,124	\$(3,082)	
Plus:				

Changes in Working Capital				\$(61,637)	\$(62,487)	\$1,827
Net cash flows generated by (used in) operating activities before working capital changes				\$673	\$2,637	\$(1,255)
Less:						
Net cash flows used in investing activities				\$(4,554)	\$(60,834)	\$56,280
Plus:						
Cash used for Licence, Brand and Business Acquisitions				\$-	\$51,938	\$(51,938)
Free Cash Flow				\$(3,881)	\$(6,259)	\$3,087

Footnotes:

- 1) Non – IFRS measure, See "Non-IFRS Financial Measures"
- 2) 2016 Restructuring related to changes to headcount that occurred primarily in the US. 2015 restructuring primarily related to a change to the Company's executive team.
- 3) A write off of contingent consideration related to a future earn-out provision associated with the acquisition of Spy Gear occurred as sales targets were not met to achieve the additional pay out.
Transaction gains and losses generated by the effect of foreign exchange recorded on assets and liabilities denominated in
- 4) a currency that differs from the functional currency of the applicable entity are recorded as foreign exchange gain or loss in the period which they occur.
- 5) Offering Costs are considered a one-time expense and are not reflective of ongoing costs of the business.
- 6) Share-based compensation is related to expenses associated with Subordinate Voting Shares granted to equity participants, restricted stock units granted to employees at the time of the IPO and share options granted in 2016.
One of the predecessor corporations to the Company owned assets which are non-income producing and do not relate to
- 7) the business of the Company. Accordingly, the assets were transferred to the principal shareholders prior to the closing of the Offering through dividends in kind at their current fair market value.
- 8) One time service fee income is in connection with the acquisition of Cardinal and services provided to Cardinal prior to the closing of the transaction in Q3 2015.
- 9) Impairment of Intangible asset related to Content Development.
- 10) One time legal expense related to an outstanding litigation matter in Q4 2015
- 11) Amortization of Fair Market Value adjustments relating to acquisition of Cardinal Industries Inc. in the fourth quarter of 2015
- 12) Long Term executive compensation relating to acquisition in the 3rd quarter of 2016.
- 13) Tax Effect of Normalization Adjustments (Footnotes 2-10). Normalization adjustments tax effected at the effective tax rate of the given period.

(All amounts in US\$ 000's)

	Twelve Months Ended December 31			
	2016	2015	\$ Change	% Change
Net Income	\$99,515	\$47,074	\$52,441	111.4%
Finance Costs	\$8,601	\$6,539	\$2,062	31.5%
Depreciation and Amortization	\$30,489	\$22,877	\$7,611	33.3%
Income Tax	\$38,364	\$32,559	\$5,804	17.8%
EBITDA ⁽¹⁾	\$176,969	\$109,049	\$67,920	62.3%
Normalization Adjustments				
Restructuring ⁽²⁾	\$1,823	\$3,528	\$(1,705)	-48.3%
Recovery of contingent liability ⁽³⁾	\$(222)	\$(457)	\$235	-51.5%
Foreign exchange loss /(gain) ⁽⁴⁾	\$5,530	\$6,477	\$(948)	-14.6%
Offering Costs ⁽⁵⁾	\$-	\$925	\$(925)	-100.0%
Share Based Compensation ⁽⁶⁾	\$20,943	\$50,658	\$(29,715)	-58.7%
One time income from Transfer of Non Business Related Assets ⁽⁷⁾	\$-	\$(9,690)	\$9,690	-100.0%
One time Service Fee income ⁽⁸⁾	\$-	\$(5,000)	\$5,000	-100.0%
Impairment of Intangible Asset ⁽⁹⁾	\$-	\$659	\$(659)	-100.0%
One time Legal Expense ⁽¹⁰⁾	\$-	\$3,325	\$(3,325)	-100.0%
Fair Market Value adjustments ⁽¹¹⁾	\$-	\$975	\$(975)	-100.0%
Executive Compensation related to Acquisition ⁽¹²⁾	\$467	\$-	\$467	-
Adjusted EBITDA ⁽¹⁾	\$205,510	\$160,449	\$45,059	28.1%
Adjusted EBITDA ⁽¹⁾	\$205,510	\$160,449	\$45,059	28.1%
Finance Costs	\$8,601	\$3,547	\$5,054	142.5%

Depreciation and Amortization	\$30,489	\$22,877	\$7,611	33.3%
Income Tax	\$38,364	\$21,834	\$16,530	75.7%
Tax Effect of Normalization Adjustments ⁽¹³⁾	\$7,941	\$13,583	\$(5,642)	-41.5%
Adjusted Net Income ⁽¹⁾	\$120,115	\$98,608	\$21,507	21.8%
Free Cash Flow				
Net cash flows generated by (used in) operating activities	\$73,038	\$55,640	\$17,130	
Plus:				
Changes in Working Capital	\$87,220	\$50,044	\$38,153	
Net cash flows generated by (used in) operating activities before working capital changes	\$160,258	\$105,684	\$55,283	
Less:				
Net cash flows used in investing activities	\$(172,273)	\$(93,573)	\$(78,700)	
Plus:				
Cash used for Licence, Brand and Business Acquisitions	\$130,705	\$55,038	\$75,667	
Free Cash Flow	\$118,690	\$67,149	\$52,250	

Footnotes:

- 1) Non – IFRS measure, See "Non-IFRS Financial Measures"
- 2) 2016 Restructuring related to changes to headcount that occurred primarily in the US. 2015 restructuring primarily related to a change to the Company's executive team.
- 3) A write off of contingent consideration related to a future earn-out provision associated with the acquisition of Spy Gear occurred as sales targets were not met to achieve the additional pay out.
- 4) Transaction gains and losses generated by the effect of foreign exchange recorded on assets and liabilities denominated in a currency that differs from the functional currency of the applicable entity are recorded as foreign exchange gain or loss in the period which they occur.
- 5) Offering Costs are considered a one-time expense and are not reflective of ongoing costs of the business.
- 6) Share-based compensation is related to expenses associated with Subordinate Voting Shares granted to equity participants, restricted stock units granted to employees at the time of the IPO and share options granted in 2016.
- 7) One of the predecessor corporations to the Company owned assets which are non-income producing and do not relate to the business of the Company. Accordingly, the assets were transferred to the principal shareholders prior to the closing of the Offering through dividends in kind at their current fair market value.
- 8) One time service fee income is in connection with the acquisition of Cardinal and services provided to Cardinal prior to the closing of the transaction in Q3 2015.
- 9) Impairment of Intangible asset related to Content Development.
- 10) One time legal expense related to an outstanding litigation matter in Q4 2015
- 11) Amortization of Fair Market Value adjustments relating to acquisition of Cardinal Industries Inc. in the fourth quarter of 2015
- 12) Long Term executive compensation relating to acquisition in the 3rd quarter of 2016.
- 13) Tax Effect of Normalization Adjustments (Footnotes 2-12). Normalization adjustments tax effected at the effective tax rate of the given period.

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 Company's outlook for 2017 (see "Outlook"); future growth expectations; the expected success of the Company's innovation pipeline; the Company's expectations concerning capitalizing on expected opportunities in Europe, Asia, Australia and other international markets; the Company's goal of deriving 40% of its sales from international customers in the next few years; 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; the seasonality of financial results and performance.

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 expanded use of advanced technology, robotics and innovation the Company applies to its products will have a level of success consistent with its past experiences; the Company will continue to successfully secure broader licenses from third parties for major entertainment properties consistent with past practices; the expansion of sales and marketing offices in new markets will increase the sales of products in that territory; the Company will be able to successfully identify and integrate strategic acquisition opportunities; the Company will be able to maintain its distribution capabilities; the Company will be able to leverage its global platform to grow Cardinal's and Swimways' sales; the Company will be able to recognize and capitalize on opportunities earlier than its competitors; the Company will be able to continue to build and maintain strong, collaborative relationships; the Company will maintain its status as a preferred collaborator; the culture and business structure of the Company will support its growth; the current business strategies of the Company will continue to be desirable on an international platform; the Company will be able to expand its portfolio of owned branded intellectual property and successfully license it to third parties; use of advanced technology and robotics in the Company's products will expand; access of entertainment content on mobile platforms will expand; fragmentation of the market will continue to create acquisition opportunities; the Company will be able to maintain its relationships with its employees, suppliers and retailers; the Company will continue to attract qualified personnel to support its development requirements; and the Company founders will continue to be involved in the Company 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 continuous disclosure documents filed under the Company's profile on SEDAR (www.sedar.com) including the Company's Management Discussion and Analysis and Annual Information Form. 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.

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