

Spin Master Reports Very Strong Q1 2018 Financial Results

25.5% increase in Revenue and 40.4% increase in Adjusted EBITDA

TORONTO, May 8, 2018 /CNW/ - Spin Master Corp. ("Spin Master" or the "Company") (TSX: TOY www.spinmaster.com), a leading global children's entertainment company, today announced its financial results for the first quarter ended March 31, 2018. The Company's full Management's Discussion and Analysis and unaudited condensed consolidated interim financial statements for the three month period ended March 31, 2018 are available on SEDAR (www.sedar.com) and posted on the Company's web site at www.spinmaster.com/financial-info.php.

"Spin Master delivered very strong Q1 2018 financial results characterized by record revenue and profitability," said Ronnen Harary, Spin Master's Chairman and Co-CEO. "Our results not only reflect our innovative products and brands resonating with consumers but they are also a testament to the team's effort in effectively managing the business through the industry-wide disruption caused by the Toys"R"Us U.S. liquidation. Our entertainment properties continue to be major drivers of growth and we have some exciting new themes, formats and content to introduce in 2018 and 2019. We are particularly pleased to have closed the *Gund* acquisition, and are looking forward to driving *Gund*'s global growth potential as well as leveraging its plush expertise in Spin Master's business."

Q1 2018 Financial Highlights as compared to the same period in 2017²

- Revenue of US\$285.7 million increased 25.5% from US\$227.7 million.
- In Constant Currency¹ terms, revenue increased by 23.5%.
- Gross Product Sales¹ increased 25.7% to US\$288.0 million, compared to US\$229.1 million, driven by sales of *Hatchimals*, *Luvabella* and the games portfolio including *Cardinal*, which more than offset declines in *Air Hogs* and *Zoomer*.
- Gross Product Sales¹ increased 19.5% in North America, 33.4% in Europe and 49.8% in the Rest of World. International Gross Product Sales¹ on a combined basis were 35.9% of total Gross Product Sales¹, increasing from 32.5% in Q1 2017.
- 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, was US\$29.8 million compared to US\$20.5 million.
- Gross profit increased 31.3% to US\$148.8 million, representing 52.1% of revenue, compared with US\$113.3 million, or 49.8% of revenue in Q1 2017. The increase in gross margin was driven primarily by the positive impact of foreign exchange and higher Other Revenue.
- Selling, general and administrative expenses ("SG&A"), excluding share-based compensation expenses associated with equity participation agreements and the grants of restricted share units to employees at the initial public offering, represented 46.7% of revenue compared to 41.6%. Product development, selling and distribution expenses as a percentage of revenue decreased compared to Q1 2017, offset by increased marketing costs and the bad debt expense related to the Toys"R"Us U.S. bankruptcy. Excluding the Toys"R"Us bad debt expense, SG&A represented 42.1% of revenue.
- Net income was US\$8.7 million, or US\$0.09 per share, compared with US\$10.1 million, or US\$0.10 per share in Q1 2017. Net Income was reduced by the impact of the Toys"R"Us bad debt expense referred to above.
- Adjusted Net Income¹ was US\$22.0 million, or US\$0.22 per share, compared to US\$13.6 million, or US\$0.13 per share in Q1 2017.
- Adjusted EBITDA¹ was US\$43.3 million compared with US\$30.8 million in Q1 2017. Adjusted EBITDA Margin¹ increased to 15.1% compared to 13.5%. The increase was largely driven by higher gross margins.
- Free Cash Flow¹ was US\$(28.3) million compared to US\$5.0 million in Q1 2017 primarily due to lower cash flow from operating activities and increased capital expenditures.
- On March 5, 2018, the Company acquired certain assets relating to the *Gund* line of business from Enesco LLC for approximately \$76.0 million net of closing adjustments. The purchase price was financed from internally generated cash resources and the Company's credit facility. The transaction closed on April 2, 2018. *Gund* will be included in the Activities, Games & Puzzles and Fun Furniture business segment.
- On March 15, 2018, Toys"R"Us, Inc. filed a motion seeking U.S. Bankruptcy Court approval to begin the process of conducting a wind-down of its U.S. business and liquidation of inventory in all of its U.S. stores. In addition, Toys"R"Us International closed and liquidated most of its UK business during the first quarter of 2018. As a result, the Company recorded a bad debt expense of \$15.2 million, which is included in administrative expenses.

"Despite current industry volatility caused by Toys"R"Us, we remain focused on the execution of our key growth strategies as we navigate the shifting retail landscape," said Ben Gadbois, Spin Master's President & COO. "Operational efficiencies and our disciplined approach to retail inventories continue to be fundamental to our positive financial results. Our market-leading innovation is attracting the attention of existing and new retailers looking to expand their presence in the toy space. We are experiencing very strong growth in many of our international markets with exceptional performance in established markets such

as Mexico and Germany and from our most recent direct sales markets in Australia, China and Central Eastern Europe. We are now hard at work integrating *Gund*, ensuring we build a strong platform for our future success."

Q1 2018 Gross Product Sales by Business Segment (US\$ millions)

	Q1 2018	Q1 2017	% Change
Activities, Games & Puzzles and Fun Furniture	\$57.6	\$48.0	20.0%
Remote Control and Interactive Characters	\$91.1	\$46.5	95.9%
Boys Action and High-Tech Construction	\$16.7	\$13.2	27.1%
Pre-School and Girls	\$82.6	\$84.7	(2.5)%
Outdoor	\$40.0	\$36.7	8.9%
Gross Product Sales¹	\$288.0	\$229.1	25.7%
Other Revenue	\$29.8	\$20.5	45.5%
Sales Allowances¹	\$32.1	\$21.9	47.2%
Revenue	\$285.7	\$227.7	25.5%

Q1 2018 Business Segment Gross Product Sales¹ as compared to the same period in 2017

Gross Product Sales¹ in the Activities, Games & Puzzles and Fun Furniture segment increased 20.0% in Q1, primarily driven by sales of the *Cool Maker* branded products, *Kinetic Sand*, and the Games portfolio, which includes *Cardinal*, offset by decreases in *Rube Goldberg*, *Bunchems* and *Build-A-Bear* products. Gross Product Sales¹ in the Remote Control and Interactive Characters segment increased 95.9% in Q1, primarily due to sales of *Hatchimals Colleggtibles* and *Luvabella*, offsetting a decline in *Air Hogs* and *Zoomer*. Gross Product Sales¹ in the Boys Action and High-Tech Construction segment increased 27.1% in Q1, primarily due to increased sales of *Tech Deck* as well as *Flush Force*, offset by decreased sales of *Minecraft* and *Pirates of the Caribbean* licensed products. Gross Product Sales¹ in the Pre-School and Girls segment decreased 2.5% in Q1, from higher sales of *PAW Patrol* more than offset by lower sales of *Teletubbies* and *Power Puff Girls* licensed products. Gross Product Sales¹ in the Outdoor segment increased 8.9% in Q1.

Outlook

For the full year 2018, organic Gross Product Sales¹ are now expected to grow in the mid-single digit range relative to 2017 as compared to the mid-to-high single digit growth rate announced in connection with the release of Q4 2017 results in March 2018. Including *Gund*, Spin Master expects Gross Product Sales¹ growth in the mid to high single digit range compared to 2017. This growth is in line with the Company's long-term target of mid-to-high single digit growth. Seasonality of Gross Product Sales¹ for 2018 is expected to be approximately 31%-33% in H1 compared to the seasonality announced in March 2018 of 32%-35% in H1. The Toys "R" Us liquidation is expected to impact second quarter 2018 Gross Product Sales¹, which results in a lower growth rate overall as well as less of a shift in Gross Product Sales¹ from the second half of 2018 to the first half than we had previously expected, prior to the liquidation. Adjusted EBITDA Margins¹ in 2018, both including and excluding *Gund*, are expected to be in line with prior guidance, which was for 2018 Adjusted EBITDA Margins¹ to increase by approximately 100 basis points over 2017. Adjusted EBITDA Margins¹ are calculated as a percentage of Revenue and not Gross Product Sales¹.

Conference call

Ronnen Harary, Co-Chief Executive Officer, Ben Gadbois, Global President & Chief Operating Officer, and Mark Segal, Executive Vice President and Chief Financial Officer will host a conference call to discuss Q1 2018 results on Wednesday May 9, 2018 at 9:30 a.m. EST.

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.php>. Following the call, both an audio recording and transcript of the call will be archived on the same website page and will be available indefinitely.

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*®, *Bakugan*®, *Erector*® by *Meccano*®, *Hatchimals*®, *Air Hogs*® and *PAW Patrol*®. Since 2000, Spin Master has received 92 TIA Toy of The Year (TOTY) nominations with 28 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 1,600 people globally with offices in Canada, United States, Mexico, France, Italy, United Kingdom, Slovakia, Poland, Germany, Sweden, the Netherlands, China, Hong Kong, Japan, Vietnam 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 measures 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.

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, 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 flows provided by/used in operating activities before changes in net working capital and after cash flows used in investing activities before cash used in license, brand and business acquisitions. 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 product category and geographical segment results to highlight trends in Spin Master's business. For a reconciliation of Gross Product Sales to Revenue, please see the table "Q1 2018 Gross Product Sales by Business Segment" in this press release.

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 presents a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted Net Income, and Cash provided by Operations to Free Cash Flow for the three months ended March 31, 2018 and 2017. All references to \$ refer to US\$:

(in USD 000's, except percentages)	Three months ended March 31			
	2018	2017	\$ Change	% Change
Reconciliation of Non-IFRS Financial Measures				
Net income	8,699	10,087	(1,388)	(13.8)%
Income tax expense	3,128	3,856	(728)	(18.9)%
Finance costs	1,600	2,864	(1,264)	(44.1)%
Depreciation and amortization	11,438	9,214	2,224	24.1%
EBITDA (1)	24,865	26,021	(1,156)	(4.4)%

Normalization Adjustments:				
Restructuring (2)	1,215	752	463	61.6%
Foreign exchange loss (gain) (3)	3	(1,699)	1,702	(100.2)%
Share based compensation (4)	2,027	2,724	(697)	(25.6)%
Non-recurring bad debt expense (5)	15,152	—	15,152	n.m.
Impairment of intangible asset (6)	—	385	(385)	n.m.
Amortization of fair market value adjustments (7)	—	2,355	(2,355)	n.m.
Acquisition related incentive compensation (8)	—	280	(280)	n.m.
Adjusted EBITDA (1)	43,262	30,818	12,444	40.4%
Income tax expense	3,128	3,856	(728)	(18.9)%
Finance costs	1,600	2,864	(1,264)	(44.1)%
Depreciation and amortization	11,438	9,214	2,224	24.1%
Tax effect of normalization adjustments (9)	5,077	1,327	3,750	282.6%
Adjusted Net Income (1)	22,019	13,557	8,462	62.4%
Cash provided by operations	11,099	24,869	(13,770)	(55.4)%
Changes in net working capital	(13,336)	(3,438)	(9,898)	287.9%
Cash (used in) provided by operating activities before net working capital changes	(2,237)	21,431	(23,668)	(110.4)%
Cash used in investing	(27,097)	(16,433)	(10,664)	64.9%
Cash used for license, brand and business acquisitions	1,000	—	1,000	n.m.
Free Cash Flow (1)	(28,334)	4,998	(33,332)	(666.9)%

1) Non IFRS Measure. See "Non-IFRS Financial Measures".

2) 2018 and 2017 restructuring primarily related to organizational changes.

3) Includes foreign exchange (gains) losses generated by the translation of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and (gains) losses related to the Company's hedging programs.

4) Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the IPO and share option expense.

5) Non-recurring bad debt expense related to the liquidation proceedings of TRU.

6) Non-cash impairment charge for intangible asset related to content development.

7) Amortization of fair market value adjustments relating to the acquisition of Marbles and Aerobie in the second and third quarters of 2017 respectively and Swimways in the third quarter of 2016.

8) Remuneration expense associated with contingent consideration for the Swimways acquisition.

9) Tax effect of normalization adjustments (Footnotes 2-8). Normalization adjustments are 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 2018 (see "Outlook"); the *Gund* acquisition; and the products and entertainment properties expected to be launched in 2018 and beyond.

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 acquired companies' brands 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; Company products and entertainment properties will be launched as scheduled; 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.

¹ Non-IFRS financial measure. See "Non-IFRS Financial Measures" below.

² 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 rounding differences and differences in the calculated percentages reflected between the two documents.

SOURCE Spin Master Corp.

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<https://spinmaster.mediaroom.com/2018-05-08-Spin-Master-Reports-Very-Strong-Q1-2018-Financial-Results>