

Spin Master Reports Q1 2019 Financial Results

Maintains Outlook for 2019

TORONTO, May 8, 2019 /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, 2019. The Company's full Management's Discussion and Analysis for the three month period ended March 31, 2019 is available on SEDAR (www.sedar.com) and posted on the Company's web site at www.spinmaster.com/financial-info.php.

"Our results for the first quarter fell below the prior year's performance, reflecting the absence of shipments to Toys "R" Us as well as the shift in the timing of Easter. Q1 saw a number of successful toy license partnership launches, including *Monster Jam* and *How To Train Your Dragon*, our relaunch of the *Bakugan* toy and TV franchise, and *Abby Cadabby*, our new preschool TV series," said Ronnen Harary, Spin Master's Chairman and Co-CEO. "We are maintaining our outlook for 2019 and expect that the balance of the year will be more reflective of the underlying strength of our business. We manage Spin Master for the long term and as we execute through the tail-end of a very disruptive retail environment, we are confident that we are well positioned to drive profitable long-term growth."

Q1 2019 Financial Highlights as compared to the same period in 2018³

- Revenue of US\$239.0 million decreased 16.3% from US\$285.7 million. In Constant Currency² terms, revenue decreased by 14.3%.
- Gross Product Sales² decreased 16.5% to US\$240.5 million, compared to US\$288.0 million. Contributing to the decrease was the shift in the timing of the Easter holiday to the second quarter of 2019 and the absence of Toys "R" Us in Q1, 2019.
- Gross Product Sales² decreased 23.4% in North America and by 3.2% and 6.3% in Europe and Rest of World respectively. International Gross Product Sales² on a combined basis were 41.2% of total Gross Product Sales², increasing from 35.9%.
- Other revenue decreased by 3.1% to US\$28.9 million, driven by lower royalty income from products marketed by third parties using Spin Master's owned intellectual property, offset in part by increased television distribution revenue.
- Sales Allowances² decreased by US\$1.8 million to US\$30.4 million. As a percentage of Gross Product Sales², Sales Allowances² were 12.6% compared to 11.2%.
- Gross profit decreased 27.6% to US\$107.7 million, representing 45.1% of revenue, compared to US\$148.8 million, or 52.1% of revenue. The decline in gross margin was primarily due to higher amortization attributed to entertainment properties, a change in product mix, increased freight related expenses and higher sales allowances.
- Selling, general and administrative expenses ("SG&A") decreased \$8.2 million or 6.1%. SG&A reflected a decrease of \$15.2 million relating to the bad debt expense from the Toys "R" Us bankruptcy recognized in Q1 2018, \$2.3 million higher share based compensation costs and \$0.5 million lower restructuring costs. Excluding these items, SG&A increased \$5.2 million, and as a percentage of revenue was 51.1%, compared with 40.9%. This increase was driven by higher distribution and administrative expenses, partially offset by lower marketing expenses.
- Net loss was US\$20.9 million, or loss per share of US\$0.21, compared with net income of US\$8.7 million, or earnings per share of US\$0.09.
- Adjusted Net Loss² was US\$12.5 million, or loss per share of US\$0.12, compared to Adjusted Net Income² of US\$22.0 million, or earnings per share of US\$0.22. The decline was driven primarily by lower gross profit and higher depreciation and amortization.
- Adjusted EBITDA² was US\$7.0 million compared with US\$43.3 million. Adjusted EBITDA Margin² decreased to 2.9% compared to 15.1%.
- Free Cash Flow¹ was negative US\$39.8 million compared to negative US\$28.3 million.

Q1 2019 Gross Product Sales² by Business Segment (US\$ millions)¹

	Q1 2019	Q1 2018	\$ Change	% Change	
Activities, Games & Puzzles and Plush	\$63.1	\$57.6	5.5	9.4	%
Remote Control and Interactive Characters	\$31.1	\$91.1	(60.0)	(65.9)	%
Boys Action and High-Tech Construction	\$49.4	\$16.7	32.7	195.5	%
Pre-School and Girls	\$63.3	\$82.6	(19.3)	(23.3)	%
Outdoor	\$33.6	\$40.0	(6.4)	(15.9)	%
Gross Product Sales²	\$240.5	\$288.0	(47.5)	(16.5)	%
Sales Allowances ²	\$30.4	\$32.1	(1.7)	(5.6)	%
Total Net Sales²	\$210.1	\$255.9	(45.8)	(17.9)	%
Other Revenue	\$28.9	\$29.8	(0.9)	(3.1)	%
Revenue	\$239.0	\$285.7	(46.7)	(16.3)	%

Q1 2019 Business Segment Gross Product Sales² as compared to the same period in 2018¹

Gross Product Sales decreased by \$47.5 million, or 16.5%, to \$240.5 million with an unfavourable foreign exchange impact of \$5,678 or 2.0%. Contributing to the decrease was the shift in the Easter holiday which occurred in the second quarter of 2019 compared to the first quarter in 2018, and the absence of Toys "R" Us in the first quarter of 2019 compared to the first quarter of 2018.

Gross Product Sales in Activities, Games & Puzzles and Plush increased by \$5.5 million or 9.4% to \$63.1 million. The increase was driven

primarily by sales of *GUND* plush products and increases in *Kinetic Sand* and *Cool Maker*, partially offset by decreases in *Bunchems*, *Marshmallow* furniture and the Games & Puzzles portfolio which includes *Cardinal*.

Gross Product Sales in Remote Control and Interactive Characters decreased by \$60.0 million or 65.9% to \$31.1 million, driven by decreases in *Hatchimals*, *Luvabella* and *Zoomer*.

Gross Product Sales in Boys Action and High-Tech Construction increased by \$32.7 million or 195.5% to \$49.4 million. The increase was primarily driven by sales of *DreamWorks Dragons*, *Monster Jam* and *Bakugan*, partially offset by declines in *Flush Force*, *Tech Deck* and *Meccano*.

Gross Product Sales in Pre-School and Girls decreased by \$19.3 million or 23.3% to \$63.3 million. The decrease was primarily driven by declines in *PAW Patrol*, partially offset by sales of *Twisty Petz*.

Gross Product Sales in Outdoor, comprised of sales of products under the *Swimways*, *Kelsyus*, *Coop* and *Aerobie* brands, decreased by \$6.4 million or 15.9% to \$33.6 million.

"We remain focused on executing against our four key growth strategies, which we believe provides us with a strong platform for sustainable long-term success," said Ben Gadbois, Spin Master's President and Chief Operating Officer. "We are confident that Spin Master can deliver solid growth in the second half of the year. The underlying strength of our global infrastructure and our innovative portfolio of products, complemented by engaging entertainment, new licenses, and a strong balance sheet, positions us well to drive profitable growth in the near and long-term, both organically and through strategic acquisitions."

Outlook

Spin Master continues to focus on driving growth. Its principle strategies, which remain unchanged for 2019, include:

- Innovating across the portfolio;
- Developing evergreen global entertainment properties;
- Increasing international sales in developed and emerging markets; and
- Leveraging the Company's global platform through strategic acquisitions.

On a full year comparative basis, the Company expects:

- to grow organic Gross Product Sales² in the low single digit range relative to 2018;
- seasonality of Gross Product Sales² for 2019 to be approximately 30%-33%% in H1; and
- to deliver Adjusted EBITDA Margin² for 2019 in line with 2018.

Conference call

Ronnen Harary, Chairman and 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 these results on Thursday, May 9th, 2019 at 9:30 a.m. (ET).

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.

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 103 TIA Toy of the Year (TOTY) nominations with 30 wins across a variety of product categories, including 13 TOTY nominations for Innovative Toy of the Year. To date, Spin Master has produced nine television series, including the relaunched Bakugan: Battle Planet and current hit PAW Patrol, which is broadcast in over 160 countries and territories globally. Spin Master employs over 1,800 people in countries around the world including Canada, United States, Mexico, France, Italy, United Kingdom, Russia, Slovakia, Poland, Germany, Sweden, the Netherlands, China, Hong Kong, Japan, Vietnam, India and Australia.

Non-IFRS Financial Measures

In addition to using financial measures prescribed under IFRS, references are made in this MD&A to "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Net (Loss) Income", "Free Cash Flow", "Gross Product Sales", "Constant Currency", "Sales Allowances" and "Total Net Sales" 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.

EBITDA is calculated as net (loss) earnings before finance costs, income tax expense and depreciation and amortization.

Adjusted EBITDA is calculated as EBITDA excluding normalization adjustments, non-recurring items that do not necessarily reflect the Company's underlying financial performance. Normalization adjustments include restructuring costs, foreign exchange gains or losses, equity-settled share-based compensation expenses and bad debt expense. Adjusted EBITDA is used 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 (Loss) Income is calculated as net (loss) income excluding normalization adjustments, as defined above, and the corresponding impact these items have on income tax expense. Management uses Adjusted Net (Loss) Income to measure 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 Sales Allowances. As Sales Allowances are generally not associated with individual products, the Company uses changes in Gross Product Sales to provide meaningful comparisons across 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 2019 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 cooperative advertising, contractual discounts, negotiated discounts, customer audits, volume rebates, defective products and costs incurred by customers to sell the Company's products and are recorded 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.

Total Net Sales represents Gross Product Sales less Sales Allowances. Management uses Total Net Sales to evaluate the Company's total net revenue generating capacity compared to internal targets and as a measure of Company performance.

Management believes the non-IFRS measures defined above 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 these measures 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.

(in USD 000's, except percentages)	Three Months Ended March 31			
	2019	2018 ⁷	\$	% Change
Reconciliation of Non-IFRS Financial Measures				
Net (loss) income	(20,902)	8,699	(29,601)	(340.3) %
Income tax (recovery) expense	(7,566)	3,128	(10,694)	(341.9) %
Finance costs	2,667	1,600	1,067	66.7 %
Depreciation and amortization	21,422	11,438	9,984	87.3 %
EBITDA (1)	(4,379)	24,865	(29,244)	(117.6) %
Normalization Adjustments:				
Restructuring expense (2)	673	1,215	(542)	(44.6) %
Foreign exchange loss (3)	6,379	3	6,376	n.m
Share based compensation (4)	4,357	2,027	2,330	114.9 %
Bad debt expense (5)	—	15,152	(15,152)	(100.0) %
Adjusted EBITDA (1) (7)	7,030	43,262	(36,232)	(83.8) %
Income tax (recovery) expense	(7,566)	3,128	(10,694)	(341.9) %
Finance costs	2,667	1,600	1,067	66.7 %
Depreciation and amortization	21,422	11,438	9,984	87.3 %
Tax effect of normalization adjustments (6)	2,969	5,077	(2,108)	(41.5) %
Adjusted Net (Loss) Income (1)	(12,462)	22,019	(34,481)	(156.6) %
Cash provided by operations	(6,176)	11,099	(17,275)	(155.6) %
Plus:				
Changes in net working capital	(12,078)	(13,336)	1,258	(9.4) %
Cash (used in) provided by operating activities before net working capital changes	(18,254)	(2,237)	(16,017)	716.0 %
Less:				
Cash used in investing activities	(21,570)	(27,097)	5,527	(20.4) %
Plus:				
Cash used for license, brand and business acquisitions	—	1,000	(1,000)	(100.0) %
Free Cash Flow (1)	(39,824)	(28,334)	(11,490)	40.6 %

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

2) Restructuring expense primarily relates to personnel related costs

3) Includes foreign exchange losses generated by the translation of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and 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. As of August 1, 2018, share based compensation includes non-cash expenses related to the Company's LTIP
- 5) Non-recurring bad debt expense related to the bankruptcy declaration and liquidation proceedings of TRU during the first quarter of 2018
- 6) Tax effect of normalization adjustments (Footnotes 2-5). Normalization adjustments are tax effected at the effective tax rate of the given period
- 7) The comparative information presented for 2018 has not been restated for the adoption of IFRS 16. The impact of IFRS 16 on Adjusted EBITDA would be an increase of \$2,363 for 2018

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 2019; future growth expectations; financial position, cash flows and financial performance; drivers for such growth; impact of acquisitions on future financial performance; the successful execution of its strategies for growth; and 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 sales from acquired brands; 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's key personnel will continue to be involved in the Company products and entertainment properties will be launched as scheduled and that the risk factors noted in this Press Release, 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 in the Company's disclosure materials, including the Annual MD&A and the Company's most recent Annual Information Form, filed with the securities regulatory authorities in Canada and available under the Company's profile on SEDAR (www.sedar.com) 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 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
- 2 Non-IFRS financial measure. See "Non-IFRS Financial Measures" below.
- 3 Spin Master adopted International Financial Reporting Standard 16 Leases ("IFRS 16"), effective January 1, 2019. The Company implemented the standard using the modified retrospective approach. As a result, the Company's first quarter of 2019 results reflect lease accounting under IFRS 16. Prior year results have not been restated. See section "Changes in Accounting Policies" of the Company's Management Discussion and Analysis for the three months ended March 31, 2019 for more information on the implementation of IFRS 16

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