

Spin Master Reports Q1 2020 Financial Results

Operational Initiatives Show Progress Amidst Continued Cost Pressures from 2019

TORONTO, May 6, 2020 /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, 2020. The Company's Management's Discussion and Analysis ("MD&A") for the three months ended March 31, 2020 is available on SEDAR (www.sedar.com) and posted on the Company's web site at www.spinmaster.com/financial-info.php.

"Q1 2020 was a challenging quarter for Spin Master, as we dealt with both the evolving COVID-19 situation and the carryover effects from the operational challenges we experienced in the second half of 2019. COVID-19 first affected our Asian supply chain early in Q1 and we worked extremely hard to stabilize it by the end of the quarter. As the virus spread to customer markets, we adapted quickly and implemented measures to minimize the potential impact to our people and to Spin Master as a whole," said Ronnen Harary, Spin Master's Co-Chief Executive Officer. "Our POS in the quarter was up significantly over last year, particularly for categories such as games, puzzles, activities and arts and crafts as well as demand for our entertainment content and digital gaming, as consumers looked to occupy their children whilst at home. We have made significant progress in resolving the operational challenges we faced in 2019 and are well positioned for the second half of 2020. We are focused on keeping our team safe and productive, keeping costs down and managing our cash flow prudently whilst continuing to invest for the long term. We believe in the underlying resilience of the toy industry and our diversified portfolio of brands, entertainment properties and digital toys. Our commitment to our strategy and our strong financial base, positions us for long term success."

"Q1 profitability was significantly affected by the carryover of operational challenges from the second half of 2019," said Mark Segal, Spin Master's Chief Financial Officer. "During the quarter we undertook intensive initiatives to address these issues. We have made meaningful progress through a combination of structural supply chain changes, improved cross-functional collaboration and cost management initiatives that we expect will yield improved operating efficiencies as we enter our seasonal sales peak in the second half of 2020. Our liquidity position remains strong and we are operating from a solid financial position with substantial liquidity available. During the quarter we drew down \$350.0 million on our committed credit facility and our total cash position increased to \$424.0 million at the end of the quarter. As the year progresses, we will continue to focus on strengthening our core in order to build and maintain an efficient, high margin and sustainable global platform for long term growth."

Q1 2020 Financial Highlights as compared to the same period in 2019

- Revenue of US\$227.3 million decreased 4.9% from US\$239.0 million. In Constant Currency¹ terms, revenue decreased by 1.4%.
- Gross Product Sales¹ increased 0.7% to US\$242.3 million from US\$240.5 million. In Constant Currency¹ terms, Gross Product Sales¹ increased 4.0%. The increase was driven primarily by the Activities, Games, Puzzles & Plush and Boys Action & Construction business segments.
- Gross Product Sales¹ increased 13.6% in Europe, 2.2% in North America and decreased 29.4% in Rest of World. International Gross Product Sales¹ on a combined basis were 40.3% of total Gross Product Sales¹, compared with 41.2%.
- Other revenue decreased by 24.2% to US\$21.9 million, driven by lower royalty income from products marketed by third parties using Spin Master's owned intellectual property and television distribution revenue, offset in part by app revenue from Toca Boca and Sago Mini.
- Sales Allowances¹ increased by US\$6.5 million to US\$36.9 million, primarily driven by markdowns, non-compliance charges, and growth in Europe which has higher Sales Allowance rates. As a percentage of Gross Product Sales¹, Sales Allowances¹ increased to 15.2% from 12.6%.
- Gross profit was US\$90.8 million, representing 39.9% of revenue, compared to US\$107.7 million or 45.1% of revenue. The decrease in gross margin was primarily due to higher freight, reconfiguration expenses, inventory provisions, Sales Allowances and lower other revenue, partially offset by favourable changes in product mix.
- Selling, general and administrative expenses (SG&A)² increased 21.9%. As a percentage of revenue SG&A² expenses were 64.5%, compared to 50.3%. The increase was driven by higher distribution, marketing and administrative costs. Distribution costs increased due to storage costs from higher domestic inventory levels carried forward from 2019, outbound transportation expenses and a shift towards domestic sales from direct import sales. Marketing costs increased primarily as a result of media, trade show and in-store merchandising initiatives. The increase in administrative costs relates to restructuring expenses from senior leadership changes announced in February 2020.
- Net loss was US\$26.7 million or loss per share of US\$0.26, compared to net loss of US\$20.9 million or loss per share of US\$0.21.
- Adjusted Net Loss¹ was US\$46.8 million or loss per share of US\$0.45, compared to Adjusted Net Loss¹ of US\$12.5 million or loss per share of US\$0.12.
- Adjusted EBITDA¹ was negative US\$32.3 million compared to US\$7.0 million.

- Free Cash Flow¹ was negative US\$74.9 million compared to negative US\$39.9 million.
- As at March 31, 2020, Spin Master borrowed US\$350.0 million under its Credit Facility. The Company had cash on hand of US\$424.0 million at the end of the quarter.

Q1 2020 Gross Product Sales¹ by Business Segment (US\$ millions)

	Q1 2020	Q1 2019	\$ Change	% Change	
Activities, Games & Puzzles and Plush	\$78.1	\$63.0	15.1	24.0	%
Remote Control and Interactive Characters	\$20.2	\$31.1	(10.9)	(35.0)	%
Boys Action and Construction	\$59.1	\$49.4	9.7	19.6	%
Pre-School and Girls	\$56.5	\$63.4	(6.9)	(10.9)	%
Outdoor	\$28.4	\$33.6	(5.2)	(15.5)	%
Gross Product Sales¹	\$242.3	\$240.5	1.8	0.7	%
Sales Allowances ¹	\$(36.9)	\$(30.4)	(6.5)	21.4	%
Total Net Sales¹	\$205.4	\$210.1	(4.7)	(2.2)	%
Other Revenue	\$21.9	\$28.9	(7.0)	(24.2)	%
Revenue	\$227.3	\$239.0	(11.7)	(4.9)	%

Q1 2020 Business Segment Gross Product Sales¹ as compared to the same period in 2019

Gross Product Sales¹ were US\$242.3 million, an increase of US\$1.8 million or 0.7%, with an unfavourable foreign exchange impact of \$7.9 million or 3.3%. Excluding the impact of foreign exchange, Gross Product Sales increased by US\$9.7 million or 4.0%. The increase was primarily driven by Activities, Games & Puzzles and Plush, and Boys Action and Construction, offset by declines in other business segments.

Gross Product Sales¹ in Activities, Games & Puzzles and Plush increased by US\$15.1 million or 24.0% to US\$78.1 million, driven primarily by *Kinetic Sand* and Games & Puzzles, partially offset by *Gund*.

Gross Product Sales¹ in Remote Control and Interactive Characters decreased by US\$10.9 million or 35.0% to US\$20.2 million, primarily due to *Hatchimals*, partially offset by *PAW Patrol RC*.

Gross Product Sales¹ in Boys Action and Construction increased by US\$9.7 million or 19.6% to US\$59.1 million. The increase was primarily driven by sales of DC licensed products, *Bakugan* and *Tech Deck*, partially offset by *DreamWorks Dragons*.

Gross Product Sales¹ in Pre-School and Girls decreased by US\$6.9 million or 10.9% to US\$56.5 million. The decrease was primarily driven by *PAW Patrol*, *Twisty Petz* and *Off the Hook*, partially offset by higher sales of *Candylocks*.

Gross Product Sales¹ in Outdoor decreased by US\$5.2 million or 15.5% to US\$28.4 million.

Outlook

Spin Master continues to focus on driving long-term growth. Its principle strategies include:

- Innovate using our global internal and external research and development network;
- Developing evergreen global entertainment and digital toys properties;
- Increasing international sales in developed and emerging markets; and
- Leveraging the Company's global platform through strategic acquisitions.

On March 19, 2020 Spin Master withdrew its 2020 outlook, which was previously provided on March 4, 2020. Given the uncertain environment associated with COVID-19, the company has elected to suspend providing guidance until circumstances warrant.

Conference call

Ronnen Harary, Chairman and Co-Chief Executive Officer and Mark Segal, Executive Vice President and Chief Financial Officer will host a conference call to discuss these results on Thursday, May 7 2020 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 110 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 eleven 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 and Australia.

Non-IFRS Financial Measures

In addition to using financial measures prescribed under IFRS, references are made in this Press Release 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 adjustments- items that do not necessarily reflect the Company's underlying financial performance. These adjustments include restructuring expenses, foreign exchange gains or losses, and equity-settled share based compensation expenses. Adjusted EBITDA is used by management as a measure of the Company's profitability.

Adjusted Net (Loss) Income is calculated as net (loss) income excluding adjustments, as defined above, in addition to a one-time income tax recovery 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 revenue table "Q1 2020 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.

(All amounts in US\$ millions)	Three Months Ended Mar 31			
	2020	2019	\$ Change	% Change
Reconciliation of Non-IFRS Financial Measures				
Net loss	(26.7)	(20.9)	(5.8)	27.8 %

Income tax recovery	(48.2)	(7.6)	(40.6)	534.2	%
Finance costs	2.8	2.7	0.1	3.7	%
Depreciation and amortization	23.3	21.4	1.9	8.9	%
EBITDA¹	(48.8)	(4.4)	(44.4)	1,009.1	%
Adjustments:					
Restructuring expense ²	4.4	0.7	3.7	528.6	%
Foreign exchange loss ³	8.5	6.3	2.2	34.9	%
Share based compensation ⁴	3.6	4.4	(0.8)	(18.2)	%
Adjusted EBITDA¹	(32.3)	7.0	(39.3)	(561.4)	%
Income tax recovery	(48.2)	(7.6)	(40.6)	534.2	%
Finance costs	2.8	2.7	0.1	3.7	%
Depreciation and amortization	23.3	21.4	1.9	8.9	%
One-time tax recovery ⁵	33.3	—	33.3	n.m.	
Tax effect of normalization adjustments ⁶	3.3	3.0	0.3	10.0	%
Adjusted Net Loss¹	(46.8)	(12.5)	(34.3)	274.4	%
Cash used in operating activities	(8.8)	(6.2)	(2.6)	41.9	%
Changes in net working capital	(47.1)	(12.1)	(35.0)	289.3	%
Cash used in operating activities before net working capital changes	(55.9)	(18.3)	(37.6)	205.5	%
Cash used in investing activities	(19.0)	(21.6)	2.6	(12.0)	%
Free Cash Flow¹	(74.9)	(39.9)	(35.0)	87.7	%

1) See "Non-IFRS Financial Measures".

2) Restructuring expense primarily relates to personnel related costs. Restructuring expense in the current period includes costs related to changes in senior leadership.

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 expenses associated with subordinate voting shares granted to equity participants at the time of the IPO, share option expense and LTIP expense.

5) One-time tax recovery relates to internal transfer of intangible property of \$33.3 million.

6) Tax effect of adjustments (Footnotes 2-4). 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 intentions to issue guidance in the future; future growth expectations; financial position, cash flows and financial performance; drivers for such growth; the resolution of logistics problems; the program to achieve operational efficiencies; the successful execution of its strategies for growth; the impacts of the COVID-19 pandemic on the Company; 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 ability of factories to manufacture products, including labour size and allocation, tooling, raw material and component availability, ability to shift between product mix, and customer acceptance of delayed delivery dates; that the program designed to gain operational efficiencies will achieve the desired results; 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 magnitude and length of economic disruption as a result of the COVID-19 pandemic, and 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.

¹Non-IFRS Financial Measure. See "Non-IFRS Financial Measures" of this press release

² SG&A expenses include selling, marketing, distribution, product development and administrative expenses.

SOURCE Spin Master Corp.

For further information: Mark Segal, Executive Vice President and Chief Financial Officer, marks@spinmaster.com; Sophia Bisoukis, Vice President, Investor Relations, sophiab@spinmaster.com

<https://spinmaster.mediaroom.com/2020-05-06-Spin-Master-Reports-Q1-2020-Financial-Results>