

Spin Master Reports Q4 and Full Year 2021 Financial Results Delivering Record Revenue and Profitability

Strength Across Toys, Entertainment and Digital Games

TORONTO, Feb. 28, 2022 /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 three months and year ended December 31, 2021. The Company's full Management's Discussion and Analysis ("MD&A") for the three months and year ended December 31, 2021 is available under the Company's profile on SEDAR (www.sedar.com) and posted on the Company's web site at www.spinmaster.com/financial-info.php.

"We delivered very impressive growth in 2021 across all our three creative centres and furthered our commitment to creating magical play experiences for children and their families through innovative toys, engaging entertainment and creative digital games," said Max Rangel, Spin Master's Global President and Chief Executive Officer. "We have built a solid foundation for continued long-term growth and as we enter 2022, we are focused on further developing the full potential of Toys, Entertainment and Digital Games, with a greater focus on customer centricity, driving innovation, building evergreen entertainment franchises and digital games, growing our international markets and optimizing our operating platform to continue to create value for our shareholders."

Mark Segal, Spin Master's Chief Financial Officer added, "In the fourth quarter, we maintained the positive momentum we built throughout the year, combining organizational discipline, financial focus and operational efficiency to exceed our expectations. For the year, we grew Gross Product Sales¹ over 20%, total revenue grew 30% and exceeded \$2 billion for the first time and our Adjusted EBITDA¹ exceeded \$414 million at an Adjusted EBITDA Margin¹ above 20%, another first. Our intensive focus on working capital allowed us to generate record Free Cash Flow¹ in 2021 and we ended the year with available liquidity² in excess of \$1 billion. We are in an excellent position financially and operationally to generate and sustain long term, profitable growth."

Q4 2021 Financial Highlights as compared to the same period in 2020 (US\$ millions)

- Revenue was \$620.5 million, an increase of 26.5% from \$490.6 million driven by revenue growth in Toy, Entertainment and Licensing and Digital Games. Constant Currency Revenue¹ was \$622.1 million, up from \$490.6 million, an increase of 26.8%³.
- Gross profit was \$323.3 million, representing a gross margin⁴ of 52.1%, compared to \$241.0 million or 49.1%. The improvement in gross margin was as a result of lower closeout sales, a higher proportion of Digital Games and licensing and merchandising revenue and favourable changes in product mix and productivity savings, offset in part by inflation on product costs and ocean freight, which was partially mitigated by price increases.
- Selling, general and administrative expenses ("SG&A") decreased as a percentage of Revenue to 43.1% compared to 43.2%, primarily from lower distribution expenses, partially offset by higher administrative and marketing expenses.
- Net income was \$26.5 million or earnings per share of \$0.25 (diluted) compared to \$0.3 million or earnings per share of \$nil (diluted). Net margin⁵ was 4.3% compared to 0.1%.
- Adjusted Net Income¹ was \$38.7 million or Adjusted Diluted EPS¹ of \$0.37, compared to \$14.6 million or Adjusted Diluted EPS¹ of \$0.14.
- Adjusted EBITDA¹ was \$78.3 million compared to \$51.5 million. Adjusted EBITDA Margin¹ was 12.6% compared to 10.5%.
- Cash provided by operating activities was \$230.1 million compared to \$138.2 million, as a result of higher net income and a decrease in change in net working capital.
- Cash used in investing activities was \$19.6 million compared to \$19.3 million.
- Free Cash Flow¹ was \$211.3 million compared to \$123.7 million, due to higher cash flows from operating activities.
- Subsequent to December 31, 2021, the Company divested manufacturing assets located in Tarboro, North Carolina and certain related brands associated with its Outdoor business. The Company presented the assets associated with the divestiture as held for sale as at December 31, 2021.

Revenue Highlights for Q4 2021 as compared to the same period in 2020

(US\$ millions)	Q4 2021	Q4 2020¹	\$ Change	% Change
Preschool and Dolls & Interactive ²	\$ 251.8	\$ 200.2	\$ 51.6	25.8 %
Activities, Games & Puzzles and Plush ⁵	206.5	173.9	32.6	18.7 %
Wheels & Action ²	146.1	122.1	24.0	19.7 %
Outdoor	23.1	15.6	7.5	48.1 %
Gross Product Sales³	\$ 627.5	\$ 511.8	\$ 115.7	22.6 %
Sales Allowances ⁴	(85.5)	(77.5)	(8.0)	10.3 %
Toy revenue	\$ 542.0	\$ 434.3	\$ 107.7	24.8 %

Entertainment and Licensing revenue	28.5	24.5	4.0	16.3 %
Digital Games revenue ⁶	50.0	31.8	18.2	57.2 %
Other revenue	\$ 78.5	\$ 56.3	\$ 22.2	39.4 %
Revenue	\$ 620.5	\$ 490.6	\$ 129.9	26.5 %

¹ Effective Q1 2021, Spin Master simplified its product categories to align with the Company's product offerings going forward. Prior year comparative information has been updated to conform with the current disclosure. See "Addendum" for further details.

² Effective Q4 2021, the "Preschool and Girls" product category was renamed "Preschool and Dolls & Interactive" and the "Boys" product category was renamed "Wheels & Action".

³ Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

⁴ Sales Allowances represent sales credits requested by customers relating to factors such as cooperative advertising, contractual

and negotiated discounts, volume rebates, and costs incurred by customers to sell the Company's products.

⁵ Includes \$9.7 million related to *Rubik's* in Q4 2021. *Rubik's* was acquired on January 4, 2021.

⁶ Includes \$1.0 million related to *Originator* in Q4 2021. *Originator* was acquired on June 14, 2021.

Toy revenue

Toy revenue increased by \$107.7 million or 24.8% to \$542.0 million, driven by growth in all product categories, particularly Preschool and Dolls & Interactive.

Other revenue

Entertainment and Licensing revenue was \$28.5 million, \$4.0 million or 16.3% higher, driven by licensing and merchandising revenue.

Digital Games revenue was \$50.0 million, an increase of \$18.2 million or 57.2%, mainly related to growth in *Toca Life World*.

Gross Product Sales¹

Gross Product Sales increased by \$115.7 million or 22.6% to \$627.5 million from \$511.8 million, primarily related to higher sales in Preschool and Dolls & Interactive, Activities, Games & Puzzles and Plush and Wheels & Action. Constant Currency Gross Product Sales¹ increased by \$117.2 million or 22.9%³ to \$629.0 million from \$511.8 million. The improvement was generated by growth in all product categories and reflected strong customer demand throughout the quarter and the Company's successful management of the global supply chain volatility.

Gross Product Sales increased by 32.8% in North America, 11.6% in Europe and 9.5% in Rest of World. International Gross Product Sales¹, comprised of the Europe and Rest of World segments, were 42.4% of total Gross Product Sales¹, compared to 46.8%⁶.

Gross Product Sales in Preschool and Dolls & Interactive increased by \$51.6 million or 25.8% to \$251.8 million from \$200.2 million, arising from sales of *Wizarding World*, *Gabby's Dollhouse*, *PAW Patrol* and *Purse Pets*, offset in part by a decline in *Hatchimals*.

Gross Product Sales in Activities, Games & Puzzles and Plush increased by \$32.6 million or 18.7% to \$206.5 million from \$173.9 million, mainly due to increases in *Kinetic Sand*, *Rubik's* and *Orbeez*.

Gross Product Sales in Wheels & Action increased by \$24.0 million or 19.7% to \$146.1 million from \$122.1 million, led by increases in DC licensed products and *Tech Deck*, partially offset by a decline in *DreamWorks Dragons*.

Gross Product Sales in Outdoor increased by \$7.5 million or 48.1% to \$23.1 million from \$15.6 million, as a result of increases in *SwimWays* and *Aerobie*.

Sales Allowances increased by \$8.0 million to \$85.5 million from \$77.5 million. Sales Allowance as a percentage of Gross Product Sales¹ were 13.6%, compared to 15.1%. The decrease was led by lower non-compliance charges, fines and penalties.

Financial Highlights for Year Ended December 31, 2021 as compared to the same period in 2020 (US\$ millions)

- Revenue was \$2,042.4 million, an increase of 30.0% from \$1,570.6 million driven by revenue growth in Toy, Entertainment and Licensing and Digital Games. Constant Currency Revenue¹ increased by 28.9%² to \$2,025.2 million from \$1,570.6 million.

- Gross profit was \$1,056.6 million, representing a gross margin of 51.7%, compared to \$727.9 million or 46.3% of Revenue. The improvement in gross margin was as a result of cost reductions resulting from the Company's operational improvements and productivity initiatives, favourable changes in product mix, a higher proportion of Digital Games and licensing and merchandising revenue and lower closeout sales. This increase was offset in part by inflation on product costs and ocean freight, which was partially mitigated by price increases implemented during the third quarter, as well as by the dilutive effect of *PAW Patrol: The Movie* (revenue less amortization of production costs).
- SG&A decreased as a percentage of Revenue to 36.4% compared to 40.3%, primarily from lower distribution partially offset by higher marketing and administrative expenses.
- Net income was \$198.6 million or earnings per share of \$1.89 (diluted), compared to \$45.5 million or earnings per share of \$0.44 (diluted). Net margin was 9.7% compared to 2.9%.
- Adjusted Net Income¹ was \$221.3 million or Adjusted Diluted EPS¹ of \$2.10, compared to \$53.4 million or Adjusted Diluted EPS¹ of \$0.51.
- Adjusted EBITDA¹ was \$414.1 million compared to \$180.6 million. Adjusted EBITDA Margin¹ was 20.3% compared to 11.5%. Included in Adjusted EBITDA¹ was \$26.0 million related to distribution revenue for *PAW Patrol: The Movie*.
- Cash provided by operating activities was \$419.1 million compared to \$310.8 million, primarily from higher net income.
- Cash used in investing activities was \$153.2 million compared to \$84.9 million, comprising of business acquisitions and investments in entertainment content production.
- Free Cash Flow¹ was \$339.6 million compared to \$232.1 million, due to higher cash flows from operating activities.

Revenue Highlights for Year Ended December 31, 2021 as compared to the same period in 2020

(US\$ millions)	2021	2020 ¹	\$ Change	% Change
Preschool and Dolls & Interactive ²	\$ 809.6	\$ 609.5	\$ 200.1	32.8 %
Activities, Games & Puzzles and Plush ⁴	587.8	534.8	53.0	9.9 %
Wheels & Action ²	445.6	388.3	57.3	14.8 %
Outdoor	119.4	91.1	28.3	31.1 %
Gross Product Sales³	\$ 1,962.4	\$ 1,623.7	\$ 338.7	20.9 %
Sales Allowances ⁵	(230.6)	(208.1)	(22.5)	10.8 %
Toy revenue	\$ 1,731.8	\$ 1,415.6	\$ 316.2	22.3 %
Entertainment and Licensing revenue ⁶	135.8	78.2	57.6	73.7 %
Digital Games revenue ⁷	174.8	76.8	98.0	127.6 %
Other revenue	\$ 310.6	\$ 155.0	\$ 155.6	100.4 %
Revenue	\$ 2,042.4	\$ 1,570.6	\$ 471.8	30.0 %

¹ Effective Q1 2021, Spin Master simplified its product categories to align with the Company's product offerings going forward. Prior year comparative information has been updated to conform with the current disclosure. See "Addendum" for further details.

² Effective Q4 2021, the "Preschool and Girls" product category was renamed "Preschool and Dolls & Interactive" and the "Boys" product category was renamed "Wheels & Action".

³ Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

⁴ Includes \$25.2 million related to *Rubik's* in 2021. *Rubik's* was acquired on January 4, 2021.

⁵ Sales Allowances represent sales credits requested by customers relating to factors such as cooperative advertising, contractual and negotiated discounts, volume rebates, and costs incurred by customers to sell the Company's products.

⁶ Includes \$26.0 million related to revenue for *PAW Patrol: The Movie* in 2021.

⁷ Includes \$2.3 million related to *Originator* in 2021. *Originator* was acquired on June 14, 2021

Toy revenue

Toy revenue increased by \$316.2 million or 22.3% to \$1,731.8 million driven by growth in all product categories, particularly Preschool and Dolls & Interactive.

Other revenue

Entertainment and Licensing revenue increased by \$57.6 million or 73.7% to \$135.8 million driven by distribution revenue related to *PAW Patrol: The Movie* and higher licensing and merchandising revenue.

Digital Games revenue increased by \$98.0 million or 127.6% to \$174.8 million, mainly related to higher in-game purchases in

Gross Product Sales¹

Gross Product Sales increased by \$338.7 million or 20.9% to \$1,962.4 million from \$1,623.7 million. Constant Currency Gross Product Sales¹ increased by \$326.4 million to \$1,950.1 million from \$1,623.7 million, an increase of 20.1%³. The improvement was due to growth in all product categories, particularly Preschool and Dolls & Interactive.

Gross Product Sales increased by 23.8% in Rest of World, 21.8% in North America and 17.7% in Europe. International Gross Product Sales¹, comprised of the Europe and Rest of World segments, represented 39.0% of total Gross Product Sales¹ compared to 39.4%⁶.

Gross Product Sales in Preschool and Dolls & Interactive increased by \$200.1 million or 32.8% to \$809.6 million from \$609.5 million, driven primarily by increases in *PAW Patrol*, *Wizarding World*, *Gabby's Dollhouse* and *Purse Pets*, offset in part by declines in *Hatchimals* and *Twisty Petz*.

Gross Product Sales in Activities, Games & Puzzles and Plush increased by \$53.0 million or 9.9% to \$587.8 million from \$534.8 million, mainly due to increases in *Kinetic Sand*, *Rubik's* and *GUND*, offset in part by a decline in the Games & Puzzles portfolio.

Gross Product Sales in Wheels & Action increased by \$57.3 million or 14.8% to \$445.6 million from \$388.3 million, driven by increases in DC licensed products, *Monster Jam RC* and *Tech Deck*, partially offset by declines in *Ninja Bots* and *DreamWorks Dragons*.

Gross Product Sales in Outdoor increased by \$28.3 million or 31.1% to \$119.4 million from \$91.1 million as a result of increases in *SwimWays* and *Aerobie*.

Sales Allowances increased by \$22.5 million to \$230.6 million from \$208.1 million. Sales Allowance as a percentage of Gross Product Sales¹ were 11.8% compared to 12.8%, due to lower non-compliance charges and markdowns.

Outlook

Spin Master continues to focus on driving long-term growth. Its principal strategies are to:

- Innovate using our global internal and external research and development network;
- Increase international sales in developed and emerging markets;
- Develop evergreen global entertainment franchises;
- Establish a leading position in digital games; and
- Leverage the Company's global platform through strategic acquisitions and investments.

The Company expects 2022 Gross Product Sales¹ to increase mid to high single digits compared to 2021.

The Company expects 2022 Revenue to increase mid to high single digits compared to 2021 Revenue, excluding *PAW Patrol: The Movie* Distribution Revenue¹ of \$26.0 million.

The Company expects 2022 Adjusted EBITDA Margin¹ to be in line with 2021 Adjusted EBITDA Margin, excluding *PAW Patrol: The Movie* Distribution Revenue¹ of \$26.0 million.

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 2022; future growth expectations in 2022 and beyond; drivers and trends for such growth and financial performance; the successful execution of its strategies for growth; the Company's Spin Master Ventures initiative; content and product pipeline; financial position, cash flows and financial performance; and the creation of long term shareholder value.

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: 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; the steps taken will create long term shareholder value; 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 and minority investment 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, retailers and license partners; 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.

¹ Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

² As at December 31, 2021, available liquidity was \$1,080.2 million, comprised of \$562.7 million in cash and cash equivalents and \$517.5 million under its credit facilities.

³ See "Percentage change in Constant Currency Gross Product Sales" and "Percentage change in Constant Currency Revenue" within "Non-GAAP Financial Measures and Ratios" for details.

⁴ Gross margin is calculated as Gross profit divided by Revenue.

⁵ Net margin is calculated as Net income divided by Revenue.

⁶ See "Revenue by Geographical Segment" table for details.

Conference call

Max Rangel, Global President and Chief Executive Officer and Mark Segal, Chief Financial Officer will host a conference call to discuss the audited financial results on Tuesday, March 1, 2022 at 9:30 a.m. (ET).

The call-in numbers for participants are (647) 792-1240 or (800) 437-2398. 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 Corp. (TSX:TOY) is a leading global children's entertainment company, creating exceptional play experiences through its three creative centres: Toys, Entertainment and Digital Games. With distribution in over 100 countries, Spin Master is best known for award-winning brands PAW Patrol®, Bakugan®, Kinetic Sand®, Air Hogs®, Hatchimals®, Rubik's Cube® and GUND®, and is the global toy licensee for other popular properties. Spin Master Entertainment creates and produces compelling multiplatform content, through its in-house studio and partnerships with outside creators, including the preschool franchise PAW

Patrol and numerous other original shows, short-form series and feature films. The Company has an established presence in digital games, anchored by the Toca Boca® and Sago Mini® brands, offering open-ended and creative game and educational play in digital environments. Through Spin Master Ventures, the Company makes minority investments globally in emerging companies and start-ups. With over 30 offices in close to 20 countries, Spin Master employs more than 2,000 team members globally. For more information visit spinmaster.com or follow on Instagram, Facebook and Twitter @spinmaster.

Non-GAAP Financial Measures and Ratios

In addition to using financial measures prescribed under IFRS, references are made in this Press Release to the following terms, each of which is a non-GAAP financial measure:

- Gross Product Sales
- Constant Currency Gross Product Sales
- Constant Currency Revenue
- EBITDA
- Adjusted EBITDA
- Adjusted Net Income (Loss)
- Free Cash Flow
- Revenue, excluding *PAW Patrol: The Movie* Distribution Revenue
- Adjusted EBITDA, excluding *PAW Patrol: The Movie* Distribution Revenue

Non-GAAP financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

Additionally, references are made in this Press Release to the following terms, each of which is a non-GAAP financial ratio:

- Sales Allowance as a percentage of Gross Product Sales
- Percentage change in Constant Currency Gross Product Sales
- Percentage change in Constant Currency Revenue
- Adjusted EBITDA Margin
- Adjusted Diluted EPS
- Adjusted EBITDA Margin, excluding *PAW Patrol: The Movie* Distribution Revenue

Non-GAAP financial ratios do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

Management believes the Non-GAAP financial measures and Non-GAAP financial ratios defined above are important supplemental measures of operating performance and highlight trends in the business. Management believes that these measures allow for assessment of the Company's operating performance and financial condition on a basis that is consistent and comparable between reporting periods. The Company believes that investors, lenders, securities analysts and other interested parties frequently use these Non-GAAP financial measures and Non-GAAP financial ratios in the evaluation of issuers.

Non-GAAP Financial Measures

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, the closest IFRS measure, refer to the revenue tables for the three months and year ended December 31, 2021 as compared to the same period in 2020 in this Press Release.

Constant Currency Gross Product Sales and Constant Currency Revenue represent Gross Product Sales and Revenue presented excluding the impact from changes in foreign currency exchange rates, respectively. 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. Management uses Constant Currency Gross Product Sales and Constant Currency Revenue to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section for a reconciliation of these metrics to Revenue, the closest IFRS measure.

EBITDA is calculated as net income (loss) before finance costs, income tax expense (recovery) and depreciation and amortization. EBITDA is used by management as a measure of the Company's profitability.

Adjusted EBITDA is calculated as EBITDA excluding adjustments that do not necessarily reflect the Company's underlying financial performance. These adjustments include restructuring expenses, foreign exchange gains or losses, share based compensation expenses, acquisition related contingent consideration, impairment of intangible assets, impairment of goodwill,

investment distribution income, acquisition related deferred incentive compensation, net unrealized gain on investment, impairment of property, plant and equipment, legal settlement, transaction costs, gain on disposal of asset and bad debt recovery. Adjusted EBITDA is used by management as a measure of the Company's profitability. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Net Income, the closest IFRS measure.

Adjusted Net Income (Loss) is calculated as net income excluding adjustments (as defined in Adjusted EBITDA), the corresponding impact these items have on income tax expense and a one-time income tax recovery in 2020. Management uses Adjusted Net Income (Loss) to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Net Income, the closest IFRS measure.

Free Cash Flow is calculated as cash flows provided by/used in operating activities reduced by cash flows used in investing activities and adding back cash used for business acquisitions and investment in limited partnership and minority interests, net of investment distribution income. Management uses the Free Cash Flow metric to analyze the cash flows being generated by the Company's business. The calculation of this metric was revised to include the impact of investment distribution income as Management believes this composition to be relevant to investors, lenders, securities analysts and other interested parties of the Company. Refer to the "Reconciliation of Non-GAAP Financial Measures" section for a reconciliation of this metric to Cash flow from operating activities, the closest IFRS measure.

Revenue, excluding *PAW Patrol: The Movie* Distribution Revenue is calculated as revenue excluding distribution revenue of \$26.0 million related to *PAW Patrol: The Movie* recognized in 2021. Revenue, excluding *PAW Patrol: The Movie* Distribution Revenue is used to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section for a reconciliation of this metric to Revenue, the closest IFRS measure.

Adjusted EBITDA, excluding *PAW Patrol: The Movie* Distribution Revenue is calculated as Adjusted EBITDA excluding distribution revenue of \$26.0 million related to *PAW Patrol: The Movie* recognized in 2021. Adjusted EBITDA, excluding *PAW Patrol: The Movie* Distribution Revenue is used by management as a measure of the Company's profitability on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Net Income, the closest IFRS measure.

Non-GAAP Financial Ratios

Sales Allowance as a percentage of Gross Product Sales is calculated by dividing Sales Allowance by Gross Product Sales. Management uses Sales Allowance as percentage of Gross Product Sales to identify and compare the cost of doing business with individual retailers, different geographic markets and amongst various distribution channels.

Percentage change in Constant Currency Gross Product Sales is calculated by dividing the change in Gross Product Sales excluding the impact from changes in foreign currency exchange rates by the Gross Product Sales of the comparative period. Management uses Percentage change in Constant Currency Gross Product Sales to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Percentage change in Constant Currency Revenue is calculated by dividing the change in Revenue excluding the impact from changes in foreign currency exchange rates by the Revenue of the comparative period. Management uses Percentage change in Constant Currency Revenue to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

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 Diluted EPS is calculated by dividing Adjusted Net Income (Loss) by the weighted average number of common shares outstanding, assuming the conversion of all dilutive securities were exercised during the period. Management uses Adjusted Diluted EPS to measure the underlying financial performance of the business on a consistent basis over time.

Adjusted EBITDA Margin, excluding *PAW Patrol: The Movie* Distribution Revenue is calculated as Adjusted EBITDA excluding *PAW Patrol: The Movie* Distribution Revenue divided by Revenue. Management uses Adjusted EBITDA Margin excluding *PAW Patrol: The Movie* Distribution Revenue to evaluate the Company's performance compared to internal targets and to benchmark its performance against key competitors on a consistent basis over time.

Reconciliation of Non-GAAP Financial Measures

The following table presents a reconciliation of net income to EBITDA¹, Adjusted EBITDA¹ and Adjusted Net Income¹, and cash from operating activities to Free Cash Flow¹ for the three months ended December 31, 2021 and 2020:

	Three Months Ended Dec 31			
(in US\$ millions, except percentages)	2021	2020	\$ Change	% Change
Net income	26.5	0.3	26.2	8,733.3 %
Income tax expense (recovery)	9.5	(4.7)	14.2	(302.1) %
Finance costs	3.1	3.4	(0.3)	(8.8) %
Depreciation and amortization expenses	23.0	27.6	(4.6)	(16.7) %
EBITDA	62.1	26.6	35.5	133.5 %
Adjustments:				
Restructuring expense ¹	1.4	0.5	0.9	180.0 %
Foreign exchange (gain) loss ²	(0.7)	10.5	(11.2)	(106.7) %
Share based compensation ³	4.0	2.9	1.1	37.9 %
Impairment of goodwill ⁴	1.9	—	1.9	n.m.
Impairment of property, plant and equipment ⁵	—	0.5	(0.5)	(100.0) %
Impairment of intangible assets ⁶	1.2	0.4	0.8	200.0 %
Legal settlement ⁷	—	5.5	(5.5)	(100.0) %
Acquisition related deferred incentive compensation ⁸	2.6	—	2.6	n.m.
Net unrealized loss on investment ⁹	0.3	—	0.3	n.m.
Acquisition related contingent consideration ¹⁰	3.4	3.7	(0.3)	(8.1) %
Transaction costs ¹¹	2.1	0.9	1.2	133.3 %
Adjusted EBITDA	78.3	51.5	26.8	52.0 %
Income tax expense (recovery)	9.5	(4.7)	14.2	(302.1) %
Finance costs	3.1	3.4	(0.3)	(8.8) %
Depreciation and amortization expenses	23.0	27.6	(4.6)	(16.7) %
Tax effect of adjustments ¹²	4.0	10.6	(6.6)	(62.3) %
Adjusted Net Income	38.7	14.6	24.1	165.1 %
Cash provided by operations	230.1	138.2	91.9	66.5 %
Cash used in investing activities	(19.6)	(19.3)	(0.3)	1.6 %
Add:				
Cash used for business acquisitions and investment in limited partnership and minority interests, net of investment distribution income	0.8	4.8	(4.0)	(83.3) %
Free Cash Flow	211.3	123.7	87.6	70.8 %

¹ Restructuring expense primarily relates to changes in personnel.

² 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.

³ Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the Company's initial public offering, share option expense and long-term incentive plan.

⁴ Impairment of goodwill associated with assets held for sale and one other CGU.

⁵ Impairment of property plant and equipment related to machinery.

⁶ Impairment of intangible assets related to entertainment content and app development.

⁷ Legal settlement in the fourth quarter of 2020.

⁸ Deferred incentive compensation associated with acquisitions.

⁹ Net unrealized loss related to investment in limited partnership.

¹⁰ Remuneration expense associated with contingent consideration for acquisitions.

¹¹ Professional fees incurred relating to acquisitions and other transactions.

¹² Tax effect of adjustments (Footnotes 2-11). Adjustments are tax effected at the effective tax rate of the given period.

The following table presents a reconciliation of net income to EBITDA¹, Adjusted EBITDA¹ and Adjusted Net Income¹, and cash from operating activities to Free Cash Flow¹ for the year ended December 31, 2021 and 2020:

	Year Ended Dec 31			
(in US\$ millions, except percentages)	2021	2020	\$ Change	% Change
Net income	198.6	45.5	153.1	336.5 %
Income tax expense (recovery)	63.4	(36.1)	99.5	(275.6) %

Finance costs	10.2	12.1	(1.9)	(15.7) %
Depreciation and amortization expenses	111.9	103.0	8.9	8.6 %
EBITDA	384.1	124.5	259.6	208.5 %
Adjustments:				
Restructuring expense ¹	2.5	5.3	(2.8)	(52.8) %
Foreign exchange (gain) loss ²	(2.9)	27.6	(30.5)	(110.5) %
Share based compensation ³	15.3	12.2	3.1	25.4 %
Impairment of goodwill ⁴	1.9	—	1.9	n.m.
Impairment of property, plant and equipment ⁵	—	0.5	(0.5)	n.m.
Impairment of intangible assets ⁶	2.6	0.4	2.2	n.m.
Legal settlement ⁷	—	5.5	(5.5)	n.m.
Acquisition related deferred incentive compensation ⁸	6.8	—	6.8	n.m.
Net unrealized gain on investment ⁹	(0.9)	—	(0.9)	n.m.
Investment distribution income ¹⁰	(0.6)	—	(0.6)	n.m.
Acquisition related contingent consideration ¹¹	2.7	3.7	(1.0)	(27.0) %
Transaction costs ¹²	2.8	0.9	1.9	n.m.
Gain on disposal of asset ¹³	(0.2)	—	(0.2)	n.m.
Adjusted EBITDA	414.1	180.6	233.5	129.3 %
Distribution revenue related to <i>PAW Patrol: The Movie</i>	(26.0)	—	(26.0)	n.m.
Adjusted EBITDA, excluding <i>PAW Patrol: The Movie</i> Distribution Revenue	388.1	180.6	207.5	114.9 %
Distribution revenue related to <i>PAW Patrol: The Movie</i>	(26.0)	—	(26.0)	n.m.
Income tax expense (recovery)	63.4	(36.1)	99.5	(275.6) %
Finance costs	10.2	12.1	(1.9)	(15.7) %
Depreciation and amortization expenses	111.9	103.0	8.9	8.6 %
One-time income tax recovery ¹⁴	—	33.3	(33.3)	n.m.
Tax effect of adjustments ¹⁵	7.3	14.9	(7.6)	(51.0) %
Adjusted Net Income	221.3	53.4	167.9	314.4 %
Cash provided by operating activities	419.1	310.8	108.3	34.8 %
Cash used in investing activities	(153.2)	(84.9)	(68.3)	80.4 %
Add:				
Cash used for business acquisitions, investment in limited partnership and minority interests and trademark license agreement, net of investment distribution income	73.7	6.2	67.5	n.m.
Free Cash Flow	339.6	232.1	107.5	46.3 %

The following table presents a reconciliation of Revenue to Revenue, excluding *PAW Patrol: The Movie* Distribution Revenue for the year ended December 31, 2021 and 2020:

¹ Restructuring expense primarily relates to changes in personnel. Restructuring expense in the prior year includes costs related to changes in senior leadership.

² 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.

³ Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the Company's initial public offering, share option expense and long-term incentive plan.

⁴ Impairment of goodwill associated with assets held for sale and one other CGU.

⁵ Impairment of property plant and equipment related to machinery.

⁶ Impairment of intangible assets related to entertainment content and app development.

⁷ Legal settlement in the fourth quarter of 2020.

⁸ Deferred incentive compensation associated with acquisitions.

⁹ Net unrealized gain related to investment in limited partnership.

¹⁰ Distribution income related to investment in limited partnership.

¹¹ Remuneration expense associated with contingent consideration for acquisitions.

¹² Professional fees incurred relating to acquisitions and other transactions.

¹³ Gain on disposal of intangible asset.

¹⁴ One-time income tax recovery relates to internal transfer of intangible property of \$33.3 million.

¹⁵ Tax effect of adjustments (Footnotes 1-13). Adjustments are tax effected at the effective tax rate of the given period.

	Year Ended Dec 31	
(US\$ millions)	2021	2020
Revenue	\$ 2,042.4	\$ 1,570.6
Distribution revenue related to <i>PAW Patrol: The Movie</i>	(26.0)	—
Revenue, excluding <i>PAW Patrol: The Movie</i> Distribution Revenue	\$ 2,016.4	\$ 1,570.6

The following tables present reconciliations of Revenue to Constant Currency Gross Product Sales and Revenue to Constant Currency Revenue for the three months and years ended December 31, 2021, and 2020:

	Year Ended Dec 31			
(US\$ millions)	Q4 2021		Q4 2020	
Constant Currency Gross Product Sales	\$ 629.0	\$ 507.5	\$ 1,950.1	\$ 1,620.7
Impact of foreign exchange	(1.5)	4.3	12.3	3.0
Gross Product Sales	\$ 627.5	\$ 511.8	\$ 1,962.4	\$ 1,623.7
Sales Allowances	(85.5)	(77.5)	(230.6)	(208.1)
Toy revenue	\$ 542.0	\$ 434.3	\$ 1,731.8	\$ 1,415.6
Entertainment and Licensing revenue	28.5	24.5	135.8	78.2
Digital Games revenue ⁵	50.0	31.8	174.8	76.8
Other revenue	\$ 78.5	\$ 56.3	\$ 310.6	\$ 155.0
Revenue	\$ 620.5	\$ 490.6	\$ 2,042.4	\$ 1,570.6

	Year Ended Dec 31			
(US\$ millions)	Q4 2021		Q4 2020	
Constant Currency Revenue	\$ 622.1	\$ 484.7	\$ 2,025.2	\$ 1,565.4
Impact of foreign exchange	(1.6)	5.9	17.2	5.2
Revenue	\$ 620.5	\$ 490.6	\$ 2,042.4	\$ 1,570.6

The following tables present the composition of Percentage change in Constant Currency Gross Product Sales and Percentage change in Constant Currency Revenue for the three months and years ended December 31, 2021:

	Q4 2021		\$ Change			% Change	
(US\$ millions)	2021	2020	As reported	Impact of foreign exchange	In Constant Currency	As reported	In Constant Currency
Gross Product Sales	\$ 627.5	\$ 511.8	\$ 115.7	\$ 1.5	\$ 117.2	22.6%	22.9%
Revenue	\$ 620.5	\$ 490.6	\$ 129.9	\$ 1.6	\$ 131.5	26.5%	26.8%

	Year Ended Dec 31		\$ Change			% Change	
(US\$ millions)	2021	2020	As reported	Impact of foreign exchange	In Constant Currency	As reported	In Constant Currency
Gross Product Sales	\$ 1,962.4	\$ 1,623.7	\$ 338.7	\$ (12.3)	\$ 326.4	20.9%	20.1%
Revenue	\$ 2,042.4	\$ 1,570.6	\$ 471.8	\$ (17.2)	\$ 454.6	30.0%	28.9%

Revenue by Geographical Segment

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the three months and years ended December 31, 2021 and 2020:

	Three Months Ended Dec 31					
(US\$ millions)	2021	% of GPS	2020	% of GPS	\$ Change	% Change

North America	361.8	57.6 %	272.4	53.2 %	89.4	32.8 %
Europe	187.5	29.9 %	168.0	32.8 %	19.5	11.6 %
Rest of World	78.2	12.5 %	71.4	14.0 %	6.8	9.5 %
International	265.7	42.4 %	239.4	46.8 %	26.3	11.0 %
Gross Product Sales	627.5	100.0%	511.8	100.0%	115.7	22.6 %
Sales Allowances	(85.5)	(13.6)%	(77.5)	(15.1)%	(8.0)	10.3 %
Toy revenue	542.0		434.3		107.7	24.8 %

	Year Ended Dec 31					
(US\$ millions)	2021	% of GPS	2020	% of GPS	\$ Change	% Change
North America	1,197.3	61.0 %	983.4	60.6 %	213.9	21.8 %
Europe	530.7	27.0 %	451.0	27.8 %	79.7	17.7 %
Rest of World	234.4	12.0 %	189.3	11.7 %	45.1	23.8 %
International	765.1	39.0 %	640.3	39.5 %	124.8	19.5 %
Gross Product Sales¹	1,962.4	100.0 %	1,623.7	100.1 %	338.7	20.9 %
Sales Allowances ¹	(230.6)	(11.8)%	(208.1)	(12.8)%	(22.5)	10.8 %
Toy revenue	1,731.8		1,415.6		316.2	22.3 %

Addendum

Effective January 1, 2021, Spin Master has simplified its product categories to align with the Company's product offerings going forward. The following table presents 2020 Gross Product Sales¹ in the same format that the Company will be presenting Gross Product Sales¹ in 2021:

Gross Product Sales ¹ by Product Category						
(US\$ millions)	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Total	
Preschool and Dolls & Interactive ²	\$ 73.1	\$ 93.5	\$ 242.7	\$ 200.2	\$	609.5
Activities, Games & Puzzles and Plush	80.1	99.8	181.0	173.9		534.8
Wheels & Action ²	60.7	54.1	151.4	122.1		388.3
Outdoor	28.4	34.8	12.3	15.6		91.1
Gross Product Sales¹	\$ 242.3	\$ 282.2	\$ 587.4	\$ 511.8	\$	1,623.7

¹ Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

² Beginning in the fourth quarter of 2021, the product category previously named "Preschool and Girls" has been changed to "Preschool and Dolls & Interactive" and the product category previously named "Boys" has been changed to "Wheels & Action". No other changes to these product categories were made.

SOURCE Spin Master Corp.

For further information: Sophia Bisoukis, Vice President, Investor Relations, sophiab@spinmaster.com

<https://spinmaster.mediaroom.com/2022-02-28-Spin-Master-Reports-Q4-and-Full-Year-2021-Financial-Results-Delivering-Record-Revenue-and-Profitability>