

Spin Master Reports Q1 2023 Financial Results

TORONTO, May 3, 2023 /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 ended March 31, 2023. The Company's full Management's Discussion and Analysis ("MD&A") for the three months ended March 31, 2023 is available under the Company's profile on SEDAR (www.sedar.com) and posted on the Company's web site at www.spinmaster.com. All financial information is presented in United States dollars ("\$", "dollars" and "US\$") and has been rounded to the nearest hundred thousand, except per share amounts and where otherwise indicated.

"Our first quarter performance was ahead of expectations and reflects encouraging entertainment and digital games performance. We saw continued pressure from excess toy inventory at retail and retailer caution, alongside the return of historical seasonality for Toy Gross Product Sales," said Max Rangel, Spin Master's Global President & CEO. "As we continue to navigate the fluid environment, we remain confident in our strategy to reimagine everyday play, leveraging the power of our three creative centres to capture market share, deliver profitable growth and create long-term shareholder value. In 2023, we will bring breakthrough innovation to the toy aisle, alongside impressive launches within our core and licensed brand portfolios. Our investment in the creation of multi-platform content will be fully realized with the release of our most diverse entertainment slate to date, including the highly anticipated second PAW Patrol theatrical release and two new original series, which are expected to drive new licensing and merchandising opportunities. Finally, we will continue to expand our digital games ecosystem with several new digital games and gaming experiences designed to broaden our audience base, attracting kids of all ages and spawning new fans and player communities. Given our financial framework for value creation, the power of our three creative centres and our strong financial position, we are well-positioned to execute against our strategy, investing in innovation, geographic expansion and acquisitions to drive long-term profitable growth and maximize shareholder value."

"As expected, Toy Gross Product Sales in the first quarter of 2023 declined in comparison to 2022, amidst inventory clearance activities at retail arising from the carryover of inventory from Q4 2022 and challenging comps from movie-related launches in Q1 2022," said Mark Segal, Spin Master's Chief Financial Officer. "We expect retail inventory headwinds to be over by the end of the second quarter. An anticipated shift back to more normal toy seasonal revenue patterns supports our expectation of strong year-over-year revenue growth in the second half of 2023. Our financial discipline and effective cost management, and solid entertainment and digital games performance, enabled us to generate strong Adjusted EBITDA of over \$30 million for the quarter. Over the last five years our three creative centres have generated close to a billion dollars in Free Cash Flow, enabling us to execute on multiple strategic M&A transactions, innovative IP-driven growth, geographic expansion and investment in content and digital games, as well as enhancing total shareholder returns through the introduction of a dividend and a share repurchase program."

Consolidated Financial Highlights for Q1 2023 as compared to the same period in 2022

- Revenue was \$271.4 million, a decrease of 36.0% from \$424.2 million. Constant Currency Revenue¹ was \$275.6 million, a decrease of 35.0%, from \$424.2 million.
- Revenue declined by 46.9% in Toys and 7.0% in Digital Games, partially offset by a 69.4% increase in Entertainment.
- Operating Loss was \$6.1 million compared to Operating Income of \$61.7 million.
- Operating Margin¹ was (2.2)% compared to 14.5%.
- Adjusted Operating Income¹ was \$12.7 million compared to \$77.3 million.
- Adjusted Operating Margin¹ was 4.7% compared to 18.2%.
- Adjusted EBITDA¹ was \$30.6 million compared to \$95.7 million.
- Adjusted EBITDA Margin¹ was 11.3% compared to 22.6%.
- Cash used in operating activities was \$4.3 million compared to \$62.9 million.
- Free Cash Flow¹ was \$(34.4) million compared to \$(79.4) million.
- The Company repurchased and cancelled 241,500 subordinate voting shares during the quarter, through the Company's normal course issuer bid ("NCIB") program, for proceeds of \$6.3 million. Subsequent to March 31, 2023, the Company repurchased 156,200 subordinate voting shares for cancellation at a cost of \$4.2 million.
- On January 17, the Company acquired certain assets of 4D Brands International Inc. for total purchase consideration of \$20.2 million. On February 2, the Company acquired the *HEXBUG* brand of toys from Innovation First International, Inc., for total purchase consideration of \$15.5 million. The acquisitions are reported in the Activities, Games & Puzzles and Plush and Wheels & Action product categories within the Toys operating segment, respectively.
- Subsequent to the quarter end, the Company acquired certain intellectual property of Mondrian Blocks, a Hungarian company, for total purchase consideration of \$3.0 million. The acquisition is expected to complement the Company's existing Games & Puzzles offering.
- Subsequent to March 31, 2023, the Company declared a quarterly dividend of 0.06 CAD per outstanding subordinate voting share and multiple voting share in respect of the second quarter of 2023, payable July 14, 2023.

Consolidated Financial Results as compared to the same period in 2022

(US\$ millions, except per share information)					
	Q1 2023	Q1 2022	\$ Change	% Change	
Consolidated Results					
Revenue	\$ 271.4	\$ 424.2	\$ (152.8)	(36.0) %	
Constant Currency Revenue ¹	\$ 275.6		\$ (148.6)	(35.0) %	
Operating (Loss) Income	\$ (6.1)	\$ 61.7	\$ (67.8)	(109.9) %	
Operating Margin	(2.2) %	14.5 %		(16.7) %	
Adjusted Operating Income ^{1,2}	\$ 12.7	\$ 77.3	\$ (64.6)	(83.6) %	
Adjusted Operating Margin ¹	4.7 %	18.2 %		(13.5) %	
Net (Loss) Income	\$ (1.9)	\$ 45.6	\$ (47.5)	(104.2) %	
Adjusted Net Income ^{1,2}	\$ 12.3	\$ 57.5	\$ (45.2)	(78.6) %	
Adjusted EBITDA ^{1,2}	\$ 30.6	\$ 95.7	\$ (65.1)	(68.0) %	
Adjusted EBITDA Margin ¹	11.3 %	22.6 %		(11.3) %	
Earnings Per Share ("EPS")					
Basic EPS	\$ (0.02)	\$ 0.45			
Diluted EPS	\$ (0.02)	\$ 0.43			
Adjusted Basic EPS ¹	\$ 0.12	\$ 0.56			
Adjusted Diluted EPS ¹	\$ 0.12	\$ 0.55			
Weighted average number of shares (in millions)					
Basic	103.0	102.4			
Diluted	106.6	105.5			
Selected Cash Flow Data					
Cash used in operating activities	\$ (4.3)	\$ (62.9)	\$ 58.6	(93.2) %	
Cash used in investing activities	\$ (56.6)	\$ (8.3)	\$ (48.3)	581.9 %	
Free Cash Flow ¹	\$ (34.4)	\$ (79.4)	\$ 45.0	(56.7) %	

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

² Adjustments for the three months ended March 31, 2023 include Foreign exchange loss of \$4.3 million (2022 - loss of \$9.6 million), comprised of an unrealized loss of \$0.6 million and realized loss of \$3.7 million, Share based compensation of \$5.4 million (2022 - \$4.1 million), Restructuring and other related costs of \$3.8 million (2022 - \$0.6 million), Acquisition related deferred incentive compensation of \$2.1 million (2022 - \$2.7 million), and Transaction costs of \$0.6 million (2022 - 0.1 million). Refer to the "Reconciliation of Non-GAAP Financial Measures" section for further details.

Segmented Financial Results as compared to the same period in 2022

(US\$ millions)	Q1 2023					Q1 2022				
	Toys	Entertainment	Digital Games	Corporate & Other ¹	Total	Toys	Entertainment	Digital Games	Corporate & Other ¹	Total
Revenue	\$ 186.3	\$ 37.6	\$ 47.5	\$ —	\$ 271.4	\$ 350.9	\$ 22.2	\$ 51.1	\$ —	\$ 424.2
Operating (Loss) Income	\$ (41.8)	\$ 29.3	\$ 16.2	\$ (9.8)	\$ (6.1)	\$ 41.4	\$ 11.2	\$ 19.8	\$ (10.7)	\$ 61.7
Adjusted (Loss) Operating Income²	\$ (33.4)	\$ 29.9	\$ 19.0	\$ (2.8)	\$ 12.7	\$ 46.4	\$ 11.4	\$ 21.6	\$ (2.1)	\$ 77.3
Adjusted EBITDA²	\$ (21.4)	\$ 33.6	\$ 21.0	\$ (2.6)	\$ 30.6	\$ 58.9	\$ 15.8	\$ 23.1	\$ (2.1)	\$ 95.7

¹ Corporate & Other includes certain corporate costs, foreign exchange and merger and acquisition-related costs, as well as fair value gains and losses and distribution income on Investment in a limited partnership.

² Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Toys Segment Results

The following table provides a summary of Toys segment operating results, for the three months ended March 31, 2023 and 2022:

(US\$ millions)	Q1 2023	Q1 2022	\$ Change	% Change
Preschool and Dolls & Interactive Activities, Games & Puzzles and Plush	\$ 84.0	\$ 151.8	\$ (67.8)	(44.7) %
Wheels & Action	\$ 61.1	\$ 101.9	\$ (40.8)	(40.0) %
Outdoor	\$ 43.8	\$ 99.7	\$ (55.9)	(56.1) %
	\$ 27.4	\$ 44.1	\$ (16.7)	(37.9) %
Toy Gross Product Sales¹	\$ 216.3	\$ 397.5	\$ (181.2)	(45.6) %
<i>Constant Currency Toy Gross Product Sales¹</i>	<i>\$ 219.7</i>		<i>\$ (177.8)</i>	<i>(44.7) %</i>
Sales Allowances ²	\$ (30.0)	\$ (46.6)	\$ 16.6	(35.6) %
<i>Sales Allowances % of GPS</i>	<i>13.9 %</i>	<i>11.7 %</i>		2.2 %
Toy revenue	\$ 186.3	\$ 350.9	\$ (164.6)	(46.9) %
Operating (Loss) Income	\$ (41.8)	\$ 41.4	\$ (83.2)	(201.0) %
Operating Margin³	(22.4) %	11.8 %		(34.2) %
Adjusted EBITDA¹	\$ (21.4)	\$ 58.9	\$ (80.3)	(136.3) %
Adjusted EBITDA Margin¹	(11.5) %	16.8 %		(28.3) %

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

² The Company enters into arrangements to provide sales allowances requested by customers relating to cooperative advertising, contractual and negotiated discounts, volume rebates, markdowns, and costs incurred by customers to sell the Company's products.

³ Operating Margin is calculated as segment Operating (Loss) Income divided by segment Revenue.

- Toy revenue decreased by \$164.6 million or 46.9% to \$186.3 million primarily driven by a decrease in Toy Gross Product Sales¹.
- Toy Gross Product Sales¹ declined by \$181.2 million or 45.6%, to \$216.3 million from \$397.5 million. Constant Currency Toy Gross Product Sales¹ declined by \$177.8 million or 44.7% to \$219.7 million, down from \$397.5 million.
- The decline in Toy Gross Product Sales¹ was a result of lower order volume, as customers focused on reducing their retail inventory levels carried forward from 2022. In comparison, Toy Gross Product Sales¹ in Q1 2022 were supported by customers ordering earlier in the year and sales related to the launch of the *DC Comics Batman* movie and *PAW Patrol: The Movie*.
- Sales Allowances decreased by \$16.6 million or 35.6% to \$30.0 million. As a percentage of Toy Gross Product Sales¹, Sales Allowances increased by 2.2% to 13.9% from 11.7%, primarily driven by geographic and customer mix.
- Operating Loss was \$41.8 million compared to Operating Income of \$41.4 million representing a variance of \$83.2 million.
- Operating Margin was (22.4)% compared to 11.8%. The decline was due to lower Toy revenue relative to selling, general & administrative expenses and depreciation and amortization.
- Adjusted EBITDA Margin¹ was (11.5)% compared to 16.8%. Adjusted EBITDA Margin¹ declined primarily as a result of lower Operating Margin.

Entertainment Segment Results

The following table provides a summary of Entertainment segment operating results, for the three months ended March 31, 2023 and 2022:

(US\$ millions)	Q1 2023	Q1 2022	\$ Change	% Change
Entertainment revenue	\$ 37.6	\$ 22.2	\$ 15.4	69.4 %
Operating Income	\$ 29.3	\$ 11.2	\$ 18.1	161.6 %
Operating Margin	77.9 %	50.5 %		27.4 %
Adjusted Operating Income ¹	\$ 29.9	\$ 11.4	\$ 18.5	162.3 %
Adjusted Operating Margin ¹	79.5 %	51.4 %		28.1 %

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

- Entertainment revenue increased by \$15.4 million or 69.4% to \$37.6 million, driven by higher distribution revenue and licensing and merchandising revenue primarily related to *PAW Patrol* and the newly launched *Rubble & Crew*. Constant Currency Entertainment Revenue¹ increased by \$15.4 million or 69.4% to \$37.6 million, from \$22.2 million.
- Operating Margin was 77.9% compared to 50.5%.
- Adjusted Operating Margin¹ was 79.5% compared to 51.4%.
- Operating Margin and Adjusted Operating Margin¹ increased primarily due to higher distribution revenue and licensing and merchandising revenue as well as lower costs due to fewer content deliveries in the current year.

Digital Games Segment Results

The following table provides a summary of Digital Games segment operating results, for the three months ended March 31, 2023 and 2022:

(US\$ millions)	Q1 2023	Q1 2022	\$ Change	% Change
Digital Games revenue	\$ 47.5	\$ 51.1	\$ (3.6)	(7.0) %
Operating Income	\$ 16.2	\$ 19.8	\$ (3.6)	(18.2) %
Operating Margin	34.1 %	38.7 %		(4.6) %
Adjusted Operating Income ¹	\$ 19.0	\$ 21.6	\$ (2.6)	(12.0) %

Adjusted Operating Margin¹ 40.0% 42.3% 42.3%
Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

- Digital Games revenue decreased by \$3.6 million or 7.0% to \$47.5 million primarily due to lower in-app revenue in *Toca Life World*. Constant Currency Digital Games Revenue¹ decreased by \$1.9 million or 3.7% to \$49.2 million, down from \$51.1 million.
- Operating Margin was 34.1% compared to 38.7%. Operating Margin decreased due to higher development costs related to the investment in future digital games. Adjusted Operating Margin¹ was 40.0% compared to 42.3%. Adjusted Operating Margin¹ decreased due to a decrease in Operating Margin partially offset by higher acquisition related deferred incentive compensation.

Liquidity and Capitalization

As at March 31, 2023, the Company had unutilized liquidity of \$1,079.3 million, comprised of \$569.3 million in Cash and cash equivalents and \$510.0 million under the Company's credit facilities.

On March 10, 2023, the Company entered into an automatic share repurchase plan with its designated broker to effect the purchase of subordinate voting shares under the NCIB. The Company repurchased and cancelled 241,500 subordinate voting shares during the quarter for proceeds of \$6.3 million.

Subsequent to the quarter, the Company repurchased 156,200 subordinate voting shares for cancellation at a cost of \$4.2 million.

The weighted average basic and diluted shares outstanding as at March 31, 2023 were 103.0 million and 106.6 million, compared to 102.4 million and 105.5 million in the prior year.

The Company's Board of Directors declared a dividend of C\$0.06 per outstanding subordinate voting share and multiple voting share, payable on July 14, 2023 to shareholders of record at the close of business on June 30, 2023. The dividend is designated to be an eligible dividend for purposes of section 89(1) of the *Income Tax Act* (Canada).

Outlook

The Company continues to expect 2023 Toy Gross Product Sales¹ to be flat to slightly down compared to 2022.

The Company continues to expect 2023 Toy Gross Product Sales¹ seasonality to return to historical averages of 30%-35% in the first half of the year.

The Company continues to expect 2023 Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue¹ to be in line with 2022.

The Company continues to expect 2023 Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue¹ to be flat to slightly up compared to 2022.

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

² Operating Margin is calculated as Operating (Loss) Income divided by Revenue.

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 2023; future growth expectations in 2023 and beyond; the Company's dividend policy; drivers and trends for such growth and financial performance; the successful execution of its strategies for growth; the integration of and benefits from acquisitions; content and product pipeline and their impacts; financial position, cash flows, purchases under the NCIB, 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: the Company's dividend payments being subject to the discretion of the Board of Directors and dependent on a variety of factors and conditions existing from time to time; seasonality; 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, and the factors discussed in the Company's disclosure materials, including the Annual or subsequent, most recent interim 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.

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 Thursday, May 4, 2023 at 9:30 a.m. (ET).

The call-in numbers for participants are (647) 794-4605 or (877) 502-9276. 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 for 12 months.

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.

Spin Master Corp.
Condensed consolidated interim statements of financial position

(Unaudited, in US\$ millions)	Mar 31, 2023	Dec 31, 2022
Assets		
Current assets		
Cash and cash equivalents	569.3	644.3
Trade receivables, net	177.5	311.0
Other receivables	56.2	49.5
Inventories, net	109.6	105.1
Income tax receivable	10.4	—
Prepaid expenses and other assets	31.3	22.3
	954.3	1,132.2
Non-current assets ¹		
Intangible assets ¹	308.9	279.8
Goodwill	194.6	179.0
Right-of-use assets	60.3	62.9
Property, plant and equipment	35.2	36.0
Deferred income tax assets	95.0	94.7
Other assets	20.8	20.5
	714.8	672.9
Total assets¹	1,669.1	1,805.1
Liabilities		
Current liabilities ¹		
Trade payables and accrued liabilities	241.8	339.4
Deferred revenue	14.3	11.5
Provisions	25.8	30.7
Income tax payable ¹	—	29.7
Lease liabilities	15.9	16.3
	297.8	427.6
Non-current liabilities		
Provisions	23.8	15.1
Deferred income tax liabilities	55.6	55.7
Lease liabilities	52.8	54.9
	132.2	125.7
Total liabilities¹	430.0	553.3
Shareholders' equity		
Share capital	782.7	754.7
Retained earnings ¹	460.1	477.4
Contributed surplus	14.7	40.7
Accumulated other comprehensive loss	(18.4)	(21.0)
Total shareholders' equity¹	1,239.1	1,251.8
Total liabilities and shareholders' equity¹	1,669.1	1,805.1

¹ December 31, 2022 restated for the change in accounting policy.

Spin Master Corp.
Condensed consolidated interim statements of earnings and comprehensive income

(Unaudited, in US\$ millions, except earnings per share)	Q1 2023	Q1 2022
Revenue	271.4	424.2
Cost of sales	112.9	186.9
Gross profit	158.5	237.3
Expenses		
Selling, general and administrative	149.3	158.6
Depreciation and amortization	6.6	7.9
Other expense (income), net	4.4	(0.5)
Foreign exchange loss	4.3	9.6
Operating (Loss) Income	(6.1)	61.7
Interest income	(6.7)	(0.4)
Interest expense	3.1	2.3
(Loss) Income before income tax (recovery) expense	(2.5)	59.8
Income tax (recovery) expense	(0.6)	14.2
Net (Loss) Income	(1.9)	45.6
Earnings per share		
Basic	(0.02)	0.45
Diluted	(0.02)	0.43
Weighted average number of shares (in millions)		
Basic	103.0	102.4
Diluted	106.6	105.5

(Unaudited, in US\$ millions)	Q1 2023	Q1 2022
Net (Loss) Income	(1.9)	45.6
Items that may be subsequently reclassified to Net Income		
Foreign currency translation gain	2.6	5.3
Other comprehensive income	2.6	5.3
Total comprehensive income	0.7	50.9

Spin Master Corp.
Condensed consolidated interim statements of cash flows

(Unaudited, in US\$ millions)	Three Months Ended Mar 31,	
	2023	2022
Operating activities		
Net (Loss) Income	(1.9)	45.6
Adjustments to reconcile Net (Loss) Income to cash used in operating activities		
Income tax (recovery) expense	(0.6)	14.2
Interest income	(6.7)	(0.4)
Depreciation and amortization	17.9	18.4
Loss on disposal of non-current assets	0.4	0.5
Accretion expense	1.3	1.2
Amortization of Facility fee costs	0.1	0.1
Impairment of non-current assets	2.4	—
Unrealized foreign exchange loss	0.6	10.4
Share-based compensation expense	4.8	4.1
Net changes in non-cash working capital	5.4	(131.8)
Net change in provisions and other assets	4.5	2.2
Income taxes paid	(39.2)	(28.0)
Income taxes received	—	0.1
Interest received	6.7	0.5
Cash used in operating activities	(4.3)	(62.9)
Investing activities		
Investment in property, plant and equipment	(6.7)	(6.7)
Investment in intangible assets	(23.4)	(9.8)
Business acquisitions, net of cash acquired	(26.5)	—
Minority interest and other investments	—	(1.0)
Proceeds from sale of manufacturing operations	—	9.2
Cash used in investing activities	(56.6)	(8.3)
Financing activities		
Payment of lease liabilities	(3.9)	(3.9)
Dividends paid	(4.6)	—
Repurchase of shares	(6.3)	—
Cash used in financing activities	(14.8)	(3.9)
Effect of foreign currency exchange rate changes on cash and cash equivalents	0.7	5.5
Net decrease in cash and cash equivalents during the period	(75.0)	(69.6)
Cash and cash equivalents, beginning of period	644.3	562.7
Cash and cash equivalents, end of period	569.3	493.1

Non-GAAP Financial Measures and Ratios

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

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

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:

- Percentage change in Constant Currency Toy Gross Product Sales
- Percentage change in Constant Currency Digital Games Revenue
- Percentage change in Constant Currency Entertainment Revenue
- Percentage change in Constant Currency Revenue
- Adjusted EBITDA Margin
- Adjusted Operating Margin
- Adjusted Basic EPS
- Adjusted Diluted EPS
- Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue

Non-GAAP financial ratios are ratios or percentages that are calculated using a Non-GAAP financial measure. 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

Toy Gross Product Sales represent Toy revenues, excluding the impact of Sales Allowances. As Sales Allowances are generally not associated with individual products, the Company uses Toy Gross Product Sales to provide meaningful comparisons across product category and geographical results to highlight trends in Spin Master's business. For a reconciliation of Toy Gross Product Sales to Revenue, the closest IFRS measure, refer to the revenue tables for the three and three months ended March 31, 2023, as compared to the same period in 2022 in this Press Release.

Constant Currency Toy Gross Product Sales, Constant Currency Sales Allowances, Constant Currency Toy Revenue, Constant Currency Entertainment Revenue, Constant Currency Digital Games Revenue, and Constant Currency Revenue represent Toy Gross Product Sales, Sales Allowance, Toy revenue, Entertainment revenue, Digital Games revenue, 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 Toy Gross Product Sales, Constant Currency Sales Allowances, Constant Currency Toy Revenue, Constant Currency Entertainment Revenue, Constant Currency Digital Games Revenue, 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.

Adjusted EBITDA is calculated as Net Income (Loss) before finance costs, income tax expense (recovery) and depreciation and amortization (EBITDA) excluding adjustments that do not necessarily reflect the Company's underlying financial performance. These adjustments include restructuring and other related costs, foreign exchange gains or losses, share based compensation expenses, acquisition related contingent consideration, impairment of intangible assets, impairment of goodwill, investment distribution income, loss on Minority interest and other investments, 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 Operating Income (Loss), the closest IFRS measure.

Adjusted Operating (Loss) Income is calculated as Operating (Loss) Income excluding adjustments (as defined in Adjusted EBITDA). Adjusted Operating (Loss) Income 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 Operating Income (Loss), 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. 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 Operating Income (Loss), 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 interest, and other investments, net of investment distribution income. Management uses the Free Cash Flow metric to analyze the cash flows being generated by the Company's business. In the third quarter of 2021, 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.

Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is calculated as revenue excluding distribution revenue related to *PAW Patrol: The Mighty Movie*. Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is used to measure the underlying financial performance of the business on a consistent basis over time.

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.

Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is calculated as Adjusted EBITDA excluding distribution revenue related to *PAW Patrol: The Mighty Movie*. 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.

Non-GAAP Financial Ratios

Sales Allowances as a percentage of Toy Gross Product Sales is calculated by dividing Sales Allowances by Toy Gross Product Sales. Management uses Sales Allowance as a percentage of Toy 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 Toy Gross Product Sales is calculated by dividing the change in Toy Gross Product Sales excluding the impact from changes in foreign currency exchange rates by the Toy Gross Product Sales of the comparative period. Management uses Percentage change in Constant Currency Toy 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 Sales Allowances is calculated by dividing the change in Sales Allowances excluding the impact from changes in foreign currency exchange rates by the Sales Allowances of the comparative period. Management uses Percentage change in Constant Currency Sales Allowances 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 Toy Revenue is calculated by dividing the change in Toy Revenue excluding the impact from changes in foreign currency exchange rates by the Toy Revenue of the comparative period. Management uses Percentage change in Constant Currency Toy 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.

Percentage change in Constant Currency Entertainment Revenue is calculated by dividing the change in Entertainment revenue excluding the impact from changes in foreign currency exchange rates by the Entertainment revenue of the comparative period. Management uses Percentage change in Constant Currency Entertainment 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.

Percentage change in Constant Currency Digital Games Revenue is calculated by dividing the change in Digital Games revenue excluding the impact from changes in foreign currency exchange rates by the Digital Games revenue of the comparative period. Management uses Percentage change in Constant Currency Digital Games 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.

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 Operating Margin is calculated as Adjusted Operating Income (Loss) divided by Revenue. Management uses Adjusted Operating Margin to evaluate the Company's performance compared to internal targets and to benchmark its performance against key competitors.

Adjusted Basic EPS is calculated by dividing Adjusted Net Income by the weighted average number of shares outstanding during the period. 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 Basic EPS and 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, excluding *PAW Patrol: The Movie* Distribution 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 Operating (Loss) Income to Adjusted Operating Income, Adjusted EBITDA, Adjusted Net Income, and cash used in operating activities and investing activities to Free Cash Flow for the three months ended March 31, 2023 and 2022:

(in US\$ millions)	Q1 2023	Q1 2022	\$ Change	% Change
Operating (Loss) Income	(6.1)	61.7	(67.8)	(109.9) %
Adjustments:				
Share based compensation ¹	5.4	4.1	1.3	31.7 %
Foreign exchange loss ²	4.3	9.6	(5.3)	(55.2) %
Restructuring and other related costs ³	3.8	0.6	3.2	533.3 %
Acquisition related deferred incentive compensation ⁴	2.1	2.7	(0.6)	(22.2) %
Impairment of intangible assets ⁵	1.2	—	1.2	n.m.
Impairment of goodwill ⁶	1.0	—	1.0	n.m.
Transaction costs ⁷	0.6	0.1	0.5	500.0 %
Legal settlement expense (recovery) ⁸	0.2	(1.5)	1.7	(113.3) %
Impairment of property, plant and equipment ⁹	0.2	—	0.2	n.m.
Adjusted Operating Income	12.7	77.3	(64.6)	(83.6) %
Depreciation and amortization	17.9	18.4	(0.5)	(2.7) %
Adjusted EBITDA	30.6	95.7	(65.1)	(68.0) %
Income tax (recovery) expense	0.6	(14.2)	14.8	(104.2) %
Interest income (expense)	3.6	(1.9)	5.5	(289.5) %
Depreciation and amortization	(17.9)	(18.4)	0.5	(2.7) %
Tax effect of normalization adjustments ¹⁰	(4.6)	(3.7)	(0.9)	24.3 %
Adjusted Net Income	12.3	57.5	(45.2)	(78.6) %
Cash used in operating activities	(4.3)	(62.9)	58.6	(93.2) %
Cash used in investing activities	(56.6)	(8.3)	(48.3)	581.9 %
Add:				
Cash provided by business acquisitions and investment in limited partnership and Minority interest and other investments, net of investment distribution income	26.5	(8.2)	34.7	(423.2) %
Free Cash Flow	(34.4)	(79.4)	45.0	(56.7) %

¹ Related to non-cash expenses associated with the Company's share option expense and long-term incentive plan.

² Includes foreign exchange (gains) losses generated by the translation and settlement 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 Restructuring expense primarily relates to changes in personnel.

⁴ Deferred incentive compensation associated with acquisitions.

⁵ Impairment of intangible assets related to entertainment content.

⁶ Impairment of goodwill associated with one CGU.

⁷ Professional fees incurred relating to acquisitions and other transactions.

⁸ Legal settlement in the first quarter of 2023 and 2022.

⁹ Impairment of property plant and equipment related to tooling.

¹⁰ Tax effect of adjustments (Footnotes 1-9). Adjustments are tax effected at the effective tax rate of the given period.

The following tables present reconciliations of Revenue to Constant Currency Toy Gross Product Sales, Revenue to Constant Currency Digital Games revenue, Revenue to Constant Currency Entertainment Revenue, and Revenue to Constant Currency Revenue for the three months ended March 31, 2023, and 2022:

(US\$ millions)	Q1 2023	Q1 2022
Constant Currency Toy Gross Product Sales	219.7	402.6
Impact of foreign exchange	(3.4)	(5.1)
Toy Gross Product Sales	216.3	397.5
Constant Currency Sales Allowances	(30.9)	(48.0)
Impact of foreign exchange	0.9	1.4
Sales Allowances	(30.0)	(46.6)
Toy revenue	186.3	350.9
Constant Currency Entertainment revenue	37.6	22.4
Impact of foreign exchange	—	(0.2)
Entertainment revenue	37.6	22.2
Constant Currency Digital Games revenue	49.2	54.1
Impact of foreign exchange	(1.7)	(3.0)
Digital Games revenue	47.5	51.1
Constant Currency Revenue	275.6	431.1
Impact of foreign exchange	(4.2)	(6.9)
Revenue	271.4	424.2

The following tables present the composition of Percentage change in Constant Currency Toy Gross Product Sales, Percentage change in Constant Currency Digital Games Revenue, Percentage change in Constant Currency Entertainment Revenue, and Percentage change in Constant Currency Revenue for the three months ended March 31, 2023 and 2022:

	\$ Change		% Change	
	Impact of foreign	In Constant	As	In Constant

(US\$ millions)	Q1 2023	Q1 2022	As reported	exchange	Currency	reported	Currency
Toy Gross Product Sales	\$ 216.3	\$ 397.5	\$ (181.2)	\$ 3.4	\$ (177.8)	(45.6) %	(44.7) %
Sales Allowances	\$ (30.0)	\$ (46.6)	\$ 16.6	\$ (0.9)	\$ 15.7	(35.6) %	(33.7) %
Toy revenue	\$ 186.3	\$ 350.9	\$ (164.6)	\$ 2.5	\$ (162.1)	(46.9) %	(46.2) %
Entertainment revenue	\$ 37.6	\$ 22.2	\$ 15.4	\$ —	\$ 15.4	69.4 %	69.4 %
Digital Games revenue	\$ 47.5	\$ 51.1	\$ (3.6)	\$ 1.7	\$ (1.9)	(7.0) %	(3.7) %
Revenue	\$ 271.4	\$ 424.2	\$ (152.8)	\$ 4.2	\$ (148.6)	(36.0) %	(35.0) %

Segment Results

The Company's results from operations by reportable segment for the three months ended March 31, 2023 and 2022 are as follows:

(US\$ millions)	Q1 2023					Q1 2022				
	Toys	Entertainment	Digital Games	Corporate & Other	Total	Toys	Entertainment	Digital Games	Corporate & Other	Total
Revenue	186.3	37.6	47.5	—	271.4	350.9	22.2	51.1	—	424.2
Operating (Loss) Income	(41.8)	29.3	16.2	(9.8)	(6.1)	41.4	11.2	19.8	(10.7)	61.7
Restructuring and other related costs	3.1	0.1	0.6	—	3.8	0.5	—	0.1	—	0.6
Foreign exchange loss	—	—	—	4.3	4.3	—	—	—	9.6	9.6
Share based compensation	3.4	0.3	0.6	1.1	5.4	3.0	0.2	0.5	0.4	4.1
Impairment of goodwill	1.0	—	—	—	1.0	—	—	—	—	—
Impairment of property, plant and equipment	0.2	—	—	—	0.2	—	—	—	—	—
Impairment of intangible assets	—	0.2	0.2	0.8	1.2	—	—	—	—	—
Legal settlement expense (recovery)	—	—	—	0.2	0.2	—	—	—	(1.5)	(1.5)
Acquisition related deferred incentive compensation	0.7	—	1.4	—	2.1	1.5	—	1.2	—	2.7
Transaction costs	—	—	—	0.6	0.6	—	—	—	0.1	0.1
Adjusted Operating (Loss) Income	(33.4)	29.9	19.0	(2.8)	12.7	46.4	11.4	21.6	(2.1)	77.3
Adjusted Operating Margin	(17.9) %	79.5 %	40.0 %	n.m.	4.7 %	13.2 %	51.4 %	42.3 %	n.m.	18.2 %
Depreciation and amortization	12.0	3.7	2.0	0.2	17.9	12.5	4.4	1.5	—	18.4
Adjusted EBITDA	(21.4)	33.6	21.0	(2.6)	30.6	58.9	15.8	23.1	(2.1)	95.7
Adjusted EBITDA Margin	(11.5) %	89.4 %	44.2 %	n.m.	11.3 %	16.8 %	71.2 %	45.2 %	n.m.	22.6 %

SOURCE Spin Master Corp.

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

<https://spinmaster.mediaroom.com/2023-05-03-Spin-Master-Reports-Q1-2023-Financial-Results>