

Spin Master to Acquire Melissa & Doug, a Trusted Brand in Early Childhood Play for \$950 million

Acquisition is highly strategic and complementary, expands Spin Master's offering in toys for early childhood play, is a compelling use of balance sheet capacity and is immediately accretive to EPS

All references in US\$, unless otherwise noted

TORONTO, Oct. 11, 2023 /CNW/ - Spin Master Corp. ("Spin Master" or the "Company") (TSX: TOY), a leading children's entertainment company, today announced it has reached a definitive agreement to acquire U.S.-based Melissa & Doug, a well-recognized and trusted brand in early childhood play, for \$950 million in cash. The acquisition will bolster Spin Master's position as a leader in the children's entertainment industry and will bring complementary capabilities in early childhood toys by adding Melissa & Doug's high-quality offerings of open-ended, creative, and developmental wooden toys.

With a mission to ignite imagination and a sense of wonder in children, Melissa & Doug has developed into a beloved brand of high-quality, sustainable, and learning-enriched play that is sought after and trusted by parents and children alike. The addition of Melissa & Doug will strengthen Spin Master's offering by adding complementary early childhood products and further diversify its portfolio across new channels and formats.

"What excites us so much about Melissa & Doug is the power of their brand, their deep knowledge in developmental play and their passion for creativity, imagination and sustainability," said Max Rangel, Spin Master's Global President and CEO. "As a trusted brand of early childhood toys with an evergreen portfolio, Melissa & Doug will expand Spin Master's presence in new categories, providing immediate revenue growth, broader reach in all retail channels and market coverage. The addition of Melissa & Doug is highly complementary and connects with our strategic vision to reimagine everyday play, providing a compelling platform for long-term growth through innovation, while also meeting the changing demands of children and parents of the future."

"Throughout our 35-year history, Melissa & Doug has helped ignite children's imaginations by fostering open-ended, sustainable play," said Melissa & Doug President and CEO, Fernando Mercé. We are confident that by working together with Spin Master, we will be able to reach more families, inspire more imaginations and unlock greater growth potential."

"We have an incredible history of pursuing accretive acquisitions to propel our growth as a company and have become trusted stewards of many renowned and beloved children's brands," said Anton Rabie, Spin Master's Co-founder. "With this acquisition, we are committed to preserving the essence of what Melissa & Doug represents for families and are confident that our investment will enable us to accelerate growth and build upon our legacy as a leader in the children's entertainment industry now and into the future," added Ronnen Harary, Spin Master's Co-founder.

Strategic Benefits - Expands Spin Master's Offering in Children's Play and Entertainment

- Trusted brand of high-quality open-ended, creative, and developmental toys
- Highly relevant for modern parents seeking sustainable wooden toys and screen-free play
- Significant growth opportunities through innovation
- Bolsters preschool play presence in the earliest childhood years
- Recurring, evergreen product portfolio with diverse revenue base
- Expands reach in specialty retail and e-commerce channels with potential for growth in mass retail and international expansion.

Financial Benefits - Creates Opportunities for Accelerating Long-Term Profitable Growth

- Attractive brand portfolio of \$489 million in revenue¹ in 2022.
- \$950 million purchase price represents a transaction multiple of 10.5x 2022 Adjusted EBITDA², pre run-rate cost synergies, and 8.1x 2022 Adjusted EBITDA², including run rate cost synergies^{2:4}.
- Potential for run-rate cost synergies of approximately \$25 million - \$30 million, expected to be achieved by 2026.
- In 2024, immediately accretive to earnings per share ("EPS"), pre run-rate cost synergies. Mid-teens accretive to EPS, including run rate cost synergies⁴.
- Strategic deployment of balance sheet with projected Net Leverage³ below 1.0x Adjusted EBITDA² at closing, providing ongoing financial flexibility for strategic initiatives and potential future acquisitions.

Transaction Details

Spin Master plans to finance the \$950 million purchase price with approximately \$450 million balance sheet cash and \$500 million in debt financing. Additional contingent earnout consideration of up to \$150 million is subject to achieving certain

financial targets for 2024 and 2025. The earn out payments are scaled linearly to Melissa & Doug's gross profit outperformance compared to a target for each year. There will be no earnout payments if Melissa & Doug does not reach the target threshold. The earn out payments, if any, will be funded via cash generated from ongoing operations.

The Company remains committed to its quarterly dividend and opportunistic use of its Normal Course Issuer Bid. The transaction has been approved by the Boards of Directors of each of Spin Master and Melissa & Doug and is subject to the receipt of certain regulatory approvals and customary closing conditions. The acquisition is expected to close early in the first quarter of 2024.

Advisors

Evercore Group LLC, RBC Capital Markets and TD Securities are serving as financial advisors to Spin Master and Torkin Manes LLP and Pillsbury Winthrop Shaw Pittman LLP are serving as its legal counsel. Harris Williams & Co is serving as financial advisor to Melissa & Doug and Fried, Frank, Harris, Shriver & Jacobson LLP are serving as its legal counsel.

- (1) Estimated IFRS revenue based on 2022 Audited Financial Statements (US GAAP)
- (2) Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios"
- (3) Net Leverage is defined as consolidated Debt (debt financing from existing and incremental credit facilities) less Cash.
- (4) Mid-point of run rate synergies range

Investor Conference Call

Spin Master will conduct a conference call to discuss the information included in this news release and related matters on October 11, 2023 at 9:30 a.m. (ET). The call-in numbers for participants are (416) 764-8650 or 1 (888) 664-6383. 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. To access the accompanying presentation slides, please go to [www.spinmaster.com/investor relations](http://www.spinmaster.com/investor%20relations).

Spin Master will host its previously scheduled Third Quarter 2023 financial results conference call on November 2, 2023 at 9:30am (ET).

Investor Inquiries

Sophia Bisoukis, VP Investor Relations: sophiab@spinmaster.com

Press Conference

Spin Master will conduct a press conference to discuss the information included in this news release and related matters on October 11, 2023, at 11:00 a.m. (ET) at Spin Master head office (225 King St W #200, Toronto, ON M5V 3M2). Media are invited to attend in-person or attend virtually, register at: https://spinmaster.zoom.us/webinar/register/WN_6RP765lgRNKITJhAX0Fa7g#/registration.

Media Inquiries

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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.

About Melissa & Doug

Timeless Toys. Endless Possibilities.

From classic wooden toys to crafts and pretend play, [Melissa & Doug](#) products provide a launch pad to ignite imagination and a sense of wonder in all children so they can discover their passions and their purpose. Recognized by parents as a highly rated early childhood brand for wooden and sustainable toys, Melissa & Doug is committed to its vision of making timeless, sustainable toys for a thriving and inclusive world. Melissa & Doug is proudly partnering with the American Academy of Pediatrics to foster early brain development and to champion the health benefits of open-ended play through their joint [Power of](#)

Forward-Looking Information

Certain statements, other than statements of historical fact, contained in this press release, may 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 include, without limitation, statements with respect to: the acquisition of Melissa & Doug, including the terms, cost, expected sources of funding and timing for completion thereof, the strength, complementarity and compatibility of Melissa & Doug's business with the Company's existing business; the impact of the acquisition on the Company's position in the children's entertainment industry and preschool market, diversification of the Company's portfolio across new channels and formats, expansion into new categories and internationally, projected financial results of the Company and Melissa & Doug, including expected impact on EPS, net leverage to Adjusted EBITDA ratio, synergies (and timing thereof), revenues, leverage, balance sheet and free cash flow, the potential for future growth and innovation, further investments and/or subsequent acquisitions, future dividends and share buybacks.

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 or in respect of 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: applicable regulatory approvals and other customary closing conditions to the acquisition will be satisfied, and consummation of the transaction will occur in a timely manner; internal cash flow projections will be as expected in order to finance, in part, the acquisition with cash on hand; the Company will be able to incur further indebtedness as expected and on an economical basis to finance, in part, the acquisition; the Company will be able to successfully integrate the acquisition; the Company will be able to successfully expand its portfolio across new channels and formats, and internationally; achieve other expected benefits through this acquisition; management's estimates and expectations in relation to future economic and business conditions and other factors in relation to the proposed transaction and resulting impact on growth in various financial metrics; the realization of the expected strategic, financial and other benefits of the proposed transaction in the timeframe anticipated; the absence of significant undisclosed costs or liabilities associated with the proposed transaction; Melissa & Doug's business will perform in line with the industry; there are no material changes to Melissa & Doug's core customer base; implementation of certain information technology systems and other typical acquisition related cost savings; 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; the Company's key personnel will continue to be involved in the Company products and entertainment properties will be launched as scheduled; and the availability of cash for dividends and that the risk factors noted or referenced below, collectively, do not have a material impact on the Company.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond the control of the Company, could cause actual results to differ materially from the forward-looking information in this press release. Such risks and uncertainties include, without limitation, risks relating to the inability to successfully integrate the Melissa & Doug business upon completion of the proposed transaction; the possible delay or failure

to satisfy the conditions to the closing of the proposed transaction; the risk that the proposed transaction may not be completed in a timely manner, or at all; the potential failure to obtain the regulatory approvals in a timely manner, or at all; the Company's failure to obtain adequate funding for the acquisition on acceptable terms; the occurrence of any event, change or other circumstance that could give rise to the termination of the definitive agreement; the potential failure to realize anticipated benefits from the proposed transaction; concentration of manufacturing and geopolitical risks; uncertainty and adverse changes in general economic conditions and consumer spending habits; and the factors discussed in the Company's disclosure materials, including the annual or subsequent, most recent interim management's discussion and analysis 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.sedarplus.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. Financial outlook included in such forward-looking statements is provided for the purpose of providing investors with information about management's expectations and plans relating to the future, including the expected performance of the Company and Melissa & Doug and investors are cautioned that the information may not be appropriate for other purposes. 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.

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:

- Adjusted EBITDA
- Adjusted EBITDA, pre run rate cost synergies
- Adjusted EBITDA, including run rate cost synergies

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:

- Net Leverage to Adjusted EBITDA of the Company

Net Leverage is calculated as consolidated Debt (debt financing from existing and incremental credit facilities) less Cash.

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 and a framework for considering the valuation of Melissa & Doug. 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.

Reconciliation of Melissa & Doug's 2022 Operating Income (US GAAP) to Adjusted EBITDA (IFRS)

US\$ millions:

Operating income, per US GAAP	25.3
IFRS adjustments	2.2
Operating income, per IFRS	27.5
Depreciation and amortization	20.8
EBITDA	48.3
Normalization adjustments ¹	42.0
Adjusted EBITDA	90.3

(1) Normalization adjustments include certain costs that do not relate to the post-combination entity including freight costs in excess of normal operating costs, non-recurring expenses, stock compensation expense, severance and other payroll related costs that are not anticipated to be carried forward post-combination.

SOURCE Spin Master Corp.

<https://spinmaster.mediaroom.com/2023-10-11-Spin-Master-to-Acquire-Melissa-Doug,-a-Trusted-Brand-in-Early-Childhood-Play-for-950-million>