Spin Master Corp.

Management's Discussion and Analysis of Financial Results

For the three and nine months ended September 30, 2023

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November 1, 2023

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. and its subsidiaries ("Spin Master" or the "Company") provides information concerning the Company's financial condition, financial performance and cash flows for the three and nine months ended September 30, 2023 ("third quarter", "the quarter", "Q3"). This MD&A should be read in conjunction with the Company's unaudited Condensed consolidated interim financial statements for the three and nine months ended September 30, 2023 ("interim financial statements"), its audited annual Consolidated financial statements and accompanying notes ("annual financial statements") and its annual MD&A for the year ended December 31, 2022 ("Annual MD&A"). Additional information relating to the Company, including the Company's annual information form for the year ended December 31, 2022, can be found under the Company's profile on the System of Electronic Document Analysis and Retrieval (SEDAR+) at www.sedarplus.com.

Some of the statements in this MD&A contain forward-looking information that are based on assumptions and involve risks and uncertainties. See "Forward-Looking Statements". Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in "Risks Relating to Spin Master's Business" in the Annual MD&A and elsewhere in the Annual MD&A and this MD&A.

BASIS OF PRESENTATION

The financial information included in this MD&A is derived from the financial information included in the Company's interim financial statements and accompanying notes that were prepared in accordance with International Accounting Standard 34, Interim Reporting and consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). However, certain financial measures and ratios contained in this MD&A do not have any standardized meaning under IFRS ("Non-GAAP") and are discussed further in the "Non-GAAP Financial Measures and Ratios" section of this MD&A. Management believes the Non-GAAP financial measures and Non-GAAP financial ratios defined in the section noted 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.

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.

BUSINESS OVERVIEW

Spin Master Corp. 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 25 offices in close to 20 countries, Spin Master employs more than 2,300 team members globally.

Segment information

The Company has three reportable operating segments: Toys, Entertainment and Digital Games.

Toys

The Toys segment engages in the creation, design, manufacturing, licensing, and marketing of consumer products. Spin Master's Toys segment is organized into four product categories: (1) Activities, Games & Puzzles and Plush; (2) Wheels & Action; (3) Outdoor; and (4) Preschool and Dolls & Interactive and are sold in three geographic regions: (1) North America; (2) Europe; and (3) Rest of World. The Toys segment also generates other miscellaneous revenue streams through licensing and content creation for its brands.

Entertainment

The Entertainment segment engages in the creation, development, production and distribution of multi-platform content for children and families globally. The Entertainment segment also licenses Spin Master's brands for use in non-toy consumer products, including apparel and other consumer goods, publishing, and live entertainment.

Digital Games

The Digital Games segment engages in the creation of digital play experiences for players globally. The Digital Games segment develops, markets and delivers digital games, which are distributed via third-party platform providers and monetized through subscriptions or in-app purchases.

Corporate & Other

Corporate & Other includes certain corporate costs (such as certain employee compensation and professional services expenses), foreign exchange and transaction related costs, as well as fair value gains and losses and distribution income on minority investments.

Strategy

Spin Master's principal strategies to drive the Company's continued growth include:

	Toys	Entertainment	Digital Games
Vision	Be a global leader in Toys by creating play experiences that spark creativity and imagination in kids and families globally	Be a leading global creator of children's entertainment, igniting imaginations and deep character connections	Create exceptional digital play experiences for kids of all ages around the world
Primary Role	Provide a stable base of Revenue/Adjusted EBITDA[1]/Free Cash Flow[1] to build brands & innovate	Create content and build evergreen franchises that kids love, across physical and digital platforms	Create digital games and play-to-learn platforms using both new and existing intellectual property ("IP")
Key Strategic Focus	• Build and expand core portfolio • Drive Spin Master franchises • Build licensed partner portfolio • Expand existing partnerships • Expand geographic & retail footprint • Pursue strategic Mergers & Acquisitions ("M&A") and Ventures	• Build new franchises • Expand *PAW Patrol* Universe • Accelerate new content for direct to audience platforms • Expand Licensing & Merchandising • Pursue strategic M&A and Ventures	• Leverage Spin Master IP and rapidly prototype new digital games • Deepen consumer insights to create robust player ecosystems • Expand digital games portfolio to capture kids of all ages • Pursue strategic M&A and Ventures
Enterprise Shared Capabilities	• Grow Franchise and Brand Developments • Build Consumer and Parent Data and Insights • Expand Licensing and Merchandising • Accelerate Omni-Channel Engagement and Commerce • Pursue M&A opportunities		

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

Selected Financial Information

The following provides selected key performance metrics of the Company for the three and nine months ended September 30, 2023 and 2022, which should be read in conjunction with the interim financial statements.

Consolidated Results			Nine Months Ended Sep 30	
(US$ millions, except per share information)	**Q3 2023**	**Q3 2022**	**2023**	**2022**
Revenue	710.2	624.0	1,402.3	1,554.5
Operating Income	197.2	187.4	225.5	367.3
Operating Margin[1]	27.8 %	30.0 %	16.1 %	23.6 %
Adjusted Operating Income[2]	190.2	151.8	265.5	326.7
Adjusted Operating Margin[2]	26.8 %	24.3 %	18.9 %	21.0 %
Net Income	155.4	141.4	181.5	275.1
Adjusted Net Income[2]	143.6	114.4	204.7	244.3
Adjusted EBITDA[2]	234.9	167.6	353.9	377.0
Adjusted EBITDA Margin[2]	33.1 %	26.9 %	25.2 %	24.3 %
Earnings Per Share ("EPS")				
Basic EPS	1.50	1.37	1.75	2.67
Diluted EPS	1.45	1.33	1.72	2.59
Adjusted Basic EPS[2]	1.39	1.11	1.98	2.37
Adjusted Diluted EPS[2]	1.34	1.08	1.94	2.30
Cash dividends declared per share (CA$)	0.06	—	0.18	—
Weighted average number of shares (in millions)				
Basic	103.6	102.9	103.4	102.9
Diluted	107.3	106.3	105.3	106.3
Selected Cash Flow Data				
Cash provided by operating activities	144.3	207.4	159.1	256.1
Cash used in investing activities	(25.1)	(42.3)	(112.0)	(81.0)
Cash used in financing activities	(8.4)	(4.1)	(35.9)	(11.8)
Free Cash Flow[2]	118.9	175.3	78.6	180.0

Selected Balance Sheet Data	Sep 30, 2023	Dec 31, 2022
Cash and cash equivalents	650.7	644.3
Total assets[3]	2,037.2	1,805.1
Total liabilities[3]	623.2	553.3

[1] Operating Margin is calculated as Operating Income divided by Revenue.

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

[3] December 31, 2022 restated for the change in accounting policy (see Note 3 of the interim financial statements).

Executive Summary for Q3 2023 as compared to Q3 2022

- Revenue was $710.2 million, an increase of 13.8% from $624.0 million. Constant Currency Revenue[1] was $700.3 million, an increase of 12.2%, from $624.0 million.
- Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] of $15.6 million was $694.6 million, an increase of $70.6 million or 11.3% from $624.0 million.
- Revenue by operating segment reflected a 71.4% increase in Entertainment, a 30.9% increase in Digital Games and an 8.9% increase in Toys.
- Operating Income was $197.2 million compared to $187.4 million.
- Operating Margin was 27.8% compared to 30.0%.
- Adjusted Operating Income[1] was $190.2 million compared to $151.8 million.
- Adjusted Operating Margin[1] was 26.8% compared to 24.3%.
- Net Income was $155.4 million or $1.45 per share (diluted) compared to $141.4 million or $1.33 per share (diluted).
- Adjusted Net Income[1] was $143.6 million or $1.34 per share (diluted) compared to $114.4 million or $1.08 per share (diluted).
- Adjusted EBITDA[1] was $234.9 million compared to $167.6 million, an increase of $67.3 million or 40.2%. Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was $219.3 million, an increase of $51.7 million or 30.8% from $167.6 million.
- Adjusted EBITDA Margin[1] was 33.1% compared to 26.9%. Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was 31.6%.
- Cash provided by operating activities was $144.3 million compared to $207.4 million.
- Free Cash Flow[1] was $118.9 million compared to $175.3 million.
- The Company updates full year 2023 Outlook.

Subsequent Events

- Subsequent to September 30, 2023, the Company declared a quarterly dividend of CA$0.06 per outstanding subordinate voting share and multiple voting share, payable on January 12, 2024.
- On October 11, 2023, the Company announced that it had reached a definitive agreement to acquire U.S.-based Melissa & Doug for $950 million in cash. Additional contingent consideration of up to $150 million is subject to achieving certain financial targets for 2024 and 2025. Spin Master plans to finance the $950 million purchase price with approximately $450 million cash and $500 million in debt financing. The acquisition is expected to close early in the first quarter of 2024 subject to customary regulatory approval and closing conditions. Melissa & Doug is a well-recognized and trusted brand in early childhood play. The acquisition strengthens Spin Master's position as a leader in the children's entertainment industry and will bring complementary capabilities by adding Melissa & Doug's high-quality offerings of open-ended, creative, and developmental wooden toys and further diversify its portfolio across new channels and formats. The transaction is expected to be immediately accretive to annual earnings, before the realization of synergies.

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

Executive Summary for the nine months ended September 30, 2023 as compared to September 30, 2022

- Revenue was $1,402.3 million, down 9.8% from $1,554.5 million. Constant Currency Revenue[1] decreased by 10.2% to $1,395.8 million from $1,554.5 million.
- Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] of $15.6 million was $1,386.7 million, a decrease of $167.8 million or 10.8% from $1,554.5 million.
- Revenue by operating segment reflected a decline of 15.4% in Toys, partially offset by increases of 54.0% in Entertainment and 5.8% in Digital Games.
- Operating Income was $225.5 million compared to $367.3 million. The decrease in Operating Income was primarily driven by the decrease in Toy revenue.
- Operating Margin was 16.1% compared to 23.6%.
- Adjusted Operating Income[1] was $265.5 million compared to $326.7 million.
- Adjusted Operating Margin[1] was 18.9% compared to 21.0%.
- Net Income was $181.5 million or $1.72 per share (diluted) compared to $275.1 million or $2.59 per share (diluted).
- Adjusted Net Income[1] was $204.7 million or $1.94 per share (diluted) compared to $244.3 million or $2.30 per share (diluted).
- Adjusted EBITDA[1] was $353.9 million compared to $377.0 million, a decrease of $23.1 million or 6.1%. Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was $338.3 million, a decrease of $38.7 million or 10.3% from $377.0 million.
- Adjusted EBITDA Margin[1] was 25.2% compared to 24.3%. Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was 24.4%.
- Cash provided by operating activities was $159.1 million compared to $256.1 million.
- Free Cash Flow[1] was $78.6 million compared to $180.0 million.
- During the second quarter of 2023, the Company acquired assets from a games and puzzles company for purchase consideration of $3.3 million. During the first quarter of 2023, the Company acquired certain assets of 4D Brands International Inc. for total purchase consideration of $18.9 million and acquired the HEXBUG brand of toys from Innovation First International, Inc., for total purchase consideration of $14.6 million.
- During the nine months ended September 30, 2023, the Company incurred restructuring expenses of $14.3 million ($0.14 per diluted share) related to a reduction in the Company's global workforce and the closure of its manufacturing facility in Calais, France.
- During the six months ended June 30, 2023, the Company repurchased and cancelled 397,700 subordinate voting shares through the Company's NCIB program for $10.5 million.

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

Segmented Results

Toys				
			Nine Months Ended Sep 30	
(US$ millions)	**Q3 2023**	**Q3 2022**	**2023**	**2022**
Toy Gross Product Sales[2]	678.6	617.7	1,284.9	1,499.6
Toy revenue	601.5	552.4	1,134.1	1,340.9
Operating Income	149.0	109.4	131.0	213.4
Operating Margin[1]	24.8 %	19.8 %	11.6 %	15.9 %
Adjusted EBITDA[2]	166.8	126.9	193.1	269.0
Adjusted EBITDA Margin[2]	27.7 %	23.0 %	17.0 %	20.1 %
Cash Flow				
Toys capital expenditures	7.3	7.9	27.4	24.9

Balance Sheet	**Sep 30 2023**	**Dec 31 2022**
Moulds, dies and tools, net carrying amount	20.4	19.2

Entertainment				
			Nine Months Ended Sep 30	
(US$ millions)	**Q3 2023**	**Q3 2022**	**2023**	**2022**
Entertainment revenue	63.4	37.0	134.9	87.6
Operating Income	23.3	28.9	68.3	57.6
Operating Margin[1]	36.8 %	78.1 %	50.6 %	65.8 %
Adjusted Operating Income[2]	24.0	29.2	70.2	58.6
Adjusted Operating Margin[2]	37.9 %	78.9 %	52.0 %	66.9 %
Cash Flow				
Entertainment capital expenditures	13.1	21.3	42.4	43.0

Balance Sheet	**Sep 30 2023**	**Dec 31 2022**
Entertainment content development, net carrying amount[3]	68.8	77.1

Digital Games				
			Nine Months Ended Sep 30	
(US$ millions)	**Q3 2023**	**Q3 2022**	**2023**	**2022**
Digital Games revenue	45.3	34.6	133.3	126.0
Operating Income	13.6	8.2	39.4	36.4
Operating Margin[1]	30.0 %	23.7 %	29.6 %	28.9 %
Adjusted Operating Income[2]	15.5	10.0	47.3	41.6
Adjusted Operating Margin[2]	34.2 %	28.9 %	35.5 %	33.0 %
Cash Flow				
Digital Games capital expenditures	5.0	2.9	14.0	8.2

Balance Sheet	**Sep 30 2023**	**Dec 31 2022**
Digital Games development, net carrying amount	25.3	17.1

[1] Operating Margin is calculated as segment Operating Income divided by segment Revenue.

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

[3] December 31, 2022 restated for the change in accounting policy (see Note 3 of the interim financial statements).

FINANCIAL PERFORMANCE

Consolidated Results

The following table provides a summary of Spin Master's consolidated results for the three months ended September 30, 2023 compared to the same period in 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change	% Change
Revenue	710.2	624.0	86.2	13.8 %
Cost of sales	323.3	273.6	49.7	18.2 %
Gross Profit	**386.9**	**350.4**	**36.5**	**10.4 %**
Selling, general and administrative expenses	202.1	195.3	6.8	3.5 %
Depreciation and amortization	6.0	7.1	(1.1)	(15.5)%
Other expense, net	0.8	4.1	(3.3)	(80.5)%
Foreign exchange gain, net	(19.2)	(43.5)	24.3	(55.9)%
Operating Income	**197.2**	**187.4**	**9.8**	**5.2 %**
Interest income	(7.2)	(3.5)	(3.7)	105.7 %
Interest expense	4.8	3.9	0.9	23.1 %
Income before income tax expense	**199.6**	**187.0**	**12.6**	**6.7 %**
Income tax expense	44.2	45.6	(1.4)	(3.1)%
Net Income	**155.4**	**141.4**	**14.0**	**9.9 %**

The following tables provide a summary of Spin Master's consolidated results for the nine months ended September 30, 2023 compared to the same period in 2022:

	Nine Months Ended Sep 30			
(US$ millions)	2023	2022	$ Change	% Change
Revenue	1,402.3	1,554.5	(152.2)	(9.8)%
Cost of sales	625.9	683.1	(57.2)	(8.4)%
Gross Profit	**776.4**	**871.4**	**(95.0)**	**(10.9)%**
Selling, general and administrative expenses	530.9	544.3	(13.4)	(2.5)%
Depreciation and amortization	18.3	21.8	(3.5)	(16.1)%
Other expense, net	5.2	4.2	1.0	23.8 %
Foreign exchange gain, net	(3.5)	(66.2)	62.7	(94.7)%
Operating Income	**225.5**	**367.3**	**(141.8)**	**(38.6)%**
Interest income	(20.4)	(5.2)	(15.2)	292.3 %
Interest expense	11.2	9.8	1.4	14.3 %
Income before income tax expense	**234.7**	**362.7**	**(128.0)**	**(35.3)%**
Income tax expense	53.2	87.6	(34.4)	(39.3)%
Net Income	**181.5**	**275.1**	**(93.6)**	**(34.0)%**

Revenue as compared to the same period in 2022:

The following table provides a summary of Spin Master's revenue by segment, for the three months ended September 30, 2023 and 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change	% Change	Change in % of Revenue
Toy revenue	601.5	552.4	49.1	8.9 %	7.9 %
Entertainment revenue	63.4	37.0	26.4	71.4 %	4.2 %
Digital Games revenue	45.3	34.6	10.7	30.9 %	1.7 %
Revenue	**710.2**	**624.0**	**86.2**		**13.8 %**

Revenue was $710.2 million, an increase of 13.8% from $624.0 million due to 7.9% increase in Toy revenue, 4.2% increase in Entertainment revenue and 1.7% increase in Digital Games revenue. Constant Currency Revenue[1] was $700.3 million, an increase of 12.2%, from $624.0 million. Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] of $15.6 million was $694.6 million, an increase of $70.6 million or 11.3% from $624.0 million.

Toy revenue increased by $49.1 million or 8.9% to $601.5 million driven by an increase in Toy Gross Product Sales[1]. Toy Gross Product Sales[1] increased $60.9 million or 9.9%, to $678.6 million from $617.7 million, primarily driven by Preschool and Dolls & Interactive. Constant Currency Toy Gross Product Sales[1] increased by $47.4 million or 7.7% to $665.1 million.

Entertainment revenue increased by $26.4 million or 71.4% to $63.4 million due to higher distribution revenue from new content deliveries including *PAW Patrol: The Mighty Movie* ($15.6 million), *Unicorn Academy, Rubble & Crew* and *Vida the Vet,* partially offset by lower licensing and merchandising revenue. Constant Currency Entertainment Revenue[1] increased by $26.3 million or 71.1% to $63.3 million, from $37.0 million.

Digital Games revenue increased by $10.7 million or 30.9% to $45.3 million driven by higher in-game purchases in *Toca Life World.* Constant Currency Digital Games Revenue[1] increased by $11.0 million or 31.8% to $45.6 million, from $34.6 million.

The following table provides a summary of Spin Master's revenue by segment, for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended Sep 30				
(US$ millions)	2023	2022	$ Change	% Change	Change in % of Revenue
Toy revenue	1,134.1	1,340.9	(206.8)	(15.4)%	(13.3)%
Entertainment revenue	134.9	87.6	47.3	54.0 %	3.0 %
Digital Games revenue	133.3	126.0	7.3	5.8 %	0.5 %
Revenue	**1,402.3**	**1,554.5**	**(152.2)**		**(9.8)%**

Revenue was $1,402.3 million, a decrease of 9.8% from $1,554.5 million due to a 13.3% decrease in Toy revenue, offset by 3.0% increase in Entertainment revenue and 0.5% increase in Digital Games revenue. Constant Currency Revenue[1] was $1,395.8 million, a decrease of 10.2% from $1,554.5 million. Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was $1,386.7 million, a decrease of $167.8 million or 10.8% from $1,554.5 million.

Toy revenue decreased by $206.8 million or 15.4% to $1,134.1 million driven by a decrease in Toy Gross Product Sales[1]. Toy Gross Product Sales[1] decreased by $214.7 million or 14.3%, to $1,284.9 million from $1,499.6 million across all product categories. Constant Currency Toy Gross Product Sales[1] decreased by $227.2 million or 15.2% to $1,272.4 million, down from $1,499.6 million.

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

Entertainment revenue increased by $47.3 million or 54.0% to $134.9 million. The increase was from higher distribution revenue from new content deliveries including *PAW Patrol: The Mighty Movie* ($15.6 million), *Unicorn Academy, Rubble & Crew* and *Vida the Vet* as well as the Company's share of revenue from the *PAW Patrol* series and the continued distribution of *PAW Patrol: The Movie*. Constant Currency Entertainment Revenue[1] increased by $47.3 million or 54.0% to $134.9 million, up from $87.6 million.

Digital Games revenue increased by $7.3 million or 5.8% to $133.3 million. The increase was due to higher in-game purchases in *Toca Life World*. Constant Currency Digital Games Revenue[1] increased by $10.1 million or 8.0% to $136.1 million, from $126.0 million.

Gross Profit as compared to the same period in 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change	% Change
Revenue	710.2	624.0	86.2	13.8 %
Gross Profit	386.9	350.4	36.5	10.4 %
Gross Margin	**54.5 %**	**56.2 %**		**(1.7)%**

For the three months ended September 30, 2023, Gross Profit increased by $36.5 million or 10.4% to $386.9 million, primarily driven by a 8.9% increase in Toy Revenue.

Gross Margin decreased to 54.5% from 56.2% as compared to the same period in 2022. The decline was a result of higher amortization related to more Entertainment content deliveries including the dilutive effect of *PAW Patrol: The Mighty Movie* (revenue less amortization of production costs), partially offset by favourable foreign exchange, favourable product mix and lower ocean freight costs in the Toys segment compared to the prior year.

	Nine Months Ended Sep 30			
(US$ millions)	2023	2022	$ Change	% Change
Revenue	1,402.3	1,554.5	(152.2)	(9.8)%
Gross Profit	776.4	871.4	(95.0)	(10.9)%
Gross Margin	**55.4 %**	**56.1 %**		**(0.7)%**

For the nine months ended September 30, 2023, Gross Profit decreased by $95.0 million or 10.9% to $776.4 million, primarily driven by a 15.4% decline in Toy Revenue.

Gross Margin decreased to 55.4% from 56.1%, as a result of higher amortization related to more Entertainment content deliveries, partially offset by the Company's share of revenue from the *PAW Patrol* series and the continued distribution of *PAW Patrol: The Movie* as well as lower ocean freight costs in the Toys segment compared to the prior year.

Selling, General and Administrative Expenses ("SG&A") as compared to the same period in 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change	% Change
Administrative	90.1	83.9	6.2	7.4 %
Marketing	35.6	39.8	(4.2)	(10.6)%
Selling	50.9	45.5	5.4	11.9 %
Distribution	17.2	17.3	(0.1)	(0.6)%
Product development	8.3	8.8	(0.5)	(5.7)%
SG&A	**202.1**	**195.3**	**6.8**	**3.5 %**

Administrative expenses increased by $6.2 million or 7.4% to $90.1 million. The increase was primarily due to transaction costs incurred for the intention to acquire Melissa & Doug. Administrative expenses as a percentage of revenue decreased to 12.7% from 13.4% as a result of higher revenue.

Marketing expenses decreased by $4.2 million or 10.6% to $35.6 million, due to lower media and video production spend. Marketing expenses as a percentage of revenue decreased to 5.0% from 6.4%.

Selling expenses increased by $5.4 million to $50.9 million primarily due to an increase in sales of partner licensed brands, as a result of an overall increase in Toy revenue in the third quarter. Selling expenses as a percentage of Toy revenue increased slightly to 8.5% from 8.2% due to a shift in product mix.

Distribution expenses decreased by $0.1 million or 0.6% to $17.2 million, primarily due to lower warehousing and outbound transportation costs, driven by lower domestic sales volume. Distribution expenses as a percentage of Toy revenue decreased to 2.9% from 3.1%.

Product development expenses decreased by $0.5 million or 5.7% to $8.3 million, due to lower Toy development and design activities.

	Nine Months Ended Sep 30			
(US$ millions)	2023	2022	$ Change	% Change
Administrative	278.1	262.6	15.5	5.9 %
Marketing	90.7	101.8	(11.1)	(10.9)%
Selling	95.6	110.4	(14.8)	(13.4)%
Distribution	44.1	47.8	(3.7)	(7.7)%
Product development	22.4	21.7	0.7	3.2 %
SG&A	**530.9**	**544.3**	**(13.4)**	**(2.5)%**

Administrative expenses increased by $15.5 million or 5.9% to $278.1 million. The increase was primarily due to higher restructuring costs and transaction costs incurred for the intention to acquire Melissa & Doug, partially offset by lower incentive compensation and consulting expenses. Administrative expenses as a percentage of revenue increased to 19.8% from 16.9% as a result of lower revenue.

Marketing expenses decreased by $11.1 million or 10.9% to $90.7 million, due to lower media spend, video production, market research and agency fees. Marketing expenses as a percentage of revenue was flat at 6.5%.

Selling expenses decreased by $14.8 million to $95.6 million due to the decline in sale of partner licensed brands, as a result of an overall decrease in Toy revenue. Selling expenses as a percentage of Toy revenue increased to 8.4% from 8.2% due to a shift in product mix.

Distribution expenses decreased by $3.7 million or 7.7% to $44.1 million, due to lower warehousing and outbound transportation costs driven by lower domestic sales volume. Distribution expenses as a percentage of Toy revenue increased to 3.9% from 3.6% due to fixed warehousing costs.

Product development expenses increased by $0.7 million or 3.2% to $22.4 million, due to higher development and design spend on Toy products.

Adjusted SG&A[1] as compared to the same period in 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change	% Change
SG&A	202.1	195.3	6.8	3.5 %
Adjustments[1]:				
Restructuring and other related costs[2]	(0.8)	—	(0.8)	n.m.
Share based compensation[3]	(5.1)	(4.3)	(0.8)	18.6 %
Transaction costs[4]	(5.2)	(0.3)	(4.9)	n.m.
Adjusted SG&A[5]	**191.0**	**190.7**	**0.3**	**0.2 %**

[1] These adjustments relate to items recorded within Administrative expenses.

[2] Restructuring expense in the current period relates to the reduction in the Company's global workforce.

[3] Related to non-cash expenses associated with long-term incentive plan and the mark to market (loss) gain related to DSUs.

[4] Professional fees incurred relating to acquisitions and other transactions.

[5] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Adjusted SG&A[1] increased by $0.3 million or 0.2% to $191.0 million primarily as a result of higher selling expenses offset by lower marketing expenses. Adjusted SG&A[1] as a percentage of revenue decreased to 26.9% from 30.6%, due to higher revenue in the third quarter.

	Nine Months Ended Sep 30			
(US$ millions)	2023	2022	$ Change	% Change
SG&A	530.9	544.3	(13.4)	(2.5)%
Adjustments[1]:				
Restructuring and other related costs[2]	(14.3)	(5.1)	(9.2)	180.4 %
Share based compensation[3]	(15.3)	(12.9)	(2.4)	18.6 %
Transaction costs[4]	(7.3)	(0.8)	(6.5)	812.5 %
Adjusted SG&A[5]	**494.0**	**525.5**	**(31.5)**	**(6.0)%**

[1] These adjustments relate to items recorded within Administrative expenses.

[2] Restructuring expense in the current period relates to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France. Prior year comparison relates to changes in personnel.

3 Related to non-cash expenses associated with share option expense, long-term incentive plan, and the mark to market (loss) gain related to DSUs.

[4] Professional fees incurred relating to acquisitions and other transactions.

[5] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Adjusted SG&A[1] decreased by $31.5 million or 6.0% to $494.0 million primarily as a result of lower selling, marketing, distribution and administrative expenses. Adjusted SG&A[1] as a percentage of revenue increased to 35.2% from 33.8%, due to lower revenue compared to the prior year.

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

Depreciation and Amortization as compared to the same period in 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change	% Change
Property, plant and equipment				
Moulds, dies and tools, included in cost of sales	5.0	5.1	(0.1)	(2.0)%
Equipment, included in cost of sales	0.6	—	0.6	n.m.
Equipment	0.8	0.3	0.5	166.7 %
Building and leasehold improvements	0.5	1.4	(0.9)	(64.3)%
Computer hardware	0.3	0.2	0.1	50 %
	7.2	**7.0**	**0.2**	**2.9 %**
Intangible assets				
Entertainment content development, included in cost of sales	31.7	2.5	29.2	n.m.
Trademarks, licenses, IP & customer lists - definite	0.9	1.3	(0.4)	(30.8)%
Digital games and app development, included in cost of sales	1.3	1.1	0.2	18.2 %
Computer software	0.7	0.8	(0.1)	(12.5)%
	34.6	**5.7**	**28.9**	**507.0 %**
Right-of-use assets	**2.9**	**3.1**	(0.2)	(6.5)%
Depreciation and amortization	**44.7**	**15.8**	**28.9**	**182.9 %**

(US$ millions)	Q3 2023	Q3 2022	$ Change	% Change
Included in cost of sales	38.7	8.7	30.0	n.m.
Included in expenses	6.0	7.1	(1.1)	(15.5)%
Depreciation and amortization	**44.7**	**15.8**	**28.9**	**182.9 %**

For the three months ended September 30, 2023, depreciation and amortization expense increased by $28.9 million to $44.7 million primarily due to an increase in amortization of intangible assets, as a result of more content deliveries in the current year including *PAW Patrol: The Mighty Movi*e ($11.0 million), *Unicorn Academy, Rubble & Crew* and *Vida the Vet*.

Depreciation related to property, plant and equipment increased by $0.2 million or 2.9% primarily due to higher depreciation for equipment, partially offset by lower depreciation of buildings and leasehold improvements.

Amortization related to intangible assets increased by $28.9 million or 507.0%, as a result of additional content deliveries including *Unicorn Academy, PAW Patrol: The Mighty Movi*e, *Rubble & Crew* and *Vida the Vet*.

	Nine Months Ended Sep 30			
(US$ millions)	**2023**	**2022**	**$ Change**	**% Change**
Property, plant and equipment				
Moulds, dies and tools, included in cost of sales	14.8	15.5	(0.7)	(4.5)%
Equipment, included in cost of sales	1.8	0.1	1.7	n.m
Equipment	1.8	1.3	0.5	38.5 %
Building and leasehold improvements	2.9	4.1	(1.2)	(29.3)%
Computer hardware	0.7	0.6	0.1	16.7 %
	22.0	**21.6**	**0.4**	**1.9 %**
Intangible assets				
Entertainment content development, included in cost of sales[1]	49.7	9.7	40.0	412.4 %
Trademarks, licenses, IP & customer lists - definite	2.3	4.0	(1.7)	(42.5)%
Digital Games development, included in cost of sales	3.7	3.2	0.5	15.6 %
Computer software	1.8	2.6	(0.8)	(30.8)%
	57.5	**19.5**	**38.0**	**194.9 %**
Right-of-use assets	**8.9**	**9.2**	(0.3)	(3.3)%
Depreciation and amortization	**88.4**	**50.3**	**38.1**	**75.7 %**

	Nine Months Ended Sep 30			
(US$ millions)	**2023**	**2022**	**$ Change**	**% Change**
Included in cost of sales	70.1	28.5	41.6	146.0 %
Included in expenses	18.3	21.8	(3.5)	(16.1)%
Depreciation and amortization	**88.4**	**50.3**	**38.1**	**75.7 %**

For the nine months ended September 30, 2023, depreciation and amortization increased by $38.1 million to $88.4 million primarily due to higher depreciation and amortization related to intangible assets, as a result of additional amortization for entertainment content for more content deliveries including *PAW Patrol: The Mighty Movie* ($11.0 million), *Unicorn Academy, Rubble & Crew* and *Vida the Vet*.

Depreciation related to property, plant and equipment increased by $0.4 million or 1.9%, primarily due to higher depreciation for equipment, partially offset by lower depreciation of building and leasehold improvements.

Amortization related to intangible assets increased by $38.0 million or 194.9%, as a result of additional content deliveries in the current year including *Unicorn Academy*, *PAW Patrol: The Mighty Movie*, Rubble & Crew and Vida the Vet.

Foreign Exchange Loss (Gain) as compared to the same period in 2022:
For the three months ended September 30, 2023, the Company recognized a net foreign exchange gain of $19.2 million (comprised of an unrealized gain of $17.9 million and realized gain of $1.3 million) as compared to a net foreign exchange gain of $43.5 million (comprised of an unrealized gain of $45.8 million and realized loss of $2.3 million).

For the nine months ended September 30, 2023, the Company recognized a net foreign exchange gain of $3.5 million (comprised of an unrealized loss of $8.3 million and realized gain of $11.8 million), compared to a foreign exchange gain of $66.2 million (comprised of a realized gain of $8.5 million and an unrealized gain of $57.7 million).

Unrealized foreign exchange gains and losses are generated by the translation of monetary assets and liabilities denominated in a currency other than the functional currency and also includes gains and losses related to the Company's hedging programs. Realized foreign exchange gains and losses are recognized when monetary assets and liabilities denominated in a currency other than the functional currency of the applicable entity are settled and also includes gains and losses related to the Company's hedging programs. The Company periodically enters into derivative financial instruments such as foreign exchange forward contracts to manage its foreign currency risk on cash flows denominated in currencies other than the US dollar.

Operating Income and Adjusted Operating Income[1] as compared to the same period in 2022:
Operating Income for the three months ended September 30, 2023, was $197.2 million compared to Operating Income of $187.4 million, representing an increase of $9.8 million. Adjusted Operating Income[1] for the three months ended September 30, 2023 was $190.2 million, an increase of $38.4 million from an Adjusted Operating Income[1] of $151.8 million. The increase in Operating Income was primarily driven by an increase in Operating Income from the Toys segment of $39.6 million, partially offset by a decrease in Operating Income from Corporate and Other of $29.6.

Operating Income for the nine months ended September 30, 2023 was $225.5 million, an decrease of $141.8 million from $367.3 million. Adjusted Operating Income[1] for the nine months ended September 30, 2023 was $265.5 million, an decrease of $61.2 million from $326.7 million. The decrease in Operating Income was primarily driven by a decline in Operating Income from Toys segment of $82.4 million and an increase in Operating Loss from Corporate and Other of $73.1 million, partially offset by an increase in Operating Income from Entertainment segment of $10.7 million.

Adjusted EBITDA[1] as compared to the same period in 2022:
Adjusted EBITDA[1] for the three months ended September 30, 2023 increased to $234.9 million with Adjusted EBITDA Margin[1] of 33.1%, compared to $167.6 million and 26.9% respectively. Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was $219.3 million, an increase of $51.7 million or 30.8% from $167.6 million. Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was 31.6%. The increase in Adjusted EBITDA[1] was primarily driven by an increase in gross profit from higher Toy revenue and lower Adjusted SG&A[1] expenses. Adjusted EBITDA Margin[1] increased due to higher gross margin and lower Adjusted SG&A[1] expenses relative to revenue, driven by the Toys and Entertainment segments.

Adjusted EBITDA[1] for the nine months ended September 30, 2023 was $353.9 million compared to $377.0 million. Adjusted EBITDA Margin[1] was 25.2% compared to 24.3%. Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was $338.3 million, a decrease of $38.7 million or 10.3% from $377.0 million. Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was 24.4%. The decrease in Adjusted EBITDA[1] was primarily driven by lower gross profit from lower Toy revenue partially offset by lower Adjusted SG&A[1] expenses. Adjusted EBITDA Margin[1] increased due to higher gross margin partially offset by higher Adjusted SG&A[1] relative to revenue, driven by the Entertainment segment partially offset by the Toys segment.

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

Interest Income and Interest Expense as compared to the same period in 2022:
Interest income includes interest earned on cash and cash equivalents held by the Company. Interest expense includes bank fees and financing charges, accretion expense and the amortization of Facility fees.

For the three months ended September 30, 2023, interest expense was $4.8 million, an increase of $0.9 million from $3.9 million in the prior year primarily due to higher bank fees and financing charges.

For the three months ended September 30, 2023, interest income was $7.2 million, an increase of $3.7 million from $3.5 million in the prior year as a result of higher interest earned on cash and cash equivalents due to higher interest rates and higher cash balances earning interest.

For the nine months ended September 30, 2023, interest expense was $11.2 million, an increase of $1.4 million from $9.8 million primarily due to higher bank fees and financing charges.

For the nine months ended September 30, 2023, interest income was $20.4 million, an increase of $15.2 million from $5.2 million as a result of higher interest earned on cash and cash equivalents due to higher interest rates and higher cash balances earning interest.

Income Tax Expense as compared to the same period in 2022:
For the three months ended September 30, 2023, income tax expense was $44.2 million compared to $45.6 million. The effective tax rate was 22.1% compared to 24.4%.

For the nine months ended September 30, 2023, income tax expense was $53.2 million compared to $87.6 million. The effective tax rate was 22.7% compared to 24.2%.

For the three and nine months ended September 30, 2023, the Company had a one-time income tax recovery of $6.6 million, with an impact on effective tax rate of 3.3% and 2.8%, respectively. The effective income tax rates, excluding the one-time income tax recovery, were 25.4% and 25.5%, respectively.

Net Income and Adjusted Net Income[1] as compared to the same period in 2022:
Net income for the three months ended September 30, 2023 was $155.4 million or $1.45 per share (diluted), an increase of $14.0 million from Net Income of $141.4 million or $1.33 per share (diluted). Adjusted Net Income[1] for the three months ended September 30, 2023 was $143.6 million or $1.34 per share (diluted), a increase of $29.2 million from $114.4 million or $1.08 per share (diluted). The improvement in Net Income was primarily driven by the increase in gross profit, partially offset by higher selling, general and administrative expenses mostly related to transaction costs.

Net Income for the nine months ended September 30, 2023 was $181.5 million or $1.72 per share (diluted), an decrease of $93.6 million from $275.1 million or $2.59 per share (diluted). Adjusted Net Income[1] for the nine months ended September 30, 2023 was $204.7 million or $1.94 per share (diluted), an decrease of $39.6 million from $244.3 million or $2.30 per share (diluted). The decrease in Net Income was primarily driven by lower gross profit.

Segmented Results

The Company's reportable segments are: Toys, Entertainment and Digital Games. The Company's results from operations by reportable segment for the three months ended September 30, 2023 and 2022 are as follows:

(US$ millions)	Q3 2023					Q3 2022				
	Toys	Entertainment	Digital Games	Corporate & Other	Total	Toys	Entertainment	Digital Games	Corporate & Other	Total
Revenue	601.5	63.4	45.3	—	710.2	552.4	37.0	34.6	—	624.0
Operating Income	**149.0**	**23.3**	**13.6**	**11.3**	**197.2**	**109.4**	**28.9**	**8.2**	**40.9**	**187.4**
Restructuring and other related costs (recovery)	0.6	0.1	0.1	—	0.8	(0.1)	—	0.1	—	—
Foreign exchange gain	—	—	—	(19.2)	(19.2)	—	—	—	(43.5)	(43.5)
Share based compensation	3.7	0.4	0.7	0.3	5.1	3.0	0.3	0.5	0.5	4.3
Impairment of property, plant and equipment	—	—	—	—	—	1.0	—	—	—	1.0
Impairment of intangible assets	—	0.2	—	—	0.2	—	—	—	—	—
Legal settlement recovery	—	—	—	(0.7)	(0.7)	—	—	—	—	—
Acquisition related deferred incentive compensation	0.7	—	1.1	—	1.8	1.6	—	1.2	—	2.8
Net realized gain on investment	—	—	—	(0.2)	(0.2)	—	—	—	—	—
Acquisition related contingent consideration	—	—	—	—	—	0.4	—	—	(0.9)	(0.5)
Transaction costs	—	—	—	5.2	5.2	—	—	—	0.3	0.3
Adjusted Operating Income (Loss)[1]	**154.0**	**24.0**	**15.5**	**(3.3)**	**190.2**	**115.3**	**29.2**	**10.0**	**(2.7)**	**151.8**
Adjusted Operating Margin[1]	**25.6%**	**37.9%**	**34.2%**	**n.m.**	**26.8%**	**20.9%**	**78.9%**	**28.9%**	**n.m.**	**24.3%**
Depreciation and amortization	12.8	29.8	2.1	—	44.7	11.6	2.5	1.7	—	15.8
Adjusted EBITDA[1]	**166.8**	**53.8**	**17.6**	**(3.3)**	**234.9**	**126.9**	**31.7**	**11.7**	**(2.7)**	**167.6**
Adjusted EBITDA Margin[1]	**27.7%**	**84.9%**	**38.9%**	**n.m.**	**33.1%**	**23.0%**	**85.7%**	**33.8%**	**n.m.**	**26.9%**

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

The Company’s results from operations by reportable segment for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended Sep 30									
(US$ millions)	**2023**					**2022**				
	Toys	**Entertainment**	**Digital Games**	**Corporate & Other**	**Total**	**Toys**	**Entertainment**	**Digital Games**	**Corporate & Other**	**Total**
Revenue	1,134.1	134.9	133.3	—	1,402.3	1,340.9	87.6	126.0	—	1,554.5
Operating Income (Loss)	**131.0**	**68.3**	**39.4**	**(13.2)**	**225.5**	**213.4**	**57.6**	**36.4**	**59.9**	**367.3**
Restructuring and other related costs	13.0	0.2	1.1	—	14.3	4.8	0.1	0.2	—	5.1
Foreign exchange gain	—	—	—	(3.5)	(3.5)	—	—	—	(66.2)	(66.2)
Share based compensation	10.9	1.1	2.2	1.1	15.3	9.1	0.9	1.6	1.3	12.9
Impairment of goodwill	1.0	—	—	—	1.0	—	—	—	—	—
Impairment of property, plant and equipment	0.2	—	—	—	0.2	1.0	—	—	—	1.0
Impairment of intangible assets	—	0.6	0.7	1.1	2.4	—	—	—	—	—
Legal settlement recovery	—	—	—	(0.5)	(0.5)	—	—	—	(2.1)	(2.1)
Acquisition related deferred incentive compensation	2.1	—	3.9	—	6.0	4.7	—	3.4	—	8.1
Net unrealized gain on investment	—	—	—	(0.3)	(0.3)	—	—	—	(0.1)	(0.1)
Net realized gain on investment	—	—	—	(0.1)	(0.1)	—	—	—	(0.1)	(0.1)
Loss on Minority interest and other investments	—	—	—	—	—	—	—	—	0.5	0.5
Acquisition related deferred consideration	(2.1)	—	—	—	(2.1)	0.4	—	—	(0.9)	(0.5)
Transaction costs	—	—	—	7.3	7.3	—	—	—	0.8	0.8
Adjusted Operating Income (Loss)[1]	**156.1**	**70.2**	**47.3**	**(8.1)**	**265.5**	**233.4**	**58.6**	**41.6**	**(6.9)**	**326.7**
Adjusted Operating Margin[1]	**13.8%**	**52.0%**	**35.5%**	**n/a**	**18.9%**	**17.4%**	**66.9%**	**33.0%**	**n/a**	**21.0%**
Depreciation and amortization	37.0	45.2	6.0	0.2	88.4	35.6	10.0	4.7	—	50.3
Adjusted EBITDA[1]	**193.1**	**115.4**	**53.3**	**(7.9)**	**353.9**	**269.0**	**68.6**	**46.3**	**(6.9)**	**377.0**
Adjusted EBITDA Margin[1]	**17.0%**	**85.5%**	**40.0%**	**n.m.**	**25.2%**	**20.1%**	**78.3%**	**36.7%**	**n.m.**	**24.3%**

[1] 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 September 30, 2023 and 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change	% Change
Toy Gross Product Sales[1, 2]	678.6	617.7	60.9	9.9 %
Toy revenue	601.5	552.4	49.1	8.9 %
Operating Income	149.0	109.4	39.6	36.2 %
Operating Margin	24.8 %	19.8 %		5.0 %
Adjusted EBITDA[1]	166.8	126.9	39.9	31.4 %
Adjusted EBITDA Margin[1]	27.7 %	23.0 %		4.7 %
Selected Cash Flow Data				
Toys capital expenditures	7.3	7.9	(0.6)	(7.6)%

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

[2] Toy Gross Product Sales represents Toy revenue excluding Sales Allowances.

Toy revenue increased by $49.1 million or 8.9% to $601.5 million from an increase in Toy Gross Product Sales[1]. Toy Gross Product Sales[1] increased by $60.9 million or 9.9%, to $678.6 million from $617.7 million as a result of higher order volume. Toy Gross Product Sales[1] in the third quarter of 2023 increased as customers focused on increasing their retail inventory levels in anticipation of the holiday season. Toy Gross Product Sales[1] in the third quarter of 2022 were lower due to the acceleration of customer shipments into the first half of 2022 due to then anticipated global logistics and supply chain issues.

Constant Currency Toy Gross Product Sales[1] increased by $47.4 million or 7.7% to $665.1 million, compared to $617.7 million.

Operating Income was $149.0 million compared to $109.4 million representing an increase of $39.6 million. Operating Margin was 24.8% compared to 19.8%. Adjusted EBITDA[1] increased by $39.9 million to $166.8 million. Adjusted EBITDA Margin[1] was 27.7% compared to 23.0%. The improvement in Operating Margin and Adjusted EBITDA Margin was driven primarily by higher gross margin and lower administrative, marketing, product development, distribution and selling expenses.

Toys capital expenditures decreased by $0.6 million to $7.3 million, primarily as a result of lower investments in moulds, dies and tools.

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

The following table provides a summary of the Toys segment's operating results for the nine months ended September 30, 2023 and 2022:

(US$ millions)	Nine Months Ended Sep 30 2023	2022	$ Change	% Change
Toy Gross Product Sales[1, 2]	1,284.9	1,499.6	(214.7)	(14.3)%
Toy revenue	1,134.1	1,340.9	(206.8)	(15.4)%
Operating Income	131.0	213.4	(82.4)	(38.6)%
Operating Margin	11.6 %	15.9 %		(4.3)%
Adjusted EBITDA[1]	193.1	269.0	(75.9)	(28.2)%
Adjusted EBITDA Margin[1]	17.0 %	20.1 %		(3.1)%
Selected Cash Flow and Balance Sheet Data				
Toys capital expenditures	27.4	24.9	2.5	10.0 %
	Sep 30, 2023	**Dec 31, 2022**	**$ Change**	**% Change**
Moulds, dies and tools, net carrying amount	20.4	19.2	1.2	6.3 %

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

[2] Toy Gross Product Sales represents Toy revenue excluding Sales Allowances.

Toy revenue decreased by $206.8 million or 15.4% to $1,134.1 million driven by a decline in Toy Gross Product Sales[1]. Toy Gross Product Sales[1] decreased by $214.7 million or 14.3%, to $1,284.9 million from $1,499.6 million as a result of lower order volume in the first half of the year, as customers focused on reducing their retail inventory levels carried forward from Q4 2022. Toy Gross Product Sales[1] increased in the third quarter of 2023 in anticipation of the holiday season. In comparison, Toy Gross Product Sales[1] in 2022 was supported by customers ordering earlier in the year and sales related to *PAW Patrol: The Movie* and the launch of the *DC Comics Batman* movie.

Constant Currency Toy Gross Product Sales[1] decreased by $227.2 million or 15.2% to $1,272.4 million, down from $1,499.6 million.

Operating Income decreased by $82.4 million or 38.6% to $131.0 million. Operating Margin was 11.6% compared to 15.9%. Adjusted EBITDA[1] decreased by $75.9 million to $193.1 million. Adjusted EBITDA Margin[1] was 17.0% compared to 20.1%. The decline to Adjusted EBITDA Margin[1] was due to lower Toy revenue relative to administrative, marketing and distribution expenses.

Toys capital expenditures increased by $2.5 million to $27.4 million, primarily as a result of investments in an asset acquisition of a games and puzzles company.

Moulds, dies and tools, net carrying amount was $20.4 million compared to $19.2 million.

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

Toy Revenue

For the three months ended September 30, 2023 as compared to the same period in 2022:

The following table provides a summary of Spin Master's Toy revenue, including Toy Gross Product Sales[1] by product category, for the three months ended September 30, 2023 and 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change	% Change
Preschool and Dolls & Interactive	347.7	284.7	63.0	22.1 %
Activities, Games & Puzzles and Plush	172.4	175.6	(3.2)	(1.8)%
Wheels & Action	151.2	145.3	5.9	4.1 %
Outdoor	7.3	12.1	(4.8)	(39.7)%
Toy Gross Product Sales[1]	**678.6**	**617.7**	**60.9**	**9.9 %**
Sales Allowances[2]	(77.1)	(65.3)	11.8	18.1 %
Sales Allowances % of GPS	*11.4 %*	*10.6 %*		*0.8 %*
Toy revenue	**601.5**	**552.4**	**49.1**	**8.9 %**

[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, and costs incurred by customers to sell the Company's products.

Preschool and Dolls & Interactive increased by $63.0 million or 22.1% to $347.7 million, primarily from an increase in sales of *Bitzee, Gabby's Dollhouse*, *PAW Patrol, Rubble & Crew*, partially offset by decreases in *Purse Pets, What the Fluff* and *Hatchimals.*

Activities, Games & Puzzles and Plush decreased by $3.2 million or 1.8% to $172.4 million, mainly due to decreases in the *Pixobitz, Cool Maker* and *Kinetic Sand,* partially offset by increases in *Rubik's* and *GUND*.

Wheels & Action increased by $5.9 million or 4.1% to $151.2 million, due to increases in *HEXBUG* and *Monster Jam*, partially offset by *Bakugan*.

Outdoor decreased by $4.8 million or 39.7% to $7.3 million, primarily due to decreases in *Valor Kick Scooter, SwimWays* and *Aerobie*.

Sales Allowances increased by $11.8 million to $77.1 million. As a percentage of Toy Gross Product Sales[1], Sales Allowances increased to 11.4% from 10.6%, primarily driven by geographic and customer mix.

Revenue by Geographic Area

Toy Gross Product Sales[1] by geographical area are based on the location of the customers. The following table provides a summary of Spin Master's Toy Gross Product Sales[1] by geographic area for the three months ended September 30, 2023 and 2022:

	Q3 2023		Q3 2022		Change	
(US$ millions)	**$**	**% of GPS**	**$**	**% of GPS**	**$**	**% of GPS**
North America	397.4	58.6 %	350.4	56.7 %	47.0	1.9 %
Europe	181.4	26.7 %	180.5	29.2 %	0.9	(2.5)%
Rest of World	99.8	14.7 %	86.8	14.1 %	13.0	0.6 %
International	281.2	41.4 %	267.3	43.3 %	13.9	(1.9)%
Toy Gross Product Sales[1]	**678.6**	**100.0 %**	**617.7**	**100.0 %**	**60.9**	
Sales Allowances	(77.1)	(11.4)%	(65.3)	(10.6)%	(11.8)	(0.8)%
Toy revenue	**601.5**		**552.4**		**49.1**	

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

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

As a percentage of Toy Gross Product Sales[1], North America increased 1.9% to 58.6% compared to 56.7%. International sales, comprised of the Europe and Rest of World segments, decreased 1.9% to 41.4% compared to 43.3%.

North America increased by $47.0 million or 13.4% to $397.4 million, which includes an unfavourable foreign exchange impact of $0.2 million. The increase was driven primarily by *PAW Patrol, Rubble & Crew, Bitzee, Monster Jam* and *HEXBUG*.

Europe increased by $0.9 million or 0.5% to $181.4 million, which includes a favourable foreign exchange impact of $8.5 million. The increase was mainly driven by *Gabby's Dollhouse* and *Bitzee* offset by a decrease in *PAW Patrol, Bakugan, What the Fluff* and *Purse Pets.*

Rest of World increased by $13.0 million or 15.0% to $99.8 million, which includes a favourable foreign exchange impact of $5.2 million. The increase arose from *Bitzee, Gabby's Dollhouse* and *PAW Patrol,* partially offset by *What the Fluff* and *Purse Pets*.

For the nine months ended September 30, 2023, as compared to the same period in 2022:

The following table provides a summary of Spin Master's Toy revenue, including Toy Gross Product Sales[1] by product category, for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended Sep 30			
(US$ millions)	**2023**	**2022**	**$ Change**	**% Change**
Preschool and Dolls & Interactive	613.0	665.3	(52.3)	(7.9)%
Activities, Games & Puzzles and Plush	326.9	401.1	(74.2)	(18.5)%
Wheels & Action	296.0	360.8	(64.8)	(18.0)%
Outdoor	49.0	72.4	(23.4)	(32.3)%
Toy Gross Product Sales[1]	**1,284.9**	**1,499.6**	**(214.7)**	**(14.3)%**
Sales Allowances[2]	(150.8)	(158.7)	(7.9)	(5.0)%
Sales Allowances % of GPS	*11.7 %*	*10.6 %*		*1.1 %*
Toy revenue	**1,134.1**	**1,340.9**	**(206.8)**	**(15.4)%**

[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, and costs incurred by customers to sell the Company's products.

Preschool and Dolls & Interactive decreased by $52.3 million or 7.9% to $613.0 million, mainly due to decreases in *PAW Patrol, Hatchimals, and Purse Pets,* partially offset by sales of *Bitzee* and increases in *Gabby's Dollhouse* and *Rubble & Crew.*

Activities, Games & Puzzles and Plush decreased by $74.2 million or 18.5% to $326.9 million, mainly due to decreases in the Games & Puzzles portfolio, *Kinetic Sand, Cool Maker, Pixobitz* and *GUND,* partially offset in part by *Rubik's.*

Wheels & Action decreased by $64.8 million or 18.0% to $296.0 million, led by decreases in *DC, Bakugan* and *Air Hogs,* offset in part by *HEXBUG*.

Outdoor declined by $23.4 million or 32.3% to $49.0 million, primarily driven by *SwimWays*.

Sales Allowances decreased by $7.9 million to $150.8 million. As a percentage of Toy Gross Product Sales[1], Sales Allowances increased to 11.7% from 10.6%, primarily driven by geographic and customer mix.

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

Revenue by Geographic Area

The following table provides a summary of Spin Master's Toy Gross Product Sales[1] by geographic area for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended Sep 30					
(US$ millions)	**2023**	**% of GPS**	**2022**	**% of GPS**	**$ Change**	**Change in % of GPS**
North America	741.5	57.7 %	929.1	61.9 %	(187.6)	(4.2)%
Europe	350.2	27.3 %	380.5	25.4 %	(30.3)	1.9 %
Rest of World	193.2	15.0 %	190.0	12.7 %	3.2	2.3 %
International	543.4	42.3 %	570.5	38.1 %	(27.1)	4.2 %
Toy Gross Product Sales[1]	**1,284.9**	**100.0 %**	**1,499.6**	**100.0 %**	**(214.7)**	
Sales Allowances	(150.8)	11.7 %	(158.7)	10.6 %	7.9	1.1 %
Toy revenue	**1,134.1**		**1,340.9**		**(206.8)**	

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

As a percentage of Toy Gross Product Sales[1], the North America segment decreased 4.2% to 57.7% compared to 61.9%. International sales, comprised of the Europe and Rest of World segments, increased 4.2% to 42.3% compared to 38.1%.

North America declined by $187.6 million or 20.2% to $741.5 million, with an unfavourable foreign exchange impact of $0.3 million. The decrease was driven by *Gabby's Dollhouse, DC, PAW Patrol, Kinetic Sand,* the Games & Puzzles portfolio, *Hatchimals,* and *Bakugan* offset by *Rubble & Crew, Bitzee and HEXBUG*.

Europe declined by $30.3 million or 8.0% to $350.2 million, with an favourable foreign exchange impact of $5.6 million. The decrease was driven by *PAW Patrol, DC, Bakugan, Wizarding World, Purse Pets, and Hatchimals* partially offset by *Gabby's Dollhouse* and *Bitzee.*

Rest of World increased by $3.2 million or 1.7% to $193.2 million, with a favourable foreign exchange impact of $7.2 million. The increase was driven by *Gabby's Dollhouse* and *Bitzee offset in part by DC, and PAW Patrol.*

Toys Segment Trend Analysis

(US$ millions)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Toy Gross Product Sales[1]	678.6	390.0	216.3	479.2	617.7	484.4	397.5	627.5
Toy revenue	601.5	346.3	186.3	396.7	552.4	437.6	350.9	542.0
Operating Income (Loss)	149.0	23.8	(41.8)	(43.3)	109.4	62.6	41.4	14.6
Operating Margin	24.8%	6.9%	(22.4)%	(10.9)%	19.8%	14.3%	11.8%	2.7%
Adjusted EBITDA[1]	166.8	47.7	(21.4)	(24.4)	126.9	83.2	58.9	40.8
Adjusted EBITDA Margin[1]	27.7%	13.8%	(11.5)%	(6.2)%	23.0%	19.0%	16.8%	7.5%
Selected Cash Flow and Balance Sheet Data								
Toys capital expenditures	7.3	12.3	7.8	7.5	7.9	9.8	7.2	3.8
Moulds, dies and tools, net carrying amount[2]	20.4	21.7	20.0	19.2	19.5	23.5	21.9	21.2

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

[2] Net carrying amount represents balance as at end of the period.

Toy revenue seasonality factors cause the Company's operating results to fluctuate from quarter to quarter:

- Toy revenue is historically concentrated in the third and fourth quarters of each fiscal year, with the proportional Operating Income earned and cash flows generated during the same period.
- In 2022, a higher proportion of Toy Gross Product Sales[1] shifted into the first and second quarters from the third quarter as retailers ordered earlier in the year to minimize then anticipated supply chain disruptions. The third and fourth quarters of 2022 were pressured by the macroeconomic environment, particularly from higher inflation compounded by foreign exchange volatility and a carry-over of inventory at retailers from the first half of 2022. These factors resulted in a strong first half seasonality of 2022 with Toy Gross Product Sales[1] representing 45 percent of the 2022 annual Toy Gross Product Sales[1].
- Toy Gross Product Sales[1] in the first half of 2023 was lower than 2022 due to lower sales volumes as customers focused on decreasing retail inventory levels from Q4 2022.
- Other factors affecting 2021 results include COVID-19 pandemic related impacts.

Entertainment Segment Results

The following table provides a summary of the Entertainment segment's operating results for the three months ended September 30, 2023 and 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change	% Change
Entertainment revenue	63.4	37.0	26.4	71.4 %
Operating Income	23.3	28.9	(5.6)	(19.4)%
Operating Margin	36.8 %	78.1 %		(41.3)%
Adjusted Operating Income[1]	24.0	29.2	(5.2)	(17.8)%
Adjusted Operating Margin[1]	37.9 %	78.9 %		(41.0)%
Selected Cash Flow Data				
Entertainment capital expenditures	13.1	21.3	(8.2)	(38.5)%

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

Entertainment revenue increased by $26.4 million or 71.4% to $63.4 million, due to higher distribution revenue from new content deliveries including *PAW Patrol: The Mighty Movie* ($15.6 million), *Unicorn Academy, Rubble & Crew* and *Vida the Vet,* partially offset by lower licensing and merchandising revenue. Constant Currency Entertainment Revenue[1] increased by $26.3 million or 71.1% to $63.3 million, up from $37.0 million.

Operating Income decreased by $5.6 million or 19.4% to $23.3 million. Operating Margin was 36.8% compared to 78.1%. Adjusted Operating Income[1] was $24.0 million compared to $29.2 million. Adjusted Operating Margin[1] was 37.9% compared to 78.9%.

The decline in Operating Income, Adjusted Operating Income[1], and Adjusted Operating Margin[1] was primarily due to the amortization of production costs from additional content deliveries, including *Unicorn Academy* and $11.0 million for *PAW Patrol: The Mighty Movie*.

Entertainment capital expenditures decreased by $8.2 million to $13.1 million, primarily as a result of lower content development production costs capitalized for *Unicorn Academy* and *Bakugan*.

The following table provides a summary of the Entertainment segment's operating results for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended Sep 30			
(US$ millions)	2023	2022	$ Change	% Change
Entertainment revenue	134.9	87.6	47.3	54.0 %
Operating Income	68.3	57.6	10.7	18.6 %
Operating Margin	50.6 %	65.8 %		(15.2)%
Adjusted Operating Income[1]	70.2	58.6	11.6	19.8 %
Adjusted Operating Margin[1]	52.0 %	66.9 %		(14.9)%
Selected Cash Flow and Balance Sheet Data				
Entertainment capital expenditures	42.4	43.0	(0.6)	(1.4)%
	Sep 30 2023	Dec 31 2022	$ Change	% Change
Entertainment content development, net carrying amount	68.8	77.1	(8.3)	(10.8)%

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

Entertainment revenue increased by $47.3 million or 54.0% to $134.9 million, from higher distribution revenue from new content deliveries including *PAW Patrol: The Mighty Movie* ($15.6 million), *Unicorn Academy, Rubble & Crew* and *Vida the Vet* as well as the Company's share of revenue from the *PAW Patrol* series and the continued distribution of *PAW Patrol: The Movie*. Constant Currency Entertainment Revenue[1] increased by $47.3 million or 54.0% to $134.9 million, up from $87.6 million.

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

Operating Income increased by $10.7 million or 18.6% to $68.3 million. Adjusted Operating Income[1] was $70.2 million compared to $58.6 million. Operating Income and Adjusted Operating Income[1] increased due to higher distribution revenue.

Operating Margin decreased by 15.2% from 65.8% to 50.6%. Adjusted Operating Margin[1] decreased by 14.9% from 66.9% to 52.0%. The decrease in both Operating Margin and Adjusted Operating Margin[1] was driven primarily by the amortization of production costs from additional content deliveries, including *Unicorn Academy* and $11.0 million for *PAW Patrol: The Mighty Movie*.

Entertainment capital expenditures decreased by $0.6 million to $42.4 million, primarily as a result of lower content development production costs capitalized for *Unicorn Academy*, partially offset by higher production costs capitalized for *PAW Patrol: The Mighty Movie,* the *PAW Patrol* series and *Rubble & Crew*.

Entertainment content development, net carrying amount decreased by $8.3 million to $68.8 million, primarily as a result of amortization of production costs on delivered content, including $11.0 million for *PAW Patrol: The Mighty Movie*.

Entertainment Segment Trend Analysis

(US$ millions)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Entertainment revenue	63.4[1]	33.9	37.6	31.2	37.0	28.4	22.2	28.5
Operating Income	23.3	15.7	29.3	19.1	28.9	17.5	11.2	12.1
Operating Margin	36.8%	46.3%	77.9%	61.2%	78.1%	61.6%	50.5%	42.5%
Adjusted Operating Income[2]	24.0	16.3	29.9	20.5	29.2	18.0	11.4	13.4
Adjusted Operating Margin[2]	37.9%	48.1%	79.5%	65.7%	78.9%	63.4%	51.4%	47.0%
Selected Cash Flow and Balance Sheet Data								
Entertainment capital expenditures	13.1	10.9	18.4	11.9	21.3	14.9	6.8	12.1
Entertainment content development, net carrying amount[3]	68.8	90.8	90.5	77.1	57.4	41.3	30.2	27.4

[1] Includes Entertainment revenue associated with the theatrical release of *PAW Patrol: The Mighty Movie*.

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

[3] Net carrying amount represents balance as at end of the period.

Entertainment segment results fluctuated from quarter to quarter as a result of the timing of content development and distribution, and mix of revenue:

- In Q3 2023, Entertainment revenue included $15.6 million of distribution revenue from the theatrical release of *PAW Patrol: The Mighty Movie*. Operating Margin and Adjusted Operating Margin[1] was lower as a result of the dilutive effect from the amortization of production costs of $11.0 million.
- In the first half of 2023, Entertainment content development, net carrying amount in intangibles assets increased primarily due to the capitalized costs for the production of *PAW Patrol: The Mighty Movie* and *Unicorn Academy*.
- In Q1 2023 and Q3 2022, the Entertainment segment experienced higher Operating and Adjusted Operating Margins[1] from higher licensing and merchandising revenue, as well as lower costs due to fewer content deliveries compared to other quarters.

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

Digital Games Segment Results

The following table provides a summary of the Digital Games segment's operating results for the three months ended September 30, 2023 and 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change	% Change
Digital Games revenue	45.3	34.6	10.7	30.9 %
Operating Income	13.6	8.2	5.4	65.9 %
Operating Margin	30.0 %	23.7 %		6.3 %
Adjusted Operating Income[1]	15.5	10.0	5.5	55.0 %
Adjusted Operating Margin[1]	34.2 %	28.9 %		5.3 %
Selected Cash Flow Data				
Digital Games capital expenditures	5.0	2.9	2.1	72.4 %

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

Digital Games revenue increased by $10.7 million or 30.9% to $45.3 million. Constant Currency Digital Games Revenue increased by $11.0 million or 31.8% to $45.6 million, up from $34.6 million. The increase in Digital Games revenue and Constant Currency Digital Games Revenue[1] were primarily due to higher in-game purchases in *Toca Life World.*

Operating Income increased by $5.4 million or 65.9% to $13.6 million. Adjusted Operating Income[1] increased by $5.5 million or 55.0% to $15.5 million from $10.0 million. The increase in Operating Income and Adjusted Operating Income[1] was due higher in-game purchases in *Toca Life World* and a reduction in marketing spend.

Operating Margin increased by 6.3% from 23.7% to 30.0%. Adjusted Operating Margin[1] increased by 5.3% from 28.9% to 34.2%. Operating Margin and Adjusted Operating Margin[1] increased due to lower marketing and administrative expenses.

Digital Games capital expenditures were $5.0 million compared to $2.9 million, an increase of $2.1 million or 72.4%, from higher *Toca Days, PAW Patrol Academy, Rubik's* and *Toca Life World* development costs.

The following table provides a summary of the Digital Games segment's operating results for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended Sep 30			
(US$ millions)	2023	2022	$ Change	% Change
Digital Games revenue	133.3	126.0	7.3	5.8 %
Operating Income	39.4	36.4	3.0	8.2 %
Operating Margin	29.6 %	28.9 %		0.7 %
Adjusted Operating Income[1]	47.3	41.6	5.7	13.7 %
Adjusted Operating Margin[1]	35.5 %	33.0 %		2.5 %
Selected Cash Flow and Balance Sheet Data				
Digital Games capital expenditures	14.0	8.2	5.8	70.7 %
	Sep 30 2023	Dec 31 2022	$ Change	% Change
Digital Games development, net carrying amount	25.3	17.1	8.2	48.0 %

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

Digital Games revenue increased by $7.3 million or 5.8% to $133.3 million. Constant Currency Digital Games Revenue[1] increased by $10.1 million or 8.0% to $136.1 million, up from $126.0 million. The increase in Digital

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

Games revenue and Constant Currency Digital Games Revenue[1] were due to higher in-game purchases in *Toca Life World*.

Operating Income increased by $3.0 million or 8.2% to $39.4 million. Adjusted Operating Income[1] increased by $5.7 million or 13.7% to $47.3 million from $41.6 million. The increase in Operating Income and Adjusted Operating Income[1] are attributable to higher in-game purchases in *Toca Life World*, partially offset by higher product development and personnel costs.

Operating Margin was 29.6% compared to 28.9%. Adjusted Operating Margin[1] was 35.5% compared to 33.0%. Operating Margin and Adjusted Operating Margin[1] increased due to lower marketing and administrative expenses.

Digital Games capital expenditures were $14.0 million compared to $8.2 million, an increase of $5.8 million or 70.7%, from higher *Toca Days, PAW Patrol Academy, Toca Life World* and *Rubik's* development costs.

Digital Games development, net carrying balance was $25.3 million compared to $17.1 million.

Digital Games Segment Trend Analysis

(US$ millions)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Digital Games revenue	45.3	40.5	47.5	37.9	34.6	40.3	51.1	50.0
Operating Income	13.6	9.6	16.2	10.1	8.2	8.4	19.8	17.3
Operating Margin	30.0 %	23.7 %	34.1 %	26.6 %	23.7 %	20.8%	38.7%	34.6%
Adjusted Operating Income[1]	15.5	12.8	19.0	12.3	10.0	10.0	21.6	19.0
Adjusted Operating Margin[1]	34.2 %	31.6%	40.0%	32.5%	28.9 %	24.8%	42.3%	38.0%
Selected Cash Flow and Balance Sheet Data								
Digital Games capital expenditures	5.0	5.1	3.9	3.9	2.9	2.8	2.5	2.9
Digital Games development, net carrying amount[2]	25.3	22.0	19.4	17.1	14.6	14.2	13.6	12.8

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

[2] Net carrying amount represents balance as at the end of the period.

Digital Games segment results fluctuated from quarter to quarter as a result of the following:

- Digital Games revenue is typically higher during traditional vacation periods and when new content is launched in each fiscal year, with proportionate Operating Income and cash flows generated during the same period.
- Operating and Adjusted Operating Margins[1] fluctuate between quarters due to the timing of product development and personnel related costs. Quarters with higher Digital Games revenue will also drive operating leverage, leading to higher Operating Margins.
- In the first half of 2023, Digital Games capital expenditure and Digital Games development, net carrying amount in intangibles assets increased primarily due to the capitalized costs for the development of new games including *Toca Days, Paw Patrol Academy* and *Rubik's*.
- Other factors affecting 2021 results include COVID-19 pandemic related impacts driving higher Digital Games revenue in the period.

Corporate & Other for the three and nine months ended September 30, 2023 as compared to the same period in 2022:

For the three months ended September 30, 2023**,** Operating Income for Corporate & Other was $11.3 million, a decrease of $29.6 million compared to an Operating Income of $40.9 million. Adjusted Operating Income[1] was $3.3 million compared to $2.7 million.

For the nine months ended September 30, 2023, Operating Loss was $13.2 million compared to an Operating Income of $59.9 million, a change of $73.1 million primarily related to a foreign exchange loss of $3.5 million compared to a foreign exchange gain of $66.2 million. Adjusted Operating Loss[1] increased to $8.1 million compared to $6.9 million.

INVESTMENTS AND ACQUISITIONS

Current year acquisitions

Acquisition of certain assets from 4D Brands International Inc

On January 17, 2023, the Company acquired certain assets from 4D Brands International Inc. and 4D Cityscape Worldwide Limited, (collectively, the "Vendors") creators of puzzle games. Management performed an analysis an analysis under IFRS 3, Business Combinations ("IFRS 3") and has determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. This acquisition complements the Company's existing puzzle games offering and has been reported in the Toys segment within the Activities, Games & Puzzles and Plush product category and included in the Games and Puzzles cash generating unit ("CGU") beginning from the date of acquisition.

The total purchase consideration of $18.9 million is comprised of $14.6 million cash consideration and $4.1 million contingent consideration related to the estimated fair value of future royalties as well as certain performance metrics. The contingent consideration is recorded in provisions and contingent liabilities in the Consolidated statements of financial position.

Purchase consideration of $18.9 million has been allocated as follows: $8.5 million to intangible assets, $0.7 million to inventories and $0.4 million to prepaid and other assets, with the remainder of $9.3 million allocated to goodwill.

The Company incurred $0.2 million in transaction related costs which were included in administrative expenses in the Condensed consolidated interim statements of earnings and comprehensive income.

Acquisition of certain assets from Innovation First International, Inc.

On February 2, 2023, the Company acquired certain assets from Innovation First, Inc., Innovation First International Inc., Innovation First Labs, Inc., Innovation First Logistics., Inc. Management performed an analysis under IFRS 3 and has determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. This acquisition is an opportunity for Spin Master to enter the niche market of robotic toys and grow the *HEXBUG* brand. The acquired business has been reported in the Toys segment within the Wheels & Action product category and included in the Wheels & Action CGU beginning from the date of acquisition.

The total purchase consideration of $14.6 million is comprised of $12.9 million cash consideration and $1.4 million contingent consideration related to the estimated fair value of future royalties. The contingent consideration is recorded in provisions and contingent liabilities in the interim statements of financial position.

The total purchase consideration of $14.6 million has been allocated as follows: $7.7 million to intangible assets, $2.9 million to inventories, $0.5 million to prepaid and other assets, and $0.4 million to property, plant and equipment with the remainder of $3.1 million allocated to goodwill.

The Company incurred $0.2 million in transaction related costs which were included in administrative expenses in the Condensed consolidated interim statements of earnings and comprehensive income.

Prior year acquisitions

Acquisition of certain assets from SolidRoots, LLC

On August 2, 2022, the Company acquired certain assets from SolidRoots, LLC (“SolidRoots”), a creator of family board games. Management performed an analysis under IFRS 3 and determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. This acquisition complements the Company's existing board games offering and is reported in the Toys segment within the Activities, Games & Puzzles and Plush product category and included in the Games and Puzzles CGU beginning from the date of acquisition.

Purchase consideration of $10.7 million has been allocated as follows: $4.4 million to intangible assets (related to the brand), $2.0 million to inventories and $0.1 million to prepaid expenses and other assets, with the remainder of $4.2 million allocated to goodwill.

Acquisition of the remaining shares of Nørdlight Games AB

On August 24, 2021, the Company acquired 18.53% of the shares in Nørdlight Games AB (“Nørdlight”), a company that creates and develops digital games, based in Sweden. On August 8, 2022, the Company acquired the remaining 81.47% of the shares of Nørdlight, resulting in ownership and control of 100% of the voting shares in Nørdlight. This investment was classified in 2021 as an equity instrument measured at FVTOCI. Management performed an analysis under IFRS 3 and determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. The acquisition has been reported under the Digital Games segment and CGU beginning from the date of acquisition.

The Company paid cash consideration of $2.5 million. The total purchase consideration has been allocated to the identifiable assets of $0.5 million, and liabilities of $0.2 million, with the remainder $2.9 million allocated to goodwill.

The purchase agreement also includes contingent consideration of $4.9 million which is payable on achieving certain performance metrics and has been allocated a fair value of $nil in the total purchase consideration.

Spin Master Ventures

Spin Master Ventures ("SMV") focus is to accelerate growth by making minority investments in companies operating in each of the Company’s three creative centres comprising Toys, Entertainment and Digital Games. Spin Master has initially allocated $100 million of capital to SMV, to be funded from existing internal resources. As at September 30, 2023, the Company has invested $11.9 million.

The SMV portfolio currently consists of the following investments:

	Creative Centre	Location	Acquisition date	Initial investment	Sep 30, 2023	Dec 31, 2022
Classified as FVTPL						
Education technology company	Digital Games	Canada	Q3 2021	1.8	1.8	1.8
Virtual reality gaming company	Digital Games	U.K.	Q1 2022	0.5	0.5	0.5
Content streaming platform[1]	Entertainment	U.S.A	Q1 2022	0.5	—	—
Baby consumer product brand	Toys	U.S.A	Q2 2022 & Q2 2023	5.0	5.0	3.0
Animation technology company	Entertainment	U.S.A	Q4 2022	0.5	0.5	0.5
Classified as FVTOCI						
Mobile game development company[2]	Digital Games	Sweden	Q3 2021	0.6	—	—
Global publishing company	Entertainment	U.S.A	Q4 2022	3.0	3.0	3.0
				11.9	**10.8**	**8.8**

[1] Fair value loss of $0.5 million recorded in Q2 2022 through the statement of earnings

[2] Fair value gain of $0.1 million recorded in Q2 2022 through other comprehensive income. In Q3 2022, the Company acquired the remaining ownership interest and control of the minority interest investment.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table provides selected historical information and other data, which should be read in conjunction with the annual financial statements and current and past interim financial statements.

(in US$ millions, except EPS)	**Q3 2023**	**Q2 2023**	**Q1 2023**	**Q4 2022**	**Q3 2022**	**Q2 2022**	**Q1 2022**	**Q4 2021**
Revenue	710.2	420.7	271.4	465.8	624.0	506.3	424.2	620.5
Operating Income (Loss)	197.2	34.4	(6.1)	(24.0)	187.4	118.2	61.7	39.1
Operating Margin	27.8%	8.2%	(2.2)%	(5.2)%	30.0%	23.3%	14.5%	6.3%
Adjusted Operating Income (Loss)[1]	190.2	62.6	12.7	(5.5)	151.8	97.6	77.3	55.3
Adjusted Operating Margin[1]	26.8%	14.9%	4.7%	(1.2)%	24.3%	19.3%	18.2%	8.9%
Net Income (Loss)	155.4	28.0	(1.9)	(13.8)	141.4	88.1	45.6	26.5
Basic EPS	$1.50	$0.27	$(0.02)	$(0.13)	$1.37	$0.86	$0.45	$0.26
Diluted EPS	$1.45	$0.26	$(0.02)	$(0.13)	$1.33	$0.83	$0.43	$0.25
Adjusted EBITDA[1]	234.9	88.4	30.6	12.4	167.6	113.7	95.7	78.3
Adjusted EBITDA Margin[1]	33.1%	21.0%	11.3%	2.7%	26.9%	22.5%	22.6%	12.6%
Adjusted Net Income[1]	143.6	48.8	12.30	—	114.4	72.4	57.5	38.7
Adjusted Basic EPS[1]	$1.39	$0.47	$0.12	$—	$1.11	$0.70	$0.56	$0.38
Adjusted Diluted EPS[1]	$1.34	$0.45	$0.12	$—	$1.08	$0.68	$0.55	$0.37
Balance Sheet and Cash Flow								
Cash and cash equivalents	650.7	554.9	569.3	644.3	674.9	558.1	493.1	562.7
Cash provided by (used in) operating activities	144.3	19.1	(4.3)	(6.8)	207.3	111.6	(62.9)	230.1
Cash used in investing activities	(25.1)	(30.3)	(56.6)	(28.2)	(42.3)	(30.4)	(8.3)	(19.6)
Free Cash Flow[1]	118.9	(5.9)	(34.4)	(30.1)	175.3	84.1	(79.4)	211.3

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

The seasonality factors outlined in the Toys, Entertainment and Digital Games segment trend analysis have the following impact on the Company's results from quarter to quarter:

- Revenue, Operating Income (Loss), Net Income (Loss), and cash flows generated are significantly affected by the seasonality factors of the Toys segment, with a higher concentration historically in the third and fourth quarters of each fiscal year.
- In 2022, a higher proportion of Toy Gross Product Sales[1] shifted into the first and second quarters from the third quarter as retailers ordered earlier in the year to minimize then anticipated supply chain disruptions. The third and fourth quarters of 2022 were pressured by the macroeconomic environment, particularly from higher inflation compounded by foreign exchange volatility and a carry-over of inventory at retailers from the first half of 2022. These factors resulted in a strong first half seasonality of 2022 with Toy Gross Product Sales[1] representing 45 percent of the 2022 annual Toy Gross Product Sales[1].
- Quarters with higher cash used in investing activities reflect higher capital expenditures across the operating segments as well as periods with investment or acquisition related activity.
    - In Q1 2023, the Company acquired certain assets from 4D Brands International Inc. for total purchase considerations of $18.9 million ($14.6 million of cash consideration) and acquired certain assets from Innovation First, Inc. for total purchase consideration of $14.6 million ($12.9 million of cash consideration).

- In the Q3 2022, the Company acquired certain assets from SolidRoots LLC for total purchase considerations of $10.7 million ($8.5 million of cash consideration) and acquired the remaining shares of Nørdlight Games AB for total purchase considerations of $3.2 million ($2.5 million of cash consideration).

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2023, the Company had Cash and cash equivalents of $650.7 million (December 31, 2022 - $644.3 million).

The Company has an unsecured five-year revolving credit facility (the "Facility") with a borrowing capacity of $510.0 million which matures on September 28, 2026, and contains certain financial covenants. The Facility also has an option which permits the Company to increase the total capital available by an additional $200.0 million. Total financing costs of $1.8 million, which include Facility amendment fees and related legal fees, are recognized in Other assets and are being amortized over the term of the amended and restated agreement.

As at September 30, 2023, there were $1.5 million (December 31, 2022 - $1.4 million) in letters of credit outstanding under the Facility. As at September 30, 2023, there was $nil drawn (December 31, 2022 - $nil) under the Facility.

The Company has an uncommitted Overdraft Facility Agreement (the "European Facility") for $15.9 million (equivalent to €15.0 million). The European Facility will be used, if needed, to fund working capital requirements in Europe. As at September 30, 2023, the outstanding balance was $nil (December 31, 2022 - $nil).

The Company has an uncommitted Revolving Credit Facility to finance television and film production. The limit of the credit facility (the "Production Facility") is $7.4 million (equivalent to CA$10.0 million). As at September 30, 2023, the outstanding balance of the Production Facility was $nil (December 31, 2022 - $nil).

As at September 30, 2023, the Company had unutilized liquidity of $1,159.2 million, comprised of $650.7 million in Cash and cash equivalents and $508.5 million under the Company's credit facilities.

The Company’s primary source of liquidity is cash flow from operations. The Company’s primary capital needs are related to inventory financing, accounts payable funding, and capital expenditures for Toys tooling, Entertainment content creation and production, Digital Games development and to fund strategic acquisitions and minority investments. As a result of the seasonal nature of the toy industry, working capital requirements are variable throughout the year. Working capital needs typically grow through the first three quarters as inventories are built up for the peak sales periods for retailers in the fourth quarter. The Company’s cash flows from operating activities are typically at their highest levels of the year in the fourth quarter, however, may be impacted by the factors discussed below.

The Company paid its first quarterly dividend in the third quarter of 2022. The declaration and payment of dividends on the Company’s subordinate voting shares and multiple voting shares and the amount thereof are at the discretion of the Company’s Board of Directors, which considers the Company’s financial results, capital requirements, available cash flow, future prospects of the Company’s business and other factors considered relevant from time to time.

Cash flows from operations could be negatively impacted by lower demand for the Company’s products, which may result from factors such as adverse economic conditions and changes in consumer preferences, the loss of confidence by the Company’s principal customers in the Company and its product lines, or by increased costs associated with manufacturing and distribution of products.

The Company expects that cash on hand, future operating cash flows and the amount available under its committed credit facility, are sufficient to finance capital expenditures and ongoing business requirements over the next 12 months. The Company continually assesses its liquidity needs and may consider additional financing related to the intended acquisition of Melissa & Doug (refer to Subsequent Events). In addition, in order to manage its capital allocation, the Company may adjust the amount of dividends paid to shareholders or whether dividends are paid at all, purchase shares for cancellation under its NCIB program, issue new shares or issue or repay borrowings to ensure sufficient liquidity is available to support its financial obligations, and to execute its operating and strategic plan. The Company may also adjust its capital structure in light of changes in economic conditions, utilize short-term funding sources to manage its seasonal working capital requirements and long-term funding sources to manage the long-term capital investments of the business.

Short Form Base Shelf Prospectus

The Company filed a short form base shelf prospectus dated November 2, 2021, pursuant to which, for a period of 25 months thereafter, the Company (and shareholders of the Company) may sell up to an aggregate of CA$1.0 billion of subordinate voting shares, preferred shares, debt securities, subscription receipts, warrants or any combination thereof as a unit. This filing provides the Company with the flexibility to access debt and equity markets on a timely basis.

Capital and Investment Framework

Over the long term, the Company plans to use its cash on hand, cash from operations and its committed credit facility to fund seasonal working capital requirements related to product sales, television shows, feature films, short-form content, Digital Games development in addition to strategic acquisitions, minority investments, and capital investments.

Spin Master primarily uses third parties to manufacture, warehouse and distribute its products. As a result, the Company does not have to incur material investments in property, plant and equipment. The Company's capital expenditures are generally comprised of the purchase of tooling used in the manufacturing process of toys, entertainment content production and digital games development.

CASH FLOW

The following table provides a summary of Spin Master's consolidated cash flows for the three months ended September 30, 2023 and 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change
Net cash flows provided by operating activities	144.3	207.4	(63.1)
Net cash flows used in investing activities	(25.1)	(42.3)	17.2
Net cash flows used in financing activities	(8.4)	(4.1)	(4.3)
Net increase (decrease) in cash and cash equivalents (excluding the effect of foreign currency exchange rate changes on cash and cash equivalents)	**110.8**	**161.0**	**(50.2)**
Effect of foreign currency exchange rate changes on cash and cash equivalents	(15.0)	(44.2)	29.2
Cash and cash equivalents, beginning of period	554.9	558.1	(3.2)
Cash and cash equivalents, end of period	**650.7**	**674.9**	**(24.2)**

The following table provides a summary of Spin Master's consolidated cash flows for the nine months ended September 30, 2023 as compared to the same period in 2022:

	Nine Months Ended Sep 30		
(US$ millions)	**2023**	**2022**	**$ Change**
Net cash flows provided by operating activities	159.1	256.1	(97.0)
Net cash flows used in investing activities	(112.0)	(81.0)	(31.0)
Net cash flows used in financing activities	(35.9)	(11.8)	(24.1)
Net increase (decrease) in cash and cash equivalents (excluding the effect of foreign currency exchange rate changes)	**11.2**	**163.3**	**(152.1)**
Effect of foreign currency exchange rate changes on cash and cash equivalents	(4.8)	(51.1)	46.3
Cash and cash equivalents, beginning of period	644.3	562.7	81.6
Cash and cash equivalents, end of period	**650.7**	**674.9**	**(24.2)**

Operating Activities as compared to the same period in 2022:

Cash flows provided by operating activities were $144.3 million for the three months ended September 30, 2023 compared to $207.4 million driven by the change in net working capital (a decrease of $71.4 million as compared to an increase of $58.3 million in the comparative period), partially offset by higher Adjusted Operating Income[1] as a result of higher order volume in comparison to the prior year.

Cash flows provided by operating activities were $159.1 million for the nine months ended September 30, 2023 compared to $256.1 million driven by lower Adjusted Operating Income[1] as a result of lower order volume, as customers focused on decreasing retail inventory levels from Q4 2022, compared to the prior year and the change in net working capital (a decrease of $131.9 million as compared to a decrease of $65.8 million in the comparative period).

The following table provides a summary of Spin Master's net changes in non-cash working capital for the nine months ended September 30, 2023 as compared to the same period in 2022:

	Nine Months Ended Sep 30		
(US$ millions)	**2023**	**2022**	**$ Change**
Decrease (increase) in:			
Trade receivables, net	(147.9)	80.0	(227.9)
Other receivables	(9.9)	(17.4)	7.5
Inventories, net	(44.6)	(28.2)	(16.4)
Prepaid expenses and other assets	(16.6)	(2.7)	(13.9)
Assets held for sale	—	(8.9)	8.9
	(219.0)	**22.8**	**(241.8)**
Increase (decrease) in:			
Trade payables and accrued liabilities	95.8	(83.5)	179.3
Deferred revenue	(7.0)	(0.4)	(6.6)
Provisions	(1.7)	(4.7)	3.0
	87.1	**(88.6)**	**175.7**
Net changes in non-cash working capital	**(131.9)**	**(65.8)**	**(66.1)**

Net Working Capital[1]

The table below outlines key financial information pertaining to the Company's net working capital:

(US$ millions)	Sep 30, 2023	Dec 31, 2022	$ Change
Trade receivables, net[1]	442.8	311.0	131.8
Other receivables[2]	59.3	49.5	9.8
Inventories, net[3]	153.3	105.1	48.2
Prepaid expenses and other assets	38.2	22.3	15.9
Current assets	**693.6**	**487.9**	**205.7**
Trade payables	234.5	153.0	81.5
Accrued liabilities[4]	198.8	186.4	12.4
Deferred revenue	4.5	11.5	(7.0)
Provisions	29.9	30.7	(0.8)
Current liabilities	**467.7**	**381.6**	**86.1**
Net working capital	**225.9**	**106.3**	**119.6**

[1] Trade receivables are net of allowance for doubtful accounts and provisions for sales allowances. Refer to Note 11 of the interim financial statements.

[2] Other receivables include investment tax credits receivable, royalties, sales tax and other balances. Refer to Note 11 of the interim financial statements.

[3] Inventories are net of write-downs. Refer to Note 12 of the interim financial statements.

[4] Accrued liabilities are comprised of payroll related liabilities, accrued royalties, commodity tax, dividends payable, accrued liability for the automatic share purchase plan, restructuring liability and other balances. Refer to Note 18 of the interim financial statements.

Net working capital increased by $119.6 million to $225.9 million at September 30, 2023 from $106.3 million. Excluding the impact of foreign exchange, total net working capital increased by $131.9 million.

Trade receivables, net, increased by $131.8 million to $442.8 million at September 30, 2023 from $311.0 million, driven by higher sales in the third quarter as a result of customers for Toy ordering more consistent with historical seasonality of the business.

Other receivables increased by $9.8 million to $59.3 million at September 30, 2023 from $49.5 million, an increase in Entertainment related investment tax credits receivables.

Inventories, net, increased by $48.2 million to $153.3 million at September 30, 2023 from $105.1 million, due to the timing of the purchase of inventories in line with the historical seasonality of the Toys business.

Trade payables and accrued liabilities increased by $93.9 million to $433.3 million at September 30, 2023 from $339.4 million, driven by the timing of purchasing activity and payments.

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

Investing Activities as compared to the same period in 2022:

The following table provides a summary of Spin Master's consolidated cash flows used in investing activities for the three months ended September 30, 2023 and 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change
Property, plant and equipment			
Tooling	4.1	3.3	0.8
Other	4.1	3.6	0.5
Total property, plant and equipment	**8.2**	**6.9**	**1.3**
Intangible assets			
Entertainment content and Digital Games development	16.8	23.1	(6.3)
Computer software	0.4	2.1	(1.7)
Total intangible assets	**17.2**	**25.2**	**(8.0)**
Total capital expenditures	**25.4**	**32.1**	**(6.7)**
Business acquisitions, net of cash acquired	—	10.2	(10.2)
Investment distribution income	(0.3)	—	(0.3)
Cash used in investing activities	**25.1**	**42.3**	**(17.2)**

Cash used in investing activities was $25.1 million for the three months ended September 30, 2023 compared to $42.3 million primarily as a result of decreases in capital expenditures related to Entertainment content and Digital Games development.

The following table provides a summary of Spin Master's consolidated cash flows used in investing activities for the nine months ended September 30, 2023 as compared to the same period in 2022:

	Nine Months Ended Sep 30		
(US$ millions)	2023	2022	$ Change
Property, plant and equipment			
Tooling	15.6	17.5	(1.9)
Other	6.7	5.4	1.3
Total property, plant and equipment	**22.3**	**22.9**	**(0.6)**
Intangible assets			
Entertainment content and Digital Games development	55.6	48.9	6.7
Computer software	2.6	3.8	(1.2)
Brands, licenses and trademark acquisitions	3.3	0.5	2.8
Total intangible assets	**61.5**	**53.2**	**8.3**
Total capital expenditures	**83.8**	**76.1**	**7.7**
Business acquisitions	26.5	10.2	16.3
Minority interest and other investments, net of investment distribution income	1.7	3.9	(2.2)
Proceeds from sale of manufacturing operations	—	(9.2)	9.2
Cash used in investing activities	**112.0**	**81.0**	**31.0**

For the nine months ended September 30, 2023, cash used in investing activities was $112.0 million compared to $81.0 million. The increase was primarily related to the business acquisitions of 4D Brands International Inc. and Innovation First for a total of $26.5 million and an asset acquisition from a games and puzzles company for $3.3 million, compared to $10.2 million in the prior year related to the acquisition of remaining shares of Nordlight Games AB for $2.1 million and asset acquisition from SolidRoots LLC for $8.5 million. In addition, there were higher investments in Entertainment content and Digital Games development.

Financing Activities as compared to the same period in 2022:

Cash flows used in financing activities were $8.4 million for the three months ended September 30, 2023 compared to $4.1 million primarily from the payment of cash dividends.

For the nine months ended September 30, 2023, cash flows used in financing activities were $35.9 million compared to $11.8 million primarily from the payment of cash dividends and the repurchase of subordinate voting shares under the Company's NCIB program.

Free Cash Flow[1] as compared to the same period in 2022:

The following table provides a reconciliation of Spin Master's consolidated Free Cash Flow[1] to cash from operating activities and cash used in investing activities for the three months ended September 30, 2023 and 2022:

(US$ millions)	Q3 2023	Q3 2022	$ Change
Cash flows provided by operating activities	144.3	207.4	(63.1)
Cash flows used in investing activities	(25.1)	(42.3)	17.2
Add:			
Business acquisitions, net of cash acquired	—	10.2	(10.2)
Investment distribution income	(0.3)	—	(0.3)
Free Cash Flow[1]	**118.9**	**175.3**	**(56.4)**

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

Free Cash Flow[1] was $118.9 million for the three months ended September 30, 2023 compared to $175.3 million, a decrease of $56.4 million. Free Cash Flow[1] decreased due to the change in non-cash working capital, partially offset by higher Adjusted Operating Income[1].

The following table provides a reconciliation of Spin Master's consolidated Free Cash Flow[1] to cash from operating activities and cash used in investing activities for the nine months ended September 30, 2023 as compared to the same period in 2022:

	Nine Months Ended Sep 30		
(US$ millions)	**2023**	**2022**	**$ Change**
Cash flows provided by operating activities	159.1	256.1	(97.0)
Cash flows used in investing activities	(112.0)	(81.0)	(31.0)
Add:			
Business acquisitions, net of cash acquired	26.5	10.2	16.3
Asset acquisition	3.3	—	3.3
Investment distribution income	(0.3)	(0.1)	(0.2)
Minority interest and other investments	2.0	4.0	(2.0)
Proceeds from sale of manufacturing operations	—	(9.2)	9.2
Free Cash Flow[1]	**78.6**	**180.0**	**(101.4)**

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

For the nine months ended September 30, 2023, Free Cash Flow[1] was $78.6 million compared to $180.0 million, a decrease of $101.4 million. Free Cash Flow[1] declined primarily due to the change in non-cash working capital, lower Adjusted Operating Income[1] and higher investment in intangible assets and property, plant, and equipment.

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

OUTLOOK

The Company now expects 2023 Toy Gross Product Sales[1] to be down high single digits compared to 2022, as compared to flat to slightly down announced on August 2, 2023.

The Company now expects 2023 Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] to be down mid-single digits compared to 2022, as compared to flat announced on August 2, 2023.

The Company now expects 2023 Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] to be up compared to 2022, as compared to flat to slightly up announced on August 2, 2023.

CONTRACTUAL OBLIGATIONS & COMMITMENTS

In the normal course of business, the Company enters into contractual arrangements to obtain and protect its right to create and market certain products and to ensure availability and timely delivery of future purchases of goods and services. These arrangements include commitments for future services, purchases, commitments to settle foreign currency forward contracts and royalty payments pursuant to licensing agreements. Certain of these commitments routinely contain provisions for guarantees or minimum expenditures during the terms of the contracts. Additionally, the Company routinely enters into non-cancellable lease agreements for premises and equipment, which contain minimum rental payments.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

CAPITALIZATION

Share Capital

As at November 1, 2023, there were 103.7 million shares outstanding comprised of 68.7 million multiple voting shares and 35.0 million subordinate voting shares.

As of November 1, 2023, pursuant to grants under the Company's Long-Term Incentive Plan, 1.0 million subordinate voting shares were issuable under outstanding Restricted Stock Units, up to 1.5 million subordinate voting shares were issuable under outstanding Performance Share Units (assuming vesting at a maximum of 200% for units with an outstanding performance period) and 0.5 million subordinate voting shares were issuable under outstanding Share Option grants.

As at September 30, 2023, the Company had dividends declared and accrued of $4.6 million at a rate of CA$0.06 per outstanding subordinate voting share and multiple voting share of the Company. Dividends of $4.6 million were paid on January 14, 2023 to shareholders of record at the close of business on December 30, 2022. Dividends of $4.6 million were paid on April 14, 2023 to shareholders of record at the close of business on March 31, 2023. Dividends of $4.7 million were paid on July 14, 2023 to shareholders of record at the close of business on June 30, 2023. Dividends in the amount of $4.7 million were paid on October 13, 2023 to shareholders of record at the close of business on September 29, 2023.

On November 1, 2023, the Company’s Board of Directors declared a dividend of CA$0.06 per outstanding subordinate voting share and multiple voting share, payable on January 12, 2024 to shareholders of record at the close of business on December 29, 2023.

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

The following table provides a summary of dividends declared and paid.

Declaration Date	Record Date	Payment Date	Rate per Share (CA$)	Dividends declared and accrued (in US$ millions)
November 1, 2023	December 29, 2023	January 12, 2024	0.06	4.6
August 2, 2023	September 29, 2023	October 13, 2023	0.06	4.6
May 3, 2023	June 30, 2023	July 14, 2023	0.06	4.7
March 8, 2023	March 31, 2023	April 14, 2023	0.06	4.6
November 2, 2022	December 30, 2022	January 13, 2023	0.06	4.6

Secondary Offering

On November 10, 2022, the Company announced a secondary offering (the "Secondary Offering") on a bought deal basis of its subordinate voting shares through a secondary sale of shares by an entity owned and or controlled by a Director of the Company (the "Selling Shareholder"). The Secondary Offering of 1,900,000 subordinate voting shares raised gross proceeds of approximately CA$61.0 million for the Selling Shareholder, at a price of CA$32.10 per subordinate voting share and was completed on November 17, 2022. The Company did not receive any proceeds from the Secondary Offering, and the underwriting fees and other expenses related to the Secondary Offering were paid by the Selling Shareholder. To satisfy the sale under the Secondary Offering, the Selling Shareholder converted 1,900,000 multiple voting shares into subordinate voting shares on a one-for-one basis.

Normal Course Issuer Bid

On January 5, 2023, the Company launched, and the Toronto Stock Exchange ("TSX") accepted the notice to launch an NCIB. Under the NCIB, the Company repurchases its subordinate voting shares on the open market at its discretion and subject to compliance with applicable securities laws. The NCIB period commenced on January 9, 2023, and will end on the earlier of January 8, 2024, and the completion of purchases under the NCIB, of up to 2,845,904 subordinate voting shares, which represented approximately 10% of the "public float" (within the meaning of the rules of the TSX) upon launch of the NCIB.

The following table summarizes the Company's activities under the NCIB for the nine months ended September 30, 2023:

(US$ millions)	Nine Months Ended Sep 30 2023
Subordinate voting shares repurchased under the NCIB for cancellation (number of shares)	397,700
Cash consideration paid	10.5
Reduction in share capital	4.7
Premium paid on repurchased and cancelled shares recorded in retained earnings	5.8

From time to time, the Company participates in an automatic share purchase plan ("ASPP") with its designated broker in order to facilitate the repurchase of SVS. As at September 30, 2023, 397,700 subordinate voting shares have been repurchased and cancelled at a cost of $10.5 million. On April 14, 2023, upon the expiry of the ASPP commitment period, the Company derecognized the remaining obligation for the outstanding repurchase commitment in trade payables and accrued liabilities.

Dividend Reinvestment Plan

During the three months ended September 30, 2023, the Company implemented a DRIP. The DRIP will provide the Company's eligible shareholders with the opportunity to have all or a portion of the cash dividends declared on their subordinate voting shares or multiple voting shares automatically reinvested into additional subordinate voting shares of the Company (the "Reinvestment Shares") on an ongoing basis. Participants in the DRIP will, until further notice, acquire Reinvestment Shares issued from treasury (a "Treasury Purchase") at a price equal to the volume weighted average price of the Company's subordinate voting shares on the Toronto Stock Exchange during the five (5) trading days immediately preceding the dividend payment date (the "Average Market Price"). The Company will have the discretion to fund the DRIP with subordinate voting shares acquired on the open market.

RELATED PARTY TRANSACTIONS

In the normal course of operations, the Company engaged the services of a law firm whose managing partner is also a member of the Company's Board of Directors, which have been made on terms equivalent to those that prevail in arm's length transactions.

For the three and nine months ended September 30, 2023, related party transactions were included in administrative expenses in the Condensed consolidated interim statements of earnings and comprehensive income of the Company in the amount of $0.9 million (2022 - $0.3 million) and $1.5 million (2022 - $0.8 million), respectively. As at September 30, 2023, amounts payable to the director's law firm were $0.6 million (December 31, 2022 - $0.4 million).

During the three months ended June 30, 2023, the Company paid incentive compensation related liabilities of $3.7 million on behalf of three members of the Company's Board of Directors. These amounts were repaid by all three directors to the Company in the second quarter of 2023.

CRITICAL ACCOUNTING ESTIMATES

The Company's accounting policies under IFRS are included in the Company's annual financial statements, as well as in the Company's annual MD&A. These accounting policies under IFRS and estimates are critical to the understanding of the business and to the results of operations.

Effective January 1, 2023, the Company adopted a voluntary change to the Company's accounting policy for the determination of the unit of account used for measuring the entertainment content development assets. Refer to Note 3 of the unaudited Condensed consolidated interim financial statements for the three and nine months ended September 30, 2023 and September 30, 2022 for adjustments made to the Company's balance sheet dated December 31, 2022.

For the three and nine months ended September 30, 2023, there were no other material changes to the critical accounting estimates of the Company from those reported in the Annual MD&A and annual financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company’s Internal Control over Financial Reporting (“ICFR”) during the three months ended September 30, 2023 which have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

LIMITATIONS OF AN INTERNAL CONTROL SYSTEM

The Chief Executive Officer and the Chief Financial Officer believe that any Disclosure Controls and Procedures or ICFR, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and that all control issues, including instances of fraud, if any, within the Company have been prevented or detected. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of control is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

NON-GAAP FINANCIAL MEASURES AND RATIOS

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

- Adjusted EBITDA
- Adjusted Operating Income (Loss)
- Adjusted Net Income (Loss)
- Free Cash Flow
- Toy Gross Product Sales
- Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue
- Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue
- Constant Currency Toy Gross Product Sales
- Constant Currency Sales Allowances
- Constant Currency Digital Games Revenue
- Constant Currency Entertainment Revenue
- Constant Currency Revenue
- Adjusted Selling, General and Administration Expenses ("Adjusted SG&A")
- Net Working Capital

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 MD&A to the following terms, each of which is a non-GAAP financial ratio:

- Adjusted EBITDA Margin
- Adjusted Operating Margin
- Adjusted Basic EPS
- Adjusted Diluted EPS
- Sales Allowance as a percentage of Toy Gross Product Sales
- Adjusted SG&A as a percentage of Revenue
- Percentage change in Constant Currency Toy Gross Product Sales
- Percentage change in Constant Currency Digital Games Revenue
- Percentage change in Constant Currency Revenue
- Percentage change in Constant Currency Entertainment Revenue
- Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue
- Adjusted EBITDA Margin, excluding *PAW Patrol: The 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

Adjusted EBITDA is calculated as Operating Income before interest income and interest expense 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 or loss on investment, impairment of property, plant and equipment, legal settlement, transaction cost and gain on disposal of asset. 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 Income (Loss) is calculated as Operating Income (Loss) excluding adjustments (as defined in Adjusted EBITDA). Adjusted Operating Income (Loss) 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 (Loss) 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, advance paid for business acquisitions, asset acquisitions, investment in limited partnership, Minority interest and other investments, proceeds from sale of manufacturing operations and net of investment distribution income. Management uses the Free Cash Flow metric to analyze the cash flows being generated by the Company's business. 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.

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" section within the "Financial Performance" section for the three and nine months ended September 30, 2023, and the "Reconciliation of Non-GAAP Financial Measures" section for the previous eight fiscal quarters.

Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is calculated as revenue excluding distribution revenue of $15.6 million 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. 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 Mighty Movie* Distribution Revenue is calculated as Adjusted EBITDA excluding distribution revenue of $15.6 million related to *PAW Patrol: The Mighty Movie.* Adjusted EBITDA, excluding *PAW Patrol: The Mighty 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.

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 SG&A is calculated as selling, general and administrative expenses adjusted for restructuring and other related costs, share based compensation expenses, transaction costs and bad debt recovery. Refer to the Adjusted SG&A table for the three and nine months ended September 30, 2023 as compared to the same period in 2022 in this MD&A. Management uses Adjusted SG&A to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Selling, General & Administrative Expenses" section within the "Financial Performance" section for a reconciliation of these metrics to selling, general & administrative Expenses, the closest IFRS measure.

Net Working Capital is calculated as the difference between total current assets and total current liabilities. Refer to the Total Net Working Capital table for the nine months ended September 30, 2023 as compared to the same period in 2022 in this MD&A. Management uses Net Working Capital to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Cash Flow" section for a composition of this metric to total current assets and total current liabilities, the closest IFRS measures.

Non-GAAP Financial Ratios

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 (Loss) 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.

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.

Adjusted SG&A as a percentage of Revenue is calculated by dividing Adjusted SG&A by Revenue. Management uses Adjusted SG&A as a percentage of Revenue to measure the underlying financial performance of the business on a consistent basis over time.

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, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is calculated as Adjusted EBITDA excluding *PAW Patrol: The Mighty Movie* Distribution Revenue divided by Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue. Management uses Adjusted EBITDA Margin excluding *PAW Patrol: The Mighty 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.

The following table provides reconciliations of Operating Income (Loss) to Adjusted Operating Income (Loss), Adjusted EBITDA, Adjusted EBITDA excluding *PAW Patrol: The Mighty Movie* Distribution Revenue, and Adjusted Net Income for the previous eight fiscal quarters:

(in US$ millions)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Operating Income (Loss)	**197.2**	**34.4**	**(6.1)**	**(24.0)**	**187.4**	**118.2**	**61.7**	**39.1**
Share based compensation[1]	5.1	4.8	5.4	4.7	4.3	4.5	4.1	4.0
Foreign exchange (gain) loss [2]	(19.2)	11.4	4.3	4.8	(43.5)	(32.3)	9.6	(0.7)
Restructuring and other related costs (recovery)[3]	0.8	9.7	3.8	(0.2)	—	4.5	0.6	1.4
Acquisition related deferred incentive compensation[4]	1.8	2.1	2.1	2.2	2.8	2.6	2.7	2.6
Impairment of intangible assets[5]	0.2	1.0	1.2	1.1	—	—	—	1.2
Impairment of goodwill[6]	—	—	1.0	—	—	—	—	1.9
Transaction costs[7]	5.2	1.5	0.6	0.2	0.3	0.4	0.1	2.1
Impairment of property, plant and equipment[8]	—	—	0.2	0.9	1.0	—	—	—
Legal settlement (recovery) expense	(0.7)	—	0.2	1.6	—	(0.6)	(1.5)	—
Net unrealized (gain) loss on investment[9]	—	(0.3)	—	0.1	—	(0.1)	—	0.3
Net realized loss (gain) on investment[10]	(0.2)	0.1	—	—	—	(0.1)	—	—
Loss on Minority interest and other investments[11]	—	—	—	—	—	0.5	—	—
Acquisition related contingent consideration[12]	—	(2.1)	—	3.1	(0.5)	—	—	3.4
Adjusted Operating Income (Loss)	**190.2**	**62.6**	**12.7**	**(5.5)**	**151.8**	**97.6**	**77.3**	**55.3**
Depreciation and amortization	44.7	25.8	17.9	17.9	15.8	16.1	18.4	23.0
Adjusted EBITDA	**234.9**	**88.4**	**30.6**	**12.4**	**167.6**	**113.7**	**95.7**	**78.3**
Distribution revenue related to *PAW Patrol: The Mighty Movie*[13]	(15.6)	—	—	—	—	—	—	—
Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue	**219.3**	**88.4**	**30.6**	**12.4**	**167.6**	**113.7**	**95.7**	**78.3**
Income tax (expense) recovery	(44.2)	(9.6)	0.6	8.5	(45.6)	(27.8)	(14.2)	(9.5)
Interest income (expense)	2.4	3.2	3.6	1.7	(0.4)	(2.3)	(1.9)	(3.1)
Depreciation and amortization	(44.7)	(25.8)	(17.9)	(17.9)	(15.8)	(16.1)	(18.4)	(23.0)
One-time income tax recovery[14]	(6.6)	—	—	—	—	—	—	—
Tax effect of normalization adjustments[15]	1.8	(7.4)	(4.6)	(4.7)	8.6	4.9	(3.7)	(4.0)
Adjusted Net Income	**143.6**	**48.8**	**12.3**	**—**	**114.4**	**72.4**	**57.5**	**38.7**

[1] Related to non-cash expenses associated with the Company's share option expense and long-term incentive plan.
[2] Includes foreign exchange losses (gains) generated by the translation and settlement of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and losses (gains) related to the Company's hedging programs.
[3] Restructuring expense in the current year relates to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France. Prior year's amounts relate to changes in personnel.
[4] Deferred incentive compensation associated with acquisitions.
[5] Impairment of intangible assets related to content development projects and computer software.
[6] Impairment of goodwill associated with one CGU.
[7] Professional fees incurred relating to acquisitions and other transactions.
[8] Impairment of property plant and equipment related to tooling.
[9] Net unrealized (gain) loss related to investment in limited partnership.
[10] Net realized loss (gain) related to investment in limited partnership, net of distribution income.
[11] Fair value loss on the Minority interest and other investments classified as FVTPL.
[12] Expense associated with contingent consideration for acquisitions.
[13] Distribution revenue related to *PAW Patrol: The Mighty Movie* recognized in Q3 2023 within Entertainment revenue.
[14] Adjustment for one-time income tax recovery.
[15] Tax effect of adjustments (Footnotes 1-14). Adjustments are tax effected at the effective tax rate of the given period.

The following table provides reconciliations from Cash provided by (used in) operating activities and Cash used in investing activities to Free Cash Flow for the previous eight fiscal quarters:

(in US$ millions)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Cash provided by (used in) operating activities	144.3	19.1	(4.3)	(6.8)	207.3	111.6	(62.9)	230.1
Cash used in investing activities	(25.1)	(30.3)	(56.6)	(28.2)	(42.3)	(30.4)	(8.3)	(19.6)
Add (Deduct):								
Business acquisitions, net of cash acquired[1]	—	—	26.5	0.4	10.2	—	—	0.7
Asset acquisition[2]	—	3.3	—	—	—	—	—	—
Investment in limited partnership[3]	—	—	—	—	—	—	—	0.1
Advance paid for business acquisitions[4]	—	—	—	1.0	—	—	—	—
Investment distribution income[5]	(0.3)	—	—	—	—	(0.1)	—	—
Minority interest and other investments[6]	—	2.0	—	3.5	—	3.0	1.0	—
Proceeds from sale of manufacturing operations[7]	—	—	—	—	—	—	(9.2)	—
Free Cash Flow	**118.9**	**(5.9)**	**(34.4)**	**(30.1)**	**175.3**	**84.1**	**(79.4)**	**211.3**

[1] Cash paid relating to acquisitions of 4D Brands and *HEXBUG*, both in Q1 2023 (2022 - SolidRoots and Nørdlight, both in Q3 2022).

[2] Cash paid for the assets acquired from a games and puzzles company.

[3] Cash paid to fund capital calls relating to the Investment in a limited partnership in 2021.

[4] Cash advance paid in 2022 relating to the acquisition of 4D Brands International Inc., and Innovation First, Inc.

[5] Distribution income earned relating to the investment in a limited partnership.

[6] Cash paid in relation to the Minority interest and other investments.

[7] Cash received for the sale of manufacturing assets located in Tarboro, North Carolina in Q1 2022.

The following table presents a reconciliation of Operating Income to Adjusted Operating Income[1], Adjusted EBITDA[1], and Adjusted Net Income[1], and cash from operating activities to Free Cash Flow[1] for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended Sep 30			
(in US$ millions)	**2023**	**2022**	**$ Change**	**% Change**
Operating Income	225.5	367.3	(141.8)	(38.6)%
Restructuring and other related costs[1]	14.3	5.1	9.2	180.4 %
Foreign exchange gain[2]	(3.5)	(66.2)	62.7	(94.7)%
Share based compensation[3]	15.3	12.9	2.4	18.6 %
Impairment of goodwill[4]	1.0	—	1.0	n.m.
Impairment of property, plant and equipment[5]	0.2	1.0	(0.8)	n.m.
Impairment of intangible assets[6]	2.4	—	2.4	n.m.
Legal settlement recovery	(0.5)	(2.1)	1.6	(76.2)%
Acquisition related deferred incentive compensation[7]	6.0	8.1	(2.1)	(25.9)%
Net unrealized gain on investment[8]	(0.3)	(0.1)	(0.2)	200.0 %
Net realized gain on investment[9]	(0.1)	(0.1)	—	—
Loss on Minority interest and other investments[10]	—	0.5	(0.5)	(100.0)%
Acquisition related contingent consideration[11]	(2.1)	(0.5)	(1.6)	320.0 %
Transaction costs[12]	7.3	0.8	6.5	n.m.
Adjusted Operating Income	**265.5**	**326.7**	**(61.2)**	**(18.7)%**
Depreciation and amortization	88.4	50.3	38.1	75.7 %
Adjusted EBITDA	**353.9**	**377.0**	**(23.1)**	**(6.1)%**
Distribution revenue related to *PAW Patrol: The Mighty Movie*	(15.6)	—	(15.6)	n.m.
Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue	**338.3**	**377.0**	**(38.7)**	**(10.3)%**
Income tax expense	(53.2)	(87.6)	34.4	(39.3)%
Interest income (expense)	9.2	(4.6)	13.8	(300.0)%
Depreciation and amortization	(88.4)	(50.3)	(38.1)	75.7 %
One-time income tax recovery[13]	(6.6)	—	(6.6)	n.m.
Tax effect of adjustments[14]	(10.2)	9.8	(20.0)	(204.1)%
Adjusted Net Income	**204.7**	**244.3**	**(39.6)**	**(16.2)%**
Cash provided by operating activities	159.1	256.1	(97.0)	(37.9)%
Cash used in investing activities	(112.0)	(81.0)	(31.0)	38.3 %
Add:				
Business acquisitions, net of cash acquired	26.5	10.2	16.3	159.8 %
Asset acquisition	3.3	—	3.3	n.m.
Investment distribution income	(0.3)	(0.1)	(0.2)	200.0 %
Minority interest and other investments	2.0	4.0	(2.0)	(50.0)%
Proceeds from sale of manufacturing operations	—	(9.2)	9.2	(100.0)%
Free Cash Flow	**78.6**	**180.0**	**(101.4)**	**(56.3)%**

[1] Restructuring expense in the current period relates to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France. Prior year comparison relates to changes in personnel.
[2] Includes foreign exchange losses (gains) generated by the translation of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and losses (gains) 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 one CGU.
[5] Impairment of property plant and equipment related to tooling.
[6] Impairment of intangible assets related to Entertainment content and Digital Games development projects and computer software.
[7] Deferred incentive compensation associated with acquisitions.
[8] Net unrealized gain related to investment in limited partnership.
[9] Net realized loss (gain) related to investment in limited partnership.
[10] Fair value loss on the Minority interest and other investments classified as FVTPL.
[11] Remuneration recovery associated with contingent consideration for acquisitions.
[12] Professional fees incurred relating to acquisitions and other transactions.
[13] Adjustment for one-time income tax recovery in Q3 2023.
[14] Tax effect of adjustments (Footnotes 1-13). Adjustments are tax effected at the effective tax rate of the given period.

The following table provides reconciliations of Toy Gross Product Sales to Revenue for the previous eight fiscal quarters:

(in US$ millions)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Toy Gross Product Sales	678.6	390.0	216.3	479.2	617.7	484.4	397.5	627.5
Sales Allowances	(77.1)	(43.7)	(30.0)	(82.5)	(65.3)	(46.8)	(46.6)	(85.5)
Toy revenue	601.5	346.3	186.3	396.7	552.4	437.6	350.9	542.0
Entertainment revenue	63.4	33.9	37.6	31.2	37.0	28.4	22.2	28.5
Digital Games revenue	45.3	40.5	47.5	37.9	34.6	40.3	51.1	50.0
Revenue	**710.2**	**420.7**	**271.4**	**465.8**	**624.0**	**506.3**	**424.2**	**620.5**

The following table presents a reconciliation of Revenue to Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue for the previous eight fiscal quarters:

(in US$ millions)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Revenue	710.2	420.7	271.4	465.8	624.0	506.3	424.2	620.5
Distribution revenue related to *PAW Patrol: The Mighty Movie*	(15.6)	—	—	—	—	—	—	—
Revenue, excluding PAW Patrol: The Mighty Movie Distribution Revenue	**694.6**	**420.7**	**271.4**	**465.8**	**624.0**	**506.3**	**424.2**	**620.5**

The following tables present reconciliations of Revenue to Constant Currency Toy Gross Product Sales, Revenue to Constant Currency Entertainment revenue and Revenue to Constant Currency Digital Games Revenue for the three and nine months ended September 30, 2023 and 2022:

			Nine Months Ended Sep 30,	
(US$ millions)	**Q3 2023**	**Q3 2022**	**2023**	**2022**
Constant Currency Toy Gross Product Sales	665.1	640.5	1,272.4	1,533.2
Impact of foreign exchange	13.5	(22.8)	12.5	(33.6)
Toy Gross Product Sales	**678.6**	**617.7**	**1,284.9**	**1,499.6**
Constant Currency Sales Allowances	(73.7)	(71.6)	(147.6)	(167.4)
Impact of foreign exchange	(3.4)	6.3	(3.2)	8.7
Sales Allowances	(77.1)	(65.3)	(150.8)	(158.7)
Toy revenue	**601.5**	**552.4**	**1,134.1**	**1,340.9**
Constant Currency Entertainment revenue	63.3	38.6	134.9	90.3
Impact of foreign exchange	0.1	(1.6)	—	(2.7)
Entertainment revenue	**63.4**	**37.0**	**134.9**	**87.6**
Constant Currency Digital Games revenue	45.6	36.2	136.1	131.9
Impact of foreign exchange	(0.3)	(1.6)	(2.8)	(5.9)
Digital Games revenue	**45.3**	**34.6**	**133.3**	**126.0**
Constant Currency Revenue	700.3	643.7	1,395.8	1,588.0
Impact of foreign exchange	9.9	(19.7)	6.5	(33.5)
Revenue	**710.2**	**624.0**	**1,402.3**	**1,554.5**

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 and nine months ended September 30, 2023 and 2022:

			$ Change			% Change	
(US$ millions)	**Q3 2023**	**Q3 2022**	**As reported**	**Impact of foreign exchange**	**In Constant Currency**	**As reported**	**In Constant Currency**
Toy Gross Product Sales	678.6	617.7	60.9	(13.5)	47.4	9.9%	7.7 %
Sales Allowances	(77.1)	(65.3)	(11.8)	3.4	(8.4)	18.1%	12.9 %
Toy revenue	601.5	552.4	49.1	(10.1)	39.0	8.9%	7.1 %
Entertainment revenue	63.4	37.0	26.4	(0.1)	26.3	71.4%	71.1 %
Digital Games revenue	45.3	34.6	10.7	0.3	11.0	30.9%	31.8 %
Revenue	710.2	624.0	86.2	(9.9)	76.3	13.8%	12.2 %

	Nine Months Ended Sep 30,		$ Change			% Change	
(US$ millions)	**2023**	**2022**	**As reported**	**Impact of foreign exchange**	**In Constant Currency**	**As reported**	**In Constant Currency**
Toy Gross Product Sales	1,284.9	1,499.6	(214.7)	(12.5)	(227.2)	(14.3)%	(15.2)%
Sales Allowances	(150.8)	(158.7)	7.9	3.2	11.1	(5.0)%	(7.0)%
Toy revenue	1,134.1	1,340.9	(206.8)	(9.3)	(216.1)	(15.4)%	(16.1)%
Entertainment revenue	134.9	87.6	47.3	—	47.3	54.0%	54.0 %
Digital Games revenue	133.3	126.0	7.3	2.8	10.1	5.8%	8.0 %
Revenue	1,402.3	1,554.5	(152.2)	(6.5)	(158.7)	(9.8)%	(10.2)%

FORWARD-LOOKING STATEMENTS

Certain statements, other than statements of historical fact, contained in this MD&A 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 MD&A. 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 MD&A 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 macroeconomic environment and consumer spending; the Company’s outlook for 2023 (see “Outlook”); future growth expectations in 2023 and beyond; the Company's dividend policy and future dividends; drivers and trends for such growth and financial performance; the successful execution of its strategies for growth; the integration of and benefits from acquisitions; the Company's SMV initiative; content and product pipeline and their impacts; financial position, cash flows, liquidity 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 MD&A, 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 MD&A, 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 Company's financial performance in addition 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, maintain and renew broader licenses from third parties for premiere children's properties consistent with past practices, and the success of the licenses; 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 in this MD&A, 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 MD&A. 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 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.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. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future,including the expected performance of the Company and Melissa & Doug. 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.