

FINAL TRANSCRIPT

Spin Master Corp.

Q4 2017 Financial Results Conference Call

Event Date/Time: March 8, 2018 — 9:30 a.m. E.T.

Length: 67 minutes

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



CORPORATE PARTICIPANTS

Karoline Hunter

Spin Master Corp. — Senior Director, Investor Relations

Ronnen Harary

Spin Master Corp. — Co-Chief Executive Officer

Mark Segal

Spin Master Corp. — Chief Financial Officer

Ben Gadbois

Spin Master Corp. — Global President and Chief Operating Officer

CONFERENCE CALL PARTICIPANTS

Sabahat Khan

RBC Capital Markets — Analyst

Steph Wissink

Jaffray — Analyst

Garrett Johnson

BMO Capital Markets — Analyst

David McFadgen

Cormark Securities — Analyst

Brian Morrison

TD Securities — Analyst

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



PRESENTATION

Operator

Good morning. My name is Michelle (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the Spin Master Q4 2017 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key. Thank you.

Ms. Hunter, you may begin your conference.

Karoline Hunter — Senior Director, Investor Relations, Spin Master Corp.

Thank you, Michelle. Good morning, everyone, and welcome to Spin Master's financial results conference call for the fourth quarter and full year ended December 31, 2017. My name is Karoline Hunter, and I am Spin Master's Senior Director of Investor Relations.

I'm joined this morning by Ronnen Harary, Co-Chief Executive Officer; Ben Gadbois, Global President and Chief Operating Officer; and Mark Segal, Chief Financial Officer. Following our formal remarks, we will open the line for your questions.

For your convenience, the press release, MD&A, and audited consolidated financial statements for the fourth quarter and full year are available on the Investor Relations section of the Company's website at www.spinmaster.com, as well as on SEDAR.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Before we start, please note that remarks on this conference call may contain forward-looking statements about Spin Master's current and future plans, expectations, intentions, results, levels of activity, performance, goals or achievements, or any other future events or developments. Forward-looking statements are based on information currently available to management, and on estimates and assumptions made based on factors that management believes are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct.

Many factors could cause actual results to differ materially from those expressed or implied by the forward-looking statements. As a result, Spin Master cannot guarantee that any forward-looking statements will materialize, and you are cautioned not to place undue reliance on these forward-looking statements.

Except as may be required by law, Spin Master has no obligation to update or revise any forward-looking statement whether as a result of new information, future events, or otherwise.

For additional information on these assumptions and risks, please consult the cautionary statement regarding forward-looking information contained in the Company's earnings release dated March 7, 2018.

Please note that Spin Master reports in US dollars, and all dollar amounts to be expressed today are in US currency.

I would now like to turn the conference over to Ronnen Harary.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Ronnen Harary — Co-Chief Executive Officer, Spin Master Corp.

Thank you, Karoline. Good morning, everyone, and thanks for your interest in Spin Master.

Let me begin by saying that we are very pleased with Spin Master's financial and operating performance in 2017, as we had another year of significant growth.

I'll share with you some strategic highlights for the quarter and year, and following my remarks, Mark will provide you with a detailed review of our financial results, including our outlook for 2018. Ben will then discuss our operational results, growth initiatives, the products, and content we will be delivering in 2018.

I always like to start with innovation. It is at the core of who we are. Our 2017 product line reflected our ability to tap into our global R&D network and collaborate with inventors. Hatchimals continues to be a great example of an innovation-led success, and demonstrates the evolution of an idea into a product and then into a brand. This evolution is the model that we seek to follow into the future.

We capitalized on excitement around the initial launch of Hatchimals and built a global brand that includes a successful low-price point collectible line, the Hatchimals Colleggtibles, and innovative higher-price point items. The brand awareness we have worked hard at creating has provided a platform for a direct global licensing and merchandising program.

In 2017, we signed over 50 Hatchimal licence agreements for products such as backpacks, apparel, bedding, books, and more. We're managing the licensing and merchandising program

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



internally, which delivers higher margins for us. Although we launched in late 2016, we really view 2018 as a year two for the Hatchimals brand, and we'll be delivering even more interactivity and Colleggtibles this year.

2017 was a solid year for our Activities business. Activities is targeted at children age three and up. We offer a wide range of innovative products with global appeal based on classic play patterns that integrate fashion, trends, and popular culture.

In 2018, Activities is launching a new KumiKreator bracelet maker under the Cool Maker brand, an innovative way to play and instantly create braded bracelets. The popular Kinetic brand is growing with the addition of a new compound made from real beach sand and beach-themed play sets. We are driving innovation in the iconic Etch A Sketch product line with the launch of the Etch Revolution (phon). It's a revolving screen that creates amazing graphic designs.

The continued growth of our Games and Puzzles super category, which increased by over 3 percent in 2017, according to NPD, is very encouraging. We only entered the Games and Puzzles category in 2010, and are already the number two manufacturer in the games segment of the market—of the games segment in the US, according to NPD. It's remarkable to see how this segment of the market is growing in an age with so many digital distractions and advances in technology. Underlying this growth is parents' desires to spend time with their kids in an unplugged family environment.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Cardinal continues to grow, as does Spin Master's Game business. In 2017, we acquired Marbles and Perplexus. We intend to continue to aggressively develop and expand this area of our business. At the same time, parents are also looking for ways to limit their kids' screen time on mobile devices and television, and this is contributing to growth in the Outdoor and super toys category, the largest category in dollar terms in the US in 2017, according to NPD.

The acquisition of Swimways in 2016 gave us a beachhead in the growing Outdoor and sports category and will be further built up in our Outdoor business segment with the acquisition of Aerobie as of this July 2017. We are very excited about this opportunity to bring innovation to the segment, and you'll begin to see some of this innovation emerge in 2019 and beyond.

Entertainment continues to be a major driver of Spin Master's growth. Our entertainment team has expanded in 2017, reflecting the success we've had and our commitment to creating exciting new content.

We currently have two highly rated preschool properties on the air, PAW Patrol and Rusty Rivets. Nielson ratings for the full year 2017 ranked PAW Patrol in the number one position in kids aged two to five years old, followed by Rusty Rivets at number four. PAW Patrol is evolving from a preschool brand to a mainstream pop culture brand, as highlighted by the Super Bowl segment with Justin Timberlake and Jimmy Fallon that featured a plush Chase and Jimmy Kimmel's reference to PAW Patrol in the opening segment of the 2018 Oscars. The fifth season of PAW Patrol began airing on Nickelodeon this February.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



We gave many of you guys a sneak peek—and women—a sneak peek of the new content planned for 2018 and 2019 at New York Toy Fair. The Mighty Pups 44-minute special airing on Nickelodeon this fall is just one of the new themes and formats we're introducing to the franchise in 2018. We're also launching the Ultimate Rescue theme for the show and a toy line later this year.

Overall, the quality of the content continues to get better every season, and the toy line is equally exciting. We are managing PAW Patrol as an evergreen global franchise, and we are working hard to ensure the content resonates with audiences to maximize long-term growth.

Abby Hatcher Fuzzly Catcher is a new animated preschool show slated for late 2018 or early 2019. This adventure comedy series will resonate with all kids, especially with the key demographic of girls aged two to five. The show introduces Abby Hatcher, a seven year old with a giant heart and obsession with her favourite creatures, the Fuzzlies. Her dream comes true when she moves into a hotel filled with the Fuzzlies.

Abby loves playing with the Fuzzlies, so in each episode when a Fuzzly accidentally lands in trouble, Abby heroically saves the day. At its core, Abby Hatcher Fuzzly Catcher models the power of a little girl to bring a whole community together with her eternal optimism and her acceptance of everyone, no matter how different they are.

In addition to Abby Hatcher, we will also be relaunching Bakugan in 2019. Together with this content, we will continue to build our licensing and merchandising programs to support our entertainment franchises.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



We are producing entertainment content across multiple platforms, as we see entertainment content connecting with larger audiences and increasing in reach and frequency. Our partners, such as Nickelodeon, offer both linear, broadcast, and on-demand SVOD platforms. And we are increasingly accessing YouTube as a medium to deliver our content.

The Hatchimals YouTube channel includes Hatchimal short-form content that has generated millions of views, and we will continue to develop short-form content further for Hatchimals and other brands when it makes sense to do so.

Our acquisition of Toca Boca and Sago Mini was an important step into making sure we are present in the app space, as smart devices are being accessed by more and more kids at a young age. Our vision for Toca Boca and Sago Mini is to build fun and creative apps that encourage open-ended play. However, we also want to provide an end-to-end experience for kids that encompasses physical product, entertainment, and digital mobile.

Our entertainment team and the Toca Boca app development team in Stockholm are now collaborating, and we are enthusiastic about some of the ideas that they're generating.

We are also excited with the acquisition of GUND that we announced on Monday. GUND is a heritage brand with 120-year-old roots in the plush business. And GUND products are highly emotional, trusted purchases. And many kids keep their GUND plush toys for decades.

I will admit my girlfriend who's 32 still has her GUND, but I'm soon working on replacing that GUND. It represents the strong IP and quality products that we like to acquire.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



With the acquisition, we'll now bring together GUND's deep expertise in plush and Spin Master's ability to innovate and scale internationally, to expand further into the infant and juvenile areas with Baby GUND, as well as deeper into specialty gift categories. We are already experiencing synergies on the entertainment side with GUND, since GUND is able to now design and develop amazing plush.

And GUND will also help us design and develop some incredible plush for the new Fuzzlies in Abby Hatcher.

In 2018, we'll continue to focus on core growth strategies. We have strong lineup for our new products coming this year that we're excited about and which many of you saw in New York recently. We remain strategically focused on creating and building our own intellectual property that result in margin expansion and diversification on our revenue streams, which will create value for shareholders.

My final point, before I pass it over to Mark, relates to one of the areas that we're most proud of, and that's the Spin Master team. We've built an exceptional team globally in all areas of our business, and the results we have generated over the past year is a testament to the team's strength. It is the underlying basis for Spin Master's continued growth and value creation.

I'll now hand it over to Mark, our Chief Financial Officer, to review the financial results.

Mark?

Mark Segal — Chief Financial Officer, Spin Master Corp.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Thanks, Ronnen. I'll start by reviewing our fourth quarter results, followed by the full year, then a review of our business segment for both periods, and conclude with our outlook for 2018.

Overall, our fourth quarter revenue increased 30.3 percent from 2016, driven by Hatchimals, Hatchimals Colleggtibles, and our Games portfolio.

Foreign exchange tailwinds increased overall revenue by \$9.1 million. In constant currency terms, revenue increased by 27.6 percent relative to last year. Gross product sales increased 28.6 in the fourth quarter. Our international growth was strong in Q4 compared to the same quarter last year, with gross product sales rising 34 percent in Europe and 94 percent in the rest of the world. Overall, international gross product sales comprised nearly 41 percent of sales in the fourth quarter. North American gross product sales rose just under 17 percent in the fourth quarter, so we are doing well in our domestic markets too.

Sales allowances for the quarter as a percentage of gross product sales increased 1.8 percent to 15.1 percent from 13.3 percent last year. We aggressively managed promotional and markdown allowances in Q4 to ensure that we ended 2017 well positioned for 2018 with very clean inventory levels at retail. Ben will discuss this more later.

Other revenue, which primarily reflects merchandising royalty and television distribution income from products marketed by third parties using Spin Master's intellectual property and app revenue from Toca Boca and Sago Mini, rose 144 percent. Please note that part of this growth is due to an accounting change.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 8, 2018 — 9:30 a.m. E.T.

Spin Master Corp. Q4 2017 Financial Results Conference Call

Under GAAP, we are now required to reflect app revenue which forms part of other revenue on a gross basis and reflect Apple and Google's commission as part of COGS. Previously, app revenue was shown on a net basis. Accounting for app revenue on a net basis, other revenue increased approximately 100 percent in Q4 compared to last year.

Our gross margin for Q4 represented 51.9 percent of revenue compared to 50.8 percent last year, an increase of 1.1 percentage points. If the accounting change for app revenue is adjusted to a net basis, as reported in prior periods, gross margin in Q4 would have increased further to 52.6 percent compared to 51.9 percent as reported.

The increase in gross margin was driven by an increase in other revenue and a favourable impact from foreign exchange, offset partially by air freight costs for certain high-demand products such as Hatchimals, Cardinal, and Moonlite, and increased sales allowances.

Total SG&A, excluding share-based compensation arising from the equity participation awards at the time of the IPO, increased by \$40 million. This increase was driven by investments in marketing initiatives in the quarter and increased warehousing costs, primarily as a result of our growth outside of North America and an increase in our domestic North American business. However, SG&A, excluding share-based compensation as a percentage of revenue, declined 1.7 percent to 44.9 percent from 46.6 percent. The decline was driven by lower marketing and product development costs, offset by higher warehousing and distribution.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



We reported net income of 20 million, or \$0.21 per share, in the fourth quarter, compared to 2.7 million, or \$0.03 per share, last year. Adjusted net income was 25.5 million, or \$0.25 per share, compared to 9.3 million, or \$0.09 per share, last year. Adjusted EBITDA in the quarter more than doubled to 47.3 million from 22.9 million last year. Adjusted EBITDA margin rose to 10.7 percent compared to 6.8 percent in Q4 '16, reflecting the increasing gross margin and lower SG&A.

As a reminder, when we talk about Q4 from a profitability perspective, a significant portion of our annual marketing expenses are incurred in Q4 in order to maximize the impact on consumer purchases and our return on investment. This typically causes a misalignment of sales and marketing spend between Q4 and Q3, resulting in adjusted EBITDA margins in Q4 significantly below those in Q3.

Finally, we had free cash flow of 18.4 million in the quarter compared to negative 3.9 million last year. The increase is primarily attributable to an increase in cash from operating activities, a decrease in cash flows used in investing, and a decrease in cash used for license, brand, and business acquisitions.

Turning now to the full year of 2017. Revenue was up 34.4 percent in '17 compared to last year.

Foreign exchange tailwinds increased overall revenue by 8.1 million. In constant currency terms, revenue increased by 33.7 percent relative to last year.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 8, 2018 — 9:30 a.m. E.T.

Spin Master Corp. Q4 2017 Financial Results Conference Call

Gross product sales rose 32.1 percent last year, significantly above industry growth rates, which were in the low single-digits. Over the last 10 years, we have grown gross product sales at a CAGR of 13 percent, nearly 3 times the average global industry growth rate.

International gross product sales for 2017 were 34.7 percent of total gross product sales compared to 32.5 percent in '16, moving us closer to our goal of generating 35 to 40 percent of annual gross product sales internationally. We're starting to enjoy some significant economies of scale in the international markets. Ben will have more to say about this later in the call.

Sales allowances as a percentage of gross product sales were 11.6 percent for the year, down 20 basis points from 11.8 percent last year. Sales allowances are affected by product mix, geographic mix, and our promotional activity, particularly in Q4, and we are pleased with the year-over-year decline despite the strong revenue growth we achieved.

Managing sales allowances is a key focus of management's efforts. We continue to see sales allowances in the 11 to 12 percent range going forward, but we will be working hard to continue to reduce this further.

Other revenue in 2017 was up nearly 79 percent from last year. The increase was driven by increased licensing and merchandising income and higher app revenue from Toca Boca and Sago Mini. On a net annual revenue basis, other revenue increased 68 percent for the year.

Gross margin for the year was 51.6 percent of revenue compared with 51.7 last year. The slight decrease in gross margin was primarily due to the inclusion of lower-margin Swimways

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



products for the full year in 2017, partially offset by favourable impact from foreign exchange and increased other revenue.

If the accounting change for app revenue is adjusted to a net basis as discussed, gross margin in 2017 would have been 51.8 percent compared to the 51.6 percent as currently reported.

We continue to focus on cost management and generating operating leverage. SG&A, excluding stock-based compensation, was 36.4 percent of revenue, 30 basis points lower than the 36.7 percent we reported last year.

Looking at the key components of SG&A, marketing expenses represented 8.3 percent compared to 9.7 percent last year. We generated significant leverage on our marketing spend for key brands such as PAW Patrol and Hatchimals. We did, however, increase spending on strategic PR initiatives.

The highly successful North American PAW Patrol Road Tour, as well as our Macy's Thanksgiving Day Parade PAW Patrol sponsorship, were key elements of our increased PR spend. We are finding that this experiential marketing spend connects consumers with our brands more closely than traditional marketing channels and generates a strong ROI.

Product development expenses represented 1.5 percent of revenue compared to 1.9 percent last year. The decline was due to the initial heavy development spend we invested in Hatchimals in 2016. In general, our product development expenses range between 1.5 to 2 percent of our annual revenue.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Selling expenses at 6.9 percent of revenue were consistent with last year. Distribution expenses represented 3.5 percent of revenue compared to 2.8 percent last year. The increase was primarily associated with investments to support our European growth, which is mainly domestic. We also had onetime investments in warehousing capacity, including a transportation management system that drove up costs; however, these investments position us for future growth in both North America and Europe.

Admin expenses decreased to 16.9 percent of revenue in 2017 from 17.4 percent last year. Excluding the impact of share-based compensation arising from equity participation agreements, admin expenses represented 16.2 percent of revenue compared to 15.6 percent last year. The increase of 0.6 percent was driven primarily by the TRU bad debt expense of \$5.4 million. Excluding both TRU and share-based compensation, admin expenses were 15.9 percent of revenue.

We reported net income for the full year of 161.1 million, or \$1.58 per share, an increase of over 60 percent compared to 99.5 million, or \$0.99 per share last year. Adjusted net income rose approximately 44 percent year over year to 173 million, or \$1.70 per share, compared to 120.1 million, or \$1.19 per share.

Adjusted EBITDA was \$292.2 million in 2017, up 42.2 percent from 205.5 million last year and well above our sales growth rate. Adjusted EBITDA margin increased by 100 basis points to 18.8 percent in 2017 from 17.8 percent last year.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Our balance sheet at December 31 continues to show strength and gives us financial flexibility. We ended 2017 in a plus cash position, driven by strong profitability and tight working capital management.

Our net working capital as a percentage of sales was just over 5 percent compared to over 10 percent at the end of 2016. We lead the industry in this critical metric.

Overall, we generated 193.4 million of free cash flow in 2017, 62.9 percent higher than the 118.7 million we reported last year. Free cash flow represented 66 percent of adjusted EBITDA in 2017 compared to 58 percent last year.

Looking at our business segments for both Q4 and 2017, gross product sales in Activities, Games, Puzzles, and Fun Furniture in the quarter were up 20 percent from last year. For 2017, gross product sales rose 8.2 percent. The Cool Maker brand of product in our Games portfolio, including Cardinal, Spin Master branded games, and Marbles games, were the strongest contributors.

In the Remote Control and Interactive Character segment, Q4 gross product sales rose 114.7 percent. For 2017, sales were up over 100 percent from last year. The quarter and the year were primarily driven by Hatchimals and Hatchimals Colleggtibles.

Gross product sales in the Pre-school and Girls segment were up 7.1 percent compared to 2016; however, Q4 was down 18.2 percent from the same quarter last year. The decrease in the fourth quarter was driven by a decline in Brightlings, Powerpuff Girls, Chubby Puppies, and partially from PAW Patrol.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



I want to comment on PAW Patrol in particular. The decline was primarily due to timing factors. In Q4 2016 as compared to '17 we shipped a disproportionately higher percentage of PAW Patrol on a domestic basis to manage the promotional activity we had set up for Q4 '16 and early Q1 2017.

In Q4 2017, however, we set up most of our 2017 fall promotional activity earlier, which allowed us to ship more PAW Patrol on an FOB basis in Q3.

Also, our 2018 spring promotional activity for PAW Patrol related to Season 5 will be shipped early in Q1 and not in Q4 2017. This allowed us to end the year in 2017 with much lower inventory at retail.

In 2017 as a whole, PAW Patrol grew solidly and POS remains healthy, both in 2017 and 2018. Ben will discuss this further in a few minutes.

Moving on to Boys Action and High-Tech Construction, gross product sales were up 5.6 percent in Q4; however, they were down 27.4 percent for 2017. BB-8 Star Wars licensed product boosted sales in the fourth quarter, as did growth in Tech Deck. However, for the year the segment declined, driven by Meccano hi-tech, and the licensed products for Pirates of the Caribbean did not perform as we had hoped. We anticipate the demand carefully in advance and managed our sell-in tightly in the segment. We ended the year with low inventory at retail, and limited markdowns were required in Q4.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 8, 2018 — 9:30 a.m. E.T.

Spin Master Corp. Q4 2017 Financial Results Conference Call

We generated gross product sales of 93.1 million in '17 from our Outdoor business segment compared to a partial year in 2016. Q4 will generally be Swimways smallest quarter due to the seasonality of the business, which is weighted 70 percent in the first half of the year.

From an acquisition perspective, we acquired Perplexus in Q4 for approximately \$10 million. Perplexus had no meaningful impact on margins in the quarter or the year.

On March 5, 2018, we acquired certain assets relating to the GUND line of business from Enesco for just over \$79 million. The purchase price will be financed from internally generated resources and our credit facility.

GUND's gross sales in 2017 were approximately \$65 million, and are weighted 40 percent H1 and 60 percent H2. EBITDA margins are in the mid-teens.

GUND will be included in the Activities, Games and Puzzles and Fun Furniture business segment. We expect to close the GUND acquisition on April 1, 2018.

Looking ahead, as we have indicated, our long-term goal is to grow organic gross product sales by mid to high single-digits every year. There will be some years of high growth, as we've seen in the past few years, and there will be years of more modest growth.

For 2018, we expect our organic gross product sales growth rate to be in the mid to high single-digit range compared to 2017. From a seasonality perspective, we expect gross product sales in the first half of '18 to be in the range of 32 to 35 percent of full year gross product sales compared to approximately 30 percent in the past.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



The shifting seasonality to H1 relative to prior years is for the most part driven by the demand for Hatchimals Colleggtibles in H1 2018. This line was only introduced in May 2017. Our adjusted EBITDA margin for 2018 is expected to be consistent with 2017.

For clarity, the outlook I just mentioned excludes GUND. We will update guidance in May with our Q1 results, as we always do, and break out organic and inorganic growth at that time, as we did with Swimways in 2017.

Finally, from a capital allocation perspective, we will continue focusing our investments in the area of innovation, international expansion, entertainment, talent, and strategic M&A. In the near term, our focus is on value creation through capital growth.

I'd now like to turn it over to Ben Gadbois.

Ben?

Ben Gadbois — Global President and Chief Operating Officer, Spin Master Corp.

Thank you, Mark, and good morning, everyone. The business continues to perform well, and we had another year of significant revenue and profitability growth.

The global toy industry, particularly the US, is experiencing some fundamental changes. The convergence of content in physical toys, the shift toward online e-commerce, and the disruption caused by Toys “R” Us bankruptcy are all factors in this changing landscape. While some of these changes have been positive for us, creating new opportunities to innovate and drive growth, others have presented obstacles for us to overcome.

“Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein.”

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



The industry growth rate in many major markets declined in Q4. For the year, toy sales globally and in the US both grew by 1 percent. This, however, was lower than original industry estimates and also lower than the industry growth over the past several years.

Despite overall industry weakness, we had three items in the top ten best-selling toys in the US in Q4 and the top item for 2017 in the plush and infant/toddler/preschool toys super categories, as measured by NPD.

We continued to outpace the industry overall, delivering double-digit growth across most of our markets. In 2017, according to NPD, Spin Master was the number four toy manufacturer in the US. We were also number two in the game sell (phon) segment.

In 2017, we achieved the number one manufacturers spot and the top growth manufacturer in the plush super category, driven primarily by Hatchimals. Hatchimals was the number one and top growth plush property in the US for 2017, according to NPD.

Our key brands are clearly resonating with consumers, with both PAW Patrol and Hatchimal ranking number one in the infant/toddler/preschool toys and plush super categories, respectively.

The TRU bankruptcy filing in Q3 2017 caused some uncertainty and deceleration in the industry during the fourth quarter. This had a disruptive effect on our orders in Q4.

As we mentioned in Q3, we did see a shift of about 8 million to \$10 million in orders from Q3 to Q4. However, at the time of bankruptcy we proactively planned to manage orders and

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



shipment from Toys “R” Us through the end of the year with clean inventory at retail and with lower credit risk exposure.

No one yet knows how the Toys “R” Us situation will play out. There are significant shifts going on at retail, and it would be unreasonable to think that the bankruptcy of Toys “R” Us will have no impact. We expect demand to shift to other channels, including both bricks-and-mortar and online should TRU continue to lose share.

We are monitoring the situation very closely to be prepared for any channel disruption that may arise from further store closures in the next two to three quarters. We also expect any disruption to be over by the end of 2018.

From a channel perspective, we are continuing to see a shift to online sales. This has been a growing trend over the past few years, and we don’t see any sign of online sales growth slowing down for 2018.

In 2017, approximately 23 percent of our POS was made through online channels, which is consistent with the industry. As we see more of our consumers shopping online, we are responding by allocating a greater portion of our marketing spend in internal talent toward digital and social and less toward traditional TV.

We have invested in deeper management in the marketing group where they focus on our TV, digital, social, and PR investment in order to maximize this critical area. We want to make sure

“Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein.”

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu’il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l’utilisation de ce texte ou toute erreur qu’il contiendrait. »



we generate as much operating leverage as possible with our marketing spend. We saw the positive impact of this focus in 2017.

We are also seeing an increase in alternative channels, such as bookstore, grocery, drugstore, and trend clothing stores. These retailers are looking to drive incremental volume and revenue in toys to complement their existing product lines. They do not carry a wide range of toys but they look to carry the most popular brands.

Our brands, such as PAW Patrol and Hatchimals, are driving growth in these channels. This shift to alternative channels will likely grow in 2018, exacerbated by Toys “R” Us store closures.

Throughout the year, we closely monitor beginning inventory levels, shipment-in, POS, and ending inventory levels to ensure we have clean sell-through at the end of December. This level of discipline is very important for financial reasons, but also for our strategic focus of building evergreen brands.

Overall, we are very pleased with the way we have managed our retail inventory during Q4. We ended the year with our best inventory retail position since we went public, despite a 30 percent growth in revenue. This puts us in a strong position going into 2018.

We also received Walmart’s US Vendor of the Quarter award for Q4 and Vendor of the Year award for 2017 in the toy category. Walmart uses POS growth and inventory management as the key metrics in selecting the winner, and we are pleased to have been recognized for our management in these areas.

“Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein.”

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu’il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l’utilisation de ce texte ou toute erreur qu’il contiendrait. »



We will continue to monitor POS and inventory looking for further alignment going forward.

We are continuing to deliver on all four of our growth strategies. As a reminder, our four growth strategies are to continue to innovate our core portfolio; two, build our global entertainment properties; three, grow international sales; and four, make strategic acquisitions.

Our pipeline was full of innovative products in 2017, and we recently launched our 2018 line at the New York Toy Fair in February. Let me run through a few highlights of 2017 and the upcoming 2018 product line now.

In Activities, Games, Puzzles and Fun Furniture segment, we are getting very strong contribution from our games portfolio, including Cardinal. Cardinal continues to grow domestically and internationally as we leverage our global sales and distribution infrastructure.

In 2017, we expanded our portfolio of games and puzzles through our acquisition of Marbles and Perplexus. We launched Soggy Doggy, and it won game of the year at this year's Toy of the Year awards. Soggy Doggy was also the top growth property in the preschool games subclass in the US for '17, according to NPD.

We feel Spin Master is well positioned to capitalize on the strength of the games and puzzles super category. In Activities, we will be launching the innovative KumiKreator bracelet maker under the Cool Maker umbrella, as well as an up and active preschool game called Croc 'n' Roll.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



In Remote Control and Interactive Characters, the Hatchimals brand grew significantly in 2017 with all products, including the original Hatchimals, Hatchimals Surprise, and Hatchimals Colleggtibles, which have all performed exceptionally well. Hatchimals was the number one dollar growth property in the US for 2017, and also was the top property in the plush super category with six of the top fifteen items, according to NPD.

Specifically, the high-price point Hatchimal had very strong sell-through, and we finished 2017 where we wanted to be from an inventory perspective for the brand leading into 2018. The popularity of collectibles is still very high. In 2017, Hatchimals was the second-largest growth property in collectibles, with two of the top ten items according to NPD.

In 2018, we will be expanding the brand with Hatchimals Mystery, four new and unique Hatchimals: who you hatch will be a mystery. Our third annual global Hatchimal Day will take place on October 5th, with an exciting new Hatchimal launch.

Hatchimals Colleggtibles Season 3 and 4 are being released in 2018. The summertime series will feature over 100 new characters and there will also be 80 new Hatch Bright characters that shine when the lights go out to collect.

Our investment in innovation was exemplified with the launch of Luvabella and Moonlite in 2017. For 2018, we will be delivering increased sophistication in advanced technology to Luvabella. The more you play, the more she learns and responds. Moonlite turns a mobile phone

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



into a children's storybook projector and brings innovation to story time by projecting vibrant images onto the ceiling or wall. It is an innovative link between toys and publishing.

In midyear 2017, we made a calculated decision to be cautious with higher-price point Air Hogs, Meccano, and Zoomer items to ensure higher profitability, reducing markdown risk heading into 2018. We managed this very well and ended 2017 with appropriate levels of inventory both in our warehouse and at retail.

In the Zoomer brand, the Playful Pup and Hungry Bunnies will be added in 2018, as well as lower-price point Zoomer Zupps Tiny Unicorns. Zoomer is entering in its sixth year as a brand, and we are continuing to introduce new play patterns and interactivity at both high- and lower-price points.

In Pre-School and Girls, PAW Patrol continues to grow globally. According to NPD, PAW Patrol was the number one property in the infant/toddler/preschool toys super category in the US for 2017. As Mark discussed earlier, the decline in PAW Patrol shipments in Q4 2017 was isolated to that quarter. Overall, PAW Patrol shipments were up in 2017 and so was the POS.

Consumer engagement remained very high, and we won Vehicle of the Year and Preschool Toy of the Year at this year's Toy of the Year awards for the Sea Patroller and My Size Look-Out Tower. PAW Patrol generated very strong sell-through, and is set up well for the front half of 2018.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



2018 we will be launching Twisty Petz, a cute line of collectibles that transform from adorable animals into bracelets with a simple toy. We also have another exciting Girls product line coming into 2018, but we're keeping that one under wraps for now.

In Boys, Action and High-Tech Construction, Meccano sales were down in 2017 relative to 2016. As I mentioned earlier, we took a cautious approach. For 2018, we are focusing on the core and the licensed cars featuring licences such as Ferrari and Lamborghini.

Tech Deck will be launching more boards, BMX bikes, and Tech Deck Dudes, a miniature line of collectible figures in 2018.

Star Wars showed some year-over-year improvement, but off of a low base and it was not meaningful for us in dollar terms. We do not see Star Wars as a long-term growth driver for us, but we'll continue to selectively launch items that fit our portfolio and profitability threshold.

In 2018, we are excited about several Boys items, including Boxer, a robot controlled by a remote control and through gesture, sound, and touch; Flush Force, our new Boy collectible line; and Fuggler, a unique line of funny, ugly monster plush.

In our Outdoor segment, we have initiatives in place to grow Swimways internationally. We are beginning to innovate in the water sports and toy area. You will see more of that innovation in 2019 and beyond.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



In terms of entertainment, our second growth strategy, our goal is to launch at least one new entertainment property per year. Building strong entertainment franchises underpins the growth of our brand.

Season 5 of PAW Patrol is currently on air in the US and Canada, and we are in production and development of Seasons 6 and 7. Most markets around the world are a season or two behind North America. We continue to be excited about PAW Patrol's long-term growth potential.

In 2017, Rusty Rivets was ranked number three in the preschool boy on Nickelodeon. The second season began airing this January and highlights six build-related themes, including the mobile, Rivet Lab, Tigerbot, and Botarilla. These build themes tie in with the toy line being launched broadly in August that will offer an easy to use, hands-on set that lets preschoolers build authentic replica of their favourite characters from the show.

We are hard at work on other creative properties for the Boys and Girls in 2018 and '19, including the relaunch of Bakugan, as previously mentioned.

Our third growth strategy is to grow our international sales. International sales continue to grow faster than North America, and we are pleased with our progress. In our direct market, we saw strong growth particularly in Germany, Mexico, and the UK.

These are markets where retail relationship and consistencies are key, and we are now regarded as a critical supplier, especially as some of our competitors in these—especially as some of

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



our competitors in these markets have reduced their footprint. Our credibility is driving higher retail engagement, and we will continue to capitalize on this opportunity.

2017 was the first full year of direct sales in Australia and Central Eastern Europe. We exceed our internal projection for these geographies in our first year of operation. We are seeing the benefit of improved retailing engagement by having a direct presence in these markets.

We were also very pleased with our growth in China following our July launch. Although it has not yet been a full year, we have achieved strong momentum with a dedicated storefront on Tmall Alibaba, any distributor's window (phon) of bricks-and-mortar sales. We were recently awarded the new e-commerce Power Brand award for toys from Tmall in China. While still small, we are confident we are on track to see solid growth in China over the next several years.

We remain underrepresented internationally compared to our major competitors. In 2015, we said our goal is to have international sales represent 35 to 40 percent of our total sales in the medium term. We have already achieved the lower end of this range. We are now focused on 40 percent as the next milestone.

We will continue to expand our business in existing markets, open new markets, strategically convert some of our distributors to our own sales office, and grow business with third-party distributors where we do not have offices.

Our fourth growth strategy is to continue to make strategic acquisition. Since our IPO in 2015, we have completed eight acquisitions, three in 2017. We are continuing to focus on the

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 8, 2018 — 9:30 a.m. E.T.

Spin Master Corp. Q4 2017 Financial Results Conference Call

underlying pieces for each of these acquisitions, and ensuring we are leveraging our strength and the intellectual property we acquire to achieve the maximum growth potential.

We are continuing to seek strategic, accretive, favourably priced acquisitions that improve our growth profile.

As we have discussed, there is a great deal of fragmentation in the industry beyond the top ten toy manufacturers who comprise roughly 10 billion of the overall US market. This represents roughly half in dollars of the total US toy industry. We see a lot of opportunity to acquire some of the smaller players.

The potential disruption that we're seeing as a result of the Toys "R" Us bankruptcy may present opportunities for us to acquire dislocated companies. We have the balance sheet and financial flexibility to do so, and we are actively seeking opportunities with the right strategic fit.

We are very excited about our recent acquisition of GUND. GUND is located in Edison, New Jersey and has distribution throughout the United States, Canada, Europe, Japan, Australia, and South America. GUND is a great fit for us, delivering on several key business strategies, including allowing us to build a stable platform for expansion into the infant toy and specialty gift categories.

We also see the potential to further grow the business internationally. We are moving forward with the current leadership team in place and are focused on executing the established growth strategies.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



To conclude, we had a very successful 2017, and we are excited about 2018. Our differentiated brand presence, high retail engagement, and strong consumer demand gives us the opportunity to continue to grow.

Our entire management team is focused and hard at work on many drivers of growth for the Company, including our capital allocation and developing our internal talent.

By strategically executing against our four growth strategies, we are striving to deliver profitable growth and shareholder value creation in 2018 and beyond.

That concludes our formal remarks at this time. Ronnen, Mark, and I will now be pleased to answer your questions.

Operator, please begin the question period.

Q&A

Operator

At this time, if anybody has a question, please press *, 1 on your telephone keypad. Again, that would be *, 1 on your telephone keypad.

Your first question comes from Sabahat Khan from RBC Capital Markets. Your line is open.

Sabahat Khan — RBC Capital Markets

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Thanks, and good morning. On the other revenue line, I guess given the accounting change, how should we think about just the outlook for that line item for the course of 2018 versus 2017?

Mark Segal

So, Saba, firstly thanks for the question. I think other revenue really from an outlook perspective should be modelled roughly flat with 2017. I don't think taking Q4 as a run rate and applying that would give you the correct estimate for the year. So obviously there is some seasonality associated with that as well that's linked to our toy business. And the licensing and merchandising piece of it is linked to the underlying seasonality of toys, and then you have the app revenue business that is not seasonal and which we hope will continue to grow.

Sabahat Khan

All right. Thanks. And then as we think about PAW Patrol, can you comment on what proportion of your total gross product sales you're expecting that to be in 2019 (sic) [2018]? And I may have missed this, but are you able to share the magnitude or how much in sales shifted to Q1 from Q4?

Mark Segal

Okay. So I think you meant to say '18, Saba.

Sabahat Khan

Yeah.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Mark Segal**

But yeah, so we're not going to give specific guidance on a product line in terms of 2018. What I can tell you is that PAW Patrol sales in 2017 were roughly the same as 2016 in the 20 to 25 percent zone.

And in terms of the shift that we talked about earlier, if you look at that decline in Pre-School and Girls, there were other products as well as that actually declined as well. Around 50 percent of that decline related to PAW Patrol, so it was about 10 million to \$11 million.

Ben, you want to answer?

Ben Gadbois

Yeah. Just to add what you asked, Sabahat, so how much of Q4 shift to Q4, we actually don't look at it that way or measure it that way. One of the key disciplines we have in the Company is to make sure that we always end the year with clean inventory, and we don't want to carry excess. And I know different companies have different philosophies, but for us every year we really, really try to raise the bar and to really match the retail inventory with POS.

So with that said, we're seeing—if you actually look at NPD—we're seeing some nice POS already on PAW Patrol in Q4 not only in North America, but globally. So it's a philosophical question more than how much of the sales shifted to Q1.

Sabahat Khan

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



All right. Thanks. And then just one last one, a clarification. The comment earlier on the Nielson ratings of number one and number four for PAW Patrol and Rusty Rivets, was that a global or was that a US metric?

Ronnen Harary

It was a US metric.

Sabahat Khan

All right. Thank you.

Operator

Your next question comes from Steph Wissink from Jaffray. Your line is open.

Steph Wissink — Jaffray

Thanks. Good morning, everyone. I have a few quick questions, if I can. I think, Mark, you mentioned at least in the press release regarding the GUND announcement that there was some alternative distribution opportunities. I'm wondering if you can extrapolate a little bit on what that might include? And maybe how some of your other product lines might be able to channel through some of those new distribution end points?

Mark Segal

Okay. So from a distribution perspective, a big chunk of their business, Steph, is actually in the specialty toy area, which is not an area that we are particularly active in. Also, GUND has around

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



20 percent of their sales internationally at this point, and we're nearly double that. So we see an opportunity to scale internationally.

But in terms of the actual synergies and products, I'll pass it over to you guys to—

Ben Gadbois

Yeah. I mean just, Stephanie, just to add to what Mark said, I think the opportunities is that GUND is a premium brand, and they have great distribution in specialty and the gift channels where it's not necessarily where Spin Master has historically been strong, so we do see opportunity for elements of our portfolio to actually leverage the GUND distribution network. But also internationally GUND has some presence, but not as significant as we'd like. So there will be opportunities as well internationally.

Steph Wissink

Thanks. That's great. And then just a follow-up on the online comment. I think, Ben, you might have mentioned that it was 23 percent of your full year sales. I'm just curious if you'd be willing to talk about the holiday season versus the balance of the year? Does online disproportionately skew in that fourth quarter? Or are you seeing some behavioural indicators around balance that are different in that holiday period versus the rest of the year?

Ben Gadbois

Yeah. So a couple quick comments, Stephanie, is that we continue to be very focused on e-commerce. Just a couple years ago, we were approximately half of the industry average. We're now

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



at par with industry average, so it means that we spend a lot of our time and talent and effort on growing the e-commerce side of the business. And we see more growth, and we believe it's a trend that's here to stay and e-commerce will continue to grow.

Now in relation to the second part of your question, in Q4 the data that we have internally show that e-commerce grew to approximately 28, 29 percent of the industry sales. So Q4, we see that there is definitely a spike that takes place in the marketplace.

Steph Wissink

Okay. That's great. And then last question is just on the seasonality, just given the guidance for the year. It looks like some of the initiatives around collectibles and certainly the Outdoor and active category with Swimways is going to help to rebalance or create some proportionality in the front half. Should we think about that as a continuation strategically into '19 and '20 as you build out brands like GUND and others that maybe have a bit more of an annual business versus a back-half seasonal business?

Mark Segal

Well, Steph, if you look at our historical seasonality, it's typically around 30/70, H1 30. As I said to you, the primary driver of the increase for this year relates to Collectibles where we were not competing the first half of 2017. And so I don't think there is a structural shift because Swimways was in for the full year in '17 and will be obviously in for the full year in '18. As that grows, you

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



might see a slight shift. And then GUND seasonality is about 40 percent H1, so again you might see a slight shift.

But it's not dramatic, and I don't want to be too specific at this point in relation to '19 and '20.

Steph Wissink

Okay. Fair enough. Thanks, you guys. Very helpful.

Ben Gadbois

Thanks, Stephanie.

Operator

The next question comes from Garrett Johnson from BMO Capital Markets. Your line is open.

Garrett Johnson — BMO Capital Markets

Hey. Good morning. So if you normalize PAW Patrol shipments, adjusting for the FOB versus domestic shift in 3Q/4Q and then the 1Q spring shipments are pushed forward out of 4Q, you adjust all that, would PAW Patrol shipments have been up?

Mark Segal

Yes. Yes. PAW Patrol was still up for the year, Garrett, and both on a shipments basis and a POS basis.

Ben Gadbois

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Yeah, Garrett, just PAW Patrol overall, if you average it all out and you normalize all of it, it would still be up in North America, as well as internationally.

Garrett Johnson

Okay. For that—to be clear, for that holiday period—I wasn't talking about the year—but for that holiday period if you include 3Q, first quarter, 4Q, all that together?

Ben Gadbois

No. No. Correct. That is correct, Garrett. The POS is up on all the metrics any way you look at it.

Garrett Johnson

Okay. Great. And then on the other revenue, even adjusting for the accounting change revenue still grew about 100 percent. Can you kind of unpack that? And specifically, how much of that was incremental licensing revenue from Hatchimal?

Mark Segal

Yes. So Garrett, we don't actually break down other revenue into all its components. There are three primary components. I'll try and give you some colour on them. The first one is distribution revenue, the second is licensing and merchandising, and the third is app revenue from Toca Boca and Sago Mini.

So the licensing and merchandising was impacted to some extent by Hatchimals. We are seeing a nice growth from that program, not very material; also PAW Patrol and other properties

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



that we earn licensing and merchandising income from. And then we are seeing growth in the app revenue area.

So I think it's really actually across the board that we're seeing some growth.

Garrett Johnson

Okay. Thank you. And then finally, your inventory grew 50 percent on top of 63 percent last year. So can you explain what's going on with your own inventory? Thank you.

Mark Segal

So inventory increase was—firstly, let me say before I answer inventory that our overall net working capital, as I said to you, was more than halved from 10.7 percent to 5.6 percent this year as a percentage of sales. So I think we did exceptionally well, and obviously that had a positive impact on free cash flow.

Inventory actually did increase, and that was driven by two factors. One was our increase in our European business, which is mainly domestic, and the other was the increase in our North American inventory, primarily Hatchimals Colleggtibles, in expectation of growth in the first half of 2018.

Garrett Johnson

All right. Great. That's all I have. Thank you.

Operator

Next question comes from David McFadgen from Cormark Securities. Your line is open.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



David McFadgen — Cormark Securities

Oh, great. Hi. A couple of questions. Mark, can you confirm what the largest revenue line is now? Is it Hatchimals? Or is it PAW Patrol?

Mark Segal

David, we don't break down the revenue, as you know. We usually only give the top line item, but in this particular case I will tell you that both PAW Patrol and Hatchimals are both around the same, in the 20 to 25 percent zone. They're almost identical in that respect.

David McFadgen

Okay. So just a couple of questions on the outlook for 2018. What kind of growth are you expecting for PAW Patrol in 2018?

Mark Segal

So, David, at this point we're not going to give specific product guidance. It's too early in the year. We've kind of given you our best view at this point in time of where we think the year is going to shape up. As we go through the year in Q1 in May and Q2 in August, we'll give you more granular guidance, but we're not going to comment specifically on PAW Patrol right now.

David McFadgen

So you can't even just confirm whether you think PAW Patrol will be up or down for 2018 versus 2017?

Mark Segal

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Well, as Ben said earlier, David, both POS and shipments are continuing to be very strong.

David McFadgen

Okay. And then just on Luvabella, I was just wondering are you forecasting—I know you're not going to give us the actual number—but are you forecasting fairly large growth in 2018 for that product line? Or is it just too early right now to say?

Mark Segal

Again, it's too early. And I just want to just reiterate that we don't give specific product line guidance in terms of our outlook.

David McFadgen

Yeah. Okay. And then just on the working capital. So this year in 2017 you actually had a working capital inflow. In the past, you've typically had working capital outflow, so that was a really good metric to see. Do you think that's sustainable in 2018? Or will we see it reverse back and there'll be a working capital outflow in 2018?

Mark Segal

I think we had very good performance on net working capital in 2017, as you mentioned. It is a critical part of how we as a management team operate the business, both DSO, DPO, and DIO are all critical metrics, as is cash conversion. So it's going to be a continued focus on how we operate.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



And it's also, by the way, a key part of our incentive compensation plan, so it's something that the business as a whole is extremely focused on.

I can't give you a prediction at this point. We will continue to see inventory, I think, increase a little bit as we grow our European business, and as we shift some of our FOB business to domestic to better service the market here. But I think it's a little bit early to be too granular on our net working capital for the year.

David McFadgen

Okay. And then just lastly, I noticed you took a small impairment charge for intangible assets in the quarter. And then obviously for the year it's a bigger number. I was just wondering if you could tell us what product that related to?

Mark Segal

In the fourth quarter we took a small charge for our Spy Gear product.

David McFadgen

Okay.

Mark Segal

Not material.

David McFadgen

Okay. All right. Thank you.

Operator

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Again, if anybody would like to ask a question, please press *, 1 on your telephone keypad.

Your next question comes from Brian Morrison from TD Securities. Your line is open.

Brian Morrison — TD Securities

Hey. Good morning. Mark, just if you could talk about the puts and takes of a flat margin guide for 2018? On a positive, I assume there's more licensing deal and sales of owned IP, on the negative I assume you've got acquisition contributions and more international costs as your sales increase. Maybe just walk through the puts and takes and whether there's potential upside through economies of scale as well?

Mark Segal

Thanks, Brian. Yeah. So as you noticed, we guided flat on our adjusted EBITDA margin. Look, we'll continue to focus on growing our margins, but as you know, it's early in the year and we don't want to be too granular on that. The reality is, though, that we'll continue to focus on operating leverage; we'll continue to focus on reducing our costs. We do see some areas where we will have to invest in international particularly in growing some of our people around the world to sustain the growth.

So for that reason, we did not actually guide for an increase in adjusted EBITDA margin at this point in the year. Plus there will be some integration costs associated with GUND.

Brian Morrison

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Okay. And then maybe just, Ronnen, on Bakugan, can you just provide some details on the relaunch in 2019? I believe Corus will be involved with the production again, but when it hits the market is this a global relaunch or will it be aimed at a specific geographic region before going global? Just how do you think about a relaunch of a historically successful story or franchise?

Ronnen Harary

Yeah. Well, thanks, Brian. I appreciate getting a question. I felt a little left out. But the first and foremost is to wait seven years for a fresh generation of kids, okay, to come into the property. And I think that the discipline that we've employed by having the patience to wait is first and foremost.

Second is staying very true to what makes Bakugan very special, but at the same time to bring something new and different to the actual Bakugan toys themselves. And I think when we show that to you guys in spring, you guys will really appreciate the advanced innovation that we've brought forth to the actual toy itself.

And from a story and show perspective, again, trying to follow the same formula that we employed on the first four seasons, but again, making it a little bit more current and relevant to what's happening in the marketplace. So for example, the show is actually instead of being 22 minutes in length, it's two 11s to fit what's happening now with the movement in terms of kids and how they're viewing content in partnership with our broadcaster, which we'll be sharing with you guys shortly.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



And in terms of it being a global launch, it will be a global launch around the world. We're very focused on that. We're very excited about the ability to launch globally through a lot more direct offices this time around rather than distributors. And that will give us the ability to control the marketing and control the shipments in and the overall brand. So I think that we're very focused on the global aspect of it this time around than last time around.

And yeah, it's going to be everything from the toy, to the television, to online, to the marketing, to the in-store. The Company is very, very focused on making this a global franchise and also working on other things that we talked about before, which is potentially trying to get a movie out in the next few years.

Brian Morrison

Excellent.

Ronnen Harary

And there is also a very concerted effort to focus on the Asian market with Bakugan also.

Brian Morrison

Right. Mark, just on international sales, you're now at that low end of the 35 to 40 percent range. This was a midterm target. But now that you're there, is there any updated targets more long term? Is 50/50 something with your international aspirations now?

Mark Segal

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



I think our new target at this point, Brian, is the 40 percent, which represents the top end of the previous range. We've kind of hit the bottom end, and now we're focused on the 40 as the next goal. I think 50/50 is probably a little bit aggressive at this point in the next few years. It's taken Mattel and Hasbro 20, 30 years longer than we have been around to actually get there.

Ben, do you want to add to that?

Ben Gadbois

Yeah. No, I think, Brian, the next milestone for us is 40 percent. We still have a lot of room for growth where we already are with opening more doors and just keep leveraging our portfolio, and there's also new markets for us to enter. So we're very focused on our international growth, but 40 percent is the next milestone.

Brian Morrison

Okay. And then just last question. I just want to clarify going back to PAW Patrol and I don't want to get too detailed here, but I want to make sure because it's important that I understand Ben's comments correctly in the text. So it sounds like the message here is continued growth outlook as we move through 2018, and then including all the adjustments in Q4 it would have been up in all geographies. Is that correct?

Mark Segal

Yeah. I think that's fair to say, Brian. I mean, the overall message that we're trying to get across here with PAW Patrol in Q4 is it's not a major factor. It's not something to get concerned

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



about. POS is up for the year. Shipments were up for the year. It's strong. And this is why actually we like giving guidance in terms of halves and not in quarters because you can have a few shifts here or there and it really doesn't create—I don't want you to overanalyze it.

And so I think—Ben, do you want to add?

Ben Gadbois

Yeah. The key thing is for us not just how we manage PAW Patrol, but how we manage all of our other properties is we have an internal formula that we're very disciplined around. And it's the looking at the beginning inventory at the retail level, looking at what we ship in, what the POS is, and what the ending inventory is. And we always, always strive to keep the ending inventory very, very tight so that it actually reduces potential for mix issues, allocation issue in the marketplace. So it gives us more flexibility as a company, so.

And it also helps driving our working capital tremendously. So we're very focused on this formula, and this is why sometimes the POS, for example, has been very strong on PAW Patrol. And the shipment, again, there was timing issues because of that formula.

Brian Morrison

Thanks, guys.

Operator

I have no further questions at this time. I turn the call back over to the presenters for closing remarks.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Karoline Hunter

That concludes our call. Thank you for participating, and we look forward to speaking with you again following our Q1 reporting in May.

Thank you.

Ben Gadbois

Thank you

Operator

Thank you, everyone. This will conclude today's conference call. You may now disconnect.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »