March 1, 2021

SPIN MASTER CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

For the three months and year ended December 31, 2020

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. ("Spin Master" or the "Company") is dated March 1, 2021 and provides information concerning the Company's financial condition, financial performance and cash flows for the year ended December 31, 2020 and the three months ended December 31, 2020, ("fourth quarter", "the quarter", "Q4"). This MD&A should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes ("financial statements") for the year ended December 31, 2020 and its Annual Information Form ("AIF"). Additional information relating to the Company can be found under the Company's profile on SEDAR at www.sedar.com.

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

BASIS OF PRESENTATION

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). However, certain financial measures contained in this MD&A are non-IFRS measures and are discussed further in the "Non-IFRS Financial Measures" section of this MD&A. Effective December 31, 2019, all financial information is presented in millions of United States dollars ("$", "dollars" and "US$") and has been rounded to the nearest hundred thousand, except per share amounts and where otherwise indicated. Certain totals, subtotals and percentages throughout this MD&A may not reconcile due to rounding. The impact of these rounding adjustments do not have a material effect on the Company's MD&A.

BUSINESS OVERVIEW

Spin Master is a leading global children's entertainment company creating exceptional play experiences through a diverse portfolio of innovative toys, entertainment franchises and digital games. Spin Master is best known for award-winning brands *PAW Patrol*, *Bakugan*, *Kinetic Sand*, *Air Hogs*, *Hatchimals*, *Rubik's Cube* and *GUND* and is the toy licensee for other popular properties. Spin Master's entertainment team creates and produces compelling multiplatform content, stories and endearing characters through its in-house studio and partnerships with outside creators, including the pre-school success *PAW Patrol* and 9 other original shows along with multiple short-form series, which are distributed in more than 190 countries. The Company has an established digital games presence, anchored by the *Toca Boca* and *Sago Mini* brands, which combined have more than 40 million monthly active users. With close to 2,000 employees in 28 offices globally, Spin Master distributes products in more than 100 countries.

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

- Innovate using our global internal and external research and development network;
- Developing evergreen global entertainment franchises and digital games;
- Increasing international sales in developed and emerging markets; and
- Leveraging the Company's global platform through strategic acquisitions.

Spin Master's organic growth strategy is centered around the Company's 36-month brand innovation pipeline. This pipeline is fed by internal innovation and multiple touch points with inventors, licensors, consumers and potential acquisitions, traditional and innovative entertainment contact and digital toys. These touch points strengthen consumers' attachments to Spin Master's brands and franchises and are the engine of long-term growth.

Spin Master continues to expand into content for traditional television, video-on-demand, subscription video-on-demand, in addition to other short-form and long-form content, including movies, across a variety of distribution channels. In addition, the Company will continue its focus on direct-to-consumer initiatives as consumer purchasing trends in the retail landscape evolve.

Spin Master's business comprises three geographic segments: North America, comprised of the United States ("U.S.") and Canada; Europe, comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Turkey, Russia and Greece; and the Rest of World, primarily comprised of Hong Kong, China, Vietnam, India, Australia, New Zealand, Japan and Mexico and all other areas of the world serviced by Spin Master's third party distribution network. The Company remains focused on its long-term goal of more than 45% of sales outside of the North America segment.

Spin Master's diversified portfolio of toys, games and products is organized into five product categories: (1) Activities, Games & Puzzles and Plush; (2) Boys Action and Construction; (3) Outdoor; (4) Pre-School and Girls and (5) Remote Control and Interactive Characters. Effective January 1, 2021, Spin Master has simplified its product categories to align with the Company's product offerings going forward (see Addendum for additional information).

Seasonality factors cause the Company's operating results to fluctuate significantly from quarter to quarter. A majority of the Company's annual sales occur during the third and fourth quarters of the Company's fiscal year with a significant portion of its net income earned and cash flows generated during the same period.

COVID-19 PANDEMIC UPDATE

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic. The crisis related to COVID-19 is unprecedented and has had an impact on the Company's employees, customers and suppliers.

Supply Chain

When COVID-19 first emerged early in the first quarter of 2020, it directly affected Spin Master's third party manufacturing capacity in China, which comprises between 60% to 65% of the Company's manufacturing capacity, in addition to third party manufacturing in Vietnam, Mexico and India. Capacity progressively improved through the first quarter such that by the end of the quarter it had largely returned to normal levels. Following the first quarter, Spin Master did not experience any material disruption to its manufacturing as a result of COVID-19.

The Company continues to closely monitor the changing global environment to enable immediate actions to be taken to ensure customer order fulfillment is achieved across the various markets.

Demand

The pandemic spread to customer markets globally late in the first quarter of 2020 and continued through the rest of the year. Due to government-imposed restrictions and the closure of many retail locations during certain parts of the year, the pandemic resulted in significant reductions in retail consumer traffic in most countries globally, including some of Spin Master's largest markets. This put additional pressure on the Company's business, driving disruption in customer behaviour and consumer demand. Although many retail locations re-opened globally during the third quarter with the exception of some small specialty stores mainly in North America, they were forced to close again during the fourth quarter. As a result, retail consumer traffic continues to be impacted in markets with government-imposed restrictions. Online and e-commerce channels continue to remain active in most countries.

Liquidity

During the first quarter of 2020, as a precautionary measure and to increase available cash on hand, the Company drew $350.0 million from the $510.0 million available on its secured revolving credit facility ("Credit Facility"). The Company repaid $50.0 million and $300.0 million on its Credit Facility in the second and third quarters of 2020, respectively. As at December 31, 2020, the Company had unutilized liquidity of $838.0 million, comprised of $320.6 million in cash and $517.4 million unutilized under its credit facilities. The Company believes it has sufficient liquidity to meet its operational requirements.

Selected Financial Information

The following provides selected historical information and other data of the Company which should be read in conjunction with the financial statements of the Company.

Key Performance Metrics	Year Ended Dec 31		
(US$ millions, except per share information)	**2020**	**2019**	**2018[2]**
Sales and Earnings			
Gross Product Sales[1]	1,623.7	1,691.2	1,708.0
Net Sales[1]	1,415.6	1,463.7	1,509.6
Entertainment and Licensing revenue	78.2	91.7	98.3
Digital games revenue	76.8	26.2	23.6
Total revenue	1,570.6	1,581.6	1,631.5
Net income	45.5	64.3	154.9
Adjusted Net Income[1]	53.4	92.8	163.5
EBITDA[1]	124.5	181.3	292.0
Adjusted EBITDA[1]	180.6	219.0	303.6
Adjusted EBITDA Margin[1]	11.5 %	13.8 %	18.6 %
Earnings Per Share ("EPS")			
Basic EPS	0.45	0.63	1.52
Diluted EPS	0.44	0.62	1.51
Adjusted Basic EPS[1]	0.52	0.91	1.61
Adjusted Diluted EPS[1]	0.51	0.90	1.60
Balance Sheet and Cash Flow Data			
Cash	320.6	115.3	143.5
Total assets	1,342.1	1,256.4	999.2
Total liabilities	499.2	496.0	336.7
Cash provided by operating activities	310.8	98.4	192.9
Cash (used in) provided by investing activities	(84.9)	(116.2)	(159.5)
Cash (used in) provided by financing activities	(16.3)	(13.7)	0.2
Free Cash Flow[1]	232.1	4.7	110.4

Notes:

1) See "Non-IFRS Financial Measures".

2) The Company adopted International Financial Reporting Standard 16 Leases ("IFRS 16"), effective January 1, 2019. The Company implemented the standard using the modified retrospective approach. The comparative information presented for 2018 has not been restated for the adoption of IFRS 16. On a pro forma basis, the impact of IFRS 16 on Adjusted EBITDA for 2018 would be an increase of $11.3 million.

(all amounts in US$ millions, except percentages)	Year Ended Dec 31		
	2020	2019	2018[2]
Earnings Results			
Gross Product Sales[1] by Product Category			
Activities, Games & Puzzles and Plush	511.2	457.7	455.5
Pre-School and Girls	467.2	516.2	517.5
Boys Action and Construction	352.1	331.4	133.1
Remote Control and Interactive Characters	202.1	299.3	505.4
Outdoor	91.1	86.6	96.5
Gross Product Sales[1]	1,623.7	1,691.2	1,708.0
Sales Allowances[1]	(208.1)	(227.5)	(198.4)
Net Sales[1]	1,415.6	1,463.7	1,509.6
Entertainment and Licensing revenue	78.2	91.7	98.3
Digital games revenue	76.8	26.2	23.6
Other revenue	155.0	117.9	121.9
Total revenue	1,570.6	1,581.6	1,631.5
Cost of sales	842.7	796.6	812.7
Gross profit	**727.9**	**785.0**	**818.8**
Gross margin	*46.3 %*	*49.6 %*	*50.2 %*
Selling, marketing, distribution and product development	367.8	395.4	331.9
Administrative expenses	264.6	247.9	278.4
Depreciation and amortization expenses	37.7	32.6	14.7
Other expenses (income)	8.7	6.6	(14.7)
Foreign exchange loss (gain)	27.6	5.8	(9.3)
Finance costs	12.1	11.7	9.4
Income before income tax (recovery) expense	**9.4**	**85.0**	**208.4**
Income tax (recovery) expense	(36.1)	20.7	53.5
Net income	**45.5**	**64.3**	**154.9**

Note:

1) See "Non-IFRS Financial Measures".

2) The Company adopted IFRS 16, effective January 1, 2019. The Company implemented the standard using the modified retrospective approach. The comparative information presented for 2018 has not been restated for the adoption of IFRS 16.

The Company experienced a year-over-year decline in Gross Product Sales[1] as a result of the government-imposed restrictions and the closure of many retail locations that resulted in significant reductions in retail consumer traffic in most countries globally, including some of Spin Master's largest markets. Despite this disruption in customer behaviour and consumer demand, the Company has experienced significant growth in its digital games revenue, up over 193% from prior year. In addition, the Company has made significant progress on its ongoing operational improvement initiatives, exceeding its goal of reducing the number of its North American warehouses earlier than expected in 2020 in order to refine its supply chain infrastructure.

Total revenue of $1,570.6 million decreased by 0.7% from $1,581.6 million in 2019. In Constant Currency[1] terms, total revenue decreased by 1.0%. The decline in revenue was primarily driven by lower Gross Product Sales[1], offset in part by an increase in digital games revenue and lower Sales Allowances[1].

Net income for the year ended December 31, 2020 was $45.5 million, a decrease of $18.8 million or 29.2% from $64.3 million in 2019. Excluding share-based compensation, restructuring expenses, foreign exchange loss, legal settlement, acquisition related contingent consideration and other non-recurring items, Adjusted Net Income[1] for the year ended December 31, 2020 was $53.4 million, a decrease of $39.4 million or 42.5% from $92.8 million in 2019.

Adjusted EBITDA[1] decreased to $180.6 million or 11.5% of revenue, compared to $219.0 million or 13.8% in 2019, primarily driven by lower gross profit and higher administrative expenses, partially offset by lower marketing and distribution expenses.

Gross Product Sales[1] have decreased from $1,708.0 million in 2018 to $1,623.7 million in 2020. Over the same period, total revenue has decreased from $1,631.5 million to $1,570.6 million. However, over the past 10 years, the Company's Gross Product Sales[1] have grown at a 5.9% compound annual growth rate.

FINANCIAL PERFORMANCE

For the three months and year ended December 31, 2020 compared to the three months and year ended December 31, 2019:

Consolidated Results

The following tables provide a summary of Spin Master's consolidated results for the three months and year ended December 31, 2020 and 2019:

	Three Months Ended Dec 31			
(US$ millions)	**2020**	**2019**	**$ Change**	**% Change**
Total revenue	490.6	473.5	17.1	3.6 %
Cost of sales	249.6	247.4	2.2	0.9 %
Gross profit	**241.0**	**226.1**	**14.9**	**6.6 %**
Selling, marketing, distribution and product development	135.1	164.8	(29.7)	(18.0)%
Administrative expenses	76.7	66.6	10.1	15.2 %
Depreciation and amortization expenses	10.0	8.8	1.2	13.6 %
Other expenses	9.7	7.5	2.2	29.3 %
Foreign exchange loss (gain)	10.5	(0.1)	10.6	n.m.
Finance costs	3.4	3.2	0.2	6.3 %
Loss before income tax recovery	**(4.4)**	**(24.7)**	**20.3**	**(82.2)%**
Income tax recovery	(4.7)	(7.5)	2.8	(37.3)%
Net income (loss)	**0.3**	**(17.2)**	**17.5**	**(101.7)%**

Highlights for the three months ended December 31, 2020 as compared to the same period in 2019:
(US$ millions, except per share information)

- Total revenue of $490.6 million increased by 3.6% from $473.5 million. In Constant Currency[1] terms, total revenue increased by 2.4%. Contributing to this increase was higher digital games revenue of $31.8 million, which increased by $25.5 million or 404.8% from $6.3 million.
- Gross profit as a percentage of total revenue increased to 49.1% from 47.8%.
- Selling, marketing, distribution and product development expenses decreased to $135.1 million or 27.5% of total revenue from $164.8 million or 34.8%.
- Administrative expenses increased to $76.7 million or 15.6% of total revenue from $66.6 million or 14.1%.
- Net income was $0.3 million or earnings per share of nil compared to net loss of $17.2 million or loss per share of $0.17.
- Adjusted Net Income[1] was $14.6 million or Adjusted Diluted EPS[1] of $0.14 compared to Adjusted Net Loss[1] of $7.8 million or Adjusted Basic EPS[1] of $(0.08).
- Adjusted EBITDA[1] increased to $51.5 million or 10.5% of total revenue from $6.7 million or 1.4%.
- Cash provided by operating activities were $138.2 million compared to $10.8 million.
- Free Cash Flow[1] was $123.7 million compared to negative $19.3 million.
- On October 27, 2020, the Company announced it reached an agreement to acquire control of Rubik's Brand Limited ("Rubik's") through the acquisition of 100% of the shares of its holding company, Rubiks Malta Holding Company Limited. The transaction closed on January 4, 2021 for a preliminary estimate of purchase consideration of $56.4 million. Gross Product Sales[1] related to Rubik's will be included in the Activities, Games & Puzzles and Plush product category.

(US$ millions)	Year Ended Dec 31 2020	2019	$ Change	% Change
Total revenue	1,570.6	1,581.6	(11.0)	(0.7)%
Cost of sales	842.7	796.6	46.1	5.8 %
Gross profit	**727.9**	**785.0**	**(57.1)**	**(7.3)%**
Selling, marketing, distribution and product development	367.8	395.4	(27.6)	(7.0)%
Administrative expenses	264.6	247.9	16.7	6.7 %
Depreciation and amortization expenses	37.7	32.6	5.1	15.6 %
Other expenses	8.7	6.6	2.1	31.8 %
Foreign exchange loss	27.6	5.8	21.8	375.9 %
Finance costs	12.1	11.7	0.4	3.4 %
Income before income tax (recovery) expense	**9.4**	**85.0**	**(75.6)**	**(88.9)%**
Income tax (recovery) expense	(36.1)	20.7	(56.8)	(274.4)%
Net income	**45.5**	**64.3**	**(18.8)**	**(29.2)%**

Highlights for the year ended December 31, 2020 as compared to the same period in 2019:
(US$ millions, except per share information)

- Total revenue of $1,570.6 million decreased by 0.7% from $1,581.6 million. In Constant Currency[1] terms, total revenue decreased by 1.0%. Partially offsetting this decline was higher digital games revenue of $76.8 million, which increased by $50.6 million or 193.1% from $26.2 million.
- Gross profit as a percentage of total revenue decreased to 46.3% from 49.6%.
- Selling, marketing, distribution and product development expenses decreased to $367.8 million or 23.4% of total revenue from $395.4 million or 25.0%.
- Administrative expenses increased by $16.7 million to $264.6 million from $247.9 million. As a percentage of total revenue, administrative expenses increased to 16.8% from 15.7%.
- In the first quarter of 2020, an internal transfer of intellectual property resulted in a one-time income tax recovery of $33.3 million.
- Net income was $45.5 million or earnings per share of $0.44 (diluted) compared to $64.3 million or $0.62 (diluted).
- Adjusted Net Income[1] was $53.4 million or Adjusted Diluted EPS[1] of $0.51 compared to $92.8 million or $0.90.
- Adjusted EBITDA[1] decreased to $180.6 million or 11.5% of total revenue, compared to $219.0 million or 13.8%.
- Cash provided by operating activities were $310.8 million compared to $98.4 million.
- Free Cash Flow[1] was $232.1 million compared to $4.7 million.
- In the first quarter of 2020, the Company borrowed $350.0 million on its Credit Facility and subsequently repaid $50.0 million and $300.0 million in the second and third quarters of 2020, respectively. As at December 31, 2020, the Credit Facility was undrawn while the Company had an ending cash balance of $320.6 million.

Acquisition of Rubik's Brand Limited

On January 4, 2021, the Company acquired control of Rubik's Brand Limited through the acquisition of 100% of the shares of its holding company, Rubiks Malta Holding Company Limited. The brand will be reported in the Activities, Games & Puzzles and Plush product category beginning from the date of acquisition.

The preliminary estimate of purchase consideration of $56.4 million is comprised of $50.0 million of cash consideration plus an estimated $6.4 million related to closing values for net working capital and fair value of future royalties. Given the timing of the transaction and measurement uncertainty with final purchase agreement consideration adjustments, the purchase price allocation is not yet final. The purchase price allocation will be disclosed in the Company's first quarter 2021 condensed consolidated interim financial statements.

There were $0.9 million in transaction related costs included in administrative expenses in the consolidated statement of earnings and comprehensive income for the year ended December 31, 2020.

Revenue

For the three months ended December 31, 2020 as compared to the same period in 2019:

The following table provides a summary of Spin Master's revenue by product category for the three months ended December 31, 2020 and 2019:

	Three Months Ended Dec 31			
(US$ millions)	**2020**	**2019**	**$ Change**	**% Change**
Activities, Games & Puzzles and Plush	165.1	162.1	3.0	1.9 %
Pre-School and Girls	154.0	152.4	1.6	1.0 %
Boys Action and Construction	116.9	114.8	2.1	1.8 %
Remote Control and Interactive Characters	60.1	106.5	(46.4)	(43.6)%
Outdoor	15.7	14.9	0.8	5.4 %
Gross Product Sales[1]	**511.8**	**550.7**	**(38.9)**	**(7.1)%**
Sales Allowances[1]	(77.5)	(109.1)	31.6	(29.0)%
Net Sales[1]	**434.3**	**441.6**	**(7.3)**	**(1.7)%**
Entertainment and Licensing revenue	24.5	25.6	(1.1)	(4.3)%
Digital games revenue	31.8	6.3	25.5	404.8 %
Other revenue	**56.3**	**31.9**	**24.4**	**76.5 %**
Total revenue	**490.6**	**473.5**	**17.1**	**3.6 %**

1) See "Non-IFRS Financial Measures".

Gross Product Sales decreased by $38.9 million or 7.1%, to $511.8 million with a favourable foreign exchange impact of $4.3 million or 0.8%. Excluding the impact of foreign exchange, Gross Product Sales decreased by $43.2 million or 7.9% to $507.5 million. The decrease was driven by Remote Control & Interactive Characters, partially offset by growth in Activities, Games & Puzzles and Plush, Boys Action & Construction and Pre-School & Girls.

Gross Product Sales in Activities, Games & Puzzles and Plush increased by $3.0 million or 1.9% to $165.1 million. The increase was driven primarily by higher sales of *Kinetic Sand* and sales of *Rainbow Jellies*, partially offset by declines in *GUND*, the Games & Puzzles portfolio and *Bunchems.*

Gross Product Sales in Pre-School and Girls increased by $1.6 million or 1.0% to $154.0 million. The increase was driven primarily by higher sales of *PAW Patrol* and *Pre Cool*, offset in part by declines in *Candylocks*, *Twisty Petz*, *Awesome Blossems*, *Off the Hook* and *Hatchimals Plush*.

Gross Product Sales in Boys Action and Construction increased by $2.1 million or 1.8% to $116.9 million. The increase was primarily driven by higher sales of *DC* licensed products and *Tech Deck* in addition to sales of *Present Pets*, offset in part by declines in *Bakugan*, *DreamWorks Dragons* and *Boxer*.

Gross Product Sales in Remote Control and Interactive Characters decreased by $46.4 million or 43.6% to $60.1 million, primarily due to lower sales of *Hatchimals*, *Owleez*, *Juno* and *Luvabella*, partially offset by an increase in *Monster Jam RC*.

Gross Product Sales in Outdoor increased by $0.8 million or 5.4% to $15.7 million.

Sales Allowances decreased by $31.6 million or 29.0% to $77.5 million and as a percentage of Gross Product Sales, declined 4.7% to 15.1% from 19.8%, The decrease was primarily driven by lower markdowns and non-compliance charges as a result of the remediation of operational challenges, which arose in the fourth quarter of 2019.

Other revenue grew by $24.4 million or 76.5% to $56.3 million. The increase was driven by higher in-game purchases in the *Toca Life World* platform and growth in the *Sago Mini* subscription user base. Also contributing to the increase was higher television distribution revenue, partially offset by lower licensing and merchandising revenue.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the three months ended December 31, 2020 and 2019:

	Three Months Ended Dec 31					
(US$ millions)	**2020**	**% of GPS**	**2019**	**% of GPS**	**$ Change**	**% Change**
North America	272.4	53.2 %	308.8	56.1 %	(36.4)	(11.8)%
Europe	168.0	32.8 %	164.2	29.8 %	3.8	2.3 %
Rest of World	71.4	14.0 %	77.7	14.1 %	(6.3)	(8.1)%
Gross Product Sales[1]	**511.8**	**100.0 %**	**550.7**	**100.0 %**	**(38.9)**	**(7.1)%**

1) See "Non-IFRS Financial Measures".

As a percentage of total Gross Product Sales, the North America segment decreased 2.9% to 53.2% compared to 56.1% in the prior year. International sales, comprised of the Europe and Rest of World segments, increased 2.9% to 46.8% compared to 43.9% in the prior year.

Gross Product Sales in North America decreased by $36.4 million or 11.8% to $272.4 million, with a favourable foreign exchange impact of $0.1 million. The decrease was driven by *Hatchimals*, *Bakugan*, *Owleez*, *GUND*, *DreamWorks Dragons*, the Games & Puzzles portfolio, *Juno*, *Candylocks*, *Marshmallow* and *Boxer*, offset in part by higher sales of *Kinetic Sand, DC* licensed products and *Monster Jam RC* in addition to sales of *Present Pets*.

Gross Product Sales in Europe increased by $3.8 million or 2.3% to $168.0 million, with a favourable foreign exchange impact of $5.6 million. The increase was driven by *PAW Patrol*, *DC licensed products* and *Monster Jam RC* in addition to sales of *Present Pets*, offset in part by declines in Owleez, *DreamWorks Dragons*, *Hatchimals, Bakugan* and *Luvabella*.

Gross Product Sales in Rest of World decreased by $6.3 million or 8.1% to $71.4 million, with an unfavourable foreign exchange impact of $1.4 million. The decrease was driven by *Hatchimals*, *Bakugan* and *DreamWorks Dragons*, offset in part by higher sales of *DC* licensed products and sales of *Present Pets*.

For the year ended December 31, 2020 as compared to the same period in 2019:

The following table provides a summary of Spin Master's revenue by product category for the years ended December 31, 2020 and 2019:

	Year Ended Dec 31			
(US$ millions)	**2020**	**2019**	**$ Change**	**% Change**
Activities, Games & Puzzles and Plush	511.2	457.7	53.5	11.7 %
Pre-School and Girls	467.2	516.2	(49.0)	(9.5)%
Boys Action and Construction	352.1	331.4	20.7	6.2 %
Remote Control and Interactive Characters	202.1	299.3	(97.2)	(32.5)%
Outdoor	91.1	86.6	4.5	5.2 %
Gross Product Sales[1]	**1,623.7**	**1,691.2**	**(67.5)**	**(4.0)%**
Sales Allowances[1]	(208.1)	(227.5)	19.4	(8.5)%
Net Sales[1]	**1,415.6**	**1,463.7**	**(48.1)**	**(3.3)%**
Entertainment and Licensing revenue	78.2	91.7	(13.5)	(14.7)%
Digital games revenue	76.8	26.2	50.6	193.1 %
Other revenue	**155.0**	**117.9**	**37.1**	**31.5 %**
Total revenue	**1,570.6**	**1,581.6**	**(11.0)**	**(0.7)%**

1) See "Non-IFRS Financial Measures".

Gross Product Sales decreased by $67.5 million or 4.0% to $1,623.7 million, with a favourable foreign exchange impact of $3.0 million or 0.2%. Excluding the impact of foreign exchange, Gross Product Sales decreased by $70.5 million or 4.2% to $1,620.7 million. The decrease was driven by Remote Control & Interactive Characters and Pre-School & Girls, partially offset by growth in Activities, Games & Puzzles and Plush and Boys Action & Construction.

Gross Product Sales in Activities, Games & Puzzles and Plush increased by $53.5 million or 11.7% to $511.2 million, primarily driven by increases in *Kinetic Sand* and the Games & Puzzles portfolio in addition to sales of *Rainbow Jellies* and *Orbeez*, offset in part by declines in *GUND* and *Bunchems*.

Gross Product Sales in Pre-School and Girls decreased by $49.0 million or 9.5% to $467.2 million, driven by declines in *Twisty Petz*, *Candylocks*, *PAW Patrol*, *Awesome Blossems*, *Off the Hook*, *Hatchimals Plush*, *Party Popteenies* and *Universe*, offset in part by higher sales of *Pre Cool.*

Gross Product Sales in Boys Action and Construction increased by $20.7 million or 6.2% to $352.1 million, primarily due to higher sales of *DC* licensed products and *Tech Deck* in addition to sales of *Present Pets*, partially offset by declines in *DreamWorks Dragons*, *Bakugan*, *Boxer*, *Fugglers* and *Meccano.*

Gross Product Sales in Remote Control and Interactive Characters decreased by $97.2 million or 32.5% to $202.1 million, primarily due to declines in *Hatchimals*, *Owleez*, *Juno*, *Luvabella*, *Moonlite*, *Air Hogs* and *Zoomer*, partially offset by increases in *Monster Jam RC*, *Ninja Bots*, *PAW Patrol RC* and sales of remote controlled *DC* licensed products.

Gross Product Sales in Outdoor increased by $4.5 million or 5.2% to $91.1 million.

Sales Allowances decreased by $19.4 million or 8.5% to $208.1 million and as a percentage of Gross Product Sales, declined 0.7% to 12.8% from 13.5%. The decline is primarily driven by lower markdowns and non-compliance charges as a result of the remediation of operational challenges, which arose in the fourth quarter of 2019.

Other revenue increased by $37.1 million or 31.5% to $155.0 million, driven by higher in-game purchases in the *Toca Life World* platform and growth in the *Sago Mini* subscription user base, offset in part by lower licensing and merchandising revenue.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the years ended December 31, 2020 and 2019:

	Year Ended Dec 31					
(US$ millions)	**2020**	**% of GPS**	**2019**	**% of GPS**	**$ Change**	**% Change**
North America	983.4	60.6 %	1,026.3	60.7 %	(42.9)	(4.2)%
Europe	451.0	27.8 %	430.4	25.4 %	20.6	4.8 %
Rest of World	189.3	11.6 %	234.5	13.9 %	(45.2)	(19.3)%
Gross Product Sales[1]	**1,623.7**	**100.0 %**	**1,691.2**	**100.0 %**	**(67.5)**	**(4.0)%**

1) See "Non-IFRS Financial Measures".

As a percentage of total Gross Product Sales, the North America segment decreased 0.1% to 60.6% compared to 60.7% in the prior year. International sales, comprised of the Europe and Rest of World segments, increased 0.1% to 39.4% compared to 39.3% in the prior year.

Gross Product Sales in North America decreased by $42.9 million or 4.2% to $983.4 million, with an unfavourable foreign exchange impact of $0.2 million. The decrease was driven by *PAW Patrol*, *Hatchimals*, *DreamWorks Dragons*, *Owleez*, *Juno*, *GUND*, *Twisty Petz*, *Boxer*, *Bakugan*, *Candylocks*, *Awesome Blossems*, *Fugglers*, *Luvabella* and *Cool Maker*, offset in part by increases in *DC* licensed products, *Kinetic Sand*, the Games & Puzzles portfolio, *Monster Jam RC*, *Ninja Bots*, *Tech Deck*, *Pre Cool* and *SwimWays* in addition to sales of *Present Pets* and *Orbeez*.

Gross Product Sales in Europe increased by $20.6 million or 4.8% to $451.0 million, with a favourable foreign exchange impact of $8.1 million. The increase was driven by *PAW Patrol*, *DC* licensed products, *Kinetic Sand*, *Monster Jam RC*, *Bakugan* and the Games & Puzzles portfolio in addition to sales of *Present Pets*, offset in part by declines in *DreamWorks Dragons*, *Hatchimals*, *Owleez*, *Twisty Petz*, *Luvabella*, *Bunchems* and *Juno*.

Gross Product Sales in Rest of World decreased by $45.2 million or 19.3% to $189.3 million, with an unfavourable foreign exchange impact of $4.9 million. The decrease was driven by *Bakugan*, *Hatchimals*, *DreamWorks Dragons*, *Owleez*, *Candylocks*, *Monster Jam*, *Twisty Petz*, *Bunchems*, *PAW Patrol* and *GUND*, offset in part by higher sales of *DC* licensed products and sales of *Present Pets*.

Gross Profit as compared to the same period in 2019:

	Three Months Ended Dec 31			
(US$ millions)	**2020**	**2019**	**$ Change**	**% Change**
Total revenue	490.6	473.5	17.1	3.6 %
Gross profit	241.0	226.1	14.9	6.6 %
Gross profit as % of total revenue	**49.1 %**	**47.8 %**	**N/A**	**1.3 %**

For the three months ended December 31, 2020, gross profit increased by $14.9 million or 6.6% to $241.0 million. As a percentage of total revenue, gross profit increased to 49.1% from 47.8%, primarily due to lower Sales Allowances[1], higher digital games revenue and lower costs resulting from the Company's ongoing operational improvement initiatives, which include lower freight-related expenses, scrap and obsolescence and reconfiguration costs, offset in part by changes in product mix and lower entertainment and licensing revenue.

	Year Ended Dec 31			
(US$ millions)	**2020**	**2019**	**$ Change**	**% Change**
Total revenue	1,570.6	1,581.6	(11.0)	(0.7)%
Gross profit	727.9	785.0	(57.1)	(7.3)%
Gross profit as % of total revenue	**46.3 %**	**49.6 %**	**N/A**	**(3.3)%**

For the year ended December 31, 2020, gross profit decreased by $57.1 million or 7.3% to $727.9 million. As a percentage of total revenue, gross profit decreased to 46.3% from 49.6%, primarily due to changes in product mix, the sale of inventory resulting from the operational challenges, which arose in the second half of 2019, higher Sales Allowances[1] and freight-related expenses in the first half of 2020 and lower entertainment and licensing revenue, offset in part by higher digital games revenue.

Selling, Marketing, Distribution and Product Development Expenses as compared to the same period in 2019:

	Three Months Ended Dec 31					
(US$ millions)	**2020**	**% of revenue**	**2019**	**% of revenue**	**$ Change**	**% Change**
Selling expenses	32.0	6.5 %	37.5	7.9 %	(5.5)	(14.7)%
Marketing expenses	70.0	14.3 %	72.6	15.3 %	(2.6)	(3.6)%
Distribution expenses	22.7	4.6 %	46.5	9.8 %	(23.8)	(51.2)%
Product development expenses	10.4	2.1 %	8.2	1.7 %	2.2	26.8 %
Total	**135.1**	**27.5 %**	**164.8**	**34.8 %**	**(29.7)**	**(18.0)%**

Selling expenses decreased by $5.5 million or 14.7% to $32.0 million due to lower sales of licensed products. Selling expenses as a percentage of total revenue decreased to 6.5% from 7.9%.

Marketing expenses decreased by $2.6 million or 3.6% to $70.0 million, due to lower traditional media marketing in North America as a result of the COVID-19 environment. These declines were partially offset by higher digital media marketing. Marketing expenses as a percentage of total revenue decreased to 14.3% from 15.3%.

Distribution expenses decreased by $23.8 million or 51.2% to $22.7 million, primarily due to the remediation of operational challenges, which arose in the fourth quarter of 2019. In the prior year, the Company incurred higher operational expenses attributed to the start-up and performance issues associated with the establishment of a new third-party East Coast distribution centre in the U.S and the consolidation of the *GUND*, *SwimWays* and *Cardinal* warehouses into this new facility. Distribution expenses as a percentage of total revenue decreased to 4.6% from 9.8%.

Product development expenses increased by $2.2 million or 26.8% to $10.4 million.

(US$ millions)	2020	% of revenue	2019	% of revenue	$ Change	% Change
	Year Ended Dec 31					
Selling expenses	109.5	7.0 %	112.0	7.1 %	(2.5)	(2.2)%
Marketing expenses	133.1	8.5 %	155.0	9.8 %	(21.9)	(14.1)%
Distribution expenses	90.7	5.8 %	98.1	6.2 %	(7.4)	(7.5)%
Product development expenses	34.5	2.2 %	30.3	1.9 %	4.2	13.9 %
Total	**367.8**	**23.4 %**	**395.4**	**25.0 %**	**(27.6)**	**(7.0)%**

Selling expenses decreased by $2.5 million or 2.2% to $109.5 million due to lower sales of licensed products. Selling expenses as a percentage of total revenue decreased to 7.0% from 7.1%.

Marketing expenses decreased by $21.9 million or 14.1% to $133.1 million, due to lower traditional media marketing, a decrease in experiential marketing and trade show cancellations as a result of the COVID-19 environment. These declines were partially offset by higher influencer and digital media marketing. Marketing expenses as a percentage of total revenue decreased to 8.5% from 9.8%.

Distribution expenses decreased by $7.4 million or 7.5% to $90.7 million, primarily due to the remediation of operational challenges, which arose in the fourth quarter of 2019. As part of its ongoing operational improvement initiatives, the Company reduced its footprint from 18 warehouses to 4 warehouses as at December 31, 2020, which has resulted in lower storage and distribution costs. Distribution expenses as a percentage of total revenue decreased to 5.8% from 6.2%.

Product development expenses increased by $4.2 million or 13.9% to $34.5 million.

Administrative Expenses as compared to the same period in 2019:

(US$ millions)	2020	2019	$ Change	% Change
	Three Months Ended Dec 31			
Administrative expenses	76.7	66.6	10.1	15.2 %
Adjustments:				
Restructuring expense[1]	(0.5)	(0.7)	0.2	(28.6)%
Share based compensation[2]	(2.9)	(3.5)	0.6	(17.1)%
Impairment of property, plant and equipment[3]	(0.5)	—	(0.5)	n.m.
Transaction costs[4]	(0.9)	—	(0.9)	n.m.
Bad debt recovery[5]	—	0.9	(0.9)	n.m.
Adjusted Administrative Expenses[6]	**71.9**	**63.3**	**8.6**	**13.6 %**

1) Restructuring expense primarily relates to personnel related costs.

2) Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the initial public offering ("IPO"), share option expense and long-term incentive plan ("LTIP").

3) Impairment of property, plant and equipment related to machinery.

4) Non-recurring transaction costs relating to the acquisition of Rubik's.

5) Net bad debt recovery related to the bankruptcy declaration and liquidation proceedings of Toys "R" Us ("TRU").

6) See "Non-IFRS Financial Measures".

For the three months ended December 31, 2020, administrative expenses increased by $10.1 million or 15.2% to $76.7 million. The increase was primarily due to higher personnel related costs and professional services expenses, offset in part by lower travel related expenses as a result of COVID-19 travel restrictions. Administrative expenses as a percentage of total revenue increased to 15.6% from 14.1%. Adjusted Administrative Expenses[1] increased by $8.6 million or 13.6% to $71.9 million. Adjusted Administrative Expenses[1] as a percentage of total revenue increased to 14.7% from 13.4%.

(US$ millions)	Year Ended Dec 31 2020	2019	$ Change	% Change
Administrative expenses	264.6	247.9	16.7	6.7 %
Adjustments:				
Restructuring expense[1]	(5.3)	(8.8)	3.5	(39.8)%
Share based compensation[2]	(12.2)	(15.2)	3.0	(19.7)%
Impairment of property, plant and equipment[3]	(0.5)	—	(0.5)	n.m.
Transaction costs[4]	(0.9)	—	(0.9)	n.m.
Bad debt recovery[5]	—	0.9	(0.9)	n.m.
Adjusted Administrative Expenses[6]	**245.7**	**224.8**	**20.9**	**9.3 %**

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

2) Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the IPO, share option expense and LTIP.

3) Impairment of property, plant and equipment related to machinery.

4) Non-recurring transaction costs relating to the acquisition of Rubik's.

5) Net bad debt recovery related to the bankruptcy declaration and liquidation proceedings of TRU.

6) See “Non-IFRS Financial Measures”.

For the year ended December 31, 2020, administrative expenses increased by $16.7 million or 6.7% to $264.6 million. The increase was primarily due to higher personnel related costs, professional services expenses and software subscription costs in addition to an increase in bad debt expense due to the impact of COVID-19 on smaller retailers in the European and North American markets. This was offset in part by lower travel related expenses as a result of COVID-19 travel restrictions. Administrative expenses as a percentage of total revenue increased to 16.8% from 15.7%. Adjusted Administrative Expenses[1] increased by $20.9 million or 9.3% to $245.7 million. Adjusted Administrative Expenses[1] as a percentage of total revenue increased to 15.6% from 14.2%.

Finance Costs as compared to the same period in 2019:

For the three months ended December 31, 2020, finance costs increased by $0.2 million to $3.4 million. For the year ended December 31, 2020, finance costs increased by $0.4 million to $12.1 million. The increase was primarily due to higher interest expense related to the Company's utilization of its Credit Facility, offset in part by lower bank fees, accretion expense and amortization of financing costs.

Depreciation and Amortization Expenses as compared to the same period in 2019:

For the three months ended December 31, 2020, depreciation and amortization expense increased by $1.2 million to $10.0 million. For the year ended December 31, 2020, depreciation and amortization expense increased by $5.1 million to $37.7 million. The increase was primarily due to increased computer software, trademarks, leasehold improvements, equipment and right-of-use assets.

Foreign Exchange Loss (Gain) as compared to the same period in 2019:

For the three months ended December 31, 2020, the Company incurred a foreign exchange loss of $10.5 million compared to a foreign exchange gain of $0.1 million. For the year ended December 31, 2020, the Company incurred a foreign exchange loss of $27.6 million compared to $5.8 million.

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

Income Tax (Recovery) Expense as compared to the same period in 2019:

For the three months ended December 31, 2020 the Company had an income tax recovery of $4.7 million compared to $7.5 million. The effective income tax rate was 106.8% compared to 30.4%.

For the year ended December 31, 2020 the Company had an income tax recovery of $36.1 million compared to an income tax expense of $20.7 million. An internal transfer of intellectual property resulted in a one-time income tax recovery of $33.3 million or 354.2% on the effective tax rate for the year ended December 31, 2020. Excluding the one-time income tax recovery, the effective income tax rate was (29.8)% compared to 24.4%. The change in the effective income tax rate was primarily driven by different tax rates of subsidiaries operating in other jurisdictions.

Net Income (Loss) as compared to the same period in 2019:

Net income for the three months ended December 31, 2020 was $0.3 million, an increase of $17.5 million from net loss of $17.2 million. Excluding share-based compensation, restructuring expense, foreign exchange loss (gain), legal settlement, acquisition related contingent consideration and other non-recurring items, Adjusted Net Income[1] for the three months ended December 31, 2020 was $14.6 million, an increase of $22.4 million from Adjusted Net Loss[1] of $7.8 million.

Net income for the year ended December 31, 2020 was $45.5 million, a decrease of $18.8 million from $64.3 million. Excluding share-based compensation, restructuring expense, foreign exchange loss, legal settlement, acquisition related contingent consideration, a one-time income tax recovery and other non-recurring items, Adjusted Net Income[1] for the year ended December 31, 2020 was $53.4 million, a decrease of $39.4 million from $92.8 million.

OUTLOOK

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

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

The Company expects 2021 Gross Product Sales[1] to increase low to mid single digits compared to 2020. The seasonality of Gross Product Sales[1] for 2021 is expected to be approximately 32-34% in the first half of 2021 and 66-68% in the second half of 2021.

On a full year basis, the Company expects 2021 total revenue to increase mid to high single digits compared to 2020. The Company expects 2021 Adjusted EBITDA Margin[1] to be in the mid to high teens, significantly improved over 2020.

SELECTED QUARTERLY FINANCIAL INFORMATION

Seasonality factors cause Spin Master's operating results to fluctuate significantly from quarter to quarter. A majority of the Company's annual sales occur during the third and fourth quarters of the Company's fiscal year.

The following table provides selected historical information and other data, which should be read in conjunction with the financial statements of the Company.

(in US$ millions, except EPS)	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Gross Product Sales[1]	511.8	587.4	282.2	242.3	550.7	583.3	316.8	240.5
Total revenue	490.6	571.6	281.1	227.3	473.5	548.1	321.0	239.0
Adjusted EBITDA[1]	51.5	139.9	21.5	(32.3)	6.7	150.2	55.2	7.0
Adjusted EBITDA Margin[1]	10.5%	24.5%	7.6%	(14.2)%	1.4%	27.4%	17.2%	2.9%
Net income (loss)	0.3	86.8	(14.9)	(26.7)	(17.2)	92.2	10.2	(20.9)
Basic EPS	$—	$0.85	$(0.15)	$(0.26)	$(0.17)	$0.90	$0.10	$(0.21)
Diluted EPS	$—	$0.83	$(0.15)	$(0.26)	$(0.17)	$0.89	$0.10	$(0.21)
Adjusted Net Income (Loss)[1]	14.6	95.1	(9.5)	(46.8)	(7.8)	93.3	19.9	(12.5)
Adjusted Basic EPS[1]	$0.14	$0.93	$(0.09)	$(0.46)	$(0.08)	$0.91	$0.19	$(0.12)
Adjusted Diluted EPS[1]	$0.14	$0.91	$(0.09)	$(0.45)	$(0.08)	$0.91	$0.19	$(0.12)
Cash, net of loans and borrowings	320.6	207.3	111.4	74.8	115.3	150.2	77.1	113.8
Free Cash Flow[1]	123.7	96.0	40.2	(27.8)	(19.3)	86.5	(34.7)	(27.8)

1) See "Non-IFRS Financial Measures".

The following table provides reconciliations of net income (loss) to EBITDA[1], Adjusted EBITDA[1] and Adjusted Net Income (Loss)[1].

(US$ millions)	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net income (loss)	**0.3**	**86.8**	**(14.9)**	**(26.7)**	**(17.2)**	**92.2**	**10.2**	**(20.9)**
Finance costs	3.4	2.6	3.3	2.8	3.2	3.2	2.6	2.7
Depreciation and amortization expenses	27.6	26.4	25.7	23.3	16.2	22.2	24.8	21.4
Income tax (recovery) expense	(4.7)	14.7	2.1	(48.2)	(7.5)	33.0	2.8	(7.6)
EBITDA[1]	**26.6**	**130.5**	**16.2**	**(48.8)**	**(5.3)**	**150.6**	**40.4**	**(4.4)**
Adjustments								
Restructuring expense[2]	0.5	1.4	(1.0)	4.4	0.7	0.3	7.2	0.7
Foreign exchange loss (gain)[3]	10.5	5.1	3.5	8.5	(0.1)	(4.1)	3.6	6.3
Share based compensation[4]	2.9	2.9	2.8	3.6	3.5	3.4	3.9	4.4
Acquisition related contingent consideration[5]	3.7	—	—	—	3.2	—	—	—
Impairment of intangible assets[6]	0.4	—	—	—	5.6	—	—	—
Impairment of property, plant and equipment[7]	0.5	—	—	—	—	—	—	—
Legal settlement[8]	5.5	—	—	—	—	—	—	—
Transaction costs[9]	0.9	—	—	—	—	—	—	—
Bad debt recovery[10]	—	—	—	—	(0.9)	—	—	—
Adjusted EBITDA[1]	**51.5**	**139.9**	**21.5**	**(32.3)**	**6.7**	**150.2**	**55.1**	**7.0**
Finance costs	3.4	2.6	3.3	2.8	3.2	3.2	2.6	2.7
Depreciation and amortization expenses	27.6	26.4	25.7	23.3	16.2	22.2	24.8	21.4
Income tax (recovery) expense	(4.7)	14.7	2.1	(48.2)	(7.5)	33.0	2.8	(7.6)
One-time income tax recovery[11]	—	—	—	33.3	—	—	—	—
Tax effect of adjustments[12]	10.6	1.1	(0.1)	3.3	2.6	(1.5)	5.1	3.0
Adjusted Net Income (Loss)[1]	**14.6**	**95.1**	**(9.5)**	**(46.8)**	**(7.8)**	**93.3**	**19.8**	**(12.5)**

Footnotes:

1) See "Non-IFRS Financial Measures".

2) Restructuring expense primarily relates to personnel related costs. Restructuring expense included costs related to changes in senior leadership in the first quarter of 2020. In the second quarter of 2019, restructuring expenses also included costs related to facility closures.

3) Includes foreign exchange loss (gain) generated by the translation of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and loss (gain) related to the Company's hedging programs.

4) Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the Company's IPO, share option expense and LTIP.

5) Remuneration expense associated with additional contingent consideration for previous acquisitions.

6) Impairment charges for intangible assets relating to licenses, content development, brands and trademarks.

7) Impairment of property, plant and equipment related to machinery.

8) Legal settlement in the fourth quarter of 2020.

9) Non-recurring transaction costs relating to the acquisition of Rubik's.

10) Bad debt recovery related to the bankruptcy declaration and liquidation proceedings of TRU.

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

12) Tax effect of adjustments (Footnotes 2-10). Adjustments are tax effected at the effective tax rate of the given year-to-date period.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity is cash flow from operations. As a result of the seasonal nature of the toy and children's entertainment industries, working capital requirements are variable throughout the year. Working capital needs typically grow through the first three quarters as inventories are built up for the peak sales periods for retailers in the fourth quarter. The Company's cash flows from operating activities are typically at their highest levels of the year in the fourth quarter. As at December 31, 2020, the Company had cash of $320.6 million.

Cash flows from operations could be negatively impacted by decreased demand for the Company's products, which may result from factors such as adverse economic conditions and changes in public and consumer preferences, the loss of confidence by the Company's principal customers in the Company and its product lines, or by increased costs associated with manufacturing and distribution of products. The Company's primary capital needs are related to inventory financing, accounts payable funding, debt servicing and capital expenditures for tooling and film production and to fund strategic acquisitions. The Company expects that cash, future operating cash flows and the amounts available to be drawn against the Credit Facilities will enable the Company to finance its capital investment program and fund its ongoing business requirements over the next 12 months, including working capital and financial obligations.

During the first quarter of 2020, as a precautionary measure, the Company borrowed a total of $350.0 million under its Credit Facility, to maximize liquidity and increase available cash on hand. The Company drew on the Credit Facility due to the uncertainties caused by the COVID-19 pandemic. The Company repaid $50.0 million and $300.0 million on its Credit Facility in the second and third quarters of 2020, respectively. As at December 31, 2020, the Company had utilized $0.4 million (December 31, 2019 - $0.7 million) of the Facility: $0.4 million (December 31, 2019 - $0.7 million) drawn in letters of credit and nil (December 31, 2019 - nil) drawn in LIBOR Loans.

The Credit Facility may be used for general corporate purposes including refinancing existing indebtedness, funding working capital requirements, permitted acquisitions and permitted distributions. The Credit Facility also has an option which permits the Company to increase the total capital available by an additional $200.0 million. As at December 31, 2020, unamortized debt issuance costs related to this facility were $0.5 million.

On December 19, 2018, the Company entered into an uncommitted Overdraft Facility Agreement (the "European Facility") for $18.4 million (€15.0 million). The European Facility may be used to fund working capital requirements in Europe. As at December 31, 2020, the European Facility was undrawn.

The Company has a credit facility (the "Production Facility") with a limit of $7.8 million ($10.0 CAD million) to finance television and film production. The interest rate on amounts drawn under the Production Facility bear interest at a variable rate referenced to the lending institution’s Canadian dollar prime rate. As at December 31, 2020, the Production Facility was undrawn.

As at December 31, 2020, the Company had unutilized liquidity of $838.0 million, comprised of $320.6 million in cash and $517.4 million unutilized under its credit facilities. The Company believes it has sufficient liquidity to meet its operational requirements.

Capital and Investment Framework

Over the long term, the Company plans to use its free cash flows to fund seasonal working capital requirements related to product sales, television shows, feature films, short-form content, digital games development in addition to strategic acquisitions.

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

CASH FLOW

The following tables provide a summary of Spin Master’s consolidated cash flows for the three months and year ended December 31, 2020 and 2019:

	Three Months Ended Dec 31		
(US$ millions)	**2020**	**2019**	**$ Change**
Net cash flows provided by operating activities	138.2	10.8	127.4
Net cash flows used in investing activities	(19.3)	(43.2)	23.9
Net cash flows used in financing activities	(4.0)	(5.5)	1.5
Net increase (decrease) in cash	**114.9**	**(37.9)**	**152.8**
Effect of foreign currency exchange rate changes on cash	(1.6)	1.8	(3.4)
Cash at beginning of period	207.3	151.4	55.9
Cash at end of period	**320.6**	**115.3**	**205.3**

(US$ millions)	Year Ended Dec 31 2020	2019	$ Change
Net cash flows provided by operating activities	310.8	98.4	212.4
Net cash flows used in investing activities	(84.9)	(116.2)	31.3
Net cash flows used in financing activities	(16.3)	(13.7)	(2.6)
Net increase (decrease) in cash	**209.6**	**(31.5)**	**241.1**
Effect of foreign currency exchange rate changes on cash	(4.3)	3.3	(7.6)
Cash at beginning of period	115.3	143.5	(28.2)
Cash at end of period	**320.6**	**115.3**	**205.3**

Cash from Operating Activities as compared to the same period in 2019:

Cash flows provided by operating activities were $138.2 million for the three months ended December 31, 2020 compared to $10.8 million, primarily driven by the reduction in net working capital and higher EBITDA[1].

For the year ended December 31, 2020, cash flows provided by operating activities were $310.8 million compared to $98.4 million, primarily driven by the reduction in net working capital, partially offset by lower EBITDA[1].

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

(US$ millions)	Dec 31, 2020	Dec 31, 2019	$ Change	% Change
Trade receivables, net[1]	265.2	370.7	(105.5)	(28.5)%
Other receivables[2]	73.4	57.0	16.4	28.8 %
Inventories	102.0	185.3	(83.3)	(45.0)%
Advances on royalties	17.2	18.0	(0.8)	(4.4)%
Prepaid expenses	7.9	14.4	(6.5)	(45.1)%
Other assets	3.0	—	3.0	n.m.
Total current assets	**468.7**	**645.4**	**(176.7)**	**(27.4)%**
Trade payables	161.4	215.8	(54.4)	(25.2)%
Accrued liabilities[3]	153.0	129.8	23.2	17.9 %
Contract liabilities	25.3	7.6	17.7	232.9 %
Provisions and contingent liabilities	29.2	26.2	3.0	11.5 %
Total current liabilities	**368.9**	**379.4**	**(10.5)**	**(2.8)%**
Total net working capital	**99.8**	**266.0**	**(166.2)**	**(62.5)%**

1) Trade receivables are net of allowance for doubtful accounts and provisions for sales allowances. Refer to Note 10 of the financial statements for additional details.

2) Other receivables include investment tax credits receivable, royalties, sales tax and other balances. Refer to Note 10 of the financial statements.

3) Accrued liabilities are comprised of employee compensation liabilities, royalties and commodity tax balances. Refer to Note 16 of the financial statements for additional details.

Total net working capital decreased by $166.2 million or 62.5% to $99.8 million at December 31, 2020 from $266.0 million. Excluding the impact of foreign exchange, total net working capital decreased by $153.0 million.

Trade receivables, net, decreased by $105.5 million or 28.5% to $265.2 million at December 31, 2020 from $370.7 million, driven by increased collections in the fourth quarter and higher than normal trade receivables in the prior year as a result of the shift in sales from the third quarter of 2019 to the fourth quarter of 2019.

Inventories decreased by $83.3 million or 45.0% to $102.0 million at December 31, 2020 from $185.3 million, driven by the Company's ongoing operational improvement initiatives focused on optimizing inventory levels.

Trade payables and accrued liabilities decreased by $31.2 million or 9.0% to $314.4 million at December 31, 2020 from $345.6 million, driven by lower inventory purchases, offset in part by higher personnel related costs.

Investing Activities as compared to the same period in 2019:

The following tables provide a summary of Spin Master's consolidated cash flows used in investing activities for the three months and year ended December 31, 2020 and 2019:

	Three Months Ended Dec 31		
(US$ millions)	**2020**	**2019**	**$ Change**
Property, plant and equipment			
Tooling	3.8	5.2	(1.4)
Other	(2.0)	2.8	(4.8)
Total property, plant and equipment	**1.8**	**8.0**	**(6.2)**
Intangible assets			
Content development	14.2	20.5	(6.3)
Computer software	(1.7)	1.6	(3.3)
Brands, licenses and trademark acquisitions	0.2	—	0.2
Total intangible assets	**12.7**	**22.1**	**(9.4)**
Total capital expenditures	**14.5**	**30.1**	**(15.6)**
Business acquisitions, net of cash acquired	3.3	13.1	(9.8)
Investment in limited partnership	1.8	—	1.8
Proceeds from disposals	(0.3)	—	(0.3)
Cash used in investing activities	**19.3**	**43.2**	**(23.9)**

Cash used in investing activities was $19.3 million for the three months ended December 31, 2020 compared to $43.2 million. Business acquisitions in 2019 relate to *Orbeez* while business acquisitions in the current year relate to the advance paid for the Rubik's acquisition. Also contributing to the decrease was lower investments in content development and other property, plant and equipment.

	Year Ended Dec 31		
(US$ millions)	**2020**	**2019**	**$ Change**
Property, plant and equipment			
Tooling	18.9	24.7	(5.8)
Other	2.1	16.2	(14.1)
Total property, plant and equipment	**21.0**	**40.9**	**(19.9)**
Intangible assets			
Brands, licenses and trademark acquisitions	1.2	—	1.2
Content development	50.6	48.1	2.5
Computer software	5.9	5.2	0.7
Total intangible assets	**57.7**	**53.3**	**4.4**
Total capital expenditures	**78.7**	**94.2**	**(15.5)**
Business acquisitions, net of cash acquired	2.3	22.5	(20.2)
Investment in trademark license agreement	2.4	—	2.4
Investment in limited partnership	1.8	—	1.8
Proceeds from disposals	(0.3)	(0.5)	0.2
Cash used in investing activities	**84.9**	**116.2**	**(31.3)**

For the year ended December 31, 2020, cash used in investing activities was $84.9 million compared to $116.2 million. Business acquisitions in 2019 relate to *Orbeez* and *Hedbanz* while business acquisitions in the current year relate to the advance paid for the Rubik's acquisition. Also contributing to the decrease was lower investments in property, plant and equipment. This was offset in part by an investment in a trademark license agreement and an investment in a limited partnership.

Financing Activities as compared to the same period in 2019:

Cash flows used in financing activities were $4.0 million for the three months ended December 31, 2020 compared to $5.5 million. For the year ended December 31, 2020, cash flows used in financing activities were

$16.3 million compared to $13.7 million, primarily driven by the repurchase of shares arising from changes to senior leadership in the first quarter of 2020.

Free Cash Flow[1] as compared to the same period in 2019:

The following tables provide a reconciliation of Spin Master's consolidated Free Cash Flow[1] to cash from operations for the three months and year ended December 31, 2020 and 2019:

	Three Months Ended Dec 31		
(US$ millions)	**2020**	**2019**	**$ Change**
Cash flows provided by operating activities	138.2	10.8	127.4
Cash flows used in investing activities	(19.3)	(43.2)	23.9
Add:			
Cash used for license, brand and business acquisitions	4.8	13.1	(8.3)
Free Cash Flow[1]	**123.7**	**(19.3)**	**143.0**

	Year Ended Dec 31		
(US$ millions)	**2020**	**2019**	**$ Change**
Cash flows provided by operating activities	310.8	98.4	212.4
Cash flows used in investing activities	(84.9)	(116.2)	31.3
Add:			
Cash used for license, brand and business acquisitions	6.2	22.5	(16.3)
Free Cash Flow[1]	**232.1**	**4.7**	**227.4**

1) See "Non-IFRS Financial Measures".

Free Cash Flow[1] was $123.7 million for the three months ended December 31, 2020 compared to negative $19.3 million, an increase of $143.0 million. For the year ended December 31, 2020, Free Cash Flow[1] was $232.1 million compared to $4.7 million, an increase of $227.4 million, driven by higher cash flows provided by operating activities and lower cash flows used in investing activities.

COMMITMENTS

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

The following table summarizes Spin Master's contractual commitments and obligations as at December 31, 2020, which are primarily for the leasing of offices and related office equipment and minimum guarantees due to licensors. The leases have been entered into with terms of between two and twelve years in length and minimum guarantees to licensors are primarily due within 24 months, but can extend beyond 24 months.

	Less than 1 year to greater than 5 years			
(US$ millions)	**<1 Year**	**1-5 Years**	**> 5 Years**	**Total**
Lease obligations - undiscounted	15.7	37.8	48.7	102.2
Guaranteed payments due to licensors	8.4	25.3	4.0	37.7
Total commitments	**24.1**	**63.1**	**52.7**	**139.9**

OFF-BALANCE SHEET ARRANGEMENTS

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

CAPITALIZATION

Share Capital

As at March 1, 2021, there were 102.0 million shares outstanding comprised of 70.6 million Multiple Voting Shares and 31.4 million Subordinate Voting Shares.

As of March 1, 2021, pursuant to grants under the Company's Long-Term Incentive Plan, 0.8 million Subordinate Voting Shares were issuable under outstanding Restricted Stock Units, up to 1.8 million Subordinate Voting Shares were issuable under outstanding Performance Share Units (assuming vesting at a maximum of 200% for units with an outstanding performance period) and 0.5 million Subordinate Voting Shares were issuable under outstanding Share Option grants.

On February 18, 2020, the Company announced changes to senior leadership. As a result of these changes, 301,160 subordinate voting shares were forfeited and 133,550 subordinate voting shares with a fair value of $1.1 million were canceled.

RISKS RELATING TO SPIN MASTER'S BUSINESS

An investment in securities of the Company involves significant risks. Investors should carefully consider the risks described below, the other information described elsewhere in this Annual Information Form and those risks set out in the Company's MD&A for the year ended December 31, 2020 (as updated by subsequent interim MD&A) before making a decision to buy securities of the Company. If any of the following or other risks occur, the Company's business, prospects, financial condition, financial performance and cash flows could be materially adversely impacted. These factors are also currently, and in the future may be, amplified by the COVID-19 pandemic. In that case, the ability of the Company to make distributions to holders of Subordinate Voting Shares could be adversely affected, the trading price of securities of the Company could decline and investors could lose all or part of their investment in such securities. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the below described or other unforeseen risks.

If Spin Master does not create original, or enhance existing, products, brands and entertainment properties that satisfy consumer preferences, and anticipate, initiate and capitalize on developments in its industry, the Company's business will suffer.

Spin Master depends on its ability to innovate and sell original products, brands and entertainment properties and to identify changing consumer sentiments and respond to such changes on a timely basis. Spin Master also relies on its ability to identify third-party entertainment media that is likely to be popular with consumers and license rights to such media to incorporate into the Company's products. Spin Master's ability to maintain current sales, and increase sales or establish sales with new, innovative products, will depend on its ability to satisfy play preferences, enhance existing products, engineer, develop, introduce and achieve market acceptance of its original products, brands and entertainment properties. If the Company is unable to anticipate consumer preferences, its products, brands and entertainment properties may not be accepted by children, parents, or families, demand for the Company's products, brands and entertainment properties could decrease and Spin Master's business, financial condition and performance could be materially and adversely affected.

Spin Master's business and financial performance depend largely upon the appeal of its products, brands and entertainment properties. Failure to anticipate, identify and react to changes in children's interests and consumer preferences could significantly lower sales of its products, brands and entertainment properties and harm its revenues and profitability. This challenge is more difficult with the ever increasing utilization of technology and digital media in entertainment offerings, and the increasing breadth of entertainment available to consumers. Evolving consumer tastes and shifting interests, coupled with changing and expanding sources of entertainment and consumer products and properties which compete for children's and families' interest and acceptance, create an environment in which some products and properties can fail to achieve consumer acceptance, and other products and properties can be popular during a certain period of time but then be rapidly replaced. The preferences and interests of children and families evolve quickly, can change drastically from year to year and season to season and are difficult to anticipate. Significant, sudden shifts in demand are caused by "hit" toys, technologies and trends, which are often unpredictable. Even the Company's successful brands and products typically have a relatively short period of high demand followed by a decrease in demand as the product matures or is superseded by newer technologies and / or brands and products. A decline in the popularity of the Company's existing products, brands and entertainment properties, or the failure of Spin Master's original products, brands and entertainment properties to achieve and sustain market acceptance with retailers and consumers, could significantly lower the Company's revenues and operating margins, which would harm Spin Master's business, financial condition and performance.

The industries in which Spin Master operates are highly competitive and the Company's inability to compete effectively may materially and adversely impact its business, financial condition and performance.

Spin Master operates in industries characterized by intense competition. The Company competes domestically and internationally with numerous large and small companies that develop, market and sell analog toys and games, products which combine analog and digital play, digital gaming products, and other entertainment and consumer products, as well as with retailers who offer such products under their own private labels often at lower prices. The growing importance of digital media, and the heightened connection between digital media and consumer interest, has further increased the ability for new participants to enter Spin Master's markets, and has broadened the array of companies Spin Master competes with which can become a significant source of competition for the Company in a very short period of time. In addition to existing customers, low barriers to entry enable new competitors to quickly establish themselves with only a single popular product. New participants with a popular product idea or property can gain access to consumers and become a significant source of competition for the Company. Spin Master's competitors' products may achieve greater market acceptance than the Company's products and, in doing so, may potentially reduce the demand for the Company's products, brands or properties. Spin Master's competitors have obtained and are likely to continue to obtain licenses that overlap with the Company's licenses with respect to products, geographic areas and markets. Spin Master may not be able to obtain adequate shelf space in retail stores to support or expand its brands or products, and the Company may not be able to continue to compete effectively against current and future competitors. These existing and new competitors may be able to respond more rapidly than Spin Master to changes in consumer preferences. Spin Master's competitors' products may achieve greater market acceptance than the Company's products and potentially reduce demand for the Company's products, lower its revenues and lower its profitability.

Spin Master also faces competition in the entertainment industry. Some of the Company's competitors in the content market have interests in multiple media businesses which are often vertically integrated. Spin Master's ability to compete in this market depends on a number of factors, including its ability to develop high quality and popular entertainment content, adapt to new technologies and distribution platforms and achieve widespread distribution.

Some of Spin Master's competitors have longer operating histories, significantly greater financial, marketing and other resources, greater economies of scale, more long-standing brands and products and greater name recognition. The Company may be unable to compete with them in the future. If Spin Master fails to compete, its business, financial condition and performance could be materially and adversely affected.

Spin Master's failure to market or advertise products could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master's products are marketed worldwide through a diverse spectrum of advertising and promotional programs. The Company's ability to sell products is largely dependent upon the success of these programs. If Spin Master does not market its products, sales could decline or if media or other advertising or promotional costs increase, Spin Master's costs could increase, which could have a material adverse effect on the Company's business, financial condition and performance. Additionally, loss of television or media support related to any of the Company's products may decrease the number of products it sells and harm its business, financial condition and performance.

Failure to protect or enforce Spin Master's IP rights and claims by third parties that the Company is infringing their IP rights could materially and adversely affect Spin Master's business, financial condition and performance.

Spin Master relies on a combination of patents, copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect its IP and proprietary rights. Contractual arrangements and other steps the Company has taken to protect its IP may not prevent misappropriation of its IP or deter independent third-party development of similar products. The steps Spin Master has taken may not prevent unauthorized use of its IP, particularly in foreign countries where the Company does not hold patents or trademarks or where the laws may not protect its IP as fully as in North America. Some of Spin Master's products and product features have limited IP protection, and, as a consequence, the Company may not have the legal right to prevent others from reverse engineering or otherwise copying and using these features in competitive products. Monitoring the unauthorized use of the Company's IP is costly, and any dispute or other litigation, regardless of the outcome, may be costly and time consuming and may divert the Company's resources.

Additionally, Spin Master has registered various domain names relating to some of its brands and products. If the Company fails to maintain these registrations, or if a third party acquires domain names similar to the Company's and engages in a business that may be confusing to the Company's users and customers, Spin Master's revenues may decline and it may incur additional expenses in maintaining its brands.

Spin Master periodically receives claims of infringement or otherwise becomes aware of potentially relevant patents, copyrights, trademarks or other IP rights held by other parties. Responding to any infringement claim, regardless of its validity, may be costly and time-consuming and may divert the Company's resources. If Spin Master or its licensors are found to be infringing on the IP rights of any third-party, Spin Master or its licensors may be required to obtain a license to use those rights, which may not be obtainable on reasonable terms, if at all. The Company also may be subject to significant damages or injunctions against the development and sale of some of its products or against the use of a trademark or copyright in the sale of some of its products. Spin Master's insurance does not cover all types of IP claims and insurance levels for covered claims may not be adequate to indemnify the Company against all liability, which could materially and adversely harm its business, financial condition and performance.

Spin Master licenses IP rights from third-party owners. Failure of such owners to properly maintain or enforce the IP underlying such licenses could have a material adverse effect on the Company's business, financial condition and performance. The Company's licensors may also seek to terminate Spin Master's license.

Spin Master is a party to a number of licenses that give the Company rights to third-party IP that is necessary or useful to the Company's business. Spin Master's success will depend in part on the ability of its licensors to obtain, maintain and enforce its licensed IP, in particular, those IP rights to which the Company has secured exclusive rights. Without protection for the IP Spin Master licenses, other companies might be able to offer substantially identical products for sale, which could have a material adverse effect on the Company's business, financial condition and performance.

One or more of the Company's licensors may allege that Spin Master has breached its license agreement with them, and accordingly seek to terminate Spin Master's license. If successful, this could result in the Company's loss of the right to use the licensed IP, which could adversely affect the Company's ability to commercialize its technologies, products or services, as well as have a material adverse effect on its business, financial condition and performance.

The COVID-19 pandemic and actions taken by governments, businesses, and individuals in response to it could adversely affect Spin Master's business, financial position, sales, and results of operations.

The global COVID-19 pandemic and the actions taken by governments, businesses, and individuals in response to it have resulted in significant global economic disruption, including, but not limited to, temporary business closures, reduced retail traffic, volatility in financial markets, restrictions on travel, and safer-at-home protocols. Such disruptions in the markets in which Spin Master, its employees, consumers, customers, partners, licensees, licensors, suppliers, and manufacturers operate, can have, and at times in the past have had, a significant negative impact on Spin Master's business, financial position, sales, and results of operations. Negative impacts may result from, among other things:

- declines in net sales as a result of retail store closures (including specialty retailers), limited reopening, evolving stay-at-home protocols, and limitations on the capacity of e-commerce in certain markets;
- disruptions to the design, development, manufacturing, and/or distribution operations of Spin Master and/or its third-party suppliers resulting in limitations on Spin Master's ability to design, develop, manufacture, and distribute products effectively, efficiently, and in a timely manner;
- delays in entertainment content releases from our licensors, or changes in release plans, that can adversely impact sales of the Company's products;
- disruptions or restrictions on the ability of Spin Master's employees, suppliers, and manufacturers to work effectively, including due to illness, quarantines, government actions, and facility closures or other similar restrictions;
- increased operational risks, including increased risks of accounts receivable collection, insolvency of retailers (particularly specialty retailers), delays in payment, and negotiations with third parties over payment terms or the ability to perform under certain contracts or licenses; and
- any currently unforeseen effects of COVID-19.

Any one of these factors, or a combination thereof, could impact Spin Master’s ability to meet demand for its products. To the extent any of these disruptions become prolonged or recur, particularly during seasonally high periods of production or distribution, Spin Master’s ability to meet demand may be materially impacted.

Since mid-March 2020, the majority of Spin Master’s workforce has been working remotely. While reopening of some of the Company’s offices has begun on a limited basis, Spin Master continues to actively develop a plan to safely bring additional personnel back to its offices, which will be based on need and governmental, health, and safety guidelines. The Company regularly communicates and engages with its employees to minimize the disruption and stress of working remotely, provide flexibility and ensure that our employees are getting access to information and accommodations as the Company plans for a successful and safe re-entry to the workplace.

The impact of the COVID-19 pandemic continues to be fluid and uncertain, making it difficult to forecast the ultimate impact it could have on Spin Master’s future operations. If Spin Master’s business experiences prolonged occurrence of adverse public health conditions due to COVID-19 or other similar public health incidents, Spin Master’s business, financial position, sales, and results of operations could be materially impacted.

Spin Master may not be able to sustain or manage its growth strategy, which may prevent the Company from increasing its net revenues.

Historically, Spin Master has experienced growth in its product lines which at times has been rapid. The Company’s growth strategy calls for it to continuously develop and diversify its business by introducing original products, innovating and refining its existing product lines and expanding into international markets, entering into additional license agreements, and acquiring other companies, which will place additional demands upon the Company’s management, operational capacity and financial resources and systems. The increased demand upon management may necessitate Spin Master’s recruitment and retention of qualified personnel. This can be particularly difficult when unexpected, significant, sudden shifts in demand are caused by “hit” toys and trends. There can be no assurance that the Company will be able to recruit and retain qualified personnel or expand and manage its operations effectively and profitably. Implementation of Spin Master’s growth strategy is subject to risks beyond its control, including competition, market acceptance of original products, changes in economic conditions, its ability to obtain or renew licenses on commercially reasonable terms and its ability to finance increased levels of accounts receivable and inventory necessary to support its sales growth, if any. Accordingly, there can be no assurance that the Company’s growth strategy will be successful or that it will be able to achieve its targeted future sales growth. The lack of success in the Company’s growth strategy may have a material and adverse effect on its business, financial condition and performance.

Spin Master’s dependence on third-party manufacturers, distributors, distribution centres and logistics service providers presents risks to the Company’s business and exposes it to risks associated with international operations.

A majority of Spin Master’s products are manufactured by third-party manufacturers, most of which are located in Asia and primarily in China, and transported, stored and distributed by third parties on its behalf. The Company’s operations could be adversely affected if the Company lost its relationship with any of its third-party service providers, or if there was any material failure, inadequacy or interruption resulting from its third-party service providers due to factors beyond the Company’s control. Although Spin Master’s external sources of manufacturing and its distribution centres and logistics service providers can be shifted over a period of time to alternative sources, should such changes be necessary, the Company’s operations could be disrupted, potentially for a significant period of time, while alternative sources were secured, and significant capital investments could be required to remediate the problem.

Given that the majority of Spin Master’s products are manufactured by third-party manufacturers, public health crises, such as the COVID-19 pandemic, and other factors affecting social and economic activity where our manufacturers are located may affect the movement of people and products into and from those locations to the Company’s major markets, including North America and Europe. Public health crises, such as the COVID-19 pandemic, impacting the Company’s third-party manufacturers, distributors, distribution centres and logistics service providers had and can have a significant negative impact on Spin Master’s business.

As a result of Spin Master’s dependence on third-party manufacturers, any difficulties encountered by one of the Company’s third-party manufacturers that results in production delays, cost overruns or the inability to fulfill its orders on a timely basis, including political disruptions, labour difficulties and other factors beyond the Company’s control, could adversely affect the Company’s ability to deliver its products to its customers, which in turn could harm the Company’s reputation and adversely affect its business, financial condition and performance. Similarly, Spin Master relies on third-party distribution centres and logistics service providers to transport its products to the markets in which they are sold and on third-party distributors to distribute those products within those markets. Any disruption affecting the ability of the Company's third-party service providers to timely deliver or distribute its products to its customers could cause delays in product sales, cause customers to cancel orders, have a material adverse effect on Spin Master's revenue and profitability, and harm its reputation.

Spin Master's significant use of third-party manufacturers outside of North America also exposes the Company to risks, including:

- currency fluctuations;
- limitations on the repatriation of capital;
- potential challenges to the Company's transfer pricing determinations and other aspects of its cross-border transactions which may impact income tax expense;
- political instability, civil unrest and economic instability;
- greater difficulty enforcing IP rights and weaker laws protecting such rights;
- requirements to comply with different laws in varying jurisdictions, which laws may dictate that certain practices that are acceptable in some jurisdictions are not acceptable in others, and changes in governmental policies;
- natural disasters and greater difficulty and expense in recovering from them;
- difficulties in moving materials and products from one country to another, including port congestion, strikes and other transportation delays and interruptions;
- difficulties in controlling the quality of raw materials and components used to manufacture the Company's products, which may lead to public health and other concerns regarding its products;
- changes in international labour costs, labour strikes, disruptions or lock-outs; and
- the imposition of tariffs or other protectionist measures, or the breakdown of trade relations.

Due to Spin Master's reliance on international sourcing of manufacturing, its business, financial condition and performance could be significantly and materially harmed if any of the risks described above were to occur.

Spin Master requires its third-party manufacturers and distributors to comply with Spin Master's code of conduct, which is designed to prevent products manufactured by or for the Company from being produced under inhumane or exploitive conditions. Spin Master's code of conduct addresses a number of issues, including work hours and compensation, health and safety, and abuse and discrimination. In addition, the Company requires that its products supplied by third-party manufacturers or distributors be produced or distributed in compliance with all applicable laws and regulations, including consumer and product safety laws in the markets where those products are sold. The Company has the right, both directly and through the use of outside monitors, to monitor compliance by its third-party manufacturers and distributors with Spin Master's code of conduct and other manufacturing requirements. In addition, the Company conducts quality assurance testing on its products, including products manufactured or distributed for the Company by third parties. Notwithstanding these requirements and Spin Master's monitoring and testing of compliance with them, there remains the risk that one or more of the Company's third-party manufacturers or distributors will not comply with Spin Master's requirements and that Spin Master will not immediately discover such non-compliance. Any failure of the Company's third-party manufacturers or distributors to comply with labour, consumer, product safety or other applicable requirements in manufacturing or distributing products for the Company could result in damage to Spin Master's reputation, harm sales of its products and potentially create liability for Spin Master and its business, financial condition and performance could be materially and adversely impacted.

Disruptions in Spin Master's manufacturing operations or supply chain due to political instability, civil unrest or public health crisis have adversely affected and could further adversely affect Spin Master's business, financial position, sales, and results of operations.

The Company owns, operates and manages manufacturing facilities and utilizes third-party manufacturers and suppliers in China, as well as in Vietnam, India, Mexico, France and the U.S. The risk of political instability and civil unrest in certain of these countries, which could temporarily or permanently damage the manufacturing operations of the Company or its third-party manufacturers. Outbreaks of communicable diseases have also been known to occur in certain of these countries and around the world. For example, the COVID-19 pandemic began in Wuhan, Hubei Province, China, resulting in a global pandemic caused supply chain interruptions for Spin Master, its suppliers and customers that contributed to lower net sales in the first half of 2020 and may cause lower net sales to the extent they remain issues in the future. Other disruptions from public health crises such as these result from, among other things, workers contracting diseases, restrictions on factory openings, restrictions on travel, restrictions on shipping and shopping, and the closure of critical infrastructure. The design, development, manufacture, distribution and sale of the Company's products has suffered and could further suffer if a significant number of the Company's employees or the employees of its third-party manufacturers, their suppliers, or of businesses where the Company's products are sold, contract communicable diseases such as these, or if the Company, the Company's third-party manufacturers, or their suppliers are adversely affected by other impacts of such diseases. In addition, the contingency plans the Company has developed to help mitigate the impact of disruptions in its operations, have not and may not prevent its business, financial position, sales, and results of operations from being adversely affected by a significant disruption to its operations, suppliers or demand for the Company's products.

Spin Master's business is seasonal and therefore its annual financial performance depends, in large part, on its sales relating to the holiday season. As retailers become more efficient in their control of inventory levels and give shorter lead times for production, failures to predict demand and possible transportation, production or other disruptions during peak demand times may affect the Company's ability to deliver products in time to meet retailer demands.

Seasonality factors cause Spin Master's operating results to fluctuate significantly from quarter to quarter. A majority of the Company's sales occur during the third and fourth quarters, with a majority of retail sales occurring during the period from September through December in anticipation of the holiday season. Generally, the first quarter is the period of lowest shipments and revenues in the toy industry and therefore, the least profitable because of certain fixed costs. This seasonality has increased over time, as retailers become more efficient in their control of inventory levels through inventory management techniques. Further, ecommerce continues to grow significantly and accounts for a higher portion of the ultimate sales of the Company's products to consumers. Ecommerce retailers tend to hold less inventory and take inventory closer to the time of sale to consumers than traditional retailers. Spin Master's failure to predict levels of consumer demand surrounding the holiday season may result in under-producing popular products and overproducing underperforming items, which, in either case, would adversely affect the Company's business, financial condition and performance. Spin Master's results of operations may also fluctuate as a result of factors such as the timing of new products or new products that its competitors introduce in the marketplace, the advertising activities of its competitors and the emergence of new market entrants. In addition, due to the seasonal nature of Spin Master's business, the Company would be materially and adversely impacted, in a manner disproportionate to the impact on a company with sales spread more evenly throughout the year, by unforeseen events, such as public health crises and pandemics, terrorist attacks, adverse weather conditions or economic shocks that harm the retail environment or consumer buying patterns during the Company's key selling season, or by events such as strikes, port delays or supply chain interruptions, that interfere with the manufacture or shipment of goods during critical months leading up to the peak purchasing season.

If Spin Master fails to meet transportation schedules, it could damage the Company's relationships with retailers, increase the Company's distribution and logistics costs or cause sales opportunities to be delayed or lost. In order to be able to deliver its merchandise on a timely basis, Spin Master needs to maintain adequate inventory levels of the desired products. If the Company's inventory forecasting and production planning processes result in Spin Master manufacturing inventory in excess of the levels demanded by its customers, the Company could be required to record inventory write-downs for excess and obsolete inventory, which could materially and adversely affect the Company's financial performance. If the inventory of Spin Master products held by its retailers is too high, they may not place or may reduce orders for additional products, which could unfavourably impact the Company's future sales and materially and adversely affect its financial performance.

Uncertainty and adverse changes in general economic conditions may negatively affect consumer spending, which could have a material adverse effect on Spin Master's revenue and profitability.

Current and future conditions in the economy have an inherent degree of uncertainty. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more challenging to estimate growth or contraction in various parts, sectors and regions of the economy, including the many different markets in which Spin Master participates. The Company's budgeting and forecasting are dependent upon estimates of demand for its products and growth or contraction in the markets it serves. Economic uncertainty complicates reliable estimation of future income and expenditures. Adverse changes may occur as a result of weakening global economic conditions, tightening of consumer credit, falling consumer confidence, increasing unemployment, declining stock markets or other factors affecting economic conditions generally. These changes may negatively affect demand for Spin Master's products, increase exposure to retailers with whom it does business, increase the cost and decrease the availability of financing to fund Spin Master's working capital needs, or increase costs associated with manufacturing and distributing products, any of which could have a material and adverse effect on the Company's revenue and profitability.

Consumer spending habits, including spending on Spin Master products, are affected by, among other things, prevailing economic conditions, levels of employment, fuel prices, salaries and wages, the availability of consumer credit, foreclosures, bankruptcies, falling home prices, consumer confidence and consumer perception of economic conditions. A general economic slowdown in Canada, the U.S. and other parts of the world could decrease demand for the Company's products which would adversely affect its revenue; an uncertain economic outlook may adversely affect consumer spending habits and customer traffic, which may result in lower revenue. A prolonged global economic downturn could have a material negative impact on the Company's business, financial condition and performance.

In addition to experiencing potentially lower revenues during times of economic difficulty, in an effort to maintain sales during such times, Spin Master may need to reduce the price of its products, increase promotional spending and/or sales allowances, offer incentives or take other steps to encourage retailer and consumer purchase of its products. Those steps may lower the Company's net revenues or increase its costs, thereby decreasing its operating margins and lowering its profitability. These challenges can be exacerbated if customers accumulate excess retail inventories over time due to their purchases of Spin Master's products exceeding sales of those products to ultimate consumers. It can then take the Company significant time, working with retailers, to reduce those excess retail inventories, and in the interim its sales of new products can be negatively impacted.

Spin Master's sales are concentrated with a small number of retailers that do not make long-term purchase commitments. Consequently, economic difficulties or changes in the purchasing strategies and patterns of those retailers could have a material adverse effect on the Company's business, financial condition and performance.

A small number of retailers account for a large proportion of Spin Master's total sales. In 2020, the three largest customers collectively accounted for approximately 50.3% of the Company's Gross Product Sales. This concentration means that if one or more of Spin Master's major customers were to experience difficulties in fulfilling their obligations to the Company, cease doing business with the Company, significantly reduce the amount of their purchases from the Company, return substantial amounts of Spin Master's products, favour its competitors or new entrants or increase their competition with Spin Master by expanding their private label product lines, or seek material financial contributions from the Company towards price reductions at the retail level, the Company's business, financial condition and performance could suffer. The COVID-19 pandemic has resulted in an increased reliance on Spin Master's largest customers due to forced or voluntary store closures by its specialty retail customers. In addition, increased concentration among Spin Master's customers could also negatively impact its ability to negotiate higher sales prices for its products, could result in lower margins and could reduce the number of products the Company would otherwise be able to bring to market. Retailers do not make any long-term commitments to the Company regarding purchase volumes and make all purchases by delivering one-time purchase orders. Any customer could reduce its overall purchases of the Company's products, reduce the number and variety of the Company's products that it carries and the shelf space allotted for Spin Master's products, or otherwise seek to materially change the terms of their business relationship with Spin Master at any time. Any such change could significantly harm the Company's business, financial condition and performance. Similarly, liquidity problems at one or more of the Company's key customers could expose the Company to losses from bad debts and negatively impact its business, financial condition and performance. Spin Master's sales to retailers are typically made on credit without collateral. There is a risk that customers will not pay, or that payment will be delayed, because of bankruptcy or other factors beyond Spin Master's control, which could increase its exposure to losses from bad debts and increase its cost of sales. In addition, if these or other retailers were to cease doing business as a result of bankruptcy, or significantly reduce the number of stores they operate, it could have a material adverse effect on the Company's business, financial condition and performance. Spin Master's credit insurance may not cover all types of claims against customers and insurance levels for covered claims may not be adequate to indemnify the Company against all liability, which could materially and adversely harm the Company's business, financial condition and performance.

Failure to maintain existing relationships, or to develop new relationships, with inventors and entertainment content collaborators could have a material adverse effect on Spin Master's business, financial condition and performance.

Spin Master's relationships with inventors are a critical aspect of the Company's product development. A significant portion of Spin Master's product ideas have been sourced from inventors and developed by the Company. If Spin Master fails to maintain existing relationships or to develop new relationships within the inventor community or if the Company experiences an adverse change in the perception of the Company by inventors, Spin Master may receive fewer product concepts from inventors. This would adversely impact Spin Master's ability to introduce new, innovative brands and products, which in turn would materially and adversely harm its business, financial condition and performance.

Spin Master's relationships with entertainment collaborators, including writers, content developers, broadcasters and directors, are a critical aspect of the Company's development of its entertainment properties, brands and content. A portion of Spin Master's entertainment properties, brands and content have been sourced from external collaborators. If Spin Master fails to maintain existing relationships or to develop new relationships with entertainment collaborators or if the Company experiences an adverse change in the perception of the Company by these entertainment collaborators, Spin Master may receive fewer concepts.

This would adversely impact Spin Master's ability to introduce new entertainment properties, brands and content, which in turn would materially and adversely harm its business, financial condition and performance.

Failure to leverage Spin Master's portfolio of franchises effectively across entertainment and media platforms, maintain relationships with key television and motion picture studios, and entertainment and media companies could have a material adverse effect on the Company's business, financial condition and performance.

Complementing Spin Master's product offerings with entertainment and media initiatives is an integral part of the Company's growth strategy. Spin Master invests in interactive media and other entertainment initiatives, extending the Company's brands across multiple platforms. Establishing and maintaining relationships with key broadcasters and motion picture studios, and entertainment and media companies are critical to the successful execution of these initiatives. The Company's failure to execute effectively on these initiatives could result in its inability to recoup its investment and harm the related toy brands employed in these initiatives. Such failures could have a material adverse effect on the Company's business, financial condition and performance.

Risks Related to the Entertainment Industry.

The entertainment industry involves a substantial degree of risk. Acceptance of children's entertainment programming represents a response not only to the production's artistic components, but also the quality and acceptance of other competing programs released into the marketplace at or near the same time, the availability of alternative forms of children's entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors, all of which could change rapidly or without notice and cannot be predicted with certainty. There is a risk that some or all of Spin Master's programming will not be purchased or accepted by the public generally, resulting in a portion of costs not being recouped or anticipated direct and indirect profits not being realized, which could have a material and adverse effect on the Company's business, financial condition and performance. There can be no assurance that revenue from existing or future programming will replace loss of revenue associated with the cancellation or unsuccessful commercialization of any particular production or that Spin Master's entertainment programming will generate product sales.

The business of producing and distributing television programs is highly competitive. There are numerous suppliers of entertainment content and Spin Master faces intense competition with other producers and distributors, many of whom are substantially larger and have greater resources. Further, vertical integration of the television broadcast industry worldwide and the creation and expansion of new networks, which create a substantial portion of their own programming, has decreased access for programs produced by third-party production companies. The Company competes with other television production companies for ideas and storylines created by third parties as well as for access to animation studios, writers, producers, actors, directors and other personnel required for a production. Spin Master may not be successful in any of these efforts which could have a material and adverse effect on its business, financial condition and performance.

Spin Master also faces competition from both regulated and unregulated players using existing or new technologies and from illegal services. The rapid deployment of new technologies, services and products have reduced the traditional lines between internet and broadcast services and further expanded the competitive landscape. The Company may also be affected by changes in customer discretionary spending patterns, which in turn are dependent on consumer confidence, disposable consumer income and general economic conditions. New or alternative media technologies and business models, such as video-on-demand, subscription-video-on-demand, high-definition television, personal video recorders, mobile television, internet protocol television, over-the-top internet-based video entertainment services, connected televisions, virtual multichannel programming distributors, audio streaming platforms, podcasting and direct-to-home satellite compete for audiences. As well, mobile devices like smartphones and tablets allow consumers to access content anywhere, anytime and are creating consumer demand for mobile, portable or free content. These technologies and business models may increase audience fragmentation. Technological developments may also disrupt traditional distribution platforms by enabling content owners to provide content directly to consumers, thus bypassing traditional content aggregators.

Distributors' decisions regarding the timing of release and promotional support of Spin Master's television programs are important in determining the success of these programs. The Company does not ultimately control the timing and manner in which its distributors distribute the Company's television programs. Any decision by those distributors not to distribute or promote one of Spin Master's television programs or to promote competitors' programs to a greater extent than they promote Spin Master's programs could have a material and adverse effect on the Company's business, financial condition and performance.

Production of film and television programs requires a significant amount of capital. Unforeseen events such as labour disputes, changes related to technology, special effects or other aspects of production, shortage of necessary equipment, or other unforeseen events affecting aspects of production may cause cost overruns and delay or frustrate completion of a production. Although Spin Master has historically completed its productions within budget, there can be no assurance that it will continue to do so. The Company currently maintains insurance policies covering certain of these risks. There can be no assurance that any overrun resulting from any occurrence will be adequately covered or that such insurance and completion bonds will continue to be available or, if available on terms acceptable to Spin Master. In the event of substantial budget overruns, there can be no assurance that such costs will be recouped, which could have a material and adverse effect on the Company's business, financial condition and performance.

Financial risks exist in productions relating to tax credits. There can be no assurance that industry funding assistance programs and government tax credits which Spin Master may access in Canada and internationally from time to time, including those sponsored by various European, Australian and Canadian governmental agencies, will not be reduced, amended or eliminated or that Spin Master's production projects will continue to qualify for them. Any change in the policies of those countries in connection with their incentive programs could have a material and adverse effect on the Company's business, financial condition and performance.

International sales are subject to various risks and failure to implement the international growth strategy could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master currently relies on international sales of its products and expects to do so to a greater extent in the future as it continues to expand its business. The Company believes that its revenue and financial performance will depend in part upon its ability to increase sales in international markets. Implementation of Spin Master's international growth strategy is subject to risks beyond its control, and accordingly, there can be no assurance that the Company's international growth strategy will be successful. The lack of success in the Company's international growth strategy may have a material and adverse effect on its business, financial condition and performance.

International sales are subject to various risks, including: exposure to currency fluctuations; political and economic instability; increased difficulty of administering business; and the need to comply with a wide variety of international and domestic laws and regulatory requirements. There are a number of risks inherent in the Company's international activities, including: unexpected changes in Canadian, U.S. or other governmental policies concerning the import and export of goods; services and technology and other regulatory requirements; tariffs and other trade barriers; costs and risks of localizing products for foreign languages; longer accounts receivable payment cycles; limits on repatriation of earnings; the burdens of complying with a wide variety of non-Canadian or U.S. laws; and difficulties supervising and managing local personnel. The financial stability of non-Canadian or U.S. markets could also affect Spin Master's international sales. In addition, international income may be subject to taxation by more than one jurisdiction, which could also have a material adverse effect on the Company's financial performance. Such factors may have a material adverse effect on the Company's revenues and expenses related to international sales and, consequently, business, financial condition and performance.

An increasing portion of Spin Master's business may come from new and emerging markets, and growing business in new and emerging markets presents additional challenges which could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master expects an increasing portion of its revenues to come from new and emerging markets, including China and Russia. Operating in new and emerging markets, each with its own unique consumer preferences and business climates, presents additional challenges that Spin Master must meet. In addition, sales and operations in new and emerging markets are subject to other risks associated with international operations. Such risks include, but are not limited to: complications in complying with different laws in varying jurisdictions; dealing with changes in governmental policies and the evolution of laws and regulations that impact Spin Master's product offerings and related enforcement; difficulties understanding the retail climate, consumer trends, local customs and competitive conditions in foreign markets, which may be quite different from Canada and the U.S.; difficulties in moving materials and products from one country to another, including port congestion, strikes and other transportation delays and interruptions; potential challenges to Spin Master's transfer pricing determinations and other aspects of its cross border transactions; and the impact of tariffs, quotas, or other protectionist measures. Spin Master's business, financial condition and performance could be harmed if any of the risks described above are not appropriately managed, or if the Company is otherwise unsuccessful in managing its new and emerging market business.

Product recalls, post-manufacture repairs of Spin Master's products, product liability claims, absence or cost of insurance, and associated costs could harm the Company's reputation, which could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master is subject to regulation by Health Canada, the U.S. Consumer Product Safety Commission and regulatory authorities and by similar consumer protection regulatory authorities in other countries in which Spin Master sells its products. These regulatory bodies have the authority to remove from the market, products that are found to be defective and present a substantial hazard or risk of serious injury or death. The Company has experienced, and may in the future experience, issues in relation to products that result in recalls, delays, withdrawals, or post-manufacture repairs or replacements of products.

Individuals have asserted claims, and may in the future assert claims, that they have sustained injuries from the Company's products, and Spin Master may be subject to lawsuits relating to these claims. There is a risk that these claims or liabilities may exceed, or fall outside of the scope of, Spin Master's insurance coverage as Spin Master does not maintain separate product recall insurance. The Company has recorded, and in the future may record, charges and incremental costs relating to recalls, withdrawals or replacements of its products, based on the Company's most recent estimates of retailer inventory returns, consumer product replacement costs, associated legal and other professional fees, and costs associated with advertising and administration of product recalls. As these current and expected future charges are based on estimates, they may increase as a result of numerous factors, many of which are beyond Spin Master's control, including the amount of products that may be returned by consumers and retailers, the number and type of legal, regulatory, or legislative proceedings relating to product recalls, withdrawals or replacements or product safety proceedings in Canada, the U.S. and elsewhere that may involve the Company, as well as regulatory or judicial orders or decrees in Canada, the U.S. and elsewhere that may require the Company to take certain actions in connection with product recalls.

Moreover, Spin Master may be unable to obtain adequate liability insurance in the future. Any of these issues could result in damage to the Company's reputation, diversion of development and management resources, reduced sales, and increased costs and could cause the Company's licensors to terminate or not renew its licenses, any of which could materially and adversely harm its business, financial condition and performance. Product recalls, withdrawals, or replacements may also increase the competition that Spin Master faces. Some competitors may attempt to differentiate themselves by claiming that their products are produced in a manner or geographic area that is insulated from the issues that preceded recalls, withdrawals or replacements of Spin Master's products. In addition, to the extent that the Company's competitors choose not to implement enhanced safety and testing protocols comparable to those that the Company and its third-party manufacturers have adopted, such competitors could enjoy a cost advantage that could enable them to offer products at lower prices than Spin Master.

Additionally, product recalls relating to Spin Master's competitors' products, post-manufacture repairs of their products and product liability claims against the Company's competitors may indirectly impact the Company's product sales even if its products are not subject to the same recalls, repairs or claims.

Unfavourable resolution of litigation matters and disputes, including those arising from recalls, withdrawals or replacements of Spin Master's products, could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master is involved from time to time in litigation and disputes, including those arising from recalls, withdrawals or replacements of its products. Since outcomes of regulatory investigations, litigation and arbitration disputes are inherently difficult to predict, there is the risk that an unfavourable outcome in any of these matters could negatively affect the Company's business, financial condition and performance. Regardless of the outcome, litigation may result in substantial costs and expenses to Spin Master and significantly divert the attention of its management. The Company may not be able to prevail in, or achieve a favourable settlement of, pending litigation. In addition to pending litigation, future litigation, government proceedings, labour disputes or environmental matters could lead to increased costs or interruption of the Company's normal business operations.

Failure to implement new initiatives or meet product introduction schedules could have a material adverse effect on Spin Master's business, financial condition and performance.

Spin Master has undertaken, and in the future may undertake, initiatives to increase its efficiency, reduce its costs, improve the execution of its core business, globalize and extend its brands, develop or extend entertainment properties, leverage new trends, create new brands or franchises, offer new innovative products and technologies, enhance product safety, develop its employees, improve productivity, simplify processes, maintain customer service levels, drive sales growth, capitalize on its scale advantage and improve its supply chain. These initiatives involve investment of capital and complex decision-making, as well as extensive and intensive execution, and these initiatives may not succeed or there may be a delay in the anticipated timing of the launch of new initiatives. In addition, Spin Master may anticipate introducing a specific product, product line or brand at a certain time in the future. There is no guarantee that Spin Master will be able to manufacture, source and ship new or continuing products in a timely manner and on a cost-effective basis. The risk is also exacerbated by the increasing sophistication of many of the products the Company is designing, and the brands being developed in terms of combining digital and analog technologies and providing greater innovation and product differentiation. Unforeseen delays or difficulties in the development process or significant increases in the planned cost of development for new products may cause the introduction date for products to be later than anticipated or, in some situations, may cause a product or new product introduction to be discontinued. Failure to implement any of these initiatives, or the delay of the anticipated launch, or the failure of any of these initiatives or launches to produce the results anticipated by management, could have a material adverse effect on the Company's business, financial condition and performance.

A reduction or interruption in the delivery of raw materials, parts and components from Spin Master's suppliers or a significant increase in the price of supplies could negatively impact the Company's profit margins or result in lower sales.

Spin Master's ability to meet customer demand depends in part on its ability to obtain timely and adequate delivery of materials, parts and components from Spin Master's suppliers. The Company has experienced shortages in the past, including shortages of raw materials and components, and may encounter these problems in the future. A reduction or interruption in supplies, whether resulting from more stringent regulatory requirements, disruptions in transportation, port delays, labour strikes, lockouts, an outbreak of a severe public health crisis, severe weather due to climate change or otherwise, the occurrence of threat of wars or other conflicts, or a significant increase in the price of one or more supplies, such as fuel and resin (which is a petroleum-based product), could have a material adverse effect on the Company's business, financial condition and performance. Cost increases, whether resulting from shortages of materials or rising costs of materials, transportation, services or labour, could impact the profit margins on the sale of Spin Master's products. Due to market conditions, timing of pricing decisions and other factors, the Company may not be able to offset any of these increased costs by adjusting the prices of its products. Increases in prices of the Company's products could result in lower sales and have a material adverse effect on its financial condition and performance.

Spin Master may not realize the full benefit of its licenses if the licensed material has less market appeal than expected and licenses may not be profitable to the Company if sales revenue from the licensed products are not sufficient to support the minimum guaranteed royalties.

An integral part of Spin Master's business involves obtaining licenses to produce products utilizing various entertainment brands and content. As a licensee of entertainment-based properties, the Company has no guarantee that a particular brand or property will translate into a successful toy, entertainment brand or other product. Additionally, a successful brand may not continue to be successful or maintain a high level of sales. If Spin Master produces a line of products based on entertainment-based properties, the success of the entertainment series has a critical impact on the level of consumer interest in the associated products being offered by the Company. Spin Master relies on the efforts of third parties, such as licensors, film studios, content producers and distribution channels with whom the Company works, with respect to development of content and timing of media development, release dates and the ultimate consumer interest in and success of these media efforts. Spin Master does not fully control when or if any particular project will be developed or released, and the Company's licensors, media partners or other third parties may change their plans with respect to projects and release dates or cancel development all together. Lack of control can make it difficult for the Company to successfully develop and market products in conjunction with such entertainment projects, given the lengthy lead times involved in product development and successful marketing efforts. Any delay or cancellation of planned product development work, releases, or media support may decrease the number of products sold by the Company, which could harm its business. If any production or entertainment releases are delayed, due to the COVID-19 pandemic or otherwise, it could adversely affect the Company's business, financial condition and performance.

The license agreements into which the Company enters usually require it to pay minimum royalty guarantees that may be substantial, and in some cases may be greater than the amount it earns from sales of the licensed brands. This could result in write-offs of significant amounts, which in turn could materially and adversely impact the Company's financial condition and performance. Acquiring or renewing licenses may require the payment of minimum guaranteed royalties that Spin Master considers to be too high to be profitable, which may result in losing licenses it currently holds when they become renewable under their terms, or missing business opportunities for new licenses. If the Company is unable to acquire or maintain successful licenses on advantageous terms, its business, financial condition and performance may be materially and adversely impacted.

Spin Master's operating procedures and product requirements are subject to change and may increase costs, which may materially and adversely affect its relationship with vendors and make it more difficult for it to produce, purchase and deliver products on a timely basis to meet market demands. Future conditions may require the Company to adopt further changes that may increase its costs and adversely affect the Company's relationship with vendors.

Spin Master's operating procedures and requirements for both its own manufacturing facilities and vendors, which are regularly monitored and which are subject to change, including by implementing enhanced testing requirements and standards, impose additional costs on both Spin Master and the vendors from whom it purchases products. These changes may also delay delivery of the Company's products. Additionally, changes in industry wide product safety guidelines may affect the Company's ability to sell its inventory and may negatively impact its business. Spin Master's relationship with existing vendors may be adversely affected as a result of these changes, making it more dependent on a smaller number of vendors. Some vendors may choose not to continue to do business with the Company or not to accommodate the Company's needs to the extent that they have done so in the past. Due to the seasonal nature of Spin Master's business and the demands of its customers for deliveries with short lead times, Spin Master depends upon the cooperation of its vendors to meet market demand for its products in a timely manner. Existing and future events may require the Company to impose additional requirements on its vendors that may adversely affect the Company's relationships with those vendors and its ability to meet market demand in a timely manner which may in turn have a material and adverse effect on the Company's business, financial condition and performance.

Spin Master may engage in acquisitions, mergers, or dispositions, which may affect the profit, revenues, profit margins or other aspects of its business. Spin Master may not realize the anticipated benefits of future acquisitions, mergers or dispositions to the degree anticipated, or such transactions could have a material adverse impact on the Company's business, financial condition and performance.

Acquisitions have been a part of Spin Master's growth and have enabled it to further broaden and diversify its product offerings. The Company expects that in the future it will further expand its operations, brands, and product offerings through the acquisition of additional businesses, products or technologies. However, the Company may not be able to identify suitable acquisition targets or merger partners and the Company's ability to efficiently integrate large acquisitions may be limited by its lack of experience with them. If Spin Master is able to identify suitable targets or merger partners, it may not be able to acquire these targets on acceptable terms or agree to terms with merger partners. Also, Spin Master may not be able to integrate or profitably manage acquired businesses and may experience substantial expenses, delays or other operational or financial problems associated with the integration of acquired businesses. The Company may also face substantial expenses, delays or other operational or financial problems if it is unable to sustain the distribution channels and other relationships currently in place at an acquired business. The businesses, products, brands or properties the Company acquires may not achieve or maintain popularity with consumers, and other anticipated benefits may not be realized immediately or at all. Further, integration of an acquired business may divert the attention of the Company's management from its core business. In cases where Spin Master acquires businesses that have key individuals, Spin Master cannot be certain that those persons will continue to work for it after the acquisition or that they will continue to develop popular and profitable products. Loss of such individuals could materially and adversely affect the value of businesses that the Company acquires.

Acquisitions also entail numerous other risks, including but not limited to:

- unanticipated costs and legal liabilities;
- adverse effects on the Company's existing business relationships with its suppliers and customers;
- risk of entering markets in which the Company has limited or no prior experience;
- amortizing any acquired intangible assets; and
- difficulties in maintaining uniform standards, procedures, controls and policies.

Some or all of the foregoing risks could have a material adverse effect on Spin Master's business, financial condition and performance. In addition, any businesses, products or technologies the Company may acquire may not achieve anticipated revenues or income and the Company may not be able to achieve cost savings and other benefits that it would hope to achieve with an acquisition.

Acquisitions could also consume a substantial portion of Spin Master's available cash, could result in incurring substantial debt which may not be available on favourable terms, and could result in the Company assuming contingent liabilities. In addition, if the business, product or technologies the Company acquires are unsuccessful it would likely result in the incurrence of a write-down of such acquired assets, that could adversely affect Spin Master's financial performance. The Company's failure to manage its acquisition strategy could have a material adverse effect on its business, financial condition and performance.

Consistent with Spin Master's past practice and in the normal course, the Company may have outstanding non-binding letters of intent and / or conditional agreements or may otherwise be engaged in discussions with respect to possible acquisitions which may or may not be material. However, there can be no assurance that any of these letters, agreements and / or discussions will result in an acquisition and, if they do, what the final terms or timing of any acquisition would be.

If Spin Master fails to maintain an effective system of internal controls, Spin Master may not be able to report its financial results or prevent fraud, which could harm the Company's financial performance and may cause investors to lose confidence in it.

Spin Master must maintain effective internal financial controls for it to provide reliable and accurate financial reports. The Company's compliance with the internal control reporting requirements will depend on the effectiveness of its financial reporting and data systems and controls. Spin Master expects these systems and controls to become increasingly complex to the extent that its business grows, including through acquisitions. To effectively manage such growth, the Company will need to continue to improve its operational, financial and management controls and its reporting systems and procedures. These measures may not ensure that Spin Master designs, implements and maintains adequate controls over its financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation or operation, could harm the Company's financial performance or cause it to fail to meet its financial reporting obligations. Inferior internal controls could also cause investors to lose confidence in the Company's reported financial information, which could have a material and adverse effect on the trading price of its stock and its access to capital.

Spin Master is subject to tax and regulatory compliance in all the jurisdictions in which it operates and may be subject to audits from time to time that could result in the assessment of additional taxes, interest and penalties.

Spin Master conducts business globally and is subject to tax and regulatory compliance in the jurisdictions in which it operates. These include those related to collection and payment of value added taxes at appropriate rates and the appropriate application of value added taxes to each of the Company's products, those designed to ensure that appropriate levels of customs duties are assessed on the importation of its products, as well as transfer pricing and other tax regulations designed to ensure that its intercompany transactions are consummated at prices that have not been manipulated to produce a desired tax result, that appropriate levels of income are reported as earned and that it is taxed appropriately on such transactions. International transfer pricing is a subjective area of taxation and generally involves a significant degree of judgment.

Spin Master may be subject to audits that are at various levels of review, assessment or appeal in a number of jurisdictions involving various aspects of value added taxes, customs duties, transfer pricing, income taxes, withholding taxes, sales and use and other taxes and related interest and penalties in material amounts. The taxation authorities in the jurisdictions where the Company carries on business could challenge the Company's transfer pricing policies. In some circumstances, additional taxes, interest and penalties may be assessed and deposits required to be paid in order to challenge the assessments. When applicable, the Company reserves in the consolidated financial statements an amount that it believes represents the most likely outcome of the resolution of disputes, but if it is incorrect in its assessment, it may have to pay a different amount which could potentially be material. Ultimate resolution of these matters can take several years, and the outcome is uncertain. If the taxing authorities in any of the jurisdictions in which the Company operates were to successfully challenge its transfer pricing practices or its positions regarding the payment of income taxes, customs duties, value added taxes, withholding taxes, sales and use, and other taxes, it could become subject to higher taxes and its revenue and earnings could be adversely affected.

Significant changes in currency exchange rates could have a material adverse effect on Spin Master's business, financial condition and performance.

Spin Master's global operations means business is transacted in many different currencies and financial performance and cash flows are subject to changes in currency exchange rates and regulations. As the Company's financial results are reported in U.S. dollars, changes in the exchange rate between the U.S. dollar, Canadian dollar, Pound Sterling, Peso and the Euro may have an adverse effect / beneficial impact on the Company's U.S. dollar results. Furthermore, potential significant revaluation of the Chinese yuan, which may result in an increase in the cost of producing products in China, could negatively affect Spin Master's business. Government action may restrict the Company's ability to transfer capital across borders and may also impact the fluctuation of currencies in the countries where the Company conducts business or has invested capital.

Significant changes in currency exchange rates and reductions in Spin Master's ability to transfer capital across borders could have a material adverse effect on its business, financial condition and performance. Currency fluctuations may also adversely affect the Company's financial performance when it repatriates the funds it receives from these sales or other sources.

Spin Master is subject to various laws and government regulations, which, if violated, could subject Spin Master to sanctions or third-party litigation or, if changed, could lead to increased costs, changes in the Company's effective tax rate or the interruption of normal business operations that would negatively impact the Company's business, financial condition and performance.

Spin Master operates in a highly regulated environment in the U.S., Canada and international markets, including its products and the importation and exportation of its products. These policies or regulations may include accounting standards, taxation requirements (including changes in applicable income tax rates, new tax laws, and revised tax law interpretations), product safety and other safety standards, trade restrictions, duties and tariffs (including international trade laws and regulations, export controls, and economic sanctions), and regulations regarding currency and financial matters, anticorruption standards, environmental matters, advertising directed toward children, product content, and privacy and data protection, as well as other administrative and regulatory restrictions. The breakdown of trade relations between the U.S. and a foreign country in which Spin Master has significant manufacturing facilities or other operations, could adversely affect Spin Master's business, financial condition and results of operations. For example, a change in trade status between the U.S. and a foreign country could result in a substantial increase in the import duty of toys manufactured in that foreign country and imported into the U.S. The U.S. has commenced certain trade actions, including imposing increased tariffs on certain goods imported into the U.S. from China, which has resulted in retaliatory tariffs by China. Any increased trade barriers or restrictions on global trade imposed by the U.S., or further retaliatory trade measures taken by China or other countries in response, could adversely affect Spin Master's business, financial condition and performance. Given the recent change in the U.S. presidential administration, Spin Master faces uncertainty with respect to U.S. trade policy going forward.

In addition, changes in laws or regulations may lead to increased costs, changes in the Company's effective tax rate, or the interruption of normal business operations that would materially and adversely impact its business, financial condition and performance. The Company believes that it takes all necessary steps to comply with these laws and regulations, but Spin Master cannot be certain that it is in full compliance or will be in the future. Failure to comply could result in sanctions or delays that could have a negative impact on the Company's business, financial condition and performance.

Spin Master relies extensively on information technology in its operations, and any material failure in design, inadequacy, interruption, or security breach of that technology could have a material adverse impact on the Company's business, financial condition and performance.

Spin Master relies extensively on various information technology systems and software applications across its operations to manage many aspects of the business, including product development, management of its supply chain, sale and delivery of its products, financial reporting, collection and storage of data, and various other processes and transactions. Many of these systems are managed by third-party service providers. The Company is critically dependent on the integrity, security and consistent operations of these systems and related back-up systems. These systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, malware and other security breaches, catastrophic events such as hurricanes, fires, floods, earthquakes, tornadoes, acts of war or terrorism and usage errors by employees or partners. The efficient operation and successful growth of Spin Master's business depends on these information systems, including its ability to operate them effectively and to select and implement appropriate upgrades or new technologies and systems and adequate disaster recovery systems successfully. The failure of the information systems design, to perform as designed or Spin Master's failure to implement and operate them effectively could disrupt the Company's business, require significant capital investments to remediate a problem or subject the Company to liability and could have a material adverse effect on its business, financial condition and performance.

Spin Master's business could be significantly harmed if its electronic data is compromised.

Spin Master maintains significant amounts of data electronically in locations around the world. This data relates to all aspects of the Company's business and also contains certain customer and consumer data. The Company maintains systems and processes designed to protect this data, but notwithstanding such protective measures, there is a risk of intrusion or tampering that could compromise the integrity and privacy of this data. In addition, Spin Master provides confidential and proprietary information to its third-party business partners in certain cases where doing so is necessary to conduct the Company's business. While Spin Master obtains assurances from those parties that they have systems and processes in place to protect such data, and where applicable, that they will take steps to assure the protections of such data by third parties, nonetheless those partners may also be subject to data intrusion or otherwise compromise the protection of such data. While Spin Master and its third-party business partners maintain systems for preventing and detecting a breach of their respective information technology systems, Spin Master and those third parties may be unaware that a breach has occurred, may be unable to detect an ongoing breach or may be delayed in detecting a breach. Spin Master has exposure to similar security risks faced by other large companies that have data stored on their information technology systems. To its knowledge, Spin Master has not experienced any material breach of its cybersecurity systems. If Spin Master's or any third-party service providers' systems fail to operate effectively or are damaged, destroyed, or shut down, or there are problems with transitioning to upgraded or replacement systems, or there are security breaches in these systems, any of the aforementioned could occur as a result of natural disasters, software or equipment failures, telecommunications failures, loss or theft of equipment, acts of terrorism, circumvention of security systems, or other cyber-attacks, Spin Master could experience delays or decreases in sales, and reduced efficiency of its operations. Any compromise of the confidential data of Spin Master's customers, its consumers or itself, or failure to prevent or mitigate the loss of this data could disrupt Spin Master's operations, damage its reputation, violate applicable laws and regulations and subject the Company to additional costs and liabilities and have a material and adverse impact on its business, financial condition and performance.

The challenge of continuously developing and offering products and entertainment experiences that are sought after by children is compounded by the sophistication of today's children and the increasing array of technology and entertainment offerings available to them.

Children are increasingly utilizing electronic offerings such as computers, tablet devices and mobile phones and they are expanding their interests to a wider array of innovative, technology-driven entertainment products and digital and social media offerings at younger and younger ages. Spin Master's products and digital games compete with the offerings of consumer electronics companies, gaming, digital media and social media companies. To meet this challenge, the Company is designing and marketing products and digital games which incorporate increasing technology, seek to combine digital and analog play, and capitalize on evolving play patterns and increased consumption of digital and social media. With the increasing array of competitive entertainment offerings, there is no guarantee that:

- any of Spin Master's products, brands or entertainment properties will achieve popularity or continue to be popular;
- any property for which Spin Master has a significant license will achieve or sustain popularity;
- any new products or product lines Spin Master introduces, or entertainment content that it creates, will be considered interesting to consumers and achieve an adequate market acceptance; or
- any product's life cycle or sales quantities will be sufficient to permit Spin Master to profitably recover the development, manufacturing, marketing, royalties (including royalty advances and guarantees) and other costs of producing, marketing and selling the product.

An increasing portion of Spin Master's business may come from technologically advanced or sophisticated digital and smart technology products, which present additional challenges compared to more traditional toys and games.

Spin Master expects that children will continue to be interested in product offerings incorporating sophisticated technology, such as video games, consumer electronics and social and digital media, at younger and younger ages. Spin Master also expects that parents will seek to enhance child development and learning through digital technologies and analog and technology-based play.

In addition to the risks associated with Spin Master's more traditional products, sophisticated digital and smart technology products face certain additional risks. Costs associated with designing, developing and producing digital games and technologically advanced or sophisticated products tend to be higher than for many of Spin Master's more traditional products. Heavy competition in consumer electronics and entertainment products and difficult economic conditions may increase the risk of Spin Master not achieving sales sufficient to recover the increased costs associated with these products. Designing, developing and producing sophisticated digital and smart technology products requires different competencies and may follow longer timelines than traditional toys and games, and any delays in the design, development or production of these products could have a significant impact on Spin Master's ability to successfully offer such products. In addition, the pace of change in product offerings and consumer tastes in the video games, consumer electronics and social and digital media areas is potentially even greater than for Spin Master's more traditional products. This pace of change means that the window in which a technologically advanced or sophisticated product can achieve and maintain consumer interest may be shorter than traditional toys and games. These products may also present data security and data privacy risks and be subject to certain laws, government policies or regulations not applicable to more traditional products, such as the U.S. Children's Online Privacy Protection Act of 1998, the EU General Data Protection Regulation and the California Consumer Protection Act.

The production and sale of private-label toys by the retailers with which Spin Master does business may result in lower purchases of the Spin Master's branded products by those customers.

In recent years, retailers have been increasing the development of their own private-label products that directly compete with the products of their other suppliers, including children's entertainment companies. Some of the retailers with whom Spin Master does business sell private-label toys designed, manufactured and branded by the retailers themselves. The Company's customers may sell their private-label toys at prices lower than comparable toys sold by the Company, and, particularly in the event of strong sales of private-label toys, may elect to reduce their purchases of Spin Master's branded products. In some cases, retailers who sell these private-label toys are larger than Spin Master and have substantially more resources. An increase in the sale of private-label product by retailers could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master's success depends on key personnel and without them the Company may be unable to maintain and expand its business.

Spin Master's future success depends on the continued contribution of key personnel, including, executives, designers, inventors, technical, sales, marketing and in the entertainment and digital creative centres. The loss of services of any of the Company's key personnel could harm its business. Recruiting and retaining skilled personnel is costly and highly competitive around the world. If the Company fails to retain, hire, train and integrate qualified employees and contractors, it may not be able to maintain and expand its business.

Natural disasters or other catastrophic events out of Spin Master's control may damage its operations, facilities or those of its contractors and could materially and adversely affect the Company's business, financial condition and performance.

A catastrophic event where Spin Master has operations, offices or manufacturing facilities, such as an earthquake, tsunami, flood, typhoon, fire or other natural or manmade disaster, terrorist attacks, wars and other conflicts, or an outbreak of a public health pandemic could disrupt the Company's operations or those of its contractors and impair production or distribution of its products, damage inventory, interrupt critical functions, or otherwise affect its business negatively, and could materially and adversely affect the Company's business, financial condition and performance.

Increases in interest rates, the lack of availability of credit and Spin Master's inability to meet the debt covenant coverage requirements in its credit facility could negatively impact the Company's ability to conduct its business operations.

Increases in interest rates, both domestically and internationally, could negatively affect Spin Master's cost of financing its operations and investments. Adverse credit market conditions could limit the Company's ability to refinance its existing credit facility and raise additional debt that may be needed to fund the Company's operations. Additionally, Spin Master's ability to issue or borrow long-term debt and obtain seasonal financing or pay dividends could be adversely affected by factors such as an inability to meet certain debt covenant requirements and ratios. In the past, the Company's business has required and will continue to require capital expenditures and available resources to finance acquisitions. Accordingly, Spin Master's ability to maintain its current credit facility and its ability to issue or borrow long-term debt and raise seasonal financing are critical for the success of Spin Master's business. The Company's ability to conduct operations could be materially and adversely impacted should these or other adverse conditions affect the Company's sources of liquidity.

Negative publicity and product reviews may negatively impact Spin Master's business, financial condition and performance.

There has been a marked increase in the use of social media platforms and similar channels, including weblogs (blogs), social media websites and other forms of Internet-based communications that provide individuals with access to a broad audience of consumers and other interested persons. The availability and impact of information on social media platforms is virtually immediate and the accuracy of such information is not independently verified. The opportunity for dissemination of information, including inaccurate information, is seemingly limitless and readily available. Information concerning Spin Master or one or more of its products or employees may be posted on such platforms at any time. Information posted may be adverse to Spin Master's interests or may be inaccurate, each of which may harm the Company's reputation and business. The harm may be immediate without affording Spin Master an opportunity for redress or correction. Ultimately, the risks associated with any such negative publicity or incorrect information cannot be completely eliminated or mitigated and may materially and adversely impact its business, financial condition and performance.

System failures related to the websites that support Spin Master's internet-related products, applications, services and associated websites could harm the Company's business.

The websites, applications and services associated with Spin Master's internet-related products depend upon the reliable performance of their technological infrastructure. Customers could be inconvenienced and the Company's business may suffer if demand for access to those websites, applications or services exceeds their capacity. Any significant disruption to, or malfunction by, those websites or services, particularly malfunctions related to transaction processing, on those associated websites could result in a loss of potential or existing customers and sales.

Although Spin Master's systems have been designed to function in the event of outages or catastrophic occurrences, they remain vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, computer viruses, computer denial-of-service attacks, and other events. Some of the Company's systems are not fully redundant, and its disaster recovery planning is not sufficient for all eventualities. Spin Master's systems are also subject to break-ins, sabotage, and intentional acts of vandalism. Despite any precautions the Company may take, the occurrence of a natural disaster or other unanticipated problems at the Company's hosting facilities could result in lengthy interruptions in its services. Spin Master does not carry business interruption insurance sufficient to compensate it for losses that may result from interruptions in its service as a result of system failures. Any unplanned disruption of the Company's systems could result in material and adverse financial impact on its business, financial condition and performance.

FINANCIAL RISK MANAGEMENT

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which the Company is exposed are described below.

Foreign currency risk

Due to the nature of the Company's international operations, it is exposed to foreign currency risk driven by fluctuations in foreign exchange rates. Risk arises because the value of monetary assets, liabilities, revenues and expenditures arising from transactions denominated in foreign currencies may vary due to changes in foreign exchange rates ("transaction exposures") and because the non-U.S. dollar denominated financial statements of the Company's subsidiaries may vary on translation into the U.S. dollar presentation currency ("translation exposures"). These exposures could impact the Company's earnings and cash flows.

The Company uses derivative financial instruments such as foreign exchange forward contracts to manage foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the Company's financial assets and liabilities will increase or decrease in value due to a change in interest rates. The Company is exposed to interest rate risk as its loan facility bears interest at a variable rate.

Credit risk and Customer Concentration

The Company is dependent on three main retailers with respect to product sales for the majority of its products. These three customers accounted for 50.3% and 48.0% of consolidated Gross Product Sales[1] for the years ended December 31, 2020 and 2019 respectively.

As the Company usually grants credit to customers on an unsecured basis, credit risk arises from the possibility that customers may experience financial difficulty and may be unable to fulfill their financial obligations.

This risk is managed through the establishment of credit limits and payment terms based on an evaluation of the customer's financial performance, ability to generate cash, financing availability, and liquidity status. These factors are reviewed at least annually, with more frequent reviews performed as necessary.

In addition, the Company uses a variety of financial arrangements to ensure collectability of trade receivables, including requiring letters of credit, supplier financing programs, cash in advance of shipment and purchase of insurance on trade customer receivables, when available.

RELATED PARTY TRANSACTIONS

The Company periodically engages the services of a law firm whose managing partner is also a member of the Company's Board of Directors. During the year ended December 31, 2020, the fees for services rendered were approximately $1.6 million (2019 - $0.5 million).

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 2 of the Company's audited consolidated financial statements and accompanying notes, which have been prepared in accordance with IFRS. The preparation of financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, related disclosures and the reported amounts of revenues and expenses during the periods covered by the financial statements. Refer to Note 3 of the Company's audited consolidated financial statements for additional information.

The Company has identified the following accounting policies under which significant judgments, estimates and assumptions are made, where actual results may differ from these estimates under different assumptions and conditions and which may materially affect financial results or the financial position in future periods.

Determination of cash-generating units

A cash-generating unit ("CGU") is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Determining the impact of impairment requires significant judgment in identifying which assets or groups of assets constitute CGUs of the Company.

Functional currency

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at foreign exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Determining the appropriate functional currencies for entities in the Company requires analysis of various factors, including the currencies and country-specific factors that mainly influence sales prices, and the currencies that mainly influence labour, materials, and other costs of providing goods or services.

Useful life of property, plant and equipment and intangible assets with finite useful lives

The Company employs significant estimates to determine the estimated useful lives of property, plant and equipment and intangible assets with finite useful lives, considering industry trends such as technological advancements, past experience, expected use and review of asset lives.

Components of an item of property, plant and equipment may have different useful lives. The Company makes estimates when determining depreciation methods, depreciation rates and asset useful lives, which requires taking into account industry trends and company-specific factors. The Company reviews depreciation methods, useful lives and residual values annually or when circumstances change and adjusts its depreciation methods and assumptions prospectively.

Impairment testing of goodwill and indefinite life intangible assets

Goodwill and indefinite life intangible assets are assessed for impairment at least annually, and whenever there is an indication that the asset may be impaired. The Company determines the fair value of its CGU groupings and indefinite life intangible assets using discounted cash flow models corroborated by other valuation techniques. The process of determining these fair values requires the Company to make estimates and assumptions of a long-term nature regarding discount rates, projected revenues, royalty rates and margins, as applicable, derived from past experience, actual operating results and budgets. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Provision for inventories

Inventories are stated at the lower of cost and estimated net realizable value. The Company estimates net realizable value as the amount at which inventories are expected to be sold, taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices.

Sales allowances

A sales allowance is established to reflect amounts for programs which can be contractual or discretionary by nature, and can include negotiated discounts, customer audits, defective products and refund of costs incurred by customers to sell the Company's products. Contractual allowances are fixed and determinable at the time of sale and are recorded at the time of sales as a reduction to revenue. Discretionary allowances can vary depending on the future outcomes such as customer sales volume, inventory position, product performance at retail, historical performance, market conditions and other considerations. The Company may adjust its estimate of sales allowances when facts and circumstances used in the estimation process change.

Income and other taxes

The calculation of current and deferred income taxes requires the Company to make estimates and assumptions and to exercise judgment regarding the carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results, the timing of reversal of temporary differences and possible audits of income tax filings by tax authorities.

Changes or differences in underlying estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated statements of financial position and income tax (recovery) expense on the consolidated statements of earnings and comprehensive income.

All income, capital and commodity tax filings are subject to audits and reassessments. Changes in interpretations or judgments may result in a change in the Company's income, capital or commodity tax provisions in the future. The amount of such a change cannot be reasonably estimated.

FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments such as foreign exchange forward contracts to manage foreign currency risk.

As at December 31, 2020, the Company is committed under outstanding foreign exchange contracts representing a total net purchase commitment of approximately $11.3 million in US$ (2019 - $15.8 million). These foreign exchange contracts have maturity dates varying from January to December 2021. The fair value of these contracts at December 31, 2020 results in an unrealized loss of $7.2 million included in accrued liabilities and an unrealized gain of $3.7 million included in other receivables (2019 - $0.5 million included in accrued liabilities). In 2020, realized losses on the Company's matured hedges were $2.6 million (2019 - realized gains of $0.6 million) and is included in the consolidated statement of earnings and comprehensive income.

DISCLOSURE CONTROLS AND PROCEDURES

The Co-Chief Executive Officers and the Chief Financial Officer (the “Certifying Officers”) have designed, or caused to be designed under their supervision, Disclosure Controls and Procedures (“DC&P”) to provide reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company’s DC&P as at December 31, 2020 and have concluded that the Company's DC&P was effective as at December 31, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Certifying Officers have also designed, or caused to be designed under their supervision, Internal Control over Financial Reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control – Integrated Framework (2013 COSO Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) to design the Company’s ICFR. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company’s ICFR as at December 31, 2020 and have concluded that the Company's ICFR was effective as at December 31, 2020.

There have been no changes in the Company’s ICFR during the year ended December 31, 2020 which have materially affected, or are reasonably likely to materially affect, the Company’s ICFR and its disclosure controls and procedures.

LIMITATIONS OF AN INTERNAL CONTROL SYSTEM

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

NON-IFRS FINANCIAL MEASURES

In addition to using financial measures prescribed under IFRS, references are made in this MD&A to “EBITDA”, “Adjusted EBITDA”, “Adjusted EBITDA Margin”, “Adjusted Net Income (Loss)”, “Free Cash Flow”, “Gross Product Sales”, “Constant Currency”, “Sales Allowances”, "Net Sales" and "Adjusted Administrative Expenses" which are non-IFRS financial measures. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

EBITDA is calculated as net earnings before finance costs, income tax expense and depreciation and amortization.

Adjusted EBITDA is calculated as EBITDA excluding adjustments that do not necessarily reflect the Company’s underlying financial performance. These adjustments include restructuring expenses, foreign exchange gains or losses, share based compensation expenses, acquisition related contingent consideration, impairment of intangible assets, impairment of property, plant and equipment, legal settlement, transaction costs, bad debt recovery and expense and fair market value adjustments to acquired inventories. Adjusted EBITDA is used by management as a measure of the Company’s profitability.

Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by Revenue. Management uses Adjusted EBITDA Margin to evaluate the Company’s performance compared to internal targets and to benchmark its performance against key competitors.

Adjusted Net Income (Loss) is calculated as net income (loss) excluding adjustments, as defined above, in addition to a one-time income tax recovery and the corresponding impact these items have on income tax expense. Management uses Adjusted Net Income (Loss) to measure the underlying financial performance of the business on a consistent basis over time.

Adjusted Basic EPS is calculated by dividing Adjusted Net Income (Loss) by the weighted average number of shares outstanding during the period. Adjusted Diluted EPS is calculated by dividing Adjusted Net Income (Loss) by the weighted average number of common shares outstanding, assuming the conversion of all dilutive securities were exercised during the period.

Constant Currency represents Revenue and Gross Product Sales results that are presented excluding the impact from changes in foreign currency exchange rates. The current period and prior period results for entities reporting in currencies other than the US dollar are translated using consistent exchange rates, rather than using the actual exchange rate in effect during the respective periods. The difference between the current period and prior period results using the consistent exchange rates reflects the changes in the underlying performance results, excluding the impact from fluctuations in foreign currency exchange rates.

Free Cash Flow is calculated as cash flows provided by/used in operating activities reduced by cash flows used in investing activities and adding back cash used in license, brand and business acquisitions. Management uses the Free Cash Flow metric to analyze the cash flow being generated by the Company's business. Prior year comparative information has been updated to conform with the current disclosure.

Gross Product Sales represent sales of the Company's products to customers, excluding the impact of Sales Allowances. As Sales Allowances are generally not associated with individual products, the Company uses changes in Gross Product Sales to provide meaningful comparisons across product category and geographical segment results to highlight trends in Spin Master's business. For a reconciliation of Gross Product Sales to Revenue, please see the revenue table for the three months and year ended December 31, 2020 as compared to the same period in 2019 in this MD&A.

Sales Allowances represent marketing and sales credits requested by customers relating to factors such as cooperative advertising, contractual discounts, negotiated discounts, customer audits, volume rebates, defective products and costs incurred by customers to sell the Company's products and are recorded as a reduction to Gross Product Sales. Management uses Sales Allowances to identify and compare the cost of doing business with individual retailers, different geographic markets and amongst various distribution channels.

Net Sales represents Gross Product Sales less Sales Allowances. Management uses Net Sales to evaluate the Company's total net revenue generating capacity compared to internal targets and as a measure of Company performance.

Adjusted Administrative Expenses is calculated as administrative expenses adjusted for restructuring expenses, share based compensation expenses, impairment of property, plant and equipment, transaction costs and bad debt recovery. Please see the Adjusted Administrative Expenses table for the three months and year ended December 31, 2020 as compared to the same period in 2019 in this MD&A.

Management believes the non-IFRS measures defined above are important supplemental measures of operating performance and highlight trends in the core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management believes that these measures allow for assessment of the Company's operating performance and financial condition on a basis that is more consistent and comparable between reporting periods. The Company believes that lenders, securities analysts, investors and other interested parties frequently use these non-IFRS financial measures in the evaluation of issuers.

Reconciliation Tables

The following table presents a reconciliation of net income to EBITDA[1], Adjusted EBITDA[1] and Adjusted Net Income[1], and cash from operations to Free Cash Flow[1] for the fiscal years ended December 31, 2020, 2019 and 2018:

	Year Ended Dec 31		
(US$ millions)	**2020**	**2019**	**2018[14]**
Reconciliation of Non-IFRS Financial Measures			
Net income	45.5	64.3	154.9
Income tax (recovery) expense	(36.1)	20.7	53.5
Finance costs	12.1	11.7	9.4
Depreciation and amortization expenses	103.0	84.6	74.2
EBITDA[1]	**124.5**	**181.3**	**292.0**
Adjustments:			
Restructuring expense[2]	5.3	8.8	7.2
Foreign exchange loss (gain)[3]	27.6	5.8	(9.3)
Share based compensation[4]	12.2	15.2	12.2
Acquisition related contingent consideration[5]	3.7	3.2	1.2
Impairment of intangible assets[6]	0.4	5.6	—
Impairment of property, plant and equipment[7]	0.5	—	—
Legal settlement[8]	5.5	—	(15.5)
Transaction costs[9]	0.9	—	—
Bad debt (recovery) expense[10]	—	(0.9)	12.1
Amortization of fair market value adjustments[11]	—	—	3.7
Adjusted EBITDA[1, 14]	**180.6**	**219.0**	**303.6**
Income tax (recovery) expense	(36.1)	20.7	53.5
Finance costs	12.1	11.7	9.4
Depreciation and amortization expenses	103.0	84.6	74.2
One-time income tax recovery[12]	33.3	—	—
Tax effect of adjustments[13]	14.9	9.2	3.0
Adjusted Net Income[1]	**53.4**	**92.8**	**163.5**
Cash provided by operating activities	310.8	98.4	192.9
Cash used in investing activities	(84.9)	(116.2)	(159.5)
Add:			
Cash used for license, brand and business acquisitions	6.2	22.5	77.0
Free Cash Flow[1]	**232.1**	**4.7**	**110.4**

1) See "Non-IFRS Financial Measures".

2) Restructuring expense primarily relates to personnel related costs. Restructuring in the current period includes costs related to changes in senior leadership. In the second quarter of 2019 and fourth quarter of 2018, restructuring expenses also included costs related to facility closures.

3) Includes foreign exchange loss (gain) generated by the translation of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and losses (gains) related to the Company's hedging programs.

4) Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the IPO and share option expense. As of August 1, 2018, share based compensation includes expenses related to the Company's LTIP.

5) Remuneration expense associated with additional contingent consideration for previous acquisitions.

6) Impairment of intangible assets related to content development, licenses, brands and trademarks.

7) Impairment of property, plant and equipment related to machinery.

8) Legal settlement in the fourth quarter of 2020 and in the second quarter of 2018.

9) Non-recurring transaction costs relating to the acquisition of Rubik's.

10) Net bad debt (recovery) expense related to the bankruptcy declaration and liquidation proceedings of TRU during the fourth quarter of 2019 and first quarter of 2018.

11) Amortization of fair market value adjustments to inventory relating to the acquisition of Gund in the second quarter of 2018.

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

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

14) The comparative information presented for 2018 has not been restated for the adoption of IFRS 16. On a pro forma basis, the impact of IFRS 16 on Adjusted EBITDA for 2018 would be an increase of $11.3 million.

FORWARD-LOOKING STATEMENTS

Certain statements, other than statements of historical fact, contained in this MD&A constitute "forward-looking information" within the meaning of certain securities laws, including the *Securities Act* (Ontario), and are based on expectations, estimates and projections as of the date on which the statements are made in this MD&A. The words "plans", "expects", "projected", "estimated", "forecasts", "anticipates", "indicative", "intend", "guidance", "outlook", "potential", "prospects", "seek", "strategy", "targets" or "believes", or variations of such words and phrases or statements that certain future conditions, actions, events or results "will", "may", "could", "would", "should", "might" or "can", or negative versions thereof, "be taken", "occur", "continue" or "be achieved", and other similar expressions, identify statements containing forward-looking information. Statements of forward-looking information in this MD&A include, without limitation, statements with respect to: the Company's outlook for 2021 (see "Outlook"); future growth expectations in 2021 and beyond; financial position, cash flows and financial performance; drivers for such growth; the resolution of logistics problems; the program to achieve operational efficiencies supports the growth of the Company's global platform; the successful execution of its strategies for growth; the impacts of the COVID-19 pandemic on the Company; and consumer demand and the seasonality of financial results and performance.

Forward-looking statements are necessarily based upon management's perceptions of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by management as of the date on which the statements are made in this MD&A, are inherently subject to significant business, economic and competitive uncertainties and contingencies which could result in the forward-looking statements ultimately being incorrect. In addition to any factors and assumptions set forth above in this MD&A, the material factors and assumptions used to develop the forward-looking information include, but are not limited to: the ability of factories to manufacture products, including labour size and allocation, tooling, raw material and component availability, ability to shift between product mix, and customer acceptance of delayed delivery dates; that the program designed to gain operational efficiencies will achieve the desired results; the expanded use of advanced technology, robotics and innovation the Company applies to its products will have a level of success consistent with its past experiences; the Company will continue to successfully secure broader licenses from third parties for major entertainment properties consistent with past practices; the expansion of sales and marketing offices in new markets will increase the sales of products in that territory; the Company will be able to successfully identify and integrate strategic acquisition opportunities; the Company will be able to maintain its distribution capabilities; the Company will be able to leverage its global platform to grow sales from acquired brands; the Company will be able to recognize and capitalize on opportunities earlier than its competitors; the Company will be able to continue to build and maintain strong, collaborative relationships; the Company will maintain its status as a preferred collaborator; the culture and business structure of the Company will support its growth; the current business strategies of the Company will continue to be desirable on an international platform; the Company will be able to expand its portfolio of owned branded intellectual property and successfully license it to third parties; use of advanced technology and robotics in the Company's products will expand; access of entertainment content on mobile platforms will expand; fragmentation of the market will continue to create acquisition opportunities; the Company will be able to maintain its relationships with its employees, suppliers and retailers; the Company will continue to attract qualified personnel to support its development requirements; and the Company's key personnel will continue to be involved in the Company products and entertainment properties will be launched as scheduled and that the risk factors noted in this MD&A, collectively, do not have a material impact on the Company.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond the control of the Company, could cause actual results to differ materially from the forward-looking information in this MD&A. Such risks and uncertainties include, without limitation, the magnitude and length of economic disruption as a result of the COVID-19 pandemic; and the factors discussed in the Company's disclosure materials, including the Annual MD&A and the Company's most recent AIF, filed with the securities regulatory authorities in Canada and available under the Company's profile on SEDAR (www.sedar.com). These risk factors are not intended to represent a complete list of the factors that could affect the Company and investors are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law.

ADDENDUM

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

Gross Product Sales[1] by Product Category

(US$ millions)	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Total
Pre-School and Girls	73.1	93.5	242.7	200.2	**609.5**
Activities, Games & Puzzles and Plush	80.1	99.8	181.0	173.9	**534.8**
Boys	60.7	54.1	151.4	122.1	**388.3**
Outdoor	28.4	34.8	12.3	15.6	**91.1**
Gross Product Sales[1]	**242.3**	**282.2**	**587.4**	**511.8**	**1,623.7**