

Spin Master Corp.

Second Quarter 2025 Results Conference Call

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PRESENTATION

Operator

Good morning ladies and gentlemen and welcome to the Spin Master Corp. Second Quarter 2025 Results Conference Call.

At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press zero for the Operator. This call is being recorded today, Thursday, July 31, 2025.

I would now like to turn the conference over to Sophia Bisoukis. Please go ahead.

Sophia Bisoukis — Vice President, Investor Relations, Spin Master Corp.

Thank you. Welcome to Spin Master's financial results conference for the second quarter of 2025. I am joined this morning by Christina Miller, CEO, and Jonathan Roiter, Spin Master's CFO. For your convenience, the press release, MD&A and consolidated financial statements are available on the Investor Relations section of our website at spinmaster.com and on SEDAR+.

Before we begin, please note that remarks on this conference call may contain forward-looking statements about Spin Master's current and future plans, expectations, intentions, results, levels of activity, performance, goals or achievements, and any other future events or developments. Forward-looking statements are based on currently available information and assumptions that Management believes are appropriate and reasonable in the circumstances; however, there can be no assurance that

such assumptions will prove to be correct, and many factors could cause actual results to differ materially from those expected or implied by the forward-looking statements. As a result, you are cautioned not to place undue reliance on these forward-looking statements.

For additional information on these assumptions and risks, please consult the cautionary statements regarding forward-looking information in our earnings release dated July 31, 2025. Except as may be required by law, Spin Master disclaims any intention to update or revise any forward-looking statements whether because of new information, future events or otherwise.

Please note that Spin Master reports in U.S. dollars and all dollar amounts today are expressed in U.S. currency, unless otherwise noted.

I would now like to turn the conference call over to Christina.

Christina Miller — Chief Executive Officer, Spin Master Corp.

Good morning everyone. I'm pleased to join my first official analyst call since joining as CEO earlier this month. I have the opportunity to lead an incredible company that creates play experiences that brings joy to kids and families around the world. Spin Master has a diverse portfolio of brands that we've built, acquired and partnered with. Brands like PAW Patrol, Melissa & Doug, Monster Jam, How To Train Your Dragon, and Toca Boca provide us with a strong foundation from which to scale and reach more consumers, audiences and players globally.

Turning to our performance this quarter, as expected, we faced some headwinds. Total revenue declined by 2.7 percent as retailer buyer patterns within toys shifted in response to evolving tariff rates

in the U.S. Our decrease in toy revenue was partially offset by double-digit growth in games, demonstrating the strength of our three creative centre approach.

In the second quarter, tariffs caused retailers to temporarily pause orders and, in some cases, delay holiday set dates, negatively impacting selling. Despite these shifts, we saw strength in key toy categories, both in revenue and at point of sale, enabling us to maintain or grow share for many of the categories in which we compete. Looking at our total addressable market, we grew POS by 7.4 percent in the quarter, ahead of the industry which grew 3.7 percent for comparable categories.

We retained our leadership position in infant, toddler and preschool categories thanks to a combination of owned and licensed IP, with POS growing 3 percent compared to market which grew 2%, per Circana. The inclusion of Melissa & Doug and Ms. Rachel within our portfolio helped to strengthen our market position. Our licensed business grew 43.1 percent in the quarter, outpacing industry growth per Circana, thanks to a roster of popular licensed toy partnerships, including Monster Jam, How To Train Your Dragon, Ms. Rachel and Gabby's Dollhouse. Speaking of Monster Jam, this brand is fueling consistent growth with us. Within the vehicle category, POS from Monster Jam grew 13.1 percent in the quarter, enabling us to take share, maintaining its position as number two in the category.

Looking forward, we have a strong line-up of toys just hitting shelves now and into the fall for the holiday season. We have strong innovation across our portfolio, including key brands like Tech Deck, Melissa & Doug, PAW Patrol and Kinetic Sand. In addition to our owned IP, we have licensed toys for films including Jurassic World, How To Train Your Dragon, Superman, which have had successful box office openings, and Gabby's Dollhouse slated for September.

Moving to our own entity in studio, we're progressing against our strategy to create content and engage our audience wherever they are. While entertainment revenue declined in the quarter, as expected, we expanded the distribution of key properties, including a second window deal with Nickelodeon in the U.S. for Vida the Vet and Unicorn Academy, both of which debuted this month. Our last Unicorn Academy special dropped on Netflix on April 9 and beat our expectations for audience engagement, outpacing the competition. Unicorn Academy generated 70-plus hours viewed globally in the first half of 2025. All previously released chapters for the series, together with the new special landed into the girls' top five new content for each one.

We're continuing to invest in the health of PAW Patrol. Production of the movie for 2026 is well in hand and we are delivering two specials this year, one in October and our first-ever Christmas special, which will air on both Nickelodeon and CBS Primetime. Beyond our partnership with Paramount and in support of our goal of reaching kids wherever they watch, and for the first time ever, PAW Patrol debuted on Netflix in the U.S. this July, following a successful run of Rubble & Crew on the streaming platform earlier this year.

Digital games had a strong quarter with double-digit growth and has an engaged player network with 58 million active users. Over the past year, we've taken steps to focus on the strength of our anchor platforms, Toca Boca World and Piknik; as such, we've made the strategic decision to pivot our focus away from Toca Boca Days to double down on accelerating Toca Boca World. Building a social multi-player experience within Toca Boca's universe has provided us with valuable insights. We are now leveraging those learnings and tech we've developed to future-proof the Toca Boca franchise. These shifts are beginning to yield positive results, giving us confidence in our ability to scale in the future.

More broadly, we're making investments to expand live services capabilities, deepen performance marketing, and (inaudible 0:07:26). Our strategic focus has been to diversify our revenue streams across our three creative centres, and we've only just begun to truly capitalize on our deep catalogue of content, brands and gaming platforms. We have potential to deliver long-term growth by fully harnessing cross-creative centre collaboration. Staying grounded in a consumer-first mindset and bringing joy through engaging characters, stories, digital world and physical toys will ensure we are a mainstay in the lives of kids and families everywhere.

With that, I turn it over to Jonathan.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Thank you Christina, and good morning everyone. This quarter's performance highlights the strength and resilience of our diversified portfolio across all three creative centres. We delivered revenue of over \$400 million in the quarter during this complicated and challenging macroeconomic environment, bringing our year-to-date growth rate above 4 percent. Importantly, we delivered solid performance within our total addressable market, gaining or holding market share across a majority of our toy revenue base and continue to build momentum in our digital games business.

Adjusted gross profit was \$210 million, down \$13.8 million year-over-year, reflecting lower program yield due to the temporary slowdown in U.S. retailer orders early in the quarter, partially offset by growth in the digital games segment. Adjusted gross margins declined 190 basis points, also driven by the performance of the toy segment, which I will elaborate on shortly.

Adjusted SG&A increased by \$9.1 million to \$196.6 million, or 49.1 percent of revenue due to investments in margin which is partly time related, and higher selling prices stemming from an increase in partner licensed brand sales. Offsetting these higher expenses were realized savings reflecting ongoing cost synergies related to the acquisition of Melissa & Doug and distribution-driven operational efficiencies. Taken together, lower gross profit and these targeted investments contributed to Adjusted EBITDA of \$29 million as compared to \$54 million in the prior year.

Now before providing an overview of our creatives' standout performance, I'll take a few moments to update you on the meaningful progress the team has made on optimizing our long-term costs and operating structure as we navigate through this dynamic environment.

Beginning with Melissa & Doug, we have achieved our target run rate cost synergies ahead of plan. The integration of Melissa & Doug continues to yield positive results with over \$5.6 million in cost synergies realized in Q2, which now represents \$26.5 million in annualized run rate cost synergies. In addition, significant progress was also made against our tariff mitigation plan (inaudible 0:10:23). We expect Q3 to represent approximately 36 percent of our full year GPS compared to 41 percent last year. Additionally, gross product sales were impacted by the timing of key plan-o-gram resets which shifted into the second half of the year. We estimate this had an impact of approximately \$25 million in the quarter.

Within our Toy categories, we saw strong performance in preschool, infant and toddler, and plush categories led by increases in Melissa & Doug and Ms. Rachel, as well as solid growth in the wheels

and action category supported by increases in Dreamwork's Dragons and DC. This was offset by lower sales in our activities, games and puzzles, and dolls interactive and outdoor categories.

Gross profit for the Toy segment declined year-over-year, reflecting lower revenue and decreasing gross margins. The margin pressure was driven by various factors, including higher sales allowances which increased to 13.2 percent from 11.9 percent last year, as we supported our retail partners through heightened promotional activity to drive share. Additionally, product mix had an impact on our gross margin as we strategically moved inventory into off-price and discount channels to meet retailer demand for onshore product availability. The decrease in Toy gross profit combined with higher SG&A translated to toy's Adjusted EBITDA loss in the quarter of \$700,000 versus Adjusted EBITDA income of \$20.9 million in the prior year.

In the Digital Games segment, we delivered strong growth with revenue increasing 33 percent to \$46.3 million. This marks our third consecutive quarter of year-over-year growth driven by higher in-game purchases in Toca Boca World and continued subscriber growth across our Piknik platform. We are beginning to see the benefits of the deliberate actions taken over the past year to sharpen our focus and concentrate resources on our two core platforms. In line with this strategy, we made a decision to pivot away from Toca Days and, as a result, recorded an impairment charge of \$16 million in the quarter. Over time, we plan to incorporate many of the Toca Days play features into Toca Boca World to strengthen the overall experience. Within Piknik, our efforts are centred on subscriber growth and retention, ending the quarter up from last year and sequentially to 479,000 subscribers.

Adjusted operating income for digital games increased by \$1.8 million and margins declined slightly to 16.6 percent from 17 percent in the prior year, reflecting our successful ongoing investments in paid user acquisitions. We're encouraged by the momentum in the digital games creative centre, which reinforces our confidence in achieving stable and modest decreases to sequential quarterly revenue in 2025, supported by continued investments and a growing user base in the second half of the year.

Turning to Entertainment, revenue decreased by \$4.3 million to \$32.1 million, driven by lower distribution and licensing merchandise revenue. Entertainment adjusted operating income declined by \$2.3 million to \$17.7 million with adjusted operating margins staying relatively flat at 55.1 percent.

Moving back to our consolidated results, during the quarter we generated \$26.1 million in operating cash flows. This was primarily driven by our continued focus on optimizing inventory levels. As is typical given the seasonal nature of our working capital cycle, the second quarter resulted in negative free cash flow of \$15 million compared to negative \$4 million in the prior year. The year-over-year change was a result of our planned investments in the entertainment segment as we continue to advance development of the third PAW movie and new content for Unicorn Academy.

From a capital allocation perspective, we returned just under \$19 million of capital to shareholders by way of our quarterly dividend and the continued execution of our NCIB. This brings our return of capital on an LTM basis to \$96 million, while reducing our net debt by \$60 million.

In closing, we remain firmly focused on returning to a consistent profitable growth trajectory. As Christina explained, this will be accomplished through a deeper collaboration across our creative centres

and maximizing the impact of our innovations, brands and capabilities in the children's entertainment space. With enhanced discipline in our execution, we aim to deliver an attractive total shareholder return.

With that, Operator, that ends the formal part of the call, so please open the line for questions.

Q & A

Operator

Thank you very much. If you would like to ask a question, please signal by pressing star, one on the telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again a reminder, press star, one to ask a question.

We'll take our first question from Andrew Lopez with TD Cowen. You may now begin.

Andrew Lopez — Analyst, TD Cowen

Thank you, good morning. This is Andrew on for Brian Morrison.

Maybe we can start with the Q2 '25 results - a lot of moving parts in the quarter. Your revenue performance was decent, but you had some additional costs on the toy segment. I'm wondering what is your view on the quarter, and what should we read through in the back half of the year in terms of improving on these results?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yes, good morning Andrew. Thank you for the question. You know, let's start with the quarter and then let's talk a little about the back half.

From a quarter perspective from the top line, I think the team did a really strong job in light of the larger macroeconomic environment, and across almost every metric that I've seen, we've done really well, whether that's growing faster than our peer set or whether that's taking share across a majority of our revenue base and growing fast at taking more share than our competitive landscape. I think from a revenue perspective, proud of what the team did.

Obviously there was the backdrop of in April, a real slowdown in FOB orders. If you recall back in April, there was a significant amount of tariffs coming out of China for China products into the U.S., and that certainly slowed down the order profile. A key metric that I've seen is there were three or four weeks where really orders just—like, were really slow.

Another element is we saw some plan-o-gram resets take place later in the year, so two of our larger retailers for about \$25 million pushed a reset into October versus earlier in the fall, and that obviously shifts our revenue from a Q2 to an H2 story. Actually, if you would just adjust for that \$25 million, we had some pretty impressive growth, like 3, 4 percent in the toy segment, and versus the industry I think that's pretty impressive.

From a gross profit perspective, we are leaning into taking share - I mean, you've seen it in our results, and so we were comfortable investing in selling in as well as selling through the product. There

was obviously some pressure or decline in our gross margin as a result of that - that was a conscious choice. Us taking share is something that's really important to Christina and I, and the larger Management Team.

From a cost perspective, our costs came in versus last year higher, obviously from an SG&A perspective at the consolidated level. I think you've got to break that into different categories—you know, a few different categories. We've provided more than \$10 million of cost reduction around our synergies, around our tariff mitigation plan, but we are investing in the business, and so we are investing in making sure we have the right product towards the back half of the year and 2026. There was some increased marketing spend this quarter, and so as a percentage of our net revenue it's certainly higher, which might shift in the back half - I'll talk a little to that. But a big portion, or at least a decent portion of that was timing-related in that we have a lower revenue base and we were supporting the POS in the quarter. We'll get the benefits of that spend in the back half of the year.

When you think about the quarter, I look at it as top line, we took share, we made a conscious choice to sell in product and sell through product and it's working, and that serves us well into the future. Then from a cost perspective, there's a significant portion of that that was timing-related as we had a lower revenue base.

Then your second question is how does that bode for the back half of the year? The back half of the year, we have amazing products, we have the right price points - you know, more than 50 percent on the toy side of our products are going to be below \$20 in an important holiday season, which is the most important part of our year. Our theatrical releases are doing incredibly well. How To Train Your

Dragon, Melissa & Doug had a great Q2, and so we're going to keep working again for that. Monster Jam, Hatchimals, we have great products, great games and market share in some of these categories—some of these product lines I just shared with you. From a top line, we're focused on just continuing to gain share - that's our number one goal, in a market that has a lot of uncertainty, and that uncertainty ultimately can play out by—so there's a little bit of uncertainty in the market.

That's a summary of Q2, and I'll elaborate a little bit later on some questions on the back half of the year.

Andrew Lopez — Analyst, TD Cowen

Thank you, that's great colour.

Then just maybe as a follow-up, recognizing that the tariff situation remains fluid, but with all the actions taken to date in respect to tariffs, just wondering if you're able to quantify maybe the direct and indirect expenses you anticipate you may be able to recover in 2026.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Sure, so when you think of tariffs, you've got to think of two functions: there is the actual tariff cost and then there is the change in retailer behaviour and, obviously, how the consumer behaves. Just to elaborate a little bit on those, the retailer has made a change in how they're buying, so we know that the majority of our business was and it continues to be an FOB, but DOM is becoming much more important as retailers are, if you will, delaying their purchases and relying more on on-shore replenishment than they historically have done. That's an element that will affect our volume, and that

will lead to de-stocking ultimately. One way to think about it is it will lead to destocking in the industry as they have that shift from FOB to DOM, as well as they are being more conscious of their inventory levels.

The second element is the consumer. We took share in H1. Our H1 POS per Circana in our TAM was essentially flat, so Q2 was very high. That's when the Easter period was, Q1 was from a POS perspective lower, and so it was essentially flat, but that was higher than the industry, the industry was negative one. How the consumer reacts on the back half of the year, I think that's still a question mark. There could just be less dollars available for them as they are working through potentially higher prices across a large basket of goods, not just on the toy side.

Then there's the actual costs themselves, and so from a cost, we can quantify the costs and then we have offsetting price. We're essentially recovering, like, 80 to 85 percent of the actual cost with price in the near term, and in the longer term we're going to fix that through our mix. We're going to address it through the products that we bring out to the market and ensure we continue to have the right mix.

On overall dollars, because that was your question, I think you can think about it this way. For the full year, if I over—you know, put everything together, tariffs probably have an effect of about \$90 million, and we have cost savings that we've put in place, including Melissa & Doug synergies of about \$60 million, \$65 million.

Andrew Lopez — Analyst, TD Cowen

Okay, that's great. Okay, that's all for me. I'll jump back in the queue. Appreciate the colour.

Operator

Thank you. Our next question comes from Martin Landry with Stifel. You may now begin.

Martin Landry — Analyst, Stifel

Hi, good morning Christina and Jonathan. My first question, I'm trying to understand where Q3 and Q4 will land. It sounds like there's a lot of timing-related issues. Jonathan, you talked about some retailers shifting their purchases from FOB to domestic, delaying revenue recognition, plan-o-gram resets delays. This sounds like it's all delays and shifts, so I'm wondering—you know, I understand you don't have any guidance, you haven't restated your guidance, but help us understand a little bit where you could land in terms of revenues for Q3. Is there a potential for you guys to go back into growth mode in terms of revenues on a year-over-year basis for Q3?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Thank you Martin. Let me take a step back. We have three creative centres in our business. Obviously I'll come to talk to toys - it's the largest, but let me talk about the two others first, just to help give you a little bit more information.

From a digital games perspective, our focus, I think over the last 12 months has been to really focus down on these two platforms. You've seen Christina and I, we're here for about 90 days and we've already made some decisions around ensuring that we're getting the right return on capital on investments that we made, and that was the decision around Toca—you know, that drove the Toca Days

decision. It's working, right - we had double-digit growth and we expect that double-digit growth to continue in the back half of the year in digital.

On the entertainment side, essentially we can—that's an easy business to model in-year, and essentially the year-over-year loss, I mean, it happened in H1, we can model that out, and short of other factors taking place, it's pretty stable business.

Then it comes down to the toy side, and I think in my prepared remarks, we gave some percentage of ultimately how that could look like from a GPS perspective, so let me talk to you about more of an H2 as opposed to trying to get really specific in Q3. The two factors at play that we have to be thinking about—so we're not giving guidance, but it doesn't mean that we're not running our business, and when we're running our business around the inventory levels that we want to have, the promotional spends, etc., there are some assumptions that we're making.

I think there's two critical assumptions that we're making. Assumption number one is that, based on what retailers have said publicly and based on how they've shifted their buying patterns, we do expect destocking and ultimately for them to be holding less inventory as they finish the year. That is predominantly a U.S. event, but there's also some international at play there, and that's more micro to us than necessarily macro to the industry. That could be a significant number, the destocks, in kind of the \$70 million to \$90 million range.

From a POS perspective, again H1 where we took share, we outperformed the market. That's per Circana, publicly available information, it's clear we are outperforming. We're doing—we're very proud of the (inaudible 0:27:02) versus the market. We are aware that the consumer could be more stressed in

H2 and there could be some negative POS pressure. That being said, because our inventory is on shore, because we have the ability to quickly respond and because we have phenomenal products, and because 50 percent of our products are below \$20, we are ready to replenish and refill the pipeline as we sell through the product, and that's what we're focused on, is selling the product through the retailers in the back half of the year.

Martin Landry — Analyst, Stifel

Okay, and maybe just a follow-up, you touched on destocking by retailers, and you say that this could be a headwind of \$70 million to \$90 million. As of the end of Q2, can you talk a little bit about your inventory levels, both at your warehouses and at retailers - are they elevated, are they in line with historical levels? Any colour would be great.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Sure. Well, you see in our financials, actually they're lower than last year. I mean, one of the things that we did take advantage of in Q2 is looking at our inventory position on shore in the U.S. and saying, hey, what products do we have that ultimately could fill shelf space and even gain additional shelf space and additional doors in the market. From an inventory position, we're well positioned coming out of Q2. It really served us well, quite frankly, our inventory position around Prime because we had a very, very—you know, we're very pleased with our Prime performance. We again took share in Prime and outperformed the market.

From an underlying performance, we continue to take share, we continue to outperform the market, and from an inventory position, we're—you see it in our results, well positioned, and we're planning to be well positioned in the back half of the year. Then lastly from a retailer perspective, they—they are having lower inventory levels, which has obviously some near term transitory period for us, but as we head into 2026, that really only comes with upside.

Christina Miller — Chief Executive Officer, Spin Master Corp.

And Martin, as you may remember when you were at one of our Investor Days, we talked about growing and expanding in the value channel, so we've done that as well in the last 12 months. We've really penetrated that channel to add extra distribution across our product lines, and we're seeing growth there as well.

Martin Landry — Analyst, Stifel

Thank you for the colour, best of luck.

Operator

Thank you. Our next question comes from Adam Shine with National Bank Financial. You may now begin.

Adam Shine — Analyst, National Bank Financial

Okay, thanks a lot. Let's hope this is the worst quarter you two ever have to report.

Christina Miller — Chief Executive Officer, Spin Master Corp.

Well, thank you - for you, Adam, as well!

Adam Shine — Analyst, National Bank Financial

All kidding aside, I mean, Jonathan, this is another example with the stock having dropped as much as 18 percent, just another example of maybe some better communication around the quarter, especially when there are certain moves and actions being taken by the Company, because the surprise here in terms of the EBITDA pressure is more in terms of the added marketing spend. Again, a lot of this conversation goes back to timing, right - timing of spend on costs, timing of some of the top line.

If I could just start with—I know we're not going to get much guidance out of you, but I was surprised that you said 36 percent GPS contribution in Q3, and so it then begs the question, do you guys think you're going to deliver growth for the year in GPS and total revenue? Maybe I'll start there.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Lots to take in there, Adam. I appreciate the colour. This year is certainly a transitory year, and I think by explaining that destocking and explaining that, even though we are taking share and even though we are outperforming the market, the TAM in which we're playing would suggest that ultimately, no, there would not be growth this year, if you take those two comments together. I think I've been pretty transparent.

We hear your frustration and understand it, and I think that's what Christina and I and the Management Team are working towards around ensuring that we have a very clear story, very transparent in terms of how we see the performance, which I think you're seeing some pretty transparent words that we're using. Then there's also improving the execution and bringing us back to profitable growth. I mean, in my prepared remarks, the words were there, we're going to go back to profitable growth, so we're very clear that this year, that is not happening. It's not happening because of factors that are wider macroeconomic events that we're doing, I believe, an exceptional job in navigating through.

The areas that are not affected by tariffs are doing well - Europe as an example, digital games, and the tariffs ultimately are transitory. I mean, we have to work through it, we still don't know the official rate yet for one of our larger manufacturing hubs, but once we have that and once there's clarity, then we can start executing against our plan and ultimately returning back to that profitable growth that all of us want to and are striving to achieve. It comes from investing in the innovation engine of this Company - you know, we have phenomenal brands.

Adam Shine — Analyst, National Bank Financial

Yes. I think, look - I think with the new CEO, new CFO, this was destined to be a pseudo-kitchen sink quarter, so to speak, but I hear you on the GPS, that's helpful.

If I can then just unpack the disclosure around the \$90 million of tariffs and then more specifically the cost savings of \$66 million. So, a few months back we had heard that the Company was pursuing about \$100 million in OpEx savings combined with some CapEx deferrals to get to about \$100

million of cash flow savings. If we dig that into the \$66 million, which sounds like it was specifically OpEx related, as you said, Jonathan, how much are you leaning in on that Melissa & Doug stuff, which to me is in the past, because I would have thought that, pursuant to those prior disclosures, that you would have had about \$60 million of OpEx alone through mitigation activities to deal with the tariffs. Maybe help if we're still on track with those prior disclosures.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yes, I mean, there's an example of disclosure that lends itself to confusion, right, because cash savings - I mean, I don't—that can be interpreted (inaudible 0:34:29). I was very clear in my prepared remarks, again, about this kind of clarity - you know, OpEx and CapEx, and let me give you a little—and I gave you a range, I think \$80 million to \$90 million. Let me be even more clear, about two-thirds of that is OpEx, about a third of that is CapEx, so that kind of gives you the tariff mitigation savings.

Then year-over-year, the team has done a phenomenal job of integrating Melissa & Doug way ahead of plan, right - we've hit our run rate synergies this quarter, so year-over-year we have about \$12 million-ish of Melissa & Doug and then the rest is the two-thirds of the 80 to 90 range that I gave you. That's where the savings come from - it's a mixture of looking at what we're doing and saying, are we getting the economic return, are we getting a proper return on invested capital on these activities. If we are, let's keep doing it; if we're not, let's discuss whether we can, and if we don't think we can, let's stop doing it. That's the activities the team is doing, and you saw it within, again, 90 days a decision around Toca Days.

There's more of that, that obviously Christina and I are going to go do as we look at our investment portfolio, and ensuring that every dollar that we put into the business, we're getting an attractive return.

Adam Shine — Analyst, National Bank Financial

Okay, thank you for that. I'll queue up again, thanks.

Operator

Thank you. Our next question comes from Kylie Cohu with Jefferies. You may now begin.

Kylie Cohu — Analyst, Jefferies

Hey, good morning and thanks for taking my question. I guess this is more so for Christina, but I was just kind of curious if you could expand on your pricing actions - how much price have you taken so far, can we expect you to take more price, and when will that be hitting shelves? Thank you.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

I'll jump in and then Christina can add some more colour, maybe just on the back half with some of the great products that we have around H2.

From a pricing perspective, I think what I shared is that we were able to—ensuring that our customers and, more importantly, our consumers have a great offering, that is our number one goal at really competitive prices, and so remember by looking at price but then also managing mix, more than

50 percent of our SKU base in H2 - you know, the highest propensity to spend period - will be below \$20. We did take some selective pricing actions that will be reflected, obviously, in retail prices, and those happened early in Q3, and they represent probably about—if you remember when I explained tariffs, there was the actual tariff cost and then there's the volume aspect, and that was how we got up to that larger number. But a much smaller portion of that is just the tariffs, and we were capturing about 80, 85 percent of the increased cost.

From a composition perspective, we're well suited from additional prices. We are going to really focus and lean in on mix in 2026 as opposed to pricing, but we're really well positioned, and maybe Christina, you just want to talk a little about...

Christina Miller — Chief Executive Officer, Spin Master Corp.

Well, I think you hit the major note, Jonathan, on that. We're really looking at the pricing mix and having across our portfolio about 50 percent of our products be under that \$20 price point. In addition to that, we have some really great products to be excited about coming to market across all our major brands - PAW Patrol, Gabby's Dollhouse, Ms. Rachel, Monster Jam, and then rebuilding Gund. There is a lot of great stuff coming, so I think across Melissa & Doug as well, so we're confident in our product pipeline and our innovation that we're delivering to retail this fourth quarter, or through the back half of the year in total.

Like I said, it's mostly about making sure we have the right pricing mix across the category, and we feel like we're going into the second half with that well in hand.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yes, and if I can look even further out, 2026, first of all, we won't have the headwind of the destocking - in fact, depending on how retailers behave, it could actually be a tailwind. We have, as you know, the PAW Patrol movie is coming out, PAW 3 with a dinosaur focus. We're going to see—we're really excited about the early cuts that we've seen and ultimately what that's going to happen from a toy and a merchandising perspective. There's some great new products coming out in Gund. Hex Bots, we're really excited with the innovation that we're seeing. Monster Jam, I mean, the momentum is strong and when I see the innovation that's coming out next year and further international expansion, we're really excited. Obviously Ms. Rachel, the momentum is really strong.

When we look past even H2 into next year, going back to, I think Adam's question, we're very—we are working towards returning to profitable growth and we have all the building blocks in place to get us back there, and that's where our focus is.

Kylie Cohu — Analyst, Jefferies

Great, super helpful colour.

Then just one follow-up. I know you're lapping some Melissa & Doug inventory, but I was just wondering if you could talk a little bit more about your inventory composition specifically bridging that year-over-year gap, especially in a time when your toy peers are seeing elevated inventory growth and more of the industry shifts to that domestic inventory. Thanks.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yes, thanks for the question. I think this is one (inaudible 0:40:14) going back to even Adam's, like just being able to tell our story a little cleaner. I mean, we took share. We made a strategic decision to invest in selling in and then once it's in, selling through. That is above the market. That leads to lower inventory, and that's why our inventory is down year-over-year as we made these kind of decisions. We open doors, we take more share, we take more space, and that positions us well for the following year. From an inventory position, I mean, you're seeing it—like, it all comes together, you're seeing our inventory fall in Q2 versus last year as we've been selling in product and selling through product.

Now, the good news is in H2, our marketing spend will be much more in line with last year, perhaps even lower. Now, Q3 it was really low last year, so I'm just saying from an H2 perspective, when you look, it will be much more consistent this year than last year, and I expect that to come in as a lower percentage. Our sales allowances this year coming in the back—you know, the second half of the year, we'll continue to be focused on selling in product and making sure they're selling through, but ultimately we would expect that our sales allowance to be roughly in line with last year's numbers as well.

Kylie Cohu — Analyst, Jefferies

Awesome, thank you so much.

Operator

Thank you. Our next question comes from Ty Collin with CIBC. You may now begin.

Ty Collin — Analyst, CIBC World Markets

Hey, good morning. Thanks for the question.

I noticed in the supplemental slides relating to tariff mitigation that the previous specific targets you gave around Vietnam sourcing have been removed. I'm just wondering if there's been any shift in that sourcing strategy with some of the more recent tariff developments, and if you could explain the reasoning behind that.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yes. Look, going back to our mitigation plan, let's go through the four buckets. Bucket one, you will recall, was around diversification out of China. The team has done, again, really strong work. Last year on average, 64 percent of our U.S.-based cost of goods sold was coming from China, and this year we're going to finish at 37 percent, so it's a significant drop. Where is that going? A portion, a large portion is going to Vietnam, and so we're setting up that production and it's going incredibly smooth. In fact, some of the—there's some transitory costs that we're seeing, but ultimately the underlying cost profile is as attractive or even more attractive than China.

Now, there are products that we can't take to Vietnam and that have to remain in China, just because of the sheer—the infrastructure around those technical products remain in that country versus Vietnam. But, we are diversifying out of our base - we have important operations in India, important sourcing out of India, Indonesia, even Europe, so it has kind of a broad base. That was the first element of our tariff mitigation plan.

The second element was optimizing the supply chain. You've seen it in Q2, where we took advantage of the inventory that we had within the U.S., and secondly, we've also been able to mitigate the actual tariffs by changing the mechanics of how we sell, and those are kind of well documented around first sales, etc. That's a huge—that's another important lever.

The third lever was the pricing actions, which I've elaborated on already; and then the fourth lever was the savings, which essentially is—you know, on the top end of the range, it's essentially the same number that was given before, but now I've been able to specify what's OpEx and what's CapEx. From a tariff mitigation plan, again the team is executing on what they said they would do.

Ty Collin — Analyst, CIBC World Markets

Okay, great. Thanks. That's very clear.

Then Jonathan, with respect to the NCIB, you're about three-quarters through it at this point. It looks like you've continued buying back stock through Q2 and into July. I guess, what's your thinking around buybacks for the balance of the year, and do you think you're in a position to fully execute on the NCIB, assuming of course that your shares remain cheap and attractive?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Well, we always think that they're undervalued. Let me raise that up a little bit to capital allocation, if I can, and obviously address your specific questions.

You know, our view, my view and our collective view here around capital allocation is as follows. First is that we are committed to investing in the business. We're committed from an OpEx perspective and from a CapEx perspective. I think Christina and I are incredibly committed to ensuring that we're getting the right return on those investment dollars, and you've already seen actions that we've taken, and that's kind of the lens in which we see the world. It begins with investing in the business and being very clear on what kind of returns we want to get when we invest in the business.

The second element is returning capital to shareholders. If I look at the LTM, we've essentially brought back over \$100 million to shareholders, both through the quarterly dividend and through the NCIB, which was your question and I'll address it, as well as paid down debt by \$60 million. So, this was a—maybe one thing that's misunderstood about this business is that we do generate a lot of cash, even after the investments that we make back into the business, and we return it to our shareholders.

With regards—I'll finish, and then I'll come back to answer you. Lastly, M&A continues to be an important factor of how this business has grown. This is a 30-year-old business, essentially, it's over \$2 billion of revenue. M&A has played a role in that. We're looking on the toy side to continue to supplement the product categories that we're in, as well as enter new categories that have potentially higher growth, and then on the digital side continue to build out the capabilities that we have across our two platforms.

Specifically with regards to the NCIB, we believe in capital allocation that is disciplined, that you can model and that is repeatable and predictable, so if we're active in—if we issue an NCIB, it means that we're going to execute against the NCIB. That's the reputation that we want to have.

Ty Collin — Analyst, CIBC World Markets

Okay, that's great.

Jonathan, if I could just sneak in one more quick one. I appreciate that you guys obviously didn't reintroduce the guidance this quarter, given that you both only started in the last few months, but is that something that you're aiming or planning to do during the Q3?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Look, let's cross that bridge when we get there. I mean, there's three factors as to why we chose not to. It's not that we're not—it's not because we're new. There's three factors. Factor one is the actual tariffs, what's happening. Factor two is can we get a good sense of how retailers are behaving—or buying patterns, excuse me, and then the third is how the consumer is going to react. On the first one, we're probably a week away from having some clarity, right - I think there's one last big country, and that should be hopefully resolved in the coming weeks. Then as we start getting comfortable that we can understand the change in DOM and FOB and the implications, as well as how the consumer is reacting to the—whether there is or isn't inflationary in the wider basket of their goods, that's when we would make the decision as to come back.

I don't want to call it a day, but those are the three factors that held back being able to—our decision not to give guidance, reinstate guidance this quarter.

Ty Collin — Analyst, CIBC World Markets

Got it, thanks.

Operator

Thank you. Our next question comes from Drew McReynolds with RBC Capital Markets. You may now begin.

Drew McReynolds — Analyst, RBC Capital Markets

Yes, thanks very much. Jonathan, I still—I think we'll take this offline, just to better understand all the OpEx, tariff impacts and cost savings and stuff. We can do that offline.

I think bigger picture, just two questions, and maybe to both of you, frankly, but obviously Christina, maybe with the emphasis on you. When you look at the overall toy business, outside of the things you can't control with respect to tariffs and macro, is there anything that you see as kind of meaningfully broken or needs fixing relative to, perhaps, what the rest of us see?

Then secondly on strategy, Christina, would be curious just to get an update on where the strategy for the broader Company is shifting on the margin. I know in the prepared remarks, there is some commentary on that front, but maybe you can drill down a little bit more for us. Thank you.

Christina Miller — Chief Executive Officer, Spin Master Corp.

Sure, thank you Drew. A couple of things. I would say that I don't think that I believe anything is meaningfully broken. I think we came out earlier this year and said that, as it relates to toys, that we're going to go and compete in places where we can be number one or number two, and I think you see us doing that and executing against that. I see it more as a bigger opportunity long term, one, to continue executing there, but as well as looking around to other categories that we can open up and compete in as well. I think that is core to the toy strategy as well as looking at other—you know, we're growing in infant, toddler and preschool, what else can we be doing in those spaces.

We have great brands that are wholly owned by Spin Master, as well as when you look at the success of the box office and how that's translated to growth for us in top line, whether it was How To Train Your Dragon, Gabby's Dollhouse is yet to come, Superman, so we've been in some of the really big box office movies, and next year we have one of our own coming in PAW Patrol, so we really believe in that property and what that can continue to do. I think when you look at our numbers this year, it's a known off-year out of the movie cycle, and next year we will be back with another great movie with a greater theme, and as Jonathan mentioned earlier, really getting a look at the first cuts in the first few weeks I've been here and couldn't be more impressed. It's not easy to make a third movie that's possibly better than the first or second ones, but I really do think the team has done great work there.

I also would like to say, outside of the toy business, that we're expanding distribution, we're getting in front of our audiences in a bigger way, and I think ultimately when you back out and you look at how that drives our business, it's really a critical part. This month, we went—we've found—not found,

we have some new distribution outlets. So, whether it's PAW Patrol debuted on Netflix in the U.S., the first couple of seasons there, whether you look at Vida the Vet or Unicorn Academy getting placed onto Nickelodeon in an additional second window, or you look in the greater European market on some other second windows that we're getting for Vida the Vet, so I think the more we can go where our audience is, the more we can be consumer-minded in our strategy, the more successful we will be in driving our business, whether it's in any of the three core creative centres.

As much as we spent a lot of time talking about toy this morning, and understandably why given the tariff situation, the macroeconomics around it, I don't want to overlook the fact that we are positioned as an integrated children's entertainment company. So by that, I mean we have strong muscles in three categories, and how they cross-collaborate is one of the ways we will unlock value in the future.

Jonathan alluded to, or directly said focus-focus-focus, and how we can go deeper on the things that are really working for us and how we can then look to create net new. Now on this call, I'm sure we don't want to talk about that so much, because that provides longer term value when you're looking so much further out; but I feel confident that what we have the capability to put in the pipeline for innovation and toys, as well as content and digital content, is second to none, and as I look further, that's really where I see the opportunity, is that we continue to strengthen the three creative centres.

You see digital really growing this quarter - it grew 33 percent. Looking at that kind of growth and knowing what's in the pipeline in the second half, for Toca Boca World we're better positioned for more content throughout the entire second half than we have in the first half. Looking at how we can

continue to test pricing, how our live operations plays into it, so when you look at live ops, content, pricing, and promotion that we have coming, we believe we have a strong second half for Toca Boca in line. Piknik, we're getting top line growth as well. We have a portfolio of skills in those games, whether it's math, now we have a colouring game, we have language games, consistently looking at how we can gain engagement there and add to that portfolio and therefore grow it.

I understand the focus on toys - it's absolutely necessary, but I ask as we back out and look at the business holistically. I think we're making strides and using diversification to our benefit. I believe in the talent that's inside this organization in both our capabilities on innovation, and now it's our job to start putting more of that into the pipeline so you can see how we're going to get sustainable growth in the future, and that's really what I'm pushing towards.

Drew McReynolds — Analyst, RBC Capital Markets

Yes, that's helpful, Christina. You answered my third question on the digital games outlook on the back half here, so that's good for me. Thank you very much.

Christina Miller — Chief Executive Officer, Spin Master Corp.

Thank you.

Operator

Thank you. Our next question comes from Luke Hannan with Canaccord Genuity. You may now begin.

Luke Hannan — Analyst, Canaccord Genuity

Thanks, good morning everyone. I wanted to dig in a little deeper on the retailers that are deferring orders into the back half of the year, and specifically I'm trying to get a better understanding of what you're thinking as far as sales allowances, because there are a lot of moving parts here, right? There's this FOB versus domestic mix, but then also it feels like the selling window is going to be a little bit shorter, we don't know where exactly the consumer is going to land by the time the holiday spending season sort of rolls around. In my mind, that does increase the risk of potential markdowns and there being more charges when it comes to sales allowances specifically.

I realize that you're not giving guidance as of yet, but can you just frame up for us specifically what your expectations are when it comes to the sales allowances in the back half?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Sure, thanks Luke. That's exactly—I think some of the words you used exactly kind of reiterate why it's so difficult to be able to come out and be—and give formal guidance. But what do we know? What we know is, and I just continue to reinforce this, we're gaining share and we're taking share in H1. Christina walked through why we have a strong H2 in terms of our product categories, and so don't see a reason why that won't happen again.

We are going to support that, though, and we will support it through both marketing dollars and through sales allowances. Marketing this quarter, because revenue is smaller and because there's this timing, there's a high proportion of marketing as a proportion of net revenue, and we expect that to

come back down to in line with last year, if not lower in H2 as our revenue base grows, and then—and we take advantage of the spend that we had in Q2 that will help us in Q3 and onwards.

Specifically on sales allowance, your specific question, sales allowances were higher in Q2 than last year. It goes again to this strategy that we've had around gaining share, making sure that if we put product in, it sells through, and making sure that we open up new doors. Christina talked about that through the value channels, being an example, and then making sure we're supporting our retail partners so that it's profitable for them as well. But when we look specifically in H2, I don't really see right now, based on how the consumer's behaving, any real material increases in H2 versus last year. In fact, maybe there could be some decreases because we have such a strong product category and because, again, 50 percent of our SKUs are below the \$20 mark. It could even potentially be a little bit lower than last year from a sales allowance perspective.

Luke Hannan — Analyst, Canaccord Genuity

Okay, thanks.

Then for my follow-up, I just want to make sure I heard this correctly. I know in the past, you gave the target of getting to 70 percent of your sourcing coming from outside of China by the end of the year, and I think I heard you correctly, Jonathan, that you're on track to have it be 37 percent of your product coming from China by year end. Did I hear that correctly?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yes, I think there is—you know, not to—being clear in—that number that you stated, that I stated before, is right, but then what ends up happening is it's part of a seasonal base, and so let's take away from the seasonality and let's just give you an average number. The average number, we will finish 37 percent, but I would say that's in line with the other way that it was shared with you last quarter, but this is a better way of looking at it, average for the full year, because each quarter, there's seasonal aspects of what's being brought from China or other countries. In the spirit of being more transparent, giving clearer data, this is an example of what we're doing, but it's not—I know the number is different, but it's still the same logic. We're just giving you an easier number to—a truer number for the year and not benefit, say, from seasonality which that number that you had, had that benefit in it.

Luke Hannan — Analyst, Canaccord Genuity

Okay, sorry, so the 70 percent had the benefit of seasonality in it, you're saying?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Correct, and so now by saying an average for the year of 37, I think that's a cleaner number for you to—that 37 percent coming from China to the U.S., that's a cleaner number for you, and we gave you the comparison of last year, which was 64 percent.

Luke Hannan — Analyst, Canaccord Genuity

Okay, got it. That's helpful. Okay, I'll pass the line. Thanks.

Operator

Thank you. This next question appears to be our last question. This question will come from David McFadgen with Cormark Securities. You may now begin.

David McFadgen — Analyst, Cormark Securities

Great, thank you. Yes, I just wanted to dive in just on the Activities, Games and Puzzles segment, because I noticed it's obviously down in the quarter, down six months. Just wondering, is there one toy in particular that's really driving that decline, or is it the five or six that you listed in the MD&A? Just wondering if there's anything that really stands out, and when do you think that segment might return to growth? Thanks.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yes, so why don't I take this quarter, and then Christina, maybe talk about some of the work that I know the team is doing around bringing back growth to our games—to that section as we look a little bit further out.

In the quarter, I mean, there's nothing specific that I would call out more than what's in the prepared remarks. We have a portfolio approach around our product categories. Again, the vast majority of our revenue base took share, and so—(inaudible 1:01:05) more than 50 percent, more like two-thirds of our revenue base took share. When you have a portfolio approach, there will be some categories that won't be taking share, and so that was one of the categories, which we recognize that

there is—you know, going back to Christina's comment around innovation, this is an area where we know we want to lean in, and we do believe and we know that we can return to growth in this category.

Maybe Christina, if you have any comments about the category itself longer term?

Christina Miller — Chief Executive Officer, Spin Master Corp.

Yes, I think as Jonathan just said, we know that there is growth in this category and returning to growth is important to us. I would go back to my earlier comment about focus - we have a pretty wide portfolio of products, and doing the proper sort of assessment about where we can grow, where we can't, what we can lean into is the work that's being done.

I also would say that we're coming off of a Rubik's, which was a 50-year anniversary last year that definitely helped in that category versus this year, so it's looking for opportunities like that and looking for some new games and innovation that we can use to drive that category. I would just say keep an eye on it moving forward - it's definitely something we're focused on.

David McFadgen — Analyst, Cormark Securities

Okay, all right. Thank you.

Operator

That is our last question. I'll turn the conference back to Jonathan Roiter, CFO for any additional remarks.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Well, thank you everyone for joining us, and we look forward to speaking with you again at our upcoming third quarter call in October of this year. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.