# Spin Master Corp.

Management's Discussion and Analysis of Financial Results

For the three months ended March 31, 2024

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May 7, 2024

## INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. and its subsidiaries ("Spin Master" or the "Company") provides information concerning the Company's financial condition, financial performance and cash flows for the three months ended March 31, 2024 ("first quarter", "the quarter", "Q1"). This MD&A should be read in conjunction with the Company's unaudited Condensed consolidated interim financial statements for the three months ended March 31, 2024 ("interim financial statements"), its audited annual Consolidated financial statements and accompanying notes ("annual financial statements") and its annual MD&A for the year ended December 31, 2023 ("Annual MD&A"). Additional information relating to the Company, including the Company's annual information form for the year ended December 31, 2023, can be found under the Company's profile on the System of Electronic Document Analysis and Retrieval Plus (SEDAR+) at www.sedarplus.com.

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

## BASIS OF PRESENTATION

The financial information included in this MD&A is derived from the financial information included in the Company's interim financial statements and accompanying notes that were prepared in accordance with International Accounting Standard 34, Interim Reporting and consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). However, certain financial measures and ratios contained in this MD&A do not have any standardized meaning under IFRS ("Non-GAAP") and are discussed further in the "Non-GAAP Financial Measures and Ratios" section of this MD&A. Management believes the Non-GAAP financial measures and Non-GAAP financial ratios defined in the section noted above are important supplemental measures of operating performance and highlight trends in the business. Management believes that these measures allow for assessment of the Company's operating performance and financial condition on a basis that is consistent and comparable between reporting periods. The Company believes that investors, lenders, securities analysts and other interested parties frequently use these Non-GAAP financial measures and Non-GAAP financial ratios in the evaluation of issuers.

All financial information is presented in United States dollars ("$", "dollars" and "US$") and has been rounded to the nearest hundred thousand, except per share amounts and where otherwise indicated.

## BUSINESS OVERVIEW

Spin Master Corp. (TSX:TOY) is a leading global children's entertainment company, creating exceptional play experiences through its three creative centres: Toys, Entertainment and Digital Games. With distribution in over 100 countries, Spin Master is best known for award-winning brands PAW Patrol®, Bakugan®, Kinetic Sand®, Air Hogs®, Melissa & Doug®, Hatchimals®, Rubik's Cube® and GUND®, and is the global toy licensee for other popular properties. Spin Master Entertainment creates and produces compelling multiplatform content, through its in-house studio and partnerships with outside creators, including the preschool franchise *PAW Patrol* and numerous other original shows, short-form series and feature films. The Company has an established presence in digital games, anchored by the Toca Boca® and Sago Mini® brands, offering open-ended and creative game and educational play in digital environments. Through Spin Master Ventures, the Company makes minority investments globally in emerging companies and start-ups. With 31 offices spanning nearly 20 countries, Spin Master employs close to 3,000 team members globally.

*Segment information*

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

*Toys*

The Toys segment engages in the creation, design, manufacturing, licensing, and marketing of consumer products. Effective January 1, 2024, Spin Master has changed its product categories to align with the Company's product offerings going forward: (1) Preschool, Infant & Toddler and Plush; (2) Activities, Games & Puzzles and Dolls & Interactive; (3) Wheels & Action; and (4) Outdoor. Products in the Toys segment are sold in three geographic regions: (1) North America; (2) Europe; and (3) Rest of World. Previously, Spin Master's Toys segment was organized into the following: (1) Preschool and Dolls & Interactive; (2) Activities, Games & Puzzles and Plush; (3) Wheels & Action; and (4) Outdoor. The 2023 Toy Gross Product Sales[1] have been presented in the same format that the Company presents Toy Gross Product Sales in 2024 (see "Addendum"). The Toys segment also generates other revenue streams through licensing of its brands.

The acquisition of MND Holdings I Corp ("Melissa & Doug"), completed on January 2, 2024, is included within Preschool, Infant & Toddler and Plush category (refer to Acquisition of Melissa & Doug section for more details).

*Entertainment*

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

*Digital Games*

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

*Corporate & Other*

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

*Strategy*

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

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

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

## Selected Financial Information

The following provides selected key performance metrics of the Company for the three months ended March 31, 2024 and 2023, which should be read in conjunction with the interim financial statements.

On January 2, 2024, the Company completed its previously announced acquisition of Melissa & Doug by acquiring all issued and outstanding capital stock. Melissa & Doug is a leading brand in early childhood play with offerings of open-ended, creative, and developmental toys. Melissa & Doug's operating results for the three months ended March 31, 2024 are included in the Company's consolidated results (refer to "Acquisition of Melissa & Doug" section for more details).

| **Consolidated Results** | **Three Months Ended Mar 31,** | |
|---|---|---|
| **(US$ millions, except per share information)** | **2024** | **2023** |
| Revenue | 316.2 | 271.4 |
| Operating Loss | (61.8) | (6.1) |
| Operating Margin[1] | (19.5)% | (2.2)% |
| Adjusted Operating (Loss) Income[2] | (14.5) | 12.7 |
| Adjusted Operating Margin[2] | (4.6)% | 4.7 % |
| Net Loss | (54.8) | (1.9) |
| Adjusted Net (Loss) Income[2] | (19.5) | 12.3 |
| Adjusted EBITDA[2] | 18.6 | 30.6 |
| Adjusted EBITDA Margin[2] | 5.9 % | 11.3 % |
| **Earnings Per Share ("EPS")** | | |
| Basic EPS | (0.53) | (0.02) |
| Diluted EPS | (0.53) | (0.02) |
| Adjusted Basic EPS[2] | (0.19) | 0.12 |
| Adjusted Diluted EPS[2] | (0.19) | 0.12 |
| Cash dividends declared per share (CA$) | 0.12 | 0.06 |
| **Weighted average number of shares (in millions)** | | |
| Basic | 104.2 | 103.0 |
| Diluted | 106.3 | 106.6 |
| **Selected Cash Flow Data** | | |
| Cash provided (used in) by operating activities | 24.3 | (4.3) |
| Cash used in investing activities | (980.4) | (56.6) |
| Cash provided by (used in) financing activities | 457.2 | (14.8) |
| Free Cash Flow[2] | (0.6) | (34.4) |

| **Selected Balance Sheet Data** | **Mar 31, 2024** | **Dec 31, 2023** |
|---|---|---|
| Cash | 205.5 | 705.7 |
| Total assets | 2,522.4 | 1,989.7 |
| Loans and borrowings | 473.2 | — |
| Total liabilities | 1,178.3 | 570.6 |

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

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

**Executive Summary for the three months ended March 31, 2024 as compared to March 31, 2023**

- Revenue was $316.2 million, an increase of 16.5% from $271.4 million, which includes Melissa & Doug Revenue of $40.4 million. Revenue, excluding Melissa & Doug[1] was $275.8 million, an increase of 1.6% from $271.4 million.
- Constant Currency Revenue[1] was $314.7 million, an increase of 16.0%, from $271.4 million.
- Revenue by operating segment reflected increases of 21.5% in Toys, 16.5% in Entertainment, and a decrease of 3.2% in Digital Games.
- Toy Gross Product Sales[1] was $264.1 million, an increase of $47.8 million or 22.1% from $216.3 million, including Melissa & Doug Toy Gross Product Sales[1] of $46.7 million. Toy Gross Product Sales, excluding Melissa & Doug[1] was $217.4 million, an increase of $1.1 million or 0.5% from $216.3 million.
- Operating Loss was $61.8 million compared to Operating Loss of $6.1 million.
- Operating Margin was (19.5)% compared to (2.2)%.
- Adjusted Operating Loss[1] was $14.5 million compared to Adjusted Operating Income[1] of $12.7 million.
- Adjusted Operating Margin[1] was (4.6)% compared to 4.7%.
- Net Loss was $54.8 million or $(0.53) per share compared to $1.9 million or $(0.02) per share.
- Adjusted Net Loss[1] was $19.5 million or $(0.19) per share compared to Adjusted Net income[1] of $12.3 million or $0.12 per share (diluted).
- Adjusted EBITDA[1] was $18.6 million compared to $30.6 million, a decrease of $12.0 million or 39.2%.
- Adjusted EBITDA, excluding Melissa & Doug[1] was $27.8 million compared to $30.6 million, a decrease of $2.8 million or 9.2%.
- Adjusted EBITDA Margin[1] was 5.9% compared to 11.3%.
- Adjusted EBITDA Margin, excluding Melissa & Doug[1] was 10.1% compared to 11.3%.
- Cash provided by operating activities was $24.3 million compared to cash used of $4.3 million.
- Free Cash Flow[1] was $(0.6) million compared to $(34.4) million.
- During the three months ended March 31, 2024, the Company repurchased and cancelled 333,300 subordinate voting shares through the Company's Normal Course Issuer Bid (the "NCIB") program for $8.4 million. Subsequent to March 31, 2024, the Company repurchased a further 255,621 subordinate voting shares for cancellation at a cost of $6.3 million.
- Subsequent to March 31, 2024, the Company declared a quarterly dividend of CA$0.12 per outstanding subordinate voting share and multiple voting share, payable on July 12, 2024.

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

**Acquisition of Melissa & Doug**

On January 2, 2024, the Company completed its previously announced acquisition of Melissa & Doug. Melissa & Doug is a leading brand in early childhood play with offerings of open-ended, creative, and developmental toys. The acquisition is reported in the Toys segment within the Preschool, Infant & Toddler and Plush product category.

On January 2, 2024, cash consideration paid was $991.7 million, which includes $36.2 million in cash acquired, resulting in net purchase consideration of $955.5 million. As of March 31, 2024, purchase consideration was reduced by $2.5 million for working capital adjustments, resulting in purchase consideration of $989.2 million. The purchase consideration was allocated to the identifiable intangible assets based on their estimated fair values of $536.2 million (related to brands and customer relationships), tangible assets of $503.4 million and assumed liabilities of $263.4 million with the remaining $213.0 million allocated to goodwill. The Company funded the $991.7 million purchase price with $466.7 million of cash and $525.0 million of debt from its credit facilities to finance the acquisition. During the three months ended March 31, 2024, the Company repaid $50.0 million towards its credit facilities (refer to "Liquidity and Capital Resources" section).

The preliminary purchase price allocation is based on management's current best estimates of fair value. The actual allocation to certain identifiable net assets could vary as the purchase price allocation is finalized. The Company has one year to finalize the fair value of net tangible assets, goodwill, and intangible assets. The tables below summarize the preliminary purchase allocation of the purchase consideration of $989.2 million:

*Assets acquired and liabilities assumed at the date of acquisition*

| **(US$ millions)** | **Fair value as at Jan 2, 2024** |
|---|---|
| **Assets acquired** | |
| Cash | 36.2 |
| Restricted Cash | 3.1 |
| Inventories, net | 179.6 |
| Prepaid expenses and other assets | 3.0 |
| Trade receivables, net | 104.7 |
| Deferred income tax assets | 53.1 |
| Intangible assets | 536.2 |
| Other assets | 1.2 |
| Property, plant and equipment | 37.1 |
| Right-of-use assets | 85.4 |
| | 1,039.6 |
| **Liabilities assumed** | |
| Trade payables and accrued liabilities | 39.6 |
| Deferred income tax liabilities | 161.6 |
| Lease liabilities | 60.7 |
| Income tax payable | 0.7 |
| Provision | 0.8 |
| | 263.4 |
| **Fair value of identifiable net assets acquired** | **776.2** |

*Goodwill arising on acquisition*

| | |
|---|---|
| Total purchase consideration | 989.2 |
| Fair value of identifiable net assets acquired | 776.2 |
| **Goodwill arising from transaction** | **213.0** |

The Company incurred transaction and integration costs for the three months ended March 31, 2024 of $16.7 million, of which $9.5 million were transaction related costs.

During the three months ended March 31, 2024, the Company recognized $0.2 million in Net Cost Synergies[1] and continues to expect to achieve approximately $6 million in Net Cost Synergies[1] in 2024 towards the target of approximately $25 million to $30 million in Run-rate Net Cost Synergies[2] by the end of 2026.

The following summarizes the impact of Melissa & Doug's operating results on the first quarter consolidated results:

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change | % Change |
|---|---|---|---|---|
| Revenue | 316.2 | 271.4 | 44.8 | 16.5 % |
| Melissa & Doug Revenue | 40.4 | — | 40.4 | n.m. |
| **Revenue, excluding Melissa & Doug[1]** | **275.8** | **271.4** | **4.4** | **1.6 %** |
| Toys Gross Product Sales[1] | 264.1 | 216.3 | 47.8 | 22.1 % |
| Melissa & Doug Toy Gross Product Sales[1] | 46.7 | — | 46.7 | n.m. |
| **Toys Gross Product Sales, excluding Melissa & Doug[1]** | **217.4** | **216.3** | **1.1** | **0.5 %** |
| Adjusted EBITDA[1] | 18.6 | 30.6 | (12.0) | (39.2)% |
| Melissa & Doug Adjusted EBITDA[1] | (9.2) | — | (9.2) | n.m. |
| **Adjusted EBITDA, excluding Melissa & Doug[1]** | **27.8** | **30.6** | **(2.8)** | **(9.2)%** |
| **Adjusted EBITDA Margin[1]** | **5.9 %** | **11.3 %** | | |
| **Adjusted EBITDA Margin, excluding Melissa & Doug[1]** | **10.1 %** | **11.3 %** | | |

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

[1] Net Cost Synergies represent cost savings, net of costs to achieve, attributable to the integration of Melissa & Doug.

[2] Run-rate Net Cost Synergies represent the expected ongoing cost savings, net of costs to achieve, attributable to the integration of Melissa & Doug.

**Segmented Results**

| Toys | | |
|---|---|---|
| | Three Months Ended Mar 31, | |
| (US$ millions) | 2024 | 2023 |
| Toy Gross Product Sales[1] | 264.1 | 216.3 |
| Toy Revenue | 226.4 | 186.3 |
| Toys Operating Loss | (90.8) | (41.8) |
| Toys Operating Margin[2] | (40.1)% | (22.4)% |
| Toys Adjusted EBITDA[1] | (32.5) | (21.4) |
| Toys Adjusted EBITDA Margin[1] | (14.4)% | (11.5)% |
| **Cash Flow** | | |
| Toys capital expenditures | 9.2 | 7.8 |
| | Mar 31 | Dec 31 |
| **Balance Sheet** | 2024 | 2023 |
| Moulds, dies and tools, net carrying amount | 23.4 | 19.2 |

| Entertainment | | |
|---|---|---|
| | Three Months Ended Mar 31, | |
| (US$ millions) | 2024 | 2023 |
| Entertainment Revenue | 43.8 | 37.6 |
| Entertainment Operating Income | 28.6 | 29.3 |
| Entertainment Operating Margin[2] | 65.3 % | 77.9 % |
| Entertainment Adjusted Operating Income[1] | 29.1 | 29.9 |
| Entertainment Adjusted Operating Margin[1] | 66.4 % | 79.5 % |
| **Cash Flow** | | |
| Entertainment capital expenditures | 7.8 | 18.4 |
| | Mar 31 | Dec 31 |
| **Balance Sheet** | 2024 | 2023 |
| Entertainment content development, net carrying amount | 49.7 | 48.3 |

| Digital Games | | |
|---|---|---|
| | Three Months Ended Mar 31, | |
| (US$ millions) | 2024 | 2023 |
| Digital Games Revenue | 46.0 | 47.5 |
| Digital Games Operating Income | 13.2 | 16.2 |
| Digital Games Operating Margin[2] | 28.7 % | 34.1 % |
| Digital Games Adjusted Operating Income[1] | 15.2 | 19.0 |
| Digital Games Adjusted Operating Margin[1] | 33.0 % | 40.0 % |
| **Cash Flow** | | |
| Digital Games capital expenditures | 7.9 | 3.9 |
| | Mar 31, | Dec 31, |
| **Balance Sheet** | 2024 | 2023 |
| Digital game and app development, net carrying amount | 36.4 | 31.5 |

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

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

## FINANCIAL PERFORMANCE

### Consolidated Results

The following table provides a summary of Spin Master's consolidated results for the three months ended March 31, 2024 compared to the same period in 2023:

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change | % Change |
|---|---|---|---|---|
| Revenue | 316.2 | 271.4 | 44.8 | 16.5 % |
| Cost of sales | 159.7 | 112.9 | 46.8 | 41.5 % |
| **Gross Profit** | **156.5** | **158.5** | **(2.0)** | **(1.3)%** |
| Selling, general and administrative expenses | 197.7 | 149.3 | 48.4 | 32.4 % |
| Depreciation and amortization | 19.8 | 6.6 | 13.2 | 200.0 % |
| Other expense, net | 1.2 | 4.4 | (3.2) | (72.7)% |
| Foreign exchange (gain) loss, net | (0.4) | 4.3 | (4.7) | (109.3)% |
| **Operating Loss** | **(61.8)** | **(6.1)** | **(55.7)** | **913.1 %** |
| Interest income | (1.3) | (6.7) | 5.4 | (80.6)% |
| Interest expense | 12.8 | 3.1 | 9.7 | 312.9 % |
| **Loss before income tax recovery** | **(73.3)** | **(2.5)** | **(70.8)** | **2,832.0 %** |
| Income tax recovery | (18.5) | (0.6) | (17.9) | 2,983.3 % |
| **Net Loss** | **(54.8)** | **(1.9)** | **(52.9)** | **2,784.2 %** |
| **Adjusted Gross Profit[1]** | **177.1** | **158.5** | **18.6** | **11.7 %** |
| **Adjusted EBITDA[1]** | **18.6** | **30.6** | **(12.0)** | **(39.2)%** |
| **Adjusted Net (Loss) Income[1]** | **(19.5)** | **12.3** | **(31.8)** | **(258.5)%** |

### Revenue as compared to the same period in 2023:

The following table provides a summary of Spin Master's revenue by segment, for the three months ended March 31, 2024 and 2023:

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change | % Change |
|---|---|---|---|---|
| Toy Revenue | 226.4 | 186.3 | 40.1 | 21.5 % |
| Entertainment Revenue | 43.8 | 37.6 | 6.2 | 16.5 % |
| Digital Games Revenue | 46.0 | 47.5 | (1.5) | (3.2)% |
| **Revenue** | **316.2** | **271.4** | **44.8** | **16.5 %** |

Revenue was $316.2 million, an increase of $44.8 million or 16.5% primarily related to $40.4 million contributed from the inclusion of Melissa & Doug following the acquisition on January 2, 2024.

Toy Revenue increased by $40.1 million or 21.5% to $226.4 million primarily driven by an increase in Toy Gross Product Sales[1] due to the inclusion of Melissa & Doug. The Toy industry continues to be challenged by the macroeconomic environment causing reduced consumer discretionary spending. Entertainment Revenue increased by $6.2 million or 16.5% to $43.8 million. The increase was attributed to higher distribution revenue associated with on-going distribution of *PAW Patrol* series and *PAW Patrol: The Mighty Movie*, partially offset by lower licensing and merchandising revenue. Constant Currency Entertainment Revenue[1] increased by $6.2 million or 16.5% to $43.8 million, up from $37.6 million. Digital Games Revenue decreased by $1.5 million or 3.2% to $46.0 million due to lower in-game purchases in *Toca Life World*, partially offset by higher subscription revenue from both *Piknik* and *PAW Patrol Academy*. Constant Currency Digital Games Revenue[1] decreased by $1.6 million or 3.4% to $45.9 million, from $47.5 million.

**Gross Profit as compared to the same period in 2023:**

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change | % Change |
|---|---|---|---|---|
| Revenue | 316.2 | 271.4 | 44.8 | 16.5 % |
| Gross Profit | 156.5 | 158.5 | (2.0) | (1.3)% |
| **Gross Margin** | **49.5 %** | **58.4 %** | | **(8.9)%** |
| Gross Profit | 156.5 | 158.5 | (2.0) | (1.3)% |
| **Adjustments[1]:** | | | | |
| Fair value adjustment for inventories acquired[2] | 20.6 | — | 20.6 | n.m. |
| **Adjusted Gross Profit[3]** | **177.1** | **158.5** | **18.6** | **11.7 %** |
| **Adjusted Gross Margin[3]** | **56.0 %** | **58.4 %** | | **(2.4)%** |

[1] These adjustments relate to items recorded within Gross Profit.

[2] Relates to the fair value adjustment of Melissa & Doug's inventory sold recorded as part of the acquisition on January 2, 2024.

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

For the three months ended March 31, 2024, Gross Profit decreased by $2.0 million to $156.5 million, and Gross Margin decreased to 49.5% compared to 58.4%. For the three months ended March 31, 2024, Adjusted Gross Profit[1] increased by $18.6 million to $177.1 million. Adjusted Gross Margin[1] decreased to 56.0% from 58.4%.

Gross Profit decreased by $2.0 million for the three months ended March 31, 2024 primarily due to the Toys and Digital Games segments, partially offset by the Entertainment segment. The lower Gross Profit from the Toys segment was primarily driven by a change in market and customer mix and higher sales allowances, partially offset by favourable foreign exchange. The positive contribution from the inclusion of Melissa & Doug in the Toys segment was offset by the inventory fair value adjustment recognized in the quarter as described below. The decrease in the Digital Games segment was mainly due to lower in game purchases in *Toca Life World*. The increase in the Entertainment segment was driven by higher distribution revenue associated with on-going distribution of *PAW Patrol* series and *PAW Patrol: The Mighty Movie* partially offset by a decline in licensing and merchandising revenue.

The Company acquired $179.6 million of inventories as part of the Melissa & Doug acquisition, of which $66.3 million relates to the inventory fair value adjustment, representing the difference between inventory cost and its fair value. The inventory fair value adjustment is recognized as an expense in cost of sales as the related inventories are sold. For the three months ended March 31, 2024, the Company recognized $20.6 million of the inventory fair value adjustment (refer to "Acquisition of Melissa & Doug" section) in cost of sales for the Toys segment, which impacted Gross Profit and Gross Margin realized in the quarter.

Gross Margin decreased to 49.5% compared to 58.4% for the three months ended March 31, 2024 primarily as a result of a decrease in the Toys segment due to the inventory fair value adjustment recognized in the quarter, a change in market and customer mix and higher sales allowances partially offset by the margin accretive contribution of Melissa & Doug to the Toys segment. In addition, Gross Margin was also impacted by a decrease in the Entertainment segment due to lower licensing and merchandising revenue and the dilutive effect of Entertainment content deliveries, partially offset by higher distribution revenue associated with on-going distribution of *PAW Patrol* series and *PAW Patrol: The Mighty Movie*.

Excluding the impact of the inventory fair value adjustment for the three months ended March 31, 2024, Adjusted Gross Profit[1] increased by $18.6 million primarily due to the inclusion of Melissa & Doug. Adjusted Gross Margin[1] decreased to 56.0%, primarily as a result of decreases in the Toys and Entertainment segments as discussed above.

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

**Selling, General and Administrative Expenses ("SG&A") and Adjusted SG&A[1] as compared to the same period in 2023:**

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change | % Change |
|---|---|---|---|---|
| Administrative | 123.7 | 88.3 | 35.4 | 40.1 % |
| Marketing | 31.0 | 24.3 | 6.7 | 27.6 % |
| Selling | 16.4 | 16.4 | — | — % |
| Distribution | 19.0 | 14.0 | 5.0 | 35.7 % |
| Product development | 7.6 | 6.3 | 1.3 | 20.6 % |
| **SG&A** | **197.7** | **149.3** | **48.4** | **32.4 %** |
| **Adjustments[1]:** | | | | |
| Restructuring and other related costs[2] | (3.0) | (3.8) | 0.8 | (21.1)% |
| Share based compensation[3] | (6.1) | (5.4) | (0.7) | 13.0 % |
| Impairment of property, plant and equipment[4] | — | — | — | n.m |
| Transaction and integration costs[4] | (15.0) | (0.6) | (14.4) | 2,400.0 % |
| **Adjusted SG&A[5]** | **173.6** | **139.5** | **34.1** | **24.4 %** |
| | | | | |
| **Revenue** | **316.2** | **271.4** | **44.8** | **16.5 %** |
| **SG&A as a percentage of revenue** | **62.5 %** | **55.0 %** | | **7.5 %** |
| **Adjusted SG&A[5] as a percentage of revenue** | **54.9 %** | **51.4 %** | | **3.5 %** |

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

[2] Restructuring expense primarily relates to changes in personnel.

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

[4] Professional fees and integration costs incurred relating to acquisitions, including $9.5 million of transaction costs for the acquisition of Melissa and Doug.

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

SG&A increased by $48.4 million, or 32.4% to $197.7 million. The increase was driven by the inclusion of Melissa & Doug, transaction and integration costs, as well as higher Marketing and Product Development costs. SG&A as a percentage of revenue increased to 62.5% from 55.0%.

Adjusted SG&A increased by $34.1 million or 24.4% to $173.6 million and as a percentage of revenue increased to 54.9% from 51.4%, primarily driven by the inclusion of Melissa & Doug, which resulted in lower operating leverage for Administrative, Marketing, and Distribution expenses due to the seasonality of Melissa & Doug's business, which is more heavily weighted in the second half of the year.

Administrative expenses increased by $35.4 million or 40.1% to $123.7 million and as a percentage of revenue increased to 39.1% from 32.5%. The increase was due to the inclusion of Melissa & Doug and Transaction and integration costs incurred for the acquisition of Melissa & Doug.

Marketing expenses increased by $6.7 million or 27.6% to $31.0 million and as a percentage of revenue increased to 9.8% from 9.0%, due to the inclusion of Melissa & Doug and the higher spend in the Entertainment and Digital Games segments due to the promotion of new entertainment content and digital games releases.

Selling expenses were flat at $16.4 million. Selling expenses as a percentage of Toy revenue decreased to 7.2% from 8.8% due to a lower proportion of sales of partner licensed brands from the inclusion of Melissa & Doug.

Distribution expenses increased by $5.0 million or 35.7% to $19.0 million and as a percentage of Toy revenue increased to 8.4% from 7.5%, due to the inclusion of Melissa & Doug.

Product development expenses increased by $1.3 million or 20.6% to $7.6 million, due to higher development and design activities in the Toy and Entertainment segments.

**Depreciation and Amortization as compared to the same period in 2023:**

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change | % Change |
|---|---|---|---|---|
| **Property, plant and equipment** | | | | |
| Moulds, dies and tools, included in cost of sales | 5.5 | 5.2 | 0.3 | 5.8 % |
| Building and leasehold improvements | 1.7 | 1.3 | 0.4 | 30.8 % |
| Equipment | 2.1 | 0.5 | 1.6 | 320.0 % |
| Computer hardware | 1.8 | 0.2 | 1.6 | 800.0 % |
| Equipment, included in cost of sales | — | 0.1 | (0.1) | (100.0)% |
| | **11.1** | **7.3** | **3.8** | **52.1 %** |
| **Intangible assets** | | | | |
| Entertainment content development, included in cost of sales | 8.2 | 4.7 | 3.5 | 74.5 % |
| Trademarks, licenses, IP & customer lists - definite | 3.4 | 1.2 | 2.2 | 183.3 % |
| Digital games and app development, included in cost of sales | 1.3 | 1.3 | — | — % |
| Computer software | 0.6 | 0.4 | 0.2 | 50.0 % |
| | **13.5** | **7.6** | **5.9** | **77.6 %** |
| **Right-of-use assets** | **10.2** | **3.0** | 7.2 | 240.0 % |
| **Depreciation and amortization** | **34.8** | **17.9** | **16.9** | **94.4 %** |

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change | % Change |
|---|---|---|---|---|
| Included in cost of sales | 15.0 | 11.3 | 3.7 | 32.7 % |
| Included in expenses | 19.8 | 6.6 | 13.2 | 200.0 % |
| **Depreciation and amortization** | **34.8** | **17.9** | **16.9** | **94.4 %** |

For the three months ended March 31, 2024, depreciation and amortization increased by $16.9 million to $34.8 million primarily as a result of the property, plant and equipment, right-of-use assets, and intangible assets acquired through the Melissa & Doug acquisition and higher amortization of production costs for Entertainment content deliveries.

**Foreign Exchange (Gain) Loss as compared to the same period in 2023:**

For the three months ended March 31, 2024, the Company recognized a net foreign exchange gain of $0.4 million (comprised of an unrealized gain of $5.7 million and realized loss of $5.3 million) as compared to a net foreign exchange loss of $4.3 million (comprised of an unrealized loss of $0.6 million and realized loss of $3.7 million).

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

Effective January 1, 2024, the functional currency of Spin Master Ltd. ("SML"), a wholly-owned subsidiary of Spin Master Corp., changed from the Canadian dollar to the US$. The US$ was determined to be the functional currency of the primary economic environment in which SML operates, as the majority of the operational and financing activities are now denominated in or influenced by the US$. The change was made prospectively on January 1, 2024.

**Operating Loss and Adjusted Operating (Loss) Income[1] as compared to the same period in 2023:**

| (in US$ millions) | Q1 2024 | Q1 2023 | $ Change |
|---|---|---|---|
| **Operating Loss** | **(61.8)** | **(6.1)** | **(55.7)** |
| **Operating Margin** | **(19.5)%** | **(2.2)%** | |
| Adjustments: | | | |
| Fair value adjustment for inventories acquired[1] | 20.6 | — | 20.6 |
| Transaction and integration costs[2] | 16.7 | 0.6 | 16.1 |
| Share based compensation | 6.1 | 5.4 | 0.7 |
| Restructuring and other related costs | 3.0 | 3.8 | (0.8) |
| Amortization of intangible assets acquired | 1.7 | — | 1.7 |
| Acquisition related deferred incentive compensation | 1.5 | 2.1 | (0.6) |
| Impairment of property, plant and equipment | 0.3 | 0.2 | 0.1 |
| Foreign exchange (gain) loss | (0.4) | 4.3 | (4.7) |
| Legal settlement (recovery) expense | (0.6) | 0.2 | (0.8) |
| Acquisition related contingent consideration | (1.6) | — | (1.6) |
| Impairment of intangible assets | — | 1.2 | (1.2) |
| Impairment of goodwill | — | 1.0 | (1.0) |
| **Total Adjustments** | **47.3** | **18.8** | **28.5** |
| **Adjusted Operating (Loss) Income[3]** | **(14.5)** | **12.7** | **(27.2)** |
| **Adjusted Operating Margin[3]** | **(4.6)%** | **4.7 %** | |
| Depreciation and amortization | 33.1 | 17.9 | 15.2 |
| **Adjusted EBITDA[3]** | **18.6** | **30.6** | **(12.0)** |
| **Adjusted EBITDA Margin[3]** | **5.9 %** | **11.3 %** | |

[1] Relates to the fair value adjustment of Melissa & Doug's inventory sold recorded as part of the acquisition on January 2, 2024.

[2] Professional fees and integration costs incurred relating to acquisitions (including Melissa & Doug), including $9.5 million of transaction costs.

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

Operating Loss for the three months ended March 31, 2024 was $61.8 million, an increase of $55.7 million from $6.1 million. Operating Margin for the three months ended March 31, 2024 was (19.5)% compared to (2.2)%. The increase in Operating Loss and decrease in Operating Margin was primarily driven by the fair value adjustment for inventories acquired, transaction and integration costs, the inclusion of Melissa & Doug, and higher depreciation and amortization.

Adjusted Operating Loss[1] for the three months ended March 31, 2024 was $14.5 million, a decrease of $27.2 million from Adjusted Operating Income[1] $12.7 million. Adjusted Operating Margin[1] was (4.6)% compared to 4.7%. The increase in Adjusted Operating Loss[1] was primarily driven by an increase in Toys Adjusted Operating Loss[1] of $22.8 million, a decrease in Digital Games Adjusted Operating Income[1] of $3.8 million, and a decrease in Entertainment Adjusted Operating Income[1] of $0.8 million.

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

**Adjusted EBITDA[1] as compared to the same period in 2023:**

| | Adjusted EBITDA[1] | | | | Adjusted EBITDA Margin[1] | |
|---|---|---|---|---|---|---|
| **(US$ millions)** | **Q1 2024** | **Q1 2023** | **$ Change** | **% Change** | **Q1 2024** | **Q1 2023** |
| Toys, excluding Melissa & Doug | (23.3) | (21.4) | (1.9) | 8.9 % | (12.5)% | (11.5)% |
| Melissa & Doug | (9.2) | — | — | n.m. | (22.8)% | — % |
| **Toys** | **(32.5)** | **(21.4)** | **(11.1)** | **51.9 %** | **(14.4)%** | **(11.5)%** |
| Entertainment | 36.4 | 33.6 | 2.8 | 8.3 % | 83.1 % | 89.4 % |
| Digital Games | 17.3 | 21.0 | (3.7) | (17.6)% | 37.6 % | 44.2 % |
| Corporate and Other | (2.6) | (2.6) | — | — % | n.m. | n.m. |
| **Adjusted EBITDA[1]** | **18.6** | **30.6** | **(12.0)** | **(39.2)%** | **5.9 %** | **11.3 %** |
| **Adjusted EBITDA, excluding Melissa & Doug[1]** | **27.8** | **30.6** | **(2.8)** | **(9.2)%** | **10.1 %** | **11.3 %** |

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

Adjusted EBITDA[1] for the three months ended March 31, 2024 was $18.6 million compared to $30.6 million. Adjusted EBITDA Margin[1] was 5.9% compared to 11.3%. The decrease in Adjusted EBITDA[1] was primarily driven by decreases in the Toys segment, due to the inclusion of Melissa & Doug and the Digital Games segment, partially offset by an increase in the Entertainment segment. Adjusted EBITDA Margin[1] declined primarily due to the increased weighting of the Toys segment as a result of the inclusion of Melissa & Doug, which has higher relative seasonality in the first quarter.

Adjusted EBITDA and Adjusted EBITDA Margin, excluding Melissa & Doug[1] was $27.8 million compared to $30.6 million, a decrease of $2.8 million and 10.1% compared to 11.3%, a decline of 120 bps. The decrease in Adjusted EBITDA, excluding Melissa & Doug[1] was driven by declines in the Digital Games and Toys segments, partially offset by increases in the Entertainment segment. The Digital Games segment declined due to lower revenue and higher marketing expenses due to the promotion of new Digital Games releases. The Toys segment declined due to lower Gross Profit partially offset by a decrease in selling and marketing expenses. The Entertainment segment increased due to higher Revenue.

**Interest Income and Interest Expense as compared to the same period in 2023:**
Interest income includes interest earned on cash and cash equivalents held by the Company. Interest expense includes bank fees, financing charges, interest on loans and borrowing and accretion expense and the amortization of facility fees.

For the three months ended March 31, 2024, interest expense was $12.8 million, an increase of $9.7 million from $3.1 million primarily due to interest expense on loans and borrowings. Interest income was $1.3 million, a decrease of $5.4 million from $6.7 million in the prior year, a result of lower cash balances held during the period.

**Income Tax Recovery as compared to the same period in 2023:**
For the three months ended March 31, 2024, income tax recovery was $18.5 million compared to $0.6 million. The effective tax rate was 25.2% compared to 24.0%.

**Net Loss and Adjusted Net (Loss) Income[1] as compared to the same period in 2023:**
Net Loss for the three months ended March 31, 2024 was $54.8 million or $(0.53) per share, a decrease of $52.9 million from $1.9 million or $(0.02) per share. The increase in Net Loss was primarily driven by lower Gross Profit. Adjusted Net Loss[1] for the three months ended March 31, 2024 was $19.5 million or $(0.19) per share, a decrease of $31.8 million from Adjusted Net Income[1] of $12.3 million or $0.12 per share (diluted).

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

### Segmented Results

The Company's reportable segments are: Toys, Entertainment and Digital Games. The Company's results from operations by reportable segment for the three months ended March 31, 2024 and 2023 are as follows:

| (US$ millions) | Q1 2024 | | | | | Q1 2023 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Toys | Entertainment | Digital Games | Corporate & Other[1] | Total | Toys | Entertainment | Digital Games | Corporate & Other [1] | Total |
| **Revenue** | 226.4 | 43.8 | 46.0 | — | 316.2 | 186.3 | 37.6 | 47.5 | — | 271.4 |
| **Operating (Loss) Income** | **(90.8)** | **28.6** | **13.2** | **(12.8)** | **(61.8)** | **(41.8)** | **29.3** | **16.2** | **(9.8)** | **(6.1)** |
| **Adjusting items:** | | | | | | | | | | |
| Fair value adjustment for inventories acquired[2] | 20.6 | — | — | — | 20.6 | — | — | — | — | — |
| Transaction and integration costs[3] | 6.2 | — | — | 10.5 | 16.7 | — | — | — | 0.6 | 0.6 |
| Share based compensation | 4.2 | 0.4 | 0.8 | 0.7 | 6.1 | 3.4 | 0.3 | 0.6 | 1.1 | 5.4 |
| Restructuring and other related costs | 2.4 | 0.1 | 0.5 | — | 3.0 | 3.1 | 0.1 | 0.6 | — | 3.8 |
| Amortization of intangible assets acquired | 1.7 | — | — | — | 1.7 | — | — | — | — | — |
| Acquisition related deferred incentive compensation | 0.8 | — | 0.7 | — | 1.5 | 0.7 | — | 1.4 | — | 2.1 |
| Impairment of property, plant and equipment | 0.3 | — | — | — | 0.3 | 0.2 | — | — | — | 0.2 |
| Foreign exchange (gain) loss | — | — | — | (0.4) | (0.4) | — | — | — | 4.3 | 4.3 |
| Legal settlement (recovery) expense | — | — | — | (0.6) | (0.6) | — | — | — | 0.2 | 0.2 |
| Acquisition related contingent consideration | (1.6) | — | — | — | (1.6) | — | — | — | — | — |
| Impairment of goodwill | — | — | — | — | — | 1.0 | — | — | — | 1.0 |
| Impairment of intangible assets | — | — | — | — | — | — | 0.2 | 0.2 | 0.8 | 1.2 |
| **Adjusted Operating (Loss) Income[4]** | **(56.2)** | **29.1** | **15.2** | **(2.6)** | **(14.5)** | **(33.4)** | **29.9** | **19.0** | **(2.8)** | **12.7** |
| **Adjusted Operating Margin[4]** | **(24.8)%** | **66.4%** | **33.0%** | **n.m.** | **(4.6)%** | **(17.9)%** | **79.5%** | **40.0%** | **n.m.** | **4.7%** |
| Depreciation and amortization[5] | 23.7 | 7.3 | 2.1 | — | 33.1 | 12.0 | 3.7 | 2.0 | 0.2 | 17.9 |
| **Adjusted EBITDA[4]** | **(32.5)** | **36.4** | **17.3** | **(2.6)** | **18.6** | **(21.4)** | **33.6** | **21.0** | **(2.6)** | **30.6** |
| **Adjusted EBITDA Margin[4]** | **(14.4)%** | **83.1%** | **37.6%** | **n.m.** | **5.9%** | **(11.5)%** | **89.4%** | **44.2%** | **n.m.** | **11.3%** |

[1] Corporate & Other includes certain corporate costs, foreign exchange, transaction and integration costs and merger and acquisition-related costs, as well as fair value gains and losses.

[2] Relates to the fair value adjustment of Melissa & Doug's inventory sold recorded as part of the acquisition on January 2, 2024.

[3] Professional fees and integration costs incurred relating to acquisitions, including $9.5 million of transaction costs for the acquisition of Melissa and Doug.

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

[5] Depreciation and amortization for the calculation of Adjusted EBITDA excludes $1.7 million (Q1 2023 - $nil) of amortization of intangible assets acquired with Melissa & Doug.

## Toys Segment Results

The following table provides a summary of Toys segment operating results for the three months ended March 31, 2024 and 2023:

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change | % Change |
|---|---|---|---|---|
| Toy Gross Product Sales[1, 2] | 264.1 | 216.3 | 47.8 | 22.1 % |
| Toy Revenue | 226.4 | 186.3 | 40.1 | 21.5 % |
| Toys Operating Loss | (90.8) | (41.8) | (49.0) | 117.2 % |
| Toys Operating Margin | (40.1)% | (22.4)% | | (17.7)% |
| Toys Adjusted EBITDA[1] | (32.5) | (21.4) | (11.1) | (51.9)% |
| Toys Adjusted EBITDA Margin[1] | (14.4)% | (11.5)% | | (2.9)% |
| **Selected Cash Flow Data** | | | | |
| Toys capital expenditures | 9.2 | 7.8 | 1.4 | 17.9 % |

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

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

Toy Revenue increased by $40.1 million or 21.5% to $226.4 million primarily driven by an increase in Toy Gross Product Sales[1]. Toy Gross Product Sales[1] increased by $47.8 million or 22.1%, to $264.1 million from $216.3 million due to the inclusion of Melissa & Doug. Constant Currency Toy Gross Product Sales[1] increased by $46.1 million or 21.3% to $262.4 million, compared to $216.3 million. Toy Gross Product Sales, excluding Melissa & Doug[1] was $217.4 million, an increase of $1.1 million or 0.5% from $216.3 million. The Toy industry continues to be challenged by the macroeconomic environment causing reduced consumer discretionary spending.

Toys Operating Loss was $90.8 million compared to $41.8 million representing a decrease of $49.0 million. Toys Operating Margin was (40.1)% compared to (22.4)%. Toys Adjusted EBITDA[1] decreased by $11.1 million to $(32.5) million. Toys Adjusted EBITDA Margin[1] was (14.4)% compared to (11.5)%. The decrease in Toys Operating Margin and Toys Adjusted EBITDA Margin[1] was driven by an increase in administrative expenses with the inclusion of Melissa & Doug resulting in lower operating leverage achieved due to higher relative seasonality impact in the first quarter, a change in market and customer mix and an increase in sales allowances partially offset by a decrease in selling expenses due to a lower proportion of sales of partner licensed brands resulting from the inclusion of Melissa & Doug.

Toys capital expenditures increased by $1.4 million to $9.2 million, primarily as a result of higher investments in equipment.

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

**Toy Revenue**

**For the three months ended March 31, 2024 as compared to the same period in 2023:**

The following table provides a summary of Spin Master's Toy revenue, including Toy Gross Product Sales[1] by product category, for the three months ended March 31, 2024 and 2023:

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change | % Change |
|---|---|---|---|---|
| Preschool, Infant & Toddler and Plush[1] | 122.8 | 82.6 | 40.2 | 48.7 % |
| Activities, Games & Puzzles and Dolls & Interactive | 80.5 | 62.6 | 17.9 | 28.6 % |
| Wheels & Action | 40.7 | 43.7 | (3.0) | (6.9)% |
| Outdoor | 20.1 | 27.4 | (7.3) | (26.6)% |
| **Toy Gross Product Sales[2]** | **264.1** | **216.3** | **47.8** | **22.1 %** |
| Sales Allowances[3] | (38.2) | (30.0) | (8.2) | 27.3 % |
| *Sales Allowances % of Toy Gross Product Sales[2]* | *14.5 %* | *13.9 %* | | *0.6 %* |
| **Toy Net Sales** | **225.9** | **186.3** | **39.6** | **21.3 %** |
| Toy - Other Revenue | **0.5** | **—** | **0.5** | **n.m.** |
| **Toy Revenue** | **226.4** | **186.3** | | |

[1] Revenue from Melissa & Doug is included within the Preschool, Infant & Toddler and Plush product categories beginning from the date of acquisition.

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

[3] The Company enters into arrangements to provide sales allowances requested by customers relating to cooperative advertising, contractual and negotiated discounts, volume rebates, and costs incurred by customers to sell the Company's products.

Effective January 1, 2024, the Company has changed its product categories to align with the Company's product offerings going forward: (1) Preschool, Infant & Toddler and Plush; (2) Activities, Games & Puzzles and Dolls & Interactive; (3) Wheels & Action; and (4) Outdoor (Refer to Addendum section for more details).

Preschool, Infant & Toddler and Plush increased by $40.2 million or 48.7% to $122.8 million, primarily driven by the inclusion of Melissa & Doug, *PAW Patrol* and *GUND*, partially offset by *Gabby's Dollhouse.*

Activities, Games & Puzzles and Dolls & Interactive increased by $17.9 million or 28.6% to $80.5 million, led by *Bitzee,* increases in *Kinetic Sand* and Games & Puzzles portfolio partially offset by declines in Purse Pets.

Wheels & Action decreased by $3.0 million or 6.9% to $40.7 million, mainly due to declines in *Bakugan* and *DC,* offset in part by an increase in *Monster Jam* and *HEXBUG*.

Outdoor decreased by $7.3 million or 26.6% to $20.1 million, primarily driven by *SwimWays*.

Sales Allowances increased by $8.2 million to $38.2 million. As a percentage of Toy Gross Product Sales[1], Sales Allowances increased to 14.5% from 13.9%, primarily driven by geographic market mix and continued pressure on consumer discretionary spending, driving promotional activity.

*Revenue by Geographic Area*

Toy Gross Product Sales[1] by geographical area are based on the location of the customers. The following table provides a summary of Spin Master's Toy Gross Product Sales[1] by geographic area for the three months ended March 31, 2024 and 2023:

| | Q1 2024 | | Q1 2023 | | Change | |
|---|---|---|---|---|---|---|
| **(US$ millions)** | **$** | **% of GPS** | **$** | **% of GPS** | **$** | **% of GPS** |
| North America | 154.6 | 58.6 % | 105.5 | 48.8 % | 49.1 | 9.8 % |
| Europe | 74.3 | 28.1 % | 76.0 | 35.1 % | (1.7) | (7.0)% |
| Rest of World | 35.2 | 13.3 % | 34.8 | 16.1 % | 0.4 | (2.8)% |
| International | 109.5 | 41.4 % | 110.8 | 51.2 % | (1.3) | (9.8)% |
| **Toy Gross Product Sales[1]** | **264.1** | **100.0 %** | **216.3** | **100.0 %** | **47.8** | |
| Sales Allowances | (38.2) | (14.5)% | (30.0) | (13.9)% | (8.2) | (0.6)% |
| **Toy Net Sales** | **225.9** | | **186.3** | | **39.6** | |
| Toy - Other Revenue | 0.5 | | — | | 0.5 | |
| **Toy Revenue** | **226.4** | | **186.3** | | | |

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

As a percentage of Toy Gross Product Sales[1], North America increased to 58.6% compared to 48.8%. International sales, comprised of Europe and Rest of World, decreased to 41.4% compared to 51.2%.

North America increased by $49.1 million or 46.5% to $154.6 million. The increase was driven primarily by the inclusion of Melissa & Doug, *Kinetic Sand*, *Monster Jam* and *Bitzee*, partially offset by *SwimWays* and *Gabby's Dollhouse.*

Europe decreased by $1.7 million or 2.2% to $74.3 million, which includes a favourable foreign exchange impact of $1.2 million. The decrease was mainly driven by *Bakugan*, *Gabby's Dollhouse* and *Purse Pets partially* offset by *Bitzee* and the inclusion of Melissa & Doug.

Rest of World increased by $0.4 million or 1.1% to $35.2 million, which includes a favourable foreign exchange impact of $0.5 million.

**Toys Segment Trend Analysis**

| **(US$ millions)** | **Q1 2024** | **Q4 2023** | **Q3 2023** | **Q2 2023** | **Q1 2023** | **Q4 2022** | **Q3 2022** | **Q2 2022** |
|---|---|---|---|---|---|---|---|---|
| Toy Gross Product Sales[1] | 264.1 | 502.3 | 678.6 | 390.0 | 216.3 | 479.2 | 617.7 | 484.4 |
| Toy Revenue | 226.4 | 406.8 | 601.5 | 346.3 | 186.3 | 396.7 | 552.4 | 437.6 |
| Toys Operating (Loss) Income | (90.8) | (30.0) | 149.0 | 23.8 | (41.8) | (43.3) | 109.4 | 62.6 |
| Toys Operating Margin | (40.1)% | (7.4)% | 24.8% | 6.9% | (22.4)% | (10.9)% | 19.8% | 14.3% |
| Toys Adjusted EBITDA[1] | (32.5) | 19.3 | 166.8 | 47.7 | (21.4) | (24.4) | 126.9 | 83.2 |
| Toys Adjusted EBITDA Margin[1] | (14.4)% | 4.7% | 27.7% | 13.8% | (11.5)% | (6.2)% | 23.0% | 19.0% |
| **Selected Cash Flow and Balance Sheet Data** | | | | | | | | |
| Toys capital expenditures | 9.2 | 7.2 | 7.3 | 12.3 | 7.8 | 7.5 | 7.9 | 9.8 |
| Moulds, dies and tools, net carrying amount[2] | 23.4 | 19.2 | 20.4 | 21.7 | 20.0 | 19.2 | 19.5 | 23.5 |

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

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

Toy Revenue seasonality factors cause the Company's operating results to fluctuate from quarter to quarter. Toy Revenue is historically concentrated in the third and fourth quarters of each fiscal year, with the proportional Toys Operating Income earned and cash flows generated during the same period.

Additionally:

- Melissa & Doug is included in the Toys segment effective in Q1 2024.
- In 2022, a higher proportion of Toy Gross Product Sales[1] shifted into the first and second quarters from the third and fourth quarters as retailers ordered earlier in the year to minimize the then anticipated supply chain disruptions. The third and fourth quarters of 2022 were also pressured by the macroeconomic environment, particularly from higher inflation compounded by foreign exchange volatility and a carry-over of inventory at retailers from the first half of 2022. These factors resulted in a strong first half of 2022 with Toy Gross Product Sales[1] representing 45 percent of 2022 annual Toy Gross Product Sales[1] compared to 30%-35% typically.
- Toy Gross Product Sales[1] in the first half of 2023 was lower than 2022 due to lower sales volumes as retailers focused on decreasing their retail inventory carried over from Q4 2022.

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

### Entertainment Segment Results

The following table provides a summary of the Entertainment segment's operating results for the three months ended March 31, 2024 and 2023:

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change | % Change |
|---|---|---|---|---|
| Entertainment revenue | 43.8 | 37.6 | 6.2 | 16.5 % |
| Entertainment Operating Income | 28.6 | 29.3 | (0.7) | (2.4)% |
| Entertainment Operating Margin | 65.3 % | 77.9 % | | (12.6)% |
| Entertainment Adjusted Operating Income[1] | 29.1 | 29.9 | (0.8) | (2.7)% |
| Entertainment Adjusted Operating Margin[1] | 66.4 % | 79.5 % | | (13.1)% |
| **Selected Cash Flow Data** | | | | |
| Entertainment capital expenditures | 7.8 | 18.4 | (10.6) | (57.6)% |

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

Entertainment revenue increased by $6.2 million or 16.5% to $43.8 million, from higher distribution revenue associated with on-going distribution of *PAW Patrol* series and *PAW Patrol: The Mighty Movie*, partially offset by lower licensing and merchandising revenue. Constant Currency Entertainment Revenue[1] increased by $6.2 million or 16.5% to $43.8 million, up from $37.6 million.

Entertainment Operating Income decreased by $0.7 million or 2.4% to $28.6 million. Entertainment Operating Margin was 65.3% compared to 77.9%. Entertainment Adjusted Operating Income[1] decreased by $0.8 million to $29.1 million compared to $29.9 million, from higher amortization of production costs and promotion costs for Entertainment content, partially offset by higher distribution revenue.

Entertainment Adjusted Operating Margin[1] was 66.4% compared to 79.5%, from lower licensing and merchandising revenue and the dilutive effect of Entertainment content deliveries, partially offset by higher distribution revenue.

Entertainment capital expenditures decreased by $10.6 million to $7.8 million, primarily due to lower content development production costs capitalized for *Bakugan* in the prior year.

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

### Entertainment Segment Trend Analysis

| (US$ millions) | Q1 2024 | Q4 2023 | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 |
|---|---|---|---|---|---|---|---|---|
| Entertainment revenue[1] | 43.8 | 55.2 | 63.4 | 33.9 | 37.6 | 31.2 | 37.0 | 28.4 |
| Entertainment Operating Income | 28.6 | 9.7 | 23.3 | 15.7 | 29.3 | 19.1 | 28.9 | 17.5 |
| Entertainment Operating Margin | 65.3% | 17.6% | 36.8% | 46.3% | 77.9% | 61.2% | 78.1% | 61.6% |
| Entertainment Adjusted Operating Income[2] | 29.1 | 10.5 | 24.0 | 16.3 | 29.9 | 20.5 | 29.2 | 18.0 |
| Entertainment Adjusted Operating Margin[2] | 66.4% | 19.0% | 37.9% | 48.1% | 79.5% | 65.7% | 78.9% | 63.4% |
| **Selected Cash Flow and Balance Sheet Data** | | | | | | | | |
| Entertainment capital expenditures | 7.8 | 9.7 | 13.1 | 10.9 | 18.4 | 11.9 | 21.3 | 14.9 |
| Entertainment content development, net carrying amount[3] | 49.7 | 48.3 | 68.8 | 90.8 | 90.5 | 77.1 | 57.4 | 41.3 |

[1] Q3 2023 and Q4 2023 include Entertainment revenue associated with the theatrical release of *PAW Patrol: The Mighty Movie*.

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

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

Entertainment segment results fluctuate from quarter to quarter as licensing and merchandising and distribution revenue are dependent on the number and timing of film and television programs delivered as well as the timing and level of success achieved of associated merchandise licensed in the market, which cannot be predicted with certainty.

Additionally:

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

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

**Digital Games Segment Results**

The following table provides a summary of the Digital Games segment's operating results for the three months ended March 31, 2024 and 2023:

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change | % Change |
|---|---|---|---|---|
| Digital Games revenue | 46.0 | 47.5 | (1.5) | (3.2)% |
| Digital Games Operating Income | 13.2 | 16.2 | (3.0) | (18.5)% |
| Digital Games Operating Margin | 28.7 % | 34.1 % | | (5.4)% |
| Digital Games Adjusted Operating Income[1] | 15.2 | 19.0 | (3.8) | (20.0)% |
| Digital Games Adjusted Operating Margin[1] | 33.0 % | 40.0 % | | (7.0)% |
| **Selected Cash Flow Data** | | | | |
| Digital Games capital expenditures | 7.9 | 3.9 | 4.0 | 102.6 % |

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

Digital Games revenue declined by $1.5 million or 3.2% to $46.0 million, primarily due to lower in-game purchases in *Toca Life World*, offset in part by higher subscription revenue from both *Piknik* and *PAW Patrol Academy*. Constant Currency Digital Games Revenue decreased by $1.6 million or 3.4% to $45.9 million, down from $47.5 million.

Digital Games Operating Income decreased by $3.0 million or 18.5% to $13.2 million. Digital Games Adjusted Operating Income[1] decreased by $3.8 million or 20.0% to $15.2 million from $19.0 million.

Digital Games Operating Margin decreased from 34.1% to 28.7%. Digital Games Adjusted Operating Margin[1] decreased from 40.0% to 33.0%. The decrease in Digital Games Operating Income, Digital Games Adjusted Operating Income[1], Digital Games Operating Margin and Digital Games Adjusted Operating Margin[1] was due to a decline in revenue and higher marketing costs related to *Piknik* and *PAW Patrol Academy*.

Digital Games capital expenditures were $7.9 million compared to $3.9 million, an increase of $4.0 million or 102.6%, from higher development costs for *Toca Days, Unicorn Academy, Rubik's, PAW Patrol Academy* and *Toca Life World*.

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

**Digital Games Segment Trend Analysis**

| (US$ millions) | Q1 2024 | Q4 2023 | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 |
|---|---|---|---|---|---|---|---|---|
| Digital Games revenue | 46.0 | 40.6 | 45.3 | 40.5 | 47.5 | 37.9 | 34.6 | 40.3 |
| Digital Games Operating Income | 13.2 | 9.7 | 13.6 | 9.6 | 16.2 | 10.1 | 8.2 | 8.4 |
| Digital Games Operating Margin | 28.7 % | 23.9 % | 30.0 % | 23.7 % | 34.1 % | 26.6% | 23.7% | 20.8% |
| Digital Games Adjusted Operating Income[1] | 15.2 | 10.8 | 15.5 | 12.8 | 19.0 | 12.3 | 10.0 | 10.0 |
| Digital Games Adjusted Operating Margin[1] | 33.0 % | 26.6% | 34.2% | 31.6% | 40.0 % | 32.5% | 28.9% | 24.8% |
| **Selected Cash Flow and Balance Sheet Data** | | | | | | | | |
| Digital Games capital expenditures | 7.9 | 6.7 | 5.0 | 5.1 | 3.9 | 3.9 | 2.9 | 2.8 |
| Digital Games development, net carrying amount[2] | 36.4 | 31.5 | 25.3 | 22.0 | 19.4 | 17.1 | 14.6 | 14.2 |

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

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

Digital Games segment results fluctuated from quarter to quarter. Digital Games revenue tracks the play patterns of its target audience. For games that have a target audience of ages 6-12, the traditional seasonality peaks in both engagement and revenue during school holidays. For pre-school offering, there is less seasonal impact as the purchase decision is typically driven by the parent rather than the child. Digital Games revenue is typically higher during traditional vacation periods and when new content is launched in each fiscal year, with proportionate Digital Games Operating Income and cash flows generated during the same period. Digital Games Operating and Digital Games Adjusted Operating Margins[1] fluctuate between quarters due to the timing of product development and personnel related costs. Quarters with higher Digital Games revenue will also drive operating leverage, leading to higher Operating Margins.

In 2023 and 2024, Digital Games capital expenditure and development costs as well as the net carrying amount of intangibles assets increased primarily due to the capitalized costs for the development of a number of new games including *Toca Days, Paw Patrol Academy, Toca Life World, Rubik's Match* and *Unicorn Academy*.

**Corporate & Other for the three months ended March 31, 2024 as compared to the same period in 2023:**

For the three months ended March 31, 2024**,** Operating Loss for Corporate & Other was $12.8 million, an increase of $3.0 million compared to an Operating Loss of $9.8 million, primarily related to transaction and integration costs incurred for the acquisition of Melissa & Doug, offset by foreign exchange gain of $0.4 million compared to a foreign exchange loss of $4.3 million. Adjusted Operating Loss[1] was $2.6 million compared to $2.8 million.

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

## INVESTMENTS AND ACQUISITIONS

***Prior year acquisitions***

***Acquisition of certain assets from 4D Brands International Inc.***

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

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

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

***Acquisition of certain assets from Innovation First International, Inc.***

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

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

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

***Spin Master Ventures***

Spin Master Ventures ("SMV") focus is to accelerate growth by making minority investments in companies operating in each of the Company’s three creative centres comprising Toys, Entertainment and Digital Games. Spin Master has initially allocated $100 million of capital to SMV, to be funded from existing internal resources. As at March 31, 2024, the carrying value of the minority interest and other investments was $11.3 million.

## SELECTED QUARTERLY FINANCIAL INFORMATION

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

| (in US$ millions, except EPS) | Q1 2024 | Q4 2023 | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 316.2 | 502.6 | 710.2 | 420.7 | 271.4 | 465.8 | 624.0 | 506.3 |
| Operating (Loss) Income | (61.8) | (36.6) | 197.2 | 34.4 | (6.1) | (24.0) | 187.4 | 118.2 |
| Operating Margin | (19.5)% | (7.3)% | 27.8% | 8.2% | (2.2)% | (5.2)% | 30.0% | 23.3% |
| Adjusted Operating (Loss) Income[1] | (14.5) | 23.2 | 190.2 | 62.6 | 12.7 | (5.5) | 151.8 | 97.6 |
| Adjusted Operating Margin[1] | (4.6)% | 4.6% | 26.8% | 14.9% | 4.7% | (1.2)% | 24.3% | 19.3% |
| Net (Loss) Income | (54.8) | (30.1) | 155.4 | 28.0 | (1.9) | (13.8) | 141.4 | 88.1 |
| Basic EPS | $(0.53) | $(0.29) | $1.50 | $0.27 | $(0.02) | $(0.13) | $1.37 | $0.86 |
| Diluted EPS | $(0.53) | $(0.29) | $1.45 | $0.26 | $(0.02) | $(0.13) | $1.33 | $0.83 |
| Adjusted EBITDA[1] | 18.6 | 64.9 | 234.9 | 88.4 | 30.6 | 12.4 | 167.6 | 113.7 |
| Adjusted EBITDA Margin[1] | 5.9% | 12.9% | 33.1% | 21.0% | 11.3% | 2.7% | 26.9% | 22.5% |
| Adjusted Net (Loss) Income[1] | (19.5) | 20.5 | 143.60 | 48.8 | 12.3 | — | 114.4 | 72.4 |
| Adjusted Basic EPS[1] | $(0.19) | $0.20 | $1.39 | $0.47 | $0.12 | $— | $1.11 | $0.70 |
| Adjusted Diluted EPS[1] | $(0.19) | $0.19 | $1.34 | $0.45 | $0.12 | $— | $1.08 | $0.68 |
| **Balance Sheet and Cash Flow** | | | | | | | | |
| Cash and cash equivalents | 205.5 | 705.7 | 650.7 | 554.9 | 569.3 | 644.3 | 674.9 | 558.1 |
| Cash provided by (used in) operating activities | 24.3 | 67.9 | 144.3 | 19.1 | (4.3) | (6.8) | 207.3 | 111.6 |
| Cash used in investing activities | (980.4) | (23.3) | (25.1) | (30.3) | (56.6) | (28.2) | (42.3) | (30.4) |
| Free Cash Flow[1] | (0.6) | 44.3 | 118.9 | (5.9) | (34.4) | (30.1) | 175.3 | 84.1 |

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

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

- Revenue, Operating Income (Loss), Net Income (Loss), and cash flows generated are significantly affected by the seasonality factors of the Toys segment, with a higher concentration historically in the third and fourth quarters of each fiscal year. Melissa & Doug is included in the Toys segment effective in Q1 2024.
- In 2022, a higher proportion of Toy Gross Product Sales[1] shifted into the first and second quarters from the third and fourth quarters as retailers ordered earlier in the year to minimize the then anticipated supply chain disruptions. The third and fourth quarters of 2022 were also pressured by the macroeconomic environment, particularly from higher inflation compounded by foreign exchange volatility and a carry-over of inventory at retailers from the first half of 2022. These factors resulted in a strong first half of 2022 with Toy Gross Product Sales[1] representing 45 percent of 2022 annual Toy Gross Product Sales[1] compared to 30%-35% typically.
- Quarters with higher cash used in investing activities reflect higher capital expenditures across the operating segments as well as periods with investment or acquisition related activity.
    - In Q1 2024, the Company acquired all of the issued and outstanding capital stock in Melissa & Doug for total cash considerations of $991.7 million, including $36.2 million of cash acquired, which was funded with $466.7 million in cash and $525.0 million of debt.

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

- In Q1 2023, the Company acquired certain assets from 4D Brands International Inc. for total purchase considerations of $18.9 million which included $14.6 million of cash consideration and acquired certain assets from Innovation First, Inc. for total purchase consideration of $14.6 million ($12.9 million of cash consideration).
- In the Q3 2022, the Company acquired certain assets from SolidRoots LLC for total purchase considerations of $10.7 million ($8.5 million of cash consideration) and acquired the remaining shares of Nørdlight Games AB for total purchase considerations of $3.2 million which included $2.5 million of cash consideration.

**LIQUIDITY AND CAPITAL RESOURCES**

As at March 31, 2024, the Company had Cash of $205.5 million (December 31, 2023 - $705.7 million).

As at March 31, 2024, the Company had unutilized liquidity of $464.0 million, comprised of $205.5 million in Cash and $258.5 million under the Company's credit facilities.

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

The Company has a non-revolving credit facility (the "Acquisition Facility") for the acquisition of Melissa & Doug with a borrowing capacity of $225.0 million which matures on November 19, 2024, and contains certain financial covenants. The Acquisition Facility was used to fund the acquisition of Melissa & Doug LLC. Total financing costs of $0.8 million, which include Facility arrangement and agency fees and related legal fees, are recognized in Other assets and are being amortized over the term of the facility.

As at March 31, 2024, there was $1.5 million (December 31, 2023 - $1.5 million) in letters of credit outstanding under the Facility.

During the three months ended March 31, 2024, the Company repaid $50.0 million of the Facility. As at March 31, 2024, there was $250.0 million drawn (December 31, 2023 - $nil) under the Facility and $225.0 million drawn (December 31, 2023 - $nil) under the Acquisition Facility.

For the three months ended March 31, 2024, the weighted average interest rate on the Facility and the Acquisition Facility were both 6.6% (2023 - N/A).

The Company's Facility and Acquisition Facility bear interest at variable rates. As a result, the Company is exposed to interest rate cash flow risk due to fluctuations in lenders' base rates. The Company manages its interest rate risk by using a variable to fixed interest rate swap, where the Company pays the fixed interest rate. On March 27, 2024, the Company entered into four interest rate swaps with an aggregate notional principal of $140.0 million, effective on April 1, 2024, maturing in four tranches until December 31, 2025.

The Company has an uncommitted overdraft facility agreement (the "European Facility") for $15.9 million (equivalent to €15.0 million). The European Facility will be used, if needed, to fund working capital requirements in Europe. As at March 31, 2024, the outstanding balance was $nil (December 31, 2023 - $nil).

The Company has an uncommitted revolving credit facility to finance television and film production (the "Production Facility"). The limit of the credit facility is $7.4 million (equivalent to CA$10.0 million). As at March 31, 2024, the outstanding balance of the Production Facility was $nil (December 31, 2023 - $nil).

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

The Company paid its first quarterly dividend in the third quarter of 2022. The declaration and payment of dividends on the Company's subordinate voting shares and multiple voting shares and the amount thereof are at the discretion of the Company's Board of Directors, which considers the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Subsequent to March 31, 2024, the Company declared a quarterly dividend of CA$0.12 per outstanding subordinate voting share and multiple voting share.

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

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

**Short Form Base Shelf Prospectus**

The Company filed a short form base shelf prospectus dated April 12, 2024, pursuant to which, for a period of 25 months thereafter, the Company (and shareholders of the Company) may sell subordinate voting shares, preferred shares, debt securities, subscription receipts, warrants or any combination thereof as a unit. This filing provides the Company with the flexibility to access debt and equity markets on a timely basis.

The Company previously filed a short form base shelf prospectus dated November 2, 2021 for a period of 25 months.

**Capital and Investment Framework**

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

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

## CASH FLOW

The following table provides a summary of Spin Master's consolidated cash flows for the three months ended March 31, 2024 and 2023:

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change |
|---|---|---|---|
| Net cash flows provided by (used in) operating activities | 24.3 | (4.3) | 28.6 |
| Net cash flows used in investing activities | (980.4) | (56.6) | (923.8) |
| Net cash flows provided by (used in) financing activities | 457.2 | (14.8) | 472.0 |
| **Net (decrease) increase in cash (excluding the effect of foreign currency exchange rate changes on cash)** | **(498.9)** | **(75.7)** | **(423.2)** |
| Effect of foreign currency exchange rate changes on cash | (1.3) | 0.7 | (2.0) |
| Cash, beginning of period | 705.7 | 644.3 | 61.4 |
| **Cash, end of period** | **205.5** | **569.3** | **(363.8)** |

**Operating Activities as compared to the same period in 2023:**

Cash flows provided by operating activities were $24.3 million for the three months ended March 31, 2024 compared to cash flows used in operating activities of $4.3 million driven by the change in non-cash working capital (an increase of $70.1 million as compared to an increase of $5.4 million in the comparative period) and offset by lower Adjusted Operating Income[1].

The following table provides a summary of Spin Master's net changes in non-cash working capital for the three months ended March 31, 2024 as compared to the same period in 2023:

| | Three Months Ended Mar 31, | | |
|---|---|---|---|
| **(US$ millions)** | **2024** | **2023** | **$ Change** |
| **(Increase) decrease in:** | | | |
| Trade receivables, net | 227.0 | 111.5 | 115.5 |
| Other receivables | (3.6) | (7.4) | 3.8 |
| Inventories, net[1] | 5.5 | (2.3) | 7.8 |
| Prepaid expenses and other assets | (3.2) | (10.7) | 7.5 |
| Advances on royalties | (0.1) | (0.6) | 0.5 |
| | **225.6** | **90.5** | **135.1** |
| **Increase (decrease) in:** | | | |
| Trade payables and accrued liabilities | (154.4) | (79.4) | (75.0) |
| Deferred revenue | 1.7 | 2.7 | (1.0) |
| Provisions | (2.8) | (8.4) | 5.6 |
| | **(155.5)** | **(85.1)** | **(70.4)** |
| **Net changes in non-cash working capital** | **70.1** | **5.4** | **64.7** |

[1] Includes fair value adjustment to Melissa & Doug's inventory of $66.3 million recorded as part of the acquisition on January 2, 2024, net of fair value adjustment of Melissa & Doug's inventory sold of $20.6 million.

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

**Net Working Capital[1]**

The table below outlines key financial information pertaining to the Company's Net Working Capital[1]:

| (US$ millions) | Mar 31, 2024 | Dec 31, 2023 | $ Change |
|---|---|---|---|
| Trade receivables, net[1] | 285.9 | 414.4 | (128.5) |
| Other receivables[2] | 62.4 | 60.0 | 2.4 |
| Inventories, net[3] | 252.1 | 98.0 | 154.1 |
| Prepaid expenses and other assets | 44.7 | 40.9 | 3.8 |
| **Current assets** | **645.1** | **613.3** | **31.8** |
| Trade payables | 102.8 | 189.2 | (86.4) |
| Accrued liabilities[4] | 167.4 | 196.2 | (28.8) |
| Deferred revenue | 12.7 | 11.0 | 1.7 |
| Provisions | 28.0 | 32.1 | (4.1) |
| **Current liabilities** | **310.9** | **428.5** | **(117.6)** |
| **Net Working Capital[1]** | **334.2** | **184.8** | **149.4** |

[1] Trade receivables are net of allowance for doubtful accounts and provisions for sales allowances. Refer to Note 10 of the interim financial statements.

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

[3] Inventories are net of write-downs. Includes fair value adjustment to Melissa & Doug's inventory of $66.3 million recorded as part of the acquisition on January 2, 2024. Refer to Note 11 of the interim financial statements.

[4] Accrued liabilities are comprised of payroll related liabilities, accrued royalties, commodity tax, dividends payable, accrued liability for the automatic share purchase plan, restructuring liability and other balances. Refer to Note 16 of the interim financial statements.

Net Working Capital[1] increased by $149.4 million to $334.2 million at March 31, 2024 from $184.8 million. Excluding the impact of the net working capital acquired through the acquisition of Melissa & Doug and foreign exchange, total Net Working Capital[1] increased by $70.1 million.

Trade receivables, net, decreased by $128.5 million to $285.9 million at March 31, 2024 from $414.4 million, arising from the inclusion of Melissa & Doug, the timing of orders and shipments, change in geographic and customer mix of Toy Revenue and increased Entertainment revenue in the fourth quarter.

Other receivables increased by $2.4 million to $62.4 million at March 31, 2024 from $60.0 million, driven by an increase in Entertainment related investment tax credits receivables.

Inventories, net, increased by $154.1 million to $252.1 million at March 31, 2024 from $98.0 million, due to the inventories acquired from Melissa & Doug of $179.6 million (which includes the remaining inventory fair value adjustment of $45.7 million as at March 31, 2024).

Trade payables and accrued liabilities decreased by $115.2 million to $270.2 million at March 31, 2024 from $385.4 million, driven by the inclusion of Melissa & Doug and the timing of purchasing activity and payments.

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

**Investing Activities as compared to the same period in 2023:**

The following table provides a summary of Spin Master's consolidated cash flows used in investing activities for the three months ended March 31, 2024 and 2023:

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change |
|---|---|---|---|
| **Property, plant and equipment** | | | |
| Tooling | 5.6 | 5.7 | (0.1) |
| Other | 1.8 | 1.0 | 0.8 |
| **Total property, plant and equipment** | **7.4** | **6.7** | **0.7** |
| **Intangible assets** | | | |
| Entertainment content and Digital Games development | 17.0 | 21.9 | (4.9) |
| Computer software | 0.5 | 1.5 | (1.0) |
| **Total intangible assets** | **17.5** | **23.4** | **(5.9)** |
| **Total capital expenditures** | **24.9** | **30.1** | **(5.2)** |
| Business acquisitions, net of cash acquired | 955.5 | 26.5 | 929.0 |
| **Cash used in investing activities** | **980.4** | **56.6** | **923.8** |

Cash used in investing activities was $980.4 million for the three months ended March 31, 2024 compared to $56.6 million primarily as a result of the acquisition of Melissa & Doug.

**Financing Activities as compared to the same period in 2023:**

Cash flows provided by financing activities were $457.2 million for the three months ended March 31, 2024 compared to cash used in financing activities of $14.8 million primarily due to the proceeds of $525.0 million of debt comprised of $300.0 million from the Facility and $225.0 million from the Acquisition Facility, to finance the Melissa & Doug acquisition. During the three months ended March 31, 2024, the Company repaid $50.0 million towards the Facility (refer to the "Liquidity and Capital Resources" section for more details).

**Free Cash Flow[1] as compared to the same period in 2023:**

The following table provides a reconciliation of Spin Master's consolidated Free Cash Flow[1] to cash from operating activities and cash used in investing activities for the three months ended March 31, 2024 and 2023:

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change |
|---|---|---|---|
| Cash provided by (used in) operating activities | 24.3 | (4.3) | 28.6 |
| Cash used in investing activities | (980.4) | (56.6) | (923.8) |
| **Add:** | | | |
| Business acquisitions, net of cash acquired | 955.5 | 26.5 | 929.0 |
| **Free Cash Flow[1]** | **(0.6)** | **(34.4)** | **33.8** |

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

Free Cash Flow[1] was $(0.6) million for the three months ended March 31, 2024 compared to $(34.4) million, an increase of $33.8 million. Free Cash Flow[1] increased due to the change in non-cash working capital (an increase of $70.1 million as compared to an increase of $5.4 million in the comparative period) and offset by lower Adjusted Operating Income[1].

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

## OUTLOOK

The Company reiterated its previous guidance issued on February 28, 2024. The Company expects for 2024:

- Toy Gross Product Sales, excluding Melissa & Doug[1] to be in line with 2023.
- Toy Gross Product Sales, excluding Melissa & Doug[1] seasonality to be approximately 28% to 32% in the first half.
- Consolidated Revenue, excluding Melissa & Doug[1], to be in line with 2023.
- Adjusted EBITDA Margin, excluding Melissa & Doug[1] and Net Cost Synergies[2] realized to be in line with 2023.

The Company also reiterated its previous guidance issued on February 28, 2024. Incrementally, the Company expects for 2024:

- Melissa & Doug Toy Gross Product Sales[1] to contribute between $420 million to $430 million.
- Melissa & Doug Toy Gross Product Sales[1] seasonality to be approximately 20% to 25% in the first half.
- Melissa & Doug Revenue[1] to contribute between $370 million to $375 million.
- Melissa & Doug Adjusted EBITDA Margin[1] of approximately 19.5%.
- To achieve in addition approximately $6 million in Net Cost Synergies[2] towards the target of approximately $25 million to $30 million in Run-rate Net Cost Synergies[3] by the end of 2026.

## CONTRACTUAL OBLIGATIONS & COMMITMENTS

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

## OFF-BALANCE SHEET ARRANGEMENTS

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

## CAPITALIZATION

### Share Capital

As at May 7, 2024, there were 103.9 million shares outstanding comprised of 68.7 million multiple voting shares and 35.2 million subordinate voting shares.

As of May 7, 2024, pursuant to grants under the Company's Long-Term Incentive Plan, 1.6 million subordinate voting shares were issuable under outstanding Restricted Stock Units, up to 1.5 million subordinate voting shares were issuable under outstanding Performance Share Units (assuming vesting at a maximum of 200% for units with an outstanding performance period) and 0.5 million subordinate voting shares were issuable under outstanding Share Option grants.

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[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".
[2] Net Cost Synergies represent cost savings, net of costs to achieve, attributable to the integration of Melissa & Doug.
[3] Run-rate Net Cost Synergies represent the expected ongoing cost savings, net of costs to achieve, attributable to the integration of Melissa & Doug.

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

| Declaration Date | Record Date | Payment Date | Dividend per Share (CA$) | Dividends declared and accrued (in US$ millions) |
|---|---|---|---|---|
| May 7, 2024 | Jun 28, 2024 | Jul 12, 2024 | 0.12 | — |
| Feb 28, 2024 | Mar 29, 2024 | Apr 12, 2024 | 0.06 | 4.6 |
| Nov 1, 2023 | Dec 29, 2023 | Jan 12, 2024 | 0.06 | 4.6 |
| Aug 2, 2023 | Sep 29, 2023 | Oct 13, 2023 | 0.06 | 4.6 |
| May 3, 2023 | Jun 30, 2023 | Jul 14, 2023 | 0.06 | 4.7 |
| Mar 8, 2023 | Mar 31, 2023 | Apr 14, 2023 | 0.06 | 4.6 |
| Nov 2, 2022 | Dec 30, 2022 | Jan 13, 2023 | 0.06 | 4.6 |

During the three months ended March 31, 2024, dividends of $4.6 million (2023 - $4.6 million) were paid.

**Normal Course Issuer Bid**

On February 28, 2024, the Company launched, and the Toronto Stock Exchange ("TSX") accepted the notice to launch an NCIB. Under the NCIB, the Company can repurchase its subordinate voting shares on the open market at its discretion and subject to compliance with applicable securities laws. The NCIB period commenced on March 4, 2024, and will end on the earlier of March 3, 2025, and the completion of purchases under the NCIB, of up to 2,984,559 subordinate voting shares, which represented approximately 10% of the "public float" (within the meaning of the rules of the TSX) upon launch of the NCIB.

The following table summarizes the Company’s activities under the NCIB for the three months ended March 31, 2024:

| | Three Months Ended Mar 31, | |
|---|---|---|
| **(US$ millions)** | **2024** | **2023** |
| Subordinate voting shares repurchased under the NCIB for cancellation (number of shares) | 333,300 | 241,500 |
| Consideration | 8.4 | 6.3 |
| Reduction in share capital | 4.1 | 2.8 |
| Premium on repurchased and cancelled shares recorded in retained earnings | 4.3 | 3.5 |

From time to time, the Company participates in an automatic share purchase plan (“ASPP”) with its designated broker in order to facilitate the repurchase of subordinate voting shares. In the first quarter of 2024, the Company repurchased and cancelled 333,300 subordinate voting shares at a cost of $8.4 million, of which $5.1 million was paid and $3.3 million was paid subsequent to March 31, 2024. Subsequent to March 31, 2024, the Company repurchased a further 255,621 subordinate voting shares for cancellation at a cost of $6.3 million.

## RELATED PARTY TRANSACTIONS

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

For the three months ended March 31, 2024, related party transactions were included in administrative expenses in the Condensed consolidated interim statements of loss and comprehensive (loss) income of the Company in the amount of $0.3 million (2023 - $0.2 million). As at March 31, 2024, amounts payable to the director's law firm were $0.2 million (December 31, 2023 - $0.4 million).

Subsequent to March 31, 2024, the Company paid incentive compensation related liabilities of $1.5 million on behalf of three members of the Company's Board of Directors.

## CRITICAL ACCOUNTING ESTIMATES

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

For the three months ended March 31, 2024, there were no material changes to the critical accounting estimates of the Company from those reported in the annual MD&A and annual financial statements.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's Internal Control over Financial Reporting ("ICFR") during the three months ended March 31, 2024 which have materially affected, or are reasonably likely to materially affect, the Company's ICFR, except as noted below.

In accordance with the provisions of National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, the Company excluded Melissa & Doug from its evaluation of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"). Given the size and timing of the Melissa & Doug acquisition, the limitation in scope is primarily due to the time required to assess their DC&P and ICFR. The Company acquired Melissa & Doug on January 2, 2024.

For the three months ended March 31, 2024, Melissa & Doug's Revenue and Operating Loss were $40.4 million and $19.1 million, respectively. Additionally, as at March 31, 2024, Melissa & Doug's current assets and current liabilities were approximately 25% and 7% of Current Assets and Current Liabilities, respectively, and the Non-Current Assets and Non-Current Liabilities were approximately 37% and 21% of Non-Current Assets and Non-Current Liabilities, respectively.

## LIMITATIONS OF AN INTERNAL CONTROL SYSTEM

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

**NON-GAAP FINANCIAL MEASURES AND RATIOS**

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

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

Non-GAAP financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

Additionally, references are made in this MD&A to the following terms, each of which is a non-GAAP financial ratio:

- Adjusted EBITDA Margin
- Melissa & Doug Adjusted EBITDA Margin
- Adjusted EBITDA Margin, excluding Melissa & Doug
- Toys Adjusted EBITDA Margin
- Toys Adjusted EBITDA Margin, excluding Melissa & Doug
- Entertainment Adjusted EBITDA Margin
- Digital Games Adjusted EBITDA Margin
- Adjusted Operating Margin
- Toys Adjusted Operating Margin
- Entertainment Adjusted Operating Margin
- Digital Games Adjusted Operating Margin
- Adjusted Basic EPS
- Adjusted Diluted EPS
- Sales Allowance as a percentage of Toy Gross Product Sales

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

Non-GAAP financial ratios are ratios or percentages that are calculated using a Non-GAAP financial measure. Non-GAAP financial ratios do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

Management believes the Non-GAAP financial measures and Non-GAAP financial ratios defined above are important supplemental measures of operating performance and highlight trends in the business. Management believes that these measures allow for assessment of the Company's operating performance and financial condition on a basis that is consistent and comparable between reporting periods. The Company believes that investors, lenders, securities analysts and other interested parties frequently use these Non-GAAP financial measures and Non-GAAP financial ratios in the evaluation of issuers.

*Non-GAAP Financial Measures*

Adjusted EBITDA is calculated as Operating Income before interest income and interest expense and depreciation and amortization (EBITDA) excluding adjustments that do not necessarily reflect the Company's underlying financial performance. These adjustments include restructuring and other related costs, foreign exchange gains or losses, share based compensation expenses, acquisition related contingent consideration, impairment of intangible assets, impairment of goodwill, investment distribution income, loss on Minority interest and other investments, acquisition related deferred incentive compensation, net unrealized gain or loss on investment, impairment of property, plant and equipment, legal settlement, transaction cost and gain on disposal of asset. Adjusted EBITDA is used by management as a measure of the Company's profitability. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Operating Income (Loss), the closest IFRS measure.

Melissa & Doug Adjusted EBITDA is calculated as Melissa & Doug Operating Income (Loss) before before interest income and interest expense and depreciation and amortization (EBITDA) excluding adjustments that do not necessarily reflect the Company's underlying financial performance. These adjustments include restructuring and other related costs, foreign exchange gains or losses, share based compensation expenses, acquisition related contingent consideration, impairment of intangible assets, impairment of goodwill, investment distribution income, loss on Minority interest and other investments, acquisition related deferred incentive compensation, net unrealized gain or loss on investment, impairment of property, plant and equipment, legal settlement, transaction cost and gain on disposal of asset. Melissa & Doug Adjusted EBITDA is used by management as a measure of the Company's profitability. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Melissa & Doug Operating Income (Loss), the closest IFRS measure.

Adjusted EBITDA, excluding Melissa & Doug is calculated as Adjusted EBITDA excluding Melissa & Doug Adjusted EBITDA. Adjusted EBITDA, excluding Melissa & Doug Adjusted EBITDA is used by management as a measure of the Company's profitability on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Operating Income (Loss), the closest IFRS measure.

Toys Adjusted EBITDA is calculated as Toy Operating Income (Loss) before before interest income and interest expense and depreciation and amortization (EBITDA) excluding adjustments that do not necessarily reflect the Company's underlying financial performance. These adjustments include restructuring and other related costs, foreign exchange gains or losses, share based compensation expenses, acquisition related contingent consideration, impairment of intangible assets, impairment of goodwill, investment distribution income, loss on Minority interest and other investments, acquisition related deferred incentive compensation, net unrealized gain or loss on investment, impairment of property, plant and equipment, legal settlement, transaction cost and gain on disposal of asset. Toys Adjusted EBITDA is used by management as a measure of the Company's profitability. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Toys Operating Income (Loss), the closest IFRS measure.

Toys Adjusted EBITDA, excluding Melissa & Doug is calculated as Toys Adjusted EBITDA excluding Melissa & Doug Adjusted EBITDA. Toys Adjusted EBITDA, excluding Melissa & Doug Adjusted EBITDA is used by management as a measure of the Company's profitability on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Toys Operating Income (Loss), the closest IFRS measure.

Entertainment Adjusted EBITDA is calculated as Entertainment Operating Income (Loss) before before interest income and interest expense and depreciation and amortization (EBITDA) excluding adjustments that do not necessarily reflect the Company's underlying financial performance. These adjustments include restructuring and other related costs, foreign exchange gains or losses, share based compensation expenses, acquisition related contingent consideration, impairment of intangible assets, impairment of goodwill, investment distribution income, loss on Minority interest and other investments, acquisition related deferred incentive compensation, net unrealized gain or loss on investment, impairment of property, plant and equipment, legal settlement, transaction cost and gain on disposal of asset. Entertainment Adjusted EBITDA is used by management as a measure of the Company's profitability. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Digital Games Operating Income (Loss), the closest IFRS measure.

Digital Games Adjusted EBITDA is calculated as Digital Games Operating Income (Loss) before before interest income and interest expense and depreciation and amortization (EBITDA) excluding adjustments that do not necessarily reflect the Company's underlying financial performance. These adjustments include restructuring and other related costs, foreign exchange gains or losses, share based compensation expenses, acquisition related contingent consideration, impairment of intangible assets, impairment of goodwill, investment distribution income, loss on Minority interest and other investments, acquisition related deferred incentive compensation, net unrealized gain or loss on investment, impairment of property, plant and equipment, legal settlement, transaction cost and gain on disposal of asset. Digital Games Adjusted EBITDA is used by management as a measure of the Company's profitability. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Digital Games Operating Income (Loss), the closest IFRS measure.

Adjusted Operating Income (Loss) is calculated as Operating Income (Loss) excluding adjustments (as defined in Adjusted EBITDA). Adjusted Operating Income (Loss) is used by management as a measure of the Company's profitability. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Operating Income (Loss), the closest IFRS measure.

Toys Adjusted Operating Income (Loss) is calculated as Toys Operating Income (Loss) excluding adjustments (as defined in Adjusted EBITDA). Toys Adjusted Operating Income (Loss) is used by management as a measure of the Company's profitability. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Toys Operating Income (Loss), the closest IFRS measure.

Entertainment Adjusted Operating Income (Loss) is calculated as Entertainment Operating Income (Loss) excluding adjustments (as defined in Adjusted EBITDA). Entertainment Adjusted Operating Income (Loss) is used by management as a measure of the Company's profitability. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Entertainment Operating Income (Loss), the closest IFRS measure.

Digital Games Adjusted Operating Income (Loss) is calculated as Digital Games Operating Income (Loss) excluding adjustments (as defined in Adjusted EBITDA). Digital Games Adjusted Operating Income (Loss) is used by management as a measure of the Company’s profitability. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Digital Games Operating Income (Loss), the closest IFRS measure.

Adjusted Net Income (Loss) is calculated as Net Income (Loss) excluding adjustments (as defined in Adjusted EBITDA), the corresponding impact these items have on income tax expense. Management uses Adjusted Net Income (Loss) to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Operating Income (Loss), the closest IFRS measure.

Free Cash Flow is calculated as cash flows provided by/used in operating activities reduced by cash flows used in investing activities and adding back cash used for business acquisitions, advance paid for business acquisitions, asset acquisitions, investment in limited partnership, Minority interest and other investments, proceeds from sale of manufacturing operations and net of investment distribution income. Management uses the Free Cash Flow metric to analyze the cash flows being generated by the Company’s business. Refer to the "Reconciliation of Non-GAAP Financial Measures" section for a reconciliation of this metric to Cash flow from operating activities, the closest IFRS measure.

Toy Gross Product Sales represent Toy revenues, excluding the impact of Sales Allowances. As Sales Allowances are generally not associated with individual products, the Company uses Toy Gross Product Sales to provide meaningful comparisons across product categories and geographical results to highlight trends in Spin Master’s business. For a reconciliation of Toy Gross Product Sales to Revenue, the closest IFRS measure, refer to the "Revenue" section within the "Financial Performance" section for the three and three months ended March 31, 2024, and the "Reconciliation of Non-GAAP Financial Measures" section for the previous eight fiscal quarters.

Melissa & Doug Toy Gross Product Sales represent Toy revenues contributed by Melissa & Doug, excluding the impact of Sales Allowances, to measure the underlying financial performance of the business on a consistent basis over time. For a reconciliation of Melissa & Doug Toy Gross Product Sales to Melissa & Doug Revenue, the closest IFRS measure, refer to "Reconciliation of Non-GAAP Financial Measures" section.

Toy Gross Product Sales, excluding Melissa & Doug represent Toy revenues, excluding Melissa & Doug Toy Gross Product Sales and the impact of Sales Allowances, to measure the underlying financial performance of the business on a consistent basis over time.

Toy Revenue, excluding Melissa & Doug represents Toy revenues, excluding Melissa & Doug Toy Revenue, to measure the underlying financial performance of the business on a consistent basis over time. Refer to "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Toy Revenue, the closest IFRS measure.

Revenue, excluding Melissa & Doug is calculated as revenue excluding Melissa & Doug Revenue, to measure the underlying financial performance of the business on a consistent basis over time. Refer to "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Revenue, the closest IFRS measure.

Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is calculated as revenue excluding distribution revenue related to *PAW Patrol: The Mighty Movie.* Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is used to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section for a reconciliation of this metric to Revenue, the closest IFRS measure.

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

*PAW Patrol: The Mighty Movie* Distribution Revenue is used by management as a measure of the Company's profitability on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Net Income, the closest IFRS measure.

Constant Currency Toy Gross Product Sales, Constant Currency Sales Allowances, Constant Currency Toy - Other Revenue, Constant Currency Toy Revenue, Constant Currency Entertainment Revenue, Constant Currency Digital Games Revenue, and Constant Currency Revenue represent Toy Gross Product Sales, Sales Allowance, Toy - Other Revenue, Toy revenue, Entertainment revenue, Digital Games revenue, and Revenue presented excluding the impact from changes in foreign currency exchange rates, respectively. The current period and prior period results for entities reporting in currencies other than the US dollar are translated using consistent exchange rates, rather than using the actual exchange rate in effect during the respective periods. The difference between the current period and prior period results using the consistent exchange rates reflects the changes in the underlying performance results, excluding the impact from fluctuations in foreign currency exchange rates. Management uses Constant Currency Toy Gross Product Sales, Constant Currency Sales Allowances, Constant Currency Toy - Other Revenue, Constant Currency Toy Revenue, Constant Currency Entertainment Revenue, Constant Currency Digital Games Revenue, and Constant Currency Revenue to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section for a reconciliation of these metrics to Revenue, the closest IFRS measure.

Adjusted Gross Profit is calculated as Gross Profit adjusted for fair value adjustment for inventories acquired. Refer to the Adjusted Gross Profit table for the three months ended March 31, 2024 as compared to the same period in 2023 in this MD&A. Management uses Adjusted Gross Profit to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Gross Profit" section within the "Financial Performance" section for a reconciliation of these metrics to Gross Profit, the closest IFRS measure.

Adjusted SG&A is calculated as selling, general and administrative expenses adjusted for restructuring and other related costs, share based compensation expenses, transaction and integration costs and bad debt recovery. Refer to the Adjusted SG&A table for the three months ended March 31, 2024 as compared to the same period in 2023 in this MD&A. Management uses Adjusted SG&A to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Selling, General & Administrative Expenses" section within the "Financial Performance" section for a reconciliation of these metrics to selling, general & administrative Expenses, the closest IFRS measure.

Net Working Capital is calculated as the difference between total current assets and total current liabilities. Refer to the Total Net Working Capital table for the three months ended March 31, 2024 as compared to the same period in 2023 in this MD&A. Management uses Net Working Capital to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Cash Flow" section for a composition of this metric to total current assets and total current liabilities, the closest IFRS measures.

*Non-GAAP Financial Ratios*

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

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

Adjusted EBITDA Margin, excluding Melissa & Doug is calculated as Adjusted EBITDA, excluding Melissa & Doug divided by Revenue, excluding Melissa & Doug. Management uses Adjusted EBITDA Margin, excluding Melissa & Doug to evaluate the Company's performance compared to internal targets and to benchmark its performance against key competitors.

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

Toys Adjusted EBITDA Margin, excluding Melissa & Doug is calculated as Toys Adjusted EBITDA, excluding Melissa & Doug divided by Toy Revenue, excluding Melissa & Doug. Management uses Toys Adjusted EBITDA Margin, excluding Melissa & Doug to evaluate the Company's performance compared to internal targets and to benchmark its performance against key competitor.

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

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

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

Toys Adjusted Operating Margin is calculated as Toys Adjusted Operating Income (Loss) divided by Toy Revenue. Management uses Toys Adjusted Operating Margin to evaluate the Company’s performance compared to internal targets and to benchmark its performance against key competitors.

Entertainment Adjusted Operating Margin is calculated as Entertainment Adjusted Operating Income (Loss) divided by Toy Revenue. Management uses Entertainment Adjusted Operating Margin to evaluate the Company’s performance compared to internal targets and to benchmark its performance against key competitors.

Digital Games Adjusted Operating Margin is calculated as Digital Games Adjusted Operating Income (Loss) divided by Digital Games Revenue. Management uses Digital Games Adjusted Operating Margin to evaluate the Company’s performance compared to internal targets and to benchmark its performance against key competitors.

Adjusted Basic EPS is calculated by dividing Adjusted Net Income (Loss) by the weighted average number of shares outstanding during the period. Adjusted Diluted EPS is calculated by dividing Adjusted Net Income (Loss) by the weighted average number of common shares outstanding, assuming the conversion of all dilutive securities were exercised during the period. Management uses Adjusted Basic EPS and Adjusted Diluted EPS to measure the underlying financial performance of the business on a consistent basis over time.

Sales Allowances as a percentage of Toy Gross Product Sales is calculated by dividing Sales Allowances by Toy Gross Product Sales. Management uses Sales Allowance as a percentage of Toy Gross Product Sales to identify and compare the cost of doing business with individual retailers, different geographic markets and amongst various distribution channels.

Adjusted Gross Margin is calculated by dividing Adjusted Gross Profit by Revenue. Management uses Adjusted Gross Margin to measure the underlying financial performance of the business on a consistent basis over time.

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

Percentage change in Constant Currency Toy Gross Product Sales is calculated by dividing the change in Toy Gross Product Sales excluding the impact from changes in foreign currency exchange rates by the Toy Gross Product Sales of the comparative period. Management uses Percentage change in Constant Currency Toy Gross Product Sales to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Percentage change in Constant Currency Sales Allowances is calculated by dividing the change in Sales Allowances excluding the impact from changes in foreign currency exchange rates by the Sales Allowances of the comparative period. Management uses Percentage change in Constant Currency Sales Allowances to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Percentage change in Constant Currency Toy - Other Revenue is calculated by dividing the change in Toy - Other Revenue excluding the impact from changes in foreign currency exchange rates by the Toy - Other Revenue of the comparative period. Management uses Percentage change in Constant Currency Toy - Other Revenue to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Percentage change in Constant Currency Toy Revenue is calculated by dividing the change in Toy Revenue excluding the impact from changes in foreign currency exchange rates by the Toy Revenue of the comparative period. Management uses Percentage change in Constant Currency Toy Revenue to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Percentage change in Constant Currency Entertainment Revenue is calculated by dividing the change in Entertainment revenue excluding the impact from changes in foreign currency exchange rates by the Entertainment revenue of the comparative period. Management uses Percentage change in Constant Currency Entertainment Revenue to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Percentage change in Constant Currency Digital Games Revenue is calculated by dividing the change in Digital Games revenue excluding the impact from changes in foreign currency exchange rates by the Digital Games revenue of the comparative period. Management uses Percentage change in Constant Currency Digital Games Revenue to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Percentage change in Constant Currency Revenue is calculated by dividing the change in Revenue excluding the impact from changes in foreign currency exchange rates by the Revenue of the comparative period. Management uses Percentage change in Constant Currency Revenue to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is calculated as Adjusted EBITDA excluding *PAW Patrol: The Mighty Movie* Distribution Revenue divided by Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue. Management uses Adjusted EBITDA Margin excluding *PAW Patrol: The Mighty Movie* Distribution Revenue to evaluate the Company’s performance compared to internal targets and to benchmark its performance against key competitors on a consistent basis over time.

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

| (in US$ millions) | Q1 2024 | Q4 2023 | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 |
|---|---|---|---|---|---|---|---|---|
| **Operating (Loss) Income** | **(61.8)** | **(36.6)** | **197.2** | **34.4** | **(6.1)** | **(24.0)** | **187.4** | **118.2** |
| **Adjusting items:** | | | | | | | | |
| Fair value adjustment for inventories acquired[1] | 20.6 | — | — | — | — | — | — | — |
| Transaction and integration costs[2] | 16.7 | 3.8 | 5.2 | 1.5 | 0.6 | 0.2 | 0.3 | 0.4 |
| Share based compensation[3] | 6.1 | 4.8 | 5.1 | 4.8 | 5.4 | 4.7 | 4.3 | 4.5 |
| Restructuring and other related costs[4] | 3.0 | 3.8 | 0.8 | 9.7 | 3.8 | (0.2) | — | 4.5 |
| Amortization of intangible assets acquired[5] | 1.7 | — | — | — | — | — | — | — |
| Acquisition related deferred incentive compensation[6] | 1.5 | 1.6 | 1.8 | 2.1 | 2.1 | 2.2 | 2.8 | 2.6 |
| Impairment of property, plant and equipment[7] | 0.3 | 0.7 | — | — | 0.2 | 0.9 | 1.0 | — |
| Impairment of intangible assets[8] | — | 5.8 | 0.2 | 1.0 | 1.2 | 1.1 | — | — |
| Foreign exchange (gain) loss[9] | (0.4) | 18.2 | (19.2) | 11.4 | 4.3 | 4.8 | (43.5) | (32.3) |
| Legal settlement (recovery) expense | (0.6) | (0.1) | (0.7) | — | 0.2 | 1.6 | — | (0.6) |
| Acquisition related contingent consideration[10] | (1.6) | (4.7) | — | (2.1) | — | 3.1 | (0.5) | — |
| Impairment of goodwill[11] | — | 25.7 | — | — | 1.0 | — | — | — |
| Net unrealized loss (gain) on investment[12] | — | 0.2 | — | (0.3) | — | 0.1 | — | (0.1) |
| Net realized (gain) loss on investment[13] | — | — | (0.2) | 0.1 | — | — | — | (0.1) |
| Loss on Minority interest and other investments[14] | — | — | — | — | — | — | — | 0.5 |
| **Adjusted Operating (Loss) Income** | **(14.5)** | **23.2** | **190.2** | **62.6** | **12.7** | **(5.5)** | **151.8** | **97.6** |
| Depreciation and amortization[15] | 33.1 | 41.7 | 44.7 | 25.8 | 17.9 | 17.9 | 15.8 | 16.1 |
| **Adjusted EBITDA** | **18.6** | **64.9** | **234.9** | **88.4** | **30.6** | **12.4** | **167.6** | **113.7** |
| Distribution revenue related to *PAW Patrol: The Mighty Movie*[16] | — | — | (15.6) | — | — | — | — | — |
| **Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue** | **18.6** | **64.9** | **219.3** | **88.4** | **30.6** | **12.4** | **167.6** | **113.7** |
| Income tax recovery (expense) | 18.5 | 3.4 | (44.2) | (9.6) | 0.6 | 8.5 | (45.6) | (27.8) |
| Interest income (expense) | (11.5) | 3.1 | 2.4 | 3.2 | 3.6 | 1.7 | (0.4) | (2.3) |
| Depreciation and amortization[15] | (33.1) | (41.7) | (44.7) | (25.8) | (17.9) | (17.9) | (15.8) | (16.1) |
| One-time income tax (recovery) expense[17] | — | 5.7 | (6.6) | — | — | — | — | — |
| Tax effect of normalization adjustments[18] | (12.0) | (14.9) | 1.8 | (7.4) | (4.6) | (4.7) | 8.6 | 4.9 |
| **Adjusted Net (Loss) Income** | **(19.5)** | **20.5** | **143.6** | **48.8** | **12.3** | **—** | **114.4** | **72.4** |

1 Relates to the fair value adjustment of Melissa & Doug's inventory sold recorded as part of the acquisition on January 2, 2024.
2 Professional fees and integration costs incurred relating to acquisitions, including $9.5 million of transaction costs for the acquisition of Melissa and Doug.
3 Related to non-cash expenses associated with the Company's share option expense and long-term incentive plan.
4 Restructuring expense in the prior year's amounts relate to changes in personnel.
5 Relates to the amortization of intangible assets acquired with Melissa & Doug.
6 Deferred incentive compensation associated with acquisitions.
7 Impairment of property plant and equipment related to tooling.
8 Impairment of intangible assets related to content development projects and computer software.
9 Includes foreign exchange (gains) losses generated by the translation and settlement of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and (gains) losses related to the Company's hedging programs.
10 Expense associated with contingent consideration for acquisitions.
11 Impairment of goodwill associated with three CGUs.
12 Net unrealized (gain) loss related to investment in limited partnership.
13 Net realized loss (gain) related to investment in limited partnership, net of distribution income.
14 Fair value loss on the Minority interest and other investments classified as FVTPL.
15 Depreciation and amortization for the calculation of Adjusted EBITDA excludes $1.7 million of amortization of intangible assets acquired with Melissa & Doug.
16 Distribution revenue related to *PAW Patrol: The Mighty Movie* recognized in Q3 2023 within Entertainment segment.
17 Adjustment of one-time income tax (recovery) expense.
18 Tax effect of adjustments (Footnotes 1-14). Adjustments are tax effected at the effective tax rate of the given period.

The following table provides reconciliations of Operating (Loss) Income to Adjusted Operating (Loss) Income, and Adjusted EBITDA for the Company's reportable segments for the previous eight fiscal quarters:

**Toys Segment**

| (US$ millions) | Q1 2024 | Q4 2023 | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | 226.4 | 406.8 | 601.5 | 346.3 | 186.3 | 396.7 | 552.4 | 437.6 |
| **Operating (Loss) Income** | **(90.8)** | **(30.0)** | **149.0** | **23.8** | **(41.8)** | **(43.3)** | **109.4** | **62.6** |
| **Adjusting items:** | | | | | | | | |
| Fair value adjustment for inventories acquired | 20.6 | — | — | — | — | — | — | — |
| Transaction and integration costs | 6.2 | — | — | — | — | — | — | — |
| Share based compensation | 4.2 | 3.2 | 3.7 | 3.8 | 3.4 | 3.3 | 3.0 | 3.1 |
| Restructuring and other related costs (recovery) | 2.4 | 3.3 | 0.6 | 9.3 | 3.1 | (0.2) | (0.1) | 4.4 |
| Amortization of intangible assets acquired | 1.7 | — | — | — | — | — | — | — |
| Acquisition related deferred incentive compensation | 0.8 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 1.6 | 1.6 |
| Impairment of property, plant and equipment | 0.3 | 0.7 | — | — | 0.2 | 0.9 | 1.0 | — |
| Acquisition related contingent consideration | (1.6) | (3.5) | — | (2.1) | — | 3.1 | 0.4 | — |
| Impairment of goodwill | — | 25.7 | — | — | 1.0 | — | — | — |
| Impairment of intangible assets | — | 5.4 | — | — | — | — | — | — |
| **Adjusted Operating (Loss) Income** | **(56.2)** | **5.4** | **154.0** | **35.5** | **(33.4)** | **(35.5)** | **115.3** | **71.7** |
| **Adjusted Operating Margin** | **(24.8)%** | **1.3%** | **25.6%** | **10.3%** | **(17.9)%** | **(8.9)%** | **20.9%** | **16.4%** |
| Depreciation and amortization | 23.7 | 13.9 | 12.8 | 12.2 | 12.0 | 11.1 | 11.6 | 11.5 |
| **Adjusted EBITDA** | **(32.5)** | **19.3** | **166.8** | **47.7** | **(21.4)** | **(24.4)** | **126.9** | **83.2** |
| **Adjusted EBITDA Margin** | **(14.4)%** | **4.7%** | **27.7%** | **13.8%** | **(11.5)%** | **(6.2)%** | **23.0%** | **19.0%** |

**Entertainment Segment**

| (US$ millions) | Q1 2024 | Q4 2023 | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | 43.8 | 55.2 | 63.4 | 33.9 | 37.6 | 31.2 | 37.0 | 28.4 |
| **Operating Income** | **28.6** | **9.7** | **23.3** | **15.7** | **29.3** | **19.1** | **28.9** | **17.5** |
| **Adjusting items:** | | | | | | | | |
| Share based compensation | 0.4 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.4 |
| Restructuring and other related costs | 0.1 | 0.1 | 0.1 | — | 0.1 | — | — | 0.1 |
| Impairment of intangible assets | — | 0.4 | 0.2 | 0.2 | 0.2 | 1.1 | — | — |
| **Adjusted Operating Income** | **29.1** | **10.5** | **24.0** | **16.3** | **29.9** | **20.5** | **29.2** | **18.0** |
| **Adjusted Operating Margin** | **66.4%** | **19.0%** | **37.9%** | **48.1%** | **79.5%** | **65.7%** | **78.9%** | **63.4%** |
| Depreciation and amortization | 7.3 | 25.6 | 29.8 | 11.7 | 3.7 | 4.8 | 2.5 | 3.1 |
| **Adjusted EBITDA** | **36.4** | **36.1** | **53.8** | **28.0** | **33.6** | **25.3** | **31.7** | **21.1** |
| **Adjusted EBITDA Margin** | **83.1%** | **65.4%** | **84.9%** | **82.6%** | **89.4%** | **81.1%** | **85.7%** | **74.3%** |

**Digital Games Segment**

| (US$ millions) | Q1 2024 | Q4 2023 | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | 46.0 | 40.6 | 45.3 | 40.5 | 47.5 | 37.9 | 34.6 | 40.3 |
| **Operating Income** | **13.2** | **9.7** | **13.6** | **9.6** | **16.2** | **10.1** | **8.2** | **8.4** |
| **Adjusting items:** | | | | | | | | |
| Share based compensation | 0.8 | 0.7 | 0.7 | 0.9 | 0.6 | 0.7 | 0.5 | 0.6 |
| Restructuring and other related costs | 0.5 | 0.4 | 0.1 | 0.4 | 0.6 | — | 0.1 | — |
| Acquisition related deferred incentive compensation | 0.7 | 1.0 | 1.1 | 1.4 | 1.4 | 1.5 | 1.2 | 1.0 |
| Acquisition related contingent consideration | — | (1.0) | — | — | — | — | — | — |
| Impairment of intangible assets | — | — | — | 0.5 | 0.2 | — | — | — |
| **Adjusted Operating Income** | **15.2** | **10.8** | **15.5** | **12.8** | **19.0** | **12.3** | **10.0** | **10.0** |
| **Adjusted Operating Margin** | **33.0%** | **26.6%** | **34.2%** | **31.6%** | **40.0%** | **32.5%** | **28.9%** | **24.8%** |
| Depreciation and amortization | 2.1 | 2.2 | 2.1 | 1.9 | 2.0 | 1.9 | 1.7 | 1.5 |
| **Adjusted EBITDA** | **17.3** | **13.0** | **17.6** | **14.7** | **21.0** | **14.2** | **11.7** | **11.5** |
| **Adjusted EBITDA Margin** | **37.6%** | **32.0%** | **38.9%** | **36.3%** | **44.2%** | **37.5%** | **33.8%** | **28.5%** |

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

| (in US$ millions) | Q1 2024 | Q4 2023 | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 |
|---|---|---|---|---|---|---|---|---|
| Cash provided by (used in) operating activities | 24.3 | 67.9 | 144.3 | 19.1 | (4.3) | (6.8) | 207.3 | 111.6 |
| Cash used in investing activities | (980.4) | (23.3) | (25.1) | (30.3) | (56.6) | (28.2) | (42.3) | (30.4) |
| **Add (Deduct):** | | | | | | | | |
| Business acquisitions, net of cash acquired[1] | 955.5 | — | — | — | 26.5 | 0.4 | 10.2 | — |
| Asset acquisition[2] | — | — | — | 3.3 | — | — | — | — |
| Advance paid for business acquisitions[3] | — | — | — | — | — | 1.0 | — | — |
| Investment distribution income[4] | — | — | (0.3) | — | — | — | — | (0.1) |
| Minority interest and other investments[5] | — | 0.5 | — | 2.0 | — | 3.5 | — | 3.0 |
| Proceeds from sale of manufacturing operations[6] | — | (0.8) | — | — | — | — | — | — |
| **Free Cash Flow** | **(0.6)** | **44.3** | **118.9** | **(5.9)** | **(34.4)** | **(30.1)** | **175.3** | **84.1** |

[1] Cash paid relating to acquisitions of Melissa & Doug in Q1 2024. (2023 - 4D Brands and *HEXBUG*, both in Q1 2023, 2022 - SolidRoots and Nørdlight, both in Q3 2022).

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

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

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

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

[6] Cash received for the sale of manufacturing assets in Calais, France in Q4 2023 (Tarboro, North Carolina in Q1 2022).

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

| (in US$ millions) | Q1 2024 | Q4 2023 | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 |
|---|---|---|---|---|---|---|---|---|
| Toy Gross Product Sales | 264.1 | 502.3 | 678.6 | 390.0 | 216.3 | 479.2 | 617.7 | 484.4 |
| Sales Allowances | (38.2) | (95.5) | (77.1) | (43.7) | (30.0) | (82.5) | (65.3) | (46.8) |
| **Toy Net Sales** | 225.9 | 406.8 | 601.5 | 346.3 | 186.3 | 396.7 | 552.4 | 437.6 |
| Toy - Other Revenue | 0.5 | — | — | — | — | — | — | — |
| **Toy Revenue** | 226.4 | 406.8 | 601.5 | 346.3 | 186.3 | 396.7 | 552.4 | 437.6 |
| **Entertainment revenue** | 43.8 | 55.2 | 63.4 | 33.9 | 37.6 | 31.2 | 37.0 | 28.4 |
| **Digital Games revenue** | 46.0 | 40.6 | 45.3 | 40.5 | 47.5 | 37.9 | 34.6 | 40.3 |
| **Revenue** | **316.2** | **502.6** | **710.2** | **420.7** | **271.4** | **465.8** | **624.0** | **506.3** |

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

| (in US$ millions) | Q1 2024 | Q4 2023 | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 316.2 | 502.6 | 710.2 | 420.7 | 271.4 | 465.8 | 624.0 | 506.3 |
| Distribution revenue related to *PAW Patrol: The Mighty Movie* | — | — | (15.6) | — | — | — | — | — |
| ***Revenue, excluding PAW Patrol: The Mighty Movie Distribution Revenue*** | **316.2** | **502.6** | **694.6** | **420.7** | **271.4** | **465.8** | **624.0** | **506.3** |

The following tables present reconciliations of Revenue to Constant Currency Toy Gross Product Sales, Revenue to Constant Currency Entertainment revenue and Revenue to Constant Currency Digital Games Revenue for the three months ended March 31, 2024 and 2023:

| **(US$ millions)** | **Q1 2024** | **Q1 2023** |
|---|---|---|
| Constant Currency Toy Gross Product Sales | 262.4 | 219.7 |
| Impact of foreign exchange | 1.7 | (3.4) |
| **Toy Gross Product Sales** | **264.1** | **216.3** |
| Constant Currency Sales Allowances | (37.9) | (30.9) |
| Impact of foreign exchange | (0.3) | 0.9 |
| Sales Allowances | (38.2) | (30.0) |
| **Toy Net Sales** | **225.9** | **186.3** |
| Constant Currency Toy - Other Revenue | 0.5 | — |
| Impact of foreign exchange | — | — |
| **Toy - Other Revenue** | **0.5** | **—** |
| Constant Currency Toy Revenue | 225.0 | 188.8 |
| **Toy Revenue** | **226.4** | **186.3** |
| Constant Currency Entertainment revenue | 43.8 | 37.6 |
| Impact of foreign exchange | — | — |
| **Entertainment revenue** | **43.8** | **37.6** |
| Constant Currency Digital Games revenue | 45.9 | 49.2 |
| Impact of foreign exchange | 0.1 | (1.7) |
| **Digital Games revenue** | **46.0** | **47.5** |
| Constant Currency Revenue | 314.7 | 275.6 |
| Impact of foreign exchange | 1.5 | (4.2) |
| **Revenue** | **316.2** | **271.4** |

The following tables present the composition of Percentage change in Constant Currency Toy Gross Product Sales, Percentage change in Constant Currency Sales Allowance, Percentage change in Constant Currency Entertainment Revenue, Percentage change in Percentage change in Constant Currency Digital Games Revenue and Percentage change in Constant Currency Revenue for the three months ended March 31, 2024 and 2023:

| | | | **$ Change** | | | **% Change** | |
|---|---|---|---|---|---|---|---|
| **(US$ millions)** | **Q1 2024** | **Q1 2023** | **As reported** | **Impact of foreign exchange** | **In Constant Currency** | **As reported** | **In Constant Currency** |
| Toy Gross Product Sales | 264.1 | 216.3 | 47.8 | (1.7) | 46.1 | 22.1% | 21.3 % |
| Sales Allowances | (38.2) | (30.0) | (8.2) | 0.3 | (7.9) | 27.3% | 26.3 % |
| **Toy Net Sales** | 225.9 | 186.3 | 39.6 | (1.4) | 38.2 | 21.3% | 20.5 % |
| Toy - Other Revenue | 0.5 | — | 0.5 | — | 0.5 | n.m. | n.m. |
| **Toy Revenue** | 226.4 | 186.3 | 40.1 | (1.4) | 38.7 | 21.5% | 20.8 % |
| **Entertainment revenue** | 43.8 | 37.6 | 6.2 | — | 6.2 | 16.5% | 16.5 % |
| **Digital Games revenue** | 46.0 | 47.5 | (1.5) | (0.1) | (1.6) | (3.2)% | (3.4)% |
| **Revenue** | 316.2 | 271.4 | 44.8 | (1.5) | 43.3 | 16.5% | 16.0 % |

The following table presents a reconciliation of Melissa & Doug's Operating Income to Adjusted EBITDA for the three months ended March 31, 2024:

| (US$ millions) | Q1 2024 |
|---|---|
| Melissa & Doug Toy Gross Product Sales[2] | 46.7 |
| Melissa & Doug Sales Allowance | (6.3) |
| **Melissa & Doug Revenue** | **40.4** |
| **Melissa & Doug Operating Loss** | **(19.1)** |
| Depreciation and amortization | 8.3 |
| **Melissa & Doug EBITDA** | **(10.8)** |
| Adjustments[1] | 1.6 |
| **Melissa & Doug Adjusted EBITDA[2]** | **(9.2)** |
| **Melissa & Doug Adjusted EBITDA Margin[2]** | **(22.8)%** |

[1] Includes foreign exchange (gain)loss, restructuring and other related costs, and transaction and integration costs.

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

The following table presents a reconciliation of Revenue to Revenue, excluding Melissa & Doug, Toy Gross Product Sales to Toy Gross Product Sales, excluding Melissa & Doug, Consolidated Adjusted EBITDA to Adjusted EBITDA, excluding Melissa & Doug, Toy Revenue to Toy Revenue, excluding Melissa & Doug, and Toys Adjusted EBITDA to Toys Adjusted EBITDA, excluding Melissa & Doug for the three months ended March 31, 2024:

| (US$ millions) | Q1 2024 | Q1 2023 | $ Change | % Change |
|---|---|---|---|---|
| Revenue | 316.2 | 271.4 | 44.8 | 16.5 % |
| Melissa & Doug Revenue | 40.4 | — | 40.4 | n.m. |
| **Revenue, excluding Melissa & Doug[1]** | **275.8** | **271.4** | **4.4** | **1.6 %** |
| Toys Gross Product Sales[1] | 264.1 | 216.3 | 47.8 | 22.1 % |
| Melissa & Doug Toy Gross Product Sales[1] | 46.7 | — | 46.7 | n.m. |
| **Toys Gross Product Sales, excluding Melissa & Doug[1]** | **217.4** | **216.3** | **1.1** | **0.5 %** |
| Adjusted EBITDA[1] | 18.6 | 30.6 | (12.0) | (39.2)% |
| Melissa & Doug Adjusted EBITDA[1] | (9.2) | — | (9.2) | n.m. |
| **Adjusted EBITDA, excluding Melissa & Doug[1]** | **27.8** | **30.6** | **(2.8)** | **(9.2)%** |
| **Adjusted EBITDA Margin, excluding Melissa & Doug[1]** | **10.1 %** | **11.3 %** | | |
| Toy Revenue | 226.4 | 186.3 | 40.1 | 21.5 % |
| Melissa & Doug Revenue | 40.4 | — | 40.4 | n.m. |
| **Toy Revenue, excluding Melissa & Doug[1]** | **186.0** | **186.3** | **(0.3)** | **(0.2)%** |
| Toys Adjusted EBITDA[1] | (32.5) | (21.4) | (11.1) | 51.9 % |
| **Toys Adjusted EBITDA Margin[1]** | **(14.4)%** | **(11.5)%** | | |
| Toys Adjusted EBITDA, excluding Melissa & Doug[1] | (23.3) | (21.4) | (1.9) | 8.9 % |
| **Toys Adjusted EBITDA Margin, excluding Melissa & Doug[1]** | **(12.5)%** | **(11.5)%** | | |

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

**ADDENDUM**

Effective January 1, 2024, Spin Master has changed its product categories to align with the Company's product offerings going forward. The following table presents 2023 Toy Gross Product Sales[1] in the same format that the Company presents Toy Gross Product Sales[1] in 2024:

| (US$ millions) | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 | Total |
|---|---|---|---|---|---|
| Preschool, Infant & Toddler and Plush | 82.6 | 164.9 | 301.4 | 169.3 | 718.2 |
| Activities, Games & Puzzles and Dolls & Interactive | 62.6 | 109.7 | 218.7 | 196.0 | 587.0 |
| Wheels & Action | 43.7 | 101.1 | 151.2 | 113.3 | 409.3 |
| Outdoor | 27.4 | 14.3 | 7.3 | 23.7 | 72.7 |
| **Gross Product Sales[1]** | **216.3** | **390.0** | **678.6** | **502.3** | **1,787.2** |

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

**FORWARD-LOOKING STATEMENTS**

Certain statements, other than statements of historical fact, contained in this MD&A constitute “forward-looking information” within the meaning of certain securities laws, including the Securities Act (Ontario), and are based on expectations, estimates and projections as of the date on which the statements are made in this MD&A. The words “plans”, “expects”, “projected”, “estimated”, “forecasts”, “anticipates”, “indicative”, “intend”, “guidance”, “outlook”, “potential”, “prospects”, “seek”, “strategy”, “targets” or “believes”, or variations of such words and phrases or statements that certain future conditions, actions, events or results “will”, “may”, “could”, “would”, “should”, “might” or “can”, or negative versions thereof, “be taken”, “occur”, “continue” or “be achieved”, and other similar expressions, identify statements containing forward-looking information. Statements of forward-looking information in this MD&A include, without limitation, statements with respect to: the acquisition of Melissa & Doug, including its expected impact on the Company's business, financial performance and creation of value; the Company's outlook for 2024; future financial performance and growth expectations, as well as the drivers and trends in respect thereof; the Company's priorities, plans and strategies; content, digital game and product pipeline and launches, as well as their impacts; deployment of cash; dividend policy and future dividends; financial position, cash flows, liquidity and financial performance; the creation of long term shareholder value; and the Company’s intention to commence the Bid, the timing, quantity and funding of any purchases of subordinate voting shares under the Bid and the ASPP, and the expected facilities through which any such purchases may be made.

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 Company will be able to successfully integrate the acquisition; the Company will be able to successfully expand its portfolio across new channels and formats, and internationally; achieve other expected benefits through this acquisition; management’s estimates and expectations in relation to future economic and business conditions and other factors in relation to the Company's financial performance in addition to the proposed transaction and resulting impact on growth in various financial metrics; the realization of the expected strategic, financial and other benefits of the proposed transaction in the timeframe anticipated; the absence of significant undisclosed costs or liabilities associated with the transactions; Melissa & Doug’s business will perform in line with the industry; there are no material changes to Melissa & Doug’s core customer base; Net Cost Synergies towards the target of approximately $25 million to $30 million in Run-rate Net Cost Synergies by the end of 2026; implementation of certain information technology systems and other typical acquisition related cost savings; the Company’s dividend payments being subject to the discretion of the Board of Directors and dependent on a variety of factors and conditions existing from time to time; seasonality; ability of factories to manufacture products, including labour size and allocation, tooling, raw material and component availability, ability to shift between product mix, and customer acceptance of delayed delivery dates; the steps taken will create long term shareholder value; the expanded use of advanced technology, robotics and innovation the Company applies to its products will have a level of success consistent with its past experiences; the Company will continue to successfully secure, maintain and renew broader licenses from third parties for premiere children's properties consistent with past practices, and the success of the licenses; the expansion of sales and marketing offices in new markets will increase the sales of products in that territory; the Company will be able to successfully identify and integrate strategic acquisition and minority investment opportunities; the Company will be able to maintain its distribution capabilities; the Company will be able to leverage its global platform to grow sales from acquired brands; the Company will be able to recognize and capitalize on opportunities earlier than its competitors; the Company will be able to continue to build and maintain strong, collaborative relationships; the Company will maintain its status as a preferred collaborator; the culture and business structure of the Company will support its growth; the current business strategies of the Company will continue to be desirable on an international platform; the Company will be able to expand its portfolio of owned branded intellectual property and successfully license it to third parties; use of advanced technology and robotics in the Company's products will expand; the Company will be able to continue to develop and distribute entertainment content in the form of movies, TV shows and short form content; the Company will be able to continue to design, develop and launch mobile digital games to be distributed globally via app stores;access of entertainment content on mobile platforms will expand; fragmentation of the market will continue to create acquisition opportunities; the Company will be able to maintain its relationships with its employees, suppliers, retailers and license partners; the Company will continue to attract qualified personnel to support its development requirements; the Company's key personnel will continue to be involved in the Company products, mobile digital games and entertainment properties will be launched as scheduled; and the availability of cash for dividends and that the risk factors noted in this MD&A, collectively, do not have a material impact on the Company.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct, and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond the control of the Company, could cause actual results to differ materially from the forward-looking information in this MD&A. Such risks and uncertainties include, without limitation, risks relating to the inability to successfully integrate the Melissa & Doug business; the potential failure to realize anticipated benefits from the proposed transaction; concentration of manufacturing and geopolitical risks; uncertainty and adverse changes in general economic conditions and consumer spending habits and the factors discussed in the Company's disclosure materials, including the Annual or subsequent, most recent interim MD&A and the Company's most recent Annual Information Form, filed with the securities regulatory authorities in Canada and available under the Company's profile on SEDAR+ (www.sedarplus.com). These risk factors are not intended to represent a complete list of the factors that could affect the Company and investors are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

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